MAZARS USA LLP

Berkshire Bancorp Inc. and Subsidiaries

Consolidated Financial Statements
December 31, 2019 and 2018

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Independent Auditors' Report

To the Board of Directors of
Berkshire Bancorp Inc.

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Berkshire Bancorp Inc. and 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.

Mazars USA LLP

April 6, 2020

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands, except Par Value of Stocks)

	December 31, 2019	December 31, 2018
ASSETS		
Cash and due from banks	$ 4,407	$ 3,106
Interest bearing deposits (including restricted cash of $4,696 and $8,288, respectively)	94,825	156,488
Total cash and cash equivalents	99,232	159,594
Investments Securities:		
Available-for-sale, at fair value	215,294	214,592
Federal Home Loan Bank of New York stock	400	450
Equity securities, at fair value	5,052	-
Held-to-maturity at amortized cost, fair value of $4 in 2019 and $6 in 2018	4	6
Total investment securities	220,750	215,048
Loans, net of unamortized deferred loan fees	353,346	378,422
Less: allowance for loan losses	(7,140)	(7,330)
Net loans	346,206	371,092
Accrued interest receivable	2,193	2,265
Premises and equipment, net	5,913	5,987
Deferred tax assets, net	6,993	7,939
Other assets	2,216	2,069
Operating lease right-of-use asset	1,353	-
Total assets	$ 684,856	$ 763,994
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 110,695	$ 122,602
Interest bearing	398,397	475,089
Total deposits	509,092	597,691
Taxes payables	2,602	1,044
Accrued interest payable	1,574	1,217
Other liabilities	3,988	3,659
Operating lease liability	1,447	-
Total liabilities	518,703	603,611
Stockholders' equity		
Preferred stock - $ .01 Par value:		
2,000,000 shares authorized - none issued		
Common stock - $.10 Par value	1,442	1,442
Authorized - 25,000,000 shares		
Issued 14,416,198 shares		
Outstanding 14,416,198 shares		
Additional paid-in capital	143,903	143,903
Accumulated earnings	18,924	12,665
Accumulated other comprehensive income (loss), net	1,884	2,373
Total stockholders' equity	166,153	160,383
Total liabilities and stockholders' equity	$ 684,856	$ 763,994

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

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in Thousands)

	For The Years Ended December 31, 2019	2018
INTEREST INCOME		
Loans, including related fees	$ 20,536	$ 20,618
Investment securities	6,831	6,559
Interest bearing deposits	2,707	2,284
Total interest income	30,074	29,461
INTEREST EXPENSE		
Deposits	5,140	3,649
Total interest expense	5,140	3,649
Net interest income	24,934	25,812
PROVISION FOR LOAN LOSSES	(107)	498
Net interest income after provision for loan losses	25,041	25,314
NON-INTEREST INCOME		
Service charges on deposit accounts	174	183
Investment securities (loss) gains	131	(40)
Other income	207	184
Total non-interest income	512	327
NON-INTEREST EXPENSE		
Salaries and employee benefits	9,773	10,572
Net occupancy expense	2,836	2,701
Equipment expense	263	314
FDIC assessment	81	186
Data processing expense	577	599
Professional fees	789	784
Director fees	359	265
Office and telephone expense	255	222
Other	1,030	782
Total non-interest expense	15,963	16,425
Income before provision for income taxes	9,590	9,216
Income tax provision	3,331	3,596
Net income	$ 6,259	$ 5,620

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

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in Thousands)

	For the Years Ended December 31,	
	2019	**2018**
Net income	$ 6,259	$ 5,620
Other comprehensive (loss) income, net of tax:		
Unrealized (losses) gains on available-for-sale securities, net of taxes (benefits) of ($241) and $1,476, respectively	(414)	2,851
Pension benefit (liability) adjustment	(75)	20
Other comprehensive (loss) income	(489)	2,871
Comprehensive income	$ 5,770	$ 8,491

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

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For The Years Ended December 31, 2019 and 2018
(Dollars and Shares in Thousands)

	Common Shares	Common Stock Par Value	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss), net	Accumulated Earnings	Total Stockholders' Equity
Balance at January 1, 2018	14,416	$ 1,442	$143,903	$ (498)	$ 7,045	$ 151,892
Net Income	-	-	-	-	5,620	5,620
Other comprehensive income, net of taxes	-	-	-	2,871	-	2,871
Balance at December 31, 2018	14,416	1,442	143,903	2,373	12,665	160,383
Net Income	-	-	-	-	6,259	6,259
Other comprehensive income, net of taxes	-	-	-	(489)	-	(489)
Balance at December 31, 2019	14,416	$ 1,442	$143,903	$ 1,884	$ 18,924	$ 166,153

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

BERKSHIRE BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)

	For The Years Ended December 31, 2019	For The Years Ended December 31, 2018
Cash flows from operating activities:		
Net income	$ 6,259	$ 5,620
Adjustments to reconcile net income to net cash provided by operating activities:		
Changes in deferred tax assets, net	1,186	1,306
Net realized (gains) loss on investment securities	(131)	40
Net amortization of discounts of investment securities	(742)	(414)
Depreciation and amortization	254	318
Provision for loan losses	(107)	498
Decrease (increase) in accrued interest receivable	72	(131)
(Increase) decrease in other assets	(147)	1,921
Amortization in lease right-of–use asset	609	-
Increase in taxes payable, accrued interest payable and other liabilities	2,169	1,513
(Decrease) in lease liability	(515)	-
Net cash provided by operating activities	8,907	10,671
Cash flows from investing activities:		
Investment securities available-for-sale		
Purchases	(78,135)	(29,036)
Sales, maturities and calls	72,600	39,324
Investment securities held-to-maturity		
Payments	2	1
Decrease in FHLBNY stock	50	11
Net decrease in loans	24,993	576
Purchases of premises and equipment	(180)	(45)
Net cash provided by investing activities	19,330	10,831
Cash flows from financing activities:		
Net (decrease) increase in non-interest bearing deposits	(11,907)	5,707
Net (decrease) increase in interest bearing deposits	(76,692)	42,824
Net cash (used in) provided by financing activities	(88,599)	48,531
Net (decrease) increase in cash and cash equivalents	(60,362)	70,033
Cash and cash equivalents including restricted cash at beginning of period	159,594	89,561
Cash and cash equivalents including restricted cash at end of period	$ 99,232	$ 159,594
Supplemental disclosure of cash flow information:		
Cash used to pay interest	$ 4,783	$ 3,595
Income taxes (refunded) paid	$ 607	$ (766)
Supplemental disclosure of noncash information:		
Recognition of lease right-of-use asset and liability at initial adoption	$ 1,963	$ -

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

Note 1 - ORGANIZATION AND CAPITALIZATION

Organization

Berkshire Bancorp Inc., a Delaware corporation, is a bank holding company registered under the Bank Holding Company Act of 1956. References herein to "Berkshire", the "Company" or "we" and similar pronouns shall be deemed to refer to Berkshire Bancorp Inc. and its consolidated subsidiaries unless the context otherwise requires. Berkshire's principal activity is the ownership and management of its wholly-owned subsidiary, The Berkshire Bank (the "Bank"), a New York State chartered commercial bank.

The Bank was established in 1989 to provide highly personalized services to high net worth individuals and to small and mid-sized commercial businesses primarily in the New York City metropolitan area. The Bank's main office and branch is in mid-town Manhattan. The Bank has two other branches in Manhattan, four branches in Brooklyn, New York, four branches in Orange and Sullivan Counties in New York State, and a branch in Teaneck, New Jersey.

The Bank competes with other banking and financial institutions in its markets. Commercial banks, savings banks, savings and loan associations, mortgage bankers and brokers, and credit unions actively compete for deposits and loans. Such institutions, as well as consumer finance, mutual funds, insurance companies, and brokerage and investment banking firms may be considered to be competitors of the Bank with respect to one or more of the services provided by the Bank.

The Company and the Bank are subject to the regulations of certain state and federal agencies and, accordingly, are periodically examined by those authorities. The results of such examinations may identify certain items which require management attention and remediation. Further, the banking industry is highly regulated and as a result the Bank’s business may be affected by state and federal legislation.

Note 2 - SUMMARY OF ACCOUNTING POLICIES

Basis of Financial Statement Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and predominant practice within the banking industry, and include the accounts of Berkshire Bancorp Inc. and its wholly-owned subsidiaries, the Bank, and East 39, LLC, (collectively, the "Company"). All significant intercompany accounts and transactions have been eliminated.

In preparing the financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the balance sheets, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The principal estimates that are susceptible to significant change in the near term relate to the allowance for loan losses, carrying value of investments designated as available-for-sale, fair value of financial instruments, other than temporary impairment analysis and deferred tax assets and liabilities. The evaluation of the adequacy of the allowance for loan losses includes an analysis of the individual loans and overall risk characteristics and size of the different loan portfolios, and takes into consideration current economic and market conditions, the capability of specific borrowers to pay specific loan obligations, as well as current loan collateral values. However, actual losses on specific loans, which also are encompassed in the analysis, may vary from estimated losses.

The fair value of investments designated as available-for-sale, are based upon quoted market prices or prices for similar assets. If no quoted market prices or prices for similar assets exist, unobservable inputs are required.

Investment Securities

The Company accounts for its investment securities in accordance with Financial Accounting Standards Board ("FASB"), Accounting Standards Codification ("ASC") 320 and 321, "Investments-Debt and Equity Securities" ("FASB ASC 320"). As required by the FASB, investment securities are classified into three categories: trading, held-to-maturity and available-for-sale. Securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value with all unrealized gains and losses included in trading account activities in the statement of income. Securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for the amortization of premiums and accretion of discounts computed by the interest method. Investments which management believes may be sold prior to maturity due to changes in interest rates, prepayment risk and equity, liquidity requirements or other factors, are classified as available-for-sale. Available-for-sale debt securities are carried at fair value, with the unrealized gains and losses, net of tax, reported as a separate component of stockholders' equity and excluded from the determination of net income. Investments in equity securities are measured subsequently at fair value, with unrealized gains and losses included in earnings. Gains or losses on disposition are based on the net proceeds and cost of the securities sold, adjusted for amortization of premiums and accretion of discounts, if any, using the specific identification method.

In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than amortized cost, (2) the current interest rate environment, (3) the financial condition and near-term prospects of the issuer, if applicable, and (4) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Other-than-temporary impairment losses for debt securities are measured using a discounted cash flow model. Other-than temporary impairment losses for equity securities are measured using quoted market prices, when available, or, when market quotes are not available due to an illiquid market, the Company uses an impairment model from a third party or quotes from investment brokers.

The Company did not have a trading securities portfolio as of December 31, 2019 and 2018. The Company generally classifies all newly purchased debt securities as available-for-sale in order to maintain the flexibility to sell those securities if the need arises. The Company has a limited portfolio of securities classified as held-to-maturity, represented principally by securities purchased prior to 2002.

Loans and Allowance for Loan Losses

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at the amount of unpaid principal and are net of unearned discount, unearned loan fees, loan origination costs and an allowance for loan losses. The allowance for loan losses is established through a provision for loan losses charged to expense. Loan principal considered to be uncollectible by management is charged against the allowance for credit losses. The allowance is an amount that management believes will be adequate to absorb probable and estimable losses and losses on existing loans that may become uncollectible based upon an evaluation of known and inherent risks in the loan portfolio. The evaluation takes into consideration such factors as changes in the nature and size of the loan portfolio, overall portfolio quality, specific problem or impaired loans, and current economic conditions which may affect the borrowers' ability to pay. The evaluation details historical losses by loan category, the resulting loss rates for which are projected at current loan total amounts.

Interest income is accrued as earned on a simple interest basis. Generally, accrual of interest is discontinued on loans when principal and interest are 90 days or more past due and/or when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of contractual principal and interest is doubtful. When a loan is placed on such non-accrual status, all accumulated accrued interest receivable applicable to periods prior to the current year is charged-off to the allowance for loan losses. Interest which had accrued in the current year is reversed out of current period income. The interest on these loans is accounted for on a cash basis, until qualifying for return to accrual.

The allowance for loan losses is the estimated amount considered necessary to cover credit losses inherent in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses that is charged against income. In determining the allowance for loan losses, management makes significant estimates and therefore has identified the allowance as a critical accounting policy. The methodology for determining the allowance for loan losses is considered a critical accounting policy by management due to the high degree of judgment involved, the subjectivity of the assumptions utilized, and the potential for changes in the economic environment that could result in changes to the amount of the recorded allowance for loan losses.

The allowance for loan losses has been determined in accordance with U.S. GAAP, principally FASB ASC 450, "Contingencies", ("ASC 450") and FASB ASC 310, "Receivables", ("ASC 310"). Under the above accounting principles, management is required to maintain an allowance for probable losses at the balance sheet date. Management is responsible for the timely and periodic determination of the amount of the allowance required. Management believes that the allowance for loan losses is adequate to cover specifically identifiable losses, as well as estimated losses inherent in the portfolio for which certain losses are probable but not specifically identifiable.

Management performs a quarterly evaluation of the adequacy of the allowance for loan losses. The analysis of the allowance for loan losses has two components: specific reserves and general reserves. Specific reserves are made for loans determined to be impaired.

A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. All amounts due according to the contractual terms means that both the contractual interest payments and the contractual principal payments of a loan will be collected as scheduled in the loan agreement.

The Company accounts for its impaired loans in accordance with FASB ASC 310. These standards require that a creditor measure impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, a creditor may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is collateral-dependent. Regardless of the measurement method, a creditor must measure impairment based on the fair value of the collateral when the creditor determines that foreclosure is probable. Management considers its investment in consumer loans to be homogeneous groups of loans. As such, these loans are not individually evaluated for impairment but rather are collectively evaluated under ASC 450.

The general reserve is determined by segregating the remaining loans by type of loan, risk weighting (if applicable) and payment history. Management also analyzes historical loss experience, delinquency trends, general economic conditions, geographic concentrations, and industry and peer comparisons. The historical loss period is based on a rolling 20 quarter look back period, as the Bank believes this produces an appropriate reflection of its historical loss experience. This analysis establishes factors that are applied to the loan segments to determine the amount of the general reserve. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revisions based upon changes in economic and real estate market conditions. Actual loan losses may be significantly more than the allowance for loan losses management has established which could have a material adverse effect on the Company's financial results.

On a quarterly basis, the Bank's management committee reviews the current status of various loans as part of its evaluation of the adequacy of the allowance for loan losses. In this evaluation process, specific loans are analyzed to determine their potential risk of loss. This process includes all loans, concentrating on non-accrual and classified loans (as defined in Note 4). Each non-accrual or classified loan is evaluated for potential loss exposure. Any shortfall results in a recommendation of a specific allowance if the likelihood of loss is evaluated as probable. To determine the adequacy of collateral on a particular loan, an estimate of the fair market value of the collateral is based on the most current appraised value available. This appraised value is then reduced to reflect estimated liquidation expenses.

As a substantial amount of our loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans are critical in determining the amount of the allowance required for specific loans. Assumptions for appraisal valuations are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to assumptions could significantly impact the valuation of a property securing a loan and the related allowance determined. The assumptions supporting such appraisals are carefully reviewed by management to determine that the resulting values reasonably reflect amounts realizable on the related loans. Based on the composition of our loan portfolio, management believes the primary risks are increases in interest rates, a decline in the economy, generally, and a decline in real estate market values in the New York metropolitan area. Any one or combination of these events may adversely affect our loan portfolio resulting in increased delinquencies, loan losses and future levels of loan loss provisions.

Management believes the allowance for loan losses reflects the inherent credit risk in our portfolio, the level of our non-performing loans and our charge-off experience.

Although management believes that the allowance for loan losses is at adequate levels, additions may be necessary if future economic and other conditions differ substantially from the current operating environment. Although management uses what it believes is the best information available, the level of the allowance for loan losses remains an estimate that is subject to significant judgment and short-term change. In addition, the Federal Deposit Insurance Corporation, New York State Department of Financial Services, and other regulatory bodies, as an integral part of their examination process, periodically reviews the Company's allowance for loan losses. Such agencies may require management to recognize adjustments to the allowance based on their judgments about information available to them at the time of their examination.

Bank Premises and Equipment

Bank premises and equipment, including leasehold improvements, are stated at cost less accumulated depreciation. Depreciation expense is computed on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the estimated useful lives of the improvements or the terms of the related leases. An accelerated depreciation method is used for tax purposes.

Other Real Estate Owned

Other real estate owned, representing property acquired through foreclosure, is recorded at fair value, less estimated costs of disposal. When property is acquired through foreclosure, the excess, if any, of the loan balance over fair value is charged to the allowance for loan losses. Periodically thereafter, the asset is reviewed for subsequent declines in fair value. Subsequent declines, if any, and holding costs, as well as gains and losses on subsequent sale, are included in the consolidated statements of income. At both December 31, 2019 and 2018, the Company held no other real estate owned.

Income Taxes

The Company accounts for income taxes under the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities as measured by the enacted tax rates that will be in effect when these differences reverse. Deferred tax expense is the result of changes in deferred tax assets and liabilities. The principal types of differences between assets and liabilities for financial statement and tax return purposes are allowance for loan losses, deferred loan fees, deferred compensation and securities available-for-sale.

The Company recognizes deferred tax assets and liabilities for the future tax effects of temporary differences, net operating loss carry-forwards and tax credits. Deferred tax assets are subject to management's judgment based upon available evidence for future realization. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized.

Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash and due from banks, interest-bearing deposits in other financial institutions with an original maturity of less than ninety days, and federal funds sold. In addition, restricted cash consists of cash segregated as the Bank's reserve requirement required by the Federal Reserve Bank of New York.

Restrictions on Cash and Due From Banks

The Bank is required to maintain reserves against customer demand deposits by keeping cash on hand or cash balances with the Federal Reserve Bank in an interest bearing account. The amounts of those reserve and cash balances were approximately $4,696,000, and $8,288,000 at December 31, 2019 and 2018, respectively, and are included in the consolidated balance sheets.

Federal Home Loan Bank Stock

The Company is required as a condition of membership in the Federal Home Loan Bank of New York ("FHLB-NY") to maintain an investment in FHLB-NY common stock. The stock is redeemable at par, and therefore, its cost is equivalent to its redemption value. The FHLB-NY paid dividends on its common stock in each quarter of 2019. At December 31, 2019 and 2018, management did not believe this asset was impaired.

New Accounting Pronouncements

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 470), Simplifying the Accounting for Income Taxes. The ASU eliminates certain exceptions related to the rate approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. It also clarifies and simplifies other aspects of the accounting for income taxes.

The guidance is effective for fiscal years beginning after December 15, 2020 for public business entities. The Company is currently assessing the impact to its consolidated financial statements; however, the impact is not expected to be material

In August 2018, the FASB issued Accounting Standard Update ("ASU ") 2018-14, Changes to the Disclosure Requirements for Defined Benefit Plans. This ASU provides final guidance on changes to the disclosure requirements for employers that sponsor defined benefit person and/or other postretirement benefit plans. The guidance requires new disclosures for the weighted-average interest crediting rate for certain plans and an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the reporting period.

The guidance is effective for fiscal years ending after December 15, 2020. The Company is currently assessing the impact of its consolidated financial statements. However, the impact is not expected to be material.

In August 2018, the FASB issued Accounting Standard Update ("ASU ") 2018-13, Fair Value Measurement – Changes to the Disclosure Requirements for Fair Value Measurement. This ASU eliminates, and modified certain disclosure requirements for fair value measurements. It also adds new disclosure requirements for any Level 3 instruments.

The guidance is effective for fiscal years beginning after December 15, 2019. The Company is currently assessing the impact of its consolidated financial statements. However, the impact is not expected to be material.

The Company adopted ASC 606 - Revenue from Contracts with Customer at the beginning of 2018 (Topic 606). The adoption of this standard did not have any material impact to the consolidated financial statements.

In February 2018, the FASB issued Accounting Standard Update ("ASU ") 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220). The standard provides entities the option to reclassify tax effects stranded in accumulated other comprehensive income as a result of the Tax Cuts and Jobs Act enacted in December 2017 to retained earnings as compared to income tax expense. This ASU is effective for fiscal years beginning after December 15, 2018 with early adoption allowed for reporting periods for which financial statements have not yet been issued or made available for issuance.

The new standard can be applied either (1) in the period of adoption or (2) retrospectively to each period in which the effect of the change in the federal income tax rate is recognized.

The Bank adopted ASU 2018-02 as of January 1, 2019, but made no election to reclassify any stranded OCI to retained earnings as permitted by the standard. Therefore, this standard had no impact on the consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The standard shortens the amortization period for certain purchased callable debt securities held at a premium to the earliest call date. The guidance does not change the accounting for discount accretion.

The amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period.

The Bank adopted ASU 2017-18 as of January 1, 2019. This standard did not have a material effect on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which employs a new accounting model, referred to as the current expected credit losses (CECL) model. The standard is intended to require earlier recognition of credit losses, while also providing additional financial reporting transparency about credit risk.

The new CECL model utilizes an "expected credit loss" measurement objective for the recognition of credit losses for loans, loan commitments and held-to-maturity securities at the time the asset is originated or acquired. The estimate is then adjusted each period for changes in expected credit losses.

For available-for-sale debt securities where fair value is less than cost, credit-related impairment would be recognized in an allowance for credit losses and adjusted each period for changes in credit risk.

This would replace the multiple existing impairment models in GAAP, which generally require that a loss be incurred before it is recognized.

The standard also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the ALLL. Notably, public business entities will also need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination (i.e., by vintage year).

The original standard is effective for fiscal years beginning after December 15, 2019 for public business entities. Early adoption is permitted. On October 16, 2019, the FASB voted to extend the implementation of the current expected credit loss standard for certain financial institutions, as proposed earlier this year to January 1, 2023. The delay would apply to small reporting companies (as defined by the SEC), non-SEC public companies and private companies.

Currently, the Company is assessing the impact of this new standard. The CECL model represents a significant departure from current GAAP, and may result in material changes to the Company's accounting for financial instruments.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which will require lessees to recognize most leases on-balance sheet. Lessor accounting will remain substantially the same, but the ASU contains changes intended to align lessor accounting with the lessee accounting model.

The ASU will replace most existing lease accounting guidance and require expanded quantitative and qualitative disclosures for both lessees and lessors when it becomes effective for annual and interim periods in fiscal years beginning after December 31, 2018 for public business entities.

Note 3 – INVESTMENT SECURITIES

The following is a summary of held-to-maturity and equity investment securities:

	December 31, 2019			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair Value
	(Dollars in Thousands)			
Held-To-Maturity Securities				
U.S. Government Agencies	$ 4	$ -	$ -	$ 4
Equity Securities, at Fair Value	$ 4,994	$ 58	$ -	$ 5,052

	December 31, 2018			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair Value
	(Dollars in Thousands)			
Held-To-Maturity Securities:				
U.S. Government Agencies	$ 6	$ -	$ -	$ 6
Equity Securities, at Fair Value	$ -	$ -	$ -	$ -

The following is a summary of available-for-sale investment securities:

	December 31, 2019			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair Value
	(Dollars in Thousands)			
U.S. Treasury Notes	$ 74,928	$ 43	$ (5)	$ 74,966
U.S. Government Agencies	30,200	—	(18)	30,182
SBA Pool Securities	69	—	—	69
Mortgage-backed securities	58,181	85	(438)	57,828
Domestic Debt Securities	7,263	65	(2)	7,326
Foreign Debt Securities	11,252	9	—	11,261
Marketable Equity Securities and other	40	—	—	40
Trust Preferred Securities	29,964	3,658	—	33,622
Totals	$ 211,897	$ 3,860	$ (463)	$ 215,294

	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair Value
	(Dollars in Thousands)			
U.S. Treasury Notes	$ 54,835	$ —	$ (346)	$ 54,489
U.S. Government Agencies	38,135	—	(758)	37,377
SBA Pool Securities	95	—	(1)	94
Mortgage-backed securities	69,038	90	(1,154)	67,974
Domestic Debt Securities	7,253	9	(41)	7,221
Foreign Debt Securities	12,005	9	(4)	12,010
Marketable Equity Securities and other	40	—	—	40
Trust Preferred Securities	29,104	6,283	—	35,387
Totals	$ 210,505	$ 6,391	$ (2,304)	$ 214,592

The following table indicates the length of time individual securities that we consider temporarily impaired have been in a continuous gross unrealized loss position at December 31, 2019 (Dollars in Thousands):

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities:						
US Treasury and Notes	$ 19,994	$ 5	$ —	$ —	$ 19,994	$ 5
US Government Agencies	—	—	22,292	18	22,292	18
SBA Pool Securities	—	—	69	—	69	—
Mortgage-backed securities	8,380	69	34,920	369	43,300	438
Domestic Debt Securities	—	—	807	2	807	2
Foreign Debt Securities	—	—	—	—	—	—
Trust Preferred Securities	—	—	—	—	—	—
Total temporarily impaired Securities	$ 28,374	$ 74	$ 58,088	$ 389	$ 86,462	$ 463

The Company had a total of 87 debt securities with a fair market value of $86.5 million which were temporarily impaired at December 31, 2019. The total unrealized loss on these securities was $0.5 million, which is attributable to market interest volatility, the continued illiquidity of the debt markets, and uncertainty in the financial markets. It is not more likely than not that we would sell these securities before maturity, and we have the intent to hold all of these securities to maturity and will not be required to sell these securities, due to our ratio of cash and cash equivalents of approximately 14.49**%** of total assets at December 31, 2019. In addition, management considers the issuers of these securities to be financially sound and believes the Company will receive all contractual principal and interest related to these investments. The Company determined that the unrealized losses associated with these securities are not considered to be other than temporary by performing an impairment analysis.

The following table indicates the length of time individual securities that we consider temporarily impaired have been in a continuous unrealized loss position at December 31, 2018 (Dollars in Thousands):

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities:						
US Treasury and Notes	$ 14,851	$ 2	$ 39,638	$ 344	$ 54,489	$346
US Government Agencies	—	—	37,377	758	37,377	758
SBA Pool Securities	94	1	—	—	94	1
Mortgage-backed securities	10,332	129	38,435	1,025	48,767	1,154
Domestic Debt Securities	1,992	3	1,177	38	3,169	41
Foreign Debt Securities	504	1	746	3	1,250	4
Trust Preferred Securities	—	—	—	—	—	—
Total temporarily impaired Securities	$ 27,773	$ 136	$ 117,373	$ 2,168	$ 145,146	$ 2,304

The Company had a total of 98 debt securities with a fair market value of $145.1 million which were temporarily impaired at December 31, 2019. The total unrealized loss on these securities was $2.3 million, which is attributable to market interest volatility, the continued illiquidity of the debt markets, and uncertainty in the financial markets. It is not more likely than not that we would sell these securities before maturity, and we have the intent to hold all of these securities to maturity and will not be required to sell these securities, due to our ratio of cash and cash equivalents of approximately 20.89% of total assets at December 31, 2018. Therefore, the unrealized losses associated with these securities are not considered to be other than temporary.

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

	December 31, 2019			
	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in Thousands)			
Due in one year or less	$ 89,899	$ 89,953	$ 4	$ 4
Due after one through five years	34,132	34,174	—	—
Due after five through ten years	18,423	18,245	—	—
Due after ten years	69,403	72,882	—	—
Marketable equity securities and other	40	40	—	—
Totals	$ 211,897	$ 215,294	$ 4	$ 4

At both December 31, 2019 and 2018, there were no securities sold under agreements to repurchase and there were no securities pledged, respectively.

Note 4 – LOANS

Major classifications of loans are as follows:

	December 31, 2019	December 31, 2018
	(Dollars in Thousands)	
Commercial and Industrial and Finance Leases	$ 13,691	$ 17,569
Secured by Real Estate		
Residential	43,681	45,772
Multi-family	48,019	35,018
Commercial Real Estate and Construction	248,408	280,029
Consumer	696	1,342
Total Loans	354,495	379,730
Deferred loan fees, net	(1,149)	(1,308)
Allowance for loan losses	(7,140)	(7,330)
	$ 346,206	$ 371,092

Changes in the allowance for loan losses are as follows:

	For The Years Ended December 31,	
	2019	2018
	(Dollars in Thousands)	
Balance at beginning of year	$ 7,330	$ 8,445
Provision charged to operations	(107)	498
Loans charged-off	(127)	(1,613)
Recoveries	44	-
Balance at end of year	$ 7,140	$ 7,330

The Bank had $63,000 and $0 of non-accrual loans at both December 31, 2019 and 2018, respectively, and 1 and 2 loans delinquent more than ninety days and still accruing interest at December 31, 2019 and 2018, respectively. The allowance for loan loss that is includable in the calculation of regulatory capital up to a maximum of 1.25% of risk-weighted assets was approximately $4.9 million and $5.2 million at December 31, 2019 and 2018, respectively.

Allowance for Credit Losses and Recorded Investment in Financing Receivables

The qualitative factors are determined based on the various risk characteristics of each loan class. Relevant risk characteristics are as follows:

Commercial and industrial loans - Loans in this class are made to businesses. Generally, these loans are secured by assets of the business and repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer and/or business spending will have an effect on the credit quality in this loan class.

Commercial real estate - Loans in this class include income-producing investment properties and owner-occupied real estate used for business purposes. The underlying properties are generally located largely in our primary market area. The cash flows of the income producing investment properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, will have an effect on credit quality. In the case of owner-occupied real estate used for business purposes a weakened economy and resultant decreased consumer and/or business spending will have an adverse effect on credit quality.

Construction loans - Loans in this class primarily include land loans to local individuals, contractors and developers for developing the land for sale or for the purpose of making improvements thereon. Repayment is derived from sale of the lots/units including any pre-sold units. Credit risk is affected by market conditions, time to sell at an adequate price and cost overruns. To a lesser extent this class includes commercial development projects the Company finances which in most cases have an interest-only phase during construction and then convert to permanent financing. Credit risk is affected by cost overruns, market conditions and the availability of permanent financing, to the extent such permanent financing is not being provided by the Company.

Residential real estate - Loans in this class are made to and secured by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this loan class. The Company generally does not originate loans with a loan-to-value ratio greater than 80 percent and does not grant subprime loans.

Multi-family real estate - Loans in this class are made to and secured by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this loan class. The Company generally does not originate loans with a loan-to-value ratio greater than 80 percent and does not grant subprime loans.

Consumer loans - Loans in this class may be either secured or unsecured and repayment is dependent on the credit quality of the individual borrower and, if applicable, sale of the collateral securing the loan (such as automobile or other secured assets). Therefore the overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this loan class.

Financing leases - Loans in this class may be either secured or unsecured and repayment is dependent on the credit quality of the individual borrower and, if applicable, sale of the collateral securing the loan (such as equipment or other secured assets). Therefore the overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this loan class.

Allowance for Credit Losses and Recorded Investment in Loans
For the Year Ended December 31, 2019
(Dollars in Thousands)

	Commercial & Industrial	Commercial Real Estate	Construction	Multi-Family	Residential 1-4 Family	Consumer	Finance Leases	Unallocated	Total
Allowance for credit losses:									
Beginning balance	$ 250	$ 3,514	$ 2,541	$ 438	$ 459	$ 24	$ 104	$ —	$ 7,330
Charge-offs	(127)	—	—	—	—	—	—	—	(127)
Recoveries	42	—	—	—	—	2	—	—	44
Provision	71	750	(1,153)	282	(22)	(14)	(21)	—	(107)
Ending balance	$ 236	$ 4,264	$ 1,388	$ 720	$ 437	$ 12	$ 83	$ —	$ 7,140
Ending balance: individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Ending balance: collectively evaluated for impairment	$ 236	$ 4,264	$ 1,388	$ 720	$ 437	$ 12	$ 83	$ —	$ 7,140
Loans Receivables:									
Ending balance	$ 10,505	$ 193,591	$ 54,817	$ 48,019	$ 43,681	$ 696	$ 3,186	$ —	$ 354,495
Ending balance: individually evaluated for impairment	$ 544	$ 1,776	$ —	$ —	$ 1,095	$ —	$ —	$ —	$ 3,415
Ending balance: collectively evaluated for impairment	$ 9,961	$ 191,815	$ 54,817	$ 48,019	$ 42,586	$ 696	$ 3,186	$ —	$ 351,080

The Company believes the unallocated amount included in the allowance for credit losses is appropriate given the nature of the portfolio with the size of individual loans and the current economy's impact on the real estate market. The Company will continue to closely monitor the environment and loan portfolio and make adjustments when appropriate.

Allowance for Credit Losses and Recorded Investment in Loans
For the Year Ended December 31, 2018
(Dollars in Thousands)

	Commercial & Industrial	Commercial Real Estate	Construction	Multi-Family	Residential 1-4 Family	Consumer	Finance Leases	Unallocated	Total
Allowance for credit losses:									
Beginning balance	$ 495	$ 3,542	$ 3,198	$ 543	$ 466	$ 16	$ 185	$ —	$ 8,445
Charge-offs	(1,613)	—	—	—	—	—	—	—	(1,613)
Recoveries	—	—	—	—	—	—	—	—	—
Provision	1,368	(28)	(657)	(105)	(7)	8	(81)	—	498
Ending balance	$ 250	$ 3,514	$ 2,541	$ 438	$ 459	$ 24	$ 104	$ —	$ 7,330
Ending balance: individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Ending balance: collectively evaluated for impairment	$ 250	$ 3,514	$ 2,541	$ 438	$ 459	$ 24	$ 104	$ —	$ 7,330
Loans Receivables:									
Ending balance	$ 12,665	$ 178,961	$ 101,068	$ 35,018	$ 45,772	$ 1,342	$ 4,904	$ —	$379,730
Ending balance: individually evaluated for impairment	$ 731	$ 1,860	$ —	$ —	$ 1,143	$ —	$ —	$ —	$ 3,734
Ending balance: collectively evaluated for impairment	$ 11,934	$ 177,101	$ 101,068	$ 35,018	$ 44,629	$ 1,342	$ 4,904	$ —	$375,996

Age Analysis of Past Due Loans

As of December 31, 2019
(Dollars in Thousands)

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Non Accrual Loans	Recorded Loans > 90 Days and Accruing
Commercial & industrial	$ 242	$ 544	$ 6	$ 792	$ 9,713	$ 10,505	$	$ 6
Construction	—	—	—	—	54,817	54,817	—	—
Commercial real estate	4,389	—	—	4,389	189,202	193,591	—	—
Consumer	—	—	—	—	696	696	—	—
Residential – prime	3,876	34	63	3,973	39,708	43,681	63	—
Residential – multi-family	—	—	—	—	48,019	48,019	—	—
Finance leases	—	—	—	—	3,186	3,186	—	—
Total	$ 8,507	$ 578	$ 69	$ 9,154	$345,341	$354,495	$ 63	$ 6

Age Analysis of Past Due Loans
As of December 31, 2018
(Dollars in Thousands)

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Loans > 90 Days and Accruing
Commercial & industrial	$ —	$ —	$ 8	$ 8	$ 12,657	$ 12,665	$ 8
Construction	—	—	—	—	101,068	101,068	—
Commercial real estate	—	—	—	—	178,961	178,961	—
Consumer	—	—	—	—	1,342	1,342	—
Residential – prime	280	70	63	413	45,359	45,772	63
Residential – multi-family	2,228	—	—	2,228	32,790	35,018	—
Finance leases	—	—	—	—	4,904	4,904	—
Total	$ 2,508	$ 70	$ 71	$ 2,649	$377,081	$379,730	$ 71

Impaired Loans
For the Year Ended December 31, 2019
(Dollars in Thousands)

	Recorded Loan	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Foregone
With no related allowance recorded:						
Commercial & industrial	$ 544	$ 544	$ -	$ 597	$ 49	$ -
Commercial real estate	1,776	1,776	-	1,815	98	-
Residential - prime	1,095	1,095	-	1,118	51	-
With related allowance recorded:						
Commercial & industrial	-	-	-	-	-	-
Commercial real estate	-	-	-	-	-	-
Residential - prime	-	-	-	-	-	-
Total						
Commercial & industrial	544	544	-	597	49	-
Commercial real estate	1,776	1,776	-	1,815	98	-
Residential - prime	1,095	1,095	-	1,118	51	-
Total	$ 3,415	$ 3,415	$ -	$ 3,530	$ 198	$ -

Impaired Loans
For the Year Ended December 31, 2018
(Dollars in Thousands)

	Recorded Loan	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Foregone
With no related allowance recorded:						
Commercial & industrial	$ 731	$ 731	$ -	$ 1,299	$ 61	$ -
Commercial real estate	1,860	1,860	-	5,782	135	-
Residential - prime	1,143	1,143	-	5,258	107	-
With related allowance recorded:						
Commercial & industrial	-	-	-	-	-	-
Commercial real estate	-	-	-	-	-	-
Residential - prime	-	-	-	-	-	-
Total						
Commercial & industrial	731	731	-	1,299	61	-
Commercial real estate	1,860	1,860	-	5,782	135	-
Residential - prime	1,143	1,143	-	5,258	107	-
Total	$ 3,734	$ 3,734	$ -	$ 12,339	$ 303	$ -

Credit Exposure
Credit Risk Profile by Internally Assigned Grades
For the Year Ended December 31, 2019
(Dollars in Thousands)

	Commercial & Industrial	Construction	Commercial Real Estate
Grade:			
Pass	$ 9,719	$ 47,863	$ 191,398
Watch	—	—	1
Special Mention	242	—	2,192
Substandard	544	6,954	—
Total	$ 10,505	$ 54,817	$ 193,591

	Residential 1-4	Residential Multi-Family
Grade:		
Pass	$ 43,329	$ 48,019
Watch	—	—
Special Mention	289	—
Substandard	63	—
Total	$ 43,681	$ 48,019

	Consumer Other	Finance Leases
Performing	$ 696	$ 3,186
Nonperforming	—	—
Total	$ 696	$ 3,186

Credit Exposure
Credit Risk Profile by Internally Assigned Grades
For the Year Ended December 31, 2018
(Dollars in Thousands)

	Commercial & Industrial	Construction	Commercial Real Estate
Grade:			
Pass	$ 11,686	$ 95,289	$ 176,506
Watch	—	—	8
Special Mention	248	5,779	2,447
Substandard	731	—	—
Total	$ 12,665	$ 101,068	$ 178,961

	Residential 1-4	Residential Multi-Family
Grade:		
Pass	$ 45,345	$ 35,018
Watch	49	—
Special Mention	378	—
Substandard	—	—
Total	$ 45,772	$ 35,018

	Consumer Other	Finance Leases
Performing	$ 1,342	$ 4,904
Nonperforming	—	—
Total	$ 1,342	$ 4,904

The Company utilizes a grade risk rating system for commercial and industrial, commercial real estate, and construction loans as follows:

Pass: These loans have low to average risk.

Watch: A Watch loan is similar to a Pass classification and it is not a criticized or classified loan. Documentation exceptions require additional attention by management for corrective action. These loans are paying as agreed and meeting their loan agreement obligations; however existing and developing factors may elevate the risk levels requiring added attention by management. Those factors may include industry conditions, operating problems, pending litigation of a minor nature, declining collateral quality, and customer's failure to provide financial information, occasional payment difficulties (late payments, overdrafts, renewals) or other minor exceptions to policy.

Special mention: Includes loans, which are fundamentally sound, but exhibit potential credit risk or unsatisfactory characteristics, which, if not corrected, could lead to loan loss. A Special Mention loan has potential weaknesses that deserve management's close attention and dictate a higher level of attention and oversight. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Bank's credit position at some future date. Special Mention loans are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.

Substandard: Includes loans with positive and well defined weaknesses which are inadequately protected by current net worth and paying capacity of borrower or pledged collateral. Substandard loans are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loans have one or more weaknesses (such as being on non-accrual status and 90 days or more past due) that could jeopardize the repayment of the debt and result in some form of loss to the Bank. This category includes loans that may be impaired. Substandard loans should be evaluated at least on a quarterly basis to determine if additional course of action would be required by management.

Doubtful: Loans classified as Doubtful have weaknesses that make collection or liquidation in full, on the basis of the currently known facts, conditions, and values, highly questionable and improbable. All Doubtful loans are placed on non-accrual status. Doubtful loans are considered impaired.

Loss: Loans classified as Loss are considered to be uncollectible and have such little value that their continuance on the Bank's books is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing-off this loan even though partial recovery may be effected in the future. Loans classified Loss should be promptly charged-off prior to the end of the calendar quarter in which they are identified.

The Company does assign risk ratings to residential real estate, home equity and consumer loans secured by real estate (such as 1-to-4 family homes) that are contractually past due 90 days or more or where legal action has commenced against the borrower. Consumer loans other than those secured by real estate are charged-off when they become contractually past due 120 days. Those loans not assigned a rating watch, special mention, substandard or loss are considered "pass".

On a quarterly basis, or more often if needed, the Company formally reviews the ratings on all classified commercial and industrial, commercial real estate and construction loans. Semi-annually, the Company engages an independent third-party to review a significant portion of loans within these segments. Management uses the results of these reviews as part of its periodic review process. An analysis of loans restructured as a TDR is as follows:

Loan Modifications
(Dollars in Thousands)

	As of December 31, 2019		
	Number of Loans	Pre-Modification Outstanding Recorded Loans	Post-Modification Outstanding Recorded Loans
Troubled Debt Restructuring			
Residential	5	$ 1,310	$ 1,095
Commercial Real Estate	1	2,555	1,776
Commercial-Industrial	2	2,290	544
	8	$ 6,155	$ 3,415

Loan Modifications
(Dollars in Thousands)

	As of December 31, 2018		
	Number of Loans	Pre-Modification Outstanding Recorded Loans	Post-Modification Outstanding Recorded Loans
Troubled Debt Restructuring			
Residential	5	$ 1,310	$ 1,143
Commercial Real Estate	1	2,555	1,860
Commercial-Industrial	2	2,290	731
	8	$ 6,155	$ 3,734

Certain TDRs are classified as nonperforming at the time of restructuring and may only return to performing status after considering the borrower's sustained repayment performance under the revised payment terms for a reasonable period, generally six months. We evaluated all of the impaired loans by analyzing the collateral value or by evaluating the discounted cash flow.

The loans restructured as noted above were restructured by extending maturity dates or reducing interest rates. No loans were restructured into two notes nor are there any commitments to extend additional funds on any TDRs. The commercial real estate loans are individually evaluated for impairment with any loss recognized in the allowance for loan losses. There were no TDR loans subsequent to December 31, 2019 and December 31, 2018 that went in default.

Related Party Loans -In accordance with banking regulations, the Bank, from time to time, enters into lending transactions in the ordinary course of business with directors, executive officers, principal stockholders and affiliates of such persons on the same terms as those prevailing for comparable transactions with other borrowers. There were no related party loans outstanding at December 31, 2019 and December 31, 2018.

Note 5 – PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows:

	Estimated useful lives	December 31, 2019	December 31, 2018
		(Dollars in Thousands)	
Land	Indefinite	$ 3,514	$ 3,514
Buildings	39 years	5,213	5,205
Furniture and equipment	3 to 10 years	2,246	2,099
Leasehold improvements	2 to 10 years	1,194	1,168
		12,167	11,986
Accumulated depreciation and amortization		(6,254)	(5,999)
Total		$ 5,913	$ 5,987

Depreciation and amortization expense was approximately $254,000 and $318,000 for the years ended December 31, 2019 and 2018, respectively.

Note 6 – DEPOSITS

The Bank concentrates on obtaining deposits from a variety of businesses, professionals and retail customers. The Bank offers a number of different deposit programs, including statement savings accounts, NOW accounts, money market deposit accounts, checking accounts and certificates of deposit with terms from seven days to five years. Deposit account terms vary according to the minimum balance required, the time period the funds must remain on deposit and the interest rate, among other factors. The Bank prices its deposit offerings competitively within the market it serves. These products are designed to attract new customers, retain existing customers and create opportunities to offer other bank products or services. While the market and pricing for deposit funds are very competitive, the Bank believes that personalized, quality service is also an important element in retaining core deposit customers.

	December 31, 2019	December 31, 2018
	(Dollars in Thousands)	
Interest-bearing deposits:		
Certificate of deposit accounts	$ 170,365	$ 192,113
Savings accounts	151,223	205,149
Money Market accounts	47,136	36,979
NOW accounts	28,011	38,956
Total interest-bearing demand deposits	396,735	473,197
Non-interest bearing deposits	110,695	122,602
Total due to depositors	507,430	595,799
Mortgagors' escrow deposits	1,662	1,892
Total Deposits	$ 509,092	$ 597,691

The aggregate amount of jumbo certificates of deposits greater than $250,000 was approximately $19.2 million and $27.2 million as of December 31, 2019 and 2018, respectively.

The scheduled maturities of all certificates of deposit are as follows:

	December 31, 2019
	(Dollars In Thousands)
2020	$ 157,104
2021	11,536
2022	1,725
	$ 170,365

The following table summarizes the maturity distribution of time deposits of $250,000 or more as of December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
	(Dollars in Thousands)	
3 months or less	$ 2,742	$ 6,073
Over 3 months but within 6 months	6,828	2,281
Over 6 months but within 12 months	8,702	11,665
Over 12 months	890	7,211
Total	$ 19,162	$ 27,230

It has been the Bank's experience that the majority of these certificates of deposit will renew with the Bank.

Aggregate deposits from related parties at December 31, 2019 and December 31, 2018 amounted to approximately $65.9 million and $120.5 million, respectively. At both December 31, 2019 and December 31, 2018, there were no related party overdrawn accounts reclassified to loans.

Note 7 – BORROWINGS AND SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Borrowings

At both December 31, 2019 and December 31, 2018, there were no advances from the FHLB-NY outstanding. Unused lines of credit at the FHLB-NY were $161.1 million and $153.3 million at December 31, 2019 and 2018, respectively.

Securities Sold Under Agreements to Repurchase

At both December 31, 2019 and December 31, 2018, there were no securities sold under agreements to repurchase.

Note 8 – INCOME TAXES

The components of income tax expense are as follows: (Dollars in Thousands)

	Years Ended December 31, 2019	Years Ended December 31, 2018
Federal:		
Current	$ 1,819	$ 1,466
Deferred	803	1,298
State and Local:		
Current	607	824
Deferred	102	8
Total	$ 3,331	$ 3,596

A reconciliation of the provision for income taxes for the years ended December 31, 2019 and 2018 and the amount computed by applying the statutory Federal income tax rate to income/loss from operations follows: (Dollars in Thousands)

	Years Ended December 31, 2019	Years Ended December 31, 2018
Effective Tax Reconciliation		
Tax (benefit) at statutory rate	$ 2,014	$ 1,935
State and City, net of federal income tax benefit	1,942	2,117
Permanent items	2	2
Other	(627)	(458)
Provision for income taxes	$ 3,331	$ 3,596

The tax effect of the principal temporary differences at December 31, 2019 and 2018 was as follows: (Dollars in Thousands)

	December 31, 2019	December 31, 2018
Net deferred tax assets		
Loan loss provision	$ 2,402	$ 2,475
Depreciation	(234)	(222)
Non-accrual interest	91	92
Net operating loss	3,210	4,156
Other	2,642	2,796
Unrealized (gains) loss on investment securities	(1,118)	(1,358)
Net deferred tax asset, net	$ 6,993	$ 7,939

As of December 31, 2019, the Company net operating losses available to offset future taxable income for state income tax purposes in the amount of $15.5 million will expire in 2035 and for city income tax purposes in the amount of $9.9 million will expire in 2035. During 2019, the Company utilized $4.9 million of net operating losses with a net tax benefit of $625,000.

Management has determined that it is more likely than not that it will realize the net deferred tax asset based upon the nature and timing of the item referred to above. In order to fully realize the net deferred tax asset, the Company will need to generate future taxable income. Management has projected that the Company will generate sufficient taxable income to utilize the net deferred tax asset. However, there can be no assurance that such levels of taxable income will be generated. No state and local valuation reserve was deemed necessary as of December 31, 2019 and 2018.

The Company's policy is to recognize interest and penalties related to unrecognized tax benefits as a component of income tax expense. There were no accruals for interest or penalties during the years ended December 31, 2019 and 2018.

In the normal course of business, the Company's Federal, New York State and New York City Corporation tax returns are subject to audit. The Company is no longer a subject to examination by taxing authorities for years before 2015. The Company was under examination by the New York State Department of Taxation for the years 2015 and 2016. This examination was completed during the 4th quarter of 2019 and no adjustments were needed as filed.

Note 9 – EMPLOYEE BENEFIT PLANS

1. Postretirement Welfare Plan

The Bank, as successor to Goshen Bank provides certain health care and life insurance benefits for retired employees and their spouses. The postretirement health care and life insurance benefits plan was terminated for persons retiring after December 31, 1998. Eligible employees retired on or before that date will have benefits paid through the plan under the agreed-upon terms existing at the employee's retirement date.

	December 31, 2019	December 31, 2018
	(Dollars in Thousands)	
Change in benefit obligation		
Benefit obligation at beginning of year	$ 681	$ 724
Service cost	—	—
Interest cost	27	25
Adjustment for measurement date change	—	—
Actual (gain) loss	91	(2)
Benefits paid	(70)	(66)
Benefits obligation at end of year	729	681
Change in plan assets		
Fair value of plan assets at beginning of year	—	—
Actual return on plan assets	—	—
Employer contribution	70	66
Benefits paid	(70)	(66)
Fair value of plan assets at end of year	—	—
Funded status	(729)	(681)
Unrecognized net actuarial loss	—	—
Accrued benefit cost (included in other liabilities)	$ 729	$ 681

Net benefit cost included the following components:

	Years Ended December 31, 2019	Years Ended December 31, 2018
	(Dollars in Thousands)	
Service cost	$ —	$ —
Interest cost on projected benefit obligation	27	25
Amortization of unrecognized (Gain)/Loss	17	17
Actual return on plan assets	—	—
Net periodic benefit cost	$ 44	$ 42

The assumed discount rate used in determining the actuarial present value of the projected benefit obligation was 3.22% and 4.22% in 2019 and 2018, respectively.

Amounts recognized in accumulated other income (loss), which will be amortized into net periodic benefit costs over the coming years, consists of the following components at December 31, 2019 and December 31, 2018:

	2019		2018	
	(Dollars In Thousands)			
Net Loss	$	(324)	$	(250)

Employee benefit payments expected to be paid in the future are as follows:

Year ending December 31:		
2020	$	67
2021		65
2022		63
2023		60
2024		57
Thereafter		242
	$	554

The Bank's anticipated employer contribution for the year ending December 31, 2020 is approximately $67,000.

2. 401(k) Plans

The Bank sponsors a 401(k) plan in which eligible employees can contribute up to 60% of their salary. The Bank also matches 50% of the employee contribution up to a maximum of 5% of the employee's salary. The matching expense was $128,000 and $133,000 for the years ended December 31, 2019 and 2018, respectively.

3. Deferred Compensation Arrangements

GSB Financial and Goshen Bank established deferred compensation arrangements for certain directors and executives. These deferred compensation arrangements were terminated as a result of the acquisition. At December 31, 2019 and 2018, the balance accumulated under these arrangements was approximately $37,000 and $49,000, respectively, and included in other liabilities on the consolidated balance sheets. The balances accumulated will be paid out when the individual (i) ceases to be a director and/or executive of the Company; (ii) attains the age of 75; or (iii) specifies a particular date.

In July 2006, the Bank established the Deferred Compensation Plan of The Berkshire Bank (the "Plan") to provide for a systematic method by which key employees of the Bank may defer payment of all or part of the compensation that may be earned by them. The Plan is intended to be a nonqualified and unfunded plan maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees pursuant to Sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974, as amended. At December 31, 2019 and 2018, the balances accumulated under the Plan were approximately $2.0 million and $1.8 million, respectively and included in other liabilities on the consolidated balance sheets.

Note 10 – COMMITMENTS AND CONTINGENCIES

Leases and Other Commitments

The Company leases certain of its operating facilities under non-cancelable operating leases expiring in 2020 through 2022. The leases require payment by the Company of the real estate taxes and insurance on the leased properties.

The Company's rental expense was approximately $1.7 million and $1.6 million for the fiscal years ended December 31, 2019 and 2018, respectively. Included in the Company's rental expense was approximately $841,000 and $806,000 for the fiscal years ended December 31, 2019 and 2018, respectively, which was paid to a company affiliated with a director of the Company.

Bancorp rental expense was $18,000 and $20,000, paid to a company affiliated with a director, for the years ended December 31, 2019 and 2018, respectively.

The Bank adopted ASC 842 using the modified retrospective approach, electing the practical expedient that allows the Bank not to restate comparative periods prior to the adoption of the standard on January 1, 2019. As such, the disclosures required under ASC 842 are not presented for periods before the date of adoption. For the comparative periods prior to adoption, the disclosures which were required under ASC 840 are presented.

The new standard resulted in recording of net operating lease right-of-use assets and lease liabilities of approximately $2.0 million upon initial adoption. The standard did not materially impact net earnings and cash flows.

The Bank leases office space under seven non-cancelable operating leases with original terms that expire between March 2020 and December 2022. Leases with an initial term of 12 months or less are not recorded on the balance sheet; the Bank recognizes lease expense for these leases on a straight-line basis over the lease term. For leases beginning in 2019 and later, the Bank accounts for lease components including rent, real estate taxes and insurance costs separately from non-lease components like common-area maintenance fees. Leases include options to renew, with renewal terms that can extend the lease term for one or more years. The exercise of lease renewal options is at the Bank’s sole discretion. The depreciable life of assets and leasehold improvements are limited by the expected lease term.

Operating lease right-of-use assets and lease liabilities are as follows (dollar amounts in thousands):

	December 31, 2019 (in thousands)
Assets	
Operating lease right-of-use assets	$ 1,353
Liabilities	
Operating lease liabilities	$ 1,447

Lease expense is recognized on a straight-line basis over the term of the lease. Operating lease cost related to the leases was $1.7 million and $1.6 million for the years ended December 31, 2019 and 2018, respectively.

The weighted-average remaining lease term for operating leases was 1.9 years. The weighted-average discount rate for operating leases was 5.00% as of December 31, 2019.

There were no material operating leases that the Bank entered into and that were yet to commence as of December 31, 2019.

	December 31, 2019
	(in thousands)
2020	$ 915
2021	360
2022	247
Total lease payments	1,522
Less imputed interest	(75)
Present value of lease liabilities	$ 1,447

Note 11 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company is required to disclose the estimated fair value of its assets and liabilities considered to be financial instruments. For the Company, as for most financial institutions, the majority of its assets and liabilities are considered financial instruments. The Company uses significant estimations and present value calculations to prepare this disclosure.

FASB ASC 820, "Fair Value Measurements and Disclosures", ("ASC 820") defines fair value, establishes a framework for measuring fair value, and expands disclosure about fair value. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value. A financial instrument's level within the fair value hierarchy is based on the lowest level of input significant to the fair value measurement. There have been no material changes in valuation techniques as a result of the adoption of ASC 820.

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets; quoted prices in markets that are not active for identical or similar assets or liabilities; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and significant to the fair value of the assets or liabilities that are developed using the reporting entities' estimates and assumptions, which reflect those that market participants would use.

Changes in the assumptions or methodologies used to estimate fair values may materially affect the estimated amounts. Also there may not be reasonable comparability between institutions due to the wide range of permitted assumptions and methodologies in the absence of active markets. This lack of uniformity gives rise to a high degree of subjectivity in estimating financial instrument fair values.

Estimated fair values have been determined by the Company using the best available data and an estimation methodology suitable for each category of financial instruments. The estimation methodologies used, the estimated fair values, and recorded book balances at December 31, 2019 and 2018 are outlined below.

	December 31,			
	2019		2018	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
	(Dollars in Thousands)			
Investment securities	$ 220,750	$ 220,750	$ 215,048	$ 215,048
Loans, net of unearned fees	346,206	348,812	371,092	370,387
Certificate of deposits	170,365	171,556	192,133	193,196
Other deposits	338,727	338,727	405,578	405,578

For cash and cash equivalents, the recorded book values of $99.2 million and $159.6 million at December 31, 2019 and 2018, respectively, approximate fair values.

The estimated fair values of investment securities are based on quoted market prices, if available. Estimated fair values are based on quoted market prices of comparable instruments if quoted market prices are not available. Estimated fair values are also determined using unobservable inputs that are supported by little or no market values and significant assumptions and estimates.

The net loan portfolio at December 31, 2019 and 2018 has been valued using a present value discounted cash flows where market prices were not available. The discount rate used in these calculations is the estimated current market rate adjusted for credit risk. The carrying value of accrued interest approximates fair value.

The estimated fair values of demand deposits are, by definition, equal to the amount payable on demand at the reporting date (i.e. their carrying amounts). The carrying amount of accrued interest payable approximates its fair value. The fair value of time deposits has been valued using net present value discounted cash flow.

The fair value of commitments to extend credit is estimated based upon the amount of unamortized deferred loan commitment fees. The fair value of letters of credit is based upon the amount of unearned fees plus the estimated cost to terminate letters of credit. Fair values of unrecognized financial instruments, including commitments to extend credit, and the fair value of letters of credit are considered immaterial.

The fair value of borrowings and subordinated debt is calculated based on re-pricing of the debt at current market rates.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

A description of the valuation methodologies used for financial instruments measured at fair value on a recurring basis, as well as the classification of the instruments pursuant to the valuation hierarchy, are as follows:

Securities Available-for-Sale

When unadjusted quoted market prices are available in an active market, securities are classified within Level 1 of the fair value hierarchy. If quoted market prices are not available or accessible, then fair values are estimated using pricing models, matrix pricing, or discounted cash flow models. The fair values of securities is estimated using pricing models or matrix pricing are generally classified within Level 2 of the fair value hierarchy. When discounted cash flow models are used, there is omitted activity or less transparency around inputs to the valuation and securities are classified within Level 3 of the fair value hierarchy.

Level 1 securities generally include equity securities valued based on unadjusted quoted market prices in active markets. Level 2 instruments include U.S. government agency obligations, state and municipal bonds, mortgage-backed securities, collateralized mortgage obligations and corporate bonds. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. Level 3 securities consist of auction rate securities that are not readily marketable.

Assets measured at fair value on a recurring basis during 2019 and 2018 are summarized below.

	At December 31, 2019 Fair Value Measurement Using			
	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance December 31, 2018
	(Dollars in Thousands)			
Assets				
Impaired Loans (1)	$ —	$ —	$ 3,415	$ 3,415
Investment securities available-for-sale: (2)				
U.S. Treasury Notes	74,966	—	—	74,966
SBA Pool Securities	—	69	—	69
U.S. Government Agencies	—	30,182	—	30,182
Mortgage-backed securities	—	57,828	—	57,828
Domestic debt securities	—	7,326	—	7,326
Foreign debt securities	—	11,261	—	11,261
Marketable equity securities and other		40		40
Trust preferred securities	—	33,622	—	33,622
Total Investment securities available-for-sale	74,966	140,328	—	215,294
Total assets	$ 74,966	$ 140,328	$ 3,415	$ 218,709

	At December 31, 2018 Fair Value Measurement Using			
	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance December 31, 2018
	(Dollars in Thousands)			
Assets				
Impaired Loans (1)	$ —	$ —	$ 3,734	$ 3,734
Investment securities available-for-sale: (2)				
U.S. Treasury Notes	54,489	—	—	54,489
SBA Pool Securities	—	94	—	94
U.S. Government Agencies	—	37,377	—	37,377
Mortgage-backed securities	—	67,974	—	67,974
Domestic debt securities	—	7,221	—	7,221
Foreign debt securities	—	12,010	—	12,010
Marketable equity securities and other	—	40	—	40
Trust preferred securities	—	35,387	—	35,387
Total Investment securities available-for-sale	54,489	160,103	—	214,592
Total assets	$ 54,489	$ 160,103	$ 3,734	$ 218,326

(1) Non-recurring basis
(2) Recurring basis

The above includes $3.3 million and $4.0 million in net unrealized gains on the Company's available-for-sale debt securities (recurring basis) at December 31, 2019 and 2018, respectively. The Company has reviewed its investment portfolio at December 31, 2019 and 2018, and determined that the unrealized losses are temporary. Losses on assets carried at fair value on a non-recurring basis were immaterial for the years ended December 31, 2019 and 2018.

In accordance with FASB Accounting Standards Update ("ASU") No. 2011-04, the Bank establishes valuation processes and procedures to ensure that the valuation techniques for investments that are categorized within Level 3 of the fair value hierarchy are fair, consistent and verifiable.

Note 12 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

The Bank is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they become payable. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Banks have in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as they do for on-balance-sheet instruments.

Unless noted otherwise, the Bank does not require collateral or other security to support financial instruments with credit risk. The approximate contract amounts are as follows:

	December 31,	
	2019	2018
	(Dollars in Thousands)	
Unused lines of credit	$ 46,252	$ 35,460
Commitments to extend credit	553	671
Standby letters of credit and financial guarantees written	151	87
	$ 46,956	$ 36,218

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation.

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, including commercial paper, bond financing and similar transactions. 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 residential or commercial real estate, accounts receivable, inventory and equipment as collateral supporting those commitments for which collateral is deemed necessary. The extent of collateral held for those commitments at December 31, 2019 varies up to 100%.

The Company defines the initial fair value of these letters of credit as the fee received from the customer. The maximum potential undiscounted amount of future payments of these letters of credit as of December 31, 2019 was $151,000 and they expire through 2020. Amounts due under these letters of credit would be reduced by any proceeds the Company would be able to obtain in liquidating the collateral for the loans, which varies depending on the customer.

The Bank grants loans primarily to customers in New York and its immediately adjacent suburban communities. Although the Bank has a diversified loan portfolio, a large portion of their loans are secured by commercial or residential real property. The Bank does not generally engage in non-recourse lending and typically will require the principals of any commercial borrower to obligate themselves personally on the loan. Although the Bank has diversified loan portfolios, a substantial portion of their debtors' ability to honor their contracts is dependent upon the economic sector. Commercial and standby letters of credit were granted primarily to commercial borrowers.

Note 13 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The components of accumulated other comprehensive income (loss) are as follows (Dollars in Thousands):

	2019		
	December 31, 2018	Current Year Change	December 31, 2019
Unrealized gains (losses) on securities available for sale, net	$ 2,623	$ (414)	$ 2,209
Unrealized gains (losses) on pension benefits, net	(250)	(75)	(325)
Total	$ 2,373	$ (489)	$ 1,884

	2018		
	December 31, 2017	Current Year Change	December 31, 2018
Unrealized gains (losses) on securities available for sale, net	$ (228)	$ 2,851	$ 2,623
Unrealized gains (losses) on pension benefits, net	(270)	20	(250)
Total	$ (498)	$ 2,871	$ 2,373

Note 14 - REGULATORY MATTERS

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

Quantitative measures established by regulations to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets, common equity Tier 1 and of Tier 1 capital to average assets.

As of December 31, 2019, the Bank met all regulatory requirements for classification as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, common equity Tier 1, and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since that date that management believes have changed the institution's category.

Regulators also have broad discretion to require any institution to maintain higher capital levels than otherwise required by statute or regulation, even institutions that are considered "well-capitalized" under applicable regulations.

New York banking regulations place certain restrictions on dividends paid by the Bank to the Company. The total amount of dividends which made by paying at any date is generally equal to the Bank's net profits for the year in which the payment is made, plus retained net profits for the previous two years subject to certain limits not generally relevant. The Bank's retained aggregate net income is $11.9 million for the two years ended December 31, 2019.

The below minimum capital requirements exclude the capital conservation buffer required to avoid limitations on capital distributions including dividend payments and certain discretionary bonus payments to executive officers. The capital conservation buffer is being phased in from 0% for 2015 to 2.5% by 2019. The Bank’s applicable capital buffer was 24.7% at December 31, 2019 and 21.3% at December 31, 2018.

The following table sets forth the actual and required regulatory capital amounts and ratios of, the Company and the Bank as of December 31, 2019 and 2018 (Dollars in Thousands):

	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
December 31, 2019						
Total Capital (to Risk-Weighted Assets)						
Company	$164,869	38.4%	$ 34,283	≥8.0%	$ —	N/A
Bank	127,111	32.7%	31,083	≥8.0%	38,853	≥10.0%
Tier I Capital (to Risk-Weighted Assets)						
Company	159,490	37.2%	25,712	≥6.0%	—	N/A
Bank	122,226	31.5%	23,312	≥6.0%	31,083	≥8.0%
Common Equity Tier I (to Risk-Weighted Assets) (1)						
Company	159,490	37.2%	19,284	≥4.5%	—	N/A
Bank	122,226	31.5%	17,484	≥4.5%	25,255	≥6.5%
Tier I Capital (to Average Assets)						
Company	159,490	23.1%	27,595	≥4.0%	—	N/A
Bank	122,226	18.7%	26,090	≥4.0%	32,613	≥5.0%

	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
December 31, 2018						
Total Capital (to Risk-Weighted Assets)						
Company	$158,721	35.1%	$ 36,210	≥8.0%	$ —	N/A
Bank	121,516	29.3%	33,167	≥8.0%	41,459	≥10.0%
Tier I Capital (to Risk-Weighted Assets)						
Company	153,043	33.8%	27,157	≥6.0%	—	N/A
Bank	116,307	28.1%	24,875	≥6.0%	33,167	≥8.0%
Common Equity Tier I (to Risk-Weighted Assets) (1)						
Company	153,043	33.8%	20,368	≥4.5%	—	N/A
Bank	116,307	28.1%	18,656	≥4.5%	26,948	≥6.5%
Tier I Capital (to Average Assets)						
Company	153,043	20.5%	29,828	≥4.0%	—	N/A
Bank	116,307	16.4%	28,313	≥4.0%	33,391	≥5.0%

The allowance for loan loss is includable in the calculation of regulatory capital up to a maximum of 1.25% of risk-weighted assets. Approximately $4.9 million and $5.2 million of allowance for loan losses were included in total regulatory capital at December 31, 2019 and December 31, 2018, respectively.

Note 15 - SUBSEQUENT EVENTS

The Company has evaluated its December 31, 2019 consolidated financial statements for subsequent events through the date the consolidated financial statements were issued.

The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our borrowers and customers, employees and vendors all of which are uncertain and cannot be predicted.

At this point, the extent to which COVID-19 may impact our financial condition or results of operations is uncertain.

Other financial impact could occur though such potential impact is also unknown at this time.

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