2019 ANNUAL REPORT

GLENVILLE BANK HOLDING COMPANY

1st National Bank of Scotia

Scautub Agency Since 1926

First Scotia Wealth Management

2019 Annual Report

Glenville Bank Holding Company, Inc. (GBHC) is a financial holding company whose principal activity is the ownership of its two wholly-owned subsidiaries, 1st National Bank of Scotia (the "Bank") and Scautub Agency, LLC (the "Agency"). The consolidated financial statements include accounts of the GBHC, the Bank and the Agency, after elimination of intercompany transactions.

We understand how important good service is to delivering customer satisfaction and are pleased to have been serving the local community since the 1920's. 1st National Bank of Scotia and Scautub Agency, LLC offer a wide range of banking and insurance services to meet all your financial needs. A friendly officer or customer service specialist will be happy to answer your questions or discuss your needs.

Table of Contents

Report of the Chairman and President

Dear Shareholder:

In a year dominated by political turmoil with doom and gloom predicted by political office seekers, 1st National Bank of Scotia had its most successful year! The bank continues to grow, ending the year at record highs of over $483 million in assets and profits of $3,429,862. Because of those record profits we were able to increase our ever-critical leverage capital ratio to 8.68% and increase shareholder dividends to $2.45 per share. We are proud to be able to drive strength, return to our shareholders, and deliver service excellence all while remaining independent. These are outstanding results driven by an amazing staff of talented and dedicated individuals.

In early 2019 the bank introduced our new strategic plan to guide us into the next decade and beyond. Some strategic plans are nothing more than a to-do list of various tasks, however, after much research and consultations with customers and staff, we decided that it was time for a transformative plan that would focus on our historic strengths and make our bank the best it can be. The plan reinforces our longstanding mission statement and values while adding a strategic vision where we seek not only to provide our traditional good customer service, but to provide an exceptional service experience, every time! When our customers need us, we want to be there for them, every time.

We are proud to say that this initiative has been well received and universally adopted into our everyday work. We are seeing the difference this vision has made each day in the actions of our staff, in the comments from customers, and in the results of our business development and customer retention. Our new focus, along with the deteriorating service levels at the large nationwide banks, has jumpstarted our new customer acquisitions and it will only improve this coming year. When consumers or small businesses want to be treated right and receive solid financial advice, 1st National Bank of Scotia is clearly their best choice!

Customer service in this age of instant gratification is not just about providing a customer with excellent personal service, it also involves providing timely solutions and solid technology to the customer wherever they are. Banks are no longer judged on technology versus their peers; customer expectations are set by all of their experiences on the web with companies like Amazon. 1st National has been a leader in innovation for over 80 years, and continues that tradition today. We currently provide a host of solutions that provide the latest in technology, such as SecurLOCK Equip, which puts control of your debit and credit cards in your hands; Zelle, a state of the art peer-to-peer payment app; and our latest introduction of an easy to use remote deposit product specifically designed for small business.

To keep up with the latest Fintech trends, the bank has partnered with the Venture Center in Little Rock, Arkansas, providing mentors for their community bank technology accelerator programs. This offers us early access to the latest technology to further improve the customer experience and provide efficiencies behind the scenes. Just this year we have contracted with two companies that have come from these programs, and are actively looking at several others.

Report of the Chairman and President

Investments in technology and service are not the only ways we are continuing to modernize our bank. Over the last few years we have reinvested in our communities by remodeling and upgrading the interior and exterior of several branches. In addition to updating the facilities to take advantage of energy efficiency, we have repurposed space in the branches previously used for extended teller lines, into meeting space, First Scotia Wealth Management offices, and an additional office for our sister company The Scautub Agency. We were honored to be nominated for a beautification award by the Colonie Chamber for the renovations completed last fall in our Colonie office. Stop by if you have a chance. As digital transactions continue to dwarf in-person teller transactions, further renovations are underway at other branches as we transform our buildings from teller transaction hubs to efficient spaces that meet the current needs of our customers.

A highlight of our year was the “Outstanding” Community Reinvestment Act (CRA) rating we received from our regulator, the Office of the Comptroller of the Currency (OCC). A rating of Outstanding on CRA indicates that our bank is among the best in the nation at meeting the needs of our community. It is a welcome recognition of the efforts put forth by our dedicated staff every day! In addition to our terrific CRA recognition, in their regular exam of our bank, the OCC found the bank to be in excellent shape, well capitalized, and well managed. We greatly appreciate all of our shareholders and especially shareholders that invested in this bank many years ago when things were not as rosy. We hope that you feel satisfaction in seeing your faith rewarded by a strong bank, with an excellent record of supporting the communities where we live and work. To you - our sincerest thanks!

In this renewed era of bank consolidation, we are proud to remain one of this area’s few independent and locally owned community banks, and plan on remaining independent despite the national trends. The loyal support given the bank over the last 96 years by our shareholders, directors, officers, employees, customers, and especially the community, has made it all possible.

L.H. Buhrmaster
Chairman of the Board

John H. Buhrmaster
President & CEO

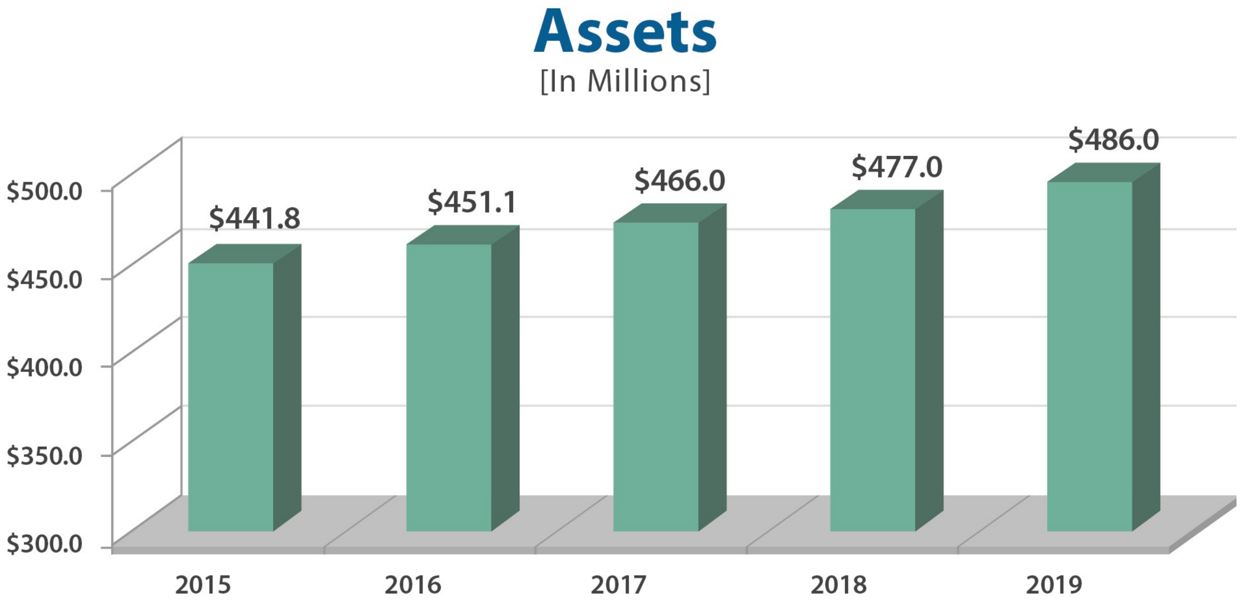
Financial Highlights - Bank Only

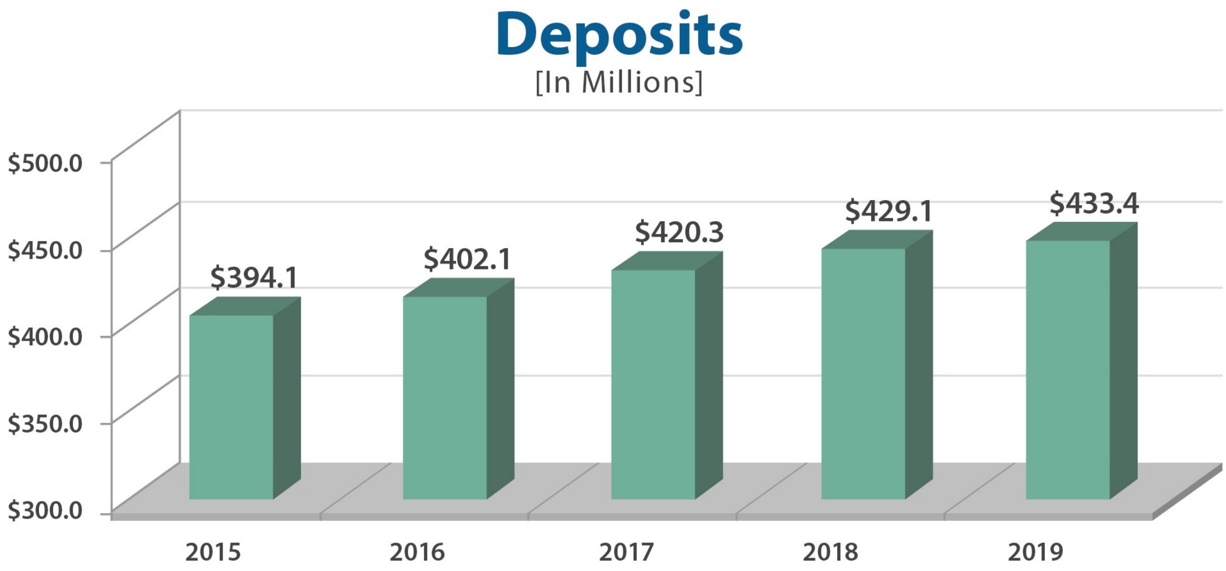
(all figures in thousands except per share, percentage & office figures)

As of December 31,		2019		2018
Net Income	$	3,430	$	2,804
Basic earnings per share	$	17.17	$	14.03
Balance sheet:				
Loans, net of unearned income	$	413,903	$	415,505
Less: Allowance for loan losses	$	(4,605)	$	(4,367)
Total assets	$	483,215	$	474,407
Total deposits	$	435,425	$	431,035
Shareholders' equity	$	39,017	$	36,027
Ratios:				
Return on average assets		0.71%		0.59%
Return on average equity		9.18%		7.66%
Net interest margin		3.82%		3.58%
Loans to deposits		95.06%		96.36%
Tier I leverage		8.68%		8.22%
Risk-based capital		12.10%		11.37%
Allowance for loan losses to loans		1.11%		1.05%
Number of banking offices		10		10

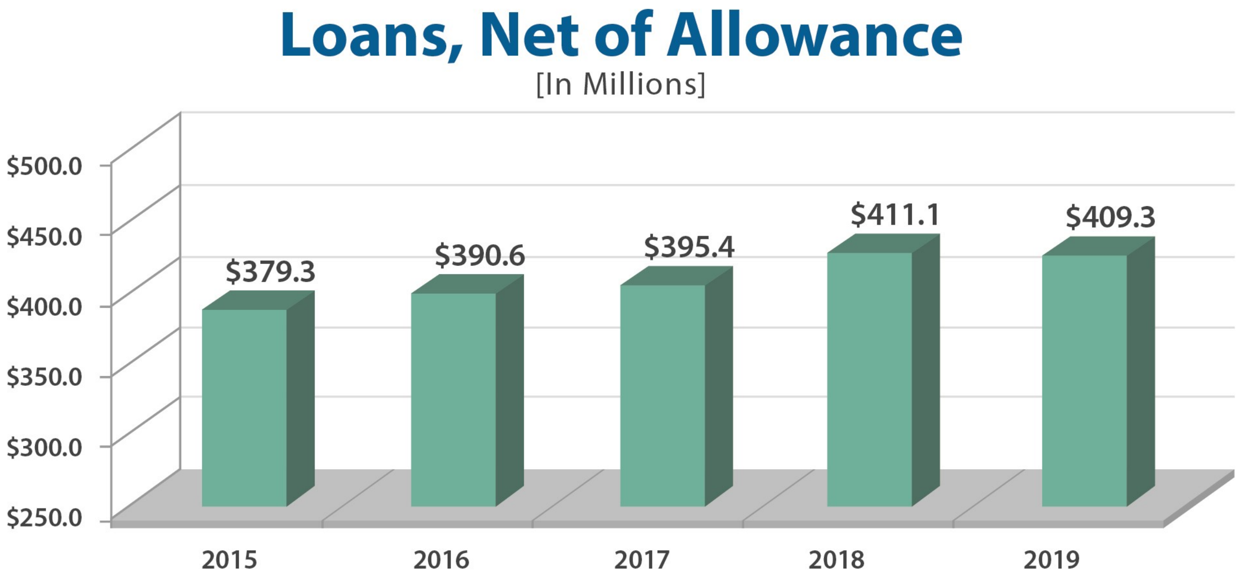
The subsequent financial statements represent the consolidated effects of the GBHC, the Bank, and the Agency.

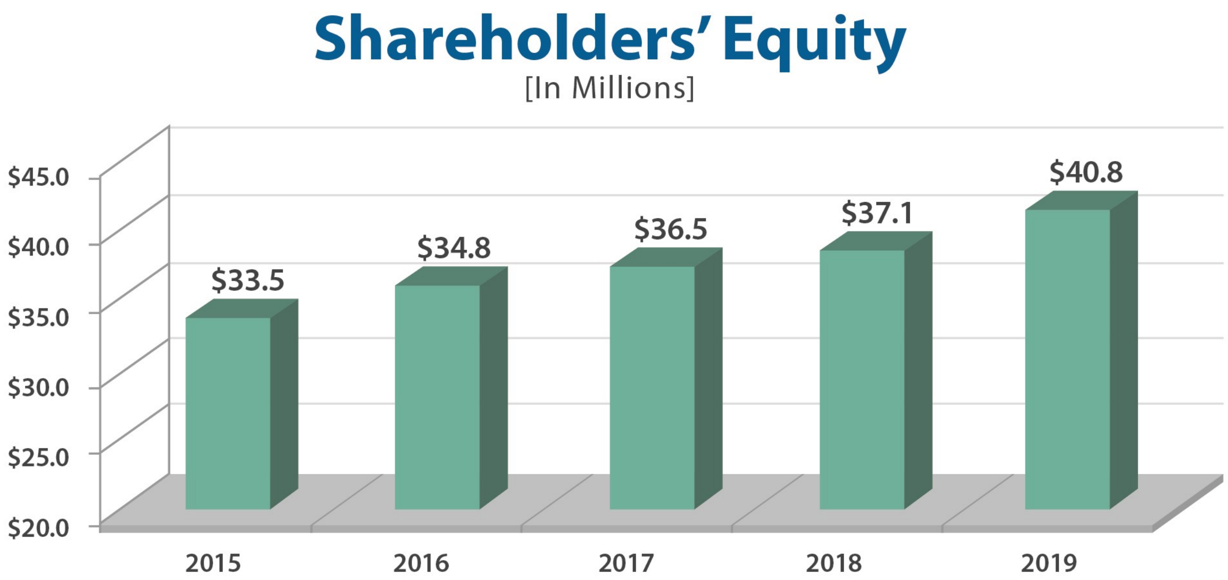
GBHC Consolidated Financial Highlights 2015-2019



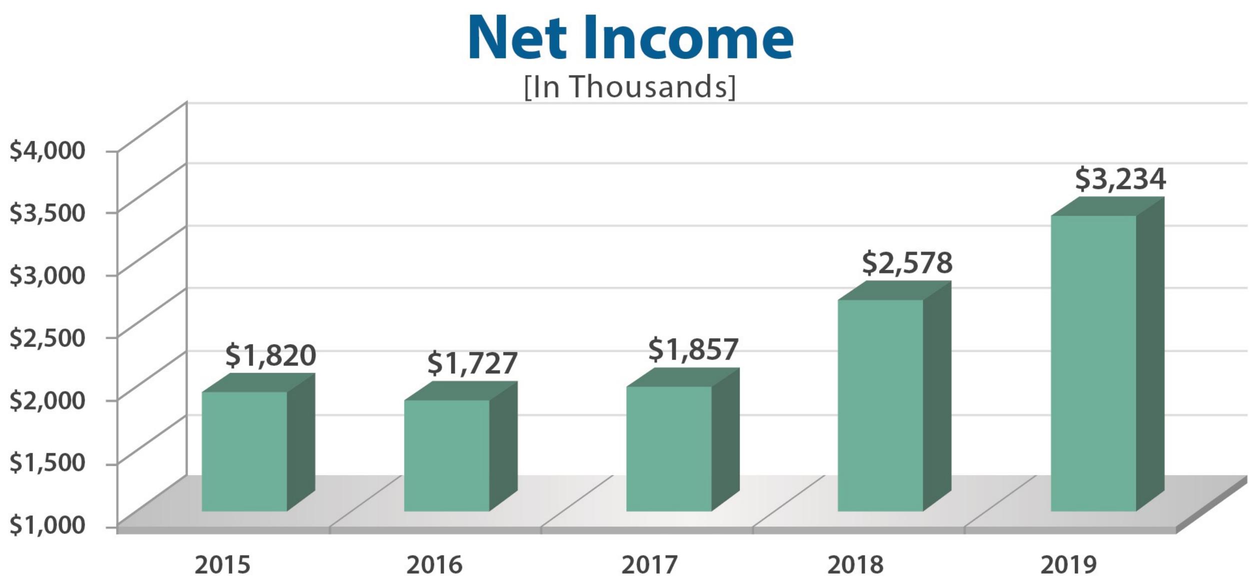


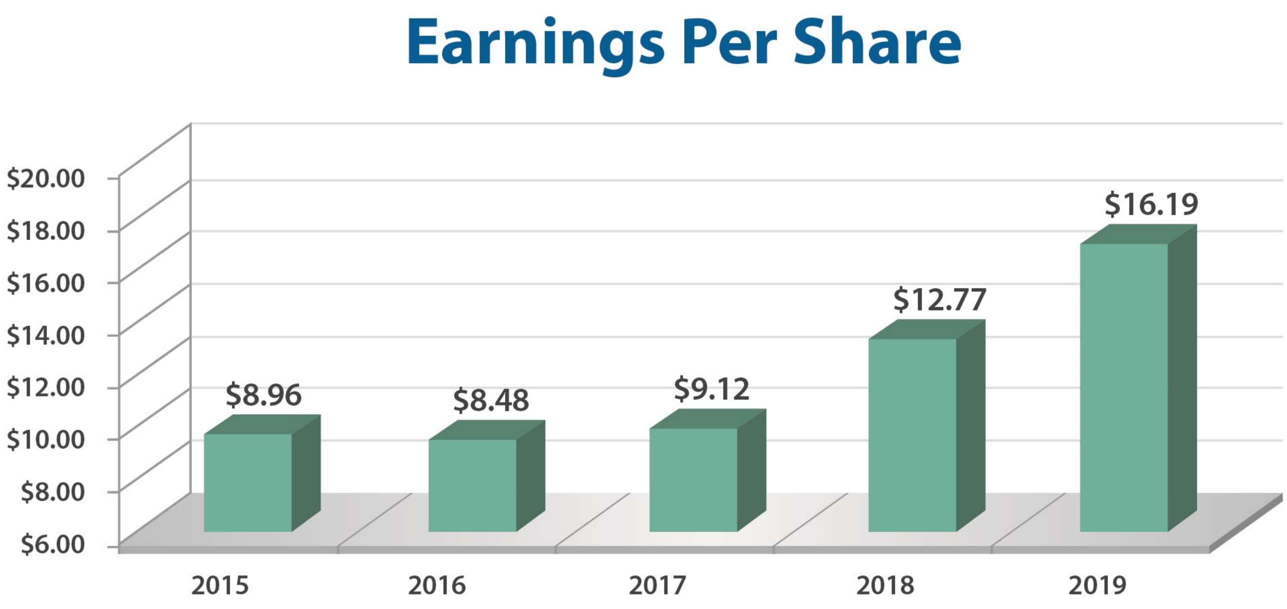
GBHC Consolidated Financial Highlights 2015-2019





GBHC Consolidated Financial Highlights 2015-2019





GBHC and 1st National Bank of Scotia Directors

L.H. Buhrmaster, *Chairman of the Board*

John H. Buhrmaster, *President & Chief Executive Officer*

Laura M. Dieterich, *Sr. Vice President & Corporate Secretary*

David D. Montana, *Lead Director*
President, Fortune Air, Inc.
Director, Fenimore Asset Management

David L. Schweizer, *Chairman Audit Committee*
Treasurer, Funston Wholesale Corp.
Licensed Real Estate Salesperson

Bruce W. McConnelee
Retired - Hydro Mobile
Community Liaison

Scott D. Stevens
President, Dimension Fabricators

Honorary Director
Calvin P. Welch
Retired – Senior Vice President & Cashier, 1st National Bank of Scotia

1st National Bank of Scotia Officers

L.H. Buhrmaster, Chairman
John H. Buhrmaster, President & Chief Executive Officer
Diane Smith Faubion, Executive Vice President
Robert J. Dieterich, Executive Vice President & Chief Financial Officer
Andrew T. Trainor, Sr. Vice President & Sr. Loan Officer
Laura M. Dieterich, Sr. Vice President & Corporate Secretary
Kelly A. Gibbons, Sr. Vice President of Retail Banking
James J. Smith, Chief Information Officer
Joan K. O'Brien, Auditor
Kenneth W. Swain III, Vice President
Gregory N. Phillips, Vice President
Jessica R. Petraccione, Vice President
Kevin R. Buhrmaster, Vice President
Christopher R. Hebbard, Vice President & Sr. Credit Officer
Teresa A. Freeman, Vice President
Rebecca D. Dashnaw, Vice President
Joyce A. Poulin, Vice President
John G. Dykeman, Vice President & Controller
Amy E. Belli, Vice President
Daniel A. Centi, Vice President
O. Neil Thomas, Vice President
Nancy R. Harrigan, Vice President
Debra A. Lindsay, Assistant Vice President
Louis J. Giammatteo, Assistant Vice President
Cheryl F. Hiller, Assistant Vice President
Karen E. Ballester, Assistant Vice President & Marketing Officer
Lisa A. Case, Assistant Vice President
Tracey J. Kearns, Training & Performance Officer
Cynthia A. Siatkowski, Compliance Officer
Premnarine Jaddu, Branch Operations Officer
Eric W. Bode, Branch Operations Officer
Trisha L. Santiago, Branch Operations Officer
Kristen D. Faubion, Branch Operations Officer
Cara K. Pabon, Branch Operations Officer
Katie Jo Mohamed Ali, Branch Operations Officer
Betsy Simek-Smith, Indirect Lending Officer
Tiziana Riccobene, Operations Officer

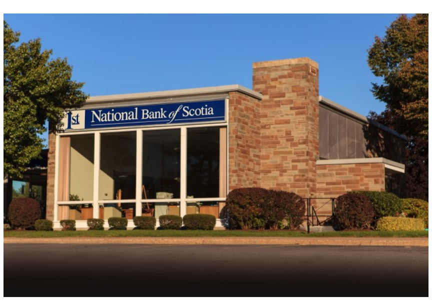
1st National Bank Retail Offices and Officers

Scotia Office
Debra A. Lindsay, *Assistant Vice President*
Kevin R. Buhrmaster, *Vice President - Area Manager*
201 Mohawk Avenue, Scotia, New York 12302
(518) 370-7200

Niskayuna Office
Premnarine Jaddu, *Branch Operations Officer*
Kevin R. Buhrmaster, *Vice President - Area Manager*
1476 Balltown Road, Schenectady, New York 12309
(518) 370-7245

Colonie Office
Katie Jo Mohamed Ali, *Branch Operations Officer*
Teresa A. Freeman, *Vice President - Area Manager*
1705 Central Avenue, Albany, New York 12205
(518) 370-7250

Guilderland Office
Lisa A. Case, *Assistant Vice President*
Teresa A. Freeman , *Vice President - Area Manager*
8 New Karner Road at Route 20, Guilderland, New York 12084
(518) 370-7255



Glenville Office
Cara K. Pabon, *Branch Operations Officer*
Kevin R. Buhrmaster, *Vice President - Area Manager*
240 Saratoga Road, Scotia, New York 12302
(518) 370-7260

1st National Bank Retail Offices and Officers

Erie Boulevard Office
Louis J. Giammatteo, *Assistant Vice President*
Teresa A. Freeman, *Vice President - Area Manager*
120 Erie Boulevard, Schenectady, New York 12305
(518) 370-7265

Saratoga Office
Trisha L. Santiago, *Branch Operations Officer*
Kevin R. Buhrmaster, *Vice President - Area Manager*
3013 Route 50, Saratoga Springs, New York 12866
(518) 370-7270

GE Global Research Center
Premnarine Jaddu, *Branch Operations Officer*
Kevin R. Buhrmaster, *Vice President - Area Manager*
1 Research Circle, Schenectady, New York 12309
(518) 370-7217

Rotterdam Office
Eric W. Bode, *Branch Operations Officer*
Teresa A. Freeman , *Vice President - Area Manager*
2695 Hamburg Street, Schenectady, New York 12303
(518) 370-7285

Clifton Park Office
Kristen D. Faubion, *Branch Operations Officer*
Kevin R. Buhrmaster, *Vice President - Area Manager*
1693 Route 9, Clifton Park, New York 12065
(518) 370-7290

Banking Services and Facilities

Deposit Services

- Personal & Business Checking Accounts
- Remote Deposit
- Online & Mobile Banking
- Real-Time Debit Card Alerts
- Savings Accounts
- Young Savers and Student Accounts
- Club Accounts
- Certificates of Deposit
- Money-Market Deposit Accounts
- Individual Retirement Accounts
- Health Savings Accounts
- VISA/MasterCard Merchant Accounts
- Cash Management

Loan Services

- Installment Loans
- Automobile Loans
- Commercial Loans
- Personal Loans
- Boat/RV Loans
- Student Loans
- Check Loans
- VISA/MasterCard Credit Cards
- Mortgage Loans
- Home Improvement Loans
- Real Estate Equity Loans
- Home Equity Lines of Credit
- Letters of Credit
- Commercial Lines of Credit

Other Services

- Wire Transfers
- Safe Deposit Boxes
- Authorized Overdraft Program

Visit us online www.firstscotia.com

Scautub Agency, LLC Directors and Officers

Scautub
AGENCY
SINCE 1926

John H. Buhrmaster
Chairman of the Board

Robert J. Dieterich
Chief Executive Officer & Corporate Secretary

David D. Montana
President, Fortune Air, Inc.
Director, Fenimore Asset Management

Steven H. Heider
Owner, Northway Residential Services

Edmund J. Catalano
President

Mark D. Massaroni
Vice President

Gertrude A. Chojecki
Vice President

Diane Smith Faubion
Advisory Director

Personal Insurance
- Automobiles
- Home
- Umbrella Policies
- Motorcycle, ATV, Recreational Vehicles
- Boats

Business Insurance
- Business Owner's Policies
- Workers' Compensation
- New York State Disability
- Commercial Auto
- Commercial Umbrella Policies
- Cyber Security Insurance

Life Insurance
- Mortgage Protection

Principal Office: 108 North Ballston Avenue, Scotia, New York 12302
(518) 346-3427   www.scautub.com

First Scotia Wealth Management

Investment and insurance products and services are offered through INFINEX INVESTMENTS, INC. Member FINRA/SIPC. First Scotia Wealth Management is a trade name of the bank. Infinex and the bank are not affiliated.

What sets us apart from other Wealth Management Advisors? We listen. We take the time to get to know you, your goals and your life. We give you the information you need to make choices that make sense for you. Our tenured advisors are devoted to earning your trust. You are our priority…**because relationships matter!**

Cynthia Powell, INFINEX *Financial Advisor/Program Manager*
Located at the 1st National Bank of Scotia Niskayuna Office
1476 Balltown Road, Niskayuna, New York 12309
(518) 370-7249

Paul Cardone, INFINEX *Financial Advisor*
Located at the 1st National Bank of Scotia Clifton Park Office
1693 Route 9, Clifton Park, New York 12065
(518) 869-3169

Gregory Phillips, INFINEX *Financial Advisor*
Located at the 1st National Bank of Scotia Main Office
201 Mohawk Avenue, Scotia, New York 12302
(518) 588-2805

Matthew Treglia, INFINEX *Financial Advisor*
Located at the 1st National Bank of Scotia Colonie Office
1705 Central Avenue, Albany, New York 12205
(518) 692-4238

Products and services available:

- Brokered certificate of deposits
- Business owner solutions
- Cash Management
- Corporate and Municipal Bonds
- Disability Insurance
- Extended FDIC sweep account
- Fixed Annuities
- Individual Stocks
- Insurance
- Long-Term Care Insurance
- Mutual Funds
- Permanent Life Insurance
- REITs
- Retirement Plans
- Term Life Insurance
- Treasury Securities
- Unit Investment Trusts
- Variable Annuities

Community Commitment

As our products and services continue to evolve and change, our commitment to the communities we serve remains unwavering. Each year 1st National Bank of Scotia contributes thousands of dollars to area schools, local charitable fundraisers and community events. Outside of the bank our employees spend countless hours volunteering in the community, serving on boards, working with youth, or simply collecting donations for a worthy cause. It's what we do. It's why we all work for a community bank.

Consolidated Balance Sheets

(in thousands)

At December 31,	2019	2018
Assets		
Cash and cash equivalents:		
Non-interest bearing balances, currency and coin	$ 6,378	$ 9,992
Interest-bearing balances due from financial institutions	19,296	8,027
Total cash and cash equivalents	25,674	18,019
Debt Securities:		
Available-for-sale	23,202	23,183
Held-to-maturity (Fair value 2019 $4,000; 2018 $3,229)	3,816	3,148
Total debt securities	27,018	26,331
Equity securities with readily determinable fair values	42	172
Loans, net of allowance: as of 2019 ($4,605), 2018 ($4,367)	409,298	411,138
Premises and equipment, net	8,953	8,210
Equity securities not readily marketable	1,136	1,128
Cash surrender value of life insurance policies	991	882
Goodwill	178	178
Other intangible assets, net	761	850
Other assets	11,960	10,088
Total assets	$ 486,011	$ 476,996
Liabilities		
Deposits:		
Non-interest bearing	$ 122,551	$ 122,174
Interest-bearing	310,808	306,954
Total deposits	433,359	429,128
Borrowings	3,003	3,318
Other liabilities	8,897	7,435
Total liabilities	445,259	439,881
Shareholders' Equity		
Common stock, par value $0.01; authorized 250,000 shares; issued 204,905 shares in 2019 and 2018	2	2
Outstanding 199,499 shares and 200,094 shares in 2019 and 2018, respectively		
Additional paid-in capital	23,102	23,102
Retained earnings	20,875	18,131
Accumulated other comprehensive income (loss)	(2,922)	(3,863)
Treasury stock, at cost (5,406 shares in 2019, 4,811 shares in 2018)	(462)	(409)
Total GBHC shareholders' equity	40,595	36,963
Noncontrolling interest	157	152
Total shareholders' equity	40,752	37,115
Total liabilities and shareholders' equity	$ 486,011	$ 476,996

The accompanying notes are a fundamental part of the consolidated financial statements.

Consolidated Income Statements

(in thousands)

Years ended December 31,		2019		2018
Interest and dividend income:				
Interest and fees on loans	$	18,083	$	16,222
Taxable securities		417		201
Tax exempt securities		236		337
Dividend income on equity securities		58		54
Interest on balances due from financial institutions		326		346
Total interest and dividend income		19,120		17,160
Interest Expense:				
Interest on deposits		910		495
Interest on Federal Home Loan Bank advances		116		35
Interest on other borrowings		161		145
Total interest expense		1,187		675
Net interest income		17,933		16,485
Provision for loan loss		660		600
Net interest income after provisions		17,273		15,885
Non-Interest Income:				
Customer service charges and fees		1,100		1,101
Insurance and brokerage commissions		1,109		1,037
Interchange fees		1,082		1,010
Loan servicing, net of servicing rights amortization		61		123
Net gains on sales of loans		177		108
Net gains (losses) on sales of debt securities		(2)		(1)
Unrealized gains (losses) on equity securities		111		(9)
Other non-interest income		275		357
Total non-interest income		3,913		3,726
Non-Interest Expense:				
Salaries and employee benefits		10,474		9,603
Occupancy and equipment		2,384		2,366
Federal deposit insurance assessment		221		340
Data processing		321		298
Electronic banking		444		403
Accounting and auditing		254		290
Professional fees		97		97
Advertising and marketing		269		264
Amortization of other intangible assets		17		62
Other expenses		2,589		2,473
Total non-interest expense		17,070		16,196
Income before taxes		4,116		3,415
Applicable income taxes		877		830
Net income		3,239		2,585
Less: Net income attributable to noncontrolling interest		(5)		(7)
Net income attributable to GBHC shareholders	$	3,234	$	2,578

The accompanying notes are a fundamental part of the consolidated financial statements.

Consolidated Statements of Comprehensive Income

(in thousands)

Years ended December 31,	2019	2018
Net income	$ 3,239	$ 2,585
Other comprehensive income (loss), net of taxes		
Unrealized gains (losses) on securities, net of taxes:		
Unrealized holding gains (losses) arising during the period	232	(16)
Plus: reclassification adjustment for losses included in net income	2	1
Income tax (expense) benefit during the period	(61)	4
Net unrealized gains (losses) on securities, net of taxes	173	(11)
Defined benefit pension plan gains (losses), net of taxes:		
Net gains (losses) arising during the period	906	(2,080)
Amortization of net loss	133	139
Income tax benefit (expense) during the period	(271)	506
Defined benefit pension plan gains (losses), net of taxes	768	(1,435)
Other comprehensive income (loss), net of taxes	941	(1,446)
Comprehensive income	4,180	1,139
Comprehensive income attributable to noncontrolling interest	(5)	(7)
Comprehensive income attributable to GBHC shareholders	$ 4,175	$ 1,132

Consolidated Statements of Changes in Shareholders' Equity

(in thousands)

	Common stock and surplus	Retained earnings	AOCI	Treasury stock	Non-controlling interest	Total shareholders' equity
Balance, January 1, 2018	$ 23,104	$ 15,934	$ (2,417)	$ (118)	$ 145	$ 36,648
Adoption of ASU 2016-01	-	69	-	-	-	69
Net income	-	2,578	-	-	7	2,585
Dividends declared ($2.25 per share)	-	(450)	-	-	-	(450)
Purchase of treasury stock, net	-	-	-	(291)	-	(291)
OCI, net of taxes	-	-	(1,446)	-	-	(1,446)
Balance, December 31, 2018	23,104	18,131	(3,863)	(409)	152	37,115
Net income	-	3,234	-	-	5	3,239
Dividends declared ($2.45 per share)	-	(490)	-	-	-	(490)
Purchase of treasury stock, net	-	-	-	(53)	-	(53)
OCI, net of taxes	-	-	941	-	-	941
Balance, December 31, 2019	$ 23,104	$ 20,875	$ (2,922)	$ (462)	$ 157	$ 40,752

Consolidated Statements of Cash Flows

(in thousands)

Years ended December 31,	2019	2018
Cash flows from operating activities:		
Net income	$ 3,234	$ 2,578
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	779	720
Provision for loan losses and other contingencies	780	750
Amortization of intangible assets	162	164
Net premium amortization (accretion) on securities	(38)	62
Amortization of deferred loan costs	198	187
Amortization of pension losses from AOCI	133	139
Deferred tax expense (benefit)	7	215
Unrealized (gains) losses on equity securities	(111)	9
Loss on sale of debt securities	2	1
Gain on sale of loans held for sale	(177)	(108)
Proceeds from sales of loans held for sale	9,843	6,217
Loans originated and held for sale	(9,666)	(6,109)
Earnings from cash surrender value life insurance policies	(13)	(22)
Net change in other assets and liabilities	106	876
Net cash provided by (used in) operating activities	5,239	5,679
Cash flows from investing activities:		
Proceeds from maturities and paydowns of securities	47,869	73,181
Proceeds from sales of securities	5,998	11,994
Purchases of securities	(54,505)	(84,382)
Cash proceeds from sale of equity securities	241	-
Purchases of FHLB stock	(20)	(4)
Net change in revolving line of credit receivables	913	(852)
Principal collected on amortizing loans	101,004	102,987
Loans originated for amortizing loans	(100,936)	(118,639)
Capital expenditures	(1,521)	(785)
Net cash provided by (used in) investing activities	(957)	(16,500)
Cash flows from financing activities:		
Net increase in deposits	4,231	9,029
Repayment of borrowings	(315)	(319)
Dividends paid	(490)	(450)
Purchase of treasury stock	(53)	(291)
Net cash provided by (used in) financing activities	3,373	7,969
Net change in cash and cash equivalents	7,655	(2,852)
Cash and cash equivalents at beginning of year	18,019	20,871
Cash and cash equivalents at end of year	$ 25,674	$ 18,019

Supplemental Disclosure of Cash Flow Information

Cash paid during the year for:		
Interest	975	628
Income taxes	665	100

The accompanying notes are a fundamental part of the consolidated financial statements.

Notes to Consolidated Financial Statements

(1) Nature of Operations

Nature of Operations: The Glenville Bank Holding Company (GBHC), and its subsidiaries (collectively referred to as the “Company”), is a financial holding company. Through its bank subsidiary, 1st National Bank of Scotia (the “Bank”), and its insurance subsidiary, Scautub Agency, LLC (the “Agency”), the Company provides a variety of banking and insurance services to individuals and corporate customers in Schenectady County, as well as parts of Saratoga, Fulton, Montgomery and Albany Counties. Our ten offices, and insurance office, serve these five adjacent counties. The Company’s primary source of revenue is through loans, particularly real estate and auto loans to consumers and small businesses.

(2) Summary of Significant Accounting Policies

Entity classification*:* The Company is classifying itself as a Private Company and we are following generally accepted accounting principles (GAAP) as required for private companies. Financial reporting requirements are generally less detailed for private companies vs. public entities. Private company standards only require 2 years of comparative financial statements and lesser detail is necessary in the financial statement footnotes. Also when a new accounting standard is issued, the Company reviews the effective date for private companies. Most new accounting standards allow one year longer for private companies to implement the new standards.

The consolidated financial statements and related footnotes are unaudited. Audited financial statements for our Company are only required when our Assets are over $500 million as of the end of the prior year.

Basis of Consolidation*:* The consolidated financial statements include the accounts of GBHC, the Bank, and the Agency subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates: The accounting and reporting policies of the Company and its subsidiaries conform to accounting principles generally accepted in the United States of America (GAAP). The consolidated financial statements require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications: Certain reclassifications have been made to the prior year consolidated financial statements to conform to the current year presentation.

Noncontrolling Interest: Noncontrolling Interest represents the portion of ownership and profit or loss that is attributable to the minority owners of Mohglen Properties Inc.

Cash and Cash Equivalents: For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash items in process of collection, balances due from correspondent banks and interest-bearing balances due from the Federal Reserve Bank.

The Bank is required to maintain deposit reserve balances with the Federal Reserve Bank of New York (FRB). The FRB calculates the required reserve based on deposit reports the Bank submits quarterly. As of December 31, 2019 and 2018, these required reserve balances amounted to $718,000 and $684,000 respectively.

Investment in Debt Securities*:* The Investments in debt securities amortized cost is adjusted for amortization of premiums and accretion of discounts computed straight line to the contractual maturity date.

(2) Summary of Significant Accounting Policies (continued)

If a security is sold or is called prior to the maturity date, any unamortized premium or discount is recognized as an adjustment to interest income in the month of call or sale date. Gains or losses on sales of investment securities are computed on a specific identification basis and recognized immediately upon the sale.

The Company classifies debt securities into one of two categories: held-to-maturity or available-for-sale. There is a third category trading securities required by GAAP but the Company does not carry any investments into the trading category.

In general, securities may be classified as held-to-maturity only if the Company has the positive intent and ability to hold them to the contract maturity date. Trading securities are defined as those bought and held principally for the purpose of selling them in the near term. All other securities must be classified as available-for-sale.

Below is an accounting summary of the basic classifications and accounting treatment:

- Held-to-maturity securities are measured at amortized cost in the consolidated balance sheets. Unrealized holding gains and losses are not included in earnings or in a separate component of stockholders' equity. They are merely disclosed in the notes to the consolidated financial statements.

- Available-for-sale securities are carried at fair value on the consolidated balance sheets. Unrealized holding gains and losses are not included in earnings, but are reported net (after taxes) in accumulated other comprehensive income (AOCI) within shareholders equity on the balance sheet until the securities are either sold, mature, or are called.

For any debt security with a fair value less than its amortized costs basis, the Company will determine 1) whether it has the intent to sell the debt security or 2) whether it is more likely than not it will be required to sell the debt security before the recovery of its amortized costs basis. If either condition is met, the Company will recognize a full impairment charge to earnings. For all other debt securities that are considered other-than-temporarily impaired (OTTI) and do not meet either condition, the credit loss portion of impairment will be recognized in earnings as realized losses. The OTTI related to all other factors will be recorded in other comprehensive income (loss).

Readily Marketable Equity Securities: The Company has adopted select equity accounting provisions of Accounting Standards Update (ASU) 2016-01, *Financial Instruments – Overall (Subtopic 825 -10).* The amendments in this ASU address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The effective date is for fiscal years beginning after December 15, 2017 for public companies and after December 15. 2018 for non-public filers. The following provision of the ASU that impact the Company are as follows:

- Require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

The Company adopted this provision of measuring readily marketable equity securities fair value changes into earnings as of January 1, 2018. The cumulative effect of prior year amounts is recorded into Retained Earnings (net of tax) within shareholders equity on the balance sheet and the unrealized gain or loss for all subsequent years is reported in unrealized gains/(losses) from equity securities on the income statement.

(2) Summary of Significant Accounting Policies (continued)

Non-Marketable Equity Securities*:* The Bank owns several equity securities that are classified as non-marketable. The Bank is required to own shares of capital stock in the Federal Home Loan Bank of New York, the Federal Reserve Bank, and Atlantic Community Bankers Bank (ACBB) as a condition of membership. Also included in non-marketable equity securities is stock ownership in Senior Housing Crime Stopper Preferred shares which is used for the Bank's community reinvestment act (CRA) as qualified investments. All of these securities do not have a readily determinable fair value and transferability of the stocks is restricted. These securities are carried at cost and evaluated for impairment annually, following the guidance in ASU 2016-01 *Financial Instruments.* Management has determined that no impairment has occurred on any of these non-marketable equity securities. Dividends earned are recognized as income on the Income statement.

Loans*:* Loans receivable that management has the intent and ability to hold until contractual maturity or payoff are reported at their outstanding principal balances. Interest on loans is recognized on a simple interest basis unless a loan is placed on non-accrual at which time interest accruals are suspended. If a non-accrual loan is brought current due to the likelihood that all amounts due (principal and interest) will be collected, all non-accrued interest is recognized in interest income at the time a loan is changed from non-accrual to current status.

Loan origination fees and certain direct origination costs are deferred for longer-term loans, and the net amount is amortized as an adjustment of the related loan's yield into interest income using the straight-line method over the contractual lives of the related loans. If the loan is paid off early, any unamortized net fees and costs are written off and charged to interest income. Loan origination fees and costs for immaterial amounts, and for shorter term loans, are not deferred; these direct origination fees and cost amounts are recognized into the appropriate non-interest income or expense accounts.

Amortizing loans: For purposes of reporting Investing activities in the Statement of Cash flows, we are classifying cash flows related to amortizing loans as all loan products accompanied by a scheduled loan payment amortization schedule. Cash flows reported in this classification do not include cash flows related to any revolving line of credit receivable reported separately.

Revolving line of credit receivables: For purposes of reporting Investing activities in the Statement of Cash flows, we are netting all cash flows related to revolving line of credit receivables as one group. This group includes the following loan products: credit cards, deposit overdraft protection, business, and home equity lines of credit. All new borrowings and payments are netted together on the Cash flow statement for this group of loan products.

Foreclosed real estate: Fair values for foreclosed real estate are initially recorded based on independent market value evaluations, less costs to sell ("initial cost basis"). Any write-downs required when the related loan receivable is exchanged for the underlying real estate collateral at the time of transfer to foreclosed real estate are charged to the allowance for loan losses. Subsequent to foreclosure, when held for a longer term, valuations are updated and assets are marked to current fair value, not to exceed the initial cost basis. In the determination of fair value subsequent to foreclosure, management also considers other factors or recent developments, such as, changes in absorption rates and market conditions from the time of valuation, and anticipated sales values considering management's plans for disposition. Either change could result in adjustment to lower the property value estimates indicated in the appraisals.

Allowance for Loan Losses: The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Actual loan losses are charged against the allowance when management believes the uncollectibility of a loan balance has occurred. Subsequent recoveries, if any, are credited to the allowance. Loan delinquencies are reviewed monthly by the board of directors.

(2) Summary of Significant Accounting Policies (continued)

The allowance for loan losses is evaluated on a quarterly basis by management and is based upon management's periodic review of the collectability of the loans in consideration of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

Premises and Equipment: Premises and equipment are stated at cost, less accumulated depreciation. Cost and related accumulated depreciation of premises and equipment retired or otherwise disposed are removed from the respective cost and accumulated depreciation accounts with any gain or loss recognized in earnings. An evaluation of our premises and equipment is performed annually by bank personnel to determine if any assets are either no longer used, been disposed, or are obsolete. If any assets are identified, impairments are recognized immediately and charged to earnings. Future depreciation charges are also changed if management determines a change in accounting estimates is required due to expected life changes of active assets during this annual premises and equipment review. Any changes in accounting estimates are treated prospectively, where only future years depreciation charges are changed. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets.

Goodwill and Intangible Assets: Goodwill represents the excess cost over the fair value of the net assets acquired resulting from a business acquisition. As reported on the balance sheet, the original amount of Goodwill originates from the Company's acquisition of its insurance subsidiary Scautub Agency, LLC in 2013. The Goodwill amount is not subject to amortization due to indefinite life of the assets acquired. Instead an annual test for impairment is performed annually. Management has determined that no impairment has occurred to date. For its other intangible assets, the Company uses assumptions in establishing the carrying value, fair value, and estimating lives of identifiable intangible assets. Customer relationships are amortized on a straight-line basis over the estimated original lives of the assets of 15 years.

Comprehensive Income (Loss)*:* Accounting Principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities are reported as a separate component of equity in the statement of condition, such items, are components of comprehensive income (loss).

Accumulated other comprehensive income (loss), collectively referred to as AOCI, represents the sum of these items as of the balance sheet date and is represented in the table below (in thousands):

	12/31/2019	12/31/2018
Unrealized (loss) for pension obligations	(4,227)	(5,265)
Tax effect	1, 133	1,404
Net unrealized (loss) for pension obligations	(3,094)	(3,861)
Unrealized gain (loss) on available-for-sale securities	232	(3)
Tax effect	(60)	1
Net unrealized gain (loss) on available-for-sale securities	172	(2)
Accumulated other comprehensive loss	(2,922)	(3,863)

(2) Summary of Significant Accounting Policies (continued)

Loan Servicing*:* The Company services loans for others. Loan servicing assets are recognized initially at estimated fair value, as mortgage servicing rights (MSRs). The fair value is recognized when rights are acquired through sale of the Bank's qualifying loans to investors. Capitalized servicing rights are reported in other intangible assets and are subsequently amortized into loan servicing fee income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. MSRs are evaluated for impairment annually based upon the fair value of the rights as compared to amortized cost. The Company employs an independent third party to estimate the fair value of the MSRs which determines any impairment. Any recognized impairment is disclosed in the Loan Servicing note..

Advertising*:* Costs incurred for advertising are charged to other non-interest expense as incurred.

Income Taxes: The Company recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are established for the temporary differences between the accounting basis and the tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when the amounts related to such temporary differences are realized or settled.

(3) Debt Securities

The following table summarizes the amortized cost and fair value of securities available-for-sale and securities held-to-maturity at December 31, 2019 and 2018 and the corresponding amounts of gross unrealized gains and losses:

Available-for-sale securities

(in thousands)	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2019				
U.S. governments and its agencies	$ 10,512	$ 34	$ -	$ 10,546
State and local government municipalities	5,707	72	-	5,779
Mortgage-backed securities	6,751	126	-	6,877
Total available-for-sale	$ 22,970	$ 232	$ -	$ 23,202
2018				
U.S. governments and its agencies	$ 8,961	$ 3	$ (7)	$ 8,957
State and local government municipalities	11,224	17	(31)	11,210
Mortgage-backed securities	3,000	16	-	3,016
Total available-for-sale	$ 23,185	$ 36	$ (38)	$ 23,183

Held-to-maturity securities

(in thousands)	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2019				
State and local government municipalities	$ 3,816	$ 184	$ -	$ 4,000
Total held-to-maturity	$ 3,816	$ 184	$ -	$ 4,000
2018				
State and local government municipalities	$ 3,148	$ 81	$ -	$ 3,229
Total held-to-maturity	$ 3,148	$ 81	$ -	$ 3,229

(3) Debt Securities (continued)

The following table summarizes the amortized cost and fair value of debt securities by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale		Held-to-Maturity	
(in thousands)	Amortized Cost Basis	Fair Value	Amortized Cost	Fair Value
Within one year	$ 8,338	$ 8,366	$ 1,878	$ 1,879
Due after one year through five years	6,091	6,123	289	303
Due after five years through ten years	7,861	8,019	1,649	1,818
Due after ten years	680	694	-	-
Total	$ 22,970	$ 23,202	$ 3,816	$ 4,000

At year-end 2019 and 2018, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders' equity.

Securities pledged at year-end 2019 and 2018 had a carrying amount of $16,926,000 and $12,675,000 and were pledged to secure public funds on deposits.

There were $6,000,000 in sales of available-for-sale securities with a loss of $2,000 recognized in the income statement during the year ended December 31, 2019. There were $12,000,000 in sales of available-for-sale securities with a loss of $1,000 recognized during the year ended December 31, 2018.

The Bank conducts a formal review of investment securities on a quarterly basis for the presence of other-than-temporary impairment ("OTTI"). The Bank assesses whether OTTI is present when the fair value of a debt security is less than its amortized cost basis at the statement of condition date. Under these circumstances, OTTI is considered to have occurred (1) if we intend to sell the security; (2) if it is "more likely than not" we will be required to sell the security before recovery of its amortized cost basis; or (3) the present value of expected cash flows is not anticipated to be sufficient to recover the entire amortized cost basis. The guidance requires that credit-related OTTI is recognized in earnings while non-credit-related OTTI on securities not expected to be sold is recognized in other comprehensive income ("OCI"). Non-credit-related OTTI is based on other factors, including liquidity and changes in the general interest rate environment.

(3) Debt Securities (continued)

There were no unrealized losses at December 31, 2019. The following table summarizes those securities available for sale with unrealized losses, segregated by the length of time that they have been in continuous unrealized loss position at December 31, 2018.

(in thousands)

	Less than 12 months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government and its agencies	$ 6,200	$ (7)	$ -	$ -	$ 6,200	$ (7)
State and local government municipalities	6,819	(12)	4,391	(19)	11,210	(31)
	$ 13,019	$ (19)	$ 4,391	$ (19)	$ 17,410	$ (38)

Unrealized losses on investment securities result from the amortized cost basis of the security being higher than its current fair value. Unrealized losses generally occur because of changes in interest rates since the time of purchase, or because the credit quality of the issuer has deteriorated. Because the Bank has the intent and ability to hold securities with unrealized losses until a market price recovery or to the ultimate maturity of the security, the Bank does not consider any investment that is indicating an unrealized loss to be other-than temporarily impaired at December 31, 2019 or December 31, 2018.

(4) Equity Securities

Readily marketable equity securities consist of the following for 2019 and 2018:

(in thousands)

At December 31,	2019	2018
Balance at beginning of year	$ 172	$ 108
Adoption of ASU 2016-01 reported in retained earnings	-	73
Unrealized gains (losses)	111	(9)
Less: cash proceeds from realized sales	(241)	-
Balance at end of year	$ 42	$ 172

(4) Equity Securities (continued)

Non-marketable equity securities consist of the following for 2019 and 2018:
(in thousands)

At December 31,	2019	2018
Federal Home Loan Bank	$ 248	$ 228
Federal Reserve Bank	247	247
Atlantic Community Bankers Bank	90	90
Senior Crime Stopper Preferred	551	563
Total Non-Marketable Equity Securities	$ 1,136	$ 1,128

(5) Loans

The loan portfolio consists of the following:
(in thousands)

At December 31,	2019	2018
Real estate loans	$ 228,420	$ 210,799
Commercial and industrial	54,626	57,884
Individual consumer loans	130,692	146,793
All other	165	29
Total loans	413,903	415,505
Less: Allowance for Loan Loss	(4,605)	(4,367)
Loans, net of Allowance	$ 409,298	$ 411,138

Allowance for loan losses consist of the following:
(in thousands)

At December 31,	2019	2018
Balance, beginning of year	$ 4,367	$ 4,049
Provision or loan loss	660	600
Recoveries of loans previously charged-off:		
Real Estate Loans	8	64
Individual Consumer Loans	150	122
Total recoveries	158	186
Loans charged-off:		
Real Estate Loans	(133)	(23)
Individual Consumer Loans	(447)	(445)
Total charged-off	(580)	(468)
Net charge-offs	(422)	(282)
Balance at end of year	$ 4,605	$ 4,367

Past Due and Non-Accrual Loans:

The level of our non-performing loans (non-accrual loans and loans past due 90 days or more) reflects the general strength of our loan portfolio. The dollar amount of non-performing loans in our portfolio has decreased through 2019. Most of the loans are well secured and in the process of collection. Modest losses are expected. Delinquency ratios continue to remain well below industry standards and they reflect the high quality of our Company's loan portfolio.

(5) Loans (continued)

The following table sets forth the volume of past due and non-accrual loans (in thousands):

	Past due 90 days or more and still accruing		Non-accrual	
At December 31,	2019	2018	2019	2018
Real estate loans	$ 256	$ 49	$ -	$ 1,344
Commercial and industrial	-	-	21	262
Individual consumer loans	42	4	727	802
Total loans	$ 298	$ 53	$ 748	$ 2,408

Loans pledged as collateral:

The bank pledges mortgage loans at the Federal Home Loan Bank of New York (FHLB) as collateral to secure our line of credit at the FHLB. As of December 31, 2019 and 2018, the amount of loans pledged is $57,412,000 and $28,877,000 respectively. During 2019, we increased the loans pledged to increase our borrowing capacity, which is primarily used for our liquidity needs as necessary.

(6) Loan Servicing

The Bank originates residential mortgage loans, sells to investors, and retains all loan servicing. These serviced loans are removed from the accompanying consolidated balance sheets after the sale. Any cash flow effects are presented in the cash flow statement. The outstanding balances of mortgage loans serviced for others were $86.8 million and $87.6 million at December 31, 2019 and 2018, respectively. The balance outstanding of mortgage servicing rights related to loan servicing is included in other intangible assets on the consolidated balance sheet.

The following changes occurred in mortgage servicing rights for the years ended 2018 and 2019 (in thousands):

2018:	Gross Carrying Value	Accumulated Amortization	Impairment Allowance	Net Carrying Value
Balance January 1, 2018	$ 1,365	$ (611)	$ -	$ 754
Mortgage servicing rights capitalized	46	-	-	46
Amortized to expense	-	(102)	-	(102)
Balance December 31, 2019	$ 1,411	$ (713)	$ -	$ 698
Estimated fair value				$ 722
2019:				
Mortgage servicing rights capitalized	$ 72	$ -	$ -	$ 72
Amortized to expense	-	(83)	-	(83)
Impairment recognized	-	-	(68)	(68)
Balance December 31, 2019	$ 1,483	$ (796)	$ (68)	$ 619
Estimated fair value				$ 619

The Bank capitalizes the mortgage servicing rights upon sale of the loans and any gains are reported in the Consolidated statement of income in “Net gains on sales of loans”. We have subsequently elected to re-measure the servicing assets using the amortization method, recognizing amortization expense as the serviced loan portfolio pays down, measured in proportion to the amount of loan proceeds received.

(6) Loan Servicing (continued)

Asset impairment is tested annually after we receive an independent valuation report from a third party consultant firm. If it is determined the carrying value is higher than our fair value, an impairment loss is recognized in earnings. The valuation report employs a discounted cash flow model to calculate the present value of estimated net servicing income and includes several assumptions, including prepayment speeds, discount rates, and weighted-average default rates. This year the estimated fair value was $68,000 lower than our carrying value of our mortgage servicing rights, therefore, we recognized an asset impairment. The asset impairment charge and the amortization expense are both reported in the Consolidated statement of income in "Loan servicing, net of servicing rights amortization."

The asset impairment this year was primarily driven by significant changes in interest rates, increase in refinance activity, and changes in prepayment speeds.

(7) Premises and Equipment

The following is a summary of premises and equipment as of December 31:
(in thousands)

At December 31,	2019	2018
Land	$ 1,567	$ 1,567
Building and land improvements	11,581	10,525
Equipment and furniture	5,190	5,053
Total premises and equipment	18,338	17,145
Less: accumulated depreciation	(9,385)	(8,935)
Premises and equipment, net	$ 8,953	$ 8,210

Depreciation expense was $779,000 and $720,000 for the years ended December 31, 2019 and 2018, respectively.

The Company owns several properties that it leases to others at December 31, 2019. Rental income recognized is $155,000 and $159,000 and is included in other noninterest income during the years ended 2019 and 2018, respectively.

(8) Other Real Estate Owned

Other real estate owned activity is as follows: (in thousands)

At December 31,	2019	2018
Beginning balance	$ -	$ 179
Loans transferred to real estate owned	77	-
Capitalized expenditures	73	12
Direct write downs to allowance for loan losses	(16)	(23)
Sale of real estate owned	(134)	(168)
Ending balance	$ -	$ -

There was no other real estate owned outstanding as of December 31, 2019 or December 31, 2018. Any foreclosed residential real estate properties are recorded as a result of obtaining physical possession of the property. As of December 31, 2019 and 2018, the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process is $550,000 and $89,000 respectively.

(9) Fair Value

Fair Value Measurements on a Recurring Basis
Fair values of assets and liabilities measured on a recurring basis at December 31, 2019 and 2018 are as follows: (in thousands)

	Fair Value Measurements at Reporting Date Using			
	(Level 1)	(Level 2)	(Level 3)	Total
2019				
U.S. governments and its agencies	$ -	$ 10,546	$ -	$ 10,546
State and local government municipalities	-	5,779	-	5,779
Mortgage-backed securities	-	6,877	-	6,877
Total investment securities available-for-sale	-	23,202	-	23,202
Readily marketable equity securities	42	-	-	42
Total assets measured at fair value	$ 42	$ 23,202	$ -	$ 23,244
2018				
U.S. governments and its agencies	$ -	$ 8,957	$ -	$ 8,957
State and local government municipalities	-	11,210	-	11,210
Mortgage-backed securities	-	3,016	-	3,016
Total investment securities available-for-sale	-	23,183	-	23,183
Readily marketable equity securities	172	-	-	172
Total assets measured at fair value	$ 172	$ 23,183	$ -	$ 23,355

The fair value hierarchy is based on three levels of inputs, of which the first two are considered observable and the last unobservable. The following is used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities

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

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

(10) Goodwill & Intangible Assets

Goodwill represents the excess cost of an acquisition over the fair value of the net assets acquired. The reported amount of goodwill is the result of our acquisition of Scautub Agency, LLC in 2013. Goodwill is not amortized, but is tested annually for impairment. Management is required to perform an annual assessment of the Company's goodwill to determine if an impairment of fair value has occurred. Management has determined that as of December 31, 2019 and 2018, the carrying value of goodwill of $178,000 is not impaired.

Other Intangible Assets

These intangible assets were determined by management to meet the criterion for recognition separate from goodwill and have finite lives. We use judgement in assessing whether the carrying amounts are not expected to be recoverable over their estimated useful lives. The customer relationships have been recognized as a result of the acquisition of the Scautub Agency, LLC. The weighted average remaining amortization period of this intangible is 8.4 years. This intangible asset must be tested for impairment at least annually. No impairment has occurred to date. Amortization expense is reported into amortization of other intangible assets. The mortgage servicing rights intangible is fully explained in the Loan servicing note.

The change in carrying value of intangible assets for 2019 and 2018 is as follows:

(in thousands)	2019			
	Gross Carrying Amount	Accumulated Amortization	Impairment Allowance	Net Intangibles
Amortized intangible assets:				
Customer relationships	$ 230	$ (88)	$ -	$ 142
Mortgage servicing rights	1,483	(796)	(68)	619
Total	$ 1,713	$ (884)	$ (68)	$ 761

	2018			
	Gross Carrying Amount	Accumulated Amortization	Impairment Allowance	Net Intangibles
Amortized intangible assets:				
Customer relationships	$ 223	$ (71)	$ -	$ 152
Mortgage servicing rights	1,411	(713)	-	698
Total	$ 1,634	$ (784)	$ -	$ 850

The estimated amortization expense for each of the five succeeding years ended December 31, is as follows: (in thousands)

2020	79
2021	79
2022	79
2023	79
2024	79
Thereafter	366
Total	761

(11) Deposits

Time deposits (included in Interest Bearing Deposits) that meet or exceed the FDIC Insurance limit of $250,000 at year-end 2019 and 2018 were $5,917,000 and $8,215,000, respectively.

Scheduled maturities of time deposits for the next five years were as follows:
(in thousands)

2020	$ 29,520
2021	3,877
2022	1,684
2023	636
2024	154
	$ 35,871

(12) Related Party Transactions

In the ordinary course of business, the Bank has and expects to continue to have transactions, including borrowings, with its officers, directors, and their affiliates; we are classifying these transactions as related parties. In the opinion of management, such transactions were on substantially the same terms, including interest rates and collateral, as those prevailing at the time of comparable transactions with other persons and did not involve more than a normal risk of collectability or present any other unfavorable features to the Bank. Loans due from related parties at December 31, 2019 and 2018 are summarized as follows:

	12/31/2019	12/31/2018
Loan Balance - Beginning of Year	$ 3,531	$ 2,696
New Loans	389	1,975
Payments	(674)	(1,140)
Loan Balance End of Year	$ 3,246	$ 3,531

The Bank held deposits of $3,342,000 and $3,258,000 for related parties at December 31, 2019 and 2018, respectively.

(13) Borrowings

The Bank loan was issued on October 15, 2012 for $4,000,000. The terms of this loan include: variable interest rate based upon the Wall Street Journal prime rate subject to change annually on January 1st. As of December 31, 2019 the interest rate is 4.75%. For the first ten years of this loan, principal and interest is paid on the 15th of each January, April, July and October using a fifteen year amortization schedule. On October 15, 2022 a one-time balloon payment is due equal to the entire unpaid principal balance at that time. This loan is fully secured by the pledging of the Company's GBHC stock up to the amount of the loan.

The other long term borrowings include: 1) A private note originally issued on August 1, 2013 for $691,000 related to the purchase of Scautub Insurance Agency. Principal and interest is paid monthly over a ten year amortization period. The note rate is fixed at 4.25% with a scheduled maturity date of August 1, 2023. 2) A promissory note originally issued on December 30, 2015 for $330,000 related to the furniture and fixtures at 120 Erie Boulevard. Principal and interest is paid monthly over a 15 year amortization period. The note rate is fixed at 3% with a scheduled maturity date of December 30, 2030.

The Company is in compliance with all debt covenants as required for all of these borrowings.

Borrowings outstanding (in thousands):

At December 31,	2019	2018
Short term:		
Current portion of long-term	$ 350	$ 298
Total short-term borrowings	350	298
Long-term:		
Bank loan	2,459	2,683
Other	544	635
Total long-term borrowings	3,003	3,318
Less: current portion	(350)	(298)
Long-term portion	2,653	3,020
Total borrowings	$ 3,003	$ 3,318

At December 31, 2019, scheduled repayments of debt are as follows:
(in thousands)

2020	$ 350
2021	369
2022	2,034
2023	78
2024	22
Thereafter	150
Total	$ 3,003

(14) Pension Plan

The Bank sponsors a qualified defined pension plan for its employees. The following tables provide a reconciliation of the changes in the plan's benefit obligations and fair value of assets over the two-year period ending December 31, and a statement of the funded status as of December 31 of both years:

(in thousands)

As of December 31,	2019	2018
Reconciliation of pension benefit obligation		
Obligation at beginning of year	$ 17,137	$ 17,796
Service cost including expenses	137	135
Interest cost	752	679
Actuarial gain (loss)	1,885	(477)
Benefit payments and expected expenses	(1,012)	(996)
Obligation at end of year	18,899	17,137
Reconciliation of fair value of plan assets		
Fair value of plan assets at beginning of year	18,859	21,078
Actual return on plan assets	3,966	(1,222)
Benefit payments and actual expenses	(1,000)	(997)
Fair value of plan assets at end of year	21,825	18,859
Funded status at end of year	$ 2,926	$ 1,722
Amounts recognized in the Balance Sheet		
Included in other assets	$ 2,926	$ 1,722
Amounts recognized in AOCI		
Gain/(loss)	(4,227)	(5,265)
Components of net periodic pension cost (income) and other amounts recognized in other comprehensive income		
Service cost	$ 137	$ 135
Interest cost	752	680
Expected return on plan assets	(1,188)	(1,334)
Amortization of net (gain) loss	133	139
Net periodic pension cost/(income)	(166)	(380)
Other changes in plan assets and benefit obligations recognized in other comprehensive income		
Net loss (gain)	(906)	2,080
Amortization of net (loss)	(133)	(139)
Total amount recognized in other comprehensive income	(1,039)	1,941
Total amount recognized in net periodic pension cost (income) and other comprehensive income	$ (1,205)	$ 1,561

(14) Pension Plan (continued)

Weighted average assumptions used	Used for Net Pension cost in fiscal year 1/1/19 - 12/31/19	Used for Pension obligation as of 12/31/2019
Discount rate	4.54%	3.56%
Long-term rate of return	6.50%	N/A

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands):

2020	$ 929
2021	$ 963
2022	$ 990
2023	$ 1,030
2024	$ 1,027
2025-2029	$ 5,279

The plan asset allocations by asset category are as follows:

Fair value, December 31	2019	2018
Equity securities	30%	46%
Fixed income	58%	46%
Other	12%	8%
Total	100%	100%

The estimated net (loss) for the plan that will be amortized from accumulated other comprehensive income into net periodic pension cost over the next fiscal year is $(83,140).

(15) Other Benefit Plans

Deferred Compensation Plan: Our deferred compensation plan covers all directors and selected executive officers. Under this plan the company is obligated to pay each participant or their beneficiary the fair market of the assets upon the participant's requested redemption date. There is a deferred compensation liability obligation (included in other liabilities) in addition to a deferred compensation asset (included in other assets) of $6,024,382 as of December 31, 2019 equal to the fair value of the associated assets. The expense incurred for new deferred compensation awards for the year ending December 31, 2019 was $81,000.

401(k) Plan: A 401(k) benefit plan allows employees contributions up to the annual IRS dollar limit. The employee contributions are matched up to 50% of the first 6% of the compensation contributed. Expense for 2019 and 2018 was $395,000 and $388,000, respectively, including an additional 3% discretionary contribution.

(16) Income Taxes

Income taxes included in the Statement of Income are as follows: (in thousands)

As of December 31,	2019	2018
Current:		
Federal	$ 864	$ 608
State	6	7
Total current	870	615
Deferred:		
Federal	7	207
State	-	8
Total deferred	7	215
Applicable income taxes	$ 877	$ 830

A reconciliation of the income tax expense and the amount computed by applying the statutory federal income tax rate to income before income taxes and extraordinary items is shown as follows:

As of December 31,	2019	2018
Federal income tax at statutory rate (21% for 2019 and 2018)	$ 869	$ 702
State tax net of federal income tax effect (6.5% for 2019 and 2018)	(3)	14
Municipal bond interest	(4)	(61)
Other	15	175
Total	$ 877	$ 830

The net deferred tax assets included in other assets in the accompanying Consolidated Balance Sheets includes:

At December 31,	2019	2018
Deferred tax assets:		
Allowance for loan losses	$ 892	$ 1,048
Deferred compensation	682	899
Other	143	146
Deferred tax assets	1,717	2,093
Deferred tax liabilities:		
Pension	(615)	(450)
Depreciation	(134)	(115)
Servicing rights	(130)	(182)
Securities	(51)	(2)
Deferred tax liabilities	(930)	(749)
Net deferred tax assets	$ 787	1,344

(17) Regulatory Capital Matters

The subsidiary Bank is subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgements by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Bank on January 1, 2015 with full compliance requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in at the rate of 0.625% per year from 0.0% in 2015 to 2.50% on January 1, 2019. The capital conservation buffer for 2019 is 2.50% and for 2018 is 1.875%. Management believes as of December 31, 2019, the Bank meets all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2019 and 2018, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

Actual and required capital amounts (in thousands) and ratios are presented below:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Thresholds		Minimum To Be Well Capitalized with Buffer	
2019	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to risk-weighted assets)	46,776	12.10%	30,950	8.00%	38,675	10.00%	40,606	10.50%
Tier 1 Capital (to risk-weighted assets)	41,939	10.84%	23,200	6.00%	30,950	8.00%	32,872	8.50%
Common Equity Tier 1 (to risk-weighted assets)	41,939	10.84%	17,400	4.50%	25,150	6.50%	27,071	7.00%
Tier 1 Capital (to quarterly average assets)	41,939	8.68%	19,350	4.00%	24,150	5.00%	24,150	5.00%
2018								
Total Capital (to risk-weighted assets)	44,654	11.37%	31,400	8.00%	39,250	10.00%	38,772	9.875%
Tier 1 Capital (to risk-weighted assets)	39,890	10.16%	23,550	6.00%	31,400	8.00%	30,919	7.875%
Common Equity Tier 1 (to risk-weighted assets)	39,890	10.16%	17,675	4.50%	25,525	6.50%	25,030	6.375%
Tier 1 Capital (to quarterly average assets)	39,890	8.22%	19,400	4.00%	24,250	5.00%	24,250	5.000%

18) Loan Commitments and Other Related Activities

Commitments to extend credit

The following is the aggregate amount of financial instruments to extend credit, advance credit on previously approved credit lines, and letters of credit.

As of December 31,	Carrying Amount 2019	Carrying Amount 2018
Unrecognized Financial Instruments:		
Commitments to Extend Credit	$ 49,030	$ 62,285

Our Company, in its normal course of business, is party to financial instruments with off-balance sheet risk. The financial instruments are commitments to extend loans, advance credit on previously approved credit lines, and letters of credit. The instruments have varying degrees of credit and market risk in excess of the amount recognized on the Statement of Condition. To manage the credit risk, our Company uses the same credit management criteria for financial instruments with off-balance sheet risk as it does for financial risk reflected on the Statement of Condition. To manage the market risk, our Company has an Asset and Liability Management Program in place to minimize these risks.

The Company's loan policy considers collateral on a loan-by-loan basis for both on and off-balance sheet financial instruments to reduce credit risk. The types of collateral used are real estate, equipment, machinery, inventory, cash on deposit, stocks, bonds and other marketable securities. The collateral is valued and inspected to confirm its adequacy, and additional collateral may be requested when appropriate. The Company's loan portfolio is widely diversified by borrower and commercial activity. The composition of the loan portfolio by major category is detailed in Note 5.

These are normal commitments, which are not reflected on the accompanying financial statements. Our Company's management does not anticipate any adverse effect on our financial position from disposition of the various commitments.

(19) Accumulated Other Comprehensive Income (Loss)

Changes in the components of accumulated other comprehensive income (loss) (AOCI), net of tax, for their periods indicated are summarized in the table below:

	For the year ended December 31, 2019		
(in thousands)	Pension Plan	Unrealized Gains and (Losses) on AFS Securities	Total
Beginning Balance	$ (3,861)	$ (2)	$ (3,863)
OCI before reclassifications	662	172	834
Amounts Reclassified from AOCI	105	2	107
Ending Balance	$ (3,094)	$ 172	$ (2,922)

	For the year ended December 31, 2018		
(in thousands)	Pension Plan	Unrealized Gains and (Losses) on AFS Securities	Total
Beginning Balance	$ (2,427)	$ 10	$ (2,417)
OCI before reclassifications	(1,544)	(13)	(1,557)
Amounts Reclassified from AOCI	110	1	111
Ending Balance	$ (3,861)	$ (2)	$ (3,863)

The following table presents the amounts reclassified out of each component of AOCI for the indicated annual period (in thousands):

Details about AOCI Components	12/31/2019	12/31/2018	Affected Line Item in the Statement of Income
Pension Plan Items			
Retirement Plan Net Losses	$ (133)	$ (139)	Salaries and Employee Benefits
Recognized in Plan Expenses	28	29	Applicable income taxes
	$ (105)	$ (110)	Net Income
Available-for-sale Securities			
Realized gain (loss) on	$ (2)	$ (1)	Net gains (losses) on sales of debt securities
Sale of Securities	-	-	Applicable income taxes
	$ (2)	$ (1)	Net Income

(20) Revenue from Contracts with Customers

The majority of the Bank's revenue-generating transactions are not subject to ASC Topic 606 (Revenue from Contracts with Customers) including revenue generated from financial instruments, which are presented in the income statement as components of net interest income. All of the Bank's revenue from contracts with customers within the scope of Topic 606 is recognized in non-interest income and is presented below for the years ended December 31, 2019 and 2018 respectively.

(in thousands)

At December 31,	2019	2018
Customer service charges and fees:		
Insufficient funds	$ 628	$ 607
Deposit related fees	281	286
ATM charges	109	118
Safe deposit rental income	82	90
Total service charges	1,100	1,101
Insurance and brokerage:		
Insurance commissions	684	635
Brokerage commissions	425	402
Total insurance and brokerage	1,109	1,037
Interchange Fee Income	1,082	1,010
Mortgage loan servicing fee income and gain on sale of loans:		
Loan servicing fees, net of amortization	61	123
Net gains on sales of loans	177	108
Total mortgage loan servicing and gain on sales of loans	238	231
Total revenue within scope of Revenue recognition standard	3,529	3,379
Net gains (losses) on sales of investment securities	(2)	(1)
Unrealized gains (losses) on equity securities	111	(9)
Other miscellaneous income	275	357
Total noninterest income	$ 3,913	$ 3,726

The Company recognizes revenue as it is earned and noted no significant impact to its revenue recognition policies as a result of the adoption of this new accounting standard related to revenue from contracts with customers.

The following is a discussion of revenue classifications within the scope of the new revenue recognition guidance:

Customer service charges and fees – Revenue is earned through insufficient funds fees, wire transfer fees, and deposit related fees based on customer activity and statement cycles. Fees earned are recognized at the time the transaction is complete and the Company's performance obligation is satisfied. Safe deposit rent is collected in advance based on the annual renewal date and the subsequent revenue is amortized monthly to income.

Insurance and brokerage - Investment and insurance products are offered through our First Scotia Wealth Management division and Agency subsidiary, respectively. Revenue is earned through commissions received as transactions occur after our performance obligation is satisfied.

Interchange fees – for debit and credit card interchange fees, revenue is recognized from card networks and other card related services. Interchange rates are set by the card networks. Interchange fees are based on purchase volumes and other factors and are recognized as transactions occur.

Loan servicing income and gains on sales of loans – realized gain on sale of loans is earned through the origination and sale of residential loans to investors as transactions occur. The Company retains all loan servicing on loan sales and collects monthly servicing income from the customer as loan payments are received.

THIS STATEMENT HAS NOT BEEN REVIEWED OR CONFIRMED FOR ACCURACY
OR RELEVANCY BY THE OFFICE OF THE COMPTROLLER OF THE CURRENCY

I, Robert J. Dieterich, Chief Financial Officer of 1st National Bank of Scotia, do hereby declare that these Consolidated Balance Sheets and Income Statements (including the supporting schedules) have been prepared in conformance with the instructions issued by the appropriate Federal regulatory authority and are true to the best of my knowledge and belief.

Chief Financial Officer

February 10, 2020
Date of Signature

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The purpose of the Audit Committee is to assist the Board of Directors in its general oversight of the Glenville Bank Holding Company's financial reporting, internal controls and audit function. Through our annual Directors' Examination and the internal auditors, the Audit Committee has reviewed the financial statements for which management is responsible for preparation, presentation and integrity. It is the Audit Committee's opinion that these statements conform to applicable standards.

The Board of Directors Audit Committee

David L. Schweizer, Chairman
Bruce W. McConnelee
David D. Montana
Scott D. Stevens

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