



# 2018

## ANNUAL REPORT





# LETTER TO Shareholders

## Dear Shareholders,

It is with great pride and more than a little excitement that we present to you the first annual report of Community Heritage Financial, Inc., the parent company of Middletown Valley Bank, and as of February 1, 2019, Millennium Financial Group, Inc., dba Mlend. The formation of the holding company and the transition to becoming publically traded on the OTC Pink market (CMHF), both completed in 2018, were important milestones in the evolution of our organization.

In determining a name for the holding company, we looked to our roots. For over a century, Middletown Valley Bank has been a cornerstone for our customer's financial needs. The employees, management, and directors of our company have worked hard to create a brand within the communities we serve. Therefore, we wanted to our new name to reflect not just where we are going, but where we came from.

We serve our community by placing the customer first, and without their support, we wouldn't be one of the fastest organically growing banks in the country. The holding

company name reflects our commitment to serving our customer's numerous financial needs, while paying tribute to our heritage. We recognize that we must continue to utilize conservative management practices and uphold our fiduciary duty to depositors and shareholders.

We are pleased to report that the company had a very successful 2018. Our banking subsidiary, Middletown Valley Bank, achieved another year of above-average growth and profitability. Total assets grew by more than 20% (\$74.4 million) with total deposit growth of 23% (\$72.6 million). Net growth in total loans was nearly 27% (\$74.5 million). Net income was \$2.0 million, with earnings per share of \$0.88 for the year ended December 31, 2018, as compared to net income of \$1.2 million and earnings per share of \$0.82 for the same period in 2017. Our Eastern Boulevard branch in Hagerstown topped \$150 million in deposits at year-end. The 2018 growth trends continue our long-term plans to increase the size of the bank, while achieving our efficiency and profitability goals.

While we have made considerable investments, overhead rates are trending down over the long-term, rates of return are increasing, and the capital added has allowed us to continue our aggressive organic growth plan. Credit quality remains strong and independent loan reviews report our credit process exceeds our asset size. We have a diverse mix of credit with no concentration risk and minimal high risk loans. Our Enterprise Risk Management Program continues to evolve and indicates risk is well controlled, and we have the capacity to continue to grow our balance sheet.

In 2018, we enhanced many of our products and services. We launched our consumer remote deposit capture product within our mobile banking app, invested in our lending support and credit administration teams, and strengthened our branch network with the addition of our Paramount branch in early 2019.

We have added a number of talented individuals and leaders to our organization in this past year. Over 40 new employees were hired, doubling the number from two years prior, and bringing Middletown Valley Bank to a record high of 117 total employees. These team members are committed to providing the *Absolutely Exceptional Experience*, as are the long-term employees highlighted in this annual report. They celebrate our heritage, embody our culture, and have been an integral part of the bank's recent growth as a full-service, commercial bank.

We are truly fortunate to have an exceptional group of individuals within the organization and on our board of directors, who will continue to build on our heritage and be there for the communities we serve as their trusted financial partner. On behalf of Community Heritage Financial, Inc., we thank you for your continued support as we grow our brands.



Robert E. (BJ) Goetz, Jr.  
President and Chief Executive Officer



James G. Pierne  
Chairman of the Board



CELEBRATE  
Our Heritage



# EMBODY Our Culture

## Financial Highlights

As of and for the years ended December 31  
(dollars in thousands, except ratio's and per common share data)

	2018	2017	2016	2015	2014
<b>Earnings Data (\$):</b>					
Net interest income	\$13,646	\$10,695	\$8,573	\$6,559	\$5,411
Provision for (recovery of) loan losses	582	637	464	425	(222)
Non-interest income	1,174	1,025	1,095	947	974
Non-interest expense	11,569	8,619	7,928	6,645	5,935
Net income	1,968	1,217	893	366	497

### Common Share Data:

Basic earnings per common share	\$0.88	\$0.82	\$0.69	\$0.29	\$0.51
Dividends paid per common share	0.09	0.08	0.08	0.08	0.14
Book value per common share (end of period)	\$20.12	\$19.42	\$19.54	\$19.20	\$20.82
Weighted average common shares outstanding	2,233,820	1,481,593	1,285,774	1,265,057	977,883

### Selected Statistical Data (%):

Net interest margin	3.62%	3.59%	3.45%	3.50%	3.53%
Return on average assets	0.53	0.39	0.34	0.18	0.30
Return on average common equity	4.74	4.17	3.54	1.52	2.73
Efficiency ratio	78.1	73.5	82.0	88.5	93.0

### Financial Condition Data (\$):

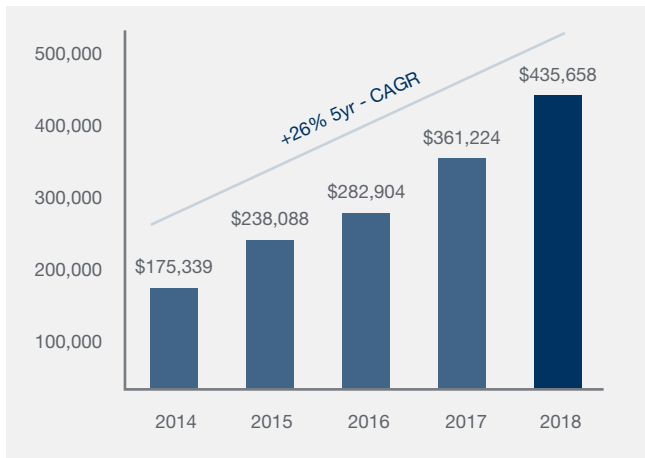
Total assets	\$435,658	\$361,224	\$282,904	\$238,088	\$175,339
Loans	357,742	283,233	210,175	162,427	111,422
Allowance for loan losses	3,593	3,051	2,527	2,150	1,584
Securities	47,967	47,457	45,689	47,992	37,881
Deposits	388,544	315,934	250,981	202,956	151,158
Borrowings	-	-	5,000	9,200	-
Shareholder's equity	44,944	43,388	25,124	24,685	22,752
Non-performing assets	3,184	4,030	4,063	3,352	3,113

### Ratios (%):

Loans to deposits	92.1%	89.6%	83.7%	80.0%	73.7%
Allowance for loan losses to total loans	1.00	1.08	1.20	1.32	1.42
Non-performing Assets/Loans + OREO	0.9	1.4	1.9	2.1	2.8
Non-performing Assets/Total Assets	0.7	1.1	1.4	1.4	1.8
Average shareholders' equity to average total assets	11.2	9.5	9.6	12.1	11.0
Tier 1 capital to risk-weighted assets	13.5	16.4	13.0	16.0	20.5
Total risk-based capital	14.8	17.7	14.3	17.3	21.8

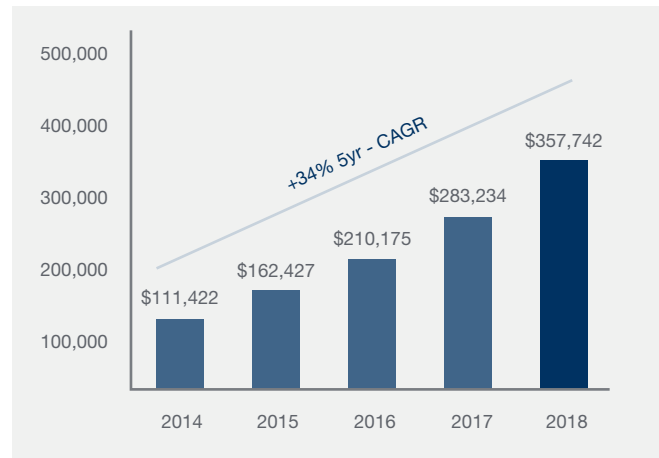
# Management's Discussion and Analysis

## Total Assets



Total Assets were \$436 million at December 31, 2018, up 21% from the prior year-end. The growth was driven by \$74.5 million of loan growth. The loan growth was primarily funded with \$72.6 million in deposit growth and \$1.8 million in retained earnings. The five year compounded annual growth rate is 26%.

## Total Loans



Total Loans were \$357 million at December 31, 2018, up 26% from the prior year-end. The year-over-year loan growth was primarily driven by real estate lending (+24%) and commercial & industrial lending (+35%). The five year compounded annual growth rate is 34%.

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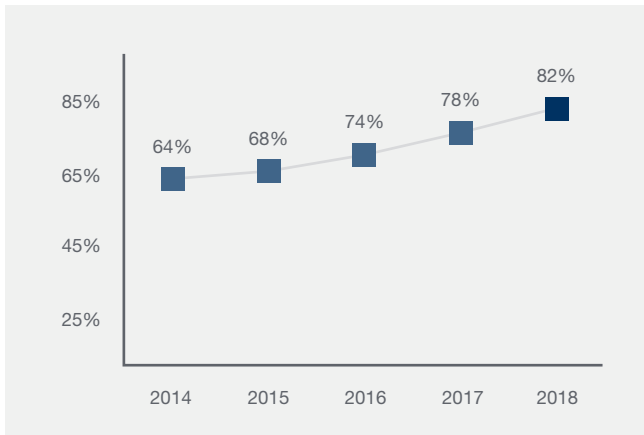
For over 40 years, I have been blessed with many relationships, both employees & customers that are lifelong friends. I've watched families grow and evolve, and many of us have been through the phases of life, together. These friendships are priceless and I'm very grateful. The Bank has been home for me over half my life and to me truly represents 'family'. I believe our culture is key. We truly care about one another and everyone is a team player. The working environment we have is one of a kind, and management genuinely cares about each employee personally and professionally.

Dawn Woods  
Corporate Secretary



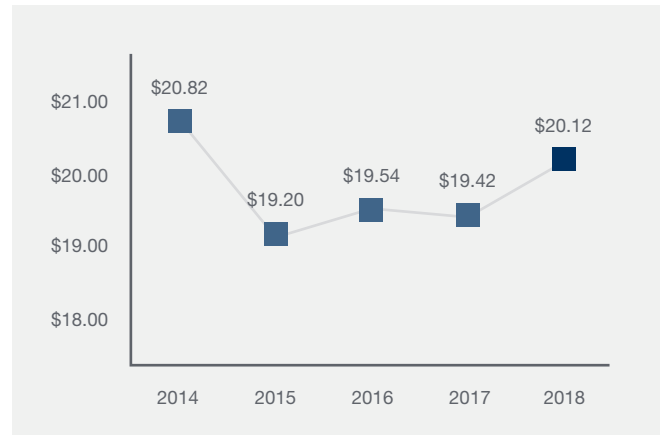
# CELEBRATE Our Heritage

## Loans to Assets



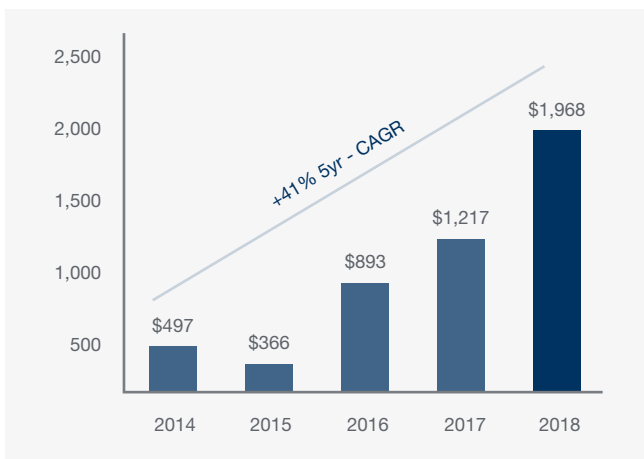
Total Loans as a percentage of Total Assets continue to increase as the reshaping of the Balance Sheet strategically focuses on a higher percentage of earnings assets.

## Net Book Value per Share



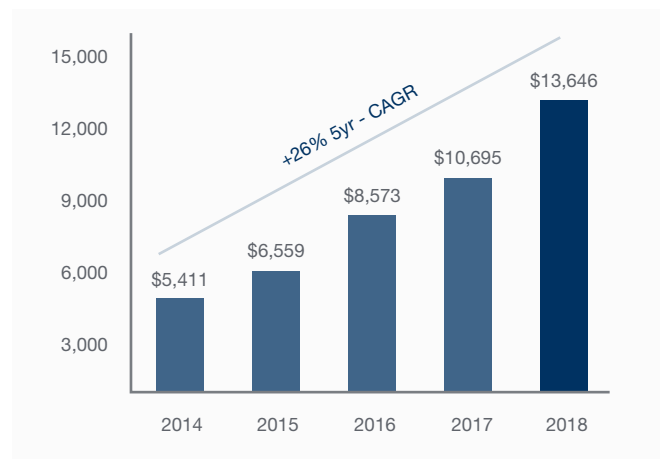
Net book value increased \$0.70 per share in 2018 or 3.6% primarily due to an increase of \$1.8 million in retained earnings.

## Net Income



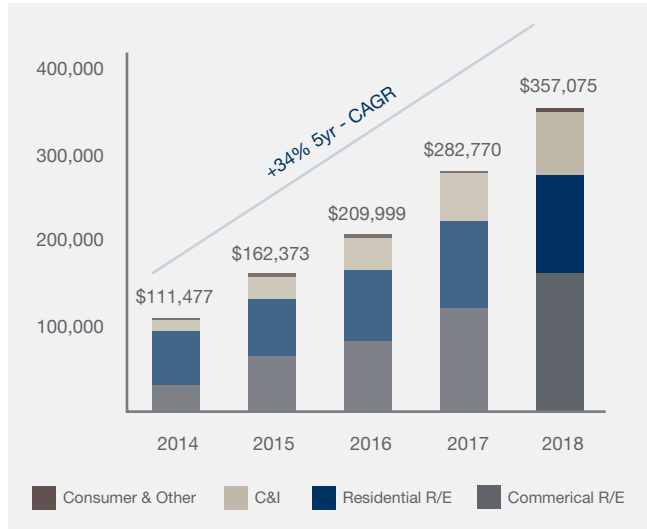
Net income for the full year 2018 was \$1.97 million, an increase of 62% compared with 2017. Net income for 2018 included \$246 thousand in after tax one-time expenses (lease write-off/holding company creation) while 2017 included \$422 thousand in charges related to the corporate income tax law change. The five year compounded annual growth rate is 41%.

## Net Interest Income



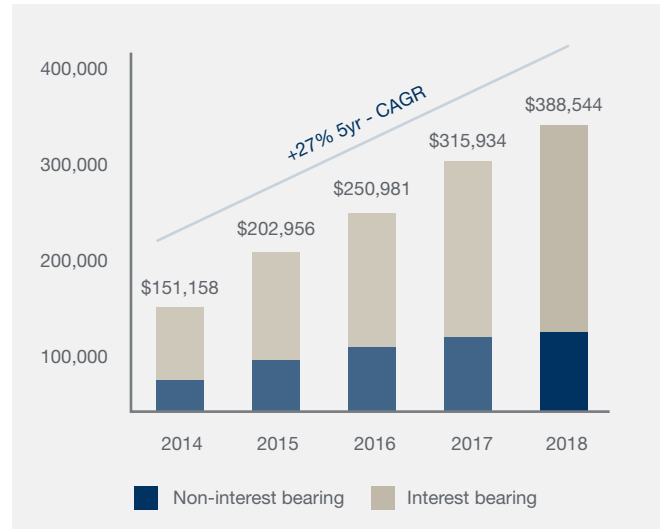
Net interest income increased by \$2.95 million in 2018 versus 2017. Interest expense increased \$1.5 million in 2018 versus 2017 but interest income more than offset the growth with an increase of \$4.5 million for the same period. The five year compounded annual growth rate is 26%.

### Loan Mix - Net of FASB Fees



Total Real Estate Loans were \$282 million at December 31, 2018 comprised of Commercial (\$165.4 million) and Residential (\$116.4 million) representing 79% of total loans. Commercial and Industrial (C&I) were \$73.8 million at year end 2018 representing 21% of total loans. Consumer was \$1.4 million and 1% of total loans at year end.

### Deposit Mix



Total deposits were \$389 million at December 31, 2018, a \$73 million (+23%) increase over prior year. Non-interest bearing increased \$12.5 million (+13%) and Interest bearing increased \$60 million (+27%) over prior year, respectively. Brokered deposits slightly increased to \$7 million in 2018 versus 4.9 million at year end 2017. The five year compounded annual growth rate is 27%.



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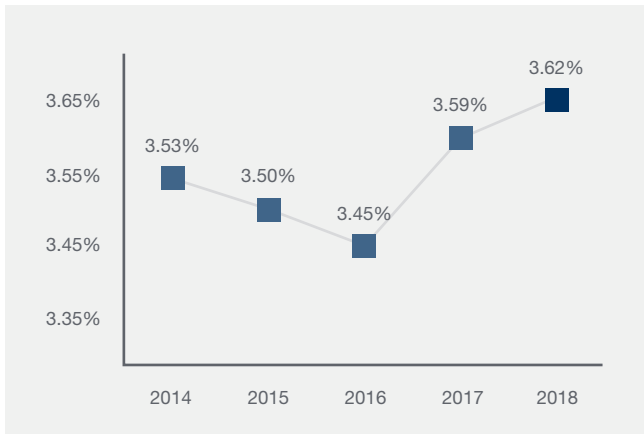
I have been with Middletown Valley Bank for over 37 years. Staying in one place for that long is easy when you love your job. Over the years I have seen tremendous growth in deposits, loans, customers and new employees. Our employees are very dedicated to the bank and our customers.

**Georgie Poffenberger**  
*Banking Officer - Mortgage Support Specialist II*



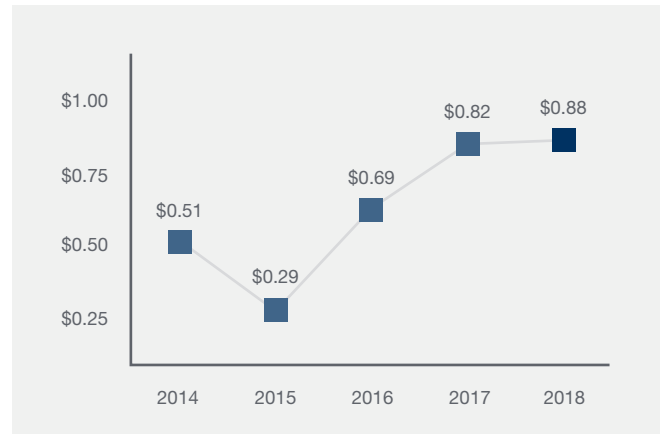
# EMBODY Our Culture

## Net Interest Margin



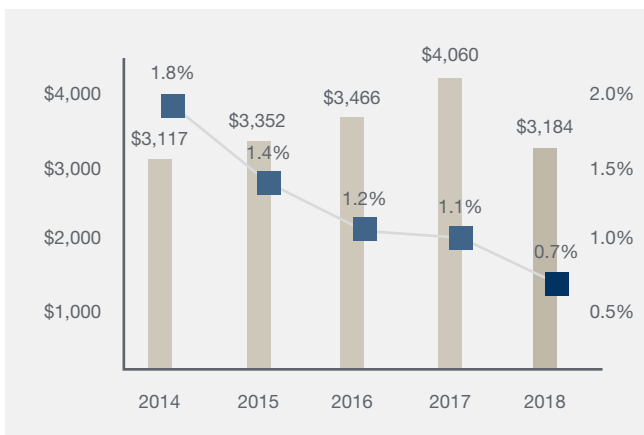
Net interest margin improved by 3 bps in 2018 versus 2017. The yield on earning assets grew to 4.32% in 2018, up from 3.98% in 2017. The increase is attributable to higher loan-to-assets percentage (82% vs. 78%) and higher loan yields (4.77% vs. 4.56%) in 2018 versus 2017, respectively.

## Earnings per Share



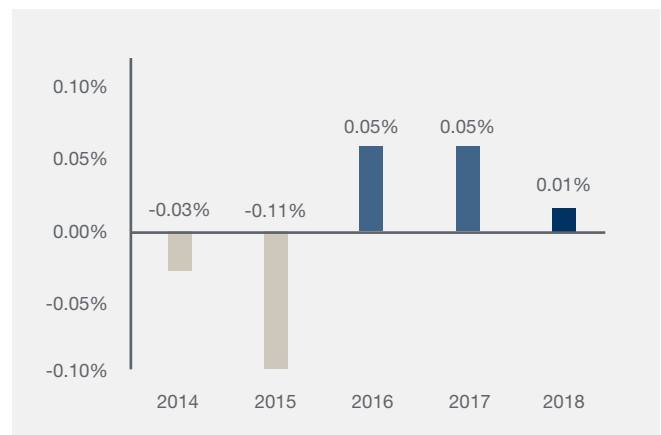
Earnings per share increased \$0.06 in 2018 with weighted average share count increasing 752 thousand in 2018 versus 2017 due to the 2017 capital raise in October 2017.

## Nonperforming Assets



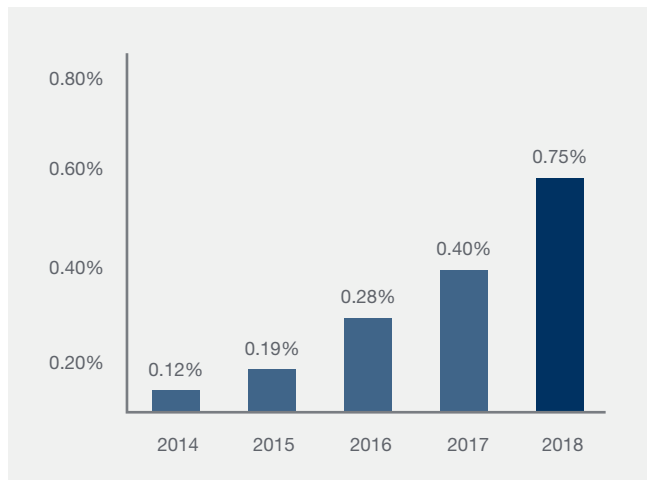
Nonperforming assets (NPA's) improved in 2018 with a reduction of \$876 thousand. NPA's as a percentage of total assets improved by 0.40%. NPA improvement continues to be achieved by working through the loans and not charging them off. (See net charge-off/avg loans table)

## Net Charge-Offs (Recoveries)/ Avg. Loans



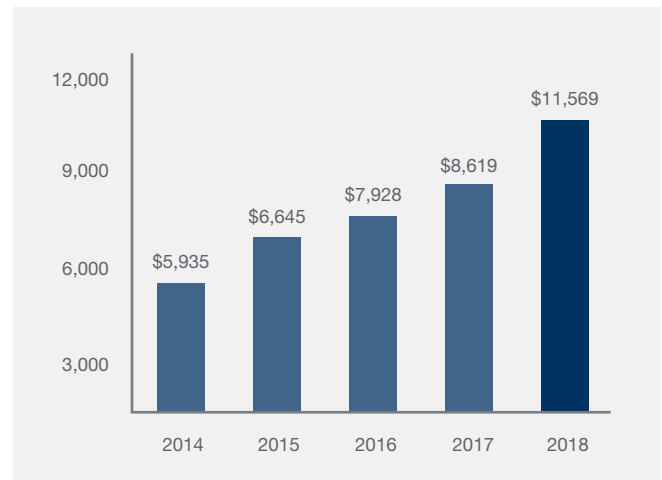
Credit quality continues to be strong with limited net charge offs over the last three years with net recoveries in 2014 and 2015.

## Cost of Funds



Cost of Funds increased to 0.75% as increased funding costs have impacted the entire banking industry. A deposit special (13/20 mos C.D.'s) was offered in the summer of 2018 to get ahead of further interest rate increases which negatively impacted our overall funding profile. The Bank remains focused on increasing non-interest bearing deposit accounts.

## Non-interest Expense



Non-interest expense increased \$2.7 million (+31.7%) which was negatively impacted by compensation expense growth of \$1.85 million (40%) as we continue to invest in human capital to support our above industry growth. Salary and Benefits as % of average assets grew to 1.6%, up from 1.5% in 2017, which remains below the majority of our peers. Occupancy was also impacted by the one-time lease write-off of \$0.2 million.

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It's hard to believe, but between the two of us we have 70 years at Middletown Valley Bank! It has been and continues to be a family oriented place to work. MVB has provided us with many opportunities and a nice living. There have been many changes and a lot of growth over the last several years. It is all very exciting, and it makes us happy to know that we haven't wavered from our commitment to the communities we serve.

Kevin Delauter

*Vice President - Senior Accounting Manager*

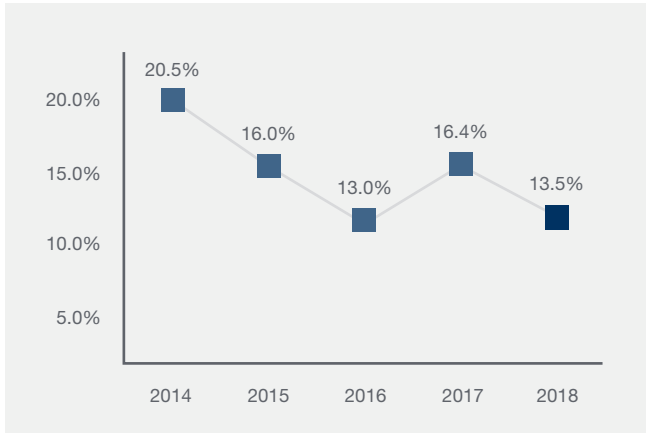
Lisa Delauter

*Banking Officer - Retail Branch Manager*



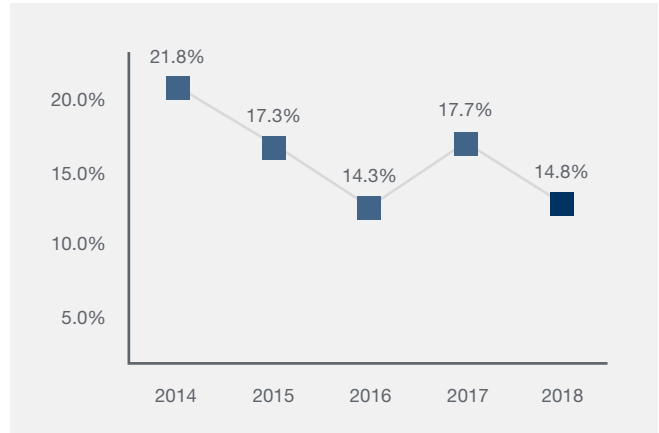
# CELEBRATE Our Heritage

## Tier 1 Capital



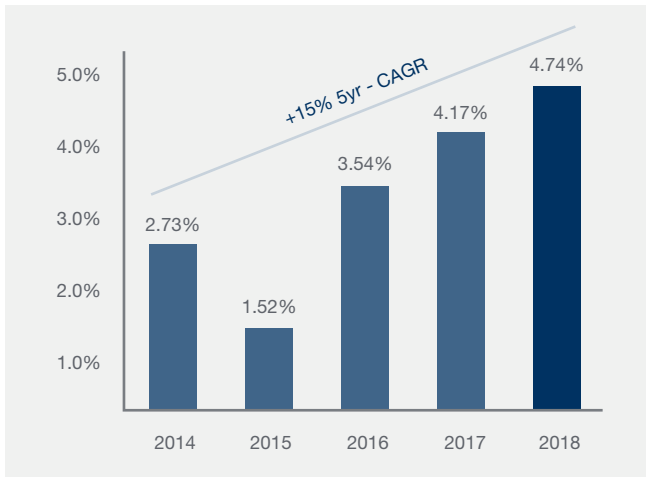
The Bank remains well capitalized with Tier 1 capital at December 31, 2018 of 13.5%, which was a 2.9% decline versus 2017. The balance sheet growth is driving the consumption of capital and has utilized a portion of the 2017 capital raise.

## Total Risk Based Capital



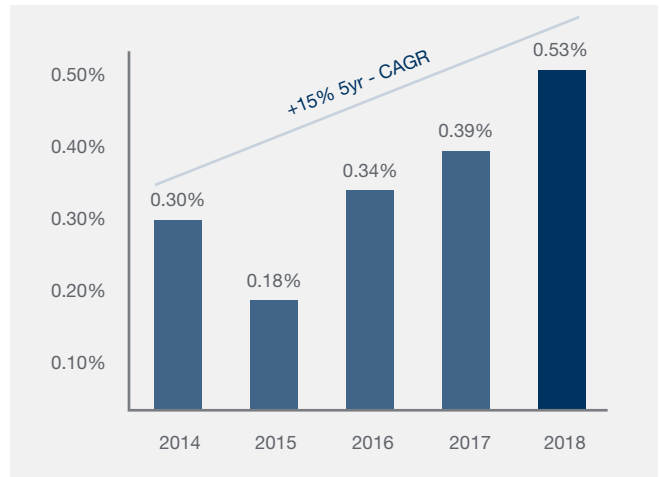
Total risk based capital declined by 2.9% in 2018 versus 2017 as the balance sheet growth primarily in loans consumes capital.

## Return on Equity



Return on equity was 4.74% in 2018 which was a 0.57% increase versus 2017. The increased scale of the balance sheet has boosted our return on equity. The five year compounded annual growth rate is 15%.

## Return on Average Assets



Return on average assets was 0.53% in 2018 which was a 0.14% increase versus 2017. Like the Return on equity, the scale of the balance sheet has benefited the growth in the return on average assets. The five year compounded annual growth rate is 15%.



## Independent Auditor's Report

To the Board of Directors and Shareholders  
Community Heritage Financial, Inc.  
Middletown, Maryland

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Community Heritage Financial, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Heritage Financial, Inc. and Subsidiary as of December 31, 2018 and 2017, 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.

*Yount, Hyde & Barbours, P.C.*

Winchester, Virginia  
April 5, 2019

**COMMUNITY HERITAGE FINANCIAL, INC. AND SUBSIDIARY**  
**CONSOLIDATED BALANCE SHEETS**  
December 31, 2018 and 2017

<u>ASSETS</u>	<u>2018</u>	<u>2017</u>
Cash and due from banks	\$ 15,347,455	\$ 18,501,217
Federal funds sold	3,198,302	1,551,750
FHLB Stock, at cost	325,200	254,700
Securities available for sale, at fair value	47,966,728	47,457,340
Loans held for sale	-	239,000
Loans, net of allowance for loan losses of \$3,593,161 (2018) and \$3,050,692 (2017)	354,149,192	280,182,503
Bank premises and equipment, net	6,285,800	5,614,734
Accrued interest receivable	1,155,631	840,373
Deferred income taxes, net	1,246,329	1,024,207
Income taxes receivable	83,832	-
Other real estate owned, net	-	166,768
Bank owned life insurance	4,720,042	4,620,707
Other assets	1,179,732	770,903
<b>TOTAL ASSETS</b>	<b><u>\$ 435,658,243</u></b>	<b><u>\$ 361,224,202</u></b>
 <u>LIABILITIES</u>		
Deposits:		
Demand	\$ 107,387,981	\$ 94,853,611
Interest-bearing demand	136,730,984	113,354,909
Savings	49,810,748	48,903,428
Time and IRA	94,614,527	58,821,608
Total deposits	388,544,240	315,933,556
Accrued interest payable	113,379	43,549
Income taxes payable	-	201,876
Other liabilities	2,056,136	1,657,389
<b>TOTAL LIABILITIES</b>	<b><u>390,713,755</u></b>	<b><u>317,836,370</u></b>
 <u>SHAREHOLDERS' EQUITY</u>		
Preferred stock, \$1 par value; 1,000,000 shares authorized; no shares issued and outstanding	-	-
Common Stock, \$.01 par value, 4,000,000 shares authorized 2,233,820 shares issued and outstanding at December 31, 2018;		
Common stock, \$1 par value; 4,000,000 shares authorized; 2,233,820 shares issued and outstanding at December 31, 2017;	22,338	2,233,820
Surplus	28,138,429	25,926,947
Retained earnings	17,505,373	15,738,683
Accumulated other comprehensive loss	(721,652)	(511,618)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b><u>44,944,488</u></b>	<b><u>43,387,832</u></b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b><u>\$ 435,658,243</u></b>	<b><u>\$ 361,224,202</u></b>

See Notes to Consolidated Financial Statements.

**COMMUNITY HERITAGE FINANCIAL, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF INCOME**  
Years Ended December 31, 2018 AND 2017

<u><b>INTEREST INCOME</b></u>	<u><b>2018</b></u>	<u><b>2017</b></u>
Interest and fees on loans	\$ 15,069,426	\$ 10,840,820
Interest on investment securities:		
U.S. government	183,518	229,770
Mortgage backed	494,827	391,836
Municipal	241,651	231,154
Other interest	312,071	157,766
	<u>16,301,493</u>	<u>11,851,346</u>
<b>TOTAL INTEREST INCOME</b>		
	<u>16,301,493</u>	<u>11,851,346</u>
 <u><b>INTEREST EXPENSE</b></u>		
Interest on deposits:		
Savings	25,019	23,881
Interest-bearing demand	1,290,782	455,815
Time and IRA	1,312,498	668,811
Interest on borrowed funds	27,217	7,989
	<u>2,655,516</u>	<u>1,156,496</u>
<b>TOTAL INTEREST EXPENSE</b>		
	<u>2,655,516</u>	<u>1,156,496</u>
<b>NET INTEREST INCOME</b>	13,645,977	10,694,850
 <u><b>PROVISION FOR LOAN LOSSES</b></u>	<u>582,349</u>	<u>636,731</u>
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<u>13,063,628</u>	<u>10,058,119</u>
 <u><b>NONINTEREST INCOME</b></u>		
Service charges on deposit accounts	443,353	427,430
VISA check card income	438,261	361,790
Loss on sales and calls of securities, available for sale	-	(37,725)
Gain on sales of loans	132,599	105,242
Bank owned life insurance income	99,335	106,023
Other operating income	60,749	62,313
	<u>1,174,297</u>	<u>1,025,073</u>
 <u><b>NONINTEREST EXPENSES</b></u>		
Salaries and employee benefits	6,503,339	4,627,897
Occupancy expense	1,091,182	747,532
Equipment expense	903,702	709,569
(Gain) on sale of other real estate owned	-	(59,772)
Data and item processing expense	869,529	806,330
FDIC Insurance expense	94,960	155,361
Other operating expense	2,105,828	1,631,964
	<u>11,568,540</u>	<u>8,618,881</u>
<b>INCOME BEFORE INCOME TAXES</b>	2,669,385	2,464,311
 <u><b>INCOME TAXES</b></u>	<u>701,651</u>	<u>1,247,523</u>
<b>NET INCOME</b>	<u>\$ 1,967,734</u>	<u>\$ 1,216,788</u>
 Earnings per Common Share, Basic and Diluted	\$ 0.88	\$ 0.82

See Notes to Consolidated Financial Statements.

**COMMUNITY HERITAGE FINANCIAL, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

Years Ended December 31, 2018 AND 2017

	<b>2018</b>	<b>2017</b>
<b>NET INCOME</b>	\$ 1,967,734	\$ 1,216,788
Other comprehensive income (loss):		
Unrealized holding gain (loss) on securities available for sale (net of tax of \$79,748 and \$(69,580), respectively)	(210,034)	106,839
Reclassification adjustment (net of tax of \$- and \$(14,879), respectively)	-	22,846
Other comprehensive income (loss), net of tax	(210,034)	129,685
<b>COMPREHENSIVE INCOME</b>	<b>\$ 1,757,700</b>	<b>\$ 1,346,473</b>

See Notes to Consolidated Financial Statements.

**COMMUNITY HERITAGE FINANCIAL, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
Years Ended December 31, 2018 AND 2017

	<u>COMMON STOCK</u>	<u>SURPLUS</u>	<u>RETAINED EARNINGS</u>	<u>ACCUMULATED OTHER COMPREHENSIVE LOSS</u>	<u>TOTAL</u>
<b><u>BALANCE, DECEMBER 31, 2016</u></b>	<u>\$ 1,285,774</u>	<u>\$ 9,834,589</u>	<u>\$ 14,560,869</u>	<u>\$ (557,163)</u>	<u>\$ 25,124,069</u>
Net Income	-	-	1,216,788	-	1,216,788
Other comprehensive Income	-	-	-	129,685	129,685
Net proceeds from sale of common stock	948,046	16,092,358	-	-	17,040,404
Reclassification of stranded tax effects from change in tax rate	-	-	84,140	(84,140)	-
Cash dividends (\$0.08 per share)	-	-	(123,114)	-	(123,114)
<b><u>BALANCE, DECEMBER 31, 2017</u></b>	<u>\$ 2,233,820</u>	<u>\$ 25,926,947</u>	<u>\$ 15,738,683</u>	<u>\$ (511,618)</u>	<u>\$ 43,387,832</u>
Net Income	-	-	1,967,734	-	1,967,734
Other comprehensive Loss	-	-	-	(210,034)	(210,034)
Reorganization into a holdng company structure (par value \$1 to \$.01)	(2,211,482)	2,211,482	-	-	-
Cash dividends (\$0.09 per share)	-	-	(201,044)	-	(201,044)
<b><u>BALANCE, DECEMBER 31, 2018</u></b>	<u>\$ 22,338</u>	<u>\$ 28,138,429</u>	<u>\$ 17,505,373</u>	<u>\$ (721,652)</u>	<u>\$ 44,944,488</u>

See Notes to Financial Statements.

**COMMUNITY HERITAGE FINANCIAL, INC. and SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
Years Ended December 31, 2018 AND 2017

<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>
Net income	\$ 1,967,734	\$ 1,216,788
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	497,935	433,707
Provision for loan losses	582,349	636,731
Gain on sale of other real estate owned	-	(59,772)
Loss on sales and calls of investment securities	-	37,725
Gain on sales of loans	(132,599)	(105,242)
Originations of loans held for sale	(13,471,474)	(11,938,879)
Proceeds from sales of loans held for sale	13,843,073	12,734,394
Earnings on bank owned life insurance	(99,335)	(106,023)
Deferred tax expense (benefit)	(142,374)	278,244
Increase in accrued interest receivable	(315,258)	(205,711)
Increase in other assets	(408,829)	(172,295)
Decrease in income taxes payable	(285,708)	(132,251)
Increase in accrued interest payable	69,830	21,054
Increase in other liabilities	398,747	215,808
Amortization of premium and discounts on investment securities, net	309,458	330,272
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b><u>2,813,549</u></b>	<b><u>3,184,550</u></b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Purchases of securities available for sale	(10,187,887)	(12,905,763)
Proceeds from maturities, repayments and calls of securities available for sale	9,079,259	5,051,784
Proceeds from sales of securities available for sale	-	5,932,275
Proceeds from sales of other real estate owned	-	479,654
Net (increase) in loans	(74,382,270)	(73,337,450)
(Purchase)/Redemption of FHLB stock	(70,500)	172,100
Purchases of fixed assets	(1,169,001)	(1,012,193)
<b>NET CASH (USED IN) INVESTING ACTIVITIES</b>	<b><u>(76,730,399)</u></b>	<b><u>(75,619,593)</u></b>
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>		
Net increase in demand and savings deposits	36,817,765	52,556,194
Net increase in time and IRA deposits	35,792,919	12,396,092
Net proceeds from sale of common stock	-	17,040,404
Net curtailment of FHLB borrowings	-	(5,000,000)
Cash dividends paid	(201,044)	(123,114)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b><u>72,409,640</u></b>	<b><u>76,869,576</u></b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(1,507,210)</b>	<b>4,434,533</b>
<b><u>CASH AND CASH EQUIVALENTS, BEGINNING BALANCE</u></b>	<b><u>20,052,967</u></b>	<b><u>15,618,434</u></b>
<b><u>CASH AND CASH EQUIVALENTS, ENDING BALANCE</u></b>	<b><u>\$ 18,545,757</u></b>	<b><u>\$ 20,052,967</u></b>
<b><u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u></b>		
Cash paid during the year for:		
Interest	<u>\$ 2,585,686</u>	<u>\$ 1,135,422</u>
Income taxes	<u>\$ 1,129,733</u>	<u>\$ 1,101,531</u>
<b><u>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES</u></b>		
Transfers of loans to other real estate owned	<u>\$ -</u>	<u>\$ 166,768</u>
Loans made to finance other real estate owned	<u>\$ 166,768</u>	<u>\$ -</u>
Transfer of other real estate owned to bank premises and equipment	<u>\$ -</u>	<u>\$ 177,100</u>
Unrealized gain (loss) on securities available for sale	<u>\$ (289,782)</u>	<u>\$ 214,144</u>

See Notes to Consolidated Financial Statements.

## COMMUNITY HERITAGE FINANCIAL, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

#### **Note 1. Nature of Operations and Summary of Significant Accounting Policies**

##### **Nature of Operations:**

Community Heritage Financial, Inc. (the "Company"), the parent company for its wholly-owned subsidiary Middletown Valley Bank (the "Bank"), was established in November 2018 under the laws of the State of Maryland to serve as the holding company for the Bank. Establishment of the holding company occurred subsequent to an affirmative vote by shareholders and receipt of regulatory approval. Upon formation of the holding company, the Company's reorganization was completed through a one-for-one share exchange in which the Bank's shareholders received one share of the Company's common stock with a par value of \$0.01 in exchange for each share of their \$1 par value common stock of the Bank. The Company is regulated under the Bank Holding Company Act of 1956, as amended, and is subject to regulation, supervision, and examination by the Federal Reserve Board.

Middletown Valley Bank is an independent and community-oriented financial institution offering a full range of retail and commercial banking services to individuals and businesses in its market area. Services are primarily provided to customers located in Frederick County and Washington County, Maryland, as well as the surrounding communities through the Bank's network of seven branch locations. Its primary deposit products are demand, savings, and time deposits, and its primary lending products are real estate mortgages, commercial business loans and installment loans.

Middletown Valley Bank began serving customers in 1908 and is headquartered in Middletown, Maryland. The Bank is a Maryland chartered bank subject to regulation, supervision, and examination by the Maryland Office of Commissioner of Financial Regulation and the Federal Deposit Insurance Corporation ("FDIC"), and our deposits are insured by the FDIC up to \$250,000 per depositor. In addition to two branch offices in Middletown, the Bank also has branches in:

- Jefferson, Maryland,
- Myersville, Maryland,
- Boonsboro, Maryland, and
- Hagerstown, Maryland (2).

The accounting and reporting policies of the Company conform to generally accepted accounting principles and to general practices of the banking industry. The following is a summary of the more significant policies.

##### **Principles of Consolidation:**

The consolidated financial statements of Community Heritage Financial, Inc. and its wholly-owned subsidiary, Middletown Valley Bank, include the accounts of both companies. All material intercompany balances and transactions have been eliminated in consolidation.

##### **Use of Estimates:**

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and other-than-temporary impairment of securities.

##### **Presentation of Cash Flows:**

For the purposes of reporting cash flows, the Bank considers cash and cash equivalents as those amounts that are highly liquid instruments with an original maturity of three months or less. They are included in the balance sheet captions, "Cash and due from banks" and "Federal funds sold."

## COMMUNITY HERITAGE FINANCIAL, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

#### Note 1. Summary of Significant Accounting Policies (Continued)

##### Securities:

Investments in debt securities are classified as either held to maturity, available for sale, or trading. Currently, all debt securities are classified as available for sale. FHLB stock is classified as restricted and carried at cost. Available for sale securities are carried at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Impairment of securities occurs when the fair value of a security is less than its amortized cost. For debt securities, impairment is considered other-than-temporary and recognized in its entirety in net income if either (i) the Bank intends to sell the security or (ii) it is more likely than not that the Bank will be required to sell the security before recovery of its amortized cost basis. If, however, the Bank does not intend to sell the security and it is not more-than-likely that the Bank will be required to sell the security before recovery, management must determine what portion of the impairment is attributable to a credit loss, which occurs when the amortized cost of the security exceeds the present value of the cash flows expected to be collected from the security. If there is no credit loss, there is no other-than-temporary impairment. If there is a credit loss, other-than-temporary impairment exists, and the credit loss must be recognized in net income and the remaining portion of impairment must be recognized in other comprehensive income.

Management regularly reviews each security for other-than-temporary impairment based on criteria that include the extent to which costs exceed market price, the duration of that market decline, the financial health of and specific prospects for the issuer, its best estimate of the present value of cash flows expected to be collected from debt securities, its intention with regard to holding the security to maturity and the likelihood that the Bank would be required to sell the security before recovery.

For restricted equity securities, impairment is based on the ultimate recovery of par value. The impairment of a restricted equity security results in a write-down that must be included in income.

Gains or losses on disposition are based on the net proceeds and the adjusted carrying amount of the securities, using the specific identification method.

##### Loans:

Loans are reported at their recorded investment, which is the principal amount outstanding, as adjusted for net deferred fees or cost of loan originations. The balance of the allowance for loan losses is netted against the recorded investment in loans on the balance sheet. Interest income is accrued on the unpaid principal balance. Loan origination fees and certain direct origination costs are deferred and recognized as an adjustment of the yield on the related loans using the interest method. Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. Accrual of interest on all classes of loans is discontinued either when reasonable doubt exists as to the full, timely collection of interest or principal in accordance with the loan's contractual terms, or when a loan becomes contractually past due by ninety days or more with respect to principal or interest. All interest accrued but not collected for loans placed on nonaccrual or charged off is reversed against interest income. Income on such loans is then recognized only to the extent that cash is received and where the future collection of principal is probable. Accruals are resumed on loans only when they are brought fully current with respect to interest and principal and when, in the judgment of management, the loan is estimated to be fully collectible as to both principal and interest. Loans are considered past due when the borrower is not current with their payments in accordance with the contractual terms of their loan agreement.

##### Allowance for Loan Losses:

An allowance for loan losses is maintained at a level deemed appropriate by management to provide for known and inherent losses that are probable within the loan portfolio. The allowance is an amount that management believes will be adequate to absorb probable losses on existing loan, based on evaluations of the collectability of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio,

## COMMUNITY HERITAGE FINANCIAL, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

#### Note 1. Summary of Significant Accounting Policies (Continued)

##### Allowance for Loan Losses (Continued)

overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrowers' ability to pay. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Loans deemed uncollectible are charged off and deducted from the allowance, while subsequent recoveries are credited to the allowance.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, a specific allowance is established when the present value of expected future cash flows, the observable market price, or the fair value of the collateral, if the loan is collateral dependent, of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical losses adjusted for qualitative factors.

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

Large groups of smaller balance consumer loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

As the first step in determining the general component of the allowance for loan losses, management calculates the historical loss percentage. The historical loss percentage is calculated based on the Bank's experience as well as the experience of its peers. In instances where the Bank has not experienced losses, peer information will be used. The historical loss percentage calculated is applied to the quarter end balance of each portfolio segment. The historical component is further adjusted by management's evaluation of various conditions per segment including the economy, trends in portfolio volume, concentrations, changes in experience and depth of lending staff, trends in problem loans, and trends in collateral and debt ratio exceptions.

Management has an established internally developed methodology to determine the adequacy of the allowance for loan losses that assesses the risks inherent in the loan portfolio. For purposes of determining the allowance for loan losses, management has segmented certain loans in the portfolio by product type. The loan portfolio is segmented based on risk characteristics into the following segments: commercial real estate, residential real estate, commercial, and consumer loans. Particular characteristics associated with each segment are detailed below:

- Loans secured by commercial real estate carry risks associated with the success of the business and the ability to generate a positive cash flow sufficient to service debts. Real estate security diminishes risks only to the extent that a market exists for the subject collateral.
- Residential real estate loans carry risks associated with the continued creditworthiness of the borrower and changes in the value of the collateral.
- Commercial loans not secured by real estate carry risks associated with the successful operation of a business, and the repayments of these loans depend on the profitability and cash flows of the business. Additional risk relates to the value of collateral, if any, where depreciation occurs and the valuation is less precise.

## COMMUNITY HERITAGE FINANCIAL, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

#### Note 1. Summary of Significant Accounting Policies (Continued)

##### Allowance for Loan Losses (Continued)

- Consumer loans carry risks associated with the continued creditworthiness of the borrower and the value of the collateral, such as automobiles which may depreciate more rapidly than other assets. In addition, these loans may be unsecured. Consumer loans are more likely than real estate loans to be immediately affected in an adverse manner by job loss, divorce, illness or personal bankruptcy.

##### Loans Held for Sale:

The Bank engages in the sales of residential mortgages. Loans originated and intended for sale (Loans held for Sale) in the secondary market are carried at the lower of cost or fair value on an individual basis. Gains and losses on loans sold (sales proceeds minus carrying value) are recorded as a component of noninterest income in the consolidated statements of income. Direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon the sale of the loan. The servicing of loans held for sale is not retained once the sale is complete.

##### Troubled Debt Restructurings:

In situations where, for economic or legal reasons related to a borrower's financial condition, management may grant a concession to the borrower that it would not otherwise consider, the related loan is classified as a troubled debt restructuring (TDR). Management strives to identify borrowers in financial difficulty early and work with them to modify their loan to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans. At December 31, 2018 and 2017, there were loans in the amount of \$1,335,701 and \$1,819,870, respectively that were modified in troubled debt restructurings. There were no commitments to lend additional funds to these borrowers at December 31, 2018 and 2017.

##### 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 Bank – put presumptively beyond reach of the transferor and its creditors, even in bankruptcy or other receivership, (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 Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

##### Other Real Estate Owned:

Properties acquired by foreclosure, deed in lieu of foreclosure or loans deemed real estate owned in substance are initially recorded at fair value less cost to sell and subsequently at the lower of the initially recorded amount and capitalized costs or estimated fair value less cost to sell. Costs of carrying the real estate are charged to expense. At December 31, 2018, the Company had no other real estate owned. At December 31, 2017, the balance of other real estate owned included \$166,768 of foreclosed residential real estate properties recorded as a result of obtaining physical possession of the property. At December 31, 2018 and 2017, the Bank had no consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process.

##### Bank Premises and Equipment:

Land is carried at cost. Bank premises and equipment, including construction of major capital additions, are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis. The estimated useful lives for computing

## COMMUNITY HERITAGE FINANCIAL, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

#### Note 1. Summary of Significant Accounting Policies (Continued)

##### Bank Premises and Equipment (Continued)

depreciation on Bank premises and equipment range from 3 to 50 years in each of these categories. Maintenance and repairs are charged to operating expenses as incurred.

##### Bank Owned Life Insurance:

The Bank has purchased life insurance policies on certain key executives and other officers. 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. Any increase in the cash surrender value is recorded as noninterest income in the Consolidated Statements of Income. In the event of the death of an individual under these policies, the Bank would receive a death benefit which would also be recorded as noninterest income on the Consolidated Statements of Income.

##### Earnings Per Common Share

Basic earnings per common share ("EPS") represent income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution in basic EPS that could occur if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. There were no potentially dilutive shares outstanding during the years ended December 31, 2018 and 2017. Basic and diluted weighted average shares outstanding were 2,233,820 and 1,481,593 for the years ended December 31, 2018 and 2017.

##### Income Taxes:

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences, operating loss carryforwards, and tax credit carryforwards. Deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits, if any, in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statement of income. As of December 31, 2018 and 2017, there was no liability recorded for unrecognized tax benefits.

##### Advertising Costs:

The Bank accounts for its advertising costs as a charge to operations as the costs are incurred. Advertising costs were \$141,110 and \$114,417 for the years ended December 31, 2018 and 2017, respectively, and are included in other operating expenses in the Consolidated Statements of Income.

## COMMUNITY HERITAGE FINANCIAL, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

#### Note 1. Summary of Significant Accounting Policies (Continued)

##### 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, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income (loss). All the Bank's other comprehensive income (loss) relates to unrealized gains and losses on available for sale securities for the years ended December 31, 2018 and 2017.

In February 2018, the FASB issued ASU 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ("AOCI"). The Bank early adopted this new standard in the financial statements for the period ending December 31, 2017. ASU 2018-02 required reclassification from AOCI to retained earnings for stranded tax effects resulting from the impact of newly enacted federal corporate tax rate on items included in AOCI. The amount of this reclassification in 2017 was \$84,140.

##### Restrictions on Retained Earnings:

According to certain banking regulations, there is a restriction on availability of retained earnings for the payment of dividends.

##### Recent Accounting Standards:

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)". Among other things, in the amendments in ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The FASB made subsequent amendments to Topic 842 in July 2018 through ASU 2018-10 ("Codification Improvements to Topic 842, Leases.") and ASU 2018-11 ("Leases (Topic 842): Targeted Improvements.") Among these amendments is the provision in ASU 2018-11 that provides entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, an entity's reporting for the comparative periods presented in the financial statements in which it adopts the new leases standard will continue to be in accordance with current GAAP (Topic 840, Leases.) The Company adopted this standard on January 1, 2019, using the optional transition method. The effect of adopting this standard on January 1, 2019, was an approximate \$2.7 million increase in assets and liabilities on the Company's Consolidated Balance Sheet.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The amendments in this ASU, among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, the

## COMMUNITY HERITAGE FINANCIAL, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

#### Note 1. Summary of Significant Accounting Policies (Continued)

##### Recent Accounting Standards: (Continued)

amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The Company is currently assessing the impact that ASU 2016-13 will have on its consolidated financial statements. The Company formed a committee to address the compliance requirements and is currently planning for the generation of a loan loss model that will measure projected credit losses under the ASU.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." The amendments in this ASU simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Instead, under the amendments in this ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. Public business entities that are not SEC filers should adopt the amendments in this ASU for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2020. Early adoption is permitted for interim or annual goodwill impairment test performed on testing dates after January 1, 2017. The Company does not expect the adoption of ASU 2017-04 to have a material impact on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, "Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities". The amendments in this ASU shorten the amortization period for certain callable debt securities purchased at a premium. Upon adoption of the standard, premiums on these qualifying callable debt securities will be amortized to the earliest call date. Discounts on purchased debt securities will continue to be accreted to maturity. The amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Upon transition, entities should apply the guidance on a modified retrospective basis, with a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption and provide the disclosures required for a change in accounting principle. The Company does not expect the adoption of ASU 2017-08 to have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement." The amendments modify the disclosure requirements in Topic 820 to add disclosures regarding changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements and the narrative description of measurement uncertainty. Certain disclosure requirements in Topic 820 are also removed or modified. The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Certain of the amendments are to be applied prospectively while others are to be applied retrospectively. Early adoption is permitted. The Company does not expect the adoption of ASU 2018-13 to have a material impact on its consolidated financial statements.

**COMMUNITY HERITAGE FINANCIAL, INC. AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**Note 2. Securities**

There were no securities held to maturity as of December 31, 2018 and 2017.

The amortized cost and fair value of securities available for sale as of December 31, 2018 and 2017 are as follows:

<b>December 31, 2018</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<b>Available for Sale:</b>				
U.S. Treasuries	\$ 1,998,854	\$ 1,876	\$ (14,575)	\$ 1,986,155
Federal Government Agencies	7,470,000	-	(251,911)	7,218,089
Mortgage Backed	26,130,432	41,604	(631,555)	25,540,481
Municipals	13,363,099	32,749	(173,845)	13,222,003
	\$ 48,962,385	\$ 76,229	\$ (1,071,886)	\$ 47,966,728

<b>December 31, 2017</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<b>Available for Sale:</b>				
U.S. Treasuries	\$ 1,498,956	\$ -	\$ (12,336)	\$ 1,486,620
Federal Government Agencies	7,470,000	-	(229,767)	7,240,233
Mortgage Backed	27,194,701	6,019	(417,245)	26,783,475
Municipals	11,999,558	33,731	(86,277)	11,947,012
	\$ 48,163,215	\$ 39,750	\$ (745,625)	\$ 47,457,340

Securities carried at fair value of \$7,621,756 and \$9,281,396 at December 31, 2018 and 2017, respectively, were pledged to secure public funds and for other purposes as required or permitted by law. In 2018, the Company sold no securities. In 2017, the Company recognized gross losses of \$(37,725) on the sales of securities.

The amortized cost and fair value of debt securities at December 31, 2018, 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.

	<b>Amortized Cost</b>	<b>Fair Value</b>
Due in one year or less	\$ 1,327,034	\$ 1,325,505
Due after one year through five years	9,959,376	9,775,915
Due after five years through ten years	13,885,395	13,524,890
Due after ten years	23,790,580	23,340,418
	\$ 48,962,385	\$ 47,966,728

**COMMUNITY HERITAGE FINANCIAL, INC. AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**Note 2. Securities (Continued)**

The following table shows the investments' gross unrealized losses and estimated fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at:

	<b>December 31, 2018</b>					
	<b>Less than 12 months</b>		<b>12 months or more</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Loss</b>	<b>Fair Value</b>	<b>Loss</b>	<b>Fair Value</b>	<b>Loss</b>
U.S. Treasuries	\$ -	\$ -	\$ 984,945	\$ 14,575	\$ 984,945	\$ 14,575
Federal Government						
Agencies	-	-	7,218,089	251,911	7,218,089	251,911
Mortgage backed	2,083,611	1,803	19,933,765	629,752	22,017,376	631,555
Municipals	3,715,256	15,658	5,710,293	158,187	9,425,549	173,845
	<u>\$ 5,798,867</u>	<u>\$ 17,461</u>	<u>\$ 33,847,092</u>	<u>\$ 1,054,425</u>	<u>\$ 39,645,959</u>	<u>\$ 1,071,886</u>
	<b>December 31, 2017</b>					
	<b>Less than 12 months</b>		<b>12 months or more</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Loss</b>	<b>Fair Value</b>	<b>Loss</b>	<b>Fair Value</b>	<b>Loss</b>
U.S. Treasuries	\$ 1,486,620	\$ 12,336	\$ -	\$ -	\$ 1,486,620	\$ 12,336
Federal Government						
Agencies	-	-	7,240,233	229,767	7,240,233	229,767
Mortgage backed	13,135,529	135,267	13,199,904	281,978	26,335,433	417,245
Municipals	2,375,649	9,816	3,808,986	76,461	6,184,635	86,277
	<u>\$ 16,997,798</u>	<u>\$ 157,419</u>	<u>\$ 24,249,123</u>	<u>\$ 588,206</u>	<u>\$ 41,246,921</u>	<u>\$ 745,625</u>

Management evaluates securities for other than temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. At December 31, 2018, securities with unrealized losses consisted of two U.S. Treasuries, six Federal Government agencies, twenty-two mortgage backed securities, and sixteen municipals. The unrealized losses on debt securities are reflective of interest rate fluctuations and are not a reflection of credit deterioration. Because the Bank does not intend to sell these investments and it is more likely than not that the Bank will not be required to sell these investments before recovery of the amortized cost basis, which may be maturity, the Bank does not consider these investments to be other-than-temporarily impaired at December 31, 2018.

**Note 3. Loans**

Loans consist of the following at December 31:

	<b>2018</b>	<b>2017</b>
Commercial real estate	\$ 165,437,915	\$ 126,205,943
Residential real estate	116,390,967	100,355,652
Commercial	73,803,627	55,399,188
Consumer	1,442,295	808,615
	<u>\$ 357,074,804</u>	<u>\$ 282,769,398</u>
Less:		
Net deferred loan fees and (costs)	(667,549)	(463,797)
Allowance for loan losses	3,593,161	3,050,692
	<u>\$ 354,149,192</u>	<u>\$ 280,182,503</u>

Overdraft deposit accounts totaling \$29,976 and \$27,887 were reclassified as loans at December 31, 2018 and 2017, respectively.

**COMMUNITY HERITAGE FINANCIAL, INC. AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**Note 3. Loans (Continued)**

A summary of transactions in the allowance for loan losses is as follows for the years ended December 31, 2018 and 2017, by portfolio segment:

	<u>Commercial Real Estate</u>	<u>Residential Real Estate</u>	<u>Commercial</u>	<u>Consumer</u>	<u>Total</u>
<b>Allowance for Loan Losses:</b>					
Balance, December 31, 2017	\$ 1,211,604	\$ 935,583	\$ 883,534	\$ 19,971	\$ 3,050,692
Provision for loan losses	189,289	88,030	289,621	15,409	582,349
Charge-offs	-	(46,927)	(30,523)	(14,476)	(91,926)
Recoveries	-	46,927	-	5,119	52,046
Balance, December 31, 2018	<u>\$ 1,400,893</u>	<u>\$ 1,023,613</u>	<u>\$ 1,142,632</u>	<u>\$ 26,023</u>	<u>\$ 3,593,161</u>
Ending balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ 67,426</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 67,426</u>
Ending balance: collectively evaluated for impairment	<u>\$ 1,400,893</u>	<u>\$ 956,187</u>	<u>\$ 1,142,632</u>	<u>\$ 26,023</u>	<u>\$ 3,525,735</u>
<b>Loans Receivable:</b>					
Balance, December 31, 2018	<u>\$ 165,437,915</u>	<u>\$ 116,390,967</u>	<u>\$ 73,803,627</u>	<u>\$ 1,442,295</u>	<u>\$ 357,074,804</u>
Ending balance: individually evaluated for impairment	<u>\$ 352,170</u>	<u>\$ 2,397,462</u>	<u>\$ 662,281</u>	<u>\$ -</u>	<u>\$ 3,411,913</u>
Ending balance: collectively evaluated for impairment	<u>\$ 165,085,745</u>	<u>\$ 113,993,505</u>	<u>\$ 73,141,346</u>	<u>\$ 1,442,295</u>	<u>\$ 353,662,891</u>
	<u>Commercial Real Estate</u>	<u>Residential Real Estate</u>	<u>Commercial</u>	<u>Consumer</u>	<u>Total</u>
<b>Allowance for Loan Losses:</b>					
Balance, December 31, 2016	\$ 1,010,993	\$ 919,431	\$ 580,535	\$ 15,592	\$ 2,526,551
Provision for loan losses	200,611	109,597	302,999	23,524	636,731
Charge-offs	-	(93,445)	-	(21,376)	(114,821)
Recoveries	-	-	-	2,231	2,231
Balance, December 31, 2017	<u>\$ 1,211,604</u>	<u>\$ 935,583</u>	<u>\$ 883,534</u>	<u>\$ 19,971</u>	<u>\$ 3,050,692</u>
Ending balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ 107,463</u>	<u>\$ 65,323</u>	<u>\$ -</u>	<u>\$ 172,786</u>
Ending balance: collectively evaluated for impairment	<u>\$ 1,211,604</u>	<u>\$ 828,120</u>	<u>\$ 818,211</u>	<u>\$ 19,971</u>	<u>\$ 2,877,906</u>
<b>Loans Receivable:</b>					
Balance, December 31, 2017	<u>\$ 126,205,943</u>	<u>\$ 100,355,652</u>	<u>\$ 55,399,188</u>	<u>\$ 808,615</u>	<u>\$ 282,769,398</u>
Ending balance: individually evaluated for impairment	<u>\$ 223,348</u>	<u>\$ 2,434,214</u>	<u>\$ 1,469,131</u>	<u>\$ -</u>	<u>\$ 4,126,693</u>
Ending balance: collectively evaluated for impairment	<u>\$ 125,982,595</u>	<u>\$ 97,921,438</u>	<u>\$ 53,930,057</u>	<u>\$ 808,615</u>	<u>\$ 278,642,705</u>

**COMMUNITY HERITAGE FINANCIAL, INC. AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**Note 3. Loans (Continued)**

Management evaluates the credit quality of all loans based on an internal grading system that estimates the capability of the borrower to repay the contractual terms of their loan agreement as scheduled or at all. The Bank's internal risk grading is based on experiences with similarly graded loans. This analysis is performed on an ongoing basis as new information is obtained. The Bank uses the following definitions for adverse risk ratings:

- **Special Mention** - Loans classified as special mention have a potential weakness that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.
- **Substandard** - Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the possibility that the institution will sustain some loss if the deficiencies are not corrected.
- **Doubtful** - A loan classified doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

The following table represents the credit quality of loans by class at:

<b>December 31, 2018</b>	<b>Pass</b>	<b>Special Mention</b>	<b>Substandard</b>	<b>Doubtful</b>	<b>Total</b>
Commercial Real Estate:					
Construction and					
Land Development	\$ 20,693,608	\$ -	\$ -	\$ -	\$ 20,693,608
Multifamily	8,014,431	-	-	-	8,014,431
Other	136,377,706	-	352,170	-	136,729,876
Residential Real Estate	113,860,377	-	2,530,590	-	116,390,967
Commercial	71,902,394	477,186	1,424,047	-	73,803,627
Consumer	1,442,295	-	-	-	1,442,295
	<u>\$ 352,290,811</u>	<u>\$ 477,186</u>	<u>\$ 4,306,807</u>	<u>\$ -</u>	<u>\$ 357,074,804</u>

<b>December 31, 2017</b>	<b>Pass</b>	<b>Special Mention</b>	<b>Substandard</b>	<b>Doubtful</b>	<b>Total</b>
Commercial Real Estate:					
Construction and					
Land Development	\$ 20,693,608	\$ -	\$ -	\$ -	\$ 20,693,608
Multifamily	8,014,431	-	-	-	8,014,431
Other	97,274,556	-	223,348	-	97,497,904
Residential Real Estate	97,669,608	-	2,686,044	-	100,355,652
Commercial	53,930,057	-	1,469,131	-	55,399,188
Consumer	808,615	-	-	-	808,615
	<u>\$ 278,390,875</u>	<u>\$ -</u>	<u>\$ 4,378,523</u>	<u>\$ -</u>	<u>\$ 282,769,398</u>

**COMMUNITY HERITAGE FINANCIAL, INC. AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**Note 3. Loans (Continued)**

Past due and nonaccrual loans presented by loan class were as follows at:

<b>December 31, 2018</b>	<b>30-59 Days Past Due</b>	<b>60-89 Days Past Due</b>	<b>90 or More Days Past Due</b>	<b>Total Past Due Loans</b>	<b>Over 90 Days Past Due and Still Accruing</b>	<b>Nonaccrual</b>
Commercial Real Estate:						
Construction and						
Land Development	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Multifamily	-	-	-	-	-	-
Other	-	-	-	-	-	352,171
Residential Real Estate	1,075,250	-	497,115	1,572,365	-	1,438,642
Commercial	-	48,150	-	48,150	-	662,281
Consumer	-	-	-	-	-	-
	<u>\$ 1,075,250</u>	<u>\$ 48,150</u>	<u>\$ 497,115</u>	<u>\$ 1,620,515</u>	<u>\$ -</u>	<u>\$ 2,453,094</u>
<b>December 31, 2017</b>	<b>30-59 Days Past Due</b>	<b>60-89 Days Past Due</b>	<b>90 or More Days Past Due</b>	<b>Total Past Due Loans</b>	<b>Over 90 Days Past Due and Still Accruing</b>	<b>Nonaccrual</b>
Commercial Real Estate:						
Construction and						
Land Development	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Multifamily	-	-	-	-	-	-
Other	-	-	106,228	106,228	-	223,348
Residential Real Estate	377,300	-	324,823	702,123	-	1,441,286
Commercial	322,761	-	-	322,761	-	1,469,131
Consumer	4,234	-	-	4,234	-	-
	<u>\$ 704,295</u>	<u>\$ -</u>	<u>\$ 431,051</u>	<u>\$ 1,135,346</u>	<u>\$ -</u>	<u>\$ 3,133,765</u>

**COMMUNITY HERITAGE FINANCIAL, INC. AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**Note 3. Loans (Continued)**

Information relating to individually impaired loans, including TDRs and presented by class of loans, was as follows as of and for the years ended:

<u>December 31, 2018</u>	<u>Unpaid Principal Balance</u>	<u>Recorded Investment</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
<b>With No Related Allowance Recorded:</b>					
Commercial Real Estate:					
Construction and					
Land Development	\$ -	\$ -	\$ -	\$ -	\$ -
Multifamily	-	-	-	-	-
Other	690,326	352,170	-	287,759	-
Residential Real Estate	2,070,024	1,847,901	-	1,910,999	44,705
Commercial	762,325	662,281	-	888,553	-
Consumer	-	-	-	-	-
	<u>\$ 3,522,675</u>	<u>\$ 2,862,352</u>	<u>\$ -</u>	<u>\$ 3,087,311</u>	<u>\$ 44,705</u>
<b>With an Allowance Recorded:</b>					
Commercial Real Estate:					
Construction and					
Land Development	\$ -	\$ -	\$ -	\$ -	\$ -
Multifamily	-	-	-	-	-
Other	-	-	-	-	-
Residential Real Estate	566,162	549,561	67,426	566,245	10,535
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
	<u>\$ 566,162</u>	<u>\$ 549,561</u>	<u>\$ 67,426</u>	<u>\$ 566,245</u>	<u>\$ 10,535</u>
<u>December 31, 2017</u>	<u>Unpaid Principal Balance</u>	<u>Recorded Investment</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
<b>With No Related Allowance Recorded:</b>					
Commercial Real Estate:					
Construction and					
Land Development	\$ -	\$ -	\$ -	\$ -	\$ -
Multifamily	-	-	-	-	-
Other	550,171	223,348	-	389,248	-
Residential Real Estate	1,590,490	1,479,837	-	1,517,923	47,392
Commercial	1,116,015	1,114,825	-	1,268,277	58,713
Consumer	-	-	-	-	-
	<u>\$ 3,256,676</u>	<u>\$ 2,818,010</u>	<u>\$ -</u>	<u>\$ 3,175,448</u>	<u>\$ 106,105</u>
<b>With an Allowance Recorded:</b>					
Commercial Real Estate:					
Construction and					
Land Development	\$ -	\$ -	\$ -	\$ -	\$ -
Multifamily	-	-	-	-	-
Other	1,040,557	954,377	107,463	978,803	1,322
Residential Real Estate	356,208	354,306	65,324	566,681	36,071
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
	<u>\$ 1,396,765</u>	<u>\$ 1,308,683</u>	<u>\$ 172,787</u>	<u>\$ 1,545,484</u>	<u>\$ 37,393</u>

**COMMUNITY HERITAGE FINANCIAL, INC. AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**Note 3. Loans (Continued)**

There were no loans modified in a troubled debt restructuring (TDR) during the years ended December 31, 2018 and 2017 and there were no TDRs that defaulted during the years ended December 31, 2018 and 2017 that were modified within 12 months prior to default. For the purposes of this disclosure, a troubled debt restructuring payment default occurs when, within twelve months of the original modification, the loan reaches more than 90 days past due, is charged-off or foreclosed upon. TDRs are individually evaluated for impairment and included in the impaired loan tables.

**Note 4. Bank Premises, Equipment, and Lease Commitments**

Investments in bank premises and equipment are as follows at December 31:

	<u>2018</u>	<u>2017</u>
Bank premises and land	\$ 8,016,527	\$ 7,365,004
Furniture and equipment	2,963,065	2,462,390
	<u>10,979,592</u>	<u>9,827,394</u>
Less: accumulated depreciation	4,693,792	4,212,660
	<u>\$ 6,285,800</u>	<u>\$ 5,614,734</u>

Depreciation and amortization expense amounted to \$497,935 and \$433,707 during the years ended December 31, 2018 and 2017, respectively.

Total rent expense amounted to \$485,423 and \$199,308 during the years ended December 31, 2018 and 2017, respectively.

The Bank has leased certain properties located in Hagerstown, Maryland, for use in its business operations. These leases are all classified as operating leases with varying initial terms expiring through 2033. Each of these lease agreements contain renewal options that may be exercised at the discretion of the Bank for additional periods beyond the initial terms described by the agreements. The future minimum lease payments required for these operating leases under their initial or non-cancelable lease terms are as follows for the years ending December 31:

<u>Years Ending December 31,</u>	
2019	\$ 408,480
2020	413,307
2021	417,343
2022	385,108
2023	387,614
Thereafter	<u>1,125,106</u>
	<u>\$ 3,136,957</u>

**Note 5. Deposits**

The following is a schedule of the future maturities of time and IRA deposits as of December 31, 2018:

<u>Year Ending December 31:</u>	
2019	\$ 27,507,363
2020	30,130,246
2021	14,121,888
2022	13,012,078
2023	<u>9,842,952</u>
	<u>\$ 94,614,527</u>

**COMMUNITY HERITAGE FINANCIAL, INC. AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**Note 5. Deposits (Continued)**

Time deposits in denominations of \$250,000 or more amounted to \$24,620,978 and \$16,120,489, respectively at December 31, 2018 and 2017. Included in total deposits at December 31, 2018 and 2017 were Insured Cash Sweep (ICS) and CDARS deposits in the amount of \$35,996,449 and \$29,069,729, respectively. Other brokered deposits included in total deposits at December 31, 2018 and 2017 were \$7,020,307 and \$4,876,126, respectively.

**Note 6. Income Taxes**

The Bank files income tax returns in the U.S. federal jurisdiction and the state of Maryland. With few exceptions, the Bank is no longer subject to U.S. federal and state income tax examination by tax authorities for years prior to 2015.

Components of the provision for income taxes are as follows:

	<u>2018</u>	<u>2017</u>
Current income tax expense	\$ 844,025	\$ 969,279
Deferred income tax benefit	(142,374)	(136,489)
Deferred tax adjustment for enacted change in tax rate	<u>-</u>	<u>414,733</u>
 Total income tax expense	 <u>\$ 701,651</u>	 <u>\$ 1,247,523</u>

The results for the year ended December 31, 2017 include the effect of the Tax Cuts and Jobs Act (the Act), which was signed into law on December 22, 2017. Among other things, the Act permanently lowered the federal corporate income tax rate to 21%, effective January 1, 2018. As a result of the reduction of the federal corporate income tax rate, U.S. GAAP required companies to re-measure their deferred tax assets and deferred tax liabilities, including those accounted for in accumulated other comprehensive income, as of the date of the Act's enactment and to record the corresponding effects in income tax expense. As a result of the permanent reduction in the corporate income tax rate, the Bank recognized a \$414,733 reduction in the value of its net deferred tax asset and recorded a corresponding incremental income tax expense of \$414,733 in the Bank's results of operations for 2017. The Bank's evaluation of the effect of the Act was subject to refinement for up to one year after enactment.

A reconciliation of the federal statutory income tax rate on pre-tax income to the provision for income taxes is as follows:

	<u>2018</u>	<u>2017</u>
Federal tax at statutory rate	\$ 560,571	\$ 837,866
Increase (decrease) resulting from the following:		
State income taxes, net of federal tax benefit	167,314	125,494
Tax-exempt interest income	(49,271)	(80,266)
Bank owned life insurance income	(20,860)	(36,048)
Non-deductible interest expense	3,233	2,895
Other non-deductible expenses	10,371	9,338
Tax impact of enacted change in tax rate	-	414,733
Other, net	<u>30,293</u>	<u>(26,489)</u>
Total income tax expense	<u>\$ 701,651</u>	<u>\$ 1,247,523</u>

**COMMUNITY HERITAGE FINANCIAL, INC. AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**Note 6. Income Taxes (Continued)**

The tax effects of temporary differences between the financial reporting basis and income tax basis of assets and liabilities that are included in the net deferred tax asset at December 31 relate to the following:

	<u>2018</u>	<u>2017</u>
Deferred tax assets:		
Allowance for loan losses	\$ 904,753	\$ 755,464
Supplemental benefits expense	154,480	158,716
Allowance for off-balance sheet credit exposures	164,007	112,796
Nonaccrual interest	195,909	156,849
Unrealized loss on available for sale securities	274,004	194,256
Other	<u>39,424</u>	<u>39,424</u>
Total deferred tax assets	<u>1,732,577</u>	<u>1,417,505</u>
Deferred tax liabilities:		
Deferred loan costs, net	(183,709)	(127,637)
Depreciation	<u>(302,539)</u>	<u>(265,661)</u>
Total deferred tax liabilities	<u>(486,248)</u>	<u>(393,298)</u>
Net deferred tax assets	\$ <u>1,246,329</u>	\$ <u>1,024,207</u>

**Note 7. Borrowings**

At December 31, 2018, the Bank had \$5 million in available secured borrowings and \$5.5 million available in unsecured borrowings with other financial institutions with interest rates on these agreements equal to the prevailing federal funds rate. In addition, the Bank had access to \$5.6 million in short-term borrowing capacity from the Federal Reserve Discount Window with an interest rate equal to 3.50%. The Bank also has access to a credit line with The Federal Home Loan Bank of Atlanta (FHLBA) that may be utilized for short and long-term borrowings. At December 31, 2018 and 2017, the Bank had no outstanding borrowings with the FHLB. Total credit availability with the FHLBA at December 31, 2018 was \$107.2 million. Advances under this line of credit are secured by a portion of the Bank's residential mortgage portfolio, which at December 31, 2018, would have allowed the Bank to access up to \$28.2 million of credit without pledging additional loans as collateral.

Borrowings are summarized in the following table:

**Short-term borrowings**

	December 31,			
	2018		2017	
	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>
Federal Funds Purchased and Short-term Borrowed Funds				
At period end	\$ -	0.00%	\$ -	0.00%
Average for the year	1,260,274	2.16%	1,126,027	0.71%
Maximum month-end balance	5,000,000		5,000,000	

The Bank also had a \$1.0 million letter of credit at December 31, 2018 with another financial institution for contingency funding purposes.

**COMMUNITY HERITAGE FINANCIAL, INC. AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**Note 8. Related Party Transactions**

The aggregate activity of loans made to executive officers, directors, and their related interests during the year ending December 31, 2018, was as follows:

	<u>2018</u>
Beginning balance	136,275
Effect of changes in the composition of related parties	-
Advances	65,736
Principal curtailments	<u>(72,059)</u>
Ending balance	<u>\$ 129,952</u>

In management's opinion, such loans were made in the ordinary course of business with substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. They do not involve more than normal risk of collectability or present other unfavorable features.

The aggregate amount of deposits of executive officers, directors, and their related interests was \$3,436,148 and \$1,664,869 at December 31, 2018 and 2017, respectively.

**Note 9. Commitments and Contingencies**

The Bank is subject to legal proceedings which are incidental to the ordinary course of business. In the opinion of the management of the Bank, there are no material pending legal proceedings to which the Bank is a party or which involve any of its property.

**Note 10. Financial Instruments with Off-Balance-Sheet Risk**

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financial needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit and financial guarantees written is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

The contract amounts of these financial instruments at December 31 are as follows:

	<u>2018</u>	<u>2017</u>
Commitments to extend credit	\$ 93,102,341	\$ 58,654,228
Standby letters of credit and financial guarantees written	972,060	1,151,284

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

## COMMUNITY HERITAGE FINANCIAL, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

#### **Note 10. Financial Instruments with Off-Balance-Sheet Risk (Continued)**

Standby letters of credit and financial guarantees written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Bank holds collateral supporting those commitments when deemed necessary by management.

#### **Note 11. Concentrations of Credit Risk**

The Bank extends credit for real estate construction; land development, commercial and residential loans to customers throughout its market area. Although the Bank has a diversified loan portfolio, a substantial portion of its customers' ability to honor their contracts is dependent upon the real estate economic sector.

The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, by the Bank upon the extension of credit, is based on management's credit evaluation of the customer. Collateral held varies but generally includes equipment and real estate.

The Bank has concentrations of deposits with certain large, national financial institutions consisting of daily federal funds sold which totaled \$3,198,302 and represented 7% of the Bank's total shareholders' equity at December 31, 2018. In addition, there was \$745,455 of additional cash balances outstanding at December 31, 2018 in excess of the FDIC insurance levels.

#### **Note 12. Profit Sharing Plan**

The Bank has a deferred compensation (401(k)) profit sharing plan and trust for all employees who are 21 years of age and who have worked at least twelve months. The plan permits eligible participants to contribute the maximum percentage allowable by law. At its discretion, the Bank may make matching and/or profit sharing contributions. The Bank made discretionary contributions of \$98,024 and \$67,784 to the plan during the years ended December 31, 2018 and 2017 respectively.

#### **Note 13. Supplemental Employee Retirement Plan (SERP)**

The Bank adopted a defined benefit SERP for certain Executive Officers. The defined benefit SERP on the Executive Officers includes a vesting schedule. The supplemental benefit expense for the years ended December 31, 2018 and 2017 was \$34,608 and \$35,064, respectively. The related liability balance at December 31, 2018 and 2017 was \$561,338 and \$576,730, respectively. The plans are unfunded; however, life insurance has been acquired on the life of the employees in amounts sufficient to help meet the costs of the obligations.

#### **Note 14. Regulatory Matters**

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

The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective on January 1, 2015, with full compliance with all of the requirements being phased in over a multi-year

**COMMUNITY HERITAGE FINANCIAL, INC. AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**Note 14. Regulatory Matters (Continued)**

schedule, and fully phased in by January 1, 2019. As part of the requirements, the Common Equity Tier I Capital ratio is calculated and utilized in the assessment of capital for all institutions. In addition, a capital conservation buffer must be maintained in excess of the minimum capital requirements to allow an institution to avoid restrictions on dividend payments, share repurchase transactions, and discretionary bonus payments. The capital conservation buffer requirement began its phase-in on January 1, 2016, at 0.625% of risk-weighted assets, and increased by the same percentage in each successive year until fully implemented at 2.5% on January 1, 2019. The capital conservation buffer is applicable to all ratios with the exception of the Tier 1 leverage ratio. At December 31, 2018, the Bank's institution specific capital conservation buffer in excess of the required minimums was 6.77%.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total common equity tier 1, tier I capital to risk-weighted assets, total capital to risk weighted assets and of Tier I capital to average assets. Management believes, as of December 31, 2018 and 2017, that the Bank met all capital adequacy requirements to which it was subject.

As of December 31, 2018, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based capital, Common Equity Tier 1 capital, Tier 1 risk-based capital, and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category.

The Bank's required and actual capital amounts and ratios are set forth in the following table:

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<u>As of December 31, 2018:</u>	(Dollars in Thousands)					
Total Capital (to Risk Weighted Assets)	\$ 49,769	14.77%	\$ 26,962	8.00%	\$ 33,703	10.00%
Tier 1 Capital (to Risk Weighted Assets)	\$ 45,580	13.52%	\$ 20,222	6.00%	\$ 26,962	8.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	\$ 45,580	13.52%	\$ 15,166	4.50%	\$ 21,907	6.50%
Tier 1 Leverage (to Average Assets)	\$ 45,580	10.64%	\$ 17,137	4.00%	\$ 21,421	5.00%
<u>As of December 31, 2017:</u>	(Dollars in Thousands)					
Total Capital (to Risk Weighted Assets)	\$ 47,235	17.71%	\$ 21,339	8.00%	\$ 26,674	10.00%
Tier 1 Capital (to Risk Weighted Assets)	\$ 43,900	16.46%	\$ 16,004	6.00%	\$ 21,339	8.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	\$ 43,900	16.46%	\$ 12,003	4.50%	\$ 17,338	6.50%
Tier 1 Leverage (to Average Assets)	\$ 43,900	12.65%	\$ 13,884	4.00%	\$ 17,355	5.00%

## COMMUNITY HERITAGE FINANCIAL, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

#### Note 15. Fair Value Measurements

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the “Fair Value Measurements and Disclosures” topic of FASB ASC, the fair value of an instrument is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market and in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank’s various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. U.S. GAAP requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

In accordance with this guidance, the Bank groups its assets and liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. The three levels of the fair value hierarchy based on these two types of inputs are as follows:

Level 1 – Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2 – Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.

Level 3 – Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

The following describes the valuation techniques used by the Bank to measure certain assets and liabilities recorded at fair value on a recurring basis in the financial statements:

Securities available for sale: Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that consider observable market data (Level 2).

COMMUNITY HERITAGE FINANCIAL, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

**Note 15. Fair Value Measurements (Continued)**

The following table presents the balances of assets measured at fair value on a recurring basis as of December 31:

Description	Balance	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>December 31, 2018</b>				
Assets:				
U.S. Treasuries	\$ 1,986,155	\$ -	\$ 1,986,155	\$ -
Federal Government Agencies	7,218,089	-	7,218,089	-
Mortgage Backed	25,540,481	-	25,540,481	-
Municipals	13,222,003	-	13,222,003	-
<b>December 31, 2017</b>				
Assets:				
U.S. Treasuries	\$ 1,486,620	\$ -	\$ 1,486,620	\$ -
Federal Government Agencies	7,240,233	-	7,240,233	-
Mortgage Backed	26,783,475	-	26,783,475	-
Municipals	11,947,012	-	11,947,012	-

Certain assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.

The following describes the valuation techniques used by the Bank to measure certain assets recorded at fair value on a nonrecurring basis in the financial statements:

**Loans Held for Sale:** Loans held for sale are carried at the lower of cost or estimated fair value. These loans currently consist of one-to-four family residential loans originated for sale in the secondary market. Fair value is based on the price secondary markets are currently offering for similar loans using observable market data which is not materially different than cost due to the short duration between origination and sale (Level 2). As such, the Bank records any fair value adjustments on a nonrecurring basis. No nonrecurring fair value adjustments were recorded on loans held for sale during the years ended December 31, 2018 and 2017.

**Impaired Loans:** Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreements will not be collected. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the Bank's collateral is real estate. The value of real estate collateral is determined utilizing a market valuation approach based on an appraisal, of one year or less, conducted by an independent, licensed appraiser using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the property is more than one year old and not solely based on observable market comparable or management determines the fair value of the collateral is further impaired below the appraised value, then a Level 3 valuation is considered to measure the fair value. The value of business equipment is based upon an outside appraisal, of one year or less, if deemed significant, or the net book value on the applicable business's financial statements if not considered significant using observable market data.

COMMUNITY HERITAGE FINANCIAL, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

**Note 15. Fair Value Measurements (Continued)**

Impaired Loans (Continued):

Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3). Impaired loans allocated to the allowance for loan losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Consolidated Statements of Income.

Other Real Estate Owned: OREO is measured at fair value in the same manner as described for impaired loans. Any initial fair value adjustment is charged against the allowance for loan losses. Subsequent fair value adjustments are recorded in the period incurred and included in noninterest expense on the Consolidated Statements of Income.

The following table presents the balances of assets measured at fair value on a nonrecurring basis as of December 31:

Description	Balance	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>December 31, 2018</b>				
Assets:				
Impaired loans, net of valuation allowance	\$ 482,135	\$ -	\$ -	\$ 482,135
<b>December 31, 2017</b>				
Assets:				
Impaired loans, net of valuation allowance	\$ 1,135,896	\$ -	\$ -	\$ 1,135,896
Other real estate owned	166,768	-	-	166,768

The following table presents information about Level 3 fair value measurements for December 31:

2018				
Description	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans	\$ 482,135	Discounted appraised/ invoiced value	Selling expenses and discount for lack of marketability	10-18% (12%)
2017				
Description	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans	\$ 1,135,896	Discounted appraised value	Selling expenses and discount for lack of marketability	12-26% (20%)
Other real estate owned	\$ 166,768	Discounted appraised value	Selling expenses and discount for lack of marketability	10-52% (22%)

**COMMUNITY HERITAGE FINANCIAL, INC. AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**Note 15. Fair Value Measurements (Continued)**

FASB ASC 825, Financials Instruments, requires disclosure about fair value of financial instruments, including those financial assets and financial liabilities that are not required to be measured and reported at fair value on a recurring or nonrecurring basis. ASC 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company. The carrying amounts and estimated fair values of the Company's financial instruments are presented in the following tables whether or not recognized on the Consolidated Balance Sheets at fair value. Fair values for December 31, 2018 were estimated using an exit price notion in accordance with the prospective adoption of ASU 2016-01, "Recognition and Measurement of Financial Assets and Financials Liabilities." Fair values for December 31, 2017 were estimated using the guidance in effect for that period, which permitted the use of an entry price notion in the compilation of this disclosure.

The estimated fair value of financial instruments is summarized as follows at December 31:

	<b>December 31, 2018</b>			
	<b>Carrying Amount</b>	<b>Fair Value</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Financial assets:</b>				
Cash and due from banks	\$ 15,347,455	\$ 15,347,455	\$ -	\$ -
Federal funds sold	3,198,302	3,198,302	-	-
FHLB Stock	325,200	-	325,200	-
Securities	47,966,728	-	47,966,728	-
Loans, net	354,149,192	-	-	353,238,353
Accrued interest receivable	1,155,631	-	1,155,631	-
Bank owned life insurance	4,720,042	-	4,720,042	-
<b>Financial liabilities:</b>				
Deposits	388,544,240	-	293,929,713	93,867,527
Accrued interest payable	113,379	-	113,379	-
<b>December 31, 2017</b>				
	<b>Carrying Amount</b>	<b>Fair Value</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Financial assets:</b>				
Cash and due from banks	\$ 18,501,217	\$ 18,501,217	\$ -	\$ -
Federal funds sold	1,551,750	1,551,750	-	-
FHLB Stock	254,700	-	254,700	-
Securities	47,457,340	-	47,457,340	-
Loans held for sale	239,000	-	239,000	-
Loans, net	280,182,503	-	-	276,420,503
Accrued interest receivable	840,373	-	840,373	-
Bank owned life insurance	4,620,707	-	4,620,707	-
<b>Financial liabilities:</b>				
Deposits	315,933,556	-	257,111,948	57,269,608
Accrued interest payable	43,549	-	43,549	-

## COMMUNITY HERITAGE FINANCIAL, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

#### Note 16. Common Stock

In 2017, the Bank sold 948,046 shares of common stock and collected gross proceeds of \$18,012,874. Total direct costs of the offering were \$972,470. These costs were netted against the gross proceeds reflected in shareholders' equity.

As of December 31, 2018, there were 2,233,820 shares of common stock outstanding. Also at December 31, 2018, there were 1,766,180 shares of common stock and 1,000,000 shares of preferred stock available to be issued.

#### Note 17. Other Operating Expenses

The following table describes the significant components of other operating expenses included in the Statements of Income for the years ended December 31:

	<b>2018</b>	<b>2017</b>
Professional fees	\$ 535,074	\$ 407,662
ATM and card related	273,051	296,268
Public relations and charitable contributions	241,449	182,025
Director fees	174,250	148,107
Advertising	141,110	114,417
Other miscellaneous operating expenses	740,894	483,485
Total other operating expenses	<u>\$ 2,105,828</u>	<u>\$ 1,631,964</u>

#### Note 18. Revenue from Contracts with Customers

On January 1, 2018, the company adopted ASU No. 2014-09, "Revenue from Contracts with Customers: Topic 606", and all subsequent amendments to ASU No. 2014-09 using the modified retrospective method. The implementation of the new standard did not have a material impact on the measurement or recognition of revenue, and as such, a cumulative-effect adjustment to retained earnings was not deemed necessary. Most revenue associated with financial instruments, including interest income, loan origination fees, and credit card fees, is outside the scope of the guidance. Gains and losses on investment securities and other sales of financial instruments are similarly excluded from the scope. Using Topic 606 guidelines, the Company concluded that Topic 606 applies to certain revenue streams included in noninterest income as well as gains or losses on other real estate owned that have been historically reported in noninterest expense. Significant categories of in-scope revenue are described and disaggregated below.

##### Service Charges on Deposit Accounts

A significant portion of noninterest income is derived from short-term contracts associated with services provided for deposit account holders. These revenue streams are principally comprised of overdrawn account charges, account maintenance charges, ATM fees, and monthly account fees. The Bank's performance obligations on revenue generated from deposit accounts are generally satisfied immediately, when the transaction occurs, or by month-end. Typically, the duration of a contract does not extend beyond the services performed. Due to the short duration of most customer contracts which generate these sources of noninterest income, no significant judgments must be made in the determination of the amount and timing of revenue recognized.

##### VISA Check Card Income

The Bank earns interchange fees from debit cardholder transactions conducted through the VISA payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

##### Gains and Losses on the Sale of Other Real Estate Owned

The Bank records a gain or loss from the sale of other real estate owned ("OREO") when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Bank finances the sale of OREO to the buyer, the Bank assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer.

**COMMUNITY HERITAGE FINANCIAL, INC. AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**Note 18. Revenue from Contracts with Customers (Continued)**

The following table describes the in-scope and out-of-scope noninterest income elements related to ASC Topic 606 for the years ended December 31:

	Years Ended December 31,	
	2018	2017
In-scope of ASC Topic 606:		
Service charges on deposit accounts:		
Monthly service and other activity charges	\$ 376,673	\$ 362,630
ATM fees	66,680	64,800
VISA check card income	438,261	361,790
Other operating income	60,749	62,313
Total noninterest income within the scope of ASC 606	942,363	851,533
Out-of-scope of ASC 606 (1)	231,934	173,540
Total noninterest income	\$ 1,174,297	\$ 1,025,073

(1) Includes bank owned life insurance income, gains on sales of loans, and losses on sales and calls of securities.

Contract Balances

The Bank's non-interest revenue streams are largely based on transactional activity. Consideration is often received immediately or shortly after the Bank satisfied its performance obligation and revenue is recognized. The Bank does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of December 31, 2018 and 2017, the Bank did not have any significant contract balances.

**Note 19. Subsequent Events**

The Company evaluated subsequent events that have occurred after the balance sheet date, but before the financial statements are issued. There are two types of subsequent events (1) recognized, or those that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, and (2) non-recognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date.

Subsequent events have been considered through April 5, 2019, the date financial statements were available to be issued.

Acquisition of Millennium Financial Group, Inc.

On February 1, 2019, the Company acquired 100% of Millennium Financial Group, Inc. ("Mlend") stock for consideration with a total fair value of \$1.67 million consisting of cash, CMHF stock, and a ten year note payable pursuant to a definitive purchase agreement dated November 28, 2018. Mlend is a privately held, full-service residential mortgage company with four locations in Maryland. The acquisition will enhance the company's mortgage infrastructure and provide direct access to the secondary mortgage market creating greater potential for noninterest income. Mlend will be separately accounted for and will be a wholly owned subsidiary. The acquisition qualifies as a business combination and will be accounted for using the acquisition method of accounting.

## Board of Directors – Community Heritage Financial, Inc.

**James G. Pierne** – Chairman of the Board  
Committee(s): Audit Committee, Governance Committee  
(Chair) (Note: Chairman of the Board can sit on any  
Committee)

**A. Dennis Remsburg** – Vice Chairman of the Board  
Committee(s): Governance Committee

**James H. Clapp**  
Committee(s): Governance Committee

**Robert E. Goetz, Jr.** – President & Chief Executive Officer  
Committee(s): Attends all Committee Meetings

**Richard L. Kefauver**  
Committee(s): Audit Committee and Governance Committee

**J. Thomas Routzahn, Jr.**  
Committee(s): Audit Committee (Chair)

**John T. Routzahn, III**  
Committee(s): Governance Committee

**John J. Rudy**  
Committee(s): Audit Committee

**Todd M. Snook**  
Committee(s): Audit Committee

## Board of Directors – Middletown Valley Bank

**James G. Pierne** – Chairman of the Board  
Committee(s): Board Asset Liability Committee (Board  
ALCO), Audit Committee, Executive Committee (Chair)  
Governance Committee (Chair), Personnel & Compensation  
Committee (Note: Chairman of the Board can sit on any  
Committee)

**A. Dennis Remsburg** – Vice Chairman of the Board  
Committee(s): Board ALCO, Executive Committee, and  
Governance Committee

**James H. Clapp**  
Committee(s): Board ALCO, Governance Committee, and  
Personnel & Compensation Committee

**Robert E. Goetz, Jr.** – President & Chief Executive Officer  
Committee(s): Board ALCO, Executive Committee, and IT  
Steering Committee – Attends all Committee Meetings

**Richard L. Kefauver**  
Committee(s): Audit Committee, Governance Committee,  
and Personnel & Compensation Committee

**J. Thomas Routzahn, Jr.**  
Committee(s): Audit Committee (Chair), Compliance  
Committee, and Executive Committee

**John T. Routzahn, III**  
Committee(s): Governance Committee and Personnel &  
Compensation Committee

**John J. Rudy**  
Committee(s): Audit Committee, Community Reinvestment  
Act (CRA) Committee, and Personnel & Compensation  
Committee (Chair)

**Todd M. Snook**  
Committee(s): Board ALCO (Chair), Audit Committee, and  
Executive Committee

## 2018 Executive Officers

**Robert E. Goetz, Jr.** – President & Chief Executive Officer  
**J. Michael Hill** – Executive Vice President & Chief Risk Officer  
**Brian M. Ropp** – Executive Vice President & Chief Financial Officer  
**Angela M. Shubert** – Executive Vice President & Chief Operating Officer  
**Dawn R. Woods** – Corporate Secretary





# 2018

ANNUAL REPORT



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