2019
ANNUAL REPORT

First Bankers Trustshares, Inc.

2019 Annual Report

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Corporate Description

First Bankers Trustshares, Inc. (FBTI) is a bank holding company for First Bankers Trust Company, N.A., First Bankers Trust Services, Inc., FBIL Statutory Trust II and FBIL Statutory Trust III. The Company was incorporated on August 25, 1988 and is headquartered in Quincy, Illinois.

First Bankers Trustshares' mission, through its subsidiaries, is to provide comprehensive financial products and services to its retail, institutional, and corporate customers.

First Bankers Trust Company, N.A. , a community-oriented financial institution which traces its beginnings to 1946, operates 10 banking facilities in Adams, Hancock, McDonough, Sangamon and Schuyler counties in West Central Illinois.

FBIL Statutory Trust II and FBIL Statutory Trust III were capitalized in September 2003 and August 2004, respectively, for the purpose of issuing Company Obligated Mandatorily Redeemable Preferred Securities.

For additional financial information contact:
Allen W. Shafer, President and CEO
First Bankers Trustshares, Inc.
(217) 228-8000

Stockholder Information

Common shares authorized:	6,000,000
Common shares outstanding as of December 31, 2019:	3,089,773
Certificate holders of record:	222*

*As of December 31, 2019

Inquiries regarding transfer requirements, lost certificates, changes of address and account status should be directed to the corporation's transfer agent:

AST Shareholder Services
6201 15th Avenue
Brooklyn, NY 11219

Corporate Address

First Bankers Trustshares, Inc.
1201 Broadway
P.O. Box 3566
Quincy, IL 62301

Independent Auditors

RSM US LLP
4650 E. 53rd St.
Davenport, IA 52807

General Counsel

Norton Rose Fulbright US LLP
2200 Ross Avenue, Suite 3600
Dallas, TX 75201-2784

First Bankers Trustshares, Inc. Board of Directors

Donald K. Gnuse
Board Member Emeritus, First Bankers Trustshares, Inc.
Carl Adams, Jr.
Chairman, Illinois Ayers Oil Company
Scott A. Cisel
Former President/Chairman/CEO Ameren Illinois
Strategic Advisor to Energy Harbors Corporation
William D. Daniels
Chairman of the Board, First Bankers Trustshares, Inc.
Chairman of the Board, First Bankers Trust Company, N.A.
Member, Harborstone Group, LLC
Mark E. Freiburg
Owner, Freiburg Insurance Agency & Freiburg Development
Charles M. Gnuse
President/CEO, United State Bank Lewistown, MO.
Arthur E. Greenbank
Former President/CEO, First Bankers Trust Company, N.A. and First Bankers Trustshares, Inc.
Phyllis J. Hofmeister
Secretary, Robert Hofmeister Inc.
John E. Laverdiere
President, Laverdiere Construction, Inc.
Vice President/Manager, LCI Concrete, Inc.
Kemia M. Sarraf, M. D., M.P.H.
President & Founder of genHKids Inc.
CEO, Lodestar Consulting and Executive Coaching
Richard W. Schulte
Wright & Schulte, Attorney at Law
Allen W. Shafer
President/CEO, First Bankers Trust Company, N.A.
President/CEO, First Bankers Trustshares, Inc.
Steven E. Siebers
Secretary of the Board, First Bankers Trustshares, Inc.
Secretary of the Board, First Bankers Trust Company, N.A.
Attorney at Law, Scholz, Loos, Palmer, Siebers & Duesterhaus

Executive Officers

Allen W. Shafer, *President and CEO*
Steven E. Siebers, *Secretary*

First Bankers Trustshares, Inc. Stock Prices

(*For the three months period ended)*

Market Value	12/31/19	9/30/19	6/30/19	3/31/19	12/31/18
High	$31.20	$31.90	$35.00	$36.00	$35.80
Low	$30.25	$30.50	$31.50	$30.96	$30.01
Period End Close	$31.20	$30.62	$31.50	$35.00	$32.00

The following companies make a market in FBTI common stock:

Raymond James
225 S. Riverside Plaza
7th Floor
Chicago, IL 60606
(800) 800-4693

Janney Montgomery Scott LLC
1475 Peachtree St. NE.
Suite 800
Atlanta, GA 30309
(844) 273-2189

Stifel Nicolas & Co., Inc.
501 N. Broadway
St. Louis, MO 63102
(800) 679-5446

Monroe Financial Partners
100 N. Riverside Plaza, Suite 1620
Chicago, IL 60606
(312) 327-2530

Board of Director Committees

The Audit and the Governance Compensation Committees are chaired by a board member. They are given the necessary resources to lead their committees, monitor the committee actions, and report to the full Board the committee's activities. The committees are staffed with employees who have been carefully chosen to support the Board member chairperson and provide the expertise and support to allow the committee to accomplish its objective.

THE COMMITTEES

1. Audit Committee

Chair: Charles M. Gnuse
Board Members: Arthur E. Greenbank, Phyllis J. Hofmeister and Kemia M. Sarraf, M.D., M.P.H.

The Audit Committee is comprised of independent Directors and assists the Board with its oversight of the systems and procedures relating to the Company's financial reporting process, internal accounting and financial controls, and risk management program. The Committee also assists with the administration and monitoring of the internal audit process, the annual independent audit of the Company's annual financial statements, and the Company's compliance with legal and regulatory requirements. The qualification, independence and performance of the Company's independent, registered public accounting firm, are also monitored by the Committee.

2. Governance And Compensation Committee (HR)

Chair: Scott A. Cisel
Board Members: Carl Adams, Jr., William D. Daniels and Steven E. Siebers

This is a Holding Company committee with the following responsibilities: address corporate governance matters; establish qualifications and independence requirements for Directors; recommend nominees for election to the Board; approve a management succession policy and review the identified candidates; oversee employee compensation and benefit plans; approve incentive compensation arrangements; and assess the contributions of current Directors. This committee will meet at least four times a year.

William D. Daniels
Chairman of the Board

Allen W. Shafer
President and CEO

Dear Shareholders of First Bankers Trustshares, Inc.,

2019 was a significant year in the history of First Bankers Trustshares, Inc. (the Company). On July 1st, we successfully spun off our wholly-owned subsidiary First Bankers Trust Services, Inc. (Trust) into a new independent company – TI-Trust, Inc. Shareholders received one share of TI-Trust, Inc. for each share they held of the Company. TI-Trust has grown significantly in recent years with a nationwide practice and established itself as an industry leader in ESOP fiduciary services. The separation allows TI-Trust, Inc. and the First Bankers Trustshares, Inc. and its subsidiary First Bankers Trust Company, N.A. (the Bank) to pursue their separate and independent strategic objectives.

The following pages will show the full year contributions made by the Bank as well as Trust's contribution through June 30, 2019.

Even with just six months of earnings from Trust, the Company produced the fourth largest net income in its history earning $8,319,000.

We look forward to talking with you at the annual meeting on Tuesday, May 12, 2020. The meeting will be held at the Corporate Headquarters at 1201 Broadway, Quincy, Illinois. The meeting will begin at 9:00 a.m.

In closing, we want to take this opportunity to thank you for your continued confidence in First Bankers Trustshares, Inc.

William D. Daniels
Chairman of the Board
First Bankers Trustshares, Inc.

Allen W. Shafer
President and CEO
First Bankers Trustshares, Inc.

(Amount in thousands of dollars, except per share data statistics)

*

Year Ended December 31,	2019	2018	2017	2016	2015	2014
PERFORMANCE						
Net income	$ 8,319	$ 8,382	$ 7,392	$ 9,145	$ 8,983	$ 7,245
Common stock cash dividends paid	$ 1,977	$ 1,852	$ 1,728	$ 1,602	$ 1,478	$ 1,355
Common stock cash dividend payout ratio [1]	23.77%	22.10%	23.38%	17.55%	16.64%	18.96%
Return on average assets [1]	0.90%	0.89%	0.80%	1.01%	1.02%	0.87%
Return on average common stockholders' equity [2]	8.99%	9.40%	8.88%	11.95%	12.95%	11.48%
PER COMMON SHARE						
Earnings, basic and diluted	$ 2.69	$ 2.72	$ 2.40	$ 2.96	$ 2.89	$ 2.32
Dividends (paid) on common stock	$ 0.64	$ 0.60	$ 0.56	$ 0.52	$ 0.48	$ 0.44
Book value [3]	$ 29.68	$ 29.79	$ 27.67	$ 25.87	$ 23.49	$ 21.09
Stock price						
High	$ 36.00	$ 37.95	$ 31.00	$ 30.00	$ 24.60	$ 24.00
Low	$ 30.25	$ 30.01	$ 25.95	$ 23.00	$ 22.61	$ 18.90
Close	$ 31.20	$ 32.00	$ 30.75	$ 30.00	$ 23.65	$ 22.76
Price/Earnings per share (at period end)	11.6	11.8	12.8	10.1	8.2	9.8
Market price/Book value (at period end)	1.05	1.07	1.11	1.16	1.01	1.08
Weighted average number of shares outstanding	3,089,247	3,087,488	3,086,805	3,079,556	3,079,521	3,079,521
AT DECEMBER 31,						
Assets	$ 922,579	$ 930,044	$ 942,949	$ 930,935	$ 906,672	$ 842,305
Investment securities	345,140	357,311	371,168	329,796	301,795	298,042
Loans held for sale	169	38	42	107	118	87
Loans (prior to allowance)	500,599	480,792	506,341	513,798	511,932	475,534
Deposits	727,656	733,435	756,833	727,445	717,464	667,668
Short-term borrowings and Federal Home Loan Bank advances	81,572	88,559	80,394	104,407	83,278	77,048
Junior subordinated debentures	10,310	10,310	10,310	10,310	10,310	10,310
Preferred stock	-	-	-	-	10,000	10,000
Stockholders' equity [4]	$ 91,711	$ 91,968	$ 85,438	$ 79,839	$ 82,326	$ 74,952
Total equity to total assets [4]	9.94%	9.89%	9.06%	8.58%	9.08%	8.90%
Common Equity Tier 1 capital ratio (risk based) [5]	14.98%	14.89%	13.28%	12.37%	10.89%	-
Tier 1 capital ratio (risk based)	16.67%	16.58%	14.90%	13.98%	14.05%	13.90%
Total capital ratio (risk based)	17.93%	17.84%	16.16%	15.24%	15.30%	14.97%
Leverage ratio	10.79%	10.50%	9.94%	9.34%	10.11%	9.67%

1 Excludes preferred stock dividends/accretion.

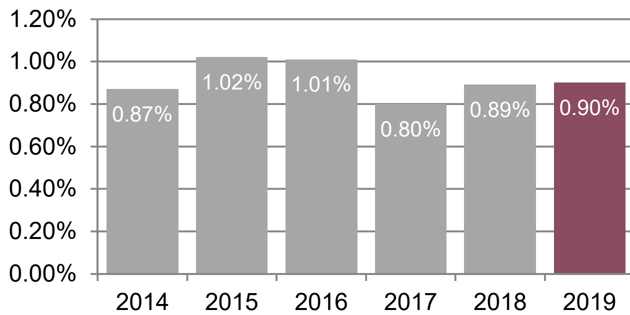
2 Return on average common stockholders' equity is calculated by dividing net income, excluding preferred stock dividends/accretion, by average common stockholders' equity. Common stockholders' equity is defined as equity less preferred stock and accumulated other comprehensive income or loss.

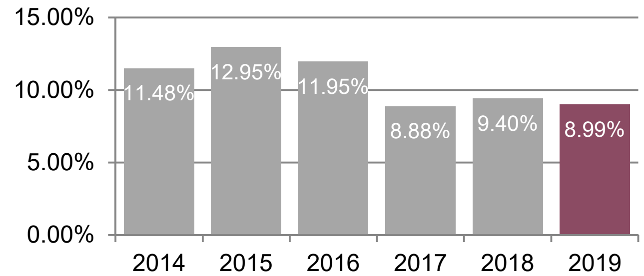
3 Book value per share is calculated by dividing stockholders' equity, excluding preferred stock and accumulated other comprehensive income or loss, by outstanding common shares.

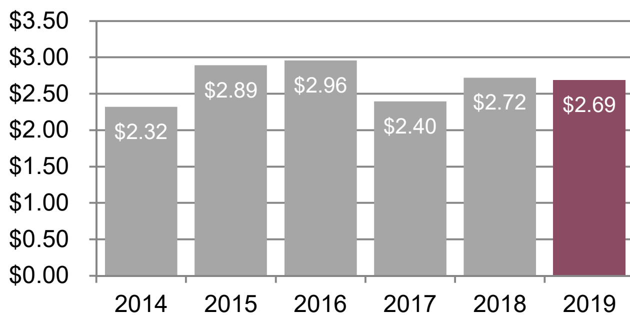
4 Stockholders' equity includes preferred stock and excludes accumulated other comprehensive income or loss.

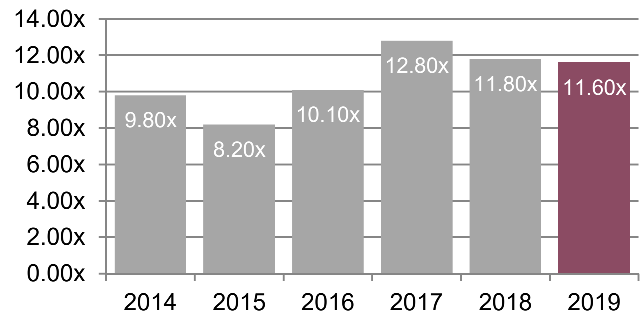
5 Common Equity Tier 1 ratio was created by BASEL III regulatory changes, which went into effect in January 2015.

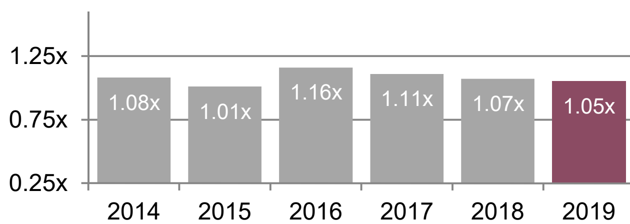
** This table includes results of discontinued operations (See Note 2)*

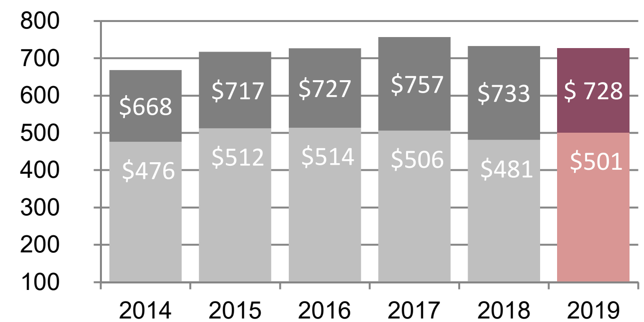

Return on Average Assets
1.20%
1.00%
0.80%
0.60%
0.40%
0.20%
0.00%
0.87%
1.02%
1.01%
0.80%
0.89%
0.90%
2014
2015
2016
2017
2018
2019


Return on Average Common Equity
15.00%
10.00%
5.00%
0.00%
11.48%
12.95%
11.95%
8.88%
9.40%
8.99%
2014
2015
2016
2017
2018
2019


Earnings Per Share
$3.50
$3.00
$2.50
$2.00
$1.50
$1.00
$0.50
$0.00
$2.32
$2.89
$2.96
$2.40
$2.72
$2.69
2014
2015
2016
2017
2018
2019


Price/Earnings Multiples
14.00x
12.00x
10.00x
8.00x
6.00x
4.00x
2.00x
0.00x
9.80x
8.20x
10.10x
12.80x
11.80x
11.60x
2014
2015
2016
2017
2018
2019


Market Price to Book Value
1.25x
0.75x
0.25x
1.08x
1.01x
1.16x
1.11x
1.07x
1.05x
2014
2015
2016
2017
2018
2019


Loan/Deposit Growth
800
700
600
500
400
300
200
100
$668
$717
$727
$757
$733
$ 728
$476
$512
$514
$506
$481
$501
2014
2015
2016
2017
2018
2019

Management's Report on Internal Controls over Financial Reporting

To the Stockholders:

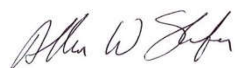
Management of First Bankers Trustshares, Inc. has prepared and is responsible for the integrity and consistency of the financial statements and other related information contained in this Annual Report. In the opinion of Management, the financial statements, which necessarily include amounts based on management estimates and judgments, have been prepared in conformity with accounting principles generally accepted in the United States of America and appropriate to the circumstances.

In meeting its responsibilities, First Bankers Trustshares, Inc. maintains a system of internal controls and procedures designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with established policies and practices, and that transactions are properly recorded so as to permit preparation of financial statements that fairly present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America. Internal controls and procedures are augmented by written policies covering standards of personal and business conduct and an organizational structure providing for division of accountability and authority.

The effectiveness of, and compliance with, established control systems are monitored through a continuous program of internal audit, account review, and external audit. In recognition of the cost-benefit relationships and inherent control limitations, some features of the control systems are designated to detect rather than prevent errors, irregularities and departures from approved policies and practices. Management believes the system of controls has prevented or detected on a timely basis, any occurrences that could be material to the financial statements and that timely corrective action has been initiated when appropriate.

First Bankers Trustshares, Inc. engaged the accounting firm of RSM US LLP as Independent Auditors to render an opinion on the consolidated financial statements. To the best of our knowledge, the Independent Auditors were provided with access to all information and records necessary to render their opinion.

The Board of Directors exercises its responsibility for the financial statements and related information through the Audit Committee, which is composed entirely of outside directors. The Audit Committee meets regularly with Management, the internal auditing manager and staff, and the Independent Auditors to assess the scope of the annual audit plan and to discuss audit, internal control and financial reporting issues. Among the many items discussed are major changes in accounting policies and reporting practices. The Independent Auditors also meet with the Audit Committee to afford them the opportunity to discuss adequacy of compliance with established policies and procedures and the quality of financial reporting.



Allen W. Shafer
President/CEO
First Bankers Trustshares, Inc.

First Bankers Trust Company, National Association Corporate Statement

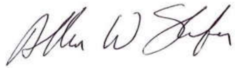
Allen W. Shafer
President/CEO

First Bankers Trust Company, N. A. is a leader in the financial industry offering services to the people, farmers, businesses, and public entities of West Central Illinois. We do this through our state-of-the-art electronic services and our ten branch locations. Through deposits from the general public and other borrowing and funds, we provide home mortgages, consumer, business, and agricultural loans.

While much work is yet to be done, we are pleased with what we accomplished in 2019. We achieved many of our financial goals including a significant improvement in net income. We completed the migration of our core computing system and debit card processing and implemented a new marketing campaign for the acquisition of new customers. Continued progress was also made with our credit quality and underwriting. Lastly, we added strong contributors to our team.

We look forward to the challenges and opportunities of the future. We will continue to strengthen our sales and credit cultures, attract, retain and develop talented team members and invest in technology to meet the ever changing needs of our customers. First Bankers Trust Company, N.A. has a very bright and exciting future.

Thank you for your support and continued confidence in First Bankers Trust Company, N.A.



Allen W. Shafer
President/CEO
First Bankers Trust Company, N. A.

Introduction

The following discussion of the financial condition and results of operations of First Bankers Trustshares, Inc. provides an analysis of the consolidated financial statements and focuses upon those factors which had a significant influence on the overall 2019 performance.

The discussion should be read in conjunction with the Company's consolidated financial statements and notes thereto appearing elsewhere in this Annual Report.

The Company was incorporated on August 25, 1988, and acquired First Midwest Bank/M.C.N.A. (the Bank) on June 30, 1989. The Bank acquisition was accounted for using purchase accounting. Prior to the acquisition of the Bank, the Company did not engage in any significant business activities.

Financial Management

The business of the Company is that of a community-oriented financial institution offering a variety of financial services to meet the needs of the communities it serves.

The Company attracts deposits from the general public and uses such deposits, together with borrowings and other funds, to originate one-to-four family residential mortgage loans, consumer loans, business loans and agricultural loans in its primary market area. The Company also invests in investment securities consisting primarily of U.S. government or agency obligations, mortgage-backed securities, financial institution certificates of deposit, and other liquid assets.

The Company's goal is to achieve consistently high levels of earning assets and loan/deposit ratios while maintaining effective expense control and high customer service levels. The term "high level" means the ability to profitably increase earning assets. As deposits have become fully deregulated, sustained earnings enhancement has focused on "earning asset" generation. The Company will focus on lending money profitably, controlling credit quality, net interest margin, operating expenses and on generating fee income from banking operations.

Consolidated Assets *(Amounts in Thousands of Dollars)*

*	**2019**	**Change**	2018	Change	2017	2016	2015	2014	5 Year Change
Assets									
Cash and due from banks:									
Non-interest bearing	**$ 9,274**	**2.88%**	$ 9,014	(29.16%)	$ 12,725	$ 14,922	$ 10,582	$ 11,307	(17.98%)
Interest bearing	**22,551**	**(21.19)**	28,616	122.62	12,854	22,308	36,748	14,548	55.01
Securities	**345,140**	**(3.41)**	357,311	(3.73)	371,168	329,796	301,795	298,042	15.80
Federal funds sold	**13,031**	**(22.00)**	16,706	540.57	2,608	9,994	8,421	5,006	160.31
Loans held for sale	**169**	**344.74**	38	(9.52)	42	107	118	87	94.25
Net loans	**488,811**	**4.45**	467,993	(5.88)	497,238	505,444	503,267	467,357	4.59
Other assets	**43,603**	**(13.43)**	50,366	8.75	46,314	48,364	45,741	45,958	(5.12)
TOTAL	**$ 922,579**	**(0.80%)**	$ 930,044	(1.37%)	$ 942,949	$ 930,935	$ 906,672	$ 842,305	9.53%
Liabilities & Stockholders' Equity									
Deposits	**$ 727,656**	**(0.79%)**	$ 733,435	(3.09%)	$ 756,833	$ 727,445	$ 717,464	$ 667,668	8.98%
Short-term borrowings	**80,533**	**(9.06)**	88,559	10.16	80,394	69,407	83,278	77,048	4.52
Federal Home Loan Bank advances	**1,039**	**100.00**	-	-	-	35,000	-	-	100.00
Junior Subordinated Debentures	**10,310**	**-**	10,310	-	10,310	10,310	10,310	10,310	0.00
Other liabilities	**5,722**	**(33.42)**	8,594	(6.04)	9,146	8,856	9,385	8,229	(30.47)
Stockholders' equity	**97,319**	**9.17**	89,146	3.34	86,266	79,917	86,235	79,050	23.11
TOTAL	**$ 922,579**	**(0.80%)**	$ 930,044	(1.37%)	$ 942,949	$ 930,935	$ 906,672	$ 842,305	9.53%

* This table includes discontinued operations for 2014 through 2018 (See Note 2).

At December 31, 2019, the company had assets of $922,579,000 compared to $930,044,000 at December 31, 2018. The decrease in assets is primarily made up of a decline in securities of $12,171,000 (3.41%), a decrease in cash due from banks of $5,805,000 (15.43%), a decrease of in fed funds sold of $3,675,000 (22.00%) and a decrease in other assets of $6,763,000 (13.43%). This was partially offset by a $20,818,000 (4.45%) increase in net loans. The decline in cash due from banks, fed funds sold, and securities funded the growth in net loans.

Approximately $31,629,000 of fixed rate long-term residential real estate loans were sold in the secondary market during 2019 while $23,755,000 were sold in 2018. Agricultural real estate loans totaling approximately $310,000 were sold in the secondary market during 2019, while $2,741,000 were sold in 2018. Management continues to place emphasis on the quality versus the quantity of the credits placed in the portfolio.

Results of Operations Summary

The Company's earnings are primarily dependent on net interest income, the difference between interest income and interest expense. Interest income is a function of the balances of loans, securities and other interest earning assets outstanding during the period and the yield earned on such assets. Interest expense is a function of the balances of deposits and borrowings outstanding during the same period and the rates paid on such deposits and borrowings. The Company's earnings are also affected by provisions for loan losses, service charges, trust income, other non-interest income and expense and income taxes. Non-interest expense consists primarily of employee compensation and benefits, occupancy and equipment expenses and general and administrative expenses.

Prevailing economic conditions as well as federal regulations concerning monetary and fiscal policies as they pertain to financial institutions significantly affect the Company. Deposit balances are influenced by a number of factors including interest rates paid on competing personal investments and the level of personal income and savings within the institution's market. In addition, growth of deposit balances is influenced by the perceptions of customers regarding the stability of the financial services industry. Lending activities are influenced by the demand for housing, competition from other lending institutions, as well as interest rate levels. The primary sources of funds for lending activities include deposits, loan payments, borrowings and funds provided from operations.

For the year ended December 31, 2019, the Company reported consolidated net income of $8,319,000, a $63,000 (0.75%) decrease from 2018. Net interest income decreased $412,000 (1.54%), other non-interest income decreased $4,371,000 (24.94%), other non-interest expenses decreased $811,000 (2.97%), and income tax expense increased $241,000 (12.15%). The decrease in the provision for loan losses of $4,150,000 (63.36%) helped to offset the overall decrease in net income stated above.

Analysis of Net Income

The Company's assets are primarily comprised of interest earning assets including commercial, agricultural, consumer and real estate loans, as well as federal funds sold, interest bearing deposits in banks and securities. Average earning assets equaled $876,003,000 for the year ended December 31, 2019. A combination of interest bearing and non-interest bearing deposits, securities sold under agreement to repurchase, other borrowings and capital funds are employed to finance these assets.

Consolidated Income Summary *(Amounts in Thousands of Dollars)*

*	2019	Change	2018	Change	2017	2016	2015	2014	5 Year Growth Rate
Interest income	$32,761	2.14%	$ 32,075	6.42%	$ 30,141	$ 29,257	$ 28,098	$ 26,947	21.58%
Interest expense	(6,432)	20.58%	(5,334)	28.81%	(4,141)	(4,037)	(4,058)	(4,145)	55.17%
Net interest income	26,329	(1.54)%	26,741	2.85%	26,000	25,220	24,040	22,802	15.47%
Provision for loan losses	(2,400)	(63.36)%	(6,550)	191.11%	(2,250)	(600)	(675)	(1,170)	105.13%
Net interest income after provision for loan losses	23,929	18.51%	20,191	(14.99)%	23,750	24,620	23,365	21,632	10.62%
Other income	13,153	(24.94)%	17,524	2.01%	17,179	17,747	16,995	14,432	(8.86)%
Other expenses	(26,538)	(2.97)%	(27,349)	(8.19)%	(29,790)	(28,485)	(27,600)	(25,707)	3.23%
Income before taxes	10,544	1.72%	10,366	(6.94)%	11,139	13,882	12,760	10,357	1.81%
Income tax expense	(2,225)	12.15%	(1,984)	(47.05)%	(3,747)	(4,737)	(3,777)	(3,112)	(28.50)%
NET INCOME	$ 8,319	(0.75)%	$ 8,382	13.39%	$ 7,392	$ 9,145	$ 8,983	$ 7,245	14.82%

* This table includes results of discontinued operations through June 30, 2019.

Years Ended December 31,	2019	2018	2017
(Amounts in Thousands of Dollars)			
Interest income	$ 32,194	$ 31,463	$ 29,475
Loan fees	567	612	666
Interest expense	(6,432)	(5,334)	(4,141)
NET INTEREST INCOME	$ 26,329	$ 26,741	$ 26,000
Average earning assets	$ 876,003	$ 898,214	$ 872,309
Net interest margin	3.01%	2.98%	2.98%

* This table includes results of discontinued operations through June 30, 2019.

The yield on average earning assets for the year ended 2019 was 3.74% while the average cost of funds for the same period was 0.92% on average interest bearing liabilities of $699,644,000. The yield on average earning assets for the year ended 2018 was 3.57%, while the average cost of funds for the same period was 0.74% on average interest bearing liabilities of $724,612,000. The decrease in the net interest income of $412,000 can be attributed to the 2.47% decrease in average earning assets, and the 0.18% increase in the average cost of funds, which was partially offset by the 0.17% increase in the yield on average earning assets and the 3.4% decrease in average interest bearing liabilities.

Provision for Loan Losses

The allowance for loan losses as a percentage of gross loans outstanding is 2.35% as of December 31, 2019, compared to 2.66% as of December 31, 2018. Net loan charge-offs totaled $3,411,000 for the year ended December 31, 2019 compared to $2,854,000 in 2018.

The amounts recorded in the provision for loan losses are determined from management's quarterly evaluation of the quality of the loan portfolio. In this review, such factors as the volume and character of the loan portfolio, general economic conditions and past loan loss experience are considered. Management believes that the allowance for loan losses is adequate to provide for possible losses in the portfolio as of December 31, 2019.

Other Income

Other income may be divided into two broad categories – recurring and non-recurring. Trust fees and service charges on deposit accounts are the major sources of recurring other income. Investment securities gains and other income vary annually. Other income for the period ended December 31, 2019 was $13,153,000, a decrease of $4,371,000 (24.94%) from 2018. This is primarily attributed to the spin-off of First Bankers Trust Services, Inc. at June 30, 2019.

Other Expense

Other expense for the period ended December 31, 2019 totaled $26,538,000, a decrease of $811,000 (2.97%) from 2018. Salaries and employee benefits expense aggregated 58.15% and 65.30% of total other expense for the years ended December 31, 2019 and 2018, respectively.

Non-Accrual and Past Due Loans, Leases and Other Real Estate Owned

(Amounts in Thousands of Dollars)

As of December 31,	2019	2018	2017	2016	2015	2014
Non-accrual loans and leases	$ 6,503	$ 12,568	$ 8,092	$ 3,386	$ 2,920	$ 2,679
Other real estate owned (OREO)	377	681	32	147	-	-
Total non-accrual loans and OREO	$ 6,880	$ 13,249	$ 8,124	$ 3,533	$ 2,920	$ 2,679
Loans and leases past due 90 days or more and still accruing interest	11	-	22	11	82	157
TOTAL	$ 6,891	$ 13,249	$ 8,146	$ 3,544	$ 3,002	$ 2,836

Income Taxes

The Company files its federal income tax return on a consolidated basis with the Bank. See Note 13 for detail of income taxes.

Liquidity

The concept of liquidity comprises the ability of an enterprise to maintain sufficient cash flow to meet its needs and obligations on a timely basis. Bank liquidity must thus be considered in terms of the nature and mix of the institution's sources and uses of funds.

Bank liquidity is provided from both assets and liabilities. The asset side provides liquidity through regular maturities of investment securities and loans. Investment securities with maturities of one year or less, deposits with banks and federal funds sold are a primary source of asset liquidity. On December 31, 2019, these categories totaled $69,372,000 or 6.01% of assets, compared to $64,952,000 or 6.98% the previous year.

As of December 31, 2019 and 2018, securities held to maturity included $161,000 and $84,000, respectively, of gross unrealized gains and no unrealized losses, on securities which management intends to hold until maturity. Such amounts are not expected to have a material effect on future earnings beyond the usual amortization of premium and accretion of discount.

Closely related to the management of liquidity is the management of rate sensitivity (management of variable rate assets and liabilities), which focuses on maintaining stable net interest margin, an important factor in earnings growth and stability. Emphasis is placed on maintaining an evenly balanced rate sensitivity position to avoid wide swings in margins and minimize risk due to changes in interest rates.

The Company's Asset/Liability Committee is charged with the responsibility of prudently managing the volumes and mixes of assets and liabilities of the subsidiary bank.

Management believes that it has structured its pricing mechanisms such that the net interest margin should maintain acceptable levels in 2020, regardless of the changes in interest rates that may occur.

The following table shows the repricing period for interest-earning assets and interest-bearing liabilities and the related repricing gap:

Repricing Period as of December 31, 2019

	Through One Year	After One Year through Five Years	After Five Years
(Amounts in Thousands of Dollars)			
Interest-earning assets	$ 213,117	$ 378,186	$ 305,884
Interest-bearing liabilities	$ 649,194	$ 28,553	$ 10,310
Repricing gap *(repricing assets minus repricing liabilities)*	$(436,077)	$ 349,633	$ 295,574

Repricing Period as of December 31, 2018

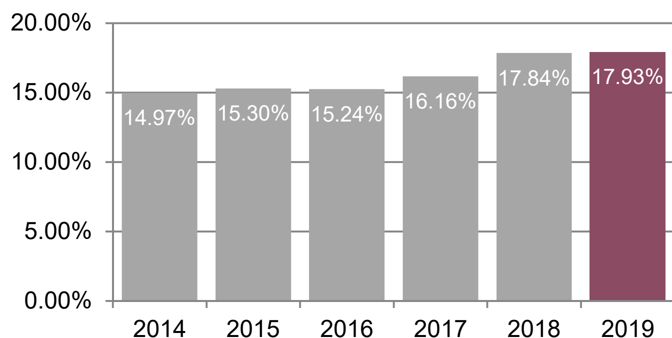
	Through One Year	After One Year through Five Years	After Five Years
(Amounts in Thousands of Dollars)			
Interest-earning assets	$ 213,643	$ 375,230	$ 294,590
Interest-bearing liabilities	$ 614,432	$ 75,857	$ 10,310
Repricing gap (repricing assets minus repricing liabilities)	$ (400,789)	$ 299,373	$ 284,280

Capital

The ability to generate and maintain capital at adequate levels is critical to the Company's long-term success. A common measure of capitalization for financial institutions is primary capital as a percent of total assets.

Regulations also require the Company to maintain certain minimum capital levels in relation to consolidated Company assets. Regulations require a minimum ratio of capital to risk-weighted assets of 8%.

The Company's capital, as defined by the regulations, was 17.93% of risk-weighted assets as of December 31, 2019. In addition, a leverage ratio of at least 4.00% is to be maintained. As of December 31, 2019, the Company's leverage ratio was 10.79%.



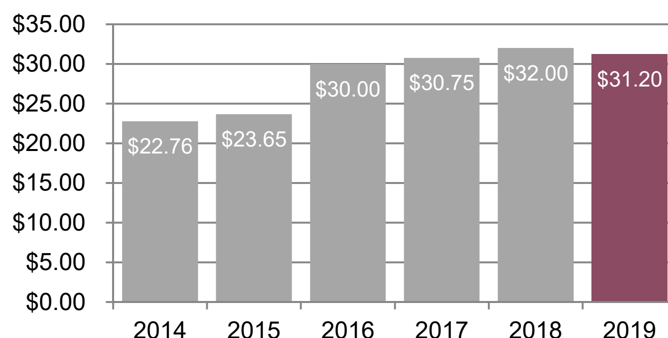
Asset Liability Management

Since changes in interest rates may have a significant impact on operations, the Company has implemented, and currently maintains, an asset liability management committee at the Bank to monitor and react to the changes in interest rates and other economic conditions. Research concerning interest rate risk is supplied by the Company from information received from a third-party source. The committee acts upon this information by adjusting pricing, fee income parameters and/or marketing emphasis.

Common Stock Information and Dividends

The Company's common stock is held by 222 certificate holders as of December 31, 2019, and is traded in a limited over-the-counter market.

On December 31, 2019 the market price of the Company's common stock was $31.20. Market price is based on stock transactions in the market. Dividends on common stock of approximately $2,008,000 were declared by the Board of Directors of the Company for the year ended December 31, 2019.



Financial Report

Upon written request of any shareholder of record on December 31, 2019, the Company will provide, without charge, a copy of its 2019 Annual Report.

Notice of Annual Meeting of Stockholders

The annual meeting of stockholders will be May 12, 2020 at 9:00 a.m. at the corporate headquarters, 1201 Broadway, Quincy, Illinois.

Independent Auditor's Report

RSM US LLP

To the Audit Committee
First Bankers Trustshares, Inc.

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

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

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

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

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

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

RSM US LLP

Davenport, Iowa
March 4, 2020

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Consolidated Balance Sheets

(Amounts in Thousands of Dollars, Except Share and Per Share Data)

December 31,	**2019**	2018
ASSETS		
Cash and due from banks		
Non-interest bearing	**$ 9,274**	$ 8,727
Interest bearing	**22,551**	25,024
Total Cash and Due from Banks	**31,825**	33,751
Securities held to maturity	**2,809**	1,044
Securities available for sale	**342,331**	350,643
Federal funds sold	**13,031**	16,706
Loans held for sale	**169**	38
Loans	**500,599**	480,792
Less allowance for loan losses	**(11,788)**	(12,799)
Net loans	**488,811**	467,993
Premises, furniture and equipment, net	**13,974**	15,074
Accrued interest receivable	**4,239**	4,559
Life insurance contracts	**17,251**	16,778
Intangibles	**3,299**	3,472
Other assets	**4,840**	8,245
Assets related to discontinued operations	**-**	11,741
TOTAL ASSETS	**$ 922,579**	$ 930,044
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Non-interest bearing demands	**$ 131,481**	$ 131,705
Interest bearing demand	**304,158**	292,665
Savings	**88,925**	112,196
Time	**203,092**	196,869
Total deposits	**727,656**	733,435
Securities sold under agreements to repurchase	**80,533**	88,559
FHLB Advances	**1,039**	-
Junior subordinated debentures	**10,310**	10,310
Accrued interest payable	**787**	677
Other liabilities	**4,935**	4,265
Liabilities related to discontinued operations	**-**	3,652
Total Liabilities	**825,260**	840,898
Commitments and Contingencies (Note 10)		
Stockholders' Equity		
Common stock, $1 par value; shares authorized 6,000,000; shares issued 3,605,725 and outstanding: 2019 3,089,773 and 2018 3,087,488 shares	**3,606**	3,606
Additional paid in capital	**1,330**	1,259
Retained earnings	**93,998**	94,358
Accumulated other comprehensive income (loss)	**5,608**	(2,822)
Treasury stock, at cost: 2019 515,952 and 2018 518,237 shares	**(7,223)**	(7,255)
Total Stockholders' Equity	**97,319**	89,146
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 922,579**	$ 930,044

See Notes to Consolidated Financial Statements.

Consolidated Statements of Income

(Amounts in Thousands of Dollars, Except Per Share Data)

Year Ended December 31,	2019	2018
INTEREST INCOME		
Loans, including fee income:		
Taxable	**$ 23,058**	$ 22,615
Non-taxable	**620**	600
Securities:		
Taxable	**7,178**	6,843
Non-taxable	**890**	1,032
Other	**892**	784
Total interest income	**32,638**	31,874
INTEREST EXPENSE		
Deposits:		
Interest bearing demand and savings	**1,861**	1,969
Time	**3,463**	2,404
Total interest on deposits	**5,324**	4,373
Junior subordinated debentures	**548**	518
Other	**560**	443
Total interest expense	**6,432**	5,334
Net interest income	**26,206**	26,540
Provision for loan losses	**2,400**	6,550
Net interest income after provision for loan losses	**23,806**	19,990
OTHER INCOME		
Service charges on deposit accounts	**1,208**	1,265
Gain on sale of loans	**419**	381
Investment securities gains (losses), net	**(55)**	9
Other	**5,205**	4,799
Total other income	**6,777**	6,454
OTHER EXPENSES		
Salaries and employee benefits	**12,267**	11,807
Occupancy expense, net	**1,233**	1,142
Equipment expense	**785**	816
Computer processing	**2,334**	2,096
Professional services	**1,858**	850
Other	**3,898**	3,574
Total other expenses	**22,375**	20,285
Income from continuing operations before income taxes	**8,208**	6,159
Income taxes from continuing operations	**1,562**	1,045
Income from continuing operations	**6,646**	5,114
Income from discontinued operations, net of income taxes	**1,673**	3,268
Net income	**$ 8,319**	$ 8,382
Earnings per share - continuing operations	**$ 2.15**	$ 1.66
Earnings per share - discontinued operations	**0.54**	1.06
Earnings per share of common stock, basic and diluted	**$ 2.69**	$ 2.72

See Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

(Amounts In Thousands of Dollars, Except Share and Per Share Data)

Year Ended December 31,		**2019**		2018
Net income	**$**	**8,319**	$	8,382
Other comprehensive income (loss):				
Unrealized gains (losses) on securities available for sale:				
Unrealized holding gains (losses) arising during the year before tax		**11,704**		(5,096)
Reclassification adjustment for gains (losses) included in net income before tax		**(55)**		9
		11,759		(5,105)
Tax expense (benefit)		**3,329**		(1,455)
Other comprehensive income (loss), net of tax		**8,430**		(3,650)
Comprehensive income	**$**	**16,749**	$	4,732

See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Stockholders' Equity

(Amounts in Thousands of Dollars, Except Share and Per Share Data)

Years Ended December 31, 2019 and 2018

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, December 31, 2017	$ 3,606	$ 1,227	$ 87,860	$ 828	$ (7,255)	$ 86,266
Net income	-	-	8,382	-	-	8,382
Other comprehensive loss, net of tax	-	-	-	(3,650)	-	(3,650)
Reclassification impact of adoption of ASU 2018-02 (see Footnote 1)	-	-	-	-	-	-
Restricted stock award	-	32	-	-	-	32
Common stock dividends declared (amount per share $ .61)	-	-	(1,884)	-	-	(1,884)
Balance, December 31, 2018	$ 3,606	$ 1,259	$ 94,358	$ (2,822)	$ (7,255)	$ 89,146
Net income	**-**	**-**	**8,319**	**-**	**-**	**8,319**
Other comprehensive income, net of tax	**-**	**-**	**-**	**8,430**	**-**	**8,430**
Restricted stock award	**-**	**71**	**-**	**-**	**32**	**103**
Common stock dividends declared (amount per share $ .65)	**-**	**-**	**(2,008)**	**-**	**-**	**(2,008)**
Spin-off of First Bankers Trust Services, Inc.	**-**	**-**	**(6,671)**	**-**	**-**	**(6,671)**
Balance, December 31, 2019	**$ 3,606**	**$ 1,330**	**$93,998**	**$ 5,608**	**$ (7,223)**	**$97,319**

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

(Amounts in Thousands of Dollars)

Year Ended December 31,		2019		2018
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	**$**	**8,319**	$	8,382
(Income) from discontinued operations, net of income taxes		**(1,673)**		(3,268)
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for loan losses		**2,400**		6,550
Depreciation		**1,218**		1,254
Amortization of intangibles		**173**		173
Restricted stock award		**103**		32
Amortization/accretion of premiums/discounts on securities, net		**2,208**		2,538
Investment securities (gains) losses, net		**55**		(9)
Loans originated for sale		**(33,454)**		(28,243)
Proceeds from loans sold		**33,742**		28,628
Gain on sale of loans		**(419)**		(381)
Deferred income taxes		**290**		(1,143)
(Increase) decrease in accrued interest receivable and other assets		**322**		(884)
Increase in cash surrender value of life insurance contracts		**(473)**		(463)
Increase in accrued interest payable and other liabilities		**749**		169
Net cash provided by continuing operating activities		**13,560**		13,335
Net cash provided by discontinued operating activities		**2,472**		2,743
Net cash provided by operating activities		**16,032**		16,078
CASH FLOWS FROM INVESTING ACTIVITIES				
Activity in securities portfolio:				
Purchases		**(32,997)**		(30,969)
Sales of securities available for sale		**15,296**		262
Calls, maturities and paydowns		**33,744**		36,250
(Increase) decrease in loans, net		**(23,434)**		21,890
(Increase) decrease in federal funds sold, net		**3,675**		(14,098)
Purchases of premises, furniture and equipment		**(118)**		(812)
Net cash provided by (used in) continuing investing activities		**(3,834)**		12,523
Net cash provided by (used in) discontinued investing activities		**(60)**		535
Net cash provided by (used in) investing activities		**(3,894)**		13,058
CASH FLOWS FROM FINANCING ACTIVITIES				
Decrease in deposits, net		**(5,779)**		(23,398)
Cash dividends paid to common shareholders		**(1,977)**		(952)
(Decrease) increase in securities sold under agreement to repurchase, net		**(8,026)**		8,165
Proceeds from FHLB Advances		**74,039**		55,000
Repayments of FHLB Advances		**(73,000)**		(55,000)
Net cash used in continuing financing activities		**(14,743)**		(16,185)
Net cash provided by (used in) discontinued financing activities		**(3,200)**		(900)
Net cash used in financing activities		**(17,943)**		(17,085)
Net increase (decrease) in cash and due from banks		**(5,805)**		12,051
CASH AND DUE FROM BANKS				
Beginning cash		**37,630**		25,579
Ending cash	**$**	**31,825**	$	37,630
Less: Cash of discontinued operations		**-**		(3,879)
Cash of continuing operations	**$**	**31,825**	$	33,751

(Continued)

Consolidated Statements of Cash Flows (Continued)

(Amounts in Thousands of Dollars)

Year Ended December 31,	**2019**	2018
Supplemental disclosure of cash flow information, cash payments for:		
Interest	**$ 6,322**	$ 5,206
Income taxes	**1,535**	3,645
Supplemental schedule of non-cash investing and financing activities:		
Net change in accumulated other comprehensive income (loss)	**8,430**	(3,650)
Transfer of loans to other real estate owned	**216**	805
Effects of common and preferred dividends payable	**31**	32

See Notes to Consolidated Financial Statements.

1. Nature of Business and Summary of Significant Accounting Policies

Nature of Business

First Bankers Trustshares, Inc. (Company) is a bank holding company which owns 100% of the outstanding common stock of First Bankers Trust Company, N.A. (Bank), FBIL Statutory Trust II (Trust II) and FBIL Statutory Trust III (Trust III). Prior to July 1, 2019 the Company also owned 100% of First Bankers Trust Services, Inc. (Trust Services). The Bank is engaged in banking and bank related services and serves a market area consisting primarily of Adams, McDonough, Schuyler, Hancock, Sangamon and adjacent Illinois counties, and Marion, Lewis and Shelby counties in Missouri. Trust Services provided asset and custodial management for clients throughout the country. All administration was conducted in Quincy, IL, with sales offices in Hinsdale, IL, St. Peters, MO, Philadelphia, PA, Atlanta, GA and Phoenix, AZ. Trusts II and III were capitalized for the purpose of issuing company obligated mandatory redeemable preferred securities.

On July 1, 2019, the Company completed the distribution of 100% of the outstanding common stock of First Bankers Trust Services, Inc. (Trust Services) to our stockholders (the "Distribution"), pursuant to which Trust Services became an independent company. These financial statements reflect Trust Services' financial results in the consolidated statements of income as discontinued operations (See Footnote 2). Additionally, the related assets and liabilities associated with the discontinued operations in the prior year consolidated balance sheet are classified as discontinued operations. Pursuant to the terms of the agreement entered into on June 5, 2019, assets related to Trust Services were transferred to, and liabilities related to Trust Services were retained or assumed by Trust Services. See Note 2 Discontinued Operations for additional information.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount 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. Actual results could differ from those estimates. The allowance for loan losses is inherently subjective as it requires material estimates that are susceptible to significant change. The fair value disclosure of financial instruments is an estimate that can be computed within a range.

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of First Bankers Trustshares, Inc. and its wholly-owned subsidiaries, except Trusts II and III, which do not meet the criteria for consolidation. All significant intercompany accounts and transactions have been eliminated in consolidation. The results of discontinued operations have been reported separately in the consolidated financial statements and the previously reported financial statements have been reclassified.

Presentation of Cash Flows

For purposes of reporting cash flows, cash and due from banks includes cash on hand and amounts due from banks, including cash items in process of clearing. Cash flows from federal funds sold, loans to customers, deposits and securities sold under agreements to repurchase are reported net.

Securities

Securities held to maturity are those for which the Company has the ability and intent to hold to maturity. Securities meeting such criteria at the date of purchase and as of the balance sheet date are carried at amortized cost, adjusted for amortization of premiums and accretion of discounts, computed by the interest method over their contracted lives.

Securities available for sale are accounted for at fair value and the unrealized holding gains or losses, net of their deferred income tax effect, are presented as increases or decreases in accumulated other comprehensive income, as a separate component of equity.

Realized gains and losses on sales of securities are based upon the adjusted book value of the specific securities sold and are included in earnings.

There were no trading securities as of December 31, 2019 and 2018.

All securities are evaluated to determine whether declines in fair value below their amortized cost are other-than-temporary. In estimating other-than-temporary impairment losses on debt securities, management considers a number of factors including, but not limited to (1) the length of time and extent to which the fair value has been less than amortized cost, (2) the financial condition and near-term prospects of the issuer, (3) the current market conditions and (4) the intent of the Company to not sell the security prior to recovery and whether it is not more-likely-than-not that it will be required to sell the security prior to recovery. If the Company does not intend to sell the security, and it is unlikely the entity will be required to sell the security before recovery of its amortized cost basis, the Company will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held to maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion would be amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

Federal Funds Sold

Federal funds sold consist of excess bank reserves lent in the federal funds market. The Company's balance sheet includes federal funds sold of $13,031 and $16,706 at December 31, 2019 and 2018, respectively.

Loans and Allowance for Loan Losses

Loans held for sale: Residential real estate and agricultural loans, which are originated and intended for resale in the secondary market in the foreseeable future, are classified as held for sale. These loans are carried at the lower of cost or estimated market value in the aggregate. As assets specifically acquired for resale, the origination of, disposition of, and gain/loss on these loans are classified as operating activities in the statements of cash flows.

Loans held for investment: Loans that management has the intent and ability to hold for the foreseeable future, or until pay-off or maturity occurs, are classified as held for investment. These loans are stated at the amount of unpaid principal adjusted for charge-offs, the allowance for estimated losses on loans, and any deferred fees and/or costs on originated loans. Interest is credited to earnings as earned based on the principal amount outstanding. Deferred direct loan origination fees and/or costs are amortized as an adjustment of the related loan's yield. As assets held for and used in the production of services, the origination and collection of these loans is classified as an investing activity in the statements of cash flows.

Allowance for credit losses and fair value are disclosed by portfolio segment, while credit quality information, impaired financing receivables, nonaccrual status and troubled debt restructurings are presented by class of financing receivable. A portfolio segment is defined as the level at which an entity develops and documents a systematic methodology to determine its allowance for credit losses. A class of financing receivable is defined as a further disaggregation of a portfolio segment based on risk characteristics and the entity's method for monitoring and assessing credit risk. The

disclosures are presented at the level of disaggregation that management uses when assessing and monitoring the portfolio's risk and performance.

The Company's portfolio segments are as follows:

- Commercial operating
- Commercial real estate
- Agricultural operating
- Agricultural real estate
- Construction and land development
- Real estate secured by 1-4 and multi-family
- Consumer

Given the risk characteristics and the Company's method for monitoring and assessing credit risk, further disaggregation of the loan portfolio is not warranted, and therefore, the Company's classes equal their segments.

Generally, for all classes of loans, loans are considered past due when contractual payments are delinquent for 31 days or greater.

For all classes of loans, loans will generally be placed on nonaccrual status when the loan has become 90 days past due (unless the loan is well secured and in the process of collection); or if any of the following conditions exist:

- It becomes evident that the borrower will not make payments, or will not or cannot meet the terms for renewal of a matured loan,
- When full repayment of principal and interest is not expected,
- When the loan is graded "substandard" and the future accrual of interest is not protected by sound collateral values,
- When the loan is graded "doubtful",
- When the borrower files bankruptcy and an approved plan of reorganization or liquidation is not anticipated in the near future, or
- When foreclosure action is initiated.

When a loan is placed on nonaccrual status, payments received will be applied to the principal balance. However, interest may be taken on a cash basis in the event the loan is fully secured and the risk of loss is minimal. Previously recorded but uncollected interest on a loan placed in nonaccrual status is accounted for as follows: if the previously accrued but uncollected interest and the principal amount of the loan is protected by sound collateral value based upon a current, independent qualified appraisal, such interest may remain on the Company's books. If such interest is not protected, it is considered a loss with the amount thereof recorded in the current year being reversed against current earnings, and the amount recorded in the prior year being charged against the allowance for possible loan losses.

For all classes of loans, nonaccrual loans may be restored to accrual status provided the following criteria are met:

- The loan is current, and all principal and interest amounts contractually due have been made,
- The loan is well secured and in the process of collection, and
- Prospects for future principal and interest payments are not in doubt.

Troubled debt restructures: Troubled debt restructuring exists when the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession (either imposed by court order, law or agreement between the borrower and the Company) to the borrower that it would not otherwise consider. These concessions could include forgiveness of principal, extension of maturity dates and reduction of stated interest rates or accrued interest. The Company is attempting to maximize its recovery of the balances of the loans through these various concessionary restructurings. See Note 4 for disclosure of the Company's troubled debt restructurings.

Allowance for loan losses: For all portfolio segments, the allowance for loan losses is maintained at the level considered adequate by management to provide for losses that are probable. The allowance is increased by provisions charged to expense and reduced by net charge-offs.

In determining the adequacy of the allowance balance, the Company makes continuous evaluations of the loan portfolio and related off-balance sheet commitments, considered current economic conditions, historical loan loss experience, reviews of specific problem loans and other factors.

A discussion of the risk characteristics and the allowance for loan losses by each portfolio segment follows:

For commercial operating loans, the Company focuses on small and mid-sized businesses with primary operations in transportation, warehousing and manufacturing, as well as serving as building contractors, business services companies, health care providers, financial organizations and retailers. The Company provides a wide range of commercial loans, including lines of credit for working capital and operational purposes, and term loans for the acquisition of real estate, facilities, equipment and other purposes. Approval is generally based on the following factors:

- Sufficient cash flow to support debt repayment;
- Ability and stability of current management of the borrower;
- Positive earnings and financial trends;
- Earnings projections based on reasonable assumptions;
- Financial strength of the industry and business; and
- Value and marketability of collateral.

Collateral for commercial loans generally includes accounts receivable, inventory, equipment and real estate. The lending policy specifies approved collateral types and corresponding maximum advance percentages. The value of collateral pledged on loans typically exceeds the loan amount by a margin sufficient to absorb potential erosion of its value in the event of foreclosure and cover the loan amount plus costs incurred to convert it to cash.

The lending policy specifies maximum term limits for commercial operating loans. For term loans, the maximum term is 7 years. The lending policy references compliance with the interagency appraisal and evaluation guidelines effective December 2010. Where the purpose of the loan is to finance depreciable equipment, the term loan generally does not exceed the estimated useful life of the asset. For lines of credit, the typical maximum term is 365 days. However, longer maturities may be approved if the loan is secured by readily marketable collateral.

In addition, the Company often takes personal guarantees to help assure repayment. Loans may be made on an unsecured basis if warranted by the overall financial condition of the borrower.

Commercial real estate loans, construction and land development loans and real estate secured by multi-family loans are subject to underwriting standards and processes similar to commercial operating loans and to real estate loans including the factors regarding approval of the loan noted previously.

Collateral for these loans generally includes the underlying real estate and improvements, and may include additional assets of the borrower. The lending policy specifies maximum loan-to-value limits based on the category of commercial real estate (commercial real estate loans on improved property, raw land, land development and commercial construction). The lending policy also references compliance with the interagency appraisal and evaluation guidelines. In addition, the Company often takes personal guarantees to help assure repayment.

Agricultural operating and real estate loans are subject to underwriting standards and processes similar to commercial loans including the approval factors noted previously. The Company provides a wide range of agriculture loans, including lines of credit for working capital and operational purposes, and term loans for the acquisition of real estate, facilities, equipment and other purposes.

Collateral for agricultural loans generally includes accounts receivable, inventory (typically grain or livestock), equipment and real estate. The lending policy specifies approved collateral types and corresponding maximum advance percentages. The value of collateral pledged on loans typically exceeds the loan amount by a margin sufficient to absorb potential erosion of its value in the event of foreclosure and cover the loan amount plus costs incurred to convert it to cash.

The lending policy specifies maximum term limits for agricultural loans. For term loans, the maximum term is 7 years. The lending policy references compliance with the interagency appraisal and evaluation guidelines. Where the purpose of the loan is to finance depreciable equipment, the term loan generally does not exceed the estimated useful life of the asset. For lines of credit, the typical maximum term is 365 days. However, longer maturities may be approved if the loan is secured by readily marketable collateral.

In addition, the Company often takes personal guarantees to help assure repayment. Loans may be made on an unsecured basis if warranted by the overall financial condition of the borrower.

In some instances for all loans, it may be appropriate to originate or purchase loans that are exceptions to the guidelines and limits established within the lending policy described above and below. In general, exceptions to the lending policy do not significantly deviate from the guidelines and limits established within the lending policy and, if there are exceptions, they are clearly noted as such and specifically identified in loan approval documents.

The Company generally retains short-term residential mortgage loans that are originated for its own portfolio but sells most long-term loans to other parties while retaining servicing rights on the majority of those loans. The market value of real estate securing residential real estate loans can fluctuate as a result of market conditions in the geographic area in which the real estate is located. Adverse developments affecting real estate values in one or more of the Company's markets could increase the credit risk associated with its loan portfolio. Additionally, real estate lending typically involves higher loan principal amounts than other loans, and the repayment of the loans generally is dependent, in large part, on the borrower's continuing financial stability, and is therefore more likely to be affected by adverse personal circumstances.

Consumer loans typically have shorter terms, lower balances, higher yields and higher risks of default than real estate-related loans. Consumer loan collections are dependent on the borrower's continuing financial stability, and are therefore more likely to be affected by adverse personal circumstances. Collateral for these loans generally includes automobiles, boats, recreational vehicles and real estate. However, depending on the overall financial condition of the borrower, some loans are made on an unsecured basis. The collateral securing these loans may depreciate over time, may be difficult to recover and may fluctuate in value based on condition. In addition, a decline in the United States economy could result in reduced employment, impacting the ability of customers to repay their obligations.

For loans categorized as "commercial," which would include the following segments: commercial operating, commercial real estate, agricultural real estate, agricultural operating, construction and land development and real estate secured by multi-family, the allowance for estimated losses on loans consist of specific and general components.

The specific component relates to loans that are classified as impaired, as defined following. For those loans that are classified as impaired, an allowance is established when the collateral value (or discounted cash flows or observable market price) of the impaired loan is lower than the carrying value of that loan.

These loans are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a case-by-case basis by either the present value of the expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

The general components consist of quantitative and qualitative factors and covers non-impaired loans. The quantitative factors are based on historical charge-offs experience and expected loss given default derived from the Company's internal risk rating process. See below for a detailed description of the Company's internal risk rating scale. The qualitative factors are determined based on an assessment of internal and/or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

The Company utilizes the following internal risk rating scale:

Type 1 (Substantially Risk Free)

General Statement: This rating should be assigned to loans with virtually no credit risk, such as loans fully secured by certificates of deposit and other deposit accounts. It may be assigned to other loans to businesses or individuals with little or no risk.

Business Loans: A loan to a business may be rated 1 if it exhibits enough of these characteristics to make it substantially risk free:

- Bank has a high regard for the character, competence and diligence of management.
- Earnings are strong and well-assured.
- There is ample liquidity.
- Loans have paid as agreed.
- Abundant collateral which is liquid and has well-defined market value.
- Capital position well above industry averages.
- Loan structure is appropriate and documentation complete.
- No adverse trends.

Loans to Individuals: Loans to individuals may be assigned a 1 rating if the following conditions are met:

- The primary source of repayment is strong and is considered likely to remain strong throughout the life of the loan.
- The loan is secured by collateral with a loan to value (LTV) of less than 50% provided that the collateral must have well-defined market-value, must have satisfactory liquidity and should retain most of its value if the primary source of repayment falters.
- The individual has significant liquidity and is considered likely to remain liquid over the life of the loan.

Type 2 (Low Risk)

General Statement: This rating should be assigned to loans that have little credit risk. Borrowers in this category have strong earnings and capital and a secondary source of repayment that is sufficient to fully repay the loan. The business is considered to be highly resistant to adverse changes in economic or industry conditions.

Business Loans: Following are some characteristics of loans that should be rated 2. A 2 loan may not exhibit all of the following characteristics, but its strengths – primarily the sufficiency/reliability of the sources of repayment – result in a loan with little credit risk. To the extent that a loan is not characterized by one or more of the factors listed below, the deficiency is not considered to adversely affect the likelihood of repayment in any material way.

- Bank has a high regard for the character, competence and diligence of management.
- Consistent record of earnings; the earnings stream is considered resistant to changes in economic conditions.
- Liquidity at or above industry norms.
- Loans have paid as agreed.
- Collateral margin is well within policy guidelines with satisfactory liquidity and well-defined market value.
- Capital position above industry averages.
- Loan structure appropriate and documentation complete.
- No adverse trends.

Loans to Individuals: Loans to individuals may be rated 2 if the individual's earnings stream is considered strong and reliable and the individual maintains a conservative financial posture. The income may be from any source, including business income, passive income, or professional income. Individuals are considered to maintain a conservative financial posture if they consistently leave themselves a wide margin of safety in terms of their ability to repay debt. This margin typically manifests itself in the form of significant liquidity, strong debt service coverage (DSC) ratios and/or quick repayment of loans.

Type 3 (Normal Risk)

General Statement: Borrowers in this category have satisfactory earnings and net worth. In most cases, there is collateral or guarantor support which provides a satisfactory secondary source of repayment. The business is considered to be capable of operating profitably throughout the normal business cycle.

Business Loans: Loans to businesses should be rated 3 if financial strength is typical for the industry and there is no significant adverse trends. Following are some characteristics of 3 loans. A loan may not exhibit all of the following characteristics, but its strengths – primarily the sufficiency/reliability of the sources of repayment – result in a loan with normal levels of risk.

- Management is considered to be capable and diligent.
- The earnings stream is satisfactory under present conditions and is considered likely to continue.
- Satisfactory liquidity.
  Loans have paid as agreed.
  Collateral is considered sufficient to repay the loan in full within a reasonable marketing time.
- Capital position within a reasonable range above or below industry average.
- No material deficiencies in loan structure or documentation.
- Trends typically flat or positive. No material adverse trends.

Loans to Individuals: Loans may be unsecured and still rated 3 if the individual's earnings stream is both strong and reliable. If earnings are not as strong, loans should be rated 3 if the Bank's collateral is considered sufficient to repay the loans.

Type 4 (Above Average Risk)

General Statement: Borrowers in this category are not as strong financially as the typical business in the same industry. There may be discernible weakness in management, earnings, capital or the Bank's secondary sources of repayment. The business is considered to be susceptible to adverse changes in economic or industry conditions.

Business Loans: Loans to businesses should be rated 4 if financial strength is somewhat below industry averages, but the loans are expected to repay as agreed if the company's current financial conditions stays the same or strengthens. Following are some examples of weaknesses which may cause a loan to have above average levels of risk. A 4 loan will not have all of these weaknesses, but will have one or more:

- There is some question as to the strength of management.
- The company is profitable in most years, but earnings are typically below industry averages.
- Liquidity may be limited as evidenced by occasional delinquencies.
- There may be a less than desirable margin in collateral; the collateral may be difficult to market; or the value of collateral may vary significantly depending on economic conditions.
- Capital position is below industry average.
- May have deficiencies in loan structure, incomplete legal documentation or missing financial information.
- May have an adverse trend in sales or earnings; may be capital account withdrawals in excess of earnings.

Loans to Individuals: Loans to individuals should be rated 4 if the bank appears to have a satisfactory source of repayment for the loan, but there is concern about the individual's earnings stream, leverage or tolerance for risk.

Type 5 (Watch Loan)

General Statement: Borrowers in this category have readily apparent weaknesses in their financial condition. There may be weak earnings, thin capital or an adverse trend that is expected to continue. The borrower currently has the capacity to repay, but is of marginal strength and is considered to have little ability to overcome economic events that would adversely affect the business. Loans with material documentation or structural deficiencies may also be rated Watch at the discretion of bank or loan review personnel.

Business Loans: Following are examples of weaknesses which may warrant a Watch rating. Loans rated Watch will typically have several of the following weaknesses:

- There is often a question about the ability of management to operate the business successfully over time.
- The earnings stream is weak, with possible periods of loss.
- Liquidity may be a problem as evidenced by delinquencies or amortization periods longer than is typical for the type of collateral securing the loan.
- There may be reasonable doubt as to whether the loan would be repaid in full from the sale of collateral. Possible issues include: third party claims to the collateral, difficulty in obtaining possession, condition, marketing time and value under current market conditions.
- Capital position less than half of industry average.
- Common to have deficiencies in loan structure, incomplete legal documentation or missing financial information. Trends are flat or negative. It is common for there to be a decline in sales, earnings and/or capital.

Loans to Individuals: See "General Statement" for Watch loans.

Type 6 (Substandard)

General Statement: These loans have one or more pronounced weaknesses which jeopardize their timely liquidation. Neither the earnings of the business nor its realistic net worth adequately protect the bank from possible loss. There is a distinct possibility that the bank will sustain some loss if the deficiencies are not corrected.

Business Loans: Following are examples of weaknesses which may warrant a substandard rating. Loans rated Substandard will typically have several of the following weaknesses:

- Management often considered to have made incorrect strategic decisions or to be weak or inattentive.

- Earnings stream is insufficient to repay loans on a timely basis. Business normally has periods of loss, sometimes large.
- Liquidity usually strained by operating losses.
- Loans usually renegotiated or past-due.
- It may be unlikely that the loan would be repaid in full from the sale of collateral. Possible issues include: third party claims to the collateral; difficulty in obtaining possession, condition, marketing time and value under current market conditions.
- Typical reliance upon guarantors or other secondary sources of repayment that was not originally anticipated.
- Documentation deficiencies – including lack of important financial information – are common.
- In most cases there are negative trends, such as declines in sales, earnings and/or capital.

Loans to Individuals: Loans to individual borrowers should be rated Substandard if there is a pronounced weakness in income, liquidity or collateral that is likely to affect the ability of the bank to collect the debt in full. Debt levels may be significantly above accepted guidelines relative to income.

Type 7 (Doubtful)

General Statement: Loans with well-defined weaknesses that make collection or liquidation of the debt in full improbable based on current information.

Business Loans: Typical characteristics of a doubtful loan include the following:

- Large operating losses.
- Collateral insufficient to repay loan.
- Typical to have little or no capital. Continued viability of business is doubtful.
- Unreliable or no alternative sources of repayment.
- Loss anticipated, exact loss figure cannot be determined at present.

Loans to Individuals: Borrower's ability or willingness to repay makes collection of the debt in full unlikely. Loans may be unsecured or have an obvious collateral deficiency.

Type 8 (Loss)

General Statement: Loans with pervasive weaknesses so great that principal is considered uncollectible under current circumstances. This classification does not mean that the loan has absolutely no recovery value, but simply that it is no longer practical to defer writing it off. Recovery is dependent on favorable future events.
Normal characteristics:

- Business has failed or is near failure.
- No reliable source of repayment.

For these loans categorized as commercial or credit relationships with aggregate exposure greater than $500,000, a loan review will be required within 12 months of the most recent credit review. The reviews shall be completed in enough detail to, at a minimum, validate the risk rating. Additionally, the reviews shall determine whether any documentation exceptions exist, appropriate written analysis is included in the loan file and whether credit policies have been properly adhered to.

An ongoing independent review is conducted of a sampling of residential real estate as well to assess underwriting quality and adherence to policy.

Many of the residential real estate loans underwritten by the Company conform to the underwriting requirements of Mortgage Partnership Finance (MPF), Fannie Mae or other secondary market aggregators to allow the bank to resell loans in the secondary market.

Servicing rights are retained on many, but not all, of the residential real estate loans sold in the secondary market. The lending policy references compliance with the interagency appraisal and evaluation guidelines effective December 2010. Mortgage servicing rights are not considered significant as of December 31, 2019 and 2018.

The Company provides many types of consumer and other loans including motor vehicle, home improvement, home equity, signature loans and small personal credit lines. The lending policy addresses specific credit guidelines by consumer loan type.

For residential real estate loans, and consumer loans, these large groups of smaller balance homogenous loans are collectively evaluated for impairment. The Company applies a quantitative factor based on historical charge-off experience in total for each of these segments. Accordingly, the Company generally does not separately identify individual residential real estate loans and/or consumer loans for impairment disclosures, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower or it has been identified for another specific reason.

Troubled debt restructures are considered impaired loans and are subject to the same allowance methodology as described above for impaired loans by portfolio segment.

As of December 31, 2019 and 2018, the Bank had loan concentrations in agribusiness of 17.88 % and 17.78%, respectively, of outstanding loans. The Bank had no additional industry loan concentrations, which in management's judgment, were considered to be significant. The Bank had no foreign loans outstanding as of December 31, 2019 and 2018.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, only when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company (2) the transferee obtains the right to pledge or exchange the assets it received, and no condition both constrains the transferee from taking advantage of its right to pledge or exchange and provides more than a modest benefit to the transferor and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Credit Related Financial Instruments

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commitments under lines of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

Premises, Furniture and Equipment

Premises, furniture and equipment are stated at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the assets.

Other Real Estate Owned

Other real estate owned (OREO), which is included with other assets, represents properties acquired through foreclosure, in-substance foreclosure or other proceedings. Property is recorded at fair value less cost to sell when acquired. Property is evaluated regularly to ensure that the recorded amount is supported by the current fair value. Subsequent write-downs to fair value are charged to earnings.

Life Insurance Contracts

Bank-owned life insurance is carried at cash surrender value, net of surrender and other charges, with increases/decreases reflected as income/expense in the consolidated statements of operations.

Goodwill

Goodwill represents the excess of cost over fair value of net assets acquired in connection with business combinations. Goodwill is evaluated for impairment annually or whenever events or changes in circumstances indicate that it is more likely than not that an impairment loss has occurred. The Company has completed its annual goodwill impairment test and has determined that goodwill was not impaired at December 31, 2019 and 2018. Goodwill is included on the balance sheet in intangibles. See Footnote 6.

Repurchase Agreements

Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature either daily or within one year from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The underlying securities are held by the Company's safekeeping agent. The Company may be required to provide additional collateral based on the fair value of the underlying securities.

Earnings Per Share of Common Stock

Basic earnings per share of common stock is computed by dividing net income by the weighted average number of shares outstanding during each reporting period. Diluted earnings per share of common stock assume the conversion, exercise or issuance of all potential common stock equivalents unless the effect is to reduce the loss or increase the income per common share from continuing operations. The Company had no common stock equivalents as of and for the years ended December 31, 2019 and 2018.

Income Taxes

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases.

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in the tax laws and rates on the date of enactment.

When the tax returns are filed, it is highly certain that some positions taken would be sustained upon examinations by the taxing authorities, while others could be subject to uncertainty about the merits of the position taken. The Company may recognize the tax benefit from an uncertain tax-position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Management evaluated the Company's tax positions and concluded that the Company had taken no uncertain tax positions that require adjustment to the financial statements.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

With few exceptions, the Company is no longer subject to U.S. federal or state and local income tax examinations by tax authorities for years before 2016.

Comprehensive Income

Comprehensive income is defined as the change in equity during a period from transactions and other events from non-owner sources. Comprehensive income is the total of net income and other comprehensive income, which for the Company, is comprised of unrealized gains and losses on securities available for sale.

Subsequent Events

The Company has evaluated all subsequent events through March 4, 2020, the date that the financial statements were available to be issued.

Current Accounting Developments

In June 2016, the FASB issued ASU 2016-13 *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* The underlying premise of the ASU is that financial assets measured at amortized cost should be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The allowance for credit losses should reflect management's current estimate of credit losses that are expected to occur over the remaining life of a financial asset. This is in contrast to existing guidance whereby credit losses generally are not recognized until they are incurred. Under the standard, impairment of the Company's loans will be measured using the current expected credit loss model, which will entail day-one recognition of life-of-asset expected losses. The standard will be effective for the Company for the fiscal year beginning after December 15, 2022. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements.

2. Discontinued Operations

On June 5, 2019, the Company's Board of Directors approved the spin-off, or distribution, of Trust Services. To consummate the distribution, the Company's Board of Directors declared a pro rata dividend of Trust Services common stock to the Company's stockholders of record as of the close of business on June 17, 2019. Each Company stockholder received a distribution of one (1) share of Trust Services common stock for every share of Company common stock held on July 1, 2019. Immediately after the Distribution, Trust Services became an independent company. We have classified the results of Trust Services as discontinued operations in our consolidated statement of income for all periods presented. Additionally, the related assets and liabilities associated with the discontinued operations in the prior year consolidated balance sheet are classified as discontinued operations.

The following table presents the aggregate carrying amounts of the classes of assets and liabilities of discontinued operations of Trust Services:

Assets:		As of December 31, 2018
Cash and cash equivalents		$ 3,879
Securities available for sale, at fair value		5,624
Other assets		2,238
Assets related to discontinued operations		$ 11,741
Liabilities:		
Liabilities related to discontinued operations		$ 3,652

The financial results of Trust Services are presented as income from discontinued operations, net of income taxes, on the consolidated statements of income. There was no gain or loss recognized as a result of the spin-off. The following table presents financial results of Trust Services:

	Year Ended December 31	
	2019 *	2018
Interest income	$ 123	$ 201
Noninterest income	6,376	11,114
Noninterest expense	4,163	7,108
Income from discontinued operations before income taxes	$ 2,336	$ 4,207
Income tax expense	663	939
Income from discontinued operations net of taxes	$ 1,673	$ 3,268
* 2019 includes results of Trust Services through June 30, 2019		

3. Securities

The amortized cost and fair values of securities as of December 31, 2019 and 2018 are as follows. Included in securities available for sale gross unrealized losses is an OTTI loss of $73,000 and $93,000 as of December 31, 2019 and 2018, respectively, relating to two corporate securities, which represent the non-credit related portion of the overall impairment. (Amounts in Thousands of Dollars):

2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
SECURITIES HELD TO MATURITY				
State and political subdivisions	**$ 2,809**	**$ 161**	**$ -**	**$ 2,970**
SECURITIES AVAILABLE FOR SALE				
U.S. government agency bonds	**$ 167,811**	**$ 2,264**	**$ (4)**	**$ 170,071**
U.S. government agency mortgage backed securities	**122,319**	**4,358**	**-**	**126,677**
State and political subdivisions	**24,706**	**1,271**	**(4)**	**25,973**
Corporate securities	**1,037**	**-**	**(73)**	**964**
Collateralized mortgage obligations	**18,615**	**90**	**(59)**	**18,646**
	$ 334,488	**$ 7,983**	**$ (140)**	**$ 342,331**

2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
SECURITIES HELD TO MATURITY				
State and political subdivisions	$ 1,044	$ 84	$ -	$ 1,128
SECURITIES AVAILABLE FOR SALE				
U.S. government agency bonds	$ 181,340	$ 29	$ (3,498)	$ 177,871
U.S. government agency mortgage backed securities	128,986	1,256	(1,837)	128,405
State and political subdivisions	30,074	873	(123)	30,824
Corporate securities	1,078	-	(93)	985
Collateralized mortgage obligations	12,964	-	(406)	12,558
	$ 354,442	$ 2,158	$ (5,957)	$ 350,643

Fair value and unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2019 and 2018 are summarized as follows. (Amounts in Thousands of Dollars):

2019	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
SECURITIES AVAILABLE FOR SALE						
U.S. government agency bonds	**$ -**	**$ -**	**$ 518**	**$ (4)**	**$ 518**	**$ (4)**
State and political subdivisions	**-**	**-**	**185**	**(4)**	**185**	**(4)**
Corporate securities	**-**	**-**	**964**	**(73)**	**964**	**(73)**
Collateralized mortgage obligations	**4,855**	**(37)**	**7,127**	**(22)**	**11,982**	**(59)**
	$ 4,855	**$ (37)**	**$ 8,794**	**$ (103)**	**$ 13,649**	**$ (140)**

2018	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
SECURITIES AVAILABLE FOR SALE						
U.S. government agency bonds	$ 79,348	$ (956)	$ 90,508	$ (2,542)	$ 169,856	$ (3,498)
U.S. government agency mortgage backed securities	24,593	(492)	61,696	(1,345)	86,289	(1,837)
State and political subdivisions	6,267	(41)	6,392	(82)	12,659	(123)
Corporate securities	-	-	985	(93)	985	(93)
Collateralized mortgage obligations	8,391	(323)	4,086	(83)	12,477	(406)
	$ 118,599	$ (1,812)	$ 163,667	$ (4,145)	$ 282,266	$ (5,957)

As of December 31, 2019, the investment portfolio included 269 securities. Of this number, 10 securities have current unrealized losses and 9 of them have current unrealized losses which have existed for longer than one year. All of the debt securities with unrealized losses are considered to be acceptable credit risks. Based upon an evaluation of the available evidence, including recent changes in market rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value of these debt securities are temporary except for two corporate securities which are considered to be other than temporarily impaired. In addition, the Company does not have the intent to sell these debt securities and it is unlikely that the Company will be required to sell these debt securities prior to their anticipated recovery.

In regards to the two corporate securities that are considered to be other than temporarily impaired, for the years ended December 31, 2019 and 2018, none of the credit related loss were recognized in earnings.

The amortized cost and fair value of securities as of December 31, 2019 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because the mortgages underlying the collateralized mortgage obligations and the debt underlying the corporate securities may be called or prepaid without penalties. Therefore, these securities are not included in the maturity categories in the following summary. (Amounts in Thousands of Dollars):

	Amortized Cost	Fair Value
SECURITIES HELD TO MATURITY		
Due in one year or less	$ 617	$ 622
Due after one year through five years	1,718	1,785
Due after five years through ten years	395	466
Due after ten years	79	97
	$ 2,809	$ 2,970
SECURITIES AVAILABLE FOR SALE		
Due in one year or less	$ 33,591	$ 33,790
Due after one year through five years	139,975	142,101
Due after five years through ten years	24,959	26,407
Due after ten years	116,311	120,423
	$ 314,836	$ 322,721
Corporate securities	1,037	964
Collateralized mortgage obligations	18,615	18,646
	$ 334,488	$ 342,331

Information on sales, including calls and maturities, of securities available for sale during the years ended December 31, 2019 and 2018 follows (Amounts in Thousands of Dollars):

	2019	2018
Proceeds from sales	$ 15,296	$ 262
Gross gains	-	9
Gross losses	(55)	-

As of December 31, 2019 and 2018, securities with a carrying value of approximately $322,558,000 and $322,778,000, respectively, were pledged to collateralize deposits and securities sold under agreements to repurchase and for other purposes as required or permitted by law.

4. Loans

The composition of net loans outstanding as of December 31, 2019 and 2018 are as follows. (Amounts in Thousands of Dollars):

	2019	2018
Commercial operating	$ 78,966	$ 53,872
Commercial real estate	178,546	178,506
Agricultural operating	35,680	39,750
Agricultural real estate	53,851	45,754
Construction and land development	7,720	11,304
Real estate secured by 1-4 and multi-family	102,038	108,135
Consumer	43,798	43,471
	$ 500,599	$ 480,792
Less allowance for loan losses	(11,788)	(12,799)
NET LOANS	$ 488,811	$ 467,993

The aging of the loan portfolio, by classes of loans, as of December 31, 2019 and 2018 is summarized as follows. (Amounts in Thousands of Dollars):

2019	Current	30-59 Days Past Due	60-89 Days Past Due	Accruing Past Due 90 Days or More	Nonaccrual Loans	Total
CLASSES OF LOANS						
Commercial operating	**$ 77,972**	**$ 469**	**$ -**	**$ -**	**$ 525**	**$ 78,966**
Commercial real estate	**175,730**	**35**	**-**	**-**	**2,781**	**178,546**
Agricultural operating	**35,680**	**-**	**-**	**-**	**-**	**35,680**
Agricultural real estate	**53,851**	**-**	**-**	**-**	**-**	**53,851**
Construction and land development	**5,424**	**30**	**1,819**	**-**	**447**	**7,720**
Real estate secured by 1-4 and multi-family	**97,979**	**1,008**	**301**	**-**	**2,750**	**102,038**
Consumer	**43,473**	**221**	**93**	**11**	**-**	**43,798**
	$ 490,109	**$ 1,763**	**$ 2,213**	**$ 11**	**$ 6,503**	**$ 500,599**

2018	Current	30-59 Days Past Due	60-89 Days Past Due	Accruing Past Due 90 Days or More	Nonaccrual Loans	Total
CLASSES OF LOANS						
Commercial operating	$ 52,566	$ 776	$ -	$ -	$ 530	$ 53,872
Commercial real estate	168,252	100	415	-	9,739	178,506
Agricultural operating	39,750	-	-	-	-	39,750
Agricultural real estate	45,602	61	-	-	91	45,754
Construction and land development	10,642	-	-	-	662	11,304
Real estate secured by 1-4 and multi-family	105,319	929	341	-	1,546	108,135
Consumer	43,012	397	62	-	-	43,471
	$ 465,143	$ 2,263	$ 818	$ -	$ 12,568	$ 480,792

Nonperforming loans, by classes of loans as of December 31, 2019 and 2018 are summarized as follows. (Amounts in Thousands of Dollars):

2019	Accruing Past Due 90 Days or More	Nonaccrual Loans **	Troubled Debt Restructures-Accruing	Total Nonperforming Loans
CLASSES OF LOANS				
Commercial operating	**$ -**	**$ 525**	**$ -**	**$ 525**
Commercial real estate	**-**	**2,781**	**1,238**	**4,019**
Construction and land development	**-**	**447**	**-**	**447**
Real estate secured by 1-4 and multi-family	**-**	**2,750**	**-**	**2,750**
Consumer	**11**	**-**	**-**	**11**
	$ 11	**$ 6,503**	**$ 1,238**	**$ 7,752**

2018	Accruing Past Due 90 Days or More	Nonaccrual Loans **	Troubled Debt Restructures-Accruing	Total Nonperforming Loans
CLASSES OF LOANS				
Commercial operating	$ -	$ 530	$ -	$ 530
Commercial real estate	-	9,739	6,375	16,114
Agricultural real estate	-	91	-	91
Construction and land development	-	662	-	662
Real estate secured by 1-4 and multi-family	-	1,546	-	1,546
	$ -	$ 12,568	$ 6,375	$ 18,943

** Nonaccrual loans as of December 31, 2019 and 2018 include $1,170,000 and $1,296,000, respectively, of troubled debt restructures which are included in commercial real estate, real estate secured by 1-4 and multi-family, and commercial operating.

Changes in the allowance for loan losses, by portfolio segment, during the years ended December 31, 2019 and 2018 are summarized as follows. (Amounts in Thousands of Dollars):

2019	Commercial Operating	Commercial Real Estate	Agricultural Operating	Agricultural Real Estate	Construction and Land Development	Real Estate Secured by 1 - 4 and Multi-Family	Consumer	Total
Balance, beginning	**$ 1,346**	**$ 7,143**	**$ 611**	**$ 836**	**$ 727**	**$ 1,537**	**$ 599**	**$ 12,799**
Provision for loan losses	**(336)**	**1,177**	**84**	**(43)**	**1,167**	**318**	**33**	**2,400**
Recoveries of loans charged off	**-**	**2**	**-**	**-**	**9**	**291**	**17**	**319**
	1,010	**8,322**	**695**	**793**	**1,903**	**2,146**	**649**	**15,518**
Loans charged off	**(19)**	**(3,134)**	**(132)**	**-**	**-**	**(248)**	**(197)**	**(3,730)**
Balance, ending	**$ 991**	**$ 5,188**	**$ 563**	**$ 793**	**$ 1,903**	**$ 1,898**	**$ 452**	**$ 11,788**

2018	Commercial Operating	Commercial Real Estate	Agricultural Operating	Agricultural Real Estate	Construction and Land Development	Real Estate Secured by 1 - 4 and Multi-Family	Consumer	Total
Balance, beginning	$ 691	$ 3,477	$ 601	$ 914	$ 1,399	$ 1,437	$ 584	$ 9,103
Provision for loan losses	687	4,094	25	(78)	1,034	567	221	6,550
Recoveries of loans charged off	2	-	-	-	-	48	59	109
	1,380	7,571	626	836	2,433	2,052	864	15,762
Loans charged off	(34)	(428)	(15)	-	(1,706)	(515)	(265)	(2,963)
Balance, ending	$ 1,346	$ 7,143	$ 611	$ 836	$ 727	$ 1,537	$ 599	$ 12,799

The allowance for loan losses, by impairment evaluation and by portfolio segment, as of December 31, 2019 and 2018 are summarized as follows. (Amounts in Thousands of Dollars):

2019	Commercial Operating	Commercial Real Estate	Agricultural Operating	Agricultural Real Estate	Construction and Land Development	Real Estate Secured by 1 - 4 and Multi-Family	Consumer	Total
Allowance for loans individually evaluated for impairment	**$ 628**	**$ 1,313**	**$ -**	**$ -**	**$ 1,530**	**$ 961**	**$ -**	**$ 4,432**
Allowance for loans collectively evaluated for impairment	**363**	**3,875**	**563**	**793**	**373**	**937**	**452**	**7,356**
	$ 991	**$ 5,188**	**$ 563**	**$ 793**	**$ 1,903**	**$ 1,898**	**$ 452**	**$ 11,788**
Loans individually evaluated for impairment	**$ 804**	**$ 4,814**	**$ -**	**$ 104**	**$ 2,266**	**$ 2,862**	**$ -**	**$ 10,850**
Loans collectively evaluated for impairment	**78,162**	**173,732**	**35,680**	**53,747**	**5,454**	**99,176**	**43,798**	**489,749**
	$ 78,966	**$ 178,546**	**$ 35,680**	**$ 53,851**	**$ 7,720**	**$ 102,038**	**$ 43,798**	**$ 500,599**

2018	Commercial Operating	Commercial Real Estate	Agricultural Operating	Agricultural Real Estate	Construction and Land Development	Real Estate Secured by 1 - 4 and Multi-Family	Consumer	Total
Allowance for loans individually evaluated for impairment	$ 589	$ 4,138	$ -	$ -	$ -	$ 164	$ -	$ 4,891
Allowance for loans collectively evaluated for impairment	757	3,005	611	836	727	1,373	599	7,908
	$ 1,346	$ 7,143	$ 611	$ 836	$ 727	$ 1,537	$ 599	$ 12,799
Loans individually evaluated for impairment	$ 746	$ 16,114	$ -	$ 91	$ 662	$ 1,545	$ -	$ 19,158
Loans collectively evaluated for impairment	53,126	162,392	39,750	45,663	10,642	106,590	43,471	461,634
	$ 53,872	$ 178,506	$ 39,750	$ 45,754	$ 11,304	$ 108,135	$ 43,471	$ 480,792

Loans, by classes of loans, considered to be impaired as of December 31, 2019 and 2018 are summarized as follows. (Amounts in Thousands of Dollars):

2019	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
CLASSES OF LOANS				
Impaired loans with no specific allowance recorded:				
Commercial operating	**$ 40**	**$ 40**	**$ -**	**$ 20**
Commercial real estate	**2,131**	**2,524**	**-**	**3,138**
Agricultural real estate	**104**	**104**	**-**	**98**
Construction and land development	**447**	**447**	**-**	**555**
Real estate secured by 1-4 and multi-family	**1,508**	**1,617**	**-**	**1,314**
	$ 4,230	**$ 4,732**	**$ -**	**$ 5,125**
Impaired loans with specific allowance recorded:				
Commercial operating	**$ 764**	**$ 792**	**$ 628**	**$ 755**
Commercial real estate	**2,683**	**2,715**	**1,313**	**7,326**
Construction and land development	**1,819**	**1,819**	**1,530**	**909**
Real estate secured by 1-4 and multi-family	**1,354**	**1,422**	**961**	**890**
	$ 6,620	**$ 6,748**	**$ 4,432**	**$ 9,880**
Total impaired loans:				
Commercial operating	**$ 804**	**$ 832**	**$ 628**	**$ 775**
Commercial real estate	**4,814**	**5,239**	**1,313**	**10,464**
Agricultural real estate	**104**	**104**	**-**	**98**
Construction and land development	**2,266**	**2,266**	**1,530**	**1,464**
Real estate secured by 1-4 and multi-family	**2,862**	**3,039**	**961**	**2,204**
	$ 10,850	**$ 11,480**	**$ 4,432**	**$ 15,005**

2018	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
CLASSES OF LOANS				
Impaired loans with no specific allowance recorded:				
Commercial operating	$ -	$ -	$ -	$ 51
Commercial real estate	4,145	4,689	-	4,106
Agricultural real estate	91	105	-	517
Construction and land development	662	3,044	-	412
Real estate secured by 1-4 and multi-family	1,119	1,198	-	933
	$ 6,017	$ 9,036	$ -	$ 6,019
Impaired loans with specific allowance recorded:				
Commercial operating	$ 746	$ 757	$ 589	$ 381
Commercial real estate	11,969	12,034	4,138	6,123
Construction and land development	-	-	-	1,133
Real estate secured by 1-4 and multi-family	426	450	164	258
	$ 13,141	$ 13,241	$ 4,891	$ 7,895
Total impaired loans:				
Commercial operating	$ 746	$ 757	$ 589	$ 432
Commercial real estate	16,114	16,723	4,138	10,229
Agricultural real estate	91	105	-	517
Construction and land development	662	3,044	-	1,545
Real estate secured by 1-4 and multi-family	1,545	1,648	164	1,191
	$ 19,158	$ 22,277	$ 4,891	$ 13,914

Interest income and cash basis interest income recognized on impaired loans during the years ended December 31, 2019 and 2018 was not significant. Impaired loans, for which no allowance has been provided, as of December 31, 2019 and 2018, have adequate collateral, based on management's current estimates.

For each class of loans, the following summarized the recorded investment by credit quality indicator as of December 31, 2019 and 2018. (Amounts in Thousands of Dollars):

2019	Commercial Operating	Commercial Real Estate	Agricultural Operating	Agricultural Real Estate	Construction and Land Development	Real Estate Secured by 1 - 4 and Multi-Family	Total
Internally assigned risk rating:							
Pass (ratings 1 through 4)	**$ 66,562**	**$156,420**	**$ 30,086**	**$ 49,816**	**$ 2,246**	**$ 19,067**	**$324,197**
Special mention (rating 5)	**11,037**	**14,216**	**1,571**	**3,345**	**30**	**2,367**	**32,566**
Substandard (rating 6)	**998**	**6,219**	**4,023**	**690**	**1,819**	**2,165**	**15,914**
Doubtful (rating 7)	**369**	**1,691**	**-**	**-**	**447**	**1,226**	**3,733**
	$ 78,966	**$178,546**	**$ 35,680**	**$ 53,851**	**$ 4,542**	**$ 24,825**	**$376,410**

	Construction and Land Development	Real Estate Secured by 1 - 4 and Multi-Family	Consumer	Total
Delinquency status:*				
Performing	**$ 3,178**	**$ 77,213**	**$ 43,798**	**$124,189**
Nonperforming	**-**	**-**	**-**	**-**
	$ 3,178	**$ 77,213**	**$ 43,798**	**$124,189**

2018	Commercial Operating	Commercial Real Estate	Agricultural Operating	Agricultural Real Estate	Construction and Land Development	Real Estate Secured by 1 - 4 and Multi-Family	Total
Internally assigned risk rating:							
Pass (ratings 1 through 4)	$ 50,099	$ 144,967	$ 34,704	$ 41,834	$ 5,097	$ 18,647	$ 295,348
Special mention (rating 5)	2,413	16,394	4,713	2,970	3,203	1,793	31,486
Substandard (rating 6)	1,036	9,421	333	950	447	2,712	14,899
Doubtful (rating 7)	324	7,724	-	-	215	57	8,320
	$ 53,872	$ 178,506	$ 39,750	$ 45,754	$ 8,962	$ 23,209	$ 350,053

	Construction and Land Development	Real Estate Secured by 1 - 4 and Multi-Family	Consumer	Total
Delinquency status:*				
Performing	$ 2,342	$ 84,926	$ 43,471	$ 130,739
Nonperforming	-	-	-	-
	$ 2,342	$ 84,926	$ 43,471	$ 130,739

*Performing loans are those which are accruing and less than 90 days past due. Nonperforming loans are those on nonaccrual, accruing loans that are greater than or equal to 90 days past due, and accruing TDR's.

For commercial operating, commercial real estate, agricultural operating, agricultural real estate, real estate secured by multifamily and construction and land development loans, the Company's credit quality indicator is internally assigned risk ratings. Each of these loans is assigned a risk rating upon origination. The risk rating is reviewed every 12 months, at a minimum, and on an as needed basis depending on the specific circumstances of the loan. Some classes of loans contain loans that are risk rated and loans that are not as loans of a more homogeneous nature are not risk rated. See Note 1 for further discussion on the Company's risk ratings.

For residential real estate loans, consumer loans and a portion of the construction and land development loans, the Company's credit quality indicator is performance determined by delinquency status. Delinquency status is updated daily by the Company's loan system.

As of December 31, 2019 and 2018, troubled debt restructurings (TDRs) total $2,408,000 and $7,671,000, respectively. For each class of loans, the following summarizes the number and investment in troubled debt restructuring, by type of concession, that were restructured during the years ended December 31, 2019 and 2018 (Amounts in Thousands of Dollars):

2019	Number of TDRs	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
CONCESSION-SIGNIFICANT PAYMENT DELAY			
Commercial real estate	2	$ 1,238	$ 1,238

2018	Number of TDRs	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
CONCESSION-EXTENSION OF MATURITY			
Commercial real estate	3	$ 6,375	$ 6,375
CONCESSION-SIGNIFICANT PAYMENT DELAY			
Commercial operating	5	$ 207	$ 207
Real estate secured by 1-4 and multi family	6	$ 209	$ 209

There was no financial impact for charge-offs, principal forgiveness or foregone interest for the troubled debt restructurings.

For the years ended December 31, 2019 and 2018, none of the Company's TDRs have re-defaulted subsequent to restructure, where a default is defined as a delinquency of 90 days or more and/or placement on nonaccrual status.

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of these loans totaled $190,430,000 and $191,388,000 as of December 31, 2019 and 2018, respectively.

In the ordinary course of business, the Bank has granted loans to directors, principal officers, and affiliated companies in which they are principal stockholders amounting to $9,248,000 and $8,570,000 as of December 31, 2019 and 2018, respectively.

5. Premises, Furniture and Equipment

The cost, accumulated depreciation and net book value of premises, furniture and equipment as of December 31, 2019 and 2018 is summarized as follows. (Amounts in Thousands of Dollars):

	2019	2018
Land	$ 4,536	$ 4,536
Building and improvements	15,376	15,349
Furniture and equipment	11,316	11,343
	31,228	31,228
Less accumulated depreciation	(17,254)	(16,154)
	$ 13,974	$ 15,074

6. Intangibles

Goodwill and intangible assets are summarized as follows. (Amounts in Thousands of Dollars):

As of December 31,	2019	2018
Intangible assets:		
Goodwill	**$ 3,050**	$ 3,050
Other intangible assets:		
Core deposit intangible	**1,380**	1,380
Other intangible assets	**1,855**	1,855
	3,235	3,235
Less accumulated amortization on certain intangible assets	**(2,986)**	(2,813)
	249	422
Total intangible assets	**$ 3,299**	$ 3,472

ESTIMATED FUTURE AMORTIZATION EXPENSE

For the year ended December 31 (Amounts in thousands of dollars):

Year	Amount
2020	$ 164
2021	34
2022	12
2023	12
2024	12
Thereafter	15
	$ 249

7. Time Deposits

The aggregate amount of time deposits, each with a minimum denomination of $250,000, was approximately $33,926,000 and $23,021,000 as of December 31, 2019 and 2018, respectively.

Brokered deposits were $32,349,000 and $22,290,000 at December 31, 2019 and 2018, respectively.

At December 31, 2019, the scheduled maturities of time deposits are as follows. (Amounts in Thousands of Dollars):

Year	Amount
2020	$ 175,578
2021	25,474
2022	1,170
2023	207
2024	663
	$ 203,092

8. Federal Home Loan Bank Advances and Letters of Credit

The Bank advances funds from and repays them to the Federal Home Loan Bank (FHLB) as considered necessary for liquidity purposes. Outstanding advances as of December 31, 2019 and 2018 were $1,039,000 and none, respectively.

At December 31, 2019 and 2018, the Bank had $20,000,000 and $30,000,000 in letters of credit outstanding with Federal Home Loan Bank, respectively. These letters were pledged to two customers.

9. Junior Subordinated Debentures and Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Solely Subordinated Debentures

Junior subordinated debentures are due to FBIL Statutory Trusts II and III, which are both 100% owned non-consolidated subsidiaries of the Company. The debentures were issued in 2003 and 2004, respectively, in conjunction with each Trust's issuance of 5,000 shares of Company Obligated Mandatorily Redeemable Preferred Securities. The debentures all bear the same interest rate and terms as the preferred securities, detailed following.

The debentures are included on the consolidated balance sheets as liabilities; however, in accordance with Federal Reserve Board regulations in effect at December 31, 2019 and 2018, the Company is allowed, for regulatory purposes, to include the entire $10,000,000 of the capital securities issued by the Trusts in Tier I capital.

During 2004 FBIL Statutory Trust III issued 5,000 shares of Company Obligated Mandatorily Redeemable (COMR) Preferred Securities.
Distributions are paid quarterly. Cumulative cash distributions are calculated at a variable annual rate that is 265 basis points above the 3 month LIBOR rate (4.54% and 5.44% as of December 31, 2019 and 2018, respectively). The Trust may, at one or more times, defer interest payments on the capital securities for up to 20 consecutive quarterly periods, but not beyond September 15, 2034. At the end of the deferral period, all accumulated and unpaid distributions will be paid. The capital securities will be redeemed on September 15, 2034 at par plus any accrued and unpaid distributions to the date of the redemption; however, the Trust has the option to redeem at any time at par. The redemption may be in whole or in part, but in all cases in a principal amount with integral multiples of $1,000.

During 2003 the Company issued 5,000 shares of Company Obligated Mandatorily Redeemable (COMR) Preferred Securities of FBIL Statutory Trust II Holding Solely Subordinated Debentures. Distributions are paid quarterly. Cumulative cash distributions are calculated at a variable annual rate that is 295 basis points above the 3 month LIBOR rate (4.84% and 5.74% as of December 31, 2019 and 2018, respectively). The Company may, at one or more times, defer interest payments on the capital securities for up to 20 consecutive quarterly periods, but not beyond September 17, 2033. At the end of the deferral period, all accumulated and unpaid distributions will be paid. The capital securities will be redeemed on September 17, 2033 at par plus any accrued and unpaid distributions to the date of the redemption; however, the Company has the option to redeem at any time at par. The redemption may be in whole or in part, but in all cases in a principal amount with integral multiples of $1,000.

Holders of the capital securities have no voting rights, are unsecured and rank junior in priority of payment to all of the Trust's indebtedness and senior to the Trust's capital stock.

10. Commitments and Contingencies

Financial Instruments with Off-Balance Sheet Risk

The Bank, in the normal course of business, is a party to financial instruments with off-balance sheet risk to meet the financing needs of its customers. These financial instruments include unused lines of credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and market risk in excess of the amount 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 unused lines of credit and standby letters of credit is represented by the contractual amounts of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

A summary of the Bank's commitments as of December 31, 2019 and 2018 is as follows. (Amounts in Thousands of Dollars):

	2019	2018
Commitments to extend credit:		
Unused lines of credit	**$ 83,392**	$ 88,138
Standby letters of credit	**580**	947

Unused lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. The agreements generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the agreements are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank upon extension of credit is based upon management's credit evaluation of the counter-party. Collateral varies but may include accounts receivable, inventory, property, equipment and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements and, generally, have terms of one year, or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds collateral, as detailed above, supporting those commitments if deemed necessary. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Bank would be required to fund the commitment. The maximum potential amount of future payments the Bank could be required to make is represented by the contractual amount shown in the previous summary. If the commitment is funded, the Bank would be entitled to seek recovery from the customer. As of December 31, 2019 and 2018, no amounts have been recorded as liabilities for the Bank's potential obligations under these guarantees.

The Company has executed contracts for the sale of mortgage loans in the secondary market in the amount of $1,027,000 and $1,072,000 as of December 31, 2019 and 2018, respectively. These amounts include loans held for sale of $169,000 and $38,000 as of December 31, 2019 and 2018, respectively, and loan commitments, included in the summary in this Note, of $858,000 and $1,034,000 as of December 31, 2019 and 2018, respectively.

A portion of residential mortgage loans sold to investors in the secondary market are sold with recourse. Specifically, certain loan sales agreements

provide that if the borrower becomes 60 days or more delinquent during the first six months following the first payment due, and subsequently becomes 90 days or more delinquent during the first 12 months of the loan, the Bank must repurchase the loan from the subject investor. The Bank did not repurchase any loans from secondary market investors under the terms of these loan sales agreements during the years ended December 31, 2019 and 2018. In the opinion of management, the risk of recourse to the Bank is not significant and, accordingly, no liability has been established.

Concentration of Credit Risk

Aside from cash on hand and in-vault, the Company's cash is maintained at various correspondent banks. The total amount of cash on deposit and federal funds sold exceeded federal insurance limits at five institutions by a total of approximately $19,761,000 and $27,971,000 as of December 31, 2019 and 2018, respectively. In the opinion of management, no material risk of loss exists due to the financial condition of the institutions.

Contingencies

In the normal course of business, the Company is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on these consolidated financial statements.

11. Benefits

The Company has a 401(k) plan, which is a tax qualified savings plan, to encourage its employees to save for retirement purposes or other contingencies. All employees, working over 1,000 hours per year, of the Company and its subsidiaries are eligible to participate in the Plan after completion of one year of service and attaining the age of 21. The employee may elect to contribute a percentage of their compensation before taxes in a traditional 401(k) and/or a percentage of their compensation after taxes using the subsidiaries' Roth 401(k) option. Based upon profits, as determined by the subsidiaries, a contribution may be made by the subsidiaries. Employees are 100% vested in the subsidiaries' contribution to the plan after five years of service. Employee contributions and vested subsidiaries contributions may be withdrawn only on termination of employment, retirement, death or hardship withdrawal.

Under the various Employee Incentive Compensation Plans, the Bank is authorized at its discretion, pursuant to the provisions of the plan, to establish on an annual basis, a bonus fund, which will be distributed to certain employees, based on their performance. The Employee Incentive Compensation Plan does not become effective unless the Bank exceeds established income levels and goals. For the year ended December 31, 2019, the bank met those goals. For the year ended December 31, 2018, the Bank's Board of Directors authorized a bonus of 50% of the bonus pool which is included as an expense in the financial statements even though certain criteria had not been met. One plan, a Deferred Incentive Compensation Plan, maintained by the Bank has been discontinued.

The financial statements include expense related to the 401(k) Plan of $456,000 and $458,000 for the years ended December 31, 2019 and 2018, respectively. The financial statements include expense related to the incentive compensation plan of $747,000 and $310,000 for the years ended December 31, 2019 and 2018.

12. Dividends and Regulatory Capital

The Company's stockholders are entitled to receive such dividends as are declared by the Board of Directors. The ability of the Company to pay dividends in the future is dependent upon its receipt of dividends from its subsidiaries. The subsidiaries' ability to pay dividends is regulated by financial regulatory statutes. The timing and amount of dividends will depend on earnings, capital requirements and financial condition of the Company and its subsidiaries as well as general economic conditions and other relevant factors affecting the Company and the subsidiary. Under the provisions of the National Bank Act, the Bank may not, without prior approval of the Comptroller of the Currency, declare dividends in excess of the total of the current and past two year's earnings less any dividends already paid from those earnings.

The Company and its subsidiaries are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary action by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company and Bank's capital amounts and classification are also subject to qualitative judgments by the regulators and components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Company and Bank to maintain minimum amounts and ratios (set forth in the following table) of total, Tier I, and common equity Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2019, that the Company and Bank meet all capital adequacy requirements to which they are subject.

The most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately or well capitalized the Bank must maintain minimum total risk-based, Tier I risk-based, common equity Tier I, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's categories.

The Company and Bank's actual capital amounts and ratios are also presented in the table. (Amounts in Thousands of Dollars):

As of December 31, 2019	Actual		Minimum Regulatory Requirement		Minimum Regulatory Requirement With Capital Conservation Buffer		To Be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-Weighted Assets)								
Company	$ 105,898	17.93%	$ 47,246	≥ 8.00%	$ 62,010	≥ 10.500%	N/A	N/A
Bank	$ 95,384	16.16%	$ 47,228	≥ 8.00%	$ 61,986	≥ 10.500%	$ 59,035	≥ 10.00%
Tier I Capital (to Risk-Weighted Assets)								
Company	$ 98,461	16.67%	$ 35,434	≥ 6.00%	$ 50,199	≥ 8.500%	N/A	N/A
Bank	$ 87,950	14.90%	$ 35,421	≥ 6.00%	$ 50,179	≥ 8.500%	$ 47,228	≥ 8.00%
Common Equity Tier I Capital (to Risk-Weighted Assets)								
Company	$ 88,461	14.98%	$ 26,576	≥ 4.50%	$ 41,340	≥ 7.000%	N/A	N/A
Bank	$ 87,950	14.90%	$ 26,566	≥ 4.50%	$ 41,324	≥ 7.000%	$ 38,372	≥ 6.50%
Tier I Capital (to Average Assets)								
Company	$ 98,461	10.79%	$ 36,505	≥ 4.00%	$ 36,505	≥ 4.000%	N/A	N/A
Bank	$ 87,950	9.74%	$ 36,110	≥ 4.00%	$ 36,110	≥ 4.000%	$ 45,138	≥ 5.00%

As of December 31, 2018	Actual		Minimum Regulatory Requirement		Minimum Regulatory Requirement With Capital Conservation Buffer		To Be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-Weighted Assets)								
Company	$ 106,046	17.84%	$ 47,562	≥ 8.00%	$ 58,709	≥ 9.875%	N/A	N/A
Bank	$ 90,501	15.35%	$ 47,172	≥ 8.00%	$ 58,227	≥ 9.875%	$ 58,965	≥ 10.00%
Tier I Capital (to Risk-Weighted Assets)								
Company	$ 98,548	16.58%	$ 35,671	≥ 6.00%	$ 46,819	≥ 7.875%	N/A	N/A
Bank	$ 83,063	14.09%	$ 35,379	≥ 6.00%	$ 46,435	≥ 7.875%	$ 47,172	≥ 8.00%
Common Equity Tier I Capital (to Risk-Weighted Assets)								
Company	$ 88,548	14.89%	$ 26,754	≥ 4.50%	$ 37,901	≥ 6.375%	N/A	N/A
Bank	$ 83,063	14.09%	$ 26,534	≥ 4.50%	$ 37,590	≥ 6.375%	$ 38,327	≥ 6.50%
Tier I Capital (to Average Assets)								
Company	$ 98,548	10.50%	$ 37,559	≥ 4.00%	$ 37,559	≥ 4.000%	N/A	N/A
Bank	$ 83,063	9.05%	$ 36,722	≥ 4.00%	$ 36,722	≥ 4.000%	$ 45,903	≥ 5.00%

* The Basel III Rules, effective January 1, 2015 for the Company and Bank, included new risk-based and leverage capital ratio requirements and refined the definition of what constitutes "capital" for purposes of calculating those ratios. The minimum capital level requirements applicable to the Company and the Bank under the Basel III Rules include: (i) a new common equity Tier I risk-based capital ratio of 4.5%; (ii) a Tier I risk-based capital ratio of 6%; (iii) a total risk-based capital ratio of 8%; and (iv) a Tier 1 leverage ratio of 4% for all institutions. Common equity Tier I capital will consist of retained earnings and common stock instruments, subject to certain adjustments. The Basel III Rules also established a "capital conservation buffer" of 2.5% above the new regulatory minimum risk-based capital requirements. The conservation buffer, when added to the capital requirements, will result in the following minimum ratios: (i) a common equity Tier I risk-based capital ratio of 7%, (ii) a Tier 1 risk-based capital ratio of 8.5%, and (iii) a total risk-based capital ratio of 10.5%. The new capital conservation buffer requirement is phased in beginning January 2016 at 0.625% of risk-weighted assets and will increase by 0.625% each year until fully implemented at 2.5% in January 2019. The new capital conservation buffer requirement is reflected in the table above. An institution would be subject to limitations on certain activities including payment of dividends, share repurchases, and discretionary bonuses to executive officers if its capital level is below the buffered ratio.

13. Income Tax Matters

The components of income tax expense (benefit) from continuing operations are as follows for the years ended December 31, 2019 and 2018. (Amounts in Thousands of Dollars):

Year Ended December 31,	2019	2018
Current	$ 1,272	$ 2,188
Deferred	290	(1,143)
	$ 1,562	$ 1,045

A reconciliation between income tax expense in the statements of income and the amount computed by applying the statutory federal income tax rate to income before income taxes is as follows. (Amounts in Thousands of Dollars):

Year Ended December 31,		**2019**	**% of Pretax Income**		2018	% of Pretax Income
Federal income tax at statutory rate	**$**	**1,724**	**21.0%**	$	1,293	21.0%
Changes from statutory rate resulting from:						
State tax, net of federal benefit		**283**	**3.4**		169	2.7
Tax exempt interest income, net		**(304)**	**(3.7)**		(331)	(5.4)
Increase in cash surrender value		**(97)**	**(1.2)**		(95)	(1.5)
Deferred Trust Revenue		**(50)**	**(0.6)**		-	-
Other, net		**6**	**0.1**		9	0.1
Income tax expense	**$**	**1,562**	**19.0%**	$	1,045	16.9%

Net deferred tax assets consist of the following components as of December 31, 2019 and 2018. (Amounts in Thousands of Dollars):

Year Ended December 31,		**2019**		2018
Deferred tax assets:				
Allowance for loan losses	**$**	**3,291**	$	3,580
Other real estate		**23**		29
Accrued expenses		**560**		553
	$	**3,874**	$	4,162
Deferred tax liabilities:				
Premises, furniture and equipment	**$**	**(739)**	$	(965)
Stock dividends		**(13)**		(26)
Prepaid expenses		**(333)**		(154)
Unrealized gains on securities available for sale, net		**(2,204)**		1,125
Intangibles		**(523)**		(472)
Other		**(13)**		(2)
	$	**(3,825)**	$	(494)
NET DEFERRED TAX ASSETS	**$**	**49**	$	3,668

Net deferred tax assets are included in other assets on the accompanying consolidated balance sheets.

The net change in deferred income taxes is reflected in the financial statements as follows. (Amounts in Thousands of Dollars):

Provision for income taxes	**$**	**290**	$	(1,143)
Statement of changes in stockholders' equity, accumulated other comprehensive income (loss), unrealized gains (losses) on securities available for sale, net		**3,329**		(1,455)
	$	**3,619**	$	(2,598)

14. Fair Value Measurements

The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification defines fair value, establishes a framework for measuring fair value using a hierarchy system, and requires disclosure of fair value measurements. The hierarchy is intended to maximize the use of observable inputs and minimize the use of unobservable inputs and includes three levels based upon the valuation techniques used. The three levels are as follows:

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

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

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

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Investment securities available for sale: Where quoted prices are available in an active market, securities are classified within level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of state and political subdivisions and certain corporate, asset based and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within level 3 of the valuation hierarchy.

Impaired loans: The Company 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 is established. Loan impairment may be measured based upon the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral, if the loan is collateral dependent. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable. Fair value is determined based upon appraisals by qualified licensed appraisers hired by the Company, and are, generally, considered level 2 measurements. In some cases, adjustments are made to the appraised values due to various factors including age of the appraisal, age of comparable included in the appraisal, and known changes in the market and in the collateral. When significant adjustments are based on unobservable inputs, the resulting fair value measurement has been categorized as a level 3 measurement.

Other real estate: Other real estate owned is carried at the lower of the principal amount of the loan outstanding at the time of acquisition, plus any acquisition costs, or the estimated fair value of the property, less disposal costs. The fair value of the property is determined based upon appraisals or internal evaluations.

There have been no changes in valuation techniques used for any assets or liabilities measured at fair value during the years ended December 31, 2019 and 2018.

ASSETS AND LIABILITES RECORDED AT FAIR VALUE ON A RECURRING BASIS

The following table summarizes assets and liabilities measured at fair value on a recurring basis as of December 31, 2019 and 2018, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value. (Amounts in Thousands of Dollars):

Fair Value Measurements as of December 31, 2019 Using:	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities available for sale:				
U.S. government agency bonds	**$ 170,071**	**$ -**	**$ 170,071**	**$ -**
U.S. government agency mortgage backed securities	**126,677**	**-**	**126,677**	**-**
State and political subdivisions	**25,973**	**-**	**25,973**	**-**
Corporate securities	**964**	**-**	**964**	**-**
Collateralized mortgage obligations	**18,646**	**-**	**18,646**	**-**
	$ 342,331	**$ -**	**$ 342,331**	**$ -**

Fair Value Measurements as of December 31, 2018 Using:	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment securities available for sale:				
U.S. government agency bonds	$ 177,871	$ -	$ 177,871	**$ -**
U.S. government agency mortgage backed securities	128,405	-	128,405	**-**
State and political subdivisions	30,824	-	30,824	**-**
Corporate securities	985	-	985	**-**
Collateralized mortgage obligations	12,558	-	12,558	**-**
	$ 350,643	$ -	$ 350,643	$ -

There were no transfers of assets or liabilities between levels 1, 2 and 3 of the fair value hierarchy during the years ended December 31, 2019 and 2018.

ASSETS AND LIABILITIES RECORDED AT FAIR VALUE ON A NONRECURRING BASIS

The Company may be required, from time to time, to measure certain assets and liabilities at fair value on a nonrecurring basis such as when there is evidence of impairment. Assets measured at fair value on a nonrecurring basis are included in the table below. (Amounts in Thousands of Dollars):

Fair Value Measurements as of December 31, 2019 Using:	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	**$ 2,341**	**$ -**	**$ -**	**$ 2,341**
Other real estate owned	**$ 377**	**$ -**	**$ -**	**$ 377**

Fair Value Measurements as of December 31, 2018 Using:	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 8,828	$ -	$ -	$ 8,828
Other real estate owned	$ 681	$ -	$ -	$ 681

The Financial Instruments Topic of the FASB Accounting Standards Codification requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. Certain financial instruments and all non-financial instruments are excluded from these disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

Cash and due from banks and federal funds sold: The carrying amounts reported in the balance sheets for cash and due from banks and federal funds sold equal their fair values.

Securities: Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Loans and loans held for sale: For variable rate loans fair values are equal to carrying values. The fair values for all other types of loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality. The fair value of loans held for sale is based on quoted market prices of similar loans sold in the secondary market.

Impaired loans, net: Impaired loans fair value is equal to book value minus the related allowance plus estimated selling costs.

Accrued interest receivable and payable: The fair value of accrued interest receivable and payable is equal to its carrying value.

Deposits: The fair values for demand and savings deposits equal their carrying amounts, which represent the amount payable on demand. Fair values for time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on time deposits to a schedule of aggregated expected monthly maturities on time deposits.

Securities sold under agreements to repurchase: The fair value of securities sold under agreements to repurchase is considered to be equal to the carrying value due to the borrowings' short-term nature.

FHLB Advances: The fair value of FHLB Advances is considered to be equal to the carrying value due to the borrowings' short-term nature.

Junior subordinated debentures: It is not practicable to estimate the fair value of junior subordinated debentures as instruments with similar terms are not available in the market place.

Commitments to extend credit: The fair value of these commitments is not material.

The carrying values and estimated fair values of the Company's financial instruments as of December 31, 2019 and 2018 are as follows. (Amounts in Thousands of Dollars):

	Fair Value Hierarchy Level	Carrying Value		Fair Value	
		2019	2018	**2019**	2018
Financial assets:					
Cash and due from banks	1	**$ 31,825**	$ 33,751	**$ 31,825**	$ 33,751
Securities held to maturity	2	**2,809**	1,044	**2,970**	1,128
Securities available for sale	2	**342,331**	350,643	**342,331**	350,643
Federal funds sold	1	**13,031**	16,706	**13,031**	16,706
Loans, net	2	**486,792**	459,781	**476,533**	449,971
Impaired loans, net	3	**2,188**	8,250	**2,341**	8,828
Other real estate owned	3	**377**	681	**377**	681
Accrued interest receivable	1	**4,239**	4,559	**4,239**	4,559
Financial liabilities:					
Non-interest bearing demand deposits	1	**$ 131,481**	$ 131,705	**$ 131,481**	$ 131,705
Interest bearing demand deposits	1	**304,158**	292,665	**304,158**	292,665
Savings deposits	1	**88,925**	112,196	**88,925**	112,196
Time deposits	2	**203,092**	196,869	**203,651**	197,147
Securities sold under agreements to repurchase	1	**80,533**	88,559	**80,533**	88,559
FHLB Advances	2	**1,039**	-	**1,039**	-
Accrued interest payable	1	**787**	677	**787**	677

15. Revenue Recognition

On January 1, 2018, the Company adopted ASU No. 2014-09 *"Revenue from Contracts with Customers" (Topic 606)* and all subsequent ASUs that modified Topic 606. The implementation of the new standard did not have a material impact on the measurement or recognition of revenue; as such, a cumulative effect adjustment to opening retained earnings was not deemed necessary. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606.

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain noninterest income streams such as fees associated with mortgage servicing rights, financial guarantees, derivatives and certain credit card fees are also not in the scope of the new guidance. Topic 606 is applicable to noninterest revenue streams such as trust services, deposit related fees, interchange fees and other. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Substantially all of the Company's revenue is generated from contracts with customers. Noninterest revenue streams in-scope of Topic 606 are discussed below.

Service Charges

Service charges on deposit accounts consist of account analysis fees (i.e., net fees earned on analyzed business and public checking accounts), monthly service fees, check orders, and other deposit account related fees. The Company's performance obligation for account analysis fees and monthly service fees is generally satisfied, and the revenue recognized, over the period in which the service is provided. Check orders, and other deposit account related fees are largely transactional-based, and therefore, the Company's performance obligation is satisfied and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts.

Other

Other noninterest income consists of other recurring revenue streams such as commissions from sales of mutual funds and other investments, investment advisor fees from the Company's wealth management products, safe deposit box rental fees and other miscellaneous revenue streams. Commissions from sales of mutual funds and other investments and investment advisor fees are recognized monthly as the sales occur. Safe deposit box rental fees are charged to the customer on an annual basis and recognized upon receipt of payment. The Company determined that since rentals and renewals occur fairly consistently over time, revenue is recognized on a basis consistent with the duration of the performance obligation.

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, as follows. (Amounts in Thousands of Dollars):

Year Ended December 31,	**2019**	2018
Noninterest Income		
In-scope of Topic 606:		
Services Charges	**$ 1,208**	$ 1,265
Gain on sale of loans	**419**	381
Investment securities gains (losses), net	**(55)**	9
Other	**5,205**	4,799
Noninterest income (in-scope of topic 606)	**$ 6,777**	$ 6,454
Noninterest income (out-of-scope of topic 606)	**-**	-
Total Noninterest Income	**$ 6,777**	$ 6,454

Contract Balances

A contract asset balance occurs when an entity performs a service for a customer before the customer pays consideration (resulting in a contract receivable) or before payment is due (resulting in a contract asset). A contract liability is an entity's obligation to transfer a service to a customer for which the entity has already received payment (or payment is due) from the customer. The Company's noninterest revenue streams are largely based on transactional activity, or standard month-end revenue accruals such as asset management fees based on month-end market values. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized. The Company does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of December 31, 2019 the Company did not have any significant contract balances.

Contract Acquisition Costs

In connection with the adoption of Topic 606, an entity is required to capitalize, and subsequently amortize into expense, certain incremental costs of obtaining a contract with a customer if these costs are expected to be recovered. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (for example, sales commission). The Company utilizes the practical expedient which allows entities to immediately expense contract acquisition costs when the asset that would have resulted from capitalizing these costs would have been amortized in one year or less. Upon adoption of Topic 606, the Company did not capitalize any contract acquisition cost.

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