



FIRST NILES FINANCIAL, INC.

2019 ANNUAL REPORT

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First Niles Financial, Inc.

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March 27, 2020

To Our Stockholders:

The last year was an exciting year at First Niles Financial, Inc., for several reasons. First, we continued to shift the balance sheet from lower yielding investment securities to higher yield loans. As a result, profitability increased 94.0%, from \$219,000 in 2018 to \$425,000 in 2019. Much of the loan growth in our portfolio occurred during the second half of 2019, which we believe, will result in additional income growth in 2020. Second, in December 2019, we announced the purchase of Union Capital Mortgage Corporation, headquartered in Mentor, Ohio. This acquisition is subject to regulatory approval and is expected to close during the first half of 2020. This acquisition provides us with various growth opportunities and ready access to the diverse greater Cleveland economy. We expect the acquisition to be accretive to earnings immediately. Third, we continued to improve various performance measures, all of which supported an increase in the quarterly dividend.

During 2019 the following was achieved:

- a 4.9% increase in net interest income after the provision for loan losses, increasing from \$2.003 million in 2018 to \$2.102 million in 2019, or an increase of \$99,000.
- a 20.6% increase in the average balance of net loans receivable, from \$43.611 million in 2018 to \$52.582 million in 2019.
- tax equivalent net interest margin for the year increased 5 basis points, from 2.45% in 2018 to 2.50% in 2019.
- Annual operating expenses were reduced 3.1%, from \$1.937 million in 2018 to \$1.876 million in 2019.
- A 5.0% increase in the annual dividend per common share from \$.20 in 2018 to \$.21 in 2019. Our common stock dividend payment history now extends to twenty-one years of uninterrupted quarterly dividends as of year-end 2019.

Your management team, employees and Board of Directors continue to work on improving earnings in 2020 and beyond. Increasing the loan portfolio with quality credits continues to be among our primary objectives along with controlling operating expenses. The focus on the loan portfolio continues to be directed towards loans with adjustable rate features, which will reduce earnings volatility as market interest rates rise and fall.

Your Company continues to exhibit a strong financial condition, which provides flexibility for the management of our capital. This flexibility includes opportunities for increasing dividends, growth in assets, new product introductions and other strategic activities, such as the acquisition of Union Capital

Mortgage Corporation. At December 31, 2019, stockholders' equity totaled approximately \$12.8 million, or 12.8% of total assets and our book value per common share was \$11.27.

Sincerely,

/s/ Daniel E. Csontos

DANIEL E. CSONTOS
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Executive Overview

First Niles Financial, Inc. ("First Niles" or the "Company") is a unitary, non-diversified holding company, headquartered in Niles, Ohio. First Niles has no significant operations outside those of its wholly owned operating subsidiary, Home Federal Savings and Loan Association of Niles ("Home Federal" or the "Bank" or the "Association"). References in this Annual Report to "we," "us," and "our" refer to First Niles and/or Home Federal as the context suggests or requires.

Home Federal is a \$100.1 million federal savings association. Our principal business consists of attracting retail deposits from the general public and investing those funds primarily in permanent and construction loans secured by first mortgages on one- to four-family residences. However, in the past several years we significantly increased our origination of permanent and construction loans secured by first mortgages on commercial and multi-family real estate. To a lesser extent, we originate consumer and commercial business loans. Historically, we have borrowed funds from the Federal Home Loan Bank of Cincinnati ("FHLB") and reinvested the proceeds in investment securities at generally favorable interest rate spreads. More recently these borrowings have been used for general liquidity purposes, including the origination of the types of loans as described above.

The level of competition in our market area is strong and dominated by commercial banks, credit unions and other financial institutions of varying sizes and characteristics. In addition, our market area is projected to experience a continuing decrease in population and no meaningful increase in the number of households over the next several years. Niles and Trumbull County have per capita income and median household income lower than the medians for Ohio and the United States and, in December 2019, Trumbull County also had an unemployment rate higher than both Ohio and the United States. These economic conditions and strong competition have the potential to limit loan demand. If the event current economic and market conditions persist or worsen, and loan demand weakens, we cannot give any assurances that we will be able to maintain or increase our mortgage loan portfolio, which could adversely affect our operations and financial results.

Our results of operations depend primarily on net interest income, which is determined by (i) the difference between rates of interest we earn on interest-earning assets, consisting primarily of mortgage loans, collateralized mortgage obligations and other investments, and the rates we pay on interest-bearing liabilities, consisting primarily of deposits and borrowings; and (ii) the relative amounts of our interest-earning assets and interest-bearing liabilities. The level of noninterest income, such as fees received from customer deposit account service charges and gains on sales of investments, and the level of noninterest expense, such as federal deposit insurance premiums, salaries and benefits, office occupancy costs, and data processing costs, also affect our results of operations. Finally, our results of operations may also be affected significantly by general economic and competitive conditions, including changes in market interest rates, loan demand, government policies and actions of regulatory authorities, all of which are beyond our control.

Short term market interest rates declined steadily throughout 2019, due to Federal Reserve Board Open Market Operations. During the year, longer term interest rates also steadily declined, though not as much as short term interest rates, resulting in a slightly upsloping yield curve. This

environment could have a negative impact on our results of operations as our balance sheet is asset sensitive, which means our interest-earning assets generally reprice more frequently than our interest bearing liabilities. In such a situation, the spread between our interest-earning assets and our interest-bearing liabilities would be expected to decrease. Additionally, our existing level of nonaccrual loans, or any increase in this level, negatively impacts the results of operations, regardless of the interest rate environment. The cost of compliance with increased government regulation, especially in recent years has also negatively impacted our operating expenses and thus our earnings.

As of December 31, 2019, nonperforming loans totaled 0.82% of net loans receivable. Nonperforming assets, which includes real estate owned, represented 0.76% of total assets at year-end 2019. At such date, our allowance for loan losses to nonperforming loans was 72.74% and to net loans receivable was 0.60%. At December 31, 2019, we were in compliance with all applicable regulatory capital requirements and remain a “well-capitalized” institution.

The following tables, beginning on the next page, set forth selected consolidated financial information for the periods reported.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

	Years Ended December 31,		
	2019	2018	2017
	(In thousands)		
<u>Selected Financial Condition Data:</u>			
Total assets	\$100,085	\$99,136	\$99,844
Loans receivable, net.....	67,666	43,818	41,398
Securities - held to maturity	2,001	1,003	5
Securities – available for sale and FHLB stock.....	21,757	43,980	49,365
Deposits	61,696	57,838	59,030
Total borrowings	25,293	29,142	28,395
Stockholders’ equity	12,798	11,784	12,173

	Years Ended December 31,		
	2019	2018	2017
	(In thousands, except per share amounts)		
<u>Selected Operations Data:</u>			
Total interest income	\$3,390	\$3,119	\$2,719
Total interest expense	1,270	1,116	857
Net interest income.....	2,120	2,003	1,862
Provision for loan losses.....	18	0	0
Net interest income after provision for loan losses	2,102	2,003	1,862
Fees and service charges	18	15	11
Gain on sales of investment securities.....	93	2	75
Other noninterest income	144	91	98
Total noninterest income	255	108	184
Total noninterest expense.....	1,876	1,937	1,488
Income before taxes	481	174	558
Income tax provision	56	(45)	179
Net income	\$425	\$219	\$379
Earnings per share – basic	\$0.38	\$0.19	\$0.34
Diluted.....	\$0.38	\$0.19	\$0.34
Dividends per share	\$0.21	\$0.20	\$0.16

	Years Ended December 31,		
	2019	2018	2017
<u>Selected Financial Ratios and Other Data:</u>			
Performance Ratios:			
Return on assets (ratio of net income to average total assets)	0.44%	0.22%	0.39%
Return on equity (ratio of net income to average equity).....	3.39	1.90	3.10
Interest rate spread:			
Average during year	2.21	2.09	1.99
Tax equivalent average during year	2.39	2.39	2.34
End of year	2.55	1.89	2.02
Net interest margin (net interest income divided by average interest-earning assets)	2.32	2.16	2.06
Tax equivalent net interest margin (net interest income divided by average interest-earning assets)	2.50	2.45	2.40
Ratio of average interest-earning assets to average interest-bearing liabilities	1.08	1.06	1.07
Quality Ratios:			
Nonperforming assets to total assets at end of year.....	0.76%	1.09%	0.90%
Nonperforming loans to loans receivable, net, end of year	0.82	1.85	1.31
Allowance for loan losses to nonperforming loans, end of year	72.74	49.14	59.38
Allowance for loan losses to loans receivable, net, end of year	0.60	0.91	0.78
Capital Ratios:			
Equity to total assets at end of year	12.79%	11.89%	12.19%
Average equity to average assets.....	12.86	11.62	12.53
Other Data:			
Book value per common share outstanding	\$11.27	\$10.38	\$10.72
Dividend payout ratio ⁽¹⁾	56.24%	104.11%	48.28%
Number of full-service offices.....	1	1	1

⁽¹⁾ Dividends per share divided by earnings per common share and common share equivalent.

Critical Accounting Policies

Allowance for Loan Losses. The allowance for loan losses is a significant estimate that can and does change based on management's assumptions about specific borrowers and current general economic and business conditions, among other factors. Management reviews the adequacy of the allowance for loan losses no less frequently than on a quarterly basis. The evaluation of adequacy by management includes consideration of past loss experience, changes in the composition of the loan portfolio, the current condition and amount of loans outstanding, identified problem loans, information about specific borrower situations and estimated collateral values, among 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 that the un-collectability of a loan balance is substantiated.

Securities. Securities are classified as held to maturity or available for sale on the date of purchase. Only those securities classified as held to maturity, and which management has both the intent and ability to hold to maturity, are reported at amortized cost. Available-for-sale securities are reported at fair value with unrealized gains and losses, net of related deferred income taxes, included in accumulated other comprehensive income on the Consolidated Balance Sheet. The fair value of a security is determined based on quoted market prices. Realized gains and losses are reported within noninterest income in the Consolidated Statements of Income. The cost of securities sold is based on the specific identification method. Available-for-sale and held-to-maturity securities are reviewed quarterly for possible other-than-temporary impairment. The review includes an analysis of the facts and circumstances of each individual investment, such as the severity of loss, the length of time the fair value has been below cost, the expectation for that security's performance, the creditworthiness of the issuer and our intent and ability to hold the security. A decline in value that is considered to be other-than-temporary impairment is recorded as a loss within noninterest income in the Consolidated Statements of Income. The price movements within our securities portfolio are primarily dependent upon the movement in interest rates, particularly given the minimal inherent credit risk of these securities.

Financial Condition

The following discussion compares our consolidated financial condition at December 31, 2019 to December 31, 2018 and the results of operations for the year ended December 31, 2019 with the year ended December 31, 2018. This discussion should be read in conjunction with the consolidated financial statements and footnotes included herein.

Assets totaled \$100.1 million at December 31, 2019, an increase of \$949,000 from December 31, 2018. Cash and cash equivalents decreased \$1.2 million and net loans receivable increased \$23.8 million during 2019. Total investment securities declined \$21.2 million during the year. As of December 31, 2019, investment securities were comprised of \$20.4 million in securities available for sale and \$2.0 million in securities held to maturity. Home Federal also had \$1.3 million in FHLB stock as of December 31, 2019, unchanged from year-end 2018.

Our loan portfolio increased \$23.8 million, or 54.4%, to \$67.7 million at December 31, 2019, as compared to \$43.8 million at December 31, 2018. Specifically, loans secured by one- to four-family properties, our largest loan category, increased \$11.5 million and ended the year with a balance of \$35.4 million. Commercial real estate loans, which includes loans secured by multi-family properties, increased \$3.2 million, ending the year with a balance of \$18.9 million. Home

equity lines of credit ended the year at \$3.7 million, \$1.7 million greater than at December 31, 2018. Loans for construction and development increased \$3.2 million ending the year with a balance of \$4.3 million. Commercial and industrial loans increased \$1.5 million during the year, ending with a balance of \$2.7 million. Deposit secured loans increased \$2.8 million during the year, ending the year with a balance of \$3.1 million. The allowance for loan losses increased \$5,000 during 2019 and ended the year at \$403,000.

Deposits totaled \$61.7 million at December 31, 2019, compared to \$57.8 million at December 31, 2018, an increase of \$3.9 million, or 6.7%. During the year ended December 31, 2019, savings, demand and NOW accounts collectively increased \$2.2 million and certificates of deposit increased \$1.6 million.

FHLB advances totaled \$25.1 million at December 31, 2019 as compared to \$28.8 million at December 31, 2018. At December 31, 2019, these FHLB advances were comprised of 17 different contracts. Sixteen advances, totaling \$25.0 million, have original maturities greater than one year, have fixed interest rates and remaining maturities ranging from January 2020 through June 2039. These advances may have a prepayment penalty if paid prior to maturity, depending on pre-established contractual terms, as set by the FHLB. One advance totaling \$100,000 is short-term and has a variable rate of interest that can change daily. This advance matures approximately every 90 days and can be repaid at any time without penalty.

The advances from the FHLB have been used for general liquidity purposes, including originating loans and funding deposit withdrawals. See Note 11 of the Notes to Consolidated Financial Statements contained in this Annual Report to Stockholders for additional information on our FHLB advances. At December 31, 2019 the Company had \$193,000 in other borrowings related to a commitment to fund an investment in an Affordable Housing Tax Credit Fund.

Total equity at December 31, 2019 was \$12.8 million, or 12.8% of total assets. This was \$1.0 million greater than at year-end 2018. The increase in total equity during the year was attributable to a \$828,000 increase in accumulated other comprehensive income, and a \$186,000 increase in retained earnings.

During 2019 the Company did not repurchase any common or preferred shares. During 2018 the Company repurchased 105 shares of common stock at a total cost of \$1,000 or \$9.49 per share, as part of a pre-authorized agreement related to an employee benefit retirement plan. During 2018 the Company also repurchased 757 shares of preferred stock at a total cost of \$7,000, or \$9.83 per share. As of December 31, 2019, there was a share repurchase program in progress authorizing the purchase of up to 3.0% of the Company's outstanding common shares and another program authorizing the purchase of up to 10.0% of the Company's class A preferred shares. As of December 31, 2019, 13,745 common shares and 1,929 preferred shares had been purchased as part of the respective authorizations. At December 31, 2019 and 2018 there were 1,113,067 shares of common stock outstanding. Preferred shares outstanding were unchanged at 22,062 at December 31, 2019 and 2018.

Results of Operations

Net Income. The Company recorded net income of \$425,000 for the year ended December 31, 2019, an increase of \$206,000 from 2018. The increase in net income was primarily due to a \$147,000 increase in noninterest income, a \$117,000 increase in net interest income, and a \$61,000 decrease in noninterest expense, partially offset by a \$101,000 increase in the federal income tax expense and an \$18,000 increase in the provision for loan losses.

Our return on average assets was 0.44% for the year ended 2019, compared to 0.22% for the year ended 2018. Return on average equity was 3.39% for 2019, compared to 1.90% for 2018. Average equity to average assets was 12.86% for the year ended 2019, compared to 11.62% for the year ended 2018. In 2019 we paid annual, aggregate, regular quarterly dividends on common stock totaling \$234,000, or \$0.21 per share, and annual, aggregate, regular quarterly dividends on preferred stock totaling \$5,000, or \$0.25 per share. In 2018 we paid annual, aggregate, regular quarterly dividends on common stock totaling \$223,000, or \$0.20 per share, and annual, aggregate, regular quarterly dividends on preferred stock totaling \$5,000, or \$0.24 per share.

Net Interest Income. Net interest income for the year ended December 31, 2019 was \$2.1 million, a \$117,000 increase from the year ended December 31, 2018. Our net interest spread during 2019 was 2.21%, a 12 basis point increase from the 2.09% spread experienced during 2018. On a tax-equivalent basis the net interest spread during 2019 was 2.39%, the same as in 2018. Net interest margin increased 16 basis points to 2.32% during 2019 from 2.16% in 2018. On a tax-equivalent basis net interest margin was 2.50% during 2019, as compared to 2.45% in 2018, an increase of five basis points.

The increase in net interest margin was due to an increase in total interest income of \$271,000, or 8.7%, on a comparative year basis, partially offset by a \$154,000 increase in total interest expense, or 13.8% on a comparative year basis. Average interest-earning assets decreased to \$91.4 million during 2019 from \$92.6 million during 2018. The decrease in average interest-earning assets primarily consisted of a \$7.6 million decrease in the average balance of tax exempt investment securities and a \$3.8 million decrease in the average balance of mortgage-backed and related securities partially offset by a \$9.0 million increase in the average balance of loans, a \$0.6 million increase in taxable investment securities, and a \$0.6 million increase in the average balance of interest-bearing deposits. The overall yield on interest earning assets increased 23 basis points, from 3.66% in 2018 to 3.89% in 2019, on a tax-equivalent basis.

The yield on our portfolio of loans receivable increased 19 basis points during the past year, from 4.44% in 2018 to 4.63% in 2019. The yield on our mortgage-backed and related securities portfolio increased seven basis points on a year-to-year comparative basis from 2.17% to 2.24%. Our taxable investment securities portfolio experienced a 31 basis point decrease from 3.49% in 2018 to 3.18% in 2019. On a tax-equivalent basis our tax exempt investment securities yield was 3.78% in 2018 as compared to 4.01% in 2019. Adjustable-rate loans comprised approximately 55.3% of our gross loan portfolio at December 31, 2019.

The \$2.7 million decrease in average interest-bearing liabilities was primarily comprised of a \$2.8 million decrease in average borrowings, partially offset by a \$100,000 increase in average deposits. Total interest expense increased \$154,000, or 13.8%, from \$1.1 million in 2018 to \$1.3 million in 2019. Overall, our cost of funds increased 23 basis points from 1.27% during 2018 to 1.50% during 2019. During 2019, the weighted-average interest rate of our FHLB advances was

2.47%, 26 basis points higher than in 2018. Our cost of deposits increased 25 basis points, from 0.82% during 2018 to 1.07% during 2019. The average rate paid on our certificate of deposit accounts, our largest category of deposit accounts, increased 40 basis points, from 1.48% in 2018 to 1.88% in 2019. The average rate of interest paid on savings deposits and NOW accounts increased 5 basis points from 2018 to 2019.

See the tables below captioned “Average Balances, Interest Rates and Yields” and “Rate/Volume Analysis of Net Interest Income” for more detailed information regarding our net interest income.

Average Balances, Interest Rates and Yields

The following table presents for the periods indicated the total dollar amount of interest income from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates, using monthly average balances.

	Year Ended December 31, 2019			Year Ended December 31, 2018		
	Average Outstanding Balance	Interest Earned/Paid	Yield/Rate	Average Outstanding Balance	Interest Earned/Paid	Yield/Rate
	(Dollars in Thousands)					
Interest-Earning Assets:						
Loans receivable ⁽¹⁾	\$52,582	\$2,437	4.63%	\$43,611	\$1,938	4.44%
Mortgage-backed and related securities	18,649	417	2.24%	22,419	486	2.17%
Investment securities-Taxable	6,296	200	3.18%	5,726	200	3.49%
Investment securities – Tax exempt	9,634	386	4.01%	17,226	651	3.78%
FHLB stock	1,327	66	4.97%	1,327	78	5.88%
Interest-bearing deposits	2,863	51	1.78%	2,249	32	1.42%
Total interest-earning assets ⁽¹⁾⁽²⁾	91,351	3,557	3.89%	92,558	3,385	3.66%
Noninterest-earning assets	6,643			7,023		
Allowance for Loan Losses	(415)			(351)		
Total Assets	\$97,579			\$99,230		
Interest-Bearing Liabilities:						
Savings deposits	\$20,542	\$41	0.20%	\$21,134	\$29	0.14%
Demand and NOW deposits	7,321	6	0.08%	6,960	5	0.07%
Certificates of deposit	30,517	575	1.88%	30,148	446	1.48%
FHLB Advances	26,238	648	2.47%	28,768	635	2.21%
Other Borrowings	212	-	0.00%	525	1	0.19%
Total interest-bearing liabilities	84,830	1,270	1.50%	87,535	1,116	1.27%
Noninterest-bearing liabilities	196			165		
Total Liabilities	85,026			87,700		
Stockholders' Equity	12,553			11,530		
Total Liabilities and Equity	\$97,579			\$99,230		
Tax-equivalent net interest income		\$2,287			\$2,269	
Less: Tax equivalent adjustment		(167)			(266)	
Net interest income		\$2,120			\$2,003	
Tax equivalent net interest spread			2.39%			2.39%
Net interest rate spread			2.21%			2.09%
Net earning assets						
Tax equivalent net yield on average interest earning assets	\$6,521		2.50%	\$5,023		2.45%
Net yield on average interest-earning assets			2.32%			2.16%
Average interest-earning assets to average interest-bearing liabilities		1.08x			1.06x	

⁽¹⁾ Calculated net of deferred loan fees, loan discounts and loans in process. Includes nonaccrual loans.

⁽²⁾ Tax-equivalent asset yield of 3.71% in 2019 and a tax-equivalent asset yield of 3.66% with an asset yield of 3.37% in 2018.

Rate/Volume Analysis of Net Interest Income

The following table presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. It distinguishes between the changes related to outstanding balances and those due to the changes in interest rates. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (1) changes in volume (*i.e.*, changes in volume multiplied by old rate) and (2) changes in rate (*i.e.*, changes in rate multiplied by old volume). For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately to the change due to volume and the change due to rate.

	Years Ended December 31, 2019 vs. 2018		
	Increase/(Decrease) Due to		Total Increase (Decrease)
	Volume	Rate	
	(In Thousands)		
Interest-earning assets:			
Loans receivable	\$420	\$79	\$499
Mortgage-backed and related securities	(85)	16	(69)
Investment securities and FHLB stock	(184)	6	(178)
Interest-bearing deposits and other	10	9	19
Total interest-earning assets	<u>\$161</u>	<u>\$110</u>	<u>\$271</u>
Interest-bearing liabilities:			
Savings deposits	\$ (1)	\$ 13	\$ 12
Demand and NOW deposits	-	1	1
Certificates of deposit	6	123	129
Borrowings	<u>(37)</u>	<u>49</u>	<u>12</u>
Total interest-bearing liabilities.....	<u>\$(32)</u>	<u>\$186</u>	<u>\$154</u>
Net interest income.....	<u>\$193</u>	<u>\$(76)</u>	<u>\$117</u>

Provision for Loan Losses. Our provision for loan losses, which is the amount charged against income to increase the allowance for loan losses, was \$18,000 for the year ended December 31, 2019 as compared to zero for the year ended December 31, 2018. Nonperforming loans, which are defined as nonaccruing loans as well as loans delinquent more than 90 days and still accruing interest, decreased by \$256,000, to \$554,000 at December 31, 2019, from \$810,000 at December 31, 2018. Our nonperforming loans totaled 0.82% of net loans receivable at December 31, 2019, compared to 1.85% of net loans receivable at December 31, 2018. Our allowance for loan losses was \$403,000 at December 31, 2019, representing 72.74% of nonperforming loans and 0.60% of net loans receivable. At December 31, 2018 the allowance for loan losses was \$398,000, representing 49.14% of nonperforming loans and 0.91% of net loans receivable. At December 31, 2019 we had \$204,000 in real estate owned, comprised of one commercial property.

We had \$270,000 in real estate owned at December 31, 2018, consisting of one single family property and one commercial property.

It is our policy to provide valuation allowances for estimated losses on loans based upon past loss experience, current trends in the level of delinquent and specific problem loans, loan concentrations to single borrowers, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and current and anticipated economic conditions in our market area. Accordingly, the calculation of the adequacy of the allowance for loan losses is not based directly on the level of nonperforming assets.

Our methodology for determining the sufficiency of our allowance for loan losses primarily focuses on two separate areas of our loan portfolio. The first part of our analysis considers all classified and criticized loans as determined by regulatory standards and assigns a specific estimated loss, if any, to the balance of each classified and criticized loan based on management's judgment. The second part of our analysis focuses on the historical loss experience of the Association over the past three years on the remaining portion of the portfolio. Our analysis also considers other factors, including the overall loan portfolio delinquency trend, current and forecasted local economic conditions, management's adherence to established underwriting guidelines and the level of nonperforming loans in relation to the allowance for loan losses. Each component of our analysis is added together and compared, on a quarterly basis, to our overall allowance for loan losses. Adjustments are made to the allowance for loan losses through the provision for loan losses any time our analysis indicates a difference of \$25,000 or greater.

We will continue to monitor our allowance for loan losses and make future adjustments to the allowance through the provision for loan losses as economic conditions dictate. Although we maintain our allowance for loan losses at a level which management considers to be adequate to provide for losses, there can be no assurance that future losses will not exceed estimated amounts or that additional provisions for loan losses will not be required in future periods. In addition, our determination as to the amount of the allowance for loan losses is subject to review by the Office of the Comptroller of the Currency, as part of its examination process, which may result in the establishment of an additional allowance.

Noninterest Income. Noninterest income increased to \$255,000 for the year ended December 31, 2019 from \$108,000 for the year ended December 31, 2018. During 2019, noninterest income included \$56,000 in service fees and other income, \$70,000 in accrued income from bank owned life insurance, \$36,000 from gain on sale of real estate owned and \$93,000 gain on sale of investment securities. During 2018, noninterest income included \$20,000 in service fees and other income, \$77,000 in accrued income from bank owned life insurance, \$9,000 from gain on sale of real estate owned and \$2,000 from gain on sale of investments

Noninterest Expense. Noninterest expense decreased \$61,000, or 3.1%, for the year ended December 31, 2019 as compared to the year ended December 31, 2018. The decrease was primarily due to a \$61,000 decrease in compensation and benefits, and a \$39,000 decrease in other operating expense, partially offset by a \$54,000 increase in legal and audit expense. The decrease in compensation and benefits expense was primarily due to a decreased officer staffing level.

Federal Income Taxes. The provision for federal income taxes was \$56,000 for the year ended December 31, 2019, a \$101,000 increase from the \$45,000 benefit recorded in 2018. See Note

10 of the Notes to Consolidated Financial Statements contained in this Annual Report to Stockholders.

Asset and Liability Management; Market Risk Analysis

As stated above, we derive our income primarily from the excess of interest collected over interest paid. The rates of interest we earn on assets and pay on liabilities generally are established contractually for a period of time. However, market interest rates change over time and our results of operations, like those of many financial institutions, are impacted by these changes and the interest rate sensitivity of our assets and liabilities. The risk associated with changes in interest rates and our ability to adapt to these changes is known as interest rate risk and is among Home Federal's most significant market risks.

Our operations are also affected by our level of noninterest income and expenses. Noninterest income includes service charges and fees and gain on sale of investments. Noninterest expenses primarily include compensation and benefits, occupancy and equipment expenses, deposit insurance premiums, legal, compliance and data processing expenses. Our results of operations are also significantly affected by general economic and competitive conditions, particularly changes in market interest rates, government legislation and regulation, and monetary and fiscal policy.

In an attempt to manage our exposure to changes in interest rates and comply with applicable regulations, we monitor Home Federal's interest rate risk. In monitoring interest rate risk, we continually analyze and manage our assets and liabilities based on their payment streams and interest rates, the timing of their maturities, and their sensitivity to actual or potential changes in market interest rates.

An asset or liability is interest rate sensitive within a specific time period if it will mature or reprice within that time period. If our assets mature or reprice more rapidly or to a greater extent than our liabilities, then the market value of our portfolio equity and our net interest income would tend to increase during periods of rising interest rates and decrease during periods of falling interest rates. Conversely, if our assets mature or reprice more slowly or to a lesser extent than our liabilities, then the market value of our portfolio equity and our net interest income would tend to decrease during periods of rising interest rates and increase during periods of falling interest rates. Our policy has been to address the interest rate risk inherent in our business of originating long-term loans funded by short-term deposits by maintaining sufficient liquid assets for material and prolonged changes in interest rates. We believe that our liquidity position and capital levels, which are well in excess of regulatory requirements, assist us in reasonably limiting the effects of our interest rate risk exposure.

Our Board of Directors is responsible for reviewing our asset and liability position. The Board performs a quarterly review of interest rate risk and trends, liquidity and capital ratios and related regulatory requirements. In addition, the Board reviews simulations of the effect of changes in interest rates on Home Federal's capital, net interest income and net income under various interest rate scenarios. Management of Home Federal is responsible for implementing the policies and decisions of the Board of Directors with respect to our asset and liability goals and strategies.

To manage the interest rate risk, we attempt to originate adjustable-rate loans. At December 31, 2019, adjustable-rate mortgage loans, including home equity lines of credit, totaled \$37.4 million, or 55.3% of our total gross loan portfolio. We also maintain a portfolio of liquid assets which includes investment securities. Maintaining liquid assets, however, tends to reduce potential net income because liquid assets usually provide a lower yield than other interest-earning assets, such as loans. Based on our current balance sheet structure, we are more vulnerable to decreases in interest rates than to increases in interest rates, given current market interest rate levels and trends, as illustrated in the table below.

The following table sets forth the change in Home Federal's economic value of equity at December 31, 2019, based on independent models, and to a lesser extent, internal assumptions that would occur upon an immediate change in interest rates of up to 300 basis points, with no effect given to any steps that management might take to counteract that change. Economic value of equity is the present value of expected cash flows from assets, liabilities and off-balance sheet contracts.

December 31, 2019					
Change in Rate	Economic Value of Equity			Economic Value of Equity as % of the Economic Value of Total Assets	
	Amount	\$	%	EVE Ratio	BP Change
		Change	Change		
		(Dollars in Thousands)			
+300	\$15,035	\$195	1.3%	15.08%	19
+200	15,484	644	4.3	15.53	64
+100	15,225	385	2.6	15.27	38
	14,840	---	---	14.89	---
-100	12,580	(2,260)	(15.2)	12.62	(227)
-200	10,345	(4,495)	(30.3)	10.38	(451)
-300	NM	NM	NM	NM	NM

NM = Not meaningful because some market interest rates would compute to a rate less than zero.

In the above table, the first column on the left presents the basis point increments of parallel yield curve shifts. The second column presents the overall dollar amount of economic value of equity at each basis point increment. The third and fourth columns present Home Federal's actual position in dollar change and percentage change in economic value of equity at each basis point increment. The remaining columns present Home Federal's percentage change and basis point change in its economic value of equity as a percentage of the economic value of total assets. At December 31, 2019, Home Federal was outside the economic value of equity interest rate risk policy limits established by its Board of Directors for decreases in interest rates of -100 and -200 basis points. The limits at these levels are negative 7.5% and negative 12.5%, respectively. The differences between the limits and the model results as presented above are being monitored by management. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including interest rates, loan prepayments, deposit decay rates, and the market values of certain assets under the various interest rate scenarios and should not be relied upon as indicative of actual results. Certain shortcomings are inherent in the method of analysis presented in the computation of economic value of equity. Although certain assets and liabilities may have similar maturities or periods within which they reprice, they may react differently to changes in market interest rates. The interest rates on certain types of assets and liabilities may fluctuate in

advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. In the event of a change in interest rates, prepayments and early withdrawal levels could deviate significantly from those assumed in making the calculations set forth above.

Liquidity and Commitments

Home Federal's primary sources of funds are deposits, repayments and prepayments of loans and securities and interest income. Although maturity and scheduled amortization of loans and securities are relatively predictable sources of funds, deposit flows and prepayments on loans and securities are influenced significantly by general interest rates, economic conditions and competition. Historically, we have been able to generate sufficient cash through our deposits and have only utilized borrowings to a limited degree for liquidity purposes.

Liquidity management is an ongoing and long-term function of our asset/liability management strategy. Excess funds generally are invested in interest-bearing overnight deposits at other financial institutions and in short-term investment securities. If we require funds beyond our ability to generate deposits, additional sources of funds are available. Our most liquid assets are cash and cash equivalents. At December 31, 2019, cash and cash equivalents totaled \$2.2 million compared to \$3.4 million at December 31, 2018. We monitor and review liquidity regularly and maintain short-term, unsecured lines of credit with two different commercial banks which can be accessed immediately. These unsecured lines of credit aggregate \$7.0 million. Home Federal also maintains a \$3.2 million secured line of credit with another depository financial institution that is immediately available for longer term financing needs. All three lines of credit had no funds drawn as of December 31, 2019. Additionally, we have the ability to borrow funds from the FHLB of Cincinnati. At December 31, 2019, we had \$9.3 million in unused borrowing capacity from the FHLB of Cincinnati.

At December 31, 2019, we had commitments to fund \$76,000 in construction loans and no other loan origination commitments outstanding. At this date, we had no investment security purchase commitments outstanding and no performance standby letters of credit outstanding. The unused portion of home equity lines of credit was \$1.7 million, the unused portion of commercial lines of credit was \$500,000 and unused personal lines of credit totaled \$150,000 at December 31, 2019. Certificates of deposit scheduled to mature in one year or less at December 31, 2019 totaled \$18.5 million. Mortgage-related securities of \$100,000 are scheduled to mature in one year or less at December 31, 2019. Based on historical experience, we believe that a significant portion of maturing deposits will remain with us. We believe, based on our current balance sheet structure and our ability to acquire funds from various sources, that our liquidity is adequate.

Capital

Total equity was \$12.8 million at December 31, 2019, or 12.8% of total assets on that date. Consistent with our goals to operate a sound and profitable financial organization, we actively seek to maintain a "well-capitalized" institution in accordance with regulatory standards. As of December 31, 2019, Home Federal exceeded all capital requirements of the Office of the Comptroller of the Currency. Our regulatory capital ratios at December 31, 2019 were as follows: Tier 1 (leverage) capital, 12.54%; Tier 1 risk-based capital, 19.30%; and Total risk-based capital, 19.93%. The

regulatory capital requirements to be considered well capitalized are 5.0%, 8.0%, and 10.0%, respectively.

Impact of Inflation and Changing Prices

The financial statements and related data presented herein have been prepared in accordance with generally accepted accounting principles which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. The primary impact of inflation on our operations is reflected in increased operating costs. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates, generally, have a more significant impact on a financial institution's performance than does inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Disclosure Regarding Forward-Looking Statements

First Niles and Home Federal may from time to time make written or oral "forward-looking statements." These forward-looking statements may be contained in this Annual Report to Stockholders, in our proxy statement for our annual meeting and in other communications by us, which are made in good faith pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. The words "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, anticipations, estimates and intentions that are subject to significant risks and uncertainties. The following factors, many of which are subject to change based on various other factors beyond our control, could cause our financial performance to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements:

- the strength of the United States economy in general and the strength of the local economies in which we conduct our operations;
- the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board;
- inflation, interest rate, market and monetary fluctuations;
- the timely development of and acceptance of new products and services of Home Federal and the perceived overall value of these products and services by users, including the features, pricing and quality compared to competitors' products and services;
- the willingness of users to substitute competitors' products and services for our products and services;
- the success of Home Federal in gaining regulatory approval of its products and services, when required;
- the impact of changes in financial services laws and regulations (including laws concerning taxes, banking, securities and insurance);

- the impact of technological changes;
- acquisitions;
- changes in consumer spending and savings habits; and
- our success at managing the risks involved in the foregoing.

The foregoing list of important factors is not exclusive. We do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of First Niles or Home Federal.

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders
First Niles Financial, Inc.
Niles, Ohio

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of First Niles Financial, Inc. and subsidiary, which comprise the consolidated statements of financial condition as of December 31, 2019 and 2018; the related consolidated statements of income, comprehensive income (loss), 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 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

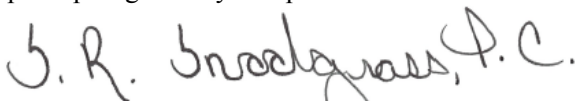
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable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


Cranberry Township, Pennsylvania
March 17, 2020

FIRST NILES FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

	December 31,	
	2019	2018
	(In thousands)	
ASSETS		
Cash and cash equivalents:		
Noninterest-bearing	\$ 514	\$ 564
Interest-bearing	1,654	2,801
Cash and cash equivalents	<u>2,168</u>	<u>3,365</u>
Securities:		
Available for sale	20,430	42,653
Held to maturity (fair value of \$2,026 and \$1,000)	2,001	1,003
Certificates of deposit	850	850
Loans receivable, net of allowance of \$403 and \$398, respectively	67,666	43,818
Accrued interest receivable	304	292
Federal Home Loan Bank stock	1,327	1,327
Bank-owned life insurance (BOLI)	3,550	3,480
Limited partnership - Ohio Equity Fund	758	844
Other real estate owned	204	270
Premises and equipment, net	326	326
Prepaid expenses and other assets	<u>501</u>	<u>908</u>
TOTAL ASSETS	<u>\$ 100,085</u>	<u>\$ 99,136</u>
LIABILITIES		
Deposits	\$ 61,696	\$ 57,838
Accrued interest payable	79	82
Federal Home Loan Bank advances	25,100	28,825
Note payable - Ohio Equity Fund	193	317
Accounts payable and other liabilities	<u>219</u>	<u>290</u>
TOTAL LIABILITIES	<u>87,287</u>	<u>87,352</u>
STOCKHOLDERS' EQUITY		
Preferred stock, \$.01 par value; 500,000 shares authorized; 29,670 issued and outstanding	-	-
Common stock, \$.01 par value; 6,000,000 shares authorized, 1,724,741 shares issued	18	18
Additional paid-in capital	7,045	7,045
Retained earnings	13,108	12,922
Accumulated other comprehensive income (loss)	5	(823)
Treasury stock, 611,674 shares of common stock and 7,608 shares of preferred stock	<u>(7,378)</u>	<u>(7,378)</u>
TOTAL STOCKHOLDERS' EQUITY	<u>12,798</u>	<u>11,784</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 100,085</u>	<u>\$ 99,136</u>

See accompanying notes to the consolidated financial statements.

FIRST NILES FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31,	
	2019	2018
	(In thousands, except share and per share data)	
INTEREST INCOME		
Loans receivable:		
First mortgage loans	\$ 2,105	\$ 1,789
Consumer and other loans	332	149
Mortgage-backed and related securities	417	486
U.S. agencies and other securities	419	585
Federal Home Loan Bank stock dividend	66	78
Interest-bearing deposits	51	32
Total interest income	<u>3,390</u>	<u>3,119</u>
INTEREST EXPENSE		
Deposits	622	480
Borrowings	648	636
Total interest expense	<u>1,270</u>	<u>1,116</u>
NET INTEREST INCOME	2,120	2,003
Provision for loan losses	<u>18</u>	<u>-</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>2,102</u>	<u>2,003</u>
NONINTEREST INCOME		
Gains on sale of securities	93	2
BOLI earnings	70	77
Gain on real estate owned	36	9
Service fees and other	56	20
Total noninterest income	<u>255</u>	<u>108</u>
NONINTEREST EXPENSE		
Compensation and benefits	927	988
Directors fees	75	75
Occupancy and equipment	88	79
Federal deposit insurance premiums	6	27
State taxes	109	114
Real estate owned losses and expenses	87	85
Other operating expense	584	569
Total noninterest expense	<u>1,876</u>	<u>1,937</u>
Income before income taxes	481	174
Federal income tax expense (benefit)	<u>56</u>	<u>(45)</u>
NET INCOME	<u>\$ 425</u>	<u>\$ 219</u>
EARNINGS PER SHARE BASIC AND DILUTIVE	\$ 0.38	\$ 0.19
AVERAGE SHARES OUTSTANDING	1,113,067	1,113,166

See accompanying notes to the consolidated financial statements.

FIRST NILES FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31,	
	2019	2018
Net income	\$ 425	\$ 219
Components of other comprehensive income:		
Change in unrealized gains (losses) on available-for-sale securities	1,141	(468)
Tax effect	(240)	98
Reclassification adjustment for net gains realized	(93)	(2)
Tax effect	20	-
Total other comprehensive income (loss)	828	(372)
Total comprehensive income (loss)	<u>\$ 1,253</u>	<u>\$ (153)</u>

See accompanying notes to the consolidated financial statements.

FIRST NILES FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, December 31, 2017	\$ 18	\$ 7,045	\$ 12,931	\$ (451)	\$ (7,370)	\$ 12,173
Net income	-	-	219	-	-	219
Other comprehensive loss	-	-	-	(372)	-	(372)
Treasury stock preferred stock (757 Shares)	-	-	-	-	(7)	(7)
Treasury stock common stock (105 Shares)	-	-	-	-	(1)	(1)
Cash dividends (\$.20 per share)	-	-	(228)	-	-	(228)
Balance, December 31, 2018	<u>18</u>	<u>7,045</u>	<u>12,922</u>	<u>(823)</u>	<u>(7,378)</u>	<u>11,784</u>
Net income	-	-	425	-	-	425
Other comprehensive income	-	-	-	828	-	828
Cash dividends (\$.21 per share)	-	-	(239)	-	-	(239)
Balance, December 31, 2019	<u>\$ 18</u>	<u>\$ 7,045</u>	<u>\$ 13,108</u>	<u>\$ 5</u>	<u>\$ (7,378)</u>	<u>\$ 12,798</u>

See accompanying notes to the consolidated financial statements.

FIRST NILES FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 425	\$ 219
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income tax benefit	(45)	(146)
Depreciation	34	28
Amortization of deferred loan fees and costs	-	7
Amortization of discounts and premiums on investments and mortgage-backed and related securities	107	208
Realized gains on sale of securities	(93)	(2)
Realized net gains on sale of real estate owned	(36)	(9)
Earnings on bank owned life insurance	(70)	(77)
Writedown on other real estate owned	38	57
Decrease in accrued interest receivable, prepaid expenses and other assets	305	124
(Decrease) increase in accrued interest payable, accounts payable, and other liabilities	(74)	123
Net cash provided by operating activities	<u>591</u>	<u>532</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in available-for-sale securities:		
Sales	17,831	1,888
Maturities, prepayments, and calls	7,169	4,497
Purchases	(1,743)	(1,676)
Activity in held-to-maturity securities:		
Maturities, prepayments, and calls	2	2
Purchases	(1,000)	(1,000)
Proceeds from sale of other real estate owned	202	65
Purchases of certificates of deposit	(500)	(250)
Maturities of certificates of deposit	500	750
Net increase in loans receivable	(23,985)	(2,455)
Purchase of premises and equipment	(34)	(96)
Net cash (used for) provided by investing activities	<u>(1,558)</u>	<u>1,725</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Purchase of treasury shares	-	(8)
Dividends paid	(239)	(228)
Net increase (decrease) in savings accounts	2,232	(528)
Net increase (decrease) in certificates of deposit	1,626	(664)
Proceeds from Federal Home Loan Bank advances	63,275	98,625
Payment of Federal Home Loan Bank advances	(67,000)	(97,300)
Payment on note payable - Ohio Equity Fund	(124)	(578)
Net cash used for financing activities	<u>(230)</u>	<u>(681)</u>
(Decrease) increase in cash and cash equivalents	(1,197)	1,576
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>3,365</u>	<u>1,789</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,168</u>	<u>\$ 3,365</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	\$ 1,273	\$ 1,098
Income taxes	-	-
Noncash activity:		
Loans transferred to other real estate owned	137	28
See accompanying notes to the consolidated financial statements.		

FIRST NILES FINANCIAL, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

First Niles Financial, Inc. (the “Company”) is a savings and loan holding company whose activities are primarily limited to holding the stock of the Home Federal Savings and Loan Association of Niles (the “Association”). The Company conducts a general banking business in Niles, Ohio, which consists of attracting deposits from the general public and applying those funds to the origination of loans for residential, commercial, and consumer purposes. The Company’s profitability is significantly dependent on its net interest income, which is the difference between interest income generated from interest-earning assets (i.e., loans and investments) and the interest expense paid on interest-bearing liabilities (i.e., customer deposits and borrowed funds). Net interest income is affected by the relative amount of interest-earning assets and interest-bearing liabilities and the interest received or paid on these balances. The level of interest rates paid or received by the Company can be significantly influenced by a number of environmental factors, such as governmental monetary policy, which are outside of management’s control.

Use of Estimates

The consolidated financial information presented herein has been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). In preparing consolidated financial statements in accordance with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from such estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses, deferred taxes, and fair value of financial instruments.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and the Association. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents includes both noninterest and interest-bearing cash, which includes cash on hand and amounts due from the correspondent banks with an original maturity of 90 days or less.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist of cash investments in excess of federally insured limits. The Company places its temporary cash with high credit quality financial institutions. At December 31, 2019 and 2018, there were balances of \$510,000 and \$830,000, respectively, in excess of the FDIC insured limit of \$250,000.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Securities and Mortgage-Backed and Related Securities

The Company categorizes its investment securities as held to maturity or available for sale. Held-to-maturity securities are those securities for which the Company has the ability and intent to hold until maturity. Securities classified as held to maturity are carried at cost, adjusted for amortization of premiums and accretion of discounts using methods that approximate the interest method over the remaining period to contractual maturity, and adjusted for anticipated prepayments.

Securities classified as available for sale are those debt securities that the Company intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell securities classified as available for sale would be based on various factors, including significant movement in interest rates, changes in the maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital consideration, and other similar factors. Securities designated as available for sale are carried at fair value with resulting unrealized gains or losses recorded to equity. Realized gains or losses on sales of securities are recorded on the trade date and are recognized using the specific identification method. Management evaluates securities for other than temporary impairment on a quarterly basis or more frequently as economic and market conditions warrant such an evaluation.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are reported at their principal amount net of the allowance for loan losses. Interest on loans is recognized as income when earned on the accrual method. The Company's policy is to discontinue the accrual of interest on loans when payments are 90 days past due unless in management's estimation interest collection is probable based upon economic and business conditions of the borrower. Payments received on nonaccrual loans are recorded as income or applied against principal according to management's judgment as to the collectability of such principal. Loans are returned to accrual status when past-due interest is collected and the collection of principal is probable.

Loan origination fees and certain direct loan origination costs are being deferred and amortized as an adjustment of the related loan's yield.

Loan origination fees received net of direct origination costs, are deferred and amortized to interest income over the contractual lives of the loans using the level-yield method, giving effect to actual loan prepayments. Loan origination costs are the direct costs attributable to originating a loan. Total net unamortized costs of \$353,000 and \$134,000 are carried with outstanding loan balances at December 31, 2019 and 2018, respectively.

Allowance for Loan Losses

The allowance for loan losses represents the amount that management estimates is adequate to provide for probable losses inherent in its loan portfolio. The allowance method is used in providing for loan losses. Accordingly, all loan losses are charged to the allowance, and all recoveries are credited to it. The allowance for loan losses is established through a provision for loan losses that is charged to operations. The provision is based on management's periodic evaluation of the adequacy of the allowance for loan losses, which encompasses the overall risk characteristics of the various portfolio segments, past experience with losses, the impact of economic conditions on borrowers, and other relevant factors.

The estimates used in determining the adequacy of the allowance for loan losses, including the amounts and timing of future cash flows expected on impaired loans, are particularly susceptible to significant change in the near term.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

A loan is considered impaired when it is probable the borrower will not repay the loan according to the original contractual terms of the loan agreement. Management has determined that residential real estate and all consumer loans represent large groups of smaller-balance homogeneous loans that are to be collectively evaluated. Loans that experience insignificant payment delays, which are defined as 90 days or less, generally are not classified as impaired. A loan is not impaired during a period of delay in payment if the Company expects to collect all amounts due, including interest accrued at the contractual interest rate for the period of delay. All loans identified as impaired are evaluated independently by management. Management determines the significance of payment delays on a case-by-case basis, taking into consideration all circumstances concerning the loan, the creditworthiness and payment history of the borrower, the length of the payment delay, and the amount of shortfall in relation to the principal and interest owed. The Company estimates credit losses on impaired loans based on the present value of expected cash flows or the fair value of the underlying collateral if the loan repayment is expected to come from the sale or operation of such collateral. Impaired loans, or portions thereof, are charged off when it is determined a realized loss has occurred. Until such time, an allowance for loan losses is maintained for estimated losses. Cash receipts on impaired loans are applied first to accrued interest receivable unless otherwise required by the loan terms, except when an impaired loan is also a nonaccrual loan.

Management establishes the allowance for loan losses based upon its evaluation of the pertinent factors underlying the types and quality of loans in the portfolio. Commercial loans and commercial real estate loans are reviewed on a regular basis, with a focus on larger loans along with loans that have experienced past payment or financial deficiencies. Larger commercial loans and commercial real estate loans that are 90 days or more past due are selected for impairment testing. These loans are analyzed to determine whether they are impaired, which means that it is probable that all amounts will not be collected according to the contractual terms of the loan agreement. All commercial loans that are delinquent 90 days and residential mortgage loans that are 90 days delinquent and are placed on nonaccrual status are classified on an individual basis. The remaining loans are evaluated and classified as groups of loans with similar risk characteristics. The Company allocates allowances based on the factors described below, which conform to the Company's asset classification policy. In reviewing risk within the Bank's loan portfolio, management has determined there to be several different risk categories within the loan portfolio. The allowance for loan losses consists of amounts applicable to: (i) the commercial loan portfolio, (ii) the commercial real estate portfolio, (iii) the consumer loan portfolio, and (iv) the loans secured by residential real estate portfolio. Factors considered in this process included general loan terms, collateral, and availability of historical data to support the analysis. Historical loss percentages for each risk category are calculated and used as the basis for calculating allowance allocations. Certain qualitative factors are then added to the historical allocation percentage to get the total factor to be applied to nonclassified loans. The following qualitative factors are analyzed:

- Levels of and trends in delinquencies
- Trends in volume and terms
- Changes in lending policy and procedures
- Changes in management and lending staff
- Economic trends
- Concentrations of credit
- Changes in underlying collateral value

The Company analyzes its loan portfolio each quarter to determine the appropriateness of its allowance for loan losses.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Federal Home Loan Bank Stock

Federal Home Loan Bank of Cincinnati (FHLB) stock is carried at cost, classified as a restricted security because no ready market exists for this investment, it has no quoted market value, and it is periodically reviewed for impairment based on ultimate recovery of par value. At December 31, 2019, the Company does not consider the stock to be impaired.

Bank-Owned Life Insurance

The Company has purchased life insurance policies on certain key officers and directors. 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.

Premises and Equipment

Land is carried at cost, premises and equipment are recorded at cost and include expenditures, which extend the useful lives of existing assets. Maintenance, repairs, and minor renewals are expensed as incurred. For financial reporting, depreciation is provided on the straight-line method over the estimated useful lives of the assets, estimated to be 40 to 50 years for buildings and three to ten years for furniture and equipment. Gains or losses realized on the disposition of property and equipment are reflected in the consolidated statement of income.

Other Real Estate Owned

Other real estate owned includes properties that have been acquired in complete or partial satisfaction of debt. These properties are initially recorded at fair value on the date of acquisition, establishing a new cost basis. Subsequent to acquisition, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value, less estimated costs to sell. Gains and losses realized on the sale are included in noninterest income or expense, as appropriate. Net costs of maintaining and operating the properties are expensed as incurred.

Federal Income Taxes

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. A deferred tax liability or deferred tax asset is computed by applying the current statutory tax rates to net taxable or deductible temporary differences between the tax basis of an asset or liability and its reported amount in the financial statements that will result in net taxable or deductible amounts in future periods. Deferred tax assets are recorded only to the extent that the amount of net deductible temporary differences or carryforward attributes may be utilized against current period earnings, offset against taxable temporary differences reversing in future periods, or utilized to the extent of management's estimate of future taxable income. A valuation allowance is provided for deferred tax assets to the extent that the value of net deductible temporary differences and carryforward attributes exceeds management's estimates of taxes payable on future taxable income. Deferred tax liabilities are provided on the total amount of net temporary differences taxable in the future.

The provisions of "Accounting for Uncertainty in Income Taxes" prescribe a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities. The amount recognized is measured as the amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comprehensive Income (Loss)

The Company is required to present comprehensive income (loss) and its components in a full set of general-purpose financial statements for all periods presented. Other comprehensive income (loss) comprises unrealized holding gains and losses on the available-for-sale securities portfolio.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: 1) the assets have been isolated from the Company, 2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and 3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were \$3,000 for the years ended December 31, 2019 and 2018, respectively.

Treasury Stock

Common stock and preferred shares repurchased are recorded as treasury stock at cost.

Earnings per Share

The Company maintains a simple capital structure with no stock plans that would have a dilutive effect on earnings per share. Earnings per share is calculated by dividing net income less preferred dividends by the weighted average number of shares outstanding for the periods.

Reclassification of Comparative Amounts

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

2. REVENUE RECOGNITION

The primary sources of revenue for the Company are from interest and dividend income on loans and securities along with noninterest revenue resulting from investment security gains, loan servicing, gains on the sale of loans, commitment fees, fees from financial guarantees, certain credit cards fees, and income on bank-owned life insurance that are not within the scope of ASC 606. As a result, no changes were made during the period related to these sources of revenue, which cumulatively comprise 97 percent of the total revenue of the Company. Services within the scope of ASC 606 include income from fiduciary activities, service charges on deposit accounts, other service income, and gain on sale of OREO, net. For these accounts, fees related to specific customer transactions are attributable to specific performance obligations of the Bank where the revenue is recognized at a defined point in time, completion of the requested service/transaction.

3. INVESTMENT SECURITIES

The amortized cost, gross unrealized gains and losses, and fair values of investment securities available for sale are summarized as follows:

December 31, 2019				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale	(In thousands)			
Collateralized mortgage obligations	\$ 14,601	\$ 116	\$ (109)	\$ 14,608
Mortgage-backed securities	1,181	3	(15)	1,169
U.S. government agency securities	1,502	8	-	1,510
Municipal bonds	3,140	10	(7)	3,143
Total	<u>\$ 20,424</u>	<u>\$ 137</u>	<u>\$ (131)</u>	<u>\$ 20,430</u>
December 31, 2018				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale	(In thousands)			
Collateralized mortgage obligations	\$ 18,482	\$ 29	\$ (546)	\$ 17,965
Mortgage-backed securities	2,466	1	(55)	2,412
U.S. government agency securities	3,503	-	(99)	3,404
SBA participation certificate	1,730	-	(68)	1,662
Municipal bonds	17,514	3	(307)	17,210
Total	<u>\$ 43,695</u>	<u>\$ 33</u>	<u>\$ (1,075)</u>	<u>\$ 42,653</u>

3. INVESTMENT SECURITIES (Continued)

The amortized cost, gross unrealized gains and losses, and fair values of investment securities held to maturity are summarized as follows:

summarized as follows:

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Held to maturity				
U.S. government agency securities	\$ 1,000	\$ -	\$ -	\$ 1,000
Mortgage-backed securities	1	-	-	1
Subordinated notes	1,000	25	-	1,025
Total	\$ 2,001	\$ 25	\$ -	\$ 2,026

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Held to maturity				
Mortgage-backed securities	\$ 3	\$ -	\$ -	\$ 3
Subordinated notes	1,000	6	(9)	997
Total	\$ 1,003	\$ 6	\$ (9)	\$ 1,000

The tables below indicate the length of time individual securities have been in a continuous unrealized loss position:

		December 31, 2019					
		Less than Twelve Months		Twelve Months or Greater		Total	
		Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available for sale		(In thousands)					
Collateralized mortgage obligations	\$	1,848	\$ (10)	\$ 5,818	\$ (99)	\$ 7,666	\$ (109)
Mortgage-backed securities		-	-	979	(15)	979	(15)
Municipal bond		-	-	961	(7)	961	(7)
	\$	1,848	\$ (10)	\$ 7,758	\$ (121)	\$ 9,606	\$ (131)

3. INVESTMENT SECURITIES (Continued)

		December 31, 2018					
		Less than Twelve Months		Twelve Months or Greater		Total	
		Gross		Gross		Gross	
		Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
		Value	Losses	Value	Losses	Value	Losses
Available for sale		(In thousands)					
U.S. government agency securities	\$	984	\$ (16)	\$ 2,420	\$ (83)	\$ 3,404	\$ (99)
Mortgage-backed securities		2,180	(13)	16,651	(588)	18,831	(601)
SBA participation certificate		-	-	1,662	(68)	1,662	(68)
Municipal bond		8,180	(117)	7,383	(190)	15,563	(307)
	\$	<u>11,344</u>	<u>\$ (146)</u>	<u>\$ 28,116</u>	<u>\$ (929)</u>	<u>\$ 39,460</u>	<u>\$ (1,075)</u>
		December 31, 2018					
		Less than Twelve Months		Twelve Months or Greater		Total	
		Gross		Gross		Gross	
		Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
		Value	Losses	Value	Losses	Value	Losses
Held to maturity		(In thousands)					
Subordinated notes	\$	491	\$ (9)	\$ -	\$ -	\$ 491	\$ (9)

The Company reviews its position quarterly and has asserted that at December 31, 2019, the declines outlined in the above table represent temporary declines and the Company does not intend to sell and it is more likely than not that the Company will not be required to sell the securities before their anticipated recovery in fair value. The number of securities that have been in a continuous unrealized loss position for less than 12 months and for more than 12 months is 8 and 34, respectively, at December 31, 2019. The Company has concluded that the unrealized losses disclosed above are not other than temporary but are the result of interest rate changes, sector credit ratings changes, or Company-specific ratings changes that are not expected to result in the noncollection of principal and interest during the period.

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

	Available for Sale			Held to Maturity	
	Amortized Cost	Fair Value		Amortized Cost	Fair Value
Due in one year or less	\$ 101	\$ 99	\$	-	\$ -
Due after one year through five years	2,232	2,245		1	1
Due after five years through ten years	665	667		2,000	2,025
Due after ten years	17,426	17,419		-	-
Total	<u>\$ 20,424</u>	<u>\$ 20,430</u>	\$	<u>2,001</u>	<u>\$ 2,026</u>

During 2019, the Company sold available-for-sale securities for total proceeds of \$17,831,000 resulting in gross realized gains of \$93,000.

During 2018, the Company sold available-for-sale securities for total proceeds of \$1,888,000, resulting in gross realized gains of \$2,000.

Investment securities with a carrying value of \$16.9 and \$24.5 million at December 31, 2019 and 2018, respectively, were pledged to secure public deposits, collateral for borrowings, and other purposes as required by law.

4. LOANS

Major classifications of loans are summarized as follows:

	December 31,	
	2019	2018
	(In thousands)	
Real estate mortgage (primarily one-to-four family)	\$ 35,405	\$ 23,906
Construction and development	4,325	1,125
Commercial real estate	18,854	15,673
Commercial and industrial	2,729	1,269
Home equity lines of credit	3,669	1,996
Deposit secured	3,087	247
Total	68,069	44,216
Less allowance for loan losses	403	398
Net loans	\$ 67,666	\$ 43,818

In the ordinary course of business, the Company has granted loans to some of its officers, directors and their related interests. Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than normal risk of collectability. The aggregate dollar amount of these loans was approximately \$989,000 and \$1,042,000 at December 31, 2019 and 2018, respectively. During the years ended December 31, 2019 and 2018, loans or additional draws on home equity lines of credit of \$0 and \$86,000, respectively, were made to officers, directors, and their related interests, while principal repayments of \$53,000 and \$54,000 were received from related parties during 2019 and 2018, respectively.

The Company's lending efforts have historically focused on one-to-four family residential real estate loans and construction loans, which comprise approximately \$36.8 million, or 55.0 percent, of the total loan portfolio at December 31, 2019, and \$25.0 million, or 56.6 percent, of the total loan portfolio at December 31, 2018. Historically, such loans have been underwritten with cash down payments sufficient to provide the Company with adequate collateral coverage in the event of default. Nevertheless, the Company, as with any lending institution, is subject to the risk that real estate values or economic conditions could deteriorate in its primary lending areas within Ohio, thereby impairing collateral values.

5. ALLOWANCE FOR LOAN LOSSES

The following table shows the allowance for loan losses and recorded investment in loans for the year ended:

	December 31, 2019							
	Commercial Real Estate	Real Estate Mortgage	Commercial and Industrial	Construction and Development	Home Equity Lines of Credit	Deposit Secured	Unallocated	Total
Allowance for loan losses	(In thousands)							
Beginning balance	\$ 93	\$ 140	\$ 8	\$ 7	\$ 12	\$ 1	\$ 137	\$ 398
Charge-offs	-	(13)	-	-	-	-	-	(13)
Recoveries	-	-	-	-	-	-	-	-
Provision	22	94	9	20	11	(1)	(137)	18
Ending balance	<u>\$ 115</u>	<u>\$ 221</u>	<u>\$ 17</u>	<u>\$ 27</u>	<u>\$ 23</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 403</u>
Ending balance Individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Ending balance Collectively evaluated for impairment	<u>\$ 115</u>	<u>\$ 221</u>	<u>\$ 17</u>	<u>\$ 27</u>	<u>\$ 23</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 403</u>
Loans:								
Ending balance	<u>\$ 18,854</u>	<u>\$ 35,405</u>	<u>\$ 2,729</u>	<u>\$ 4,325</u>	<u>\$ 3,669</u>	<u>\$ 3,087</u>	<u>\$ -</u>	<u>\$ 68,069</u>
Ending balance Individually evaluated for impairment	<u>\$ 589</u>	<u>\$ 405</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,032</u>
Ending balance Collectively evaluated for impairment	<u>\$ 18,265</u>	<u>\$ 35,000</u>	<u>\$ 2,729</u>	<u>\$ 4,325</u>	<u>\$ 3,631</u>	<u>\$ 3,087</u>	<u>\$ -</u>	<u>\$ 67,037</u>

5. ALLOWANCE FOR LOAN LOSSES (Continued)

December 31, 2018								
	Commercial Real Estate	Real Estate Mortgage	Commercial and Industrial	Construction and Development	Home Equity Lines of Credit	Deposit Secured	Unallocated	Total
Allowance for loan losses:	(In thousands)							
Beginning balance	\$ 55	\$ 94	\$ 3	\$ 7	\$ 8	\$ 1	\$ 155	\$ 323
Charge-offs	-	(60)	-	-	-	-	-	(60)
Recoveries	-	135	-	-	-	-	-	135
Provision	38	(29)	5	-	4	-	(18)	-
Ending balance	<u>\$ 93</u>	<u>\$ 140</u>	<u>\$ 8</u>	<u>\$ 7</u>	<u>\$ 12</u>	<u>\$ 1</u>	<u>\$ 137</u>	<u>\$ 398</u>
Ending balance Individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Ending balance Collectively evaluated for impairment	<u>\$ 93</u>	<u>\$ 140</u>	<u>\$ 8</u>	<u>\$ 7</u>	<u>\$ 12</u>	<u>\$ 1</u>	<u>\$ 137</u>	<u>\$ 398</u>
Loans:								
Ending balance	<u>\$ 15,673</u>	<u>\$ 23,906</u>	<u>\$ 1,269</u>	<u>\$ 1,125</u>	<u>\$ 1,996</u>	<u>\$ 247</u>	<u>\$ -</u>	<u>\$ 44,216</u>
Ending balance Individually evaluated for impairment	<u>\$ 349</u>	<u>\$ 651</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 47</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,047</u>
Ending balance Collectively evaluated for impairment	<u>\$ 15,324</u>	<u>\$ 23,255</u>	<u>\$ 1,269</u>	<u>\$ 1,125</u>	<u>\$ 1,949</u>	<u>\$ 247</u>	<u>\$ -</u>	<u>\$ 43,169</u>

Credit Quality Information

Credit quality indicators by internally assigned grade, are as follows:

Pass – loans in this category have strong asset quality and liquidity along with a multi-year track record of profitability.

Special mention – loans in this category are currently protected but are potentially weak. The credit risk may be relatively minor, yet constitute an increased risk in light of the circumstances surrounding a specific loan.

Substandard – loans in this category show signs of continuing negative financial trends and unprofitability and therefore, are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any.

5. ALLOWANCE FOR LOAN LOSSES (Continued)

The following tables present each loan class by credit quality indicator for the years ended December 31:

	2019			2018		
	Commercial Real Estate	Commercial and Industrial	Construction and Development	Commercial Real Estate	Commercial and Industrial	Construction and Development
	(In thousands)					
Pass	\$ 16,936	\$ 2,729	\$ 4,325	\$ 13,939	\$ 1,269	\$ 1,125
Special Mention	1,329	-	-	1,385	-	-
Substandard	589	-	-	349	-	-
	<u>\$ 18,854</u>	<u>\$ 2,729</u>	<u>\$ 4,325</u>	<u>\$ 15,673</u>	<u>\$ 1,269</u>	<u>\$ 1,125</u>

	2019			2018		
	Residential Real Estate	Home Equity Lines of Credit	Deposit Secured	Residential Real Estate	Home Equity Lines of Credit	Deposit Secured
	(In thousands)					
Pass	\$ 34,846	\$ 3,506	\$ 3,087	\$ 23,131	\$ 1,823	\$ 247
Special Mention	17	-	-	20	-	-
Substandard	542	163	-	755	173	-
	<u>\$ 35,405</u>	<u>\$ 3,669</u>	<u>\$ 3,087</u>	<u>\$ 23,906</u>	<u>\$ 1,996</u>	<u>\$ 247</u>

5. ALLOWANCE FOR LOAN LOSSES (Continued)

Impaired Loans

The following tables include the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount, if applicable, as of and for the years ended:

	December 31, 2019				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(In thousands)				
With a related allowance recorded:					
Commercial real estate	\$ -	\$ -	\$ -	\$ -	\$ -
Real estate mortgage	-	-	-	-	-
Commercial and industrial	-	-	-	-	-
Construction and development	-	-	-	-	-
Home equity lines of credit	-	-	-	-	-
Deposit secured	-	-	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
With no related allowance recorded:					
Commercial real estate	\$ 589	\$ 653	\$ -	\$ 551	\$ 20
Real estate mortgage	405	599	-	500	13
Commercial and industrial	-	-	-	-	-
Construction and development	-	-	-	-	-
Home equity lines of credit	38	65	-	41	-
Deposit secured	-	-	-	-	-
	<u>\$ 1,032</u>	<u>\$ 1,317</u>	<u>\$ -</u>	<u>\$ 1,092</u>	<u>\$ 33</u>
Totals by type:					
Commercial real estate	\$ 589	\$ 653	\$ -	\$ 551	\$ 20
Real estate mortgage	405	599	-	500	13
Commercial and industrial	-	-	-	-	-
Construction and development	-	-	-	-	-
Home equity lines of credit	38	65	-	41	-
Deposit secured	-	-	-	-	-
	<u>\$ 1,032</u>	<u>\$ 1,317</u>	<u>\$ -</u>	<u>\$ 1,092</u>	<u>\$ 33</u>

5. ALLOWANCE FOR LOAN LOSSES (Continued)

Impaired Loans (Continued)

	December 31, 2018				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With a related allowance recorded:	(In thousands)				
Commercial real estate	\$ -	\$ -	\$ -	\$ -	\$ -
Real estate mortgage	-	-	-	-	-
Commercial and industrial	-	-	-	-	-
Construction and development	-	-	-	-	-
Home equity lines of credit	-	-	-	-	-
Deposit secured	-	-	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
With no related allowance recorded:					
Commercial real estate	\$ 349	\$ 349	\$ -	\$ 70	\$ -
Real estate mortgage	651	931	-	537	-
Commercial and industrial	-	-	-	-	-
Construction and development	-	-	-	-	-
Home equity lines of credit	47	72	-	50	-
Deposit secured	-	-	-	1	-
	<u>\$ 1,047</u>	<u>\$ 1,352</u>	<u>\$ -</u>	<u>\$ 658</u>	<u>\$ -</u>
Totals by type:					
Commercial real estate	\$ 349	\$ 349	\$ -	\$ 70	\$ -
Real estate mortgage	651	931	-	537	-
Commercial and industrial	-	-	-	-	-
Construction and development	-	-	-	-	-
Home equity lines of credit	47	72	-	50	-
Deposit secured	-	-	-	1	-
	<u>\$ 1,047</u>	<u>\$ 1,352</u>	<u>\$ -</u>	<u>\$ 658</u>	<u>\$ -</u>

5. ALLOWANCE FOR LOAN LOSSES (Continued)

Age analysis of past-due loans is as follows:

		December 31, 2019					
		30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total
		(In thousands)					
Commercial real estate	\$	-	\$ -	\$ 198	\$ 198	\$ 18,656	\$ 18,854
Residential real estate		274	231	212	717	34,688	35,405
Commercial and industrial		180	-	-	180	2,549	2,729
Construction and development		-	-	-	-	4,325	4,325
Home equity lines of credit		-	30	38	68	3,601	3,669
Deposit secured		50	-	-	50	3,037	3,087
Total	\$	<u>504</u>	<u>\$ 261</u>	<u>\$ 448</u>	<u>\$ 1,213</u>	<u>\$ 66,856</u>	<u>\$ 68,069</u>
		December 31, 2018					
		30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total
		(In thousands)					
Commercial real estate	\$	-	\$ -	\$ 349	\$ 349	\$ 15,324	\$ 15,673
Residential real estate		41	71	414	526	23,380	23,906
Commercial and industrial		-	-	-	-	1,269	1,269
Construction and development		-	-	-	-	1,125	1,125
Home equity lines of credit		-	-	47	47	1,949	1,996
Deposit secured		6	-	-	6	241	247
Total	\$	<u>47</u>	<u>\$ 71</u>	<u>\$ 810</u>	<u>\$ 928</u>	<u>\$ 43,288</u>	<u>\$ 44,216</u>

Nonaccrual Loans

The following tables present loans on nonaccrual status or 90 days delinquent and still accruing interest by portfolio segment:

		December 31, 2019		December 31, 2018	
		Past Due 90 Days or More		Past Due 90 Days or More	
		Nonaccrual	and Still Accruing	Nonaccrual	and Still Accruing
Real estate:					
Residential	\$	189	\$ 132	\$ 368	\$ 51
Commercial		197	-	203	146
Home equity lines of credit		38	-	47	-
	\$	<u>424</u>	<u>\$ 132</u>	<u>\$ 618</u>	<u>\$ 197</u>

5. ALLOWANCE FOR LOAN LOSSES (Continued)

Interest income on nonaccrual loans not recognized during 2019 and 2018 was \$44,000 and \$51,000, respectively.

Troubled Debt Restructuring

Consistent with accounting and regulatory guidance, the Bank recognizes a troubled debt restructuring when the Bank, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that would not normally be considered. Regardless of the form of concession granted, the Bank's objective in offering a troubled debt restructuring is to increase the probability of repayment of the borrower's loan principal.

The Bank had no loans modified as troubled debt restructurings during the years ended December 31, 2019 and 2018.

6. LIMITED PARTNERSHIP – OHIO EQUITY FUND

The Company holds an interest in a limited partnership formed to assist in the production, rehabilitation, and preservation of affordable housing in Ohio and surrounding states. The Company accounts for the investment in the limited partnership using the proportional amortization method, which allows the Company to amortize the cost of the investment in proportion to the tax credits and other tax benefits it receives to income tax expense. Management believes this is the best estimate of fair value. At December 31, 2019 and 2018, the amortized cost of the investment was \$758,000 and \$844,000, respectively. Under the terms of the limited partnership agreement, the Company agreed to a subscription price of \$1,000,000 executed by a capital contribution note.

7. OTHER REAL ESTATE OWNED

As of December 31, 2019 and 2018, the bank had other real estate owned of \$204,000 and \$270,000, respectively. As of December 31, 2019, there were no formal foreclosure proceedings initiated on loans.

8. PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows:

	December 31,	
	2019	2018
	(In thousands)	
Land	\$ 32	\$ 32
Building and building improvements	672	672
Furniture and equipment	265	487
	<u>969</u>	<u>1,191</u>
Less accumulated depreciation	<u>643</u>	<u>865</u>
Total	<u>\$ 326</u>	<u>\$ 326</u>

Depreciation and amortization charged to operations were \$34,000 and \$28,000 in 2019 and 2018, respectively.

9. DEPOSITS

Time deposits (in thousands) totaling \$18,472, \$9,234, \$2,688, \$696, \$268, and \$234 at December 31, 2019, mature during 2020, 2021, 2022, 2023, 2024, and thereafter, respectively.

Substantially all deposits are interest bearing. The type of deposit accounts are summarized as follows:

	2019	2018
	(In thousands)	
Savings and transaction accounts	\$ 30,104	\$ 27,872
Certificates of deposit	31,592	29,966
Total	<u>\$ 61,696</u>	<u>\$ 57,838</u>

Time deposits include certificates of deposit and other time deposits in denominations equal to or in excess of \$250,000. Such deposits aggregated to \$11.9 million and \$8.5 million at December 31, 2019 and 2018, respectively.

10. FEDERAL INCOME TAXES

Income tax expense consists of the following at December 31:

	2019	2018
	(In thousands)	
Current	\$ 101	\$ 101
Deferred	(45)	(146)
Total	<u>\$ 56</u>	<u>\$ (45)</u>

The reconciliation of income tax provision (benefit) computed at the federal statutory rate to the Company's effective income tax provision (benefit) is as follows:

	2019		2018	
	Amount	% of Pretax Income	Amount	% of Pretax Income
	(In thousands)			
Provision at statutory rate	\$ 101	21.0 %	\$ 37	21.0 %
Effect of tax-exempt income	(40)	(8.3)	(72)	(41.1)
Bank-owned life insurance, net	(15)	(3.1)	(16)	(9.2)
Other	10	2.0	6	3.4
Actual tax expense and effective rate	<u>\$ 56</u>	<u>11.6 %</u>	<u>\$ (45)</u>	<u>(25.9) %</u>

10. FEDERAL INCOME TAXES (Continued)

The components of the net deferred federal income tax asset are as follows:

	2019	2018
	(In thousands)	
Deferred tax assets:		
Net unrealized losses on investment securities	\$ -	\$ 219
Allowance for loan losses	85	84
Imputed loan interest	55	64
Net operating loss and credits carry forward	439	355
Other	(36)	(4)
Gross deferred tax assets	<u>543</u>	<u>718</u>
Deferred tax liabilities:		
Net unrealized gain on investment securities	(1)	-
FHLB stock dividends	(132)	(132)
Depreciation	(10)	(11)
Gross deferred tax liabilities	<u>(143)</u>	<u>(143)</u>
Net deferred tax assets	<u>\$ 400</u>	<u>\$ 575</u>

At December 31, 2019 the Company had approximately \$768,000 in net operating loss carryforwards which begin to expire in 2034.

The amount of federal income tax expense attributable to continuing operations may differ from the amount of expense that would result from applying domestic federal statutory rates to pre-tax income from continuing operations primarily due to statutory deduction limitations.

The Company was previously allowed a special bad debt deduction based on a percentage of earnings, generally limited to 8 percent of otherwise taxable income, or the amount of qualifying and nonqualifying loans outstanding and subject to certain limitations based on aggregate loans and savings account balances at the end of the calendar year. If the amounts that qualified as deductions for federal income tax purposes are later used for purposes other than for bad debt losses, including distributions in liquidation, such distributions will be subject to federal income taxes at the then current corporate income tax rate. Retained earnings at December 31, 2019, includes approximately \$2.5 million for which federal income taxes have not been provided. The amount of the unrecognized deferred tax liability relating to the cumulative percentage of earnings bad debt deduction totaled approximately \$525,000 at December 31, 2019.

There is currently no liability for uncertain tax positions and no known unrecognized tax benefits. The Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the Consolidated Statement of Income. With few exceptions, the Company is no longer subject to U.S. federal, state, or local income tax examinations by tax authorities for years before 2016.

11. BORROWED FUNDS

Federal Home Loan Bank (FHLB) advances are secured by \$15.4 million of investment securities held in safekeeping at the FHLB and qualifying one-to-four family residential loans up to 125 percent of outstanding advances, or \$25.1 million at December 31, 2019, and \$28.8 million at December 31, 2018. Advances issued by the FHLB are at either a variable or fixed rate of interest. Additionally, some advances have a fixed rate for an initial period until a quarterly option exercisable by the FHLB may convert the issue to a variable rate. Other advances have a fixed rate for an initial period until a quarterly put option exercisable by the FHLB would subject the advance to repayment or refinancing at prevailing interest rates. Each convertible advance is subject to a prepayment penalty if paid prior to its maturity date, except when prior to maturity, an advance is converted to a variable rate. In the event of such conversion, the advance may be prepaid without penalty at conversion and on a quarterly basis thereafter. Each fixed rate or puttable advance is subject to a prepayment penalty if paid prior to its maturity or put date, as applicable. Cash management advances may be prepaid at any time without penalty.

The Bank has a blanket credit arrangement with the FHLB with a maximum borrowing capacity of approximately \$34.3 million at December 31, 2019. This credit arrangement is subject to annual renewal, incurs no service charges, and is secured by the Bank's FHLB stock and certain first mortgage loans.

The following table summarizes the advances as of December 31:

Description	Maturity	Interest Rate	At December 31,	
			2019	2018
			(In thousands)	
Fixed rate	January 2019	1.83	% \$	- \$ 1,000
Fixed rate	January 2019	2.42		- 4,800
Fixed rate	January 2019	2.52		- 1,400
Variable	January 2019	2.55		- 2,200
Variable	February 2019	2.55		- 1,000
Variable	March 2019	2.55		- 925
Fixed rate	January 2020	2.14		1,000 1,000
Variable	February 2020	1.73		100 -
Fixed rate	December 2020	2.10		2,000 2,000
Fixed rate	March 2021	1.87		1,000 1,000
Fixed rate	January 2022	2.09		2,000 2,000
Fixed rate	April 2022	2.47		2,000 2,000
Fixed rate	December 2022	2.48		1,000 1,000
Fixed rate	January 2023	2.36		2,000 2,000
Fixed rate	January 2023	2.08		2,000 -
Fixed rate	December 2023	2.54		1,500 1,500
Fixed rate	April 2024	2.55		2,000 -
Fixed rate	June 2024	2.15		1,000 -
Fixed rate	August 2024	1.82		1,500 -
Fixed rate	February 2025	2.43		3,000 3,000
Fixed rate	December 2028	3.46		1,000 1,000
Fixed rate	June 2038	3.77		1,000 1,000
Fixed rate	June 2039	3.04		1,000 -
			\$	25,100 \$ 28,825

The weighted-average interest rate is 2.40 percent at December 31, 2019.

The note payable to The Ohio Equity Fund had a balance of \$193,000 and \$317,000 as of December 31, 2019 and 2018, respectively, with a maturity of December 2027. Principal payments totaling \$46,000, \$30,000, \$23,000, \$22,000, \$22,000 and \$50,000 at December 31, 2019 mature during 2020, 2021, 2022, 2023, 2024, and thereafter.

11. BORROWED FUNDS (Continued)

The Company maintains \$7.0 million unsecured lines of credit with two other financial institutions. The Company also maintains a \$3.2 million secured line of credit with a third financial institution. At December 31, 2019 and 2018, the lines of credit were not used and were fully available.

12. EMPLOYEE BENEFITS

During 2018, the Company terminated its Employee Stock Ownership Plan (ESOP) and replaced it with a 401(k) plan. The Company did not contribute to the ESOP in 2018. The Company contributed \$23,000 and \$21,000 to the 401(k) plan in 2019 and 2018, respectively.

13. PREFERRED STOCK

On December 22, 2006, pursuant to the common stockholders' approval, 30,119 preferred shares were issued in exchange for outstanding common shares, on a one-for-one basis, to all common shareholders of record owning 300 or less shares.

Shareholders owning the Series A Preferred Stock are entitled to a 5 percent preference in the distribution of dividends when and if declared on the common stock. Shareholders owning preferred stock do not have voting rights except for matters pertaining to change in control, such as merger, share exchange or sale of substantially all Company assets. The Series A Preferred Stock automatically converts to shares of Common Stock immediately prior to a change in control.

14. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents the changes in accumulated other comprehensive income (loss) by component net of tax for the years ended December 31, 2019 and 2018.

		Net Unrealized Gain (Loss) on Securities
Accumulated other comprehensive loss, December 31, 2017	\$	(451)
Other comprehensive loss before reclassification and accretion (net of tax)		(370)
Amounts reclassified from accumulated other comprehensive loss		<u>(2)</u>
Total other comprehensive loss		(372)
Accumulated other comprehensive loss, December 31, 2018		(823)
Other comprehensive income before reclassification and accretion (net of tax)		901
Amounts reclassified from accumulated other comprehensive income		<u>(73)</u>
Total other comprehensive income		828
Accumulated other comprehensive income, December 31, 2019	\$	<u><u>5</u></u>

14. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (Continued)

The following table presents the significant amounts reclassified out of each component of accumulated other comprehensive income as of December 31, 2019 and 2018.

December 31, 2019		
	Amount Reclassified	Affected line on the
Net unrealized gain on investment securities	\$ 93	Gains on sale of securities
	(20)	Federal income tax
	\$ 73	expense (benefit)
December 31, 2018		
	Amount Reclassified	Affected line on the
Net unrealized gain on investment securities	\$ 2	Gains on sale of securities
	-	Federal income tax
	\$ 2	expense (benefit)

(a) Amounts in parenthesis indicate debits to net income

15. COMMITMENTS

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers including commitments to extend credit. Such commitments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the statement of financial condition. The contract or notional amounts of the commitments reflect the extent of the Company's involvement in such financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as those utilized for on-balance sheet instruments.

At December 31, 2019, the Company had outstanding commitments of approximately \$1.7 million of variable rate home equity lines of credit, \$500,000 of commercial lines of credit, \$150,000 of personal lines of credit and \$76,000 of construction loans. The average interest rate of the lines of credit was 5.17 percent at December 31, 2019. In the opinion of management, the outstanding loan commitments equaled or exceeded prevalent market interest rates and such loans were underwritten in accordance with normal underwriting policies, and all commitments will be funded via cash flow from operations and existing excess liquidity.

15. COMMITMENTS (Continued)

At December 31, 2018, the Company had outstanding commitments of approximately \$1.5 million of variable rate home equity lines of credit, \$1.2 million of commercial lines of credit, and \$1.0 million of construction loans. The average interest rate of the lines of credit was 5.52 percent at December 31, 2018. In the opinion of management, the outstanding loan commitments equaled or exceeded prevalent market interest rates and such loans were underwritten in accordance with normal underwriting policies, and all commitments will be funded via cash flow from operations and existing excess liquidity.

From time to time, and in the ordinary course of business, the Company becomes a party to litigation. In the opinion of management, after consultation with legal counsel, the ultimate disposition of any current claim, asserted or unasserted, is not expected to have a material effect on the Company's consolidated financial statements.

16. FAIR VALUE MEASUREMENTS

The following disclosures show the hierarchical disclosure framework associated with the level of pricing observations utilized in measuring assets and liabilities at fair value. The three broad levels of pricing observations are as follows:

- Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.
- Level II: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.
- Level III: Valuations are derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires the use of observable market data, when available.

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

Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value. Fair value is measured based on the value of the collateral securing these loans and is classified at a Level III in the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory, and/or accounts receivable and is determined based on appraisals performed by qualified licensed appraisers hired by the Company. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business. Such discounts are typically significant and result in a Level III classification of the inputs for determining fair value. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified above.

Level III is for positions that are not traded in active markets or are subject to transfer restrictions, and/or where valuations are adjusted to reflect illiquidity and/or non-transferability. Such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

16. FAIR VALUE MEASUREMENTS (Continued)

Financial Assets and Liabilities Measured on a Recurring Basis

Assets measured at fair value on a recurring basis are as follows:

		December 31, 2019			
		Level I	Level II	Level III	Total
		(In thousands)			
Assets measured at fair value on a recurring basis:					
Collateralized mortgage obligations	\$	-	\$ 14,608	\$ -	\$ 14,608
Mortgage-backed securities		-	1,169	-	1,169
U.S. government agency securities		-	1,510	-	1,510
Municipal bonds		-	3,143	-	3,143
Total	\$	-	\$ 20,430	\$ -	\$ 20,430

		December 31, 2018			
		Level I	Level II	Level III	Total
		(In thousands)			
Assets measured at fair value on a recurring basis:					
Collateralized mortgage obligations	\$	-	\$ 17,965	\$ -	\$ 17,965
Mortgage-backed securities		-	2,412	-	2,412
U.S. government agency securities		-	3,404	-	3,404
SBA participation certificate		-	1,662	-	1,662
Municipal bonds		-	17,210	-	17,210
Total	\$	-	\$ 42,653	\$ -	\$ 42,653

Assets and Liabilities Measured on a Non-Recurring Basis

Nonfinancial assets and liabilities measured at fair value on a non-recurring basis are as follows:

		December 31, 2019			
		Level I	Level II	Level III	Total
		(In thousands)			
Limited Partnership - Ohio Equity Fund	\$	-	\$ -	\$ 758	\$ 758
Other real estate owned	\$	-	\$ -	\$ 204	\$ 204

		December 31, 2018			
		Level I	Level II	Level III	Total
		(In thousands)			
Limited Partnership - Ohio Equity Fund	\$	-	\$ -	\$ 844	\$ 844
Other real estate owned	\$	-	\$ -	\$ 270	\$ 270

16. FAIR VALUE MEASUREMENTS (Continued)

Other real estate owned is valued at the time the loan is foreclosed upon and the asset is transferred to other real estate owned. The value is based primarily on third-party appraisals, less costs to sell. The appraisals are generally discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business. Such discounts are typically significant and result in a Level III classification of the inputs for determining fair value. Other real estate owned is reviewed and evaluated on at least an annual basis for additional impairment and adjusted accordingly, based on the same factors identified above.

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis for which the Company uses Level III inputs to determine fair value:

	Fair Value at December 31, 2019	Fair Value at December 31, 2018	Valuation Techniques	Unobservable Inputs	December 31, 2019		December 31, 2018	
					Range	Weighted Average	Range	Weighted Average
Other real estate owned	\$ 204	270	Appraisal of collateral (1), (2)	Appraisal	10%	10%	10%	10%

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level III inputs which are not identifiable.

(2) Includes qualitative adjustments by management and estimated liquidation expenses.

16. FAIR VALUE MEASUREMENTS (Continued)

Financial Instruments:

The fair values of the Company's financial instruments not required to be reported at fair value are as follows:

		December 31, 2019				
		Carrying Value	Fair Value	Level I	Level II	Level III
Financial assets:						
Investment securities:						
Held to maturity	\$	2,001	\$ 2,026	\$ -	\$ 2,026	\$ -
Net loans		67,666	67,190	-	-	67,190
Financial liabilities:						
Deposits	\$	61,696	\$ 61,585	\$ 30,104	\$ -	\$ 31,481
Federal Home Loan Bank Advances and notes payable		25,293	25,630	-	-	25,630
		December 31, 2018				
		Carrying Value	Fair Value	Level I	Level II	Level III
Financial assets:						
Investment securities:						
Held to maturity	\$	1,003	\$ 1,000	\$ -	\$ 1,000	\$ -
Net loans		43,818	43,079	-	-	43,079
Financial liabilities:						
Deposits	\$	57,838	\$ 57,131	\$ 27,872	\$ -	\$ 29,259
Federal Home Loan Bank Advances and notes payable		29,142	28,739	-	-	28,739

For cash and cash equivalents, certificates of deposits, BOLI, Federal Home Loan Bank stock, accrued interest receivable, and accrued interest payable, the carrying value is reasonable estimate of fair value.

17. REGULATORY CAPITAL

Federal regulations require the Company and the Association to maintain minimum amounts of capital. Specifically, the Company is required to maintain certain minimum dollar amounts and ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average total assets. Management believes, as of December 31, 2019 and 2018, the Company meets all capital adequacy requirements to which it is subject.

In addition to the capital requirements, the Federal Deposit Insurance Corporation Improvement Act (FDICIA) established five capital categories ranging from “well capitalized” to “critically undercapitalized.” Should any institution fail to meet the requirements to be considered “adequately capitalized,” it would become subject to a series of increasingly restrictive regulatory actions.

Effective January 1, 2015, the Company and the Association became subject to the final rules issued by the Federal Reserve and the OCC and subsequently adopted by the FDIC, establishing a new comprehensive capital framework for banking organizations. The new capital framework substantially revised the risk-based capital requirements in comparison to the prior rules, which were in effect through December 31, 2014. The Basel III Capital Rules introduced a new capital measure, “Common Equity Tier I,” increased the minimum requirements for Tier I Capital ratio as well as the minimum to be considered well capitalized under prompt corrective action; and introduce the “capital conservation buffer,” which will be phased in over a four-year period. Failure to meet minimum capital requirements can initiate certain mandatory-and possibly additional discretionary-actions by regulators that, if undertaken, could have a direct material effect on the Company’s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Association must meet specific capital guidelines that involve quantitative measures of the Association’s assets, liabilities, and certain off-balance-sheet items as calculated under U.S. GAAP, regulatory reporting requirements, and regulatory capital standards. The Association’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 regulation to ensure capital adequacy require the Company and the Association to maintain minimum amounts and ratios (set forth in the following table) of total, Tier 1 capital and common equity Tier 1 (as defined in the regulations) to risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of December 31, 2019, that the Company and the Association meet all capital adequacy requirements to which they are subject.

As of December 31, 2019 and 2018, the OCC categorized the Company as well capitalized under the regulatory framework for prompt corrective action. To be classified as a well-capitalized financial institution, common equity Tier 1 risk-based, Total risk-based, Tier 1 risk-based, and Tier 1 leverage capital ratios must be at least 6.5 percent, 10 percent, 8 percent, and 5 percent, respectively.

The Association’s actual capital ratios are presented in the following table that shows the Association met all regulatory capital requirements. The capital position of the Association does not differ significantly from the Company’s capital position.

17. REGULATORY CAPITAL (Continued)

As of December 31, 2019 and 2018, management believes that the Company met all capital adequacy requirements to which it was subject.

	2019		2018	
	Amount	Ratio	Amount	Ratio
	(In thousands)			
<u>Total capital</u> <u>(to risk-weighted assets)</u>				
Actual	\$ 12,715	19.93 %	\$ 12,640	24.63 %
For capital adequacy purposes	5,103	8.00	4,105	8.00
To be well capitalized	6,379	10.00	5,131	10.00
<u>Tier 1 capital</u> <u>(to risk-weighted assets)</u>				
Actual	\$ 12,312	19.30 %	\$ 12,242	23.86 %
For capital adequacy purposes	3,827	6.00	3,079	6.00
To be well capitalized	5,103	8.00	4,105	8.00
<u>Common equity Tier 1 capital</u> <u>(to risk-weighted assets)</u>				
Actual	\$ 12,312	19.30 %	\$ 12,242	23.86 %
For capital adequacy purposes	2,871	4.50	2,309	4.50
To be well capitalized	4,146	6.50	3,335	6.50
<u>Tier 1 capital</u> <u>(to average assets)</u>				
Actual	\$ 12,312	12.54 %	\$ 12,242	12.47 %
For capital adequacy purposes	3,935	4.00	3,926	4.00
To be well capitalized	4,919	5.00	4,907	5.00

The Company's management believes that, under the current regulatory capital regulations, the Company will continue to meet its minimum capital requirements in the foreseeable future. However, events beyond the control of the Company, such as increased interest rates or a downturn in the economy in the primary market area, could adversely affect future earnings and, consequently, the ability to meet future minimum regulatory capital requirements.

The Association is subject to regulations imposed by the OCC regarding the amount of capital distributions payable to the Company. Generally, the Association's payment of dividends is limited, without prior OCC approval, to net earnings for the current calendar year plus the two preceding calendar years, less capital distributions paid over the comparable time period. Insured institutions are required to file an application with the OCC for capital distributions in excess of this limitation. The Association must also give notice to the Federal Reserve Bank of Cleveland for approval prior to declaring a dividend to the Company.

18. PENDING MERGER

In December 2019, the Company signed a definitive stock purchase agreement whereby the Company will acquire Union Capital Mortgage Corporation, a residential mortgage company headquartered in Mentor, Ohio, in a cash and stock transaction. The agreement has been approved by the Board of Directors of each company. Upon completion of the transaction, Union Capital will become a wholly-owned subsidiary of the Association. Subject to customary regulatory approval and other closing conditions, the transaction is expected to occur in the second quarter of 2020.

19. SUBSEQUENT EVENTS

Management has reviewed events occurring through March 17, 2020, the date the financial statements were issued, and no other subsequent events occurred requiring accrual or disclosure.

**FIRST NILES FINANCIAL, INC.
STOCKHOLDER INFORMATION**

ANNUAL MEETING

The annual meeting of stockholders will be held at 2:00 p.m. local time, Wednesday, April 29, 2020, at the main office of First Niles, located at 55 North Main Street, Niles, Ohio.

COMMON STOCK AND DIVIDENDS

First Niles Financial, Inc.'s common stock is quoted on the OTCPink under the symbol "FNFI."

As of December 31, 2019, the Company had issued 1,724,741 shares of common stock with 1,113,067 outstanding held by approximately 95 stockholders of record. At the same date the Company had issued 29,670 shares of preferred stock with 22,062 shares outstanding held by approximately 155 stockholders of record.

The table below presents the quarterly range of high and low sales prices of First Niles' common stock for 2018 and 2019, as well as the amount of cash distributions declared during the stated periods. The price information set forth in the table below was provided by an independent outside source.

	HIGH	LOW	Cash Dividends Declared
First Quarter (ended March 31, 2018)	\$10.98	\$10.02	\$0.05
Second Quarter (ended June 30, 2018)	\$10.50	\$9.50	\$0.05
Third Quarter (ended September 30, 2018)	\$9.80	\$9.07	\$0.05
Fourth Quarter (ended December 31, 2018)	\$9.20	\$7.00	\$0.05
First Quarter (ended March 31, 2019)	\$9.00	\$7.49	\$0.05
Second Quarter (ended June 30, 2019)	\$9.00	\$7.00	\$0.05
Third Quarter (ended September 30, 2019)	\$8.50	\$7.10	\$0.05
Fourth Quarter (ended December 31, 2019)	\$8.90	\$7.75	\$0.06

Dividend payment decisions are made with consideration of a variety of factors including earnings, financial condition, market considerations and regulatory restrictions. Restrictions on dividend payments are described in Note 17 of the Notes to Consolidated Financial Statements included in this Annual Report.

**STOCKHOLDER
AND GENERAL INQUIRIES**

Daniel E. Csontos, President
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<http://www.computershare.com/investor>

ANNUAL AND OTHER REPORTS

Copies of the Company's Annual Report can be obtained, without cost, by writing or calling: First Niles Financial, Inc. Investor Relations, Attn: Daniel E. Csontos, President, 55 North Main Street, Niles, Ohio 44446, telephone (330) 652-2539.

**FIRST NILES FINANCIAL, INC.
CORPORATE INFORMATION**

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BOARD OF DIRECTORS

DANIEL E. CSONTOS

President and Chief Executive Officer of First Niles Financial, Inc. and Home Federal Savings and Loan Association of Niles

P. JAMES KRAMER

*Chairman, First Niles Financial, Inc. and Home Federal Savings and Loan Association of Niles
President, Wm. Kramer & Sons, Inc.*

WILLIAM EDDY

President, Clinic of Osteopathic Medicine, Inc.

LANCE OSBORNE

President, Osborne Capital Group, LLC

ROBERT I. SHAKER

Partner, Law Firm of Shaker & Shaker, LLP

EXECUTIVE OFFICERS

DANIEL E. CSONTOS

President and Chief Executive Officer of First Niles Financial, Inc. and Home Federal Savings and Loan Association of Niles

MARY ANN COATES

Chief Financial Officer of First Niles Financial, Inc. and Home Federal Savings and Loan Association of Niles

RAYMOND J. CALGAGNI

Vice President of First Niles Financial, Inc. and Home Federal Savings and Loan Association of Niles

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