

2019 ANNUAL REPORT



BOARD CHAIR'S LETTER

To Wayne Savings Bancshares, Inc. Stockholders:

It is my pleasure to report to you on another very successful year for Wayne Savings Bancshares, Inc.

The close of fiscal year 2019 marked the company's tenth consecutive quarter of record earnings. The year concluded with record net earnings of \$6.5 million, or \$2.43 per common share, representing an increase of 25.3% over fiscal year 2018. The Company's total assets as of December 31, 2019, reached \$492.6 million.

This performance was fueled by steady growth in core deposits and commercial loans, balanced by a continued emphasis on maintaining excellent asset quality. The return on average equity and return on average assets for the year were 13.62% and 1.33%, respectively, compared to 12.03% and 1.12% for the same period in 2018. The efficiency ratio also continued to improve from 62.04% to 56.27% over the course of the year, as we continued to leverage operational efficiencies.

As we continue to strive for enhanced shareholder value, we are pleased that our earnings improvement enabled us to increase the quarterly dividend by 25% during 2019 and to continue our stock repurchase program.

The credit for our success goes to our dedicated and hard-working management team, led by President and CEO, James R VanSickle II, and the phenomenal staff of Wayne Savings Community Bank. Each of these individuals is committed to our core values of dependability and trustworthiness, respect for one another, excellence in everything we do, adaptability to change, and fostering meaningful relationships.

The credit also goes to you, our loyal shareholders. We are truly grateful to you for the privilege of our independence, and the ability to continue helping our communities to remain vibrant, and our customers to achieve their dreams.

We remain fiercely committed to continuing the course we have set for the benefit of our shareholders, our customers, our staff, and our community, and will continue to apply our core values as we face the economic uncertainties of the coming year.



Peggy J. Schmitz
Chair, Board of Directors

Wayne Savings Bancshares, Inc.
Annual Report
Table of Contents

Selected Financial Data	1
Management’s Discussion and Analysis of Financial Condition and Results of Operations	2
Independent Auditor’s Report	6
Consolidated Balance Sheets	7
Consolidated Statements of Income and Comprehensive Income.	8
Consolidated Statements of Stockholders’ Equity	9
Consolidated Statements of Cash Flows	10
Notes to Consolidated Financial Statements	12

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SELECTED FINANCIAL DATA

The financial highlights below indicate 2019 has been another record year in which Wayne Savings has achieved performance figures of a high producing Community Bank. Below are some performance measures year to year detailing the progress the Company continues to make.

	December 31,				
	2019	2018	2017	2016	2015
	(In thousands)				
Selected Financial Condition Data:					
Total assets	\$ 492,586	\$ 472,887	\$ 439,797	\$ 454,791	\$ 433,632
Loans receivable, net	376,581	377,930	345,900	332,283	293,121
Mortgage-backed securities ⁽¹⁾	30,821	29,162	38,652	59,358	77,433
Investment securities	28,351	29,543	24,359	20,910	26,221
Cash and cash equivalents ⁽²⁾	30,752	11,161	6,041	16,756	11,156
Deposits	407,572	387,449	372,465	383,733	362,427
Stockholders' equity	48,391	44,878	41,585	41,028	39,905

⁽¹⁾ Includes mortgage-backed securities and private-label collateralized mortgage obligations.

⁽²⁾ Includes cash and due from banks, interest-bearing deposits in other financial institutions and federal funds sold.

	Year ended December 31,				
	2019	2018	2017	2016	2015
	(In thousands, except per share amounts)				
Selected Operating Data:					
Interest income	\$ 20,058	\$ 17,983	\$ 16,428	\$ 15,551	\$ 14,499
Interest expense	3,626	2,399	1,980	2,070	1,967
Net interest income	16,432	15,584	14,448	13,481	12,532
Provision for loan losses	406	518	301	365	1,175
Net interest income after provision for loan losses	16,026	15,066	14,147	13,116	11,357
Noninterest income	2,590	2,237	2,145	1,996	1,890
Noninterest expense	10,703	11,056	11,957	12,158	11,187
Income before income taxes	7,913	6,247	4,335	2,954	2,060
Federal income taxes	1,462	1,099	1,226	708	413
Net income	<u>\$ 6,451</u>	<u>\$ 5,148</u>	<u>\$ 3,109</u>	<u>\$ 2,246</u>	<u>\$ 1,647</u>
Basic and diluted earnings per share	<u>\$ 2.43</u>	<u>\$ 1.92</u>	<u>\$ 1.13</u>	<u>\$ 0.82</u>	<u>\$ 0.60</u>
Cash dividends declared per common share	<u>\$ 0.76</u>	<u>\$ 0.53</u>	<u>\$ 0.37</u>	<u>\$ 0.36</u>	<u>\$ 0.36</u>

SELECTED FINANCIAL DATA

	Year ended December 31,				
	2019	2018	2017	2016	2015
Key Operating Ratios and Other Data:					
Return on average assets (net income divided by average total assets)	1.33%	1.12%	0.69%	0.51%	0.39%
Return on average equity (net income divided by average equity)	13.62%	12.03%	7.39%	5.46%	4.11%
Average equity to average assets	9.76%	9.33%	9.39%	9.26%	9.46%
Equity to assets at year end	9.82%	9.49%	9.46%	9.02%	9.20%
Interest rate spread (difference between average yield on interest-earning assets and average cost of interest-bearing liabilities)	3.51%	3.55%	3.38%	3.18%	3.11%
Net interest margin (net interest income as a percentage of average interest-earning assets)	3.56%	3.58%	3.41%	3.21%	3.14%
Noninterest expense to average assets ⁽¹⁾	2.21%	2.41%	2.67%	2.73%	2.61%
Nonperforming and impaired loans to loans receivable, net	1.24%	1.14%	0.85%	1.16%	1.65%
Nonperforming and impaired assets to total assets	0.95%	0.91%	0.68%	0.85%	1.12%
Average interest-earning assets to average interest-bearing liabilities	106.45%	105.59%	105.61%	105.36%	105.39%
Allowance for loan losses to nonperforming and impaired loans	77.04%	78.40%	100.02%	78.70%	57.06%
Allowance for loan losses to nonperforming and impaired assets	77.04%	78.40%	98.51%	78.69%	56.90%
Net interest income after provision for losses on loans, to noninterest expense ⁽¹⁾	187.39%	136.59%	118.68%	111.25%	112.39%
Number of full-service offices	11	11	11	11	11
Dividend payout ratio	31.28%	27.61%	32.74%	43.90%	60.00%

(1) In calculating this ratio, noninterest expense does not include provisions for losses or gains on the sale of real estate acquired through foreclosure.

Management's Discussion and Analysis of Financial Condition Changes December 31, 2019 from December 31, 2018

General

At December 31, 2019, total assets increased \$19.7 million, or 4.2%, to \$492.6 million from the \$472.9 million at December 31, 2018, primarily due to an increase in commercial related loans of \$25.5 million of loans and growth of deposits \$20.1 million for 2019. The increase of \$19.6 million in cash and cash equivalents was the result of a seasoned one-to-four family residential mortgage loan sale (portfolio mortgage loan sale) of \$30.4 million during fourth quarter of 2019 of which the Bank has not yet redeployed these funds into mortgage-backed securities or commercial loans.

Loans

During the year ended December 31, 2019, the Bank disbursed \$115.7 million of loans, received payments of \$68.7 million and had total loans sold of \$48.1 million. The previously mentioned portfolio mortgage loan sale and the loan growth in both commercial real estate loans of \$22.5 million and \$3.0 million in unsecured commercial loans continues the transformation of our loan portfolio into a more typical commercial bank portfolio. In our local market, there continues to be strong competition from other financial institutions for quality loans.

Allowance for Loan Losses

At December 31, 2019, the allowance for loan losses totaled \$3.6 million, or 0.95% of gross loan balances compared to \$3.4 million, or 0.89% of gross loans at December 31, 2018. The Company incurred net charge-offs for the year of \$191,000, mainly due to one commercial customer loan secured by equipment. Management recorded a \$406,000 provision for losses on loans for the year ended December 31, 2019, a decrease of \$112,000 from the \$518,000 recorded for the year ended December 31, 2018. The decreased provision was primarily due to the decreased specific reserves compared to the prior year period.

Management systematically determines the risk of loss in the portfolio by evaluating delinquent and classified nonresidential, multi-family and commercial loans for potential impairment in carrying value. The Company then calculates a reserve using the historical loss experience of each individual loan type in the portfolio. Management then incorporates an additional risk factor based on the perception of the overall risk in the economy and engages a third-party loan review which provides an independent validation of the Bank's loan grading process.

Management's Discussion and Analysis of Financial Condition Changes December 31, 2019 from December 31, 2018 - continued

Deposits

Deposits totaled \$407.6 million at December 31, 2019, an increase of \$20.1 million, or 5.2%, from December 31, 2018. Demand accounts increased \$23.6 million, or 15.5%, savings and money market accounts decreased \$9.8 million, or 8.2%, and time deposits increased \$6.4 million, or 5.5%. The increase in demand accounts is due to the high interest "Platinum" checking products which began during the fourth quarter of 2017. In general, management attempts to benchmark retail certificate of deposit pricing to the cost of alternate sources of funds, including FHLB advances and brokered deposits of which the Bank had balances of \$18.0 million. Exceptions are made to defend customer relationships with significant value to the Bank while allowing rate sensitive certificate of deposit customers with no relationship with the Bank to move to other alternatives.

Advances

Advances from the FHLB decreased \$8.5 million, from \$28.5 million at December 31, 2018, to \$20.0 million at December 31, 2019, mainly due to excess liquidity from the sale of \$30.4 million of seasoned residential mortgage loans. The Bank uses FHLB advances to manage the interest rate risk associated with the longer duration of loans as compared to securities at a lower cost than other funding alternatives, particularly retail term deposits.

Stockholders' Equity

At December 31, 2019, stockholders' equity totaled \$48.4 million, an increase of \$3.5 million compared to the balance at December 31, 2018. This increase is primarily due to net income of \$6.5 million and a decrease in other comprehensive loss of \$1.1 million, partially offset by dividends of \$2.0 million, and treasury stock purchases of \$2.0 million. The decrease in other comprehensive loss included a \$1.3 million decrease in unrealized loss on securities available-for-sale partially offset by a \$187,000 increase related to post-retirement benefits.

On December 20, 2019, the Company announced the adoption of a new share buy-back program authorizing the repurchase of an additional 4% or 103,904, shares of its common stock outstanding. As of December 31, 2019, the Company had a remaining 4,226 shares authorized to be repurchased under the prior repurchase program issued in 2018.

Comparison of operating results for the years ended December 31, 2019 and December 31, 2018

General

Net income totaled \$6.5 million, or \$2.43 per common share, for the year ended December 31, 2019, compared to \$5.1 million, or \$1.92 per common share, for the year ended December 31, 2018. The increase in net income was primarily due to increases in both net interest income and noninterest income and a decrease in both provision for loan losses and noninterest expense partially offset with an increase in provision for federal income taxes. The return on average equity and return on average assets for the twelve months ended December 31, 2019, were 13.62% and 1.33%, respectively, compared to 12.03% and 1.12%, respectively, for the twelve months ended December 31, 2018.

The Company was involved in a contested proxy solicitation where a shareholder sought to place a representative on the Company's Board of Directors in 2018. The return on average equity and return on average assets for the twelve months ended December 31, 2018, without these proxy costs, would have been 12.33% and 1.15%.

Interest Income

Interest income increased \$2.1 million, and totaled \$20.1 million for the year ended December 31, 2019, compared to the year ended December 31, 2018. This increase was due to a \$26.4 million increase in the average balance of interest-earning assets, and a 22 basis point (bp) increase in the average yield on interest-earning assets from 4.13% at December 31, 2018, to 4.35% at December 31, 2019.

Interest income on loans increased \$2.3 million for the year ended December 31, 2019, compared to the year ended December 31, 2018. This increase is primarily due to a \$27.6 million, or 7.7%, increase in the average balance of loans outstanding and a 27 bp increase in the weighted-average yield on loans to 4.70% at December 31, 2019, compared to 4.43% at December 31, 2018. The increase in the yield was due to the commercial loan balances increasing, which are generally a higher rate than the one-to-four family residential mortgage loans of which the Bank sold \$30.4 million in the aforementioned portfolio mortgage loan sale in November 2019.

Comparison of operating results for the years ended December 31, 2019 and December 31, 2018 – continued

Interest income on securities decreased \$304,000, or 18.0%, during the year ended December 31, 2019, compared to the year ended December 31, 2018. This decrease was primarily due to a \$8.0 million decrease in the average balance of securities and a decrease of 17 bps in the weighted-average yield to 2.48% at December 31, 2019, compared to 2.65% for the year ended December 31, 2018. The decrease in the average balance was due to investing the cash flow from principal reductions into higher yielding loans.

Interest Expense

Interest expense for the year ended December 31, 2019, totaled \$3.6 million, an increase of \$1.2 million, or 51.1%, compared to interest expense for the year ended December 31, 2018. The increase in interest expense was substantially due to an increase in the weighted-average cost of funds to 0.84% for December 31, 2019, compared to 0.58% for 2018 and an increase in the average balance of \$21.4 million.

Interest expense on deposits totaled \$3.0 million for the year ended December 31, 2019, an increase of \$1.2 million, compared to the year ended December 31, 2018. This increase was primarily due to a 27 bp increase in the weighted-average cost of deposits from 0.48% for the year ended December 31, 2018, to 0.75% for the year ended December 31, 2019, and an increase of \$25.0 million increase in the average balance of deposits. The increase in the weighted-average cost of deposits was primarily due to a \$21.2 million increase in average certificate of deposit balances and an increase of \$21.6 million in demand deposits, of which most of the growth was higher interest checking products, partially offset with a \$17.9 million decrease in savings and money market balances.

Interest expense on Federal Home Loan Bank advances totaled \$572,000 for the year ended December 31, 2019, a decrease of \$11,000, compared to the year ended December 31, 2018. This decrease was mainly due a \$5.7 million decrease in the average balance offset with a 38 bp increase in the average rate.

Net Interest Income

Net interest income totaled \$16.4 million for the year ended December 31, 2019, an increase of \$848,000, compared to the year ended December 31, 2018. The increase in net interest income was due mainly to both increased average loan balances and increased loan rates of 27 bps partially offset with increased rates paid on interest-bearing liabilities of 26 bps and increased interest-bearing balances compared to the year ended December 31, 2018.

Provision for Losses on Loans

The Company recorded a provision for loan losses totaling \$406,000 for the year ended December 31, 2019, compared to \$518,000 for the year ended December 31, 2018. The decrease in the provision is mainly due to the decrease in the required specific reserves for classified credits and the reduction of required reserves related to the portfolio mortgage sale, partially offset with higher required reserves due to the commercial loan portfolio growth in 2019 as compared to the prior the period.

Noninterest Income

Noninterest income totaled \$2.6 million for the year ended December 31, 2019, and increased by \$353,000, or 15.8%, compared to the year-ended December 31, 2018. The increase was primarily due to a \$356,000 increase in gain on sale of loans as market rates continued to decline during 2019, causing an increase in gain on sale of loans, and the portfolio mortgage loan sale also contributed to the increase from 2018. Excluding the portfolio mortgage loan sale, the Bank sold loans of \$17.8 million for the year ended December 31, 2019, compared to \$14.3 million for the year ended December 31, 2018.

Noninterest Expense

Noninterest expense decreased by \$353,000, or 3.2%, and totaled \$10.7 million for the year ended December 31, 2019, compared to \$11.1 million for the year ended December 31, 2018. This decrease was primarily due to reduced legal and stockholder expenses, as there was no proxy contest in 2019, and reduced federal deposit insurance expense as the Federal Deposit Insurance Fund awarded the credits for institutions under \$10 billion. The Company's efficiency ratio improved from 62.0% for the year ended December 31, 2018, to 56.3% for the same period in 2019.

Federal Income Taxes

Provision for Federal income taxes was \$1.5 million for the year ended December 31, 2019, reflecting an increase of \$363,000 from the year ended December 31, 2018, due to the increase in pre-tax income.

AVERAGE BALANCE SHEET

The following tables set forth certain information relating to the Company's average balance sheet and reflects the average yield on assets and average cost of liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods presented.

	For the years ended December 31,					
	2019		2018			
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	(Dollars in thousands)					
Interest-earning assets:						
Loans receivable, net ⁽¹⁾	\$ 388,571	\$ 18,274	4.70%	\$ 360,934	\$ 15,981	4.43%
Securities ⁽²⁾	55,853	1,387	2.48%	63,876	1,691	2.65%
Interest-earning deposits ⁽³⁾	17,155	397	2.31%	10,410	311	2.99%
Total interest-earning assets	461,579	20,058	4.35%	435,220	17,983	4.13%
Noninterest-earning assets	23,782			23,704		
Total assets	\$ 485,361			\$ 458,924		
Interest-bearing liabilities:						
Deposits	\$ 399,466	\$ 2,998	0.75%	\$ 374,497	\$ 1,806	0.48%
Other short-term borrowings	8,800	56	0.64%	6,683	10	0.15%
Borrowings	25,334	572	2.26%	31,000	583	1.88%
Total interest-bearing liabilities	433,600	3,626	0.84%	412,180	2,399	0.58%
Noninterest-bearing liabilities	4,389			3,947		
Total liabilities	437,989			416,127		
Stockholders' equity	47,372			42,797		
Total liabilities and stockholders' equity	\$ 485,361			\$ 458,924		
Net interest income		\$ 16,432			\$ 15,584	
Interest rate spread ⁽⁴⁾			3.51%			3.55%
Net yield on interest-earning assets ⁽⁵⁾			3.56%			3.58%
Ratio of average interest-earning assets to average interest-bearing liabilities			106.45%			105.59%

⁽¹⁾ Includes non-accrual loan balances.

⁽²⁾ Includes mortgage-backed securities designated as available-for-sale.

⁽³⁾ Includes federal funds sold and interest-bearing deposits in other financial institutions.

⁽⁴⁾ Interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

⁽⁵⁾ Net yield on interest-earning assets represents net interest income as a percentage of average interest-earning assets.

Independent Auditor's Report

Stockholders and Board of Directors
Wayne Savings Bancshares, Inc.
Wooster, Ohio

We have audited the accompanying consolidated financial statements of Wayne Savings Bancshares, Inc. and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wayne Savings Bancshares, Inc. and its subsidiary as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



BKD, LLP
Fort Wayne, Indiana
March 16, 2020

WAYNE SAVINGS BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2019 and 2018
(In thousands, except share data)

	2019	2018
Assets		
Cash and due from banks	\$ 21,422	\$ 3,362
Interest-bearing deposits	9,330	7,799
Cash and cash equivalents	30,752	11,161
Available-for-sale securities	48,848	47,542
Held-to-maturity securities	10,324	11,163
Loans held for sale – at lower of cost or market	734	213
Loans, net of allowance for loan losses of \$3,598 and \$3,383 at December 31, 2019 and 2018, respectively	376,581	377,930
Premises and equipment, net	5,318	5,406
Federal Home Loan Bank stock	4,226	4,226
Accrued interest receivable	1,385	1,358
Bank-owned life insurance	10,636	10,368
Goodwill	1,719	1,719
Other assets	2,063	1,801
Total assets	\$ 492,586	\$ 472,887
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Demand	\$ 175,610	\$ 152,020
Savings and money market	109,356	119,176
Time	122,606	116,253
Total deposits	407,572	387,449
Other short-term borrowings	10,444	7,172
Federal Home Loan Bank advances	20,000	28,500
Interest payable and other liabilities	6,179	4,888
Total liabilities	444,195	428,009
Commitments and Contingencies		
	-	-
Stockholders' Equity		
Preferred stock, 500,000 shares of \$.10 par value authorized; no shares issued	-	-
Common stock, \$.10 par value; authorized 5,000,000 and 9,000,000 shares at December 31, 2019 and 2018, respectively. 3,978,731 shares issued for both years	398	398
Additional paid-in capital	36,219	36,152
Retained earnings	32,600	28,290
Shares acquired by ESOP	(82)	(142)
Accumulated other comprehensive loss	(178)	(1,277)
Treasury stock, at cost: Common: 1,376,895 and 1,281,887 shares at December 31, 2019 and 2018, respectively	(20,566)	(18,543)
Total stockholders' equity	48,391	44,878
Total liabilities and stockholders' equity	\$ 492,586	\$ 472,887

WAYNE SAVINGS BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Years Ended December 31, 2019 and 2018
(In thousands, except per share data)

	2019	2018
Interest and Dividend Income		
Loans	\$ 18,274	\$ 15,981
Securities	1,387	1,691
Dividends on Federal Home Loan Bank stock and other	397	311
Total interest and dividend income	<u>20,058</u>	<u>17,983</u>
Interest Expense		
Deposits	2,998	1,806
Other short-term borrowings	56	10
Federal Home Loan Bank advances	572	583
Total interest expense	<u>3,626</u>	<u>2,399</u>
Net Interest Income	16,432	15,584
Provision for Loan Losses	406	518
Net Interest Income After Provision for Loan Losses	<u>16,026</u>	<u>15,066</u>
Noninterest Income		
Deposit service charges	634	642
Gain on loan sales	673	317
Earnings on bank-owned life insurance	305	303
Interchange fees	583	500
Other	395	475
Total noninterest income	<u>2,590</u>	<u>2,237</u>
Noninterest Expense		
Salaries and employee benefits	6,118	6,012
Net occupancy and equipment expense	1,849	1,946
Federal deposit insurance premiums	43	166
Franchise taxes	407	367
Advertising and marketing	250	299
Legal	59	155
Professional fees	186	154
ATM network	297	277
Audit and accounting	261	222
Other	1,233	1,458
Total noninterest expense	<u>10,703</u>	<u>11,056</u>
Income Before Federal Income Taxes	7,913	6,247
Provision for Federal Income Taxes	1,462	1,099
Net Income	<u>6,451</u>	<u>5,148</u>
Other Comprehensive Income (Loss):		
Unrealized gains (losses) on available-for-sale securities, net of taxes of \$320 and (\$150) for 2019 and 2018 respectively	1,203	(566)
Change in split-dollar life insurance policy unrecognized net loss	(242)	147
Change in defined benefit plan settlement charge, net of taxes of \$9 and \$9 for 2019 and 2018 respectively	36	32
Change in defined benefit plan unrecognized net gain, net of taxes of (\$7) and (\$6) for 2019 and 2018 respectively	(26)	(25)
Amortization of net (gain) loss included in net periodic pension cost, net of taxes of \$12 for 2019	45	-
Other Comprehensive Income (Loss)	<u>1,016</u>	<u>(412)</u>
Total Comprehensive Income	<u>\$ 7,467</u>	<u>\$ 4,736</u>
Basic Earnings Per Share	<u>\$ 2.43</u>	<u>\$ 1.92</u>
Diluted Earnings Per Share	<u>\$ 2.43</u>	<u>\$ 1.92</u>

See Notes to Consolidated Financial Statements

WAYNE SAVINGS BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2019 and 2018
(In thousands, except per share data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Shares Acquired by ESOP	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance, January 1, 2018, adjusted	\$ 398	\$ 36,093	\$ 24,452	\$ (206)	\$ (753)	\$ (18,361)	\$ 41,623
Net Income	-	-	5,148	-	-	-	5,148
Other comprehensive loss	-	-	-	-	(412)	-	(412)
Purchase Treasury Shares at cost	-	-	-	-	-	(182)	(182)
Cash dividends - \$0.53 per Share	-	-	(1,422)	-	-	-	(1,422)
Adoption of ASU 2018-02	-	-	112	-	(112)	-	-
ESOP shares earned	-	59	-	64	-	-	123
Balance, December 31, 2018	\$ 398	\$ 36,152	\$ 28,290	\$ (142)	\$ (1,277)	\$ (18,543)	\$ 44,878
Adoption of ASU 2017-08	-	-	(139)	-	83	-	(56)
Net Income	-	-	6,451	-	-	-	6,451
Other comprehensive income	-	-	-	-	1,016	-	1,016
Purchase Treasury Shares at cost	-	-	-	-	-	(2,023)	(2,023)
Cash dividends - \$0.76 per Share	-	-	(2,002)	-	-	-	(2,002)
ESOP shares earned	-	67	-	60	-	-	127
Balance, December 31, 2019	\$ 398	\$ 36,219	\$ 32,600	\$ (82)	\$ (178)	\$ (20,566)	\$ 48,391

WAYNE SAVINGS BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2019 and 2018
(In thousands)

	<u>2019</u>	<u>2018</u>
Operating Activities		
Net income	\$ 6,451	\$ 5,148
Items not requiring (providing) cash		
Depreciation and amortization	562	731
Provision for loan losses	406	518
Amortization of premiums and discounts on securities	744	635
Amortization of mortgage servicing rights	119	114
Accretion of net deferred loan origination fees	(68)	(63)
Deferred income taxes	21	(245)
Net gains on sale of loans	(673)	(317)
Proceeds from sale of loans in the secondary market	18,238	14,262
Origination of loans for sale in the secondary market	(17,930)	(14,126)
Amortization expense of stock benefit plan-ESOP compensation expense	127	123
Provision for impairment on foreclosed assets held for sale	-	25
Loss (gain) on sale of premises and equipment	-	1
Increase in value of bank-owned life insurance	(268)	(271)
Changes in		
Accrued interest receivable	(27)	(204)
Other assets	(766)	26
Interest payable and other liabilities	1,117	125
Net cash provided by operating activities	<u>8,053</u>	<u>6,482</u>
Investing Activities		
Purchases of available-for-sale securities	(9,150)	(8,971)
Proceeds from maturities, paydowns and sale available-for-sale securities	8,865	11,599
Proceeds from maturities, paydowns and sale of held-to-maturity securities	701	327
Proceeds from sale of seasoned portfolio loans in the secondary market	30,171	-
Net change in loans	(29,315)	(32,551)
Purchase of premises and equipment	(474)	(87)
Proceeds from the sale of foreclosed assets	-	43
Net cash provided by (used in) investing activities	<u>\$ 798</u>	<u>\$ (29,640)</u>

WAYNE SAVINGS BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
Years Ended December 31, 2019 and 2018
(In thousands)

	<u>2019</u>	<u>2018</u>
Financing Activities		
Net change in deposits	\$ 20,123	\$ 14,984
Net change in other short-term borrowings	3,272	(237)
Proceeds from Federal Home Loan Bank advances	20,000	22,500
Repayments of Federal Home Loan Bank advances	(28,500)	(7,500)
Advances by borrowers for taxes and insurance	(219)	(25)
Dividends on common stock	(1,913)	(1,262)
Treasury stock purchases	(2,023)	(182)
Net cash provided by financing activities	<u>10,740</u>	<u>28,278</u>
Increase in Cash and Cash Equivalents	19,591	5,120
Cash and Cash equivalents, Beginning of period	<u>11,161</u>	<u>6,041</u>
Cash and Cash equivalents, End of period	<u>\$ 30,752</u>	<u>\$ 11,161</u>
Supplemental Cash Flows Information		
Interest paid on deposits and borrowings	<u>\$ 3,419</u>	<u>\$ 2,394</u>
Federal income taxes paid	<u>\$ 1,475</u>	<u>\$ 1,150</u>
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Transfers from loans to foreclosed assets held for sale	<u>\$ -</u>	<u>\$ 34</u>
Recognition of mortgage servicing rights	<u>\$ 349</u>	<u>\$ 206</u>
Dividends payable	<u>\$ 520</u>	<u>\$ 431</u>

WAYNE SAVINGS BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The revenues, operating income and assets are almost exclusively derived from banking. Accordingly, all of the Company's banking operations are considered by management to be aggregated in one reportable operating segment. Customers are mainly located in Wayne, Holmes, Ashland, Medina and Stark Counties, and include a wide range of individuals, businesses and other organizations. The Company has historically conducted its business through its main office in Wooster, Ohio.

The Company's primary deposit products are checking, savings, money market and term certificate accounts. Wayne Savings Community Bank's primary lending products are residential mortgage, commercial and installment loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets and real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. Real estate loans are secured by both residential and commercial real estate. Net interest income is affected by the relative amount of interest-earning assets and interest-bearing liabilities and the interest received or paid on these balances. The level of interest rates paid or received by the Company can be significantly influenced by a number of environmental factors, such as governmental monetary policy, that are outside of management's control.

Principles of Consolidation

The consolidated financial statements include the accounts of Wayne Savings Bancshares, Inc. ("Wayne" or the "Company") and its wholly owned subsidiary, Wayne Savings Community Bank (the "Bank"). All intercompany transactions and balances have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the 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 relate to the determination of the allowance for loan losses, goodwill and pension and other retirement benefit plans. In connection with the determination of the allowance for loan losses management obtains independent appraisals for significant properties.

Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. Noninterest-bearing transaction accounts are subject to the \$250,000 limit on FDIC insurance per covered institution. From time to time, the Company's interest-bearing cash accounts may exceed the FDIC's insured limit of \$250,000. Management considers the risk of loss to be very low.

Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and recorded at amortized cost. Securities not classified as held-to-maturity are classified as "available-for-sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss). Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

For debt securities with fair value below carrying value when the Company does not intend to sell a debt security, and it is more likely than not, the Company will not have to sell the security before recovery of its cost

WAYNE SAVINGS BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income (loss). For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income (loss) for the noncredit portion of a previous other-than-temporary impairment is amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding principal balances adjusted for unearned income, charge-offs, the allowance for loan losses, any unamortized deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized as a level yield adjustment over the respective term of the loan. The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well secured and in process of collection. Past due status is determined based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current for a period of six months and future payments are reasonably assured.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical charge-off experience and expected loss given default derived from the Company's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Company 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 and construction 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 homogenous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

WAYNE SAVINGS BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to noninterest income. Gains and losses on loan sales are recorded in noninterest income and direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of the loan.

Premises and Equipment, Net

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets. An accelerated method is used for tax purposes. Leasehold improvements are also stated at cost less accumulated depreciation and are depreciated using the straight-line method over the estimated useful lives of the assets or the term of the lease, whichever is shorter. Gains and losses on dispositions are included in current operations. No asset impairment was recognized during the years ended December 31, 2019 and 2018. During 2019, the Company adopted ASU 2016-02 “Leases (Topic 842).” The Company has two banking facilities in which it has lease contracts. The adoption of ASU 2016-02 increased leasehold improvements by \$222,000 while offsetting this asset with a liability recorded in other liabilities in the consolidated balance sheet, and will be amortized as the lease terms approach maturity.

Federal Home Loan Bank Stock

The Company is required as a condition of membership in the Federal Home Loan Bank of Cincinnati (“FHLB”) to maintain an investment in FHLB common stock. The required investment in the common stock is based on a predetermined formula. The stock is redeemable at par and, therefore, its cost is equivalent to its redemption value. The stock is periodically evaluated for impairment. At December 31, 2019, the FHLB placed no restrictions on redemption of shares in excess of a member’s required investment in the stock.

Foreclosed Assets Held for Sale, Net

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less estimated selling costs, at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net income or expense from foreclosed assets.

Bank-Owned Life Insurance

The Bank has purchased life insurance policies on certain key executives. Bank-owned life insurance is recorded at its cash surrender value, or the amount that can be realized.

Goodwill

The composition of goodwill is as follows at December 31, 2019 and 2018:

	2019	2018
	(In thousands)	
Goodwill	\$ 1,719	\$ 1,719

Pursuant to FASB ASC 350, the Company is required to annually test goodwill for impairment. The Company performed its annual goodwill impairment test as of December 31, 2019, and the prior year at November 30, 2018. The Company’s testing of goodwill in the current year indicated there was no impairment in the carrying value of this asset.

Mortgage Servicing Rights

Mortgage servicing assets are recognized separately when rights are acquired through sale of financial assets. Under the servicing assets and liabilities accounting guidance (ASC 860-50), servicing rights resulting from the sale or securitization of loans originated by the Company are initially measured at fair value at the date of transfer. The Company subsequently measures each class of servicing asset using the amortization method. Under the amortization method, servicing rights are amortized in proportion to and over the period of estimated net servicing income. The amortized assets are assessed for impairment based on fair value at each reporting date.

WAYNE SAVINGS BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. These variables change from quarter to quarter as market conditions and projected interest rates change, and may have an adverse impact on the value of the mortgage servicing rights and may result in a reduction to noninterest income.

Each class of separately recognized servicing assets subsequently measured using the amortization method are evaluated and measured for impairment. Impairment is determined by stratifying rights into tranches based on predominant characteristics, such as interest rate, loan type and investor type. Impairment, if necessary, is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the carrying amount of the servicing assets for that tranche. The valuation allowance is adjusted to reflect changes in the measurement of impairment after the initial measurement of impairment. Changes in valuation allowances are reported in the income statement. Fair value in excess of the carrying amount of servicing assets for that stratum is not recognized.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

Treasury Stock

Common stock shares repurchased are recorded at cost. Cost of shares retired or reissued is determined using the first-in, first-out method.

Income Taxes

The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, Income Taxes). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Uncertain tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment.

The Company recognizes interest and penalties, if any, on income taxes as a component of income tax expense. The Company files consolidated income tax returns with its subsidiary. With a few exceptions, the Company is no longer subject to tax authorities for years before 2016.

WAYNE SAVINGS BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

On December 22, 2017, H.R.1, formerly known as the Tax Cuts and Jobs Act (the “Tax Reform Act”), was enacted into law. Beginning in 2018, the Tax Reform Act reduced the federal tax rate for corporations from 35% to 21% and changes or limits certain deductions. The effect of this change is expected to lower the Company’s effective tax rate from 28% in 2017 to approximately 18% in 2018. The Tax Reform Act also caused a one-time positive adjustment to retained earnings of \$112,000 to revalue the deferred tax items as a result of adopting ASU 2018-02.

Revenue From Contracts With Customers

The Company records revenue from contracts with customers in accordance with Accounting Standards Codification Topic 606, Revenue from Contracts with Customers (Topic 606). Under Topic 606, the Company must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the Company satisfies a performance obligation.

The Company's primary sources of revenue are derived from interest and dividends earned on loans, investment securities and other financial instruments that are not within the scope of Topic 606. The Company has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the consolidated statements of income was not necessary. The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying Topic 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers

Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during each period. Diluted earnings per share reflects additional potential common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. The Company has no potential dilutive common shares issued or outstanding.

Treasury stock shares and unearned ESOP shares are not deemed outstanding for earnings per share calculations.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss), net of applicable income taxes. Other comprehensive income (loss) includes unrealized appreciation (depreciation) on available-for-sale securities, changes in the funded status of the defined benefit pension plan and the split-dollar life insurance plan.

Advertising and Marketing

Advertising and marketing costs are expensed as incurred. The Company’s advertising and marketing expense totaled \$250,000 for the year ended December 31, 2019, and \$299,000 for year ended December 31, 2018.

WAYNE SAVINGS BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

Transfers of Financial Assets

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

Subsequent Events

Subsequent events have been evaluated through March 12, 2020, which is the date the financial statements were available to be issued.

Note 2: Restriction on Cash and due from banks

The Company is required to maintain reserve funds in cash, and or, on deposit with the Federal Reserve Bank. The reserve required at December 31, 2019, was \$7,355,000.

Note 3: Securities

The amortized cost and fair values, together with gross unrealized gains and losses, of securities are as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Available-for-sale securities				(In thousands)
December 31, 2019:				
Mortgage-backed securities of government-sponsored entities	\$ 30,644	\$ 103	\$ 204	\$ 30,543
State and political subdivisions	17,580	733	8	18,305
Totals	<u>\$ 48,224</u>	<u>\$ 836</u>	<u>\$ 212</u>	<u>\$ 48,848</u>
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Available-for-sale securities				(In thousands)
December 31, 2018:				
Mortgage-backed securities of government-sponsored entities	\$ 29,700	\$ 28	\$ 862	\$ 28,866
State and political subdivisions	18,845	121	290	18,676
Totals	<u>\$ 48,545</u>	<u>\$ 149</u>	<u>\$ 1,152</u>	<u>\$ 47,542</u>
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Held-to-maturity Securities:				(In thousands)
December 31, 2019:				
Mortgage-backed securities of government-sponsored entities	\$ 278	\$ -	\$ -	\$ 278
State and political subdivisions	10,046	280	6	10,320
Totals	<u>\$ 10,324</u>	<u>\$ 280</u>	<u>\$ 6</u>	<u>\$ 10,598</u>
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Held-to-maturity Securities:				(In thousands)
December 31, 2018:				
Mortgage-backed securities of government-sponsored entities	\$ 296	\$ -	\$ 7	\$ 289
State and political subdivisions	10,867	5	196	10,676
Totals	<u>\$ 11,163</u>	<u>\$ 5</u>	<u>\$ 203</u>	<u>\$ 10,965</u>

WAYNE SAVINGS BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

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

	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
		(In thousands)		
Within one year	\$ 395	\$ 403	\$ 1,010	\$ 1,019
One to five years	659	672	1,891	1,914
Five to ten years	3,775	3,882	4,174	4,282
After ten years	12,751	13,348	2,971	3,105
	17,580	18,305	10,046	10,320
Mortgage-backed securities of government-sponsored entities	30,644	30,543	278	278
Totals	\$ 48,224	\$ 48,848	\$ 10,324	\$ 10,598

The carrying value of securities pledged as collateral, to secure public deposits, customer repurchase agreements and for other purposes, was \$35.1 million and \$33.7 million at December 31, 2019 and 2018, respectively.

In 2019 and 2018 there were no sales of securities.

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. The total fair value of these investments at December 31, 2019 and 2018 was \$25.8 million and \$49.0 million, which represented approximately 44% and 83%, respectively, of the Company's aggregate fair market value of the available-for-sale and held-to-maturity investment portfolios. These declines resulted primarily from changes in market interest rates.

Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary at December 31, 2019.

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

The unrealized losses on the Company's investments in mortgage-backed securities of government-sponsored entities and municipal securities were caused by changes in interest rates. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2019.

WAYNE SAVINGS BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

The following table shows the gross unrealized losses and fair value of the Company's available-for-sale and held-to-maturity investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2019 and 2018:

	December 31, 2019					
	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Mortgage-backed securities of government-sponsored entities	\$ 11,771	\$ 91	\$ 12,666	\$ 113	\$ 24,437	\$ 204
State and political subdivisions	572	6	744	8	1,316	14
Total temporarily impaired securities	<u>\$ 12,343</u>	<u>\$ 97</u>	<u>\$ 13,410</u>	<u>\$ 121</u>	<u>\$ 25,753</u>	<u>\$ 218</u>

	December 31, 2018					
	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Mortgage-backed securities of government-sponsored entities	\$ 1,149	\$ 16	\$ 26,558	\$ 853	\$ 27,707	\$ 869
State and political subdivisions	8,284	168	12,986	318	21,270	486
Total temporarily impaired Securities	<u>\$ 9,433</u>	<u>\$ 184</u>	<u>\$ 39,544</u>	<u>\$ 1,171</u>	<u>\$ 48,977</u>	<u>\$ 1,355</u>

Note 4: Loans and Allowance for Loan Losses

Categories of loans at December 31, include:

	2019	2018
	(In thousands)	
One-to-four family residential	\$ 174,405	\$ 197,430
Multi-family residential	14,326	13,527
Construction	4,219	4,146
Nonresidential real estate and land	164,134	147,423
Commercial	28,139	25,117
Consumer and other	3,041	2,434
	<u>388,264</u>	<u>390,077</u>
Less		
Undisbursed portion of loans in process	7,398	7,979
Deferred loan origination fees	687	785
Allowance for loans losses	3,598	3,383
Total loans	<u>\$ 376,581</u>	<u>\$ 377,930</u>

The risk characteristics of each portfolio segment are as follows:

Residential Real Estate Loans

For residential mortgage loans that are secured by one-to-four family residences and are generally owner occupied, the Company generally establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded. Home equity loans are typically secured by a subordinate interest in one-to-four family residences.

WAYNE SAVINGS BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

Repayment can also be impacted by changes in property values on residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

All Other Mortgage Loans

All other mortgage loans consist of residential construction loans, nonresidential real estate loans, land loans and multi-family real estate loans.

Residential construction loan proceeds are disbursed in increments as construction progresses and as inspections warrant. Construction loans are typically structured as permanent one-to-four family loans originated by the Company with a 6-month construction phase. Accordingly, upon completion of the construction phase, there is no change in interest rate or term to maturity of the original construction loan, nor is a new permanent loan originated. These loans are generally owner occupied and the Company generally establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded.

Nonresidential real estate loans are negotiated on a case-by-case basis. Loans secured by nonresidential real estate generally involve a greater degree of risk than one-to-four family residential mortgage loans and carry larger loan balances. This increased credit risk is a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the effects of general economic conditions on income-producing properties, and the increased difficulty of evaluating and monitoring these types of loans.

Furthermore, the repayment of loans secured by nonresidential real estate is typically dependent upon the successful operation of the related real estate project. If the cash flow from the project is reduced, the borrower's ability to repay the loan may be impaired.

The Company also originates a limited number of land loans secured by individual improved and unimproved lots for future residential construction. In addition, the Company originated loans to commercial customers with land held as the collateral.

Multi-family real estate loans generally involve a greater degree of credit risk than one-to-four family residential mortgage loans and carry larger loan balances. This increased credit risk is a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the effects of general economic conditions on income-producing properties, and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by multi-family real estate is typically dependent upon the successful operation of the related real estate property. If the cash flow from the project is reduced, the borrower's ability to repay the loan may be impaired.

Commercial Business Loans

Commercial business loans carry a higher degree of risk than one-to-four family residential loans. Such lending typically involves large loan balances concentrated in a single borrower or groups of related borrowers for rental or business properties. In addition, the payment experience on loans secured by income-producing properties is typically dependent on the success of the operation of the related project and thus is typically affected by adverse conditions in the real estate market and in the economy. The Company originates commercial loans generally in the \$25,000 to \$1,500,000 range with the majority of these loans being under \$500,000. Commercial loans are generally underwritten based on the borrower's ability to pay and assets such as buildings, land and equipment are taken as additional loan collateral. Each loan is evaluated for a level of risk and assigned a rating from "1" (the highest quality rating) to "7" (the lowest quality rating).

Consumer Loans

Consumer loans entail greater credit risk than residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate rapidly, such as automobiles, mobile homes, boats, and recreational vehicles. In such cases, repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and the remaining deficiency often does not warrant further substantial collection efforts against the borrower. In particular, amounts realizable on the sale of repossessed automobiles may be significantly reduced based upon the condition of the automobiles and the lack of demand for used automobiles.

WAYNE SAVINGS BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on the portfolio segment and impairment method as of December 31, 2019 and 2018:

	One-to-four family residential	All other mortgage loans	Commercial business loans	Consumer loans	Total
December 31, 2019			(In thousands)		
Allowance for loan losses:					
Beginning balance	\$ 957	\$ 1,916	\$ 501	\$ 9	\$ 3,383
Provision(credit) charged to expense	118	59	205	24	406
Losses charged off	(22)	-	(162)	(7)	(191)
Recoveries	-	-	-	-	-
Ending balance	<u>\$,053</u>	<u>\$ 1,975</u>	<u>\$ 544</u>	<u>\$ 26</u>	<u>\$ 3,598</u>
Allowance Balances:					
Individually evaluated for impairment	<u>\$ 122</u>	<u>\$ -</u>	<u>\$ 38</u>	<u>\$ 1</u>	<u>\$ 161</u>
Collectively evaluated for impairment	<u>\$ 931</u>	<u>\$ 1,975</u>	<u>\$ 506</u>	<u>\$ 25</u>	<u>\$ 3,437</u>
Loan Balances:					
Ending balance:	<u>\$ 174,405</u>	<u>\$ 182,679</u>	<u>\$ 28,139</u>	<u>\$ 3,041</u>	<u>\$ 388,264</u>
Individually evaluated for impairment	<u>\$ 904</u>	<u>\$ 1,142</u>	<u>\$ 204</u>	<u>\$ 1</u>	<u>\$ 2,251</u>
Collectively evaluated for impairment	<u>\$ 173,681</u>	<u>\$ 182,679</u>	<u>\$ 27,935</u>	<u>\$ 3,040</u>	<u>\$ 387,335</u>
	One-to-four family residential	All other mortgage loans	Commercial business loans	Consumer loans	Total
December 31, 2018			(In thousands)		
Allowance for loan losses:					
Beginning balance	\$ 1,210	\$ 1,219	\$ 506	\$ 6	\$ 2,941
Provision (credit) charged to expense	(259)	750	16	11	518
Losses charged off	(7)	(60)	(21)	(8)	(96)
Recoveries	13	7	-	-	20
Ending balance	<u>\$ 957</u>	<u>\$ 1,916</u>	<u>\$ 501</u>	<u>\$ 9</u>	<u>\$ 3,383</u>
Allowance Balances:					
Individually evaluated for impairment	<u>\$ 70</u>	<u>\$ 325</u>	<u>\$ 200</u>	<u>\$ 1</u>	<u>\$ 596</u>
Collectively evaluated for impairment	<u>\$ 887</u>	<u>\$ 1,591</u>	<u>\$ 301</u>	<u>\$ 8</u>	<u>\$ 2,787</u>
Loan Balances:					
Ending balance:	<u>\$ 197,430</u>	<u>\$ 165,096</u>	<u>\$ 25,117</u>	<u>\$ 2,434</u>	<u>\$ 390,077</u>
Individually evaluated for impairment	<u>\$ 868</u>	<u>\$ 1,266</u>	<u>\$ 588</u>	<u>\$ 1</u>	<u>\$ 2,723</u>
Collectively evaluated for impairment	<u>\$ 196,562</u>	<u>\$ 163,830</u>	<u>\$ 24,529</u>	<u>\$ 2,433</u>	<u>\$ 387,354</u>

WAYNE SAVINGS BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

The following tables present the credit risk profile of the Bank's loan portfolio based on rating category and payment activity as of December 31, 2019 and 2018:

December 31, 2019	One-to-four family residential	All other mortgage loans	Commercial business loans	Consumer loans
Rating *		(In thousands)		
Pass (Risk 1-4)	\$ 172,002	\$ 178,920	\$ 27,174	\$ 3,041
Special Mention (Risk 5)	1,385	635	437	-
Substandard (Risk 6)	1,018	3,124	528	-
Total	<u>\$ 174,405</u>	<u>\$ 182,679</u>	<u>\$ 28,139</u>	<u>\$ 3,041</u>
December 31, 2018	One-to-four family residential	All other mortgage loans	Commercial business loans	Consumer loans
Rating *		(In thousands)		
Pass (Risk 1-4)	\$ 195,722	\$ 163,077	\$ 24,529	\$ 2,434
Special Mention (Risk 5)	-	-	-	-
Substandard (Risk 6)	1,708	2,019	588	-
Total	<u>\$ 197,430</u>	<u>\$ 165,096</u>	<u>\$ 25,117</u>	<u>\$ 2,434</u>

* Ratings are generally assigned to consumer and residential mortgage loans on a "pass" or "fail" basis, where "fail" results in a substandard classification. Commercial loans, both secured by real estate or other assets or unsecured, are analyzed in accordance with an analytical matrix codified in the Bank's loan policy that produces a risk rating as described below.

Risk 1 loans are fully secured by cash or widely held marketable securities including an adequate margin. These loans present virtually no risk to the bank. Ongoing financial statements from the borrowers will not typically be required to be submitted.

Risk 2 loans are considered above average and include only the strongest borrowers. The borrower has sufficient cash reserves to help service their debts for typically at least 12-months. Their debt service coverage ratio will consistently be above 2.00x. The debts are sufficiently covered with collateral with Loan-to-Values well below the maximums advance rates as defined elsewhere in this policy. Business entity borrowers should have personal guarantees of the owner(s), who have significant assets and income to support the debt.

Risk 3 loans are considered average and represent the typical commercial borrower. This category will comprise the largest segment of the commercial portfolio. The borrowers have some cash reserves to help service their debts for a few months. Collateral is within underwriting standards and sufficient to cover the outstanding debt under normal circumstances; however, coverage may be insufficient in a forced liquidation situation. Business entity borrowers should have personal guarantees of the owner(s), even if they provide minimal financial support. Most smaller exposure borrowers will also be included in this category.

Risk 4 loans are considered below average with higher risk than the average borrower. These borrowers warrant slightly more attention than the normal borrower. The borrower may not have sufficient cash reserves to help service their debts. Collateral may be outside underwriting standards and insufficient to cover the outstanding debt under normal circumstances. Business entity borrowers may not have the personal guarantees of the owner(s). This category may also include a group of borrowers related to a specific industry, area, loan type, or other common factor that is deemed to represent more risk than average.

Risk 5 loans have a potential weakness or weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may, at some future date, result in deterioration of the payment prospects for the asset or in the institution's credit position. Special Mention assets are not adversely classified and do not expose the bank to sufficient risk to warrant adverse classification. Corrective action by management should be able to remedy the potential weaknesses and therefore the duration within this category should typically be short-term (less than one-year).

Risk 6 loans possess a well-defined weakness or weaknesses that jeopardize the liquidation of the amount owed. Loans may be inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. They are characterized by the distinct possibility that the bank may sustain some loss if the deficiencies are not corrected.

Risk 7 loans have most of the weaknesses inherent in the Substandard category with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions, and values highly questionable and improbable.

WAYNE SAVINGS BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

The following tables present the Bank's loan portfolio aging analysis as of December 31, 2019 and 2018:

December 31, 2019	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable
	(In thousands)					
One-to-four family residential loans	\$ 765	\$ 176	\$ 476	\$ 1,417	\$ 172,988	\$ 174,405
All other mortgage loans	177	68	1,617	1,862	180,817	182,679
Commercial business loans	91	-	20	111	28,028	28,139
Consumer loans	-	63	-	63	2,978	3,041
Total	<u>\$ 1,033</u>	<u>\$ 307</u>	<u>\$ 2,113</u>	<u>\$ 3,453</u>	<u>\$ 384,811</u>	<u>\$ 388,264</u>
	(In thousands)					
December 31, 2018	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable
One-to-four family residential loans	\$ 251	\$ 363	\$ 70	\$ 684	\$ 196,746	\$ 197,430
All other mortgage loans	146	68	695	909	164,187	165,096
Commercial business loans	-	-	-	-	25,117	25,117
Consumer loans	-	-	-	-	2,434	2,434
Total	<u>\$ 397</u>	<u>\$ 431</u>	<u>\$ 765</u>	<u>\$ 1,593</u>	<u>\$ 388,484</u>	<u>\$ 390,077</u>

There were \$253,000 of loans that were past due 90 days or greater that were still accruing at December 31, 2019, and \$10,000 of loans that were past due 90 days or greater that were still accruing at December 31, 2018.

Non-accrual loans were comprised of the following at December 31, 2019 and 2018:

Non-accrual loans	2019	2018
	(In thousands)	
One-to-four family residential loans	\$ 732	\$ 596
Nonresidential real estate loans	1,617	685
Commercial business loans	72	508
Consumer loans	-	-
Total	<u>\$ 2,421</u>	<u>\$ 1,789</u>

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans, but also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

Included in certain loan categories in the impaired loans are troubled debt restructurings that were classified as impaired. At December 31, 2019 and 2018, the Company had \$641,000 and \$827,000, respectively, of residential mortgages; \$768,000 and \$879,000 of nonresidential mortgages; and \$115,000 and \$129,000, respectively, of commercial loans. Included in these amounts, the Company had troubled debt restructurings that were performing in accordance with their modified terms of \$465,000 and \$592,000 in residential mortgage loans, \$175,000 and \$194,000 in non-residential real estate loans, and commercial loans of \$35,000 and \$43,000 for December 31, 2019 and 2018, respectively.

WAYNE SAVINGS BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

The following tables present impaired loans as of and for the years ended December 31, 2019 and 2018:

December 31, 2019	<u>Recorded Balance</u>	<u>Unpaid Principal Balance</u>	<u>Specific Allowance</u>	<u>Average Investment in Impaired Loans</u>	<u>Interest Income Recognized</u>
			(In thousands)		
Loans without a specific Valuation allowance					
One-to-four family residential loans	\$ 645	\$ 305	\$ -	\$ 194	\$ 14
All other mortgage loans	1,142	1,374	-	1,204	44
Consumer loans	-	-	-	-	-
Commercial business loans	35	35	-	39	3
Loans with a specific valuation allowance					
One-to-four family residential loans	259	331	122	280	22
All other mortgage loans	-	-	-	-	-
Consumer	1	1	1	1	-
Commercial business loans	169	177	38	174	10
Total:					
One-to-four family residential loans	\$ 904	\$ 636	\$ 122	\$ 474	\$ 36
All other mortgage loans	1,142	1,374	-	1,204	44
Consumer loans	1	1	1	1	-
Commercial business loans	204	212	38	213	13
	<u>\$ 2,251</u>	<u>\$ 2,223</u>	<u>\$ 161</u>	<u>\$ 1,892</u>	<u>\$ 93</u>
December 31, 2018	<u>Recorded Balance</u>	<u>Unpaid Principal Balance</u>	<u>Specific Allowance</u>	<u>Average Investment in Impaired Loans</u>	<u>Interest Income Recognized</u>
			(In thousands)		
Loans without a specific Valuation allowance					
One-to-four family residential loans	\$ 593	\$ 711	\$ -	\$ 742	\$ 27
All other mortgage loans	581	581	-	395	36
Commercial business loans	-	-	-	-	-
Loans with a specific valuation allowance					
One-to-four family residential loans	275	325	70	319	10
All other mortgage loans	685	827	325	749	-
Commercial business loans	588	598	200	369	31
Consumer	1	1	1	1	-
Total:					
One-to-four family residential loans	\$ 868	\$ 1,036	\$ 70	\$ 1,061	\$ 37
All other mortgage loans	1,266	1,408	325	1,144	36
Consumer loans	1	1	1	1	-
Commercial business loans	588	598	200	369	31
	<u>\$ 2,723</u>	<u>\$ 3,043</u>	<u>\$ 596</u>	<u>\$ 2,575</u>	<u>\$ 104</u>

WAYNE SAVINGS BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

The following tables present information regarding newly classified troubled debt restructurings by class for the years ended December 31, 2019 and 2018.

Troubled Debt Restructurings	Number of loans	Pre-modification Unpaid Principal Balance	Post-modification Unpaid Principal Balance
		(dollars in thousands)	
December 31, 2019			
One-to-four family residential loans	1	\$ 42	\$ 42
Total	1	\$ 42	\$ 42
December 31, 2018			
One-to-four family residential loans	2	\$ 53	\$ 53
Total	2	\$ 53	\$ 53

All the above TDR classifications occurred as concessions were granted to borrowers experiencing financial difficulties. These concessions may include a reduction in the stated rate, an interest rate that is below market interest rates for similar debt, an extension of the maturity date or delaying principal payments through interest only payments. Each TDR has been individually evaluated for impairment with the appropriate specific valuation allowance included in the allowance for loan losses calculation. There were no TDR classifications which defaulted during the year ended December 31, 2019, or the year ended December 31, 2018. The Company considers TDRs that become 90 days or more past due under modified terms as subsequently defaulted unless the TDR terms indicate annual repayments.

Foreclosed assets held for sale include those properties that the Bank has obtained legal title to, through a formal foreclosure process, or the borrower conveying all interest in the property to the Bank through the completion of a deed in lieu of foreclosure, or similar legal agreement. The Bank had no foreclosed assets at December 31, 2019 or December 31, 2018.

Banks foreclose on certain properties in the normal course of business when it is more probable than not that the loan balance will not be recovered through scheduled payments. Foreclosure is usually a last resort and begins after all other collection efforts have been exhausted. The following table presents the balance of those mortgage and commercial loans collateralized by real estate in the formal process of foreclosure at December 31, 2019 and December 31, 2018.

	2019	2018
	Recorded Investment	
	(In thousands)	
One-to-four family residential loans	\$ 218	\$ -
All other mortgage loans	712	-
Total assets in foreclosure process	\$ 930	\$ -

Note 5: Premises and Equipment

Major classifications of premises and equipment, stated at cost, at December 31, 2019 and 2018 are as follows:

	2019	2018
	(In thousands)	
Land and improvements	\$ 1,799	\$ 1,799
Office buildings and improvements	8,190	8,190
Furniture, fixtures and equipment	5,777	5,505
Leasehold improvements	513	350
	16,279	15,844
Less accumulated depreciation	10,961	10,438
Total	\$ 5,318	\$ 5,406

WAYNE SAVINGS BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

Note 6: Loan Servicing

The Company has recognized servicing rights for residential mortgage loans sold with servicing retained. Residential mortgage loans serviced for others are subject to credit, prepayment and interest rate risks.

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balance of mortgage loans serviced for others was \$92.5 million and \$52.9 million at December 31, 2019 and 2018, respectively. Contractually specified servicing fees, late fees and ancillary fees of approximately \$28,000 and \$4,000 are included in loan servicing fees in the consolidated statements of income at December 31, 2019 and 2018, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing, were approximately \$1.4 million and \$529,000 at December 31, 2019 and 2018, respectively.

Comparable market values and a valuation model that calculates the present value of future cash flows were used to estimate fair value. Servicing assets are included in other assets on the consolidated balance sheets.

Activity in the balance of servicing assets was as follows at December 31, 2019 and 2018:

	2019	2018
	(In thousands)	
Carrying amount, beginning of period	\$ 607	\$ 515
Additions		
Servicing obligations that result from transfers of financial assets	349	206
Subtractions		
Amortization	119	114
	\$ 837	\$ 607

The fair value of servicing rights subsequently measured using the amortization method was as follows:

Fair value, beginning of period	\$	612	\$	552
Fair value, end of period	\$	837	\$	612

Note 7: Interest-bearing Time Deposits

Interest-bearing time deposits in denominations of \$250,000 or more were \$11.7 million at December 31, 2019, and \$10.8 million at December 31, 2018.

At December 31, 2019, the scheduled maturities of time deposits are as follows:

<u>Due during the year ending December 31,</u>	<u>(In thousands)</u>
2020	\$ 70,497
2021	21,025
2022	16,314
2023	5,347
2024	6,472
Thereafter	2,951
	\$ 122,606

Note 8: Other Short-Term Borrowings

Short-term borrowings included the following at December 31, 2019 and 2018:

	2019	2018
	(In thousands)	
Other Short-term borrowings	\$ 10,444	\$ 7,172
	\$ 10,444	\$ 7,172

WAYNE SAVINGS BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

Securities sold under agreements to repurchase consist of obligations of the Bank to other parties. The obligations are secured by available-for-sale securities and such collateral is held by the Bank. The maximum amount of outstanding agreements at any month end during the years ended December 31, 2019 and 2018 totaled \$12.8 million and \$7.7 million for the periods ending December 31, 2019 and 2018. The average daily balance totaled \$8.8 million and \$6.7 million for years ended December 31, 2019 and 2018, respectively. These short-term borrowings were collateralized by \$12.8 million, and \$9.1 million of Mortgage-backed securities of government-sponsored entities at December 31, 2019 and 2018 respectively. The agreements at December 31, 2019, mature daily.

Repurchase agreements are offered by the Bank to commercial business customers to provide them with an opportunity to earn a return on their excess cash balances. These repurchase agreements are considered secured borrowings and are reported in other short-term borrowings. On a daily basis the Bank transfers securities to these customers in exchange for their cash and subsequently agrees to repurchase those same securities the next business day. In the event the Bank is unable to repurchase the securities from the customer, the customer will then have a claim against those securities.

Note 9: Federal Home Loan Bank Advances

At December 31, 2019 and 2018, advances from the Federal Home Loan Bank were as follows:

<u>Interest Rate Range</u>	<u>Maturing year ending December 31,</u>	<u>Amount</u>
2019		(In thousands)
2.12% - 2.44%	2021	\$ 12,000
2.10% - 2.43%	2022	8,000
		<u>\$ 20,000</u>
2018		(In thousands)
1.47% - 2.45%	2019	\$ 28,500
		<u>\$ 28,500</u>

The Federal Home Loan Bank advances are secured by mortgage loans totaling \$136.8 million at December 31, 2019.

Additionally, as a member of the Federal Home Loan Bank system at December 31, 2019, the Bank had the ability to obtain up to \$88.8 million in additional borrowings. Borrowings from the FHLB are secured by a blanket pledge of the one-to-four family residential real estate loan portfolio. The Bank's borrowing capacity can be further increased by the pledge of additional collateral, including additional types of loans from the Bank's loan portfolio and unpledged investment securities.

At December 31, 2019, the Bank had a cash management line of credit with the Federal Reserve Bank in the amount of \$9.7 million, none of which was drawn. The Bank had approximately \$9.8 million of state and political subdivision bonds pledged as collateral for this line of credit.

Note 10: Income Taxes

The provision for income taxes includes the following components at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
	(In thousands)	
Taxes currently payable	\$ 1,441	\$ 1,344
Deferred income taxes	21	(245)
Income tax expense	<u>\$ 1,462</u>	<u>\$ 1,099</u>

WAYNE SAVINGS BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

	<u>2019</u>	<u>2018</u>
	(In thousands)	
Computed at the statutory rate (21% for 2019 and 2018)	\$ 1,662	\$ 1,312
Increase (decrease) resulting from		
Tax-exempt interest	(117)	(151)
Earnings on bank-owned life insurance	(61)	(40)
Other	(22)	(22)
Actual tax expense	<u>\$ 1,462</u>	<u>\$ 1,099</u>

The tax effects of temporary differences related to deferred taxes shown in 2019 and 2018 are at the new tax rate of 21% as on the consolidated balance sheets as follows:

	<u>2019</u>	<u>2018</u>
	(In thousands)	
Deferred tax assets		
Deferred loan origination fees	\$ 144	\$ 165
Allowance for loan losses	755	710
Pension adjustment	104	119
Reserve for uncollected interest	161	140
Benefit plan expenses	95	98
Unrealized losses on securities available-or-sale	7	211
Accrued other expenses	38	35
AMT credit carryover and low-income housing credit	63	76
Total deferred tax assets	<u>1,367</u>	<u>1,554</u>
Deferred tax liabilities		
Prepaid pension	(90)	(84)
Federal Home Loan Bank stock dividends	(632)	(632)
Book/tax depreciation differences	(246)	(247)
Financed loan fees	(83)	(76)
Unrealized gains on securities available for sale	(131)	-
Mortgage servicing rights	(176)	(128)
Total deferred tax liabilities	<u>(1,358)</u>	<u>(1,167)</u>
Net deferred tax asset (liability)	<u>\$ 9</u>	<u>\$ 387</u>

Prior to fiscal 1997, the Company was allowed a special bad debt deduction based on a percentage of earnings, generally limited to 8% of otherwise taxable income and subject to certain limitations based on aggregate loans and deposit account balances at the end of the year. This cumulative percentage of earnings bad debt deduction totaled approximately \$2.7 million as of December 31, 2019. If the amounts that qualified as deductions for federal income taxes are later used for purposes other than bad debt losses, including distributions in liquidation, such distributions will be subject to federal income taxes at the then current corporate income tax rate. The amount of unrecognized deferred tax liability relating to the cumulative bad debt deduction was approximately \$567,000 at December 31, 2019.

WAYNE SAVINGS BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

Note 11: Accumulated Other Comprehensive Loss

	2019	2018
	(In thousands)	
Gross unrealized gain (loss) on securities available-for-sale	\$ 623	\$ (1,003)
Gross unrealized loss for unfunded status of split-dollar life insurance plan liability (tax free)	(279)	(38)
Gross unrealized gain (loss) for unfunded status of defined benefit plan liability	(495)	(565)
	(152)	(1,606)
Tax effect	(26)	329
Net-of-tax amount	\$ (178)	\$ (1,277)

Note 12: 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 Company’s and 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 assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Bank’s regulators could require adjustments to regulatory capital not reflected in these financial statements.

The Bank must give notice to the Federal Reserve Bank of Cleveland prior to declaring a dividend to the Company and is subject to existing regulatory guidance where, in general, a dividend is permissible without regulatory approval if the institution is considered to be “well capitalized” and the dividend does not exceed current year-to-date net income plus the change in retained earnings for the previous two calendar years. For dividends in excess of the above criteria, the Bank must make application to the Federal Reserve Bank of Cleveland and receive approval before declaring a dividend to the Company.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined) to risk-weighted assets (as defined), common equity Tier 1 capital (as defined) to total risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2018, that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2019, based on the computations for the call report the Bank is classified as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain capital ratios as set forth in the table below. There are no conditions or events since December 31, 2019, that management believes have changed the Bank’s capital classification.

Effective January 1, 2015, new regulatory capital requirements commonly referred to as “Basel III” were implemented. Management opted out of the accumulated other comprehensive income treatment under the new requirements, and as such unrealized gains and losses from available-for-sale securities will continue to be excluded from Bank regulatory capital.

In addition to the minimum Common Equity Tier 1 “CET1”, Tier 1 and total capital ratios, the Bank will be required to maintain a capital conservation buffer consisting of additional CET1 capital greater than 2.5% of risk-weighted assets above the required minimum levels in order to avoid limitations on paying dividends or paying discretionary bonuses based on percentages of eligible retained income that could be utilized for such actions. This new capital conservation buffer requirement is being phased in beginning in January 2016 at 0.625% of risk-weighted assets and increasing each year until fully implemented in January 2019. At December 31, 2019, the Bank had Total risk-based capital to risk-weighted assets of 13.7% compared to the requirement of 10.5% using the full capital conservation buffer requirement.

WAYNE SAVINGS BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

The Bank's actual capital amounts and ratios as of December 31, 2019 and 2018 are presented in the following table.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2019						
Tier I Capital to average assets	\$ 46,474	9.4%	\$ 19,682	4.0%	\$ 24,603	5.0%
Tier 1 Common equity capital to risk-weighted assets	46,474	12.7%	16,404	4.5%	23,694	6.5%
Tier I Capital to risk-weighted assets	46,474	12.7%	21,872	6.0%	29,162	8.0%
Total Risk-based capital to risk-weighted assets	50,076	13.7%	29,162	8.0%	36,453	10.0%
As of December 31, 2018						
Tier I Capital to average assets	\$ 43,975	9.5%	\$ 18,595	4.0%	\$ 23,244	5.0%
Tier 1 Common equity capital to risk-weighted assets	43,975	12.7%	15,608	4.5%	22,545	6.5%
Tier I Capital to risk-weighted assets	43,975	12.7%	20,811	6.0%	27,748	8.0%
Total Risk-based capital to risk-weighted assets	47,369	13.7%	27,748	8.0%	34,685	10.0%

Note 13: Related Party Transactions

At December 31, 2019 and 2018, the Bank had loans outstanding to executive officers, directors, and their affiliates (related parties). In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectability or present other unfavorable features. Such loans are summarized below.

Loans and deposits from Officers and Board Members held by the Bank at December 31, 2019, totaled \$601,000 and \$744,000, respectively, and for 2018 \$524,000 and \$1.1 million, respectively.

The Bank paid legal fees to a law firm of which a director of the Company is a member. The amounts paid totaled approximately \$4,000 and \$12,000 for the years ended December 31, 2019 and 2018, respectively.

Note 14: Employee Benefit Plans

Pension and Other Post-Retirement Benefit Plans

The Company has a frozen noncontributory defined benefit pension plan covering all employees who met the eligibility requirements prior to December 31, 2003. Compensation and service accruals were frozen at the same date. The Company's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Company may determine to be appropriate from time to time.

The Company expects to contribute approximately \$25,000 to the plan during 2020.

WAYNE SAVINGS BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

The Company uses a December 31 measurement date for the plan. Information about the plan's funded status and pension cost follows:

	<u>2019</u>	<u>2018</u>
	(In thousands)	
Change in benefit obligation		
Beginning of year	\$ 1,492	\$ 1,652
Interest cost	65	62
Actuarial gain (loss)	213	(132)
Benefits paid	(52)	(52)
Settlements	(177)	(38)
End of year	<u>1,541</u>	<u>1,492</u>
Change in fair value of plan assets		
Beginning of year	1,326	1,460
Actuarial return on plan assets	259	(75)
Employer contribution	25	31
Benefits paid	(51)	(52)
Settlements	(177)	(38)
End of year	<u>1,382</u>	<u>1,326</u>
Funded status at end of year	<u>\$ (159)</u>	<u>\$ (166)</u>

Amounts recognized in accumulated other comprehensive income (loss) not yet recognized as components of net periodic benefit cost consist of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
	(In thousands)	
Net loss	<u>\$ (495)</u>	<u>\$ (565)</u>

The estimated net loss for the defined benefit pension plan that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next year is approximately \$41,000.

The accumulated benefit obligation for the defined benefit pension plan was \$1.5 million at both December 31, 2019 and December 31, 2018.

	<u>2019</u>	<u>2018</u>
	(In thousands)	
Components of net periodic benefit cost		
Interest cost	\$ 65	\$ 61
Expected return on plan assets	(78)	(87)
Amortization of net loss	45	41
Settlement charge	57	-
Net periodic benefit cost	<u>\$ 89</u>	<u>\$ 15</u>

Plan assets are held by a bank-administered trust fund, which invests the plan assets in accordance with the provisions of the plan agreement. The plan agreement permits investment in mutual funds that may invest in common stocks, corporate bonds and debentures, U.S. Government securities, certain insurance contracts, real estate and other specified investments, based on certain target allocation percentages.

WAYNE SAVINGS BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

Asset allocation is primarily based on a strategy to provide stable earnings while still permitting the plan to recognize potentially higher returns through an investment in equity securities. The target asset allocation percentages for 2019 are as follows:

SMID-Cap stocks	55 - 75%
Fixed income investments	25 - 45%
Cash	0 - 20%

Benefit payments expected to be paid from the plan as of December 31, 2019 are as follows:

	(In thousands)
2020	\$ 72
2021	74
2022	74
2023	83
2024	86
Thereafter	436
	<u>\$ 825</u>

At December 31, 2019 and 2018, the fair value of plan assets as a percentage of the total was invested in the following:

	<u>2019</u>	<u>2018</u>
Equity Securities	63%	59%
Debt securities	35%	39%
Cash and cash equivalents	2%	2%
	<u>100%</u>	<u>100%</u>

Significant assumptions include the following as of December 31, 2019 and 2018:

	Pension Benefits	
	<u>2019</u>	<u>2018</u>
Weighted-average assumptions used to determine benefit obligation:		
Discount rate	3.13%	4.45%
Rate of compensation increase (frozen)	N/A	N/A
Weighted-average assumptions used to determine benefit cost:		
Discount rate	4.45%	3.78%
Expected return on plan assets	6.00%	6.00%
Rate of compensation increase (frozen)	N/A	N/A

The Company has estimated the long-term rate of return on plan assets based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information.

WAYNE SAVINGS BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

The fair value of the Company's pension plan assets, and the related investment references, at December 31, 2019 and 2018 by asset category are as follows:

December 31, 2019	Total Fair Value	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)
		(In thousands)		
Mutual funds-Equity				
Large Cap Value (a)	\$ 84	\$ 84	\$ -	\$ -
Large Cap Core (b)	120	120	-	-
Mid Cap Core (c)	99	99	-	-
Small-Cap Core (d)	40	40	-	-
International Core (e)	135	135	-	-
International Core (f)	67	67	-	-
Large Cap Growth (g)	186	186	-	-
Small/Midcap Growth (h)	53	53	-	-
Mutual funds-Fixed Income				
Fixed Income-Core Plus (i)	357	357	-	-
Intermediate Duration (j)	121	121	-	-
Common/Collective Trusts-Equity				
Large Cap Value (k)	91	-	91	-
Cash				
Money Market (l)	29	29	-	-
Total	<u>\$ 1,382</u>	<u>\$ 1,291</u>	<u>\$ 91</u>	<u>\$ -</u>

- (a) This category consists of a mutual fund holding 100-160 stocks, designed to track and outperform the Russell 1000 Value Index.
- (b) This category contains stocks of the S&P 500 Index. The stocks are maintained in approximately the same weightings as the index.
- (c) This category contains stocks of the MSCI U.S. Mid Cap 450 index Index. The stocks are maintained in approximately the same weightings as the index.
- (d) This category seeks to track the performance of the CRSP US Small Cap Index, a benchmark index that measures the investment return of small-capitalization stocks.
- (e) This category consists of investments with long-term growth potential located primarily in Europe, the Pacific Basin, and other developed and emerging markets.
- (f) This category invests primarily in medium to large well-established non-US companies. Under normal circumstances, at least 80% of total assets will be invested in equity securities, including common stocks, preferred stocks, and convertible securities.
- (g) This category seeks to provide long-term capital appreciation through investments in common stocks of large-cap growth companies.
- (h) This category seeks capital appreciation through investments in common stock of small-capitalization companies, defined as those with a total market value of no more than \$2 billion at the time the fund first invests in them.
- (i) This category currently includes equal investments in three mutual funds, two of which usually hold at least 80% of fund assets in investment grade fixed income securities, seeking to outperform the Barclays US Aggregate Bond Index while maintaining a similar duration to that index. The third fund targets investments of 50% or more in mortgage-backed securities guaranteed by the US government and its agencies.
- (j) This category consists of a mutual fund which invests in a diversified portfolio of high-quality bonds and other fixed income securities, including U.S. Government obligations, mortgage-related and asset-backed securities, corporate and municipal bonds, CMOs, and other securities mostly rated A or better.
- (k) This category contains large-cap stocks with above-average yield. The portfolio typically holds between 60 and 70 stocks.
- (l) This category consists of a money market fund and is used for liquidity purposes.

WAYNE SAVINGS BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

December 31, 2018

Asset Category	Total Fair Value	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)
		(In thousands)		
Mutual funds-Equity				
Large Cap Value (a)	\$ 78	\$ 78	\$ -	\$ -
Large Cap Core (b)	106	106	-	-
Mid Cap Core (c)	87	87	-	-
Small-Cap Core (d)	39	39	-	-
International Core (e)	186	186	-	-
Large Cap Growth (f)	162	162	-	-
Small/Midcap Growth (g)	47	47	-	-
Mutual funds-Fixed Income				
Fixed Income-Core Plus (h)	383	383	-	-
Intermediate Duration (i)	128	128	-	-
Common/Collective Trusts-Equity				
Large Cap Value (j)	82	-	82	-
Cash				
Money Market (k)	28	28	-	-
Total	<u>\$ 1,326</u>	<u>\$ 1,244</u>	<u>\$ 82</u>	<u>\$ -</u>

- (a) This category consists of a mutual fund holding 100-160 stocks, designed to track and outperform the Russell 1000 Value Index.
- (b) This category contains stocks of the S&P 500 Index. The stocks are maintained in approximately the same weightings as the index.
- (c) This category contains stocks of the MSCI U.S. Mid Cap 450 index Index. The stocks are maintained in approximately the same weightings as the index.
- (d) This category contains stocks whose sector weightings are maintained within a narrow band around those of the Russell 2000 Index. The portfolio will typically hold more than 150 stocks.
- (e) This category consists of investments with long-term growth potential located primarily in Europe, the Pacific Basin, and other developed emerging countries.
- (f) This category consists of two mutual funds, one which invests primarily of large U.S. – based growth companies, the other in fast-growing large cap growth companies with sustainable franchises and positive price momentum.
- (g) This category seeks capital appreciation through investments in common stock of small-capitalization companies, defined as those with a total market value of no more than \$2 billion at the time the fund first invests in them.
- (h) This category currently includes equal investments in three mutual funds, two of which usually hold at least 80% of fund assets in investment grade fixed income securities, seeking to outperform the Barclays US Aggregate Bond Index while maintaining a similar duration to that Index. The third fund targets investments of 50% or more in mortgage-backed securities guaranteed by the US government and its agencies.
- (i) This category consists of a mutual fund which invests in a diversified portfolio of high-quality bonds and other fixed income securities, including U.S. Government obligations, mortgage-related and asset-backed securities, corporate and municipal bonds, CMOs, and other securities mostly rated A or better.
- (j) This category contains large-cap stocks with above-average yield. The portfolio typically holds between 60 and 70 stocks.
- (k) This category consists of a money market fund and is used for liquidity purposes.

Also, the Company provides post-retirement benefits to certain officers of the Company under split-dollar life insurance policies. The Company accounts for the policies in accordance with ASC 715-60, which requires companies to recognize a liability and related compensation costs for endorsement split-dollar life insurance policies that provide a benefit to an employee extending to post-retirement periods. The liability is recognized based on the substantive agreement with the employee.

WAYNE SAVINGS BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

The Company uses a December 31 measurement date for the plan. Information about the plan's funded status and pension cost follows:

	2019		2018
	(In thousands)		
Change in benefit obligation			
Beginning of year	\$ 976		\$ 1,043
Service cost	4		3
Interest cost	37		42
Loss / (Gain)	216		(80)
Benefits Paid	(36)		(32)
End of year	\$ 1,197		\$ 976

Amounts recognized in accumulated other comprehensive income (loss) not yet recognized as components of net periodic benefit cost consist of:

	2019		2018
	(In thousands)		
Prior service cost	\$ 27		\$ 41
Net loss (gain)	253		(3)

The accumulated benefit obligation for the split-dollar benefit plan was \$1.2 million and \$976,000 at December 31, 2019 and 2018, respectively.

The estimated net gain for the split-dollar plan that will be amortized from accumulated other comprehensive income into net periodic benefit recovery over the next fiscal year is approximately \$145,000.

	2019		2018
	(In thousands)		
Components of net periodic (benefit) cost			
Service cost	\$ 4		\$ 3
Interest cost	37		42
(Gain)/Loss recognized	(39)		53
Benefits paid	(36)		(33)
Prior service cost	14		14
Net periodic (benefit) cost	\$ (20)		\$ 79

The retiree accrued liability expected to be reversed from the plan as of December 31, 2019 is as follows:

		(In thousands)
2019	\$	40
2020		44
2021		49
2022		54
2023		60
Thereafter		413
	\$	660

Significant assumptions for the split-dollar plan liability include the following as of December 31, 2019 and 2018:

	2019		2018
Weighted-average assumptions used to determine benefit cost obligation:			
Discount rate	3.13%		4.45%
Rate of compensation increase	1.50%		1.50%
Weighted-average assumptions used to determine benefit cost:			
Discount rate	3.13%		4.45%
Rate of compensation increase	1.50%		1.50%

WAYNE SAVINGS BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

The Company has an Employee Stock Ownership Plan (“ESOP”) covering substantially all employees of the Company. The ESOP acquired 163,265 shares of Company common stock at \$10.00 per share in 2003 with funds provided by a loan from the Company. Accordingly, \$1.6 million of common stock acquired by the ESOP was shown as a reduction of stockholders’ equity. Shares are released to participants proportionately as the loan is repaid. Dividends on allocated shares are recorded as dividends and charged to retained earnings. Dividends on unallocated shares, which will be distributed to participants, are treated as compensation expense. Compensation expense is recorded equal to the average fair market value of the stock during the year when contributions, which are determined annually by the Board of Directors of the Company, are made to the ESOP.

ESOP expense was approximately \$138,000 and \$134,000, which includes unallocated dividends of \$11,000 for both years ended December 31, 2019 and 2018, respectively.

Share information for the ESOP is as follows at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Allocated shares	155,101	149,050
Unearned shares	8,164	14,215
Total ESOP shares	<u>163,265</u>	<u>163,265</u>
Fair value of unearned shares at end of period	<u>\$ 191,854</u>	<u>\$ 265,110</u>

At December 31, 2019, the fair value of the 155,101 allocated shares held by the ESOP was approximately \$3.6 million.

In addition to the defined benefit plan and ESOP, the Company has a 401(k) plan covering substantially all employees. The Company’s 401(k) matching percentage was 100% of the first 4% contributed by the employee and 50% of the employees’ next 2% of contributions. Expense related to the 401(k) plan totaled approximately \$156,000 and \$137,000 for the years ended December 31, 2019 and 2018, respectively.

Note 15: Earnings Per Share

Earnings per share (EPS) were computed as follows:

	<u>Year Ended December 31, 2019</u>		
	<u>Net Income</u>	<u>Weighted-Average Shares</u>	<u>Per Share Amount</u>
	(In thousands)		
Net income	\$ 6,451		
Basic earnings per share			
Income available to common stockholders		2,652,183	\$ 2.43
Income available to common stockholders and assumed conversions	\$ 6,451	<u>2,652,183</u>	<u>\$ 2.43</u>
	<u>Year Ended December 31, 2018</u>		
	<u>Net Income</u>	<u>Weighted-Average Shares</u>	<u>Per Share Amount</u>
	(In thousands)		
Net income	\$ 5,148		
Basic earnings per share			
Income available to common stockholders		2,683,825	\$ 1.92
Income available to common stockholders and assumed conversions	\$ 5,148	<u>2,683,825</u>	<u>\$ 1.92</u>

There were no dilutive securities or stock options outstanding at December 31, 2019 or December 31, 2018.

WAYNE SAVINGS BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

Note 16: Disclosures about Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Recurring Measurements

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the Company's consolidated balance sheets, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Available-for-sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

The following table presents the fair value measurements of assets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2019 and 2018:

	Fair Value	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In thousands)				
December 31, 2019				
Mortgage-backed securities of government-sponsored entities	\$ 30,543	\$ -	\$ 30,543	\$ -
State and political subdivisions	18,305	-	18,305	-

	Fair Value	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In thousands)				
December 31, 2018				
Mortgage-backed securities of government-sponsored entities	\$ 28,866	\$ -	\$ 28,866	\$ -
State and political subdivisions	18,676	-	18,676	-

WAYNE SAVINGS BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

Nonrecurring Measurements

Certain assets may be required to be measured at fair value on a nonrecurring basis in periods subsequent to their initial recognition. These assets are not measured at fair value on an ongoing basis; however, they are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment.

Collateral-dependent Impaired Loans, Net of ALLL

The estimated fair value of collateral-dependent impaired loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral-dependent impaired loans are classified within Level 3 of the fair value hierarchy.

The Company considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and subsequently as deemed necessary by the office of the Chief Financial Officer. Appraisals are reviewed for accuracy and consistency by the office of the Chief Financial Officer. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed by the office of the Chief Financial Officer by comparison to historical results.

Foreclosed Assets Held for Sale

Foreclosed assets held for sale are carried at the lower of fair value at acquisition date or current estimated fair value, less estimated cost to sell when the real estate is acquired. Estimated fair value of real estate is based on appraisals or evaluations. Foreclosed assets held for sale are classified within Level 3 of the fair value hierarchy.

Appraisals of real estate are obtained when the real estate is acquired and subsequently as deemed necessary by the office of the Chief Financial Officer. Appraisals are reviewed for accuracy and consistency by the Bank. Appraisers are selected from the list of approved appraisers maintained by management.

The following table presents the fair value measurements of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2019 and 2018.

	Fair Value	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In thousands)				
December 31, 2019				
Collateral-dependent impaired loans	\$ 930	\$ -	\$ -	\$ 930
December 31, 2018				
Collateral-dependent impaired loans	\$ 753	\$ -	\$ -	\$ 753

WAYNE SAVINGS BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements at December 31, 2019 and 2018, in thousands.

	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Unobservable Inputs</u>	<u>Weighted Average</u>
December 31, 2019				
Collateral-dependent impaired loans	\$ 930	Market Tender offer / Comparable estimates	Marketability Discount	11%
December 31, 2018				
Collateral-dependent impaired loans	\$ 753	Market Comparable Properties	Marketability Discount	49%

There were no changes in the inputs or methodologies used to determine fair value at December 31, 2019 as compared to December 31, 2018.

The following table presents estimated fair values of the Company's financial instruments. The fair values of certain of these instruments were calculated by discounting expected cash flows, which involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

	<u>Carrying Amount</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
		(In thousands)		
December 31, 2019				
Financial assets				
Cash and cash equivalents	\$ 30,752	\$ 30,752	\$ -	\$ -
Held-to-maturity Securities	10,324	-	10,598	-
Loans held for sale	734	-	-	752
Loans, net of allowance for loan losses	376,581	-	-	374,425
Federal Home Loan Bank stock	4,226	-	4,226	-
Interest receivable	1,385	-	1,385	-
Financial liabilities				
Deposits	407,572	284,966	122,265	-
Other short-term borrowings	10,444	-	10,444	-
Federal Home Loan Bank advances	20,000	-	20,144	-
Advances from borrowers for taxes and insurance	1,084	-	1,084	-
Interest payable	246	-	246	-

WAYNE SAVINGS BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

	Carrying Amount	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)
(In thousands)				
December 31, 2018				
Financial assets				
Cash and cash equivalents	\$ 11,161	\$ 11,161	\$ -	\$ -
Held-to-maturity Securities	11,163	-	10,965	-
Loans held for sale	213			220
Loans, net of allowance for loan losses	377,955	-	-	370,955
Federal Home Loan Bank stock	4,226	-	4,226	-
Interest Receivable	1,358	-	1,358	-
Financial Liabilities				
Deposits	387,449	271,196	114,319	
Other short-term borrowings	7,172	-	7,172	-
Federal Home Loan Bank advances	28,500	-	28,460	-
Advances from borrowers for taxes and insurance	1,303	-	1,303	-
Interest payable	25	-	25	-

The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

Cash and Cash Equivalents, Loans Held for Sale, Interest Receivable and Federal Home Loan Bank Stock

The carrying amount approximates fair value.

Held-to-Maturity Securities

The fair value of held-to-maturity securities was estimated by using pricing models that contain market pricing and information, quoted prices of securities with similar characteristics or discounted cash flows that use credit-adjusted discount rates.

Loans, Net of Allowance for Loan Losses

The fair value of loans is estimated on an exit price basis incorporating discounts for credit, liquidity and marketability factors.

Deposits

Deposits include savings accounts, checking accounts and certain money market deposits. The carrying amount approximates fair value. The fair value of fixed-maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities.

Interest Payable, Other Short-Term Borrowings and Advances from Borrowers for Taxes and Insurance

The carrying amount approximates fair value.

Federal Home Loan Bank Advances

Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate the fair value of existing debt.

WAYNE SAVINGS BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

Commitments to Originate Loans, Letters of Credit and Lines of Credit

The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date. Fair values of commitments were not material at December 31, 2019 and 2018.

Note 17: Commitments and Credit Risk

Total commercial and commercial real estate loans comprised 53% and 47%, respectively, of the loan portfolio for the years ended December 31, 2019 and December 31, 2018, with substantially all of these loans secured by commercial real estate and business assets mainly located in Ohio. Installment loans account for approximately 1% of the loan portfolio for both years ended December 31, 2019 and 2018. These loans are secured by consumer assets including automobiles, which account for 68% and 57%, respectively, of the installment loan portfolio. Residential one-to-four family real estate loans comprise 46% and 52% of the loan portfolio at December 31, 2019 and 2018, respectively, and primarily include first mortgage loans on residential properties and home equity lines of credit. This 6% decline from 2018 to 2019 was primarily due to a \$30.4 million portfolio mortgage loan sale to continue the transition of our loan portfolio to one more typical of a commercial bank. Included in cash and due from banks as of the years ended December 31, 2019 and 2018, is \$2.8 million and \$2.3 million respectively of uninsured deposits in the form of branch cash on hand.

Commitments to Originate Loans

Commitments to originate loans 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 a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

At December 31, 2019 and 2018 the Company had outstanding commitments to originate fixed-rate loans aggregating approximately \$3.2 million and \$2.9 million respectively. The commitments extended over varying periods of time with the majority being disbursed within a one-year period.

Mortgage loans in the process of origination represent amounts that the Company plans to fund within a normal period of six months. Total mortgage loans in the process of origination amounted to approximately \$2.3 million and \$1.4 million at December 31, 2019 and 2018, respectively.

The Company had undisbursed amounts of nonresidential real estate and land loans of \$4.3 million at December 31, 2019. The Company had undisbursed amounts of nonresidential real estate and land loans of \$6.4 million at December 31, 2018.

The Company had unused extensions of credit totaling \$7.8 million at both December 31, 2019, and 2018, related to consumer loans.

Standby Letters of Credit

Standby letters of credit are irrevocable conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers

WAYNE SAVINGS BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

under non-financial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Fees for letters of credit are initially recorded by the Company as deferred revenue and are included in earnings at the termination of the respective agreements. Should the Company be obligated to perform under the standby letters of credit, the Company may seek recourse from the customer for reimbursement of amounts paid.

The Company had outstanding standby letters of credit totaling \$378,000 and \$158,000 at December 31, 2019 and 2018, respectively, with terms not exceeding eleven months. At both December 31, 2019 and 2018, the Company had no deferred revenue under standby letter of credit agreements.

Lines of Credit

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

At December 31, 2019, the Company had granted unused lines of credit to borrowers aggregating approximately \$33.4 million and \$21.0 million for commercial lines and open-end consumer lines, respectively. At December 31, 2018, the Company had granted unused lines of credit to borrowers aggregating approximately \$27.2 million and \$23.0 million for commercial lines and open-end consumer lines, respectively.

Leases

The Company currently leases two branch banking facilities under an operating lease and one additional lease for a loan production office in Poland, Ohio. The first lease originated in fiscal 2000 for a ten year term and 3 five year renewal options ending in October 2018. The Company renewed the lease for a five year term with a five year renewal option. The Company's second operating lease commenced in fiscal 2001 for an original five year term with 3 five year renewal options and has currently renewed the third option to expire in April 2021. The Poland lease was terminated in the first quarter 2020. The minimum annual lease payments over the current lease term are as follows:

Year ending	(In thousands)
2020	\$ 64
2021	44
2022	35
2023	29
2024	-
Total	<u>\$ 172</u>

The Company incurred rental expense under operating leases totaling approximately \$73,000 and \$64,000 for the years ended December 31, 2019 and December 31, 2018, respectively. The Company Adopted FASB ASU 2016-02 causing an increase in lease assets for the right of use of the facilities for the contracted terms of our existing leases of \$222,000 and a corresponding accrued liability to acknowledge the liability of the payments as well. These assets and liabilities will be reduced by the appropriate use quarterly. Total lease payments for the year totaled 73,000 for 2019. The weighted average discount rate used was 2.91% with an average life of 3.0 years remaining. There were no other material commitments or contingencies at December 31, 2019.

WAYNE SAVINGS BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

Note 18: Recent Accounting Developments

FASB ASU 2016-01, Financial Instruments—Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities was issued in January 2016. The amendments in this Update make targeted improvements to generally accepted accounting principles, and address certain aspects of recognition, measurement, presentation, and disclosure of financial statements. The amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Except as specifically stated, early adoption of the amendments in this Update are not permitted. The Company adopted this standard effective January 1, 2018, and recorded a cumulative effect adjustment in retained earnings of \$38,000.

FASB ASU 2016-02 “Leases (Topic 842).” ASU 2016-02 is intended to improve financial reporting about leasing transactions. This ASU affects all companies and other organizations that lease assets such as real estate, airplanes, and manufacturing equipment. Under the current accounting model, an organization applies a classification test to determine the accounting for the lease arrangement. Some leases are classified as capital whereby the lessee would recognize lease assets and liabilities on the balance sheet. Other leases are classified as operating leases whereby the lessee would not recognize lease assets and liabilities on the balance sheet. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with Generally Accepted Accounting Principles (GAAP), the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP—which requires only capital leases to be recognized on the balance sheet—the new ASU will require both types of leases to be recognized on the balance sheet. For public companies, the ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company adopted the new standard on January 1, 2019. The impact was not material on the Company’s financial position or results of operations since the Company had three lease agreements of which one was a month to month renewal.

FASB ASU 2016-13, Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, was issued in June 2016. The main objective of this Update is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this Update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments in this Update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption of the amendments in this Update are allowed for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. An entity will apply the amendments in this Update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). A prospective transition approach is required for debt securities for which another-than-temporary impairment had been recognized before the effective date. The effect of a prospective transition approach is to maintain the same amortized cost basis before and after the effective date of this Update. The Company is studying the implications of this update, including following evolving regulatory and industry guidance, and gathering additional detailed historical data. The effect of this Update on the Company’s financial statements is not known at this time.

FASB ASU 2017-04, Intangibles-Goodwill and Other (Topic 350) Simplifying the Test for Goodwill Impairment, was issued in January 2017. The amendments in this Update modify the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. The amendments in this Update should be adopted for the annual or any interim goodwill impairment tests in fiscal years beginning

WAYNE SAVINGS BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

after December 15, 2020. Early adoption is permitted for interim or annual goodwill impairment performed on testing dates after January 1, 2017. The amendments in this Update are not expected to have a material impact on the Company's consolidated financial statements.

FASB ASU 2017-08, Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20) Premium Amortization on Purchased Callable Debt Securities, was issued in March 2017. The amendments in this update shorten the amortization period for certain callable debt securities held at a premium. The amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity should apply the amendments in this Update on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Additionally, in the period of adoption, an entity should provide disclosures about a change in accounting principle. The Company adopted the update on January 1, 2019 and recorded a \$139,000 adjustment to retained earnings and a related adjustment of \$83,000 to accumulated comprehensive income as of the beginning of the year. Updates in this amendment did not have a material impact on the Company's consolidated financial statements.

ASU No. 2018-02 was issued in February 2018 to provide guidance to allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Act. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Act and will improve usefulness of information reported to financial statement users. The Company adopted ASU 2018-02 effective in 2018 and reclassified approximately \$112,000 in stranded tax effects in the adoption to retained earnings.

FASB ASU 2019-05 The amendments in this Update address those stakeholders' concerns by providing an option to irrevocably elect the fair value option for certain financial assets previously measured at amortized cost basis. For those entities, the targeted transition relief will increase comparability of financial statement information by providing an option to align measurement methodologies for similar financial assets. The amendments in this Update are effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Early adoption of the amendments in this Update are allowed for fiscal years beginning after December 15, 2018. The effect of this Update on the Company's financial statements is not known at this time.

FASB ASU 2019-12, Income Taxes was issued in 2019. The amendments in this Update simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. The amendments are effective for fiscal years beginning after December 15, 2021 and are not expected to have a material impact on our financial statements.

WAYNE SAVINGS BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

Note 19: Condensed Financial Information (Parent Company Only)

Presented below is condensed financial information as to financial position, results of operations and cash flows of the Company at December 31, 2019 and 2018:

Condensed Balance Sheets

	2019	2018
	(In thousands)	
Assets		
Cash and due from banks	\$ 255	\$ 253
Notes receivable from the Bank	117	199
Investment in the Bank	48,015	44,418
Prepaid expenses and other assets	540	451
Total assets	\$ 48,927	\$ 45,321
Liabilities and Stockholders' Equity		
Accrued expenses and other liabilities	\$ 536	\$ 443
Stockholders' equity		
Common stock and additional paid-in capital	36,617	36,550
Retained earnings	32,600	28,290
Shares acquired by ESOP	(82)	(142)
Treasury stock – at cost	(20,566)	(18,543)
Accumulated other comprehensive loss	(178)	(1,277)
Total stockholders' equity	48,391	44,878
Total liabilities and stockholders' equity	\$ 48,927	\$ 45,321

Condensed Statements of Income and Comprehensive Income

	2019	2018
	(In thousands)	
Operating Income		
Interest income	\$ 12	\$ 19
Dividends from the Bank	4,054	1,740
Total operating income	4,066	1,759
Noninterest Expense	141	353
Earnings before Federal Income Tax Benefits and equity in undistributed income of the Bank	3,925	1,406
Federal Income Tax Benefits	(27)	(74)
Income before equity in undistributed income of the Bank	3,952	1,480
Equity in undistributed income of the Bank	2,499	3,668
Net Income	\$ 6,451	\$ 5,148
Total Comprehensive income	\$ 7,467	\$ 4,736

WAYNE SAVINGS BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019 and 2018

Condensed Statements of Cash Flows

	2019	2018
	(In thousands)	
Operating Activities		
Net income	\$ 6,451	\$ 5,148
Items not requiring (providing) cash		
Equity in undistributed net income of the Bank	(2,499)	(3,668)
Increase (decrease) in cash due to changes in:		
Prepaid expenses and other assets	(100)	(164)
Accrued expenses and other liabilities	4	(13)
Net cash provided by operating activities	3,856	1,303
Investing Activities		
Repayment of ESOP loan	82	81
Net cash provided by investing activities	82	81
Financing Activities		
Payment of dividends on common stock	(1,913)	(1,262)
Purchase of treasury stock	(2,023)	(182)
Net cash used in financing activities	(3,936)	(1,444)
Net Change in Cash and Cash Equivalents	2	(60)
Cash and Cash Equivalents at Beginning of Period	253	313
Cash and Cash Equivalents at End of Period	\$ 255	\$ 253

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Dependable & Trustworthy

Respect One Another

Excellence in Everything

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