TRUXTON TRUST
A PRIVATE BANK

Dear Shareholder:

2018 was a year of exceptional financial performance for Truxton Trust Company and its parent, Truxton Corporation. We delivered 23% growth in earnings per fully diluted share, a sixth year of increased dividends and a 15.5% return on our average equity. Our loans grew by 13.2% and our wealth management revenue grew by 8.1%. For the fourteenth year, we experienced no significant credit issues.

But why? With all the banks and wealth management firms out there, how does a player like Truxton attract the patronage of very sophisticated clients who could hire any wealth management firm in the world? How do we work with borrowers who could finance their projects anywhere?

Not surprisingly, the answer is people. Truxton's professionals are experienced and credentialed. They have the knowledge to deliver authoritative answers to complex financing and wealth management inquiries. They are burdened neither by the bureaucracy that afflicts the staff at the largest banks nor the relentless production imperatives that can cloud the judgment of many in finance. Our team has exceptional breadth of knowledge in asset management, treasury operations, private bank lending, and trust and estates planning and implementation. For people who need advice and guidance from superb professionals, Truxton is a great answer.

There is another ingredient in the brew: a devout commitment to "doing the right thing", putting our clients' interests first even when it is inconvenient or less profitable in the short term. People need service; sometimes they need service on weekends and sometimes when they are in Europe on vacation. Sometimes they need services you can barely imagine – refereeing difficult family dynamics, checking on the house here in town when winter is spent in Florida, closing a loan for a child's car on a few hours' notice. When you have a relationship that spans many years and several generations of a family, you make the extra effort. You know the family's situation well enough to provide confidence that shareholders will be rewarded – even if today's act of service models poorly under the cost accountant's lens.

A bit more on the financial performance. We earned $2.95 per fully diluted share compared to an adjusted (non-GAAP) diluted earnings per share of $2.39 in 2017, an increase of 23%. Recall that we adjusted our 2017 earnings for certain changes caused by the adoption of lower tax rates in 2018. Compared to reported (GAAP) earnings in 2017, earnings per fully diluted share rose 29%. About half of our increase in net income came from the tax cuts in 2018, the rest from revenue growth and margin expansion. Gross loans grew 13.2% compared to year end 2017, deposits by 11.5%. Non-interest income (over 90% comes from our wealth management area), grew by 10% despite market declines at the end of the year. Non-interest expense grew by only 5%. We continue to occupy only one Nashville location. Since inception, we have been determined to let revenue lead payroll expense.

Key financial performance metrics hit new highs. Our return on average assets hit 1.76%, a superb level in our industry. We are very conservatively capitalized at 11.6% equity to assets but still produced the highest return on average equity in our history, 15.5%. Both return numbers were aided by lower tax rates, but we also had the best efficiency ratio in our history (a pre-tax calculation) at 59.3%.

We expect many challenges in 2019: a highly competitive environment in our Nashville home, uneasy equity markets, a flat yield curve, and tremendous demand for our most precious commodity, talented people. Truxton has grown and thrived in difficult circumstances before. With hard work, attention to detail, and a little luck, we believe 2019 will be no exception.

Thomas S. Stumb

Chairman of the Board
and Chief Executive Officer

Andrew L. May

President
and Chief Financial Officer

TRUXTON CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

TRUXTON CORPORATION
Nashville, Tennessee

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Truxton Corporation
Nashville, Tennessee

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Truxton Corporation, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of net income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Truxton Corporation as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Crowe LLP

Crowe LLP

Franklin, Tennessee
February 19, 2019

TRUXTON CORPORATION
CONSOLIDATED BALANCE SHEETS
December 31, 2018 and 2017
(Dollars in thousands except share and per share amounts)

	2018	2017
ASSETS		
Cash and due from financial institutions	$ 7,139	$ 6,425
Interest bearing deposits in other financial institutions	3,660	3,750
Federal funds sold	6	6
Cash and cash equivalents	10,805	10,181
Time deposits in other financial institutions	18,268	11,544
Securities available for sale	109,696	109,295
Gross loans	331,809	293,117
Allowance for loan losses	(3,356)	(3,074)
Net loans	328,453	290,043
Bank owned life insurance	9,755	9,535
Restricted equity securities	2,578	2,556
Premises and equipment, net	429	731
Accrued interest receivable	1,804	1,444
Deferred tax asset, net	1,022	363
Other assets	2,323	1,990
Total assets	$ 485,133	$ 437,682
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest bearing	$ 93,464	$ 87,049
Interest bearing	311,218	275,906
Total deposits	404,682	362,955
Federal funds purchased	1,282	1,071
Federal Home Loan Bank advances	19,249	20,198
Other liabilities	3,525	2,681
Total liabilities	428,738	386,905
Shareholders' equity		
Preferred stock, $0.10 par value; 5,000,000 shares authorized; no shares issued	-	-
Common stock, $0.10 par value; 40,000,000 shares authorized; 2,728,975 shares issued and outstanding in 2018 and 2,683,496 shares issued and outstanding in 2017	273	268
Additional paid-in capital	28,254	26,985
Retained earnings	29,283	23,569
Accumulated other comprehensive income (loss)	(1,415)	(45)
Total shareholders' equity	56,395	50,777
Total liabilities and shareholders' equity	$ 485,133	$ 437,682

See accompanying notes to consolidated financial statements.

TRUXTON CORPORATION
CONSOLIDATED STATEMENTS OF NET INCOME
Years ended December 31, 2018 and 2017
(Dollars in thousands except share and per share amounts)

	2018	2017
Non-interest income		
Wealth management services	$ 9,843	$ 9,108
Service charges on deposit accounts	344	341
Loss on sale of securities, net	(74)	(189)
Bank owned life insurance income	220	231
Other	220	101
Total non-interest income	10,553	9,592
Interest income		
Loans, including fees	13,828	12,531
Taxable securities	1,673	1,140
Tax-exempt securities	982	795
Interest bearing deposits	656	313
Federal funds sold	53	22
Other interest income	156	139
Total interest income	17,348	14,940
Interest expense		
Deposits	2,596	1,451
Short-term borrowings	11	3
Long-term borrowings	374	332
Total interest expense	2,981	1,786
Net interest income	14,367	13,154
Provision for loan losses	283	75
Net interest income after provision for loan losses	14,084	13,079
Total revenue, net	24,637	22,670
Non-interest expense		
Compensation and employee benefits	10,339	9,557
Occupancy	764	718
Furniture and equipment	157	217
Data processing	1,135	1,218
Wealth management processing fees	442	475
Advertising and public relations	111	172
Professional services	602	617
FDIC insurance assessments	124	140
Other	942	801
Total non-interest expense	14,616	13,915
Income before income taxes	10,021	8,755
Income tax expense	1,827	2,577
Net income	$ 8,194	$ 6,178
Earnings per share:		
Basic	$ 3.02	$ 2.32
Diluted	$ 2.95	$ 2.28

See accompanying notes to consolidated financial statements.

TRUXTON CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2018 and 2017
(Dollars in thousands except share and per share amounts)

	2018	2017
Net income	$ 8,194	$ 6,178
Other comprehensive income (loss):		
Unrealized gains/losses on securities:		
Unrealized holding loss arising during the period	(1,544)	(131)
Reclassification adjustment for losses included in net income as loss on sale of securities	74	189
Tax effect, income tax benefit included in net income related to reclassification adjustments $20 and $72, respectively	355	22
Unrealized gains/losses on cash flow hedging activities:		
Unrealized holding loss arising during the period	(357)	-
Tax effect	93	-
Total other comprehensive income (loss), net of tax	(1,379)	80
Comprehensive income	$ 6,815	$ 6,258

See accompanying notes to consolidated financial statements.

TRUXTON CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years Ended December 31, 2018 and 2017
(Dollars in thousands except share and per share amounts)

	Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at January 1, 2017	2,649,178	$ 265	$ 26,469	$ 19,519	$ (125)	$ 46,128
Exercise of stock options, net of forfeitures	2,661	-	55	-	-	55
Issuance of restricted shares of common stock, net	31,657	3	(3)	-	-	-
Stock based compensation expense	-	-	464	-	-	464
Cash dividends declared ($0.80 per share)	-	-	-	(2,128)	-	(2,128)
Net income	-	-	-	6,178	-	6,178
Other comprehensive income	-	-	-	-	80	80
Balance at December 31, 2017	2,683,496	268	26,985	23,569	(45)	50,777
Effect of adoption of new accounting standard (note 1 – Securities)	-	-	-	(84)	-	(84)
Effect of adoption of new accounting standard (note 1 – Income taxes)	-	-	-	(9)	9	-
Exercise of stock options, net of forfeitures	28,976	3	519	-	-	522
Issuance of restricted shares of common stock, net	16,503	2	(2)	-	-	-
Stock based compensation expense	-	-	752	-	-	752
Cash dividends declared ($0.88 per share)	-	-	-	(2,387)	-	(2,387)
Net income	-	-	-	8,194	-	8,194
Other comprehensive loss	-	-	-	-	(1,379)	(1,379)
Balance at December 31, 2018	2,728,975	$ 273	$ 28,254	$ 29,283	$ (1,415)	$ 56,395

See accompanying notes to consolidated financial statements.

TRUXTON CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2018 and 2017
(Dollars in thousands except share and per share amounts)

	2018	2017
Cash flows from operating activities		
Net income	$ 8,194	$ 6,178
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	313	442
Net amortization of securities	861	710
Deferred income tax benefit	(182)	417
Provision for loan losses	283	75
Loss on securities	74	189
Gain on sale of loans held for sale	25	-
Loans originated and held for sale	2,334	-
Proceeds from sale of loans held for sale	(2,359)	-
Stock based compensation expense	752	464
Bank owned life insurance income	(220)	(231)
Net change in:		
Accrued interest receivable	(360)	(183)
Other assets	(333)	(542)
Other liabilities	488	1,037
Net cash from operating activities	9,870	8,556
Cash flows from investing activities		
Net decrease in time deposits in other financial institutions	(6,724)	5,084
Available for sale securities:		
Purchases	(35,898)	(53,718)
Maturities, calls and paydowns	11,587	9,054
Sales	21,391	13,588
Net increase in loans	(38,693)	(5,020)
Purchase of restricted equity securities	(22)	(13)
Additions of premises and equipment, net	(11)	(356)
Net cash from investing activities	(48,370)	(31,381)
Cash flows from financing activities		
Proceeds from Federal Home Loan Bank advances	-	8,000
Repayments of Federal Home Loan Bank advances	(949)	(8,324)
Net increase in deposits	41,727	24,024
Net change in federal funds purchased	211	1,071
Proceeds from exercise of stock options	522	55
Cash dividends paid	(2,387)	(2,128)
Net cash from financing activities	39,124	22,698
Net change in cash and cash equivalents	624	(127)
Cash and cash equivalents at beginning of year	10,181	10,308
Cash and cash equivalents at end of year	$ 10,805	$ 10,181
Supplemental cash flow information:		
Cash paid during year for interest	$ 2,945	$ 1,786
Cash paid during year for income taxes	1,355	2,605

See accompanying notes to consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation: The consolidated financial statements include Truxton Corporation and its wholly owned subsidiaries, Truxton Trust Company and Truxton Risk Management, together referred to as "the Corporation." Intercompany transactions and balances are eliminated in consolidation.

Truxton Trust Company, referred to as "the Bank", represents substantially all the operations in the consolidated financial statements and it provides a variety of banking, investment management and trust administration services to individuals, businesses and charitable institutions. Its primary deposit products are demand, money market and certificates of deposit and its primary lending products are residential and commercial real estate mortgages, commercial loans and loans to individuals.

Subsequent Events: The Corporation has evaluated subsequent events for recognition and disclosure through February 19, 2019, which is the date the financial statements were available to be issued.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided and actual results could differ.

Cash Flows: Cash and cash equivalents include cash, deposits with other financial institutions with maturities under 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, premises and equipment, and time deposits in other financial institutions.

Interest-Bearing Deposits in Other Financial Institutions: Interest-bearing deposits in other financial institutions mature within one year and are carried at cost.

Time Deposits in Other Financial Institutions: Time deposits in other financial institutions are carried at cost. These accounts are maintained at several financial institutions and are all within the insurance limits provided by the Federal Deposit Insurance Corporation "FDIC" and have maturities ranging from 2019 to 2023.

Securities: Debt securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value with unrealized holding gains and losses reported in accumulated other comprehensive income (loss), net of tax.

Interest income includes net amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment "OTTI" on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement, and 2) OTTI related to other factors, which is recognized in other comprehensive income (loss). The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In 2018, the Corporation adopted ASU 2017-08 "Premium Amortization Period for Purchased Callable Debt Securities." As a result of the adoption, the Corporation recognized a cumulative effect adjustment to retained earnings totaling $84.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Interest income on all loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

All interest accrued, but not received, for loans placed on nonaccrual are reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Concentration of Credit Risk: Most of the Corporation's business activity is with customers located within Nashville, Tennessee. Therefore, the Corporation's exposure to credit risk is significantly affected by changes in the economy in the Nashville, Tennessee metropolitan area.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Management estimates the allowance balance required using historical loan loss experience of both the bank and the banking industry, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries if any, are credited to the allowance.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component covers loans that are collectively evaluated for impairment and is based on historical loss experience adjusted for current factors.

A loan is impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans, for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Commercial and commercial real estate loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans are collectively evaluated for impairment and accordingly, they are not separately identified for impairment disclosures.

Troubled debt restructurings are individually evaluated for impairment and included in the separately identified impairment disclosures. Troubled debt restructurings are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Corporation determines the amount of the allowance on the loan in accordance with the accounting policy for the allowance for loan losses individually evaluated as impaired.

The historical loss experience used in management's analysis of the general component for the allowance for loan losses is determined by portfolio segment and is based on the average loss history experienced by the bank and banking industry over the most recent 3 year periods. The Corporation used the loss history of its peers, as it has experienced very few losses on its own during the entire history of the Corporation. Management evaluates 3 years of peer losses in order to align with what management expects normalized probable incurred losses to be for the Corporation. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

The following portfolio segments have been identified:

- Commercial loans include loans for commercial, industrial or agricultural purposes to business enterprises that are not secured by real estate. These loans are typically made on the basis of the borrower's ability to repay from the cash flow of the borrower's business and are generally secured by accounts receivable, inventory and equipment. The collateral securing loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business.

- Commercial Real Estate loans include loans secured by non-residential real estate and improvements thereon. Often these loans are made to single borrowers or groups of related borrowers, and the repayment of these loans largely depends on the results of operations and management of these properties. Adverse economic conditions may affect the repayment ability of these loans.

- Residential Real Estate loans include loans secured by residential real estate, including single-family and multi-family dwellings. Adverse economic conditions in the Corporation's market area may reduce borrowers' ability to repay these loans and may reduce the collateral securing these loans.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Construction and Land Development loans include loans to finance the process of improving properties preparatory to erecting new structures or the on-site construction of industrial, commercial, residential or farm buildings. Construction and land development loans also include loans secured by vacant land, except land known to be used or usable for agricultural purposes. Construction loans generally are made for relatively short terms. They generally are more vulnerable to changes in economic conditions. Furthermore, the nature of these loans is such that they are more difficult to evaluate and monitor. The risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property's value upon completion of the project and the estimated cost (including interest) of the project. Periodic site inspections are made on construction loans.

- Consumer loans include loans to individuals for household, family and other personal expenditures that are not secured by real estate.

Bank Owned Life Insurance: The Bank has purchased life insurance policies on certain key employees. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Corporation, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Premises and Equipment: Premises and equipment are stated at cost less accumulated depreciation. Leasehold improvements are amortized using the straight-line method over the shorter of the lease terms or the useful lives. Furniture, fixtures and equipment are depreciated using the straight-line method with useful lives ranging from three to five years.

Restricted Equity Securities: The Bank is a member of the Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) systems. Members are required to own a certain amount of stock based on the level of borrowings and on their level of equity and may invest in additional amounts. FHLB and FRB stock are carried at cost, classified as restricted equity securities and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Prepaid Long-term Compensation: The Corporation paid retention bonuses in cash to certain key employees. These cash bonuses are considered long-term compensation to be earned over a 36 to 60 month requisite service period. The amount of the contracts is earned pro rata by the employees and expensed pro rata by the Corporation over the contractual term of the agreements. In the event that the employee leaves during the life of the contract, the employee is obligated to repay the unearned amount. Prepaid long-term compensation amounts of $167 and $185 were included in other assets as of December 31, 2018 and 2017.

Long-term Assets: Premises and equipment and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Assets Under Management: Assets held in fiduciary or agency capacities are not included in the consolidated balance sheets since such items are not assets of the Corporation.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Wealth Management Services Income Recognition: Income from Wealth Management Services is calculated by multiplying each investment management account's market value, determined on a specific date each month, by a static or tiered percentage, according to the investment management agreement. The income resulting from Wealth Management Services accounts is recognized monthly.

Derivatives: The Corporation has entered into derivative contracts designated as a) a hedge of fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), and b) a hedge of the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item, are recognized in current earning as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction effects earnings. For both types of hedges, changes in the fair values of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

The Corporation formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking hedge's to specific assets and liabilities on the balance sheet. The Corporation also formally assesses, both at the hedges inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or expected cash flows of hedged items. The Corporation discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in fair value of the hedged item, the derivative is settled or terminates, or the treatment of the derivative as a hedge is no longer appropriate or intended. When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as non-interest income.

Stock-Based Compensation: Compensation cost is recognized for stock options and restricted stock awards issued to employees and directors, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Corporation's common stock at the date of grant is used for restricted stock awards. Compensation cost is recognized, on a straight-line basis over the requisite service period for the entire award generally defined as the vesting period.

Retirement Plans: Employee 401(k) benefit plan expense is the amount of matching contributions for the period.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale and unrealized gains and losses on cash flow hedges, which are also recognized as separate components of shareholders' equity.

Income Taxes: Income tax expense or benefit is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Corporation recognizes interest and/or penalties related to income tax matters in income tax expense.

On December 22, 2017, the United States government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the Act). The Act makes changes to the United States tax code, including, but not limited to the reduction of the United States federal corporate tax rate from 35 percent to 21 percent.

As a result of the reduction in the corporate tax rate, there was an adjustment to the Corporation's net deferred tax asset, which was recorded through income tax expense. We have recorded a discrete tax expense of $164 related to the corporate rate reduction as of December 31, 2017.

In February 2018, the FASB issued ASU 2018-02, *Income Statement – Reporting Comprehensive Income*, to allow a reclassification from accumulated other comprehensive income to retained earnings for stranded effects resulting from the Act. The amendments eliminate the stranded tax effects resulting from the Act and will improve the usefulness of information reported to financial statement users. The effect of adopting this standard was a reclassification of $9 from accumulated other comprehensive loss to retained earnings as of December 31, 2018.

Earnings Per Share: Basic earnings per share available to common shareholders is computed by dividing net income adjusted for income allocated to participating securities by the weighted average number of common shares outstanding during the period. All outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends are considered participating securities for this calculation. Diluted earnings per share include the dilutive effect of additional potential common shares issuable under stock options.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe that there now are such matters that will have a material effect on the financial statements.

Restrictions on Cash: Cash on hand or on deposit with the Federal Reserve Bank is required to meet regulatory reserve and clearing requirements.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the Corporation or by the Corporation to shareholders.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Off Balance Sheet Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and standby letters of credit issued to meet customer financing needs. The face amount for these items represents the exposure to loss before considering customer collateral or ability to repay. Such financial instruments are recorded as loans when funded.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Effect of Newly Adopted Accounting Standards:

On January 1, 2018, the Corporation adopted ASU 2014-09 *Revenue from Contracts with Customers (Topic 606)*. The standard creates a single framework for recognizing revenue from contracts with customers that fall within its scope and revises when it is appropriate to recognize a gain (loss) from the transfer of non-financial assets. The majority of the Corporation's revenues come from interest income and other sources that are outside the scope of ASC 606. The Corporation's services that fall within the scope of ASC 606 are presented within non-interest income and are recognized as revenue as the Corporation satisfies its obligation to the customer. Services within the scope of ASC 606 include service charges on deposit accounts, commercial deposit and treasury management fees, wealth management fees, and debit card interchange income.

ASC Topic 606 focuses on revenues from contracts earned over time, but nearly all of these in-scope noninterest income revenue streams are governed by agreements that do not have an enforceable, contractual term. Given the cancellable-at-will structure, ASC Topic 606 views these contracts as agreements-at-will without a defined term, the revenues of which are immediately recognized. The revenue recognition timing is identical compared to previous revenue recognition standards. The Corporation concluded that the non-cancellable revenue streams are immaterial to the Corporation's financial statement. The Corporation determined that the adoption of ASU 2014-09 did not impact the Consolidated Financial Statements of the Corporation.

Newly Issued, Not Yet Effective Accounting Standards:

ASU 2016-02, *Leases (Topic 842)*
In February 2016, the FASB amended existing guidance that requires lessees recognize the following for all leases (with the exception of short-term leases) at the commencement date (1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers.

These amendments are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Corporation adopted the new guidance on January 1, 2019.

Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees may not apply a full retrospective transition approach.

Upon adoption, the Corporation recognized additional operating liabilities and corresponding right of use assets based on the present value of the remaining minimum rental payments for the Corporation's existing operating leases.

ASU 2016-13, Financial Instruments – Credit Losses (Topic 326)
In June 2016, FASB issued guidance to replace the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, held-to maturity debt securities, and reinsurance receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor.

(Dollars in thousands except share and per share amounts)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Transition:

- For debt securities with other-than-temporary impairment (OTTI), the guidance will be applied prospectively.
- Existing purchased credit impaired (PCI) assets will be grandfathered and classified as purchased credit deteriorated (PCD) assets at the date of adoption. The asset will be grossed up for the allowance for expected credit losses for all PCD assets at the date of adoption and will continue to recognize the noncredit discount in interest income based on the yield of such assets as of the adoption date. Subsequent changes in expected credit losses will be recorded through the allowance.
- For all other assets within the scope of CECL, a cumulative-effect adjustment will be recognized in retained earnings as of the beginning of the first reporting period in which the guidance is effective.

The standard will be effective for fiscal years beginning after Dec. 15, 2020, including interim periods within those fiscal years. For calendar year-end PBEs that are not SEC filers, it is effective for March 31, 2021 Interim Financial Statements.

The Corporation is currently evaluating the impact of this new accounting standard on the consolidated financial statements.

NOTE 2 - SECURITIES

The following table summarizes the amortized cost and fair value of the available for sale securities portfolio at December 31, 2018 and 2017 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss):

2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
US treasury	$ 4,973	$ -	$ (7)	$ 4,966
Asset backed securities	5,838	-	(2)	5,836
US government sponsored entities and agencies	3,002	-	(10)	2,992
Corporate bonds	11,846	-	(439)	11,407
State and political subdivisions	34,149	50	(402)	33,797
Collateralized mortgage obligations	12,722	53	(205)	12,570
Mortgage-backed securities: residential	15,759	19	(378)	15,400
Mortgage-backed securities: commercial	22,949	19	(240)	22,728
Total available for sale	$ 111,238	$ 141	$ (1,683)	$ 109,696

(Dollars in thousands except share and per share amounts)

NOTE 2 – SECURITIES (Continued)

2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
US government sponsored entities and agencies	$ 3,007	$ -	$ (21)	$ 2,986
Corporate bonds	12,059	32	(62)	12,029
State and political subdivisions	38,985	338	(96)	39,227
Collateralized mortgage obligations	12,914	27	(82)	12,859
Mortgage-backed securities: residential	21,124	14	(207)	20,931
Mortgage-backed securities: commercial	21,278	104	(119)	21,263
Total available for sale	$ 109,367	$ 515	$ (587)	$ 109,295

Sales of available for sale securities were as follows for the years ending December 31, 2018 and 2017:

	2018	2017
Proceeds	$ 21,391	$ 13,588
Gross gains	145	33
Gross losses	(219)	(222)

Securities pledged at year-end 2018 and 2017 had carry value of $6,764 and $6,982 and were pledged to secure public deposits, interest rate swaps, and one of the bank's federal fund line of credit. The Corporation had no holdings of securities of any one issuer, other than the U.S. government sponsored entities and agencies, in an amount greater than 10% of shareholders' equity.

The amortized cost and fair value of the investment securities portfolio are shown by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	December 31, 2018	
	Amortized Cost	Fair Value
Within one year	$ 9,991	$ 9,966
One to five years	7,841	7,469
Five to ten years	3,436	3,381
Beyond ten years	38,540	38,182
Collateralized mortgage obligations	12,722	12,570
Mortgage-backed securities: residential	15,759	15,400
Mortgage-backed securities: commercial	22,949	22,728
Total	$ 111,238	$ 109,696

(Dollars in thousands except share and per share amounts)

NOTE 2 – SECURITIES (Continued)

The following table summarizes the investment securities with unrealized losses at December 31, 2018 and 2017 aggregated by major security type and length of time in a continuous unrealized loss position:

	Less than 12 Months		12 Months or More		Total	
December 31, 2018	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale						
US treasury	$ 4,966	$ (7)	$ -	$ -	$ 4,966	$ (7)
Asset backed securities	5,836	(2)	-	-	5,836	(2)
US government sponsored entities and agencies	-	-	2,992	(10)	2,992	(10)
Corporate bonds	2,811	(205)	7,596	(234)	10,407	(439)
State and political subdivisions	9,186	(64)	16,358	(338)	25,544	(402)
Collateralized mortgage obligation	1,902	(12)	7,889	(193)	9,791	(205)
Mortgage-backed securities: residential	1,423	(5)	12,251	(373)	13,674	(378)
Mortgage-backed securities: commercial	8,689	(37)	9,654	(203)	18,343	(240)
Total available for sale	$ 34,813	$ (332)	$ 56,740	$ (1,351)	$ 91,553	$ (1,683)
December 31, 2017						
Available for sale						
US government sponsored entities and agencies	$ 2,986	$ (21)	$ -	$ -	$ 2,986	$ (21)
Corporate bonds	6,796	(50)	672	(12)	7,468	(62)
State and political subdivisions	9,615	(45)	2,330	(51)	11,945	(96)
Collateralized mortgage obligation	6,264	(48)	1,796	(34)	8,060	(82)
Mortgage-backed securities: residential	13,287	(132)	3,984	(75)	17,271	(207)
Mortgage-backed securities: commercial	10,174	(78)	2,194	(41)	12,368	(119)
Total available for sale	$ 49,122	$ (374)	$ 10,976	$ (213)	$ 60,098	$ (587)

Unrealized losses on securities have not been recognized into income because the issuers are of high credit quality, management does not intend to sell and it is more likely than not that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in market interest rates instead of credit quality. The fair value is expected to recover as the securities approach their maturity dates and/or market rates change. As a result, the Corporation does not consider these securities to be other-than-temporarily impaired at December 31, 2018.

Restricted equity securities consist of securities which are restricted as to transferability. These securities are recorded at cost. Restricted equity securities consist of the following at December 31, 2018 and 2017:

	2018	2017
Federal Home Loan Bank stock	$ 1,852	$ 1,852
Federal Reserve Bank stock	726	704
	$ 2,578	$ 2,556

(Dollars in thousands except share and per share amounts)

NOTE 3 - LOANS

Loans at year end were as follows:

	2018	2017
Commercial	$ 37,003	$ 29,590
Commercial real estate	139,117	118,467
Residential real estate:		
Closed-end	77,917	64,388
Open-end	44,649	44,095
Construction and land development:		
Owner occupied	4,330	4,492
Development	8,577	14,411
Consumer	20,493	17,857
Subtotal	332,086	293,300
Net deferred loan fees	(277)	(183)
Gross loans	$ 331,809	$ 293,117

(Dollars in thousands except share and per share amounts)

NOTE 3 - LOANS (Continued)

The following tables present the activity in the allowance for loan losses by portfolio segment for the years ending December 31, 2018 and 2017:

December 31, 2018	Commercial	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 358	$ 1,627	$ 695	$ 235	$ 140	$ 19	$ 3,074
Provision (credit) for loan losses	142	194	(18)	(82)	27	20	283
Loans charged-off	-	-	(2)	-	-	-	(2)
Recoveries	-	-	1	-	-	-	1
Total ending allowance balance	$ 500	$ 1,821	$ 676	$ 153	$ 167	$ 39	$ 3,356

December 31, 2017	Commercial	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 205	$ 1,317	$ 935	$ 287	$ 254	$ -	$ 2,998
Provision (credit) for loan losses	153	310	(241)	(52)	(114)	19	75
Loans charged-off	-	-	-	-	-	-	-
Recoveries	-	-	1	-	-	-	1
Total ending allowance balance	$ 358	$ 1,627	$ 695	$ 235	$ 140	$ 19	$ 3,074

(Dollars in thousands except share and per share amounts)

NOTE 3 - LOANS (Continued)

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2018 and 2017. The recorded investment amounts do not include accrued and unpaid interest or any net deferred loan fees or costs due to immateriality.

December 31, 2018	Commercial	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Consumer	Unallocated	Total
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ -	$ -	$ 15	$ -	$ -	$ -	$ 15
Collectively evaluated for impairment	500	1,821	661	153	167	39	3,341
Total ending allowance balance	$ 500	$ 1,821	$ 676	$ 153	$ 167	$ 39	$ 3,356
Loans:							
Individually evaluated for impairment	$ -	$ 107	$ 2,495	$ -	$ -	$ -	$ 2602
Collectively evaluated for impairment	37,003	139,010	120,071	12,907	20,493	-	329,484
Total ending loans balance	$ 37,003	$ 139,117	$ 122,556	$ 12,907	$ 20,493	$ -	$ 332,086

December 31, 2017	Commercial	Commercial Real Estate	Residential Real Estate	Construction and Land Development	Consumer	Unallocated	Total
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ -	$ -	$ 14	$ -	$ -	$ -	$ 14
Collectively evaluated for impairment	358	1,627	681	235	140	19	3,060
Total ending allowance balance	$ 358	$ 1,627	$ 695	$ 235	$ 140	$ 19	$ 3,074
Loans:							
Individually evaluated for impairment	$ -	$ 125	$ 428	$ 470	$ -	$ -	$ 1,023
Collectively evaluated for impairment	29,590	118,342	108,055	18,433	17,857	-	292,277
Total ending loans balance	$ 29,590	$ 118,467	$ 108,483	$ 18,903	$ 17,857	$ -	$ 293,300

(Dollars in thousands except share and per share amounts)

NOTE 3 - LOANS (Continued)

As of December 31, 2018 and 2017, the Corporation has a recorded investment in troubled debt restructurings of $224 and $796. The Corporation has allocated no specific reserves for those loans at December 31, 2018 and 2017.

The modifications in terms associated with troubled debt restructurings that occurred in 2018 included the reduction of near-term interest and/or principal payments as a concession to borrowers experiencing financial stress. These loans are well secured by residential and commercial real estate.

The troubled debt restructurings described above had no impact on the allowance for loan losses or charge offs during the year ending December 31, 2018.

	Number Of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
December 31, 2018			
Troubled debt restructurings:			
Commercial	1	$ 107	$ 107
Residential real estate:			
Closed-end	1	117	117
Construction and land development			
Development	-	-	-
Total	2	$ 224	$ 224

	Number Of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
December 31, 2017			
Troubled debt restructurings:			
Commercial	1	$ 125	$ 125
Residential real estate:			
Closed-end	2	201	201
Construction and land development			
Development	1	470	470
Total	4	$ 796	$ 796

There were no loans that were modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the years ended December 31, 2018 and 2017.

(Dollars in thousands except share and per share amounts)

NOTE 3 - LOANS (Continued)

The following table presents information related to impaired loans by class of loans as of and for the years ended December 31, 2018 and 2017:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
December 31, 2018						
With no related allowance recorded:						
Commercial real estate:	$ 107	$ 107	$ -	$ 115	$ 5	$ 5
Residential real estate						
Closed-end	2,192	2,192	-	1,504	37	37
Construction and land development						
Development	-	-	-	29	-	-
With an allowance recorded:						
Residential real estate:						
Closed-end	303	303	15	320	8	8
Total	$ 2,602	$ 2,602	$ 15	$ 1,968	$ 50	$ 50
December 31, 2017						
With no related allowance recorded:						
Commercial real estate:	$ 125	$ 125	$ -	$ 136	$ 6	$ 6
Residential real estate:						
Closed-end	201	201	-	202	9	9
Construction and land development						
Development	470	470	-	491	22	22
With an allowance recorded:						
Residential real estate:						
Closed-end	227	227	14	236	4	4
Total	$ 1,023	$ 1,023	$ 14	$ 1,065	$ 41	$ 41

For purposes of this disclosure, the unpaid principal balance is not reduced for partial charge-offs.

(Dollars in thousands except share and per share amounts)

NOTE 3 - LOANS (Continued)

There were no loans past due over 90 days and still accruing as of December 31, 2018 and 2017.

There were no commercial loans on non-accrual as of December 31, 2018 and 2017.

The following table presents the aging of the recorded investment in past due loans as of December 31, 2018 and 2017 by class of loans:

December 31, 2018	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial	$ -	$ -	$ -	$ -	$ 37,003	$ 37,003
Commercial real estate	-	-	-	-	139,117	139,117
Residential real estate:						
Closed-end	40	2	-	42	77,875	77,917
Open-end	-	-	-	-	44,649	44,649
Construction and land Development:						
Owner occupied	-	-	-	-	4,330	4,330
Development	-	-	-	-	8,577	8,577
Consumer	-	-	-	-	20,493	20,493
Total	$ 40	$ 2	$ -	$ 42	$ 332,044	$ 332,086

December 31, 2017	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial	$ -	$ -	$ -	$ -	$ 29,590	$ 29,590
Commercial real estate	-	-	-	-	118,467	118,467
Residential real estate:						
Closed-end	7	3	-	10	64,378	64,388
Open-end	-	-	-	-	44,095	44,095
Construction and land Development:						
Owner occupied	-	-	-	-	4,492	4,492
Development	-	-	-	-	14,411	14,411
Consumer	-	-	-	-	17,857	17,857
Total	$ 7	$ 3	$ -	$ 10	$ 293,290	$ 293,300

Credit Quality Indicators:

The Corporation categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Corporation periodically analyzes loans individually by classifying the loans as to credit risk. The Corporation uses the following definitions for risk ratings:

Special Mention. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

(Dollars in thousands except share and per share amounts)

NOTE 3 - LOANS (Continued)

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. As of December 31, 2018 and 2017, based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Pass	Special Mention	Substandard	Doubtful
December 31, 2018				
Commercial	$ 37,003	$ -	$ -	$ -
Commercial real estate	139,117	-	-	-
Residential real estate:				
Closed-end	75,842	-	2,075	-
Open-end	44,649	-	-	-
Construction and land development:				
Owner occupied	4,330	-	-	-
Development	8,577	-	-	-
Consumer	20,493	-	-	-
Total	$ 330,011	$ -	$ 2,075	$ -
December 31, 2017				
Commercial	$ 29,590	$ -	$ -	$ -
Commercial real estate	118,467	-	-	-
Residential real estate:				
Closed-end	64,388	-	-	-
Open-end	42,005	2,090	-	-
Construction and land development:				
Owner occupied	4,492	-	-	-
Development	14,411	-	-	-
Consumer	17,857	-	-	-
Total	$ 291,210	$ 2,090	$ -	$ -

(Dollars in thousands except share and per share amounts)

NOTE 4 - PREMISES AND EQUIPMENT

Year-end premises and equipment were as follows:

	2018	2017
Leasehold improvements	$ 1,124	$ 1,124
Furniture, fixtures and equipment	1,004	1,004
Computer software	1,067	1,055
	3,195	3,183
Less: Accumulated depreciation and amortization	(2,766)	(2,452)
Net premises and equipment	$ 429	$ 731

Depreciation and amortization expense totaled $313 and $442 for 2018 and 2017, respectively.

The Corporation's main office facility is subject to a five-year lease, terminating June 1, 2023. The rent for the first 36 months will remain constant with the original lease agreement. There is an increase in the amount of $6,453 per month for the remaining two years. The Corporation's second office facility is in its two-year lease extension period, terminating on May 31, 2020. The lease agreement includes one renewal option of two years. Total rent expense for 2018 and 2017 was $421 and $406.

Rent commitments for office facilities under non-cancelable operating leases were as follows, before considering renewal options that are present.

2019	$ 429
2020	416
2021	452
2022	484
2023	202

The Corporation had operating leases for property and equipment that have non-cancelable lease commitments as follows:

2019	$ 63
2020	36
2021	9
2022	1

These leases have terms of three, four, or five years and resulted in lease expense of $122 and $107 for the years ending December 31, 2018 and 2017.

NOTE 5 - DEPOSITS

Scheduled maturities of time deposits, included in interest bearing deposits, for the next five years were as follows:

2019	$ 6,933
2020	3,278
2021	839
2022	250
2023	9

(Dollars in thousands except share and per share amounts)

NOTE 5 – DEPOSITS (Continued)

Time deposits that meet or exceed the FDIC Insurance limit of $250 at December 31, 2018 and 2017 were $4,302 and $3,044.

NOTE 6 - FEDERAL HOME LOAN BANK ADVANCES

At December 31, 2018 and 2017, advances from the FHLB were as follows:

For 2018, interest rates ranged from 1.00% to 2.59%, averaging 1.78% with maturities between January 14, 2019 and June 1, 2028.	$ 19,249
For 2017, interest rates ranged from 1.00% to 2.36%, averaging 1.662% with maturities between January 12, 2018 and June 1, 2028.	$ 20,198

The advances are subject to penalties if repaid before scheduled payments are due. The Bank's outstanding borrowings from the FHLB are secured by a blanket pledge agreement of 150% of 1-4 family loans, first lien mortgage loans. The Bank has approximately $48,864 of 1-4 family, first mortgage loans and $29,575 of home equity mortgage loans available to pledge under the blanket pledge arrangement dated March 16, 2006. Based on the collateral and the Corporation's holdings of FHLB Stock, the Bank is eligible to borrow additional advances of approximately $35,595 as of December 31, 2018.

Payments over the next five years are as follows:

2019	$ 3,137
2020	2,985
2021	6,147
2022	4,039
2023	2,475
Thereafter	466

NOTE 7 - INCOME TAXES

Income tax expense was as follows:

	2018	2017
Current expense		
Federal	$ 1,841	$ 2,151
State	168	9
Total current	2,009	2,160
Deferred expense (benefit)		
Federal	(150)	235
State	(32)	18
Total deferred	(182)	253
Expense due to enactment of federal tax reform	-	164
Total	$ 1,827	$ 2,577

(Dollars in thousands except share and per share amounts)

NOTE 7 - INCOME TAXES (Continued)

Effective tax rates differ from federal statutory rate of 21% applied to income before income taxes due to the following:

	2018	2017
Federal statutory rate times financial statement income	$ 2,104	$ 2,977
Effect of:		
State taxes, net of federal benefit	107	18
Tax exempt interest income	(190)	(285)
Bank owned life insurance income	(46)	(79)
Captive insurance premiums and disallowances	(136)	(246)
Federal rate change impact	-	164
Other, net	(12)	28
Total income tax expense	$ 1,827	$ 2,577

Year-end deferred tax assets and liabilities were due to the following:

	2018	2017
Deferred tax assets:		
Allowance for loan losses	$ 854	$ 780
Organizational and start-up expenditures	3	4
Loan origination income	138	103
Net unrealized loss on available for sale securities	403	19
Net unrealized loss on cash flow hedges	93	-
Other	1	36
Total deferred tax assets	1,492	942
Deferred tax liabilities:		
Prepaid expenses	(171)	(169)
Stock based compensation expense	(152)	(218)
Restricted equity stock dividends	(7)	(7)
Loan origination expenses	(66)	(55)
Depreciation	(74)	(130)
Total deferred tax liabilities	(470)	(579)
Deferred tax asset, net	$ 1,022	$ 363

The Corporation does not have any uncertain tax positions and has minimal interest and penalties recorded or accrued in the consolidated financial statements for the years ended December 31, 2018 and 2017. The Corporation and its subsidiaries are subject to U.S. federal income tax as well as income tax of the states of Georgia and Tennessee. The Corporation is no longer subject to examination by taxing authorities for years before 2014.

The Corporation's balance sheet tax accounts were adjusted for 2017 to reflect the effects of federal tax reform enacted on December 22, 2017 in the form of H.R. 1, commonly known as the *Tax Cuts and Jobs Act*. The primary impact to the Corporation was the re-measurement of federal deferred tax assets and liabilities from 34% to 21%.

NOTE 8 - RELATED PARTY TRANSACTIONS

Loans to principal officers, directors and their affiliates at December 31, 2018 and 2017 totaled $4,734 and $5,159, respectively.

Deposits from principal officers, directors and their affiliates at December 31, 2018 and 2017 totaled $1,050 and $1,335, respectively.

Wealth management fees earned from assets under management for principal officers, directors and their affiliates at December 31, 2018 and 2017 totaled $546 and $372, respectively.

NOTE 9 - REGULATORY CAPITAL MATTERS

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Bank on January 1, 2015 with full compliance of all the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in from 0.0% for 2015 to 2.50% by 2019. The capital conservation buffer for 2018 is 1.875%. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2018, the Bank met all capital adequacy requirements to which it is subject. Bank holding companies under $3 billion in assets are not required to report regulatory capital ratios.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At December 31, 2018 and 2017, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

(Dollars in thousands except share and per share amounts)

NOTE 9 - REGULATORY CAPITAL MATTERS (Continued)

Actual and required capital amounts and ratios for the Bank are presented below as of December 31, 2018 and 2017. The capital conservation buffer is not included in the required ratios of the table presented below.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
2018	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital to risk weighted assets	$ 55,697	15.14%	$ 29,431	8.00%	$ 36,789	10.00%
Tier 1 (Core) Capital to risk weighted assets	52,341	14.23%	22,073	6.00%	29,431	8.00%
Common Tier 1 (CET1)	52,341	14.23%	16,555	4.50%	23,913	6.50%
Tier 1 (Core) Capital to average assets	52,341	10.71%	19,557	4.00%	24,447	5.00%
2017						
Total Capital to risk weighted assets	$ 49,853	15.62%	$ 25,531	8.00%	$ 31,914	10.00%
Tier 1 (Core) Capital to risk weighted assets	46,780	14.66%	19,148	6.00%	25,531	8.00%
Common Tier 1 (CET1)	46,780	14.66%	14,361	4.50%	20,744	6.50%
Tier 1 (Core) Capital to average assets	46,780	10.54%	17,746	4.00%	22,183	5.00%

Dividend Restrictions - The Corporation's principal source of funds for dividend payments is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, combined with the retained net profits of the preceding two years, subject to the capital requirements described above. During 2019, the Bank could, without prior approval, declare dividends of approximately $8,497 plus any 2019 net profits retained to date of declaration.

NOTE 10 - OFF-BALANCE SHEET ACTIVITIES

Some financial instruments, such as loan commitments, credit lines, and letters of credit, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others as long as conditions established in the contract are met. In addition, these agreements usually have expiration dates, and the commitments may expire without being used.

Off-balance sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at the exercise of the commitment. The majority of the Corporation's commitments to extend credit have maturities of less than one year and reflect the prevailing market interest rates at the time of the commitment.

The contractual amount of financial instruments with off-balance sheet risk was as follows at December 31:

	2018	2017
Letters of Credit	$ 6,759	$ 4,300
Unused Lines of Credit	80,880	75,083

(Dollars in thousands except share and per share amounts)

NOTE 11 - STOCK BASED COMPENSATION PLAN

Total stock-based compensation expense in 2018 and 2017 was $752 and $464, respectively. Related to the 2018 and 2017 restricted stock grants, some employees made an election, in accordance with Section 83(b) of the Internal Revenue Code, to have the fair value of the awards taxable immediately. In connection with the election, the Corporation allowed the employees to forfeit shares to cover the related personal tax obligation. During 2018 employees forfeited 1,684 shares with a total fair value of $55. During 2017 employees forfeited 1,230 shares with a total fair value of $39. These amounts were recorded in salaries and employee benefits on the Corporation's consolidated statements of income in 2018 and 2017.

The Corporation's 2008 Equity Incentive Plan as modified in 2015 provides for the grant of stock options, restricted stock and other equity-based incentives up to 900,000 shares. As of December 31, 2018, the Corporation had issued grants totaling 776,085 shares under the 2008 Equity Incentive Plan and its predecessor, the 2004 Employee Share Option Plan.

Stock Option Grants

Option awards are granted with an exercise price equal to the market price of the Corporation's common stock at the date of grant. Option awards have vesting periods of one to six years and have 10-year contractual terms. The Corporation uses newly-issued shares to satisfy share option exercises.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Expected volatilities are based on historical trading of the shares of Truxton Corporation common stock for 2018 and 2017. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding taking into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

During 2018 and 2017, the Corporation issued incentive stock options to outside directors and certain employees for the purchase of 3,000 and 10,000 shares of common stock, respectively. The fair value of options granted in 2018 and 2017 was determined using the following assumptions as of grant date:

	2018	2017
Risk-free interest rate	2.60%	2.15%
Expected term	8.0 years	6.1 years
Expected stock price volatility	22.0%	28.16%
Dividend yield	2.46%	2.50%

(Dollars in thousands except share and per share amounts)

NOTE 11 - STOCK BASED COMPENSATION PLAN (Continued)

A summary of the stock option activity for 2018 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of year	148,544	$ 20.15	6.7	
Granted	3,000	36.50		
Forfeited	(1,500)	34.67		
Exercised	(28,976)	18.00		
Outstanding at end of year	121,068	20.89	5.9	$ 1,824
Vested or expected to vest	121,068	20.89	5.9	1,824
Exercisable at end of year	85,076	19.61	5.6	1,390

Information related to stock options during each year follows:

	2018	2017
Intrinsic value of options exercised	$ 520	$ 53
Cash received from option exercises	522	38
Weighted average fair value of options granted	7.45	9.99

There was a total of $56 in unrecognized compensation cost related to non-vested stock options granted under the Plan as of December 31, 2018. The cost is expected to be recognized over a weighted-average period of 1.5 years.

Restricted Stock Grants

In 2018 and 2017, the Corporation issued 22,597 and 32,887 restricted shares of common stock. Compensation expense is recognized over the vesting period of the awards based on the value of the stock at issue date. The fair value of the stock was determined by current stock trade activity. These shares vest in 20% increments through 2023.

A summary of the changes in the Corporation's non-vested shares for the year follows:

Non-vested shares	Shares	Weighted-Average Grant-Date Fair Value
Non-vested at January 1, 2018	68,479	$ 26.03
Granted	22,597	33.06
Vested	(23,652)	23.67
Forfeited or expired	(5,654)	22.49
Non-vested at December 31, 2018	61,770	$ 30.37

As of December 31, 2018, there was $1,486 of total unrecognized compensation cost related to non-vested restricted shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of 2.2 years.

(Dollars in thousands except share and per share amounts)

NOTE 12 - DERIVATIVES

The Corporation utilizes interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements.

Fair Value Hedge

The following table reflects the fair value hedges included in the Consolidated Statements of Net Income as of December 31:

Interest rate contracts	Location	2018	2017
Change in fair value on interest rate swaps hedging loans	Loan interest income	$ 497	$ 16
Change in fair value on loans – hedged item	Loan interest income	$ (367)	$ 45

The following table reflects the fair value hedges included in the Consolidated Balance Sheets as of December 31:

	2018		2017	
Included in other assets:	Notional Amount	Fair Value	Notional Amount	Fair Value
Interest rate swaps related to loans	$ 20,377	$ 370	$ 12,057	$ 478

Cash Flow Hedge

Interest Rate Swaps Designated as Cash Flow Hedges: Interest rate swaps with notional amounts totaling $15,000 and $0 as of December 31, 2018 and 2017, were designated as cash flow hedges of certain deposit accounts and were determined to be fully effective during the periods presented. As such, no amount of ineffectiveness has been included in net income. Therefore, the aggregate fair value of swaps is recorded in other liabilities with changes in fair value recorded in other comprehensive income (loss). The Company expects the hedges to remain fully effective during the remaining terms of the swaps.

The following table presents the net losses recorded in accumulated other comprehensive income and the Consolidated Statements of Net Income relating to the cash flow derivative instruments for the year ended December 31:

	2018		
	Amount of Gain (Loss) Recognized In OCI (Effective Portion)	Amount of Gain (Loss) Recognized from OCI to Interest Income	Amount of Gain (Loss) Recognized in Non-Interest Income (Ineffective Portion)
Interest rate swaps related to deposits	$ (357)	$ -	$ -

The following table reflects the fair value hedges included in the Consolidated Balance Sheets as of December 31:

	2018		2017	
Included in other liabilities:	Notional Amount	Fair Value	Notional Amount	Fair Value
Interest rate swaps related to deposits	$ 15,000	$ (357)	$ -	$ -

NOTE 13 - FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

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 Corporation's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Corporation used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Investment Securities: The fair values for investment securities are determined by quoted market prices, if available "Level 1". For securities where quoted prices are not available, fair values are calculated using a matrix pricing model, which is based on market prices of similar securities "Level 2". Matrix pricing is a mathematical technique commonly used to price debt securities that are not actively traded, which values debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark securities.

Derivatives: The fair value of the derivatives is based on valuation models using observable market data as of the measurement date (Level 2). Our derivatives are traded in an over-the-counter market where quoted market prices are not always available. Therefore, the fair values of derivatives are determined using quantitative models that utilize multiple market inputs. The inputs will vary based on the type of derivative, prepayment rates, and volatility factors to value the position. The majority of the market inputs is actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services.

(Dollars in thousands except share and per share amounts)

NOTE 13 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at Using:		
December 31, 2018 Financial assets:	Carrying Value	Quoted Prices In Active Markets for Identical Assets "Level 1"	Significant Other Observable Inputs "Level 2"
Investment securities available for sale			
U.S. Treasury and federal agency	$ 4,966	$ -	$ 4,966
U.S. government sponsored entities and agencies	2,992	-	2,992
Corporate bonds	11,407	-	11,407
State and political subdivisions	33,797	-	33,797
Collateralized mortgage obligations	12,570	-	12,570
Mortgage backed securities: residential	15,400	-	15,400
Mortgage backed securities: commercial	22,728	-	22,728
Asset backed securities	5,836	-	5,836
Total investment securities available for sale	$ 109,696	$ -	$ 109,696
Derivatives	$ 370	$ -	$ 370
Financial liabilities:			
Derivatives	$ 357	$ -	$ 357

	Fair Value Measurements at Using:		
December 31, 2017 Financial assets:	Carrying Value	Quoted Prices In Active Markets for Identical Assets "Level 1"	Significant Other Observable Inputs "Level 2"
Investment securities available for sale			
U.S. government sponsored entities and agencies	$ 2,986	$ -	$ 2,986
Corporate bonds	12,029	-	12,029
State and political subdivisions	39,227	-	39,227
Collateralized mortgage obligations	12,859	-	12,859
Mortgage backed securities: residential	20,931	-	20,931
Mortgage backed securities: commercial	21,263	-	21,263
Total investment securities available for sale	$ 109,295	$ -	$ 109,295
Derivatives – Interest Rate Swap	$ 478	$ -	$ 478

There were no transfers between Level 1 and Level 2 during 2018 or 2017.

(Dollars in thousands except share and per share amounts)

NOTE 13 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

The carrying amounts and estimated fair values of financial instruments, at December 31, 2018 and December 31, 2017 are as follows:

		Fair Value Measurements Using:			
December 31, 2018	Carrying Value	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$ 10,805	$ 10,805	$ -	$ -	$ 10,805
Time deposits in other financial institutions	18,268	-	18,268	-	18,268
Securities available-for-sale	109,696	-	109,696	-	109,696
Restricted equity securities	2,578	NA	NA	NA	NA
Loans, net	328,453	-	-	328,732	328,732
Accrued interest receivable	1,804	-	791	1,013	1,804
Financial liabilities					
Deposits	$ 404,682	$ -	$ 403,729	$ -	$ 403,729
Federal Home Loan Bank advances	19,249	-	18,689	-	18,689
Accrued interest payable	44	44	-	-	44
December 31, 2017					
Financial assets					
Cash and cash equivalents	$ 10,181	$ 10,181	$ -	$ -	$ 10,181
Time deposits in other financial institutions	11,544	-	11,544	-	11,544
Securities available-for-sale	109,295	-	109,295	-	109,295
Restricted equity securities	2,556	NA	NA	NA	NA
Loans, net	290,043	-	-	290,277	290,277
Accrued interest receivable	1,444	-	672	772	1,444
Financial liabilities					
Deposits	$ 362,955	$ -	$ 362,801	$ -	$ 362,801
Federal Home Loan Bank advances	20,198	-	20,796	-	20,796
Accrued interest payable	8	8	-	-	8

The methods and assumptions, not previously presented, used to estimate fair values are described as follows:

The carrying amount of cash and cash equivalents approximates fair values and are classified as Level 1. Time deposits in other financial institutions have infrequent repricing or repricing limits and their fair value is based on discounted cash flows using current market rates applied to the estimated life and are classified as Level 2. It is not practical to determine the fair value of restricted equity securities due to the restrictions placed on its transferability.

On January 1, 2018, the Company adopted ASU 2016-*01 Recognition of Measurement of Financial Assets and Financial* Liabilities, therefore the fair value presented in the table above may not be comparable to prior periods. At December 31, 2018, the fair value of loans is determined using exit pricing based on a discounted cash flow analysis (income approach.) The discounted cash flow was based on contractual maturity of the loan and current market assumptions resulting in a level 3 classification. At December 31, 2017, the fair values of loans were estimated as follows: for variable rate loans, that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Fair values for other loans are estimated using discounted cash flows, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. At both December 31, 2018 and 2017, impaired loans are valued at the lower of cost or fair value as described previously. The methods utilized to estimate the fair value of loans as of December 31, 2017 do not necessarily represent an exit price.

(Dollars in thousands except share and per share amounts)

NOTE 13 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

The fair values disclosed for demand deposits are by definition, equal to the amount payable on demand at the reporting date resulting in a Level 2 classification. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flows calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification. The fair values of the Bank's Federal Home Loan Bank advances are estimated using discounted cash flows based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification. The carrying amounts of accrued interest approximate fair value resulting in Level 2 or 3 classifications.

NOTE 14 - OTHER BENEFIT PLANS

The Corporation has a 401(k) benefit plan that covers all employees who meet certain eligibility requirements and choose to participate in the plan. The plan allows employee contributions up to the federal limits, which are matched 100% for the first 3% of compensation contributed and then 50% of the next 2% of compensation contributed beginning on the first day of the calendar quarter following the employee's one year anniversary. The 401(k) benefit plan expense for 2018 and 2017 was $223 and $213, respectively.

NOTE 15 – OTHER COMPREHENSIVE INCOME (LOSS)

The following is a summary of the accumulated other comprehensive income balances, net of tax:

	Balance at 12/31/2017	Reclassification of Disproportionate Tax Effect	Current Period Change	Balance at 12/31/2018
Unrealized gains on securities available for sale	$ (45)	$ 9	$ (1,115)	$ (1,151)
Unrealized losses on cash flow hedge	-	-	(264)	(264)
Total	$ (45)	$ 9	$ (1,379)	$ (1,415)

(Dollars in thousands except share and per share amounts)

NOTE 16 – EARNINGS PER SHARE

Basic earnings per share available to common shareholders is computed by dividing net income adjusted for income allocated to participating securities by the weighted average number of common shares outstanding during the period. All outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends are considered participating securities for this calculation. Diluted earnings per share available to common shareholders reflects the potential dilution that could occur if stock options to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. The factors used in the earnings per share computation follows:

	2018	2017
Basic		
Net income	$ 8,194	$ 6,178
Less: Undistributed income allocated to participating securities	203	151
Net earnings allocated to common stock	$ 7,991	$ 6,027
Weighted common shares outstanding including participating securities	2,713,980	2,657,865
Less: Participating securities	67,110	65,139
Weighted average shares	2,646,870	2,592,726
Basic earnings per share	$ 3.02	$ 2.32
Diluted earnings allocated to common stock	$ 7,991	$ 6,027
Weighted average shares	2,646,870	2,592,726
Add: Diluted effects of assumed exercises of stock options and warrants	61,527	52,592
Average shares and dilutive potential common shares	2,708,397	2,645,318
Dilutive earnings per share	$ 2.95	$ 2.28

At year-end 2018, there were 3,000 stock options that were not considered in computing diluted earnings per common share for 2018, because they were antidilutive. At year-end 2017, there were 9,500 stock options that were not considered in computing diluted earnings per common share for 2017, because they were antidilutive.