2020 ANNUAL REPORT

Bank on a Smile®

STAYING CONNECTED

The year 2020 has been filled with incredible challenges for many. Since 1873, JBT has worked to help strengthen our local communities. We've been there for neighbors through world wars, through recessions and depressions, and even through global pandemics. While the way banking happens may change, the one thing that will never change is our unwavering commitment to individuals, families, and businesses throughout Lebanon, Lancaster and Berks Counties. We believe everyone deserves to Bank on a Smile.®

STAYING CONNECTED

Bank on a Smile.®

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jbt® Bank on a Smile.®

BOARD OF DIRECTORS

Richard J. Newmaster, Jr. CPA
Chairman
Director since 2004

Chief Financial Officer, Lebanon Seaboard Corp.

Glenn T. Wenger
Vice Chairman
Director since 2008

President, Wengers of Myerstown; Chairman, Ag Industrial, Inc.; President, JK&B Inc.

Edward L. Anspach
Second Vice Chairman and Secretary
Director since 1987

President, Anspach Autos

Troy A. Peters
Director since 2016

President and Chief Executive Officer,
Jonestown Bank & Trust Co.

Jeffrey L. Bohn
Director since 1987

Former Owner & President, JP Donmoyer, Inc.

Executive Director, Shining Light

Lloyd A. Deaven, Jr.
Director since 1998

President, Patriot Auto Parts (retired)

Edwin C. Hostetter II CPA CGMA
Director since 2013

CPA and Management Consultant; Vice President of Finance & Chief Financial Officer, SSM Group, Inc. (retired)

Brian R. Miller
Director since 2015

Insurance Agency Principal, Richard S. Miller, Inc.

Larry P. Minnich
Director since 2013

Operations Manager, Children's Heart Group, Milton S. Hershey Medical Center (retired); COO, Central Medical Ambulance Svcs.; Mayor, Borough of Cleona

Sallie A. Neuin
Director since 2009

Lebanon County Treasurer; Lebanon County Tax Claim Director

Eric A. Trainer
Director since 2011

Co-owner/Operator, Trainer's Midway Diner; Quality Inn at Midway; Microtel Inn & Suites–Hamburg; Pappy T's Pub & Lounge–Hamburg

EXECUTIVE OFFICERS

Troy A. Peters
President
Chief Executive Officer

C. William Roth
Chief Financial Officer

Edward T. Martel, Jr.
Chief Operating Officer

Timothy D. Gingrich
Chief Information Officer

Richard M. Rollman
Chief Lending Officer

LETTER TO SHAREHOLDERS

Troy A. Peters
President
Chief Executive Officer

Dear Shareholders:

Perhaps if you are re-reading this shareholder letter five or ten years after it has been written, you will look back on the year of 2020 and see it as a pivotable and memorable period of time. As I write it today, it feels like you should. Quite a lot has happened since our last annual report, not the least of which has been COVID-19 – the global pandemic, considerable social unrest demonstrations, a national political election scene unlike any other, employees working from home, and video conferencing meetings becoming common place in business and family life. This isn't how I typically begin this letter but 2020 was far from a typical year!

During this unpredictable and often difficult period, our focus was on staying connected to clients, our financial goals, and our fellow JBT teammates. The outcome of staying connected in these areas was that your Bank performed remarkably well. While earnings were down 6.30% per share, largely due to the provision for loan losses, our total assets grew by a robust 20% to three-quarters of a billion dollars.

PANDEMIC

The pandemic greatly affected nearly everyone and it certainly affected JBT. As an essential and life-sustaining business, we remained open throughout the year, albeit often in a different way than in the past. We serviced most routine transactions by way of the drive-thru and conducted business in branch lobbies by appointment only. Mobile banking enrollment and usage exploded by nearly 200%. Indirect auto lending largely transitioned to electronic contracting and employees served the Bank and our clients from their homes -- even from locations as far away as Florida and California. In short, client and employee expectations and behaviors changed and we are unlikely to ever fully revert to pre-pandemic habits.

Many of these changes are for the better and help drive efficiency for both the Bank and our clients. Paper transactions have been in decline for years and that decline accelerated in 2020. We were able to successfully complete the transition of our trust and investment business to Fidelity Bank with over 90% of account relationships transferring. Going forward, we will earn a shared portion of revenue from these accounts and new business that we generate. Unfortunately, the pandemic forced some of our projects to be sidetracked, including a planned core conversion. That conversion is now scheduled for early 2021.

LENDING

Loan portfolio growth was remarkable given the circumstances, increasing by 16.71% net of the loan loss allowance. Our growth was driven by commercial lending, which included our participation in the Small Business Administration's Paycheck Protection Program (PPP). This program was part of the CARES Act and was intended to continue employee paychecks for businesses effected by the pandemic. JBT was able to proudly fund hundreds of PPP loans to help insure that thousands of local employees continued to receive paychecks and meet their financial obligations. Interestingly, community banks like JBT issued 60% of the country's PPP loans despite controlling only 15% of the nation's banking assets. Community banks also better controlled borrower fraud. Both of these facts point to community banks being better equipped to work with and know local businesses. We were also happy to welcome a number of new clients that found it difficult to work with larger institutions.

Our indirect auto lending business also had a tremendous year, growing by 23.93%. Our network now tops well over 120 vehicle dealerships located throughout southcentral and eastern Pennsylvania.

The mortgage lending area contributed its best year on record and produced $1.30 million in mortgage banking income as we participated in both the purchase and refinance side of the market.

CREDIT QUALITY

Of course, many existing borrowers struggled during the year. We offered payment relief through multiple Client Assistance Programs (CAPs) to clients who needed it. Throughout the year, nearly a quarter of our portfolio received relief. The largest affected segment was the hospitality industry and at the end of the year it accounted for 82% of the balances still in deferral. The ultimate outcome of these arrangements remains unknown. However, our experience to date is that borrowers that have emerged from the CAPs are performing quite well. The longer-term health of the hotel segment is still in question. At this point, we don't expect a complete recovery in this industry until 2024 – with leisure travel resuming first, followed by the much larger business travel component.

Total delinquencies continued on a positive trend from prior years and dropped from 1.19% to 0.77%. A combination of our growth and negative economic factors contributed to

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our provision for loan losses increasing by $2.024 million or 93.10% over the prior year. This large expense is what pulled earnings down for the year.

DEPOSITS

Deposits poured into the Bank last year at an unprecedented rate and grew on an annualized basis of 20.40%. Early in the year this was spurred by a flight to quality, as money left the stock market and headed towards the safety of insured accounts and then later from government stimulus payments, PPP funding, and reduced consumer spending -- particularly on entertainment and travel like family vacations. It's not often that we experience both strong loan demand and deposit growth.

Our branch locations are the primary source of generating deposits and unfortunately, we opened our newest location at the very outset of the state-wide shut down in March. Many of the plans for the Robesonia office were delayed or severely limited. We did successfully consolidate our Palmyra and Northside Commons branches during the summer and we have been pleased with a 95% retention of client households and the increase in the remaining deposit balances.

Another growing source of funds is our unique and specialized field of banking cannabis related businesses (CRB). During the course of the year, we tripled our CRB balances and continued to onboard new clients. Our team dedicated to this business has grown from one to four bankers and includes lending expertise.

Even though we were able to manage interest expense by reducing it by 27%, the margin remained under pressure. The Federal Open Market Committee performed two emergency rate cuts in March (0.50% & 1.00%) taking the targeted fed funds rate to a 0 - 0.25% range and signaled low rates for the foreseeable future, perhaps into 2023. Operating in this rate environment will remain a challenge.

BANK HOLDING COMPANY

Despite the challenges and changes in our industry over the past number of years, the Bank has remained strong and enjoyed significant growth. We are now double the size we were just ten years ago. To continue to support the growth opportunities we see, we must efficiently leverage our capital structure. The Board of Directors and Management believes that forming a holding company is an important strategy to achieve that end. A bank holding company will allow for favorable capital formation – such as borrowing at the holding company level and down-streaming the funds to the Bank in ways that cannot be accomplished without it. A key advantage to this strategy is that we are not diluting the equity ownership of our shareholders. It also allows for greater operational flexibility.

A proposal to approve the formation of bank holding company, JBT Bancorp, Inc., as the sole owner of Jonestown Bank & Trust Co. will be on the annual meeting agenda and your proxy card this year. The PA Banking Code requires a 2/3 majority of shareholder votes to approve the formation of a bank holding company. Therefore, your vote is very important and we encourage all shareholders to exercise their right to vote. Further instructions on this matter and methods of voting are included with your proxy. It is important to remember the following key points:

- Your shares will transfer exactly to JBT Bancorp, Inc. and your current ownership percentages and privileges will remain the same.
- This corporate structure is very common within the industry with over 75% of all banks in the country and in Pennsylvania employing it.
- The Bank is not changing its name. We will continue to operate as Jonestown Bank & Trust Co. (JBT). Clients will experience no change in services or accounts.
- A holding company is important to our future organic growth plans and will allow the Bank to continue to lend in our areas of focus.

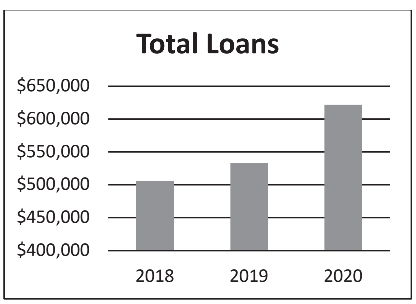
THANK YOU

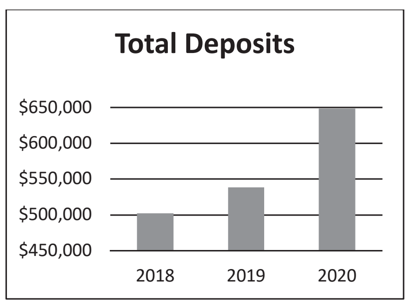
In all, the year was challenging and provided opportunity to move our business forward. I am proud of how our staff responded during the changing environment and how they stood strong for our clients. There is much more for us to accomplish and we appreciate your continued support.

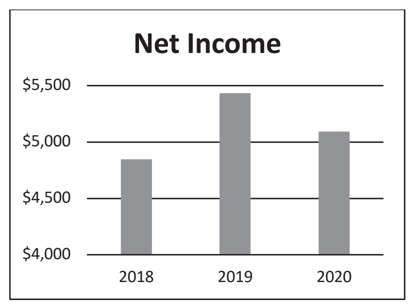
Troy A. Peters
President & Chief Executive Officer

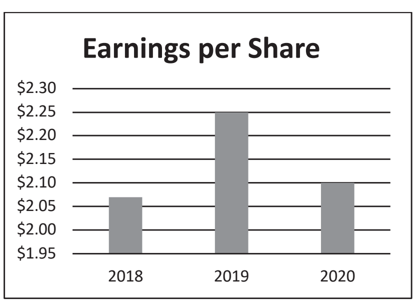
FINANCIAL HIGHLIGHTS

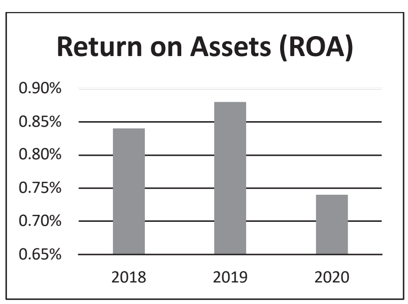
(Dollars in thousands, except per share amounts)	2020	2019	Change
Results of Operations			
Net interest income	**22,383**	**21,361**	4.8%
Provision for loan losses	**2,024**	**1,048**	93.1%
Net income	**5,094**	**5,435**	-6.3%
Per Share Data			
Basic earnings	**2.10**	**2.25**	-6.7%
Book value	**25.67**	**24.13**	6.4%
Financial Condition at Year-end			
Assets	**750,757**	**626,063**	19.9%
Deposits	**648,243**	**538,335**	20.4%
Loans Receivable, net	**622,096**	**532,993**	16.7%
Allowance for loan loss	**7,675**	**6,167**	24.5%
Stockholders' equity	**62,361**	**58,369**	6.8%
Financial ratios			
Return on average assets	**0.74%**	**0.88%**	-15.9%
Return on average equity	**8.48%**	**9.67%**	-12.3%

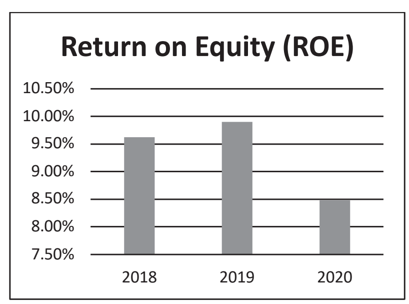












INDEPENDENT AUDITOR'S REPORT

Board of Directors and Shareholders
Jonestown Bank & Trust Co.

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Jonestown Bank & Trust Co., which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Jonestown Bank & Trust Co. as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Smith Elliott Kearns & Company, LLC

Hagerstown, Maryland
February 25, 2021

Balance Sheets

(Dollars in thousands, except per share amounts)	December 31, 2020	2019
ASSETS		
Cash and due from banks	$ 5,529	$ 3,987
Interest bearing deposits in other banks	57,002	20,783
Securities available for sale	30,024	37,004
Securities held to maturity, fair value of $823 and $832	823	832
Loans	629,771	539,160
Less allowance for loan losses	7,675	6,167
Net loans	622,096	532,993
Restricted investment in bank stock	1,894	1,836
Foreclosed assets	119	331
Premises and equipment	12,343	11,878
Investment in life insurance	15,474	12,809
Accrued interest receivable	3,859	1,929
Other assets	1,594	1,681
TOTAL ASSETS	$ 750,757	$ 626,063
LIABILITIES		
Deposits:		
Non-interest-bearing	82,986	57,922
Interest-bearing	565,257	480,413
Total deposits	648,243	538,335
Long-term debt	31,688	20,123
Subordinated debt	3,000	3,000
Accrued interest payable and other liabilities	5,465	6,236
TOTAL LIABILITIES	$ 688,396	$ 567,694
STOCKHOLDERS' EQUITY		
Preferred stock, no par value; $1,000 per share liquidation preference; 4,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, par value $2.00; 6,000,000 shares authorized; issued and outstanding 2,429,181 and 2,418,475 on December 31, 2020 and December 31, 2019	4,858	4,837
Surplus	7,302	7,104
Retained earnings	49,963	46,807
Accumulated other comprehensive (loss)	238	(379)
TOTAL STOCKHOLDERS' EQUITY	$ 62,361	$ 58,369
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 750,757	$ 626,063

Statements of Income

(Dollars in thousands, except per share amounts)	Years Ended December 31, 2020	2019
INTEREST INCOME		
Loans receivables, including fees	$ 25,573	$ 25,523
Securities:		
Taxable	675	767
Tax-exempt	124	197
Other	241	673
Total interest income	$ 26,613	$ 27,160
INTEREST EXPENSE		
Deposits	3,540	5,045
Short-term borrowings		-
Interest on subordinated debt	160	165
Long-term debt	530	589
Total interest expense	$ 4,230	$ 5,799
NET INTEREST INCOME	22,383	21,361
Provision for loan losses	2,024	1,048
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	$ 20,359	$ 20,313
OTHER INCOME		
Trust income	66	359
Service charges on deposit accounts	2,235	2,279
Automated teller machine and internet banking fees	157	168
Mortgage banking activities	1,334	559
Earnings on investment in life insurance	268	339
Gain on sale of investments	-	30
Other	216	184
Total other income	$ 4,276	$ 3,918
OTHER EXPENSE		
Salaries and employee benefits	9,838	9,628
Outsourcing services	2,315	1,971
Occupancy	1,335	1,273
Equipment and data processing	884	689
Marketing	469	471
ATM processing fees	475	403
Pennsylvania bank shares tax	554	512
Federal deposit insurance assessment	395	163
Net (gain) loss on foreclosed assets	(66)	(12)
Other	2,287	2,565
Total other expense	$ 18,486	$ 17,663
Income before income taxes	6,149	6,568
Federal income taxes	1,055	1,133
NET INCOME	$ 5,094	$ 5,435
EARNINGS PER SHARE	$ 2.10	$ 2.25
WEIGHTED-AVERAGE SHARES OUTSTANDING	2,424,357	2,414,214

 The accompanying notes are an integral part of these financial statements.

Statements of Comprehensive Income

(Dollars in thousands, except per share amounts)	Years Ended December 31, 2020	2019
Net Income	$ 5,094	$ 5,435
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during the year	845	922
Tax effect	(177)	(193)
Net unrealized gains (losses) on securities	668	729
Defined benefit pension plan:		
Change in benefit obligations and plan assets	(66)	(49)
Tax effect	15	10
Net change in defined benefit pension plan	(51)	(39)
Other comprehensive income (loss)	617	690
Total comprehensive income	$ 5,711	$ 6,125

Statements of Stockholders' Equity

(Dollars in thousands, except per share amounts) **Years Ended December 31, 2020 and 2019**

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2018	$ 4,822	$ 6,944	$ 43,206	$ (1,069)	$ 53,903
Issuance of common stock through:					
Dividend reinvestment plan (7,410 shares)	15	160	-	-	175
Comprehensive income:					
Net income		-	5,435	-	5,435
Other comprehensive loss, net of taxes	-	-	-	690	690
Cash dividends declared ($.76 per share)	-	-	(1,834)	-	(1,834)
Balance, December 31, 2019	$ 4,837	$ 7,104	$ 46,807	$ (379)	$ 58,369
Issuance of common stock through:					
Dividend reinvestment plan (10,706 shares)	21	198	-	-	219
Comprehensive income:					
Net income		-	5,094	-	5,094
Other comprehensive loss, net of taxes	-	-	-	617	617
Cash dividends declared ($.80 per share)	-	-	(1,938)	-	(1,938)
Balance, December 31, 2020	$ 4,858	$ 7,302	$ 49,963	$ 238	$ 62,361

Statements of Cash Flows

(Dollars in thousands)	Years Ended December 31, 2020	2019
OPERATING ACTIVITIES		
Net income	$ 5,094	$ 5,435
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,024	1,048
Provision for depreciation and amortization	771	682
Net amortization of securities premiums and discounts	270	335
Net amortization of deferred loan fees	(1,140)	(1,104)
Deferred income taxes	(115)	138
Loss (gain) on disposal of property and equipment	19	(1)
Loss (gain) on foreclosed assets	(66)	(12)
Investment securities (gains)	-	(30)
(Gain) on sale of loans, net	(1,232)	(431)
Proceeds from sales of loans	26,501	11,571
Loans originated for sale	(25,269)	(11,140)
Earnings on investment in Bank-owned life insurance, net	(268)	(339)
Increase (decrease) in accrued interest receivable and other assets	(2,111)	(1,974)
Increase (decrease) in accrued interest payable and other liabilities	(425)	2,911
Net cash provided by operating activities	4,053	7,089
INVESTING ACTIVITIES		
Proceeds from maturities and principal repayments		
Securities held to maturity	9	11
Securities available for sale	9,564	9,478
Purchase of securities available for sale	(2,009)	(9,341)
Sales of securities available for sale	-	4,042
Proceeds of life insurance death benefit	-	264
Net (increase) in loans	(90,566)	(28,367)
Redemption (purchase) of restricted bank stock	(58)	(102)
Purchase of premises and equipment	(1,446)	(1,215)
Purchase of life insurance	(2,397)	-
Proceeds from sale of foreclosed assets	857	1,110
Net cash used for investing activities	(86,046)	(24,120)
FINANCING ACTIVITIES		
Net increase in deposits	109,908	35,883
Proceeds from debt	21,875	6,000
Repayment of long term debt	(10,310)	(12,297)
Proceeds from the issuance of common stock	219	175
Dividends on common stock	(1,938)	(1,834)
Net cash provided by financing activities	119,754	27,927
Increase in cash and cash equivalents	37,761	10,896
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	24,770	13,874
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 62,531	$ 24,770
Cash paid during the year for:		
Interest	$ 4,316	$ 5,770
Taxes	1,150	915
Noncash investing transactions:		
Loans Transferred to Foreclosed Assets	$ 579	$ 896

 The accompanying notes are an integral part of these financial statements.

1. Summary of Significant Accounting Policies

Nature of Operations

The Jonestown Bank & Trust Co. (the "Bank") operates under a state bank charter and provides full banking services, including trust services. As a state bank, the Bank is subject to regulation of the Pennsylvania Department of Banking and Securities and the Federal Deposit Insurance Corporation. The area served by the Bank is principally Lebanon County and northern Lancaster County, Pennsylvania.

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 in the near term relate to the determination of the allowance for loan losses, mortgage servicing rights, deferred tax valuation allowances, pension liability, and the determination of impairment of restricted investment in Bank stock and of other-than-temporary impairment of securities.

Presentation of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks and interest-bearing deposits in other banks with original maturities of 90 days or less, if any.

Securities

Securities classified as available for sale are those securities that the Bank intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movement in interest rates, changes in maturity mix of the Bank's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. Securities available for sale are carried at fair value. Unrealized gains or losses are reported in other comprehensive income, net of the related deferred tax effect. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. Premiums and discounts are recognized in interest income, using the interest method over the terms of the securities.

Bonds, notes, and debentures for which the Bank has the positive intent and ability to hold to maturity are reported at cost, adjusted for premiums and discounts that are recognized in interest income using the interest method over the terms of the securities.

Management determines the appropriate classification of debt securities at the time of purchase and reevaluates such designation as of each Balance Sheet date.

Securities are evaluated on a periodic basis to determine whether a decline in their value is other than temporary. For debt securities, management considers whether the present value of cash flow expected to be collected is less than the security's amortized cost basis (the difference defined as the credit loss), the magnitude and duration of the decline, the reasons underlying the decline, and the Bank's intent to sell the security or whether it is more likely than not that the Bank would be required to sell the security before its anticipated recovery in market value, to determine whether the loss in value is other than temporary. Once a decline in value is determined to be other than temporary, if the Bank does not intend to sell the security, and it is more likely than not that it will not be required to sell the security before recovery of the security's amortized cost basis, the charge to earnings is limited to the amount of credit loss. Any remaining difference between fair value and amortized cost (the difference defined as the non-credit portion) is recognized in other comprehensive income, net of applicable taxes. Otherwise, the entire difference between fair value and amortized cost is charged to earnings.

1. Summary of Significant Accounting Policies (Continued)

Restricted Investments in Bank Stock

Restricted investments in bank stock, which represent required investments in the common stock of correspondent banks, are carried at cost and as of December 31, 2020 and 2019 consist of the common stock of the Federal Home Loan Bank ("FHLB") of Pittsburgh and Atlantic Community Bankers Bank ("ACBB"). Federal law requires a member institution of the FHLB to hold stock of its district FHLB according to a predetermined formula. As of December 31, 2020, and 2019, the recorded investment in restricted bank stock is $1,894,000 and $1,836,000, respectively.

Management evaluates the restricted stock for impairment at least annually, or more frequently, if necessary. Management's determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value.

Loans Held for Sale

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 income. There were no loans held for sale at December 31, 2020 and 2019.

Mortgage loans held for sale are generally sold with the mortgage-servicing rights retained by the Bank; however, the Bank does sell some mortgage loans with servicing released. The carrying value of mortgage loans sold is reduced by the cost allocated to the associated mortgage-servicing rights. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold.

Loans Receivable

The Bank grants mortgage, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans throughout Lebanon County, Pennsylvania. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are stated at their outstanding unpaid principal balances, net of any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Bank is generally amortizing these amounts over the contractual life of the loan.

The accrual of interest for all loan segments, except for consumer loans, is discontinued when the contractual payment of principal or interest has become 90 days past due, unless the credit is well-secured and in the process of collection or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. Consumer loans are charged-off on or before they become 90 days past due. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectability of the total contractual principal and interest is no longer in doubt. Loan delinquencies for all loan segments are determined based on contractual terms of the loans.

The bank participated in the Paycheck Protection Program (PPP) in 2020. These loans were part of the federal government's response to the economic impact of COVID-19 by providing businesses with funding to cover payroll and other operating costs. The loans associated with this program will either be forgiven, if the business meets the requirements for forgiveness, or will remain loans that have maturities of two or five years. The loans are guaranteed by the Small Business Administration (SBA) and have an interest rate of 1%. The bank originated $15 million of these loans and as of December 31, 2020 $10 million was still outstanding. Due to the guarantees associated with these loans they represent minimal risk to the bank. Fees recognized from the PPP loans were $173,000 for 2020.

1. Summary of Significant Accounting Policies (Continued)

Loans Receivable (Continued)

The Bank segregates its loan portfolio into segments with varying risk characteristics. Commercial loans include loans to businesses for general commercial purposes and include permanent and short-term working capital, machinery and equipment financing, and may be either in the form of lines of credit, demand, or term loans. Some commercial and industrial loans may be unsecured to higher rated customers, but the majority of these loans are secured by the borrower’s accounts receivable, inventory and machinery and equipment and in many loans, the collateral also includes the business real estate or the business owner’s personal real estate or assets. Commercial loans have credit exposure since they are more susceptible to risk of loss during a downturn in the economy as borrowers may have greater difficulty in meeting their debt service requirements and the value of the collateral may decline.

Commercial real estate loans consist of owner occupied and non-owner occupied commercial real estate loans. Owner occupied commercial real estate loans are generally dependent upon the successful operation of the borrower’s business, with the cash flows generated from the business being the primary source of repayment of the loan. If the business suffers a downturn in sales or profitability, the borrower’s ability to repay the loan could be in jeopardy, which could increase the risk of loss. Non-owner occupied and multi-family commercial real estate loans and non-owner occupied residential loans are dependent on the borrower’s ability to generate a sufficient level of occupancy to produce rental income that exceeds debt service requirements and operating expenses. Lower occupancy or lease rates may result in a reduction in cash flows, which may affect the ability of the borrower to meet debt service requirements, and may result in lower collateral values, which represents a higher inherent risk than owner-occupied commercial loans.

Commercial real estate construction loans consist of 1-4 family residential construction and commercial and land development loans. The risk of loss on these loans is contingent on the assessment of the property’s value at the completion of the project, which should exceed the property’s construction costs. A number of factors can negatively affect the project during the construction phase such as cost overruns, delays in completing the project, competition, and real estate market conditions which may change based on the supply of similar properties in the area. If the collateral value at the completion of the project is not sufficient to cover the outstanding loan balance, repayment of the loan would potentially need to rely on other repayment sources, including the guarantors of the project or other collateral securing the loan.

Residential real estate loans include fixed-rate and adjustable first lien mortgage loans with the underlying 1-4 family owner-occupied residential property securing the loan. Risk exposure is mitigated somewhat through the evaluation of the credit worthiness of the borrower, including credit scores and debt-to-income ratios, and limits on the loan-to-value ratios based on collateral values.

Home equity lines of credit represent a slightly higher risk than residential real estate first liens, as these loans can be secured by first or second liens on residential family owner occupied residential property, but there are loan-to-value limits on the value of the real estate taken as collateral. The credit worthiness of the borrower is considered, including credit scores and debt-to-income ratios.

Consumer indirect automobile and other consumer loans’ credit risk are mitigated through evaluation of the credit worthiness of the borrower through credit scores and debt-to-income ratios, and if secured, the collateral value of the assets. However, these loans can be unsecured or secured by assets that may depreciate quickly or may fluctuate and represent a greater risk than 1-4 family residential loans. Indirect automobile loans represent some risk as the initiation of the credit process begins with a consumer and dealer at the point of purchase with the Bank then approving or denying the credit based on the consumer’s credit worthiness. Our student loan portfolio lost its insurance guarantee in 2018 and its impact on the allowance is outlined in Note 5 of this report.

1. Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses

Management establishes the allowance for loan losses based upon its evaluation of the pertinent factors underlying the types and quality of loans in the portfolio. All commercial loans and commercial real estate loans are reviewed on a regular basis with a focus on larger loans along with loans which have experienced past payment or financial deficiencies. All commercial loans and commercial real estate loans which are 90 days or more past due are selected for impairment testing.

These loans are analyzed to determine if they are “impaired,” which means that it is probable that all amounts will not be collected according to the contractual terms of the loan agreement. All commercial loans that are delinquent 90 days and residential mortgage loans that are 120 days delinquent and are placed on nonaccrual status are evaluated for impairment on an individual basis. The remaining loans are evaluated for impairment as groups of loans with similar risk characteristics. The Bank allocates allowances based on the factors described below, which conform to the Bank’s asset classification policy. In reviewing risk within the Bank’s loan portfolio, management has determined there to be several different risk categories within the loan portfolio. The allowance for loan losses consists of amounts applicable to: (i) the commercial loan portfolio; (ii) the commercial real estate portfolio; (iii) the consumer loan portfolio (indirect and other); (iv) the loans secured by residential real estate portfolio; and (v) home equity lines of credit. Factors considered in this process include general loan terms, collateral, and availability of historical data to support the analysis. Historical loss percentages for each risk category are calculated and used as the basis for calculating allowance allocations based on the last twelve quarters of historical losses. Certain qualitative factors are then added to the historical allocation percentage to get the total factor to be applied to non-classified loans. The following qualitative factors are analyzed:

- Trends in delinquency
- Underlying loan collateral value factors
- Trends in risk ratings
- Economic trends
- Concentrations of credit risk
- Lending policies and procedures
- Quality of loan review
- External factors (competition, legal, regulatory)
- Experience, depth and ability of lending management/staff
- Nature and volume of the portfolio and terms of loans
- Special mention and substandard trends
- Factors unique to home equity lines of credit, municipal loans, indirect loans and education loans

The Bank analyzes its loan portfolio each quarter to determine the appropriateness of its allowance for loan losses. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank’s allowance for losses on loans. Such agencies may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination. Because of these factors, management’s estimate of credit losses inherent in the loan portfolio and the related allowance may change in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Loan Charge-off Policies

Consumer and residential real estate loans are generally fully or partially charged down to the fair value of collateral securing the asset less estimated selling costs when the loan is 90 days past due for consumer loans and 120 days past due for residential real estate loans unless the loan is in the process of collection. On all other loans, the primary factors considered by management in determining charge-offs include payment status and collateral value but could also include debt service coverage, financial health of the borrower, and other external factors that could impact the ability of the borrower to repay the loan.

1. Summary of Significant Accounting Policies (Continued)

Servicing

Servicing assets are recognized as separate assets when rights are acquired through the sale of loans. Capitalized servicing rights are reported in other assets and are amortized as a reduction of noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared with amortized cost. Impairment is determined by stratifying rights by predominant characteristics, such as interest rates and terms. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Impairment is recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the capitalized amount for the stratum.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell 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 expenses from foreclosed assets. Residential real estate in the process of foreclosure was $278,000 and $708,000 at December 31, 2020 and 2019, respectively. Residential real estate held as other real estate owned and included in foreclosed assets on the Balance Sheets was $ 0 and $191,000 at December 31, 2020 and 2019, respectively. Commercial real estate held as other real estate was $0 at December 31, 2020 and 2019. Other foreclosed assets were $119,000 and $140,000 at December 31, 2020 and 2019, respectively.

Bank Premises and Equipment

Land is carried at cost. Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed principally on the straight-line method over the estimated useful lives of the related assets, ranging from 3 to 40 years.

Transfers of Financial Assets

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

Investment in Life Insurance

The Bank invests in split-dollar bank-owned life insurance ("BOLI") as a source of funding for employee benefit expenses. BOLI involves the purchasing of life insurance by the Bank on a chosen group of employees. The Bank is the owner and the Bank and employee's beneficiary are beneficiaries of the policies. This life insurance investment is carried at the cash surrender value of the underlying policies. Income from the increase in cash surrender value of the policies is included in other income on the Statements of Income. Some of the BOLI policies have a post-retirement death benefit. The liability for this benefit was $817,000 and $838,000 at December 31, 2020 and 2019, respectively. The expense related to the liability for future benefits of the Bank's split-dollar bank-owned life insurance was approximately $(21,000) and $44,000 for the years ended December 31, 2020 and 2019, respectively. During the year ended December 31, 2019 the Bank received $264,000 in gross death benefits and recognized an additional $72,000 of income included in earnings on investment in life insurance on the Statements of Income.

Trust Assets

Assets held by the Bank in a fiduciary capacity for customers are not included in the financial statements, since such items are not assets of the Bank. Trust income is reported on the accrual method. In October 2019, the Bank formalized an agreement with Fidelity Deposit and Discount Bank of Dunmore, PA (Fidelity) to assign, assume, and profit share our current portfolio and future client referrals. The transfer of trust assets took place during the course of 2020. Trust income was $66,000 which included income on assets still managed by the bank for part of the year in 2020 along with income from our profit share arrangement with Fidelity.

1. Summary of Significant Accounting Policies (Continued)

Income Taxes

Deferred taxes are provided on the liability method, whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. The Bank follows generally accepted accounting principles, which provides guidance on accounting for uncertainty in income taxes recognized in a Bank's financial statements. The Bank's policy is to charge penalties and interest to income tax expense as incurred. The Bank's federal and state tax returns are subject to examination by the Internal Revenue Service and state tax authorities, generally for a period of three years after the returns are filed.

Revenue Recognition

All of the Bank's revenue from contracts with customers within the scope of FASB ASC 606, Revenue from Contracts with Customers, is recognized within noninterest income in the Statements of Income. Consistent with ASC 606, noninterest income covered by this guidance is recognized as services are transferred to our customers in an amount that reflects the consideration we expect to be entitled to in exchange for those services.

Interest Income – The Bank's interest income is generated from various sources, including loans outstanding and investments, and is recognized on an accrual basis according to loan agreements, securities contracts or other such written contracts. These revenues are outside the scope of ASC 606.

Trust Department Income – The Bank's Trust Department income consists of income earned from Investment & Trust Services, Estate Settlement Income and Investment Brokerage Income. The Bank receives fees for Investment and Trust Services based on the market value of the assets managed. Investment & Trust accounts are assessed a quarterly fee charged to client accounts, tiered and based primarily on the market value. These fees are based on a fixed fee schedule. Estate income is received and recognized upon completion of estate settlement in accordance with the fixed fee schedule. Investment brokerage services are provided through a third-party service provider. The Bank receives commissions from the provider monthly, based on customer activity and is recognized by the Bank monthly. The Bank has a profit sharing arrangement with Fidelity Bank for trust accounts assigned or referred to them by the Bank. Fidelity pays the bank 20% of each year's profit attributable to these accounts. The amount is recognized as an accrual at year-end with Fidelity providing the bank with an estimate of the profits.

Service Charges on Deposit Accounts, Automated Teller Machine and Internet Banking Fees – The Bank earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, internet banking fees, stop payment charges, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Bank fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Bank satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

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

Mortgage Banking Activity – Income consists of gains on mortgages sold to FHLB and servicing of sold loans. Income is recognized on the date of the sale. FHLB also pays a monthly fee to service the mortgages for them compensating the bank for collecting monthly payments on the loan and providing customer service on the loans.

Earnings on Investments in Life Insurance - Increases in the cash surrender value of life insurance are not within the scope of ASC 606.

1. Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Gain/Losses on Sales of OREO – The Bank records a gain or loss on the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. If the Bank finances the sale of OREO to the buyer, the Bank assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on the sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Bank adjusts the transaction price and related gain (loss) on sale if a significant financing component is present.

Gain on Sales of Investments – Gains presented in other income represent amounts realized on the sale of investment securities and are not within the scope of ASC 606.

Other – these are comprised primarily of merchant card fees, credit card fees, wire transfer fees, and rental of safe deposit boxes. Merchant card fees represent fees the Bank earns from a third party for enrolling a customer in the processor's program. Credit card fees represent a fee earned by the Bank for a successful referral to a card-issuing company. All of these fees are transaction based and are recognized at the time of the transaction except for safe deposit fees which are recorded annually as received for rental of the box for one year.

The following table presents our non-interest income disaggregated by revenue source. Overdraft fees on checking, other service charges on deposit accounts and interchange on deposit accounts are combined in the Statements of Income under service charges on deposit accounts.

	December 31,	
(Dollars in 000s)	2020	2019
Trust income	$ 66	$ 359
Overdraft fees on checking	872	1,192
Other service charges on deposit accounts	280	98
Interchange fees on debit card	1,083	989
Automated teller machine and internet banking fees	157	168
Mortgage banking activity	1,334	559
Earning on investments in life insurance	268	339
Gain on sale of investments	-	30
Other	216	184
	$ 4,276	$ 3,918

Advertising

Advertising costs are expensed as incurred. The Bank's expenditures on advertising were $469,000 and $471,000 for the years ended December 31, 2020 and 2019, respectively.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded in the Balance Sheet when they are funded.

1. Summary of Significant Accounting Policies (Continued)

Earnings per Share

Basic earnings per share represent net income available to common shareholders divided by the weighted-average number of shares outstanding during the period. Dividends on preferred stock are deducted from net income in calculating earnings per common share.

Comprehensive Income

Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities and unrecognized gains and losses, prior service costs, and transition assets or obligations for defined benefit pension plans are reported as a separate component of the equity section of the Balance Sheets, such items, along with net income, are components of comprehensive income.

Leases

In February 2016, the Financial Accounting Standards Boards (FASB) released Accounting Standard Update (ASU) 2016-02, *Leases (Topic 842)*. The Update is intended to increase transparency and comparability among organizations by recognizing right-of-use (ROU) assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The core principle of the Update is that a lessee recognizes the assets and liabilities that arise from leases, which is a change from previous GAAP that did not require lease assets and lease liabilities to be recognized on the balance sheet for operating leases. The Bank implemented ASU 2016-02 and all subsequent ASUs that modified Topic 842 on January 1, 2019 using the modified retrospective approach. Implementation of this Update did not result in a cumulative-effect adjustment to retained earnings.

The standard provides for several practical expedients in transition, which among other things, allowed it to carryforward the prior conclusions on lease identification, lease classification, initial direct costs and determination of the lease term. Financial results and disclosures for reporting periods beginning on or after January 1, 2019 are presented under the Topic 842 requirements. The Bank also elected certain practical expedients within the standards and consistent with such elections did not reassess whether any expired or existing contracts are or contain leases, did not reassess the lease classification for any expired or existing leases, and did not reassess any initial direct costs for existing leases.

As a result of implementing this update operating lease right-of-use (ROU) assets and liabilities, all of which relate to our leasing of real estate as a lessee, of $2.7 million and $2.7 million, respectively were recorded as of January 1, 2019. Since the calculated right of use asset and lease liability were materially the same, there was no cumulative effect adjustment to retained earnings as of the implementation date.

Lease agreements are entered into to obtain the right to use assets for business operations. Lease liabilities and ROU assets are recognized when entering into operating leases and represent obligations and rights to use these assets over the period of the leases and may be re-measured for certain modifications, resolution of certain contingencies involving variable consideration, or exercise of options (renewal, extension, or termination) under the lease.

Operating lease liabilities include fixed and in-substance fixed payments for the contractual duration of the lease. The lease payments are discounted using a rate determined when the lease is recognized. As the discount rate implicit in the lease is typically not known, an estimated discount rate that approximates a collateralized borrowing rate for the estimated duration of the lease is used. The discount rate is updated when re-measurement events occur. The related operating lease ROU assets may differ from operating lease liabilities due to initial direct costs, deferred or prepaid lease payments and lease incentives.

Operating lease liabilities are presented in accrued interest payable and other liabilities and the related operating lease ROU assets in premises and equipment. The amortization of operating lease ROU assets and the accretion of operating lease liabilities are reported together as fixed lease expense and are included in occupancy expense within noninterest expense. The fixed lease expense is recognized on a straight-line basis over the life of the lease.

1. Summary of Significant Accounting Policies (Continued)

Leases (Continued)

Some of the operating leases include variable lease payments which are periodic adjustments of our payments for the use of the asset based on changes in factors such as consumer price indices, fair market value, tax rates imposed by taxing authorities, or lessor cost of insurance. To the extent not included in operating lease liabilities and operating lease ROU assets, these variable lease payments are recognized as incurred in occupancy expense within noninterest expense.

For substantially all of our leased assets, the consideration paid under the contract for maintenance or other services is accounted for as lease payments. In addition, for certain asset classes, the Bank has elected to exclude leases with original terms of less than one year from the operating lease ROU assets and lease liabilities. The related short-term lease expense is included in occupancy expense.

Accumulated other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss) and related tax effects are presented in the following table:

(Dollars in 000s)

	Unrealized Gains\(Losses) on Securities	Defined Benefit Pension Plan	Total
Balance, December 31, 2018	$ (251)	$ (818)	$ (1,069)
Change in urealized gains on securities available for sale	893	-	893
Reclassification adjustment for gains realized in net income	30	-	30
Change in benefit obligation and plan assets	-	(50)	(50)
Tax effect of current period changes	(194)	11	(183)
Balance, December 31, 2019	$ 478	$ (857)	$ (379)
Change in urealized gains on securities available for sale	$ 845	$ -	845
Change in benefit obligation and plan assets	-	(66)	(66)
Tax effect of current period changes	(177)	15	(162)
Balance, December 31, 2020	$ 1,146	$ (908)	$ 238

Risks and Uncertainties

Recent economic and government reactions to the COVID-19 pandemic have caused decreased sales for many businesses, resulting in temporary reductions or ceasing of operations for some businesses and created many economic uncertainties. These uncertainties may impact the ability of businesses and individuals to make their loan payments and could result in increased delinquencies and possible increases in the bank's allowance for loan losses. However, the financial impact and durations of these events cannot be reasonably estimated at this time.

Reclassifications

Certain reclassifications have been made to prior period balances to conform to the current year presentation.

2. Restrictions on Cash and Due from Bank Balances

The Bank is required to maintain cash reserve balances with the Federal Reserve Bank. The required reserve balances were $0 at December 31, 2020 and $835,000 at December 31, 2019. The Bank maintains balances with its correspondent banks that may exceed federal insured limits, which management considers a normal business risk.

3. Securities

The amortized cost and fair value of securities are presented in the following tables:

December 31, 2020 *(Dollars in 000s)*		Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
Available-for-sale securities:								
Certificates of deposit	$	603	$	-	$	-	$	603
Obligations of states and political subdivisions		5,714		367		-		6,081
Corporate debt		1,000		-		-		1,000
Mortgage-backed securities in government-sponsored entities		21,256		1,084		-		22,340
Total	$	28,573	$	1,451	$	-	$	30,024
Held-to-maturity securities:								
Mortgage-backed securities in government-sponsored entities	$	23	$	-	$	-	$	23
Investment note receivable		800		-		-		800
Total	$	823	$	-	$	-	$	823

December 31, 2019 *(Dollars in 000s)*		Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
Available-for-sale securities:								
Certificates of deposit	$	1,992	$	5	$	-	$	1,997
Obligations of states and political subdivisions		5,555		177		-		5,732
Mortgage-backed securities in government-sponsored entities		28,851		461		(37)		29,275
Total	$	36,398	$	643	$	(37)	$	37,004
Held-to-maturity securities:								
Mortgage-backed securities in government-sponsored entities	$	32	$	-	$	-	$	32
Investment note receivable		800		-		-		800
Total	$	832	$	-	$	-	$	832

3. Securities (Continued)

Securities with a fair value of $8,741,000 and $13,021,000 at December 31, 2020 and 2019, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law. Seven securities were sold in 2019 with a book value of $4,012,000 for a gain of $30,000 and none were sold in 2020.

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

December 31, 2020	Available for Sale		Held to Maturity	
(Dollars in 000s)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 356	$ 356	$ 400	$ 400
Due after one year through five years	247	247	-	-
Due after five years through ten years	2,458	2,536	400	400
Due after ten years	4,256	4,544	-	-
Mortgage-backed securities in government-sponsored entities	21,256	22,341	23	23
Total	$ 28,573	$ 30,024	$ 823	$ 823

The following table shows the gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2020 and 2019:

December 31, 2020	Less Than Twelve Months		Twelve Months or Greater		Total	
(Dollars in 000s)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale securities:						
Mortgage-backed securities in government-sponsored entites	$ 43	$ -	$ 26	$ -	$ 69	$ -
Total	$ 43	$ -	$ 26	$ -	$ 69	$ -

December 31, 2019	Less Than Twelve Months		Twelve Months or Greater		Total	
(Dollars in 000s)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale securities:						
Mortgage-backed securities in government-sponsored entites	3,422	(23)	2,104	(14)	5,526	(37)
Total	$ 3,422	$ (23)	$ 2,104	$ (14)	$ 5,526	$ (37)

In management's opinion, the unrealized losses reflect changes in interest rates subsequent to the acquisition of specific securities. At December 31, 2020, the Bank had 6 securities in a loss position totaling less than $ 1,000 and Management believes that the unrealized losses are temporary and the Bank: (a) does not have the intent to sell any of the debt securities prior to recovery; and (b) it is more likely than not that it will not have to sell any of the debt securities prior to recovery. In addition, management feels that these losses are the result of interest rate changes that are not expected to result in the non-collection of principal and interest during the period. At December 31, 2019, the Bank had 10 securities in a loss position.

3. Securities (Continued)

The Bank's investments are exposed to various risks, such as interest rate, market, currency and credit risks. Due to the level of risk associated with certain investments and the level of uncertainty related to the changes in the value of the investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment assets reported in the financial statements.

4. Loans Receivable

Loans receivable consist of the following:

(Dollars in 000s)	December 31, 2020	2019
Commercial	$ 46,978	$ 47,338
Commercial real estate	150,109	123,895
Commercial real estate construction	24,508	10,342
Secured by residential real estate	163,929	147,833
Home equity lines of credit	45,867	53,390
Consumer - indirect automobile financing	176,127	142,118
Consumer - other	12,480	14,244
SBA PPP	9,773	-
Gross loans	629,771	539,160
Less allowance for loan losses	(7,675)	(6,167)
Net loans	$ 622,096	$ 532,993

Net deferred costs included in the table above total $7,393,000 and $6,253,000 as of December 31, 2020 and 2019, respectively.

5. Allowance for Loan Losses

Management has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for loan losses, the Bank has segmented certain loans in the portfolio by product type. Loans are segmented into the following pools: commercial loans, commercial real estate loans, residential real estate loans, home equity lines of credit, and consumer loans. Historical loss percentages for each risk category are calculated and used as the basis for calculating allowance allocations. These historical loss percentages are calculated over a three-year period for all loan segments. The following qualitative factors are analyzed for the loan portfolio:

- Trends in delinquency
- Underlying loan collateral value factors
- Trends in risk ratings
- Economic trends
- Concentrations of credit risk
- Lending policies and procedures
- Quality of loan review
- External factors (competition, legal, regulatory)
- Experience, depth and ability of lending management/staff
- Nature and volume of the portfolio and terms of loans
- Special mention and substandard trends
- Factors unique to home equity lines of credit, municipal loans, indirect loans and education loans

These qualitative factors are reviewed each quarter and adjusted based upon relevant changes within the portfolio. Historical loss percentages are calculated over a three-year period for all loan segments. Home equity lines of credit was being calculated over a 1- year period until 2020 when this was changed to a 3-year period due to minimal losses in the past year as the 3-year period is more reflective of actual losses. The COVID- 19 pandemic caused the unemployment rate to spike during 2020 increasing the qualitative factor for economic risk by 37% which resulted

5. Allowance for Loan Losses (Continued)

in an increase in reserve of $806,000 for this factor. Most of the other qualitative factors stayed the same or only changed slightly.

Both delinquency and net loan charge-offs decreased in 2020 from 2019. The bank offered multiple payment deferral programs to its loan customers as a result of economic challenges due to COVID-19. As of December 31, 2020 there were 158 loans totaling $59 million still under a payment deferral program. Of this total $47 million are loans to the hotel industry.

The loan balances in 2020 increased 16.8% while the increase in the allowance increased by 24.5%

The insurance company guaranteeing the educational loans became insolvent in 2018 and because of this the entire portfolio was rated special mention in 2019. These loans and the associated allowance of $ 350,000 are included in the consumer other loan segment.

Loans by Segment

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the Balance Sheet date. The Bank considers the allowance for loan losses of $7,675,000 adequate to cover loan losses inherent in the loan portfolio at December 31, 2020. The following table presents, by portfolio segment, the allowance for loan losses for the years ended December 31:

As of December 31, 2020									
(Dollars in 000s)	Commercial	Commercial Real Estate	Secured by Residential Real Estate	Home Equity Lines of Credit	Consumer - Indirect Automobiles	Consumer Other	SBA PPP	Not allocated	Total
Allowance for credit losses:									
Beginning Balance	$ 437	$ 1,183	$ 1,319	$ 641	$ 1,922	$ 665		$ -	$ 6,167
Charge-offs	(1)		(49)	(17)	(730)	(284)		-	(1,081)
Recoveries	15	5	39	10	406	90		-	565
Provision	(2)	717	360	(111)	904	98		58	2,024
Ending Balance	$ 449	$ 1,905	$ 1,669	$ 523	$ 2,502	$ 569		$ 58	$ 7,675
Ending balance: individually evaluated for impairment	$ -	$ -	$ 69	$ -	$ 19	$ -		$ -	$ 88
Ending balance: collectively evaluated for impairment	$ 449	$ 1,905	$ 1,600	$ 523	$ 2,483	$ 569		$ 58	$ 7,587
Financing receivables:									
Ending balance, net of fees	$ 46,978	$ 174,617	$ 163,929	$ 45,867	$ 176,127	$ 12,480	$ 9,773		$ 629,771
Ending balance: individually evaluated for impairment	$ 191	$ 9,714	$ 2,615	$ 462	$ 44	$ 20	$ -		$ 13,046
Ending balance: collectively evaluated for impairment	$ 46,787	$ 164,903	$ 161,314	$ 45,405	$ 176,083	$ 12,460	$ 9,773		$ 616,725

5. Allowance for Loan Losses (Continued)

Loans by Segment (Continued)

As of December 31, 2019 (Dollars in 000s)	Commercial	Commercial Real Estate	Secured by Residential Real Estate	Home Equity Lines of Credit	Consumer - Indirect Automobiles	Consumer-Other	Unallocated	Total
Allowance for credit losses:								
Beginning Balance	$ 524	$ 1,136	$ 1,275	$ 628	$ 1,817	$ 476		$ 5,856
Charge-offs	(97)	(1)	(63)	(101)	(762)	(288)	-	(1,312)
Recoveries	15	173	8	12	339	28	-	575
Provision	(5)	(125)	99	102	528	449		1,048
Ending Balance	$ 437	$ 1,183	$ 1,319	$ 641	$ 1,922	$ 665	$ -	$ 6,167
Ending balance: individually evaluated for impairment	$ 1	$ -	$ 51	$ 39	$ 20	$ -	$ -	$ 111
Ending balance: collectively evaluated for impairment	$ 436	$ 1,183	$ 1,268	$ 602	$ 1,902	$ 665	$ -	$ 6,056
Financing receivables:								
Ending balance, net of fees	$ 47,338	$ 134,237	$ 147,833	$ 53,390	$ 142,118	$ 14,244		$ 539,160
Ending balance: individually evaluated for impairment	$ 241	$ 2,100	$ 2,939	$ 334	$ 64	$ 28		$ 5,706
Ending balance: collectively evaluated for impairment	$ 47,097	$ 132,137	$ 144,894	$ 53,056	$ 142,054	$ 14,216		$ 533,454

Credit Quality Information

The following tables represent credit exposures by internally assigned grades for the years ended December 31, 2020 and 2019. The grading analysis estimates the capability of the borrower to repay the contractual obligations of the loan agreements as scheduled or at all. The Bank's internal credit risk grading system is based on definitions determined by the Bank.

The Bank's internally assigned grades are as follows:

Pass – loans which are protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral. There are five sub-grades within the pass category to further distinguish the loan.

Special Mention – loans where a potential weakness or risk exists, which could cause a more serious problem if not corrected.

Substandard – loans that have a well-defined weakness based on objective evidence and are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful – loans classified as doubtful have all the weaknesses inherent in a substandard asset. In addition, these weaknesses make collection or liquidation in full highly questionable and improbable, based on existing circumstances.

Loss – loans classified as a loss are considered uncollectible, or of such value that continuance as an asset is not warranted.

5. Allowance for Loan Losses (Continued)

Credit Quality Information (Continued)

As of December 31, 2020			
(Dollars in 000s)	Commercial	Commercial Real Estate	Commercial Real Estate Construction
Pass	$ 44,675	$ 140,859	$ 24,171
Special Mention	811	-	-
Substandard	1,492	9,250	337
Doubtful	-	-	-
Loss	-	-	-
Ending Balance	$ 46,978	$ 150,109	$ 24,508

As of December 31, 2019			
(Dollars in 000s)	Commercial	Commercial Real Estate	Commercial Real Estate Construction
Pass	$ 45,067	$ 122,140	$ 9,990
Special Mention	712	-	-
Substandard	1,559	1,755	352
Doubtful	-	-	-
Loss	-	-	-
Ending Balance	$ 47,338	$ 123,895	$ 10,342

The following tables present performing and nonperforming residential real estate and consumer loans based on payment activity for the year ended December 31, 2020 and 2019. Payment activity is reviewed by management on a monthly basis to determine how loans are performing. Loans are considered to be nonperforming when they become 90 days past due, but do not include non-accrual loans less than 90 days past due. As mentioned before, the student loan portfolio lost its insurance guarantee in 2018. As of December 31, 2020, there was one student loan past due more than 90 days for $75,000 which is included with the other consumer loan segment. Because of the loss of the student loan guarantee, the entire balance of $ 2,159,000 is classified as special mention. For more information on non-accrual loans, see the section on non-accrual loans later in this footnote.

As of December 31, 2020					
(Dollars in 000s)	Secured by Residential Real Estate	Home Equity Lines of Credit	Indirect Automobile Financing	Other Consumer Loans	SBA PPP
Performing	$ 163,278	$ 45,542	$ 176,051	$ 12,361	$ 9,773
Nonperforming	651	325	76	119	-
Total	$ 163,929	$ 45,867	$ 176,127	$ 12,480	$ 9,773

5. Allowance for Loan Losses (Continued)

Credit Quality Information (Continued)

As of December 31, 2019				
(Dollars in 000s)	Secured by Residential Real Estate	Home Equity Lines of Credit	Indirect Automobile Financing	Other Consumer Loans
Performing	$ 147,009	$ 53,146	$ 142,046	$ 14,244
Nonperforming	824	244	72	-
Total	$ 147,833	$ 53,390	$ 142,118	$ 14,244

Following is a table which includes an aging analysis of the recorded investment of past due financing receivables:

As of December 31, 2020							
(Dollars in 000s)	30-59 Days Past Due	60-89 Days Past Due	90 Days Or Greater	Total Past Due	Current	Total Financing Receivables	> 90 Days and Accruing
Commercial	$ 56	$ -	$ -	$ 56	$ 46,922	$ 46,978	$ -
Commercial real estate	419	57	283	759	149,350	150,109	-
Commercial real estate construction	-	-	-	-	24,508	24,508	-
Secured by residential real estate	586	34	651	1,271	162,658	163,929	70
Home equity lines of credit	287	168	325	780	45,087	45,867	-
Consumer - indirect automobile financing	1,425	284	76	1,785	174,342	176,127	76
Consumer - other	35	14	119	168	12,312	12,480	9
SBA PPP	-	-	-	-	9,773	9,773	-
Total	$ 2,808	$ 557	$ 1,454	$ 4,819	$ 624,952	$ 629,771	$ 155

As of December 31, 2019							
(Dollars in 000s)	30-59 Days Past Due	60-89 Days Past Due	90 Days Or Greater	Total Past Due	Current	Total Financing Receivables	> 90 Days and Accruing
Commercial	$ 44	$ 63	$ 5	$ 112	$ 47,226	$ 47,338	$ 5
Commercial real estate	606	25	356	987	122,908	123,895	-
Commercial real estate construction	-	-	-	-	10,342	10,342	-
Secured by residential real estate	1,473	427	824	2,724	145,109	147,833	
Home equity lines of credit	596	25	244	865	52,525	53,390	-
Consumer - indirect automobile financing	1,200	233	72	1,505	140,613	142,118	72
Consumer - other	205	26	-	231	14,013	14,244	-
Total	$ 4,124	$ 799	$ 1,501	$ 6,424	$ 532,736	$ 539,160	$ 77

5. Allowance for Loan Losses (Continued)

Impaired Loans

Management considers commercial loans and commercial real estate loans which are 90 days or more past due to be impaired along with loans that are not expected to be collected as per the original loan contract. Larger commercial loans and commercial real estate loans which are 90 days or more past due are selected for impairment testing in accordance with GAAP. Non-commercial loans are generally not evaluated for impairment unless designated as a troubled debt restructuring. All substandard and doubtful loans are reviewed to determine if the loan is impaired. These loans are analyzed to determine if it is probable that all amounts will not be collected according to the contractual terms of the loan agreement. If management determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees, or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance.

The following table includes the recorded investment and unpaid principal balances for impaired financing receivables with the associated allowance amount, if applicable

As of and for the year ended December 31, 2020 (Dollars in 000s)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ 191	$ 201	$ -	$ 197	$ 7
Commercial real estate	9,714	10,047	-	9,779	213
Commercial real estate construction	-	-	-	-	-
Secured by residential real estate	1,943	2,035	-	2,043	47
Home equity lines of credit	462	489	-	469	4
Consumer - indirect auto	-	-	-	-	-
Consumer - other	20	20	-	22	1
Subtotal	$ 12,330	$ 12,792	$ -	$ 12,510	$ 272
With an allowance recorded:					
Commercial	$ -	$ -	$ -	$ -	$ -
Commercial real estate	-	-	-	-	-
Commercial real estate construction	-	-	-	-	-
Secured by residential real estate	672	814	69	717	24
Home equity lines of credit	-	-	-	-	-
Consumer - indirect auto	44	44	19	47	4
Consumer - other	-	-	-	-	-
Subtotal	$ 716	$ 858	$ 88	$ 764	$ 28
Total Impaired:					
Commercial	$ 191	$ 201	$ -	$ 197	$ 7
Commercial real estate	9,714	10,047	-	9,779	213
Commercial real estate construction	-	-	-	-	-
Secured by residential real estate	2,615	2,849	69	2,760	71
Home equity lines of credit	462	489	-	469	4
Consumer - indirect auto	44	44	19	47	4
Consumer - other	20	20	-	22	1
Total	$ 13,046	$ 13,650	$ 88	$ 13,274	$ 300

5. Allowance for Loan Losses (Continued)

Impaired Loans (Continued)

As of and for the year ended December 31, 2019					
(Dollars in 000s)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ 207	$ 215	$ -	$ 210	$ 11
Commercial real estate	2,100	2,410	-	2,151	94
Commercial real estate construction	-	-	-	-	-
Secured by residential real estate	2,354	2,519	-	2,429	82
Home equity lines of credit	53	59	-	56	-
Consumer - indirect auto	1	1	-	3	-
Consumer - other	24	24	-	26	1
Subtotal	$ 4,739	$ 5,228	$ -	$ 4,875	$ 188
With an allowance recorded:					
Commercial	$ 34	$ 40	$ 1	$ 55	$ -
Commercial real estate	-	-	-	-	-
Secured by residential real estate	585	697	51	629	16
Home equity lines of credit	281	298	39	282	2
Consumer - indirect auto	63	63	20	71	6
Consumer - other	4	4	-	6	-
Subtotal	$ 967	$ 1,102	$ 111	$ 1,043	$ 24
Total Impaired:					
Commercial	$ 241	$ 255	$ 1	$ 265	$ 11
Commercial real estate	2,100	2,410	-	2,151	94
Commercial real estate construction	-	-	-	-	-
Secured by residential real estate	2,939	3,216	51	3,058	98
Home equity lines of credit	334	357	39	338	2
Consumer - indirect auto	64	64	20	74	6
Consumer - other	28	28	-	32	1
Total	$ 5,706	$ 6,330	$ 111	$ 5,918	$ 212

5. Allowance for Loan Losses (Continued)

Nonaccrual Loans

Generally, all loans except for consumer loans are placed on non-accrual once the loan becomes 90 days past due. Consumer loans are generally charged-off on or before 120 days past due. A nonaccrual loan will generally only be placed back on accrual status after the borrower has become current and has demonstrated six consecutive months of non-delinquency. When a loan is placed in nonaccrual status, previously accrued but unpaid interest is deducted from interest income. There was one student loan classified as non-accrual for $75,000 and $61,000 at December 31, 2020 and 2019 respectively, included in the other consumer loan segment.

On the following table are the financing receivables on nonaccrual status as of December 31, 2020 and 2019. The balances are presented by class of financing receivable.

(Dollars in 000s)		As of December 31, 2020		As of December 31, 2019
Commercial	$	56	$	56
Commercial real estate		416		412
Secured by residential real estate		1,152		1,503
Home equity lines of credit		689		580
Consumer - other		110		61
Total	$	2,423	$	2,612

Troubled Debt Restructurings

In situations where, for economic or legal reasons related to a borrower's financial difficulties, management may grant a concession for other than an insignificant period of time to the borrower that would not otherwise be considered, the related loan is classified as a Troubled Debt Restructuring (“TDR”). Management strives to identify borrowers in financial difficulty early and work with them to modify more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring by calculating the present value of the revised loan terms and comparing this balance to the Bank’s investment in the loan prior to the restructuring. As these loans are individually evaluated for impairment, they are excluded from pooled portfolios when calculating the allowance for loan and lease losses and a separate allocation within the allowance for loan and lease losses is provided. Management continually evaluates loans that are considered TDRs, including payment history under the modified loan terms, the borrower’s ability to continue to repay the loan based on continued evaluation of their operating results, and cash flows from operations.

On March 27, 2020, President Trump signed the CARES Act into law which provides relief from certain requirements under U.S. GAAP, including temporary relief from the accounting and disclosure requirements for troubled debt restructuring (TDRs) in certain situations. On April 7, 2020, a group of banking agencies issued an interagency statement that offers practical expedients for evaluating whether loan modifications that occur in response to the coronavirus pandemic are TDRs. For a loan modification to be a TDR in accordance with ASC 310-40, both of the following conditions must be met: 1) the borrower must be experiencing financial difficulty, and 2) the creditor has granted a concession (except for an insignificant delay in payment). While the CARES Act permits the suspension of ASC 310-40, the interagency statement interprets ASC 310-40 by indicating that a lender can conclude that a borrower is not experiencing financial difficulty if short-term modification (i.e. six months) are made in response to COVID-19, such as payment deferrals, fee waivers, extensions of repayment terms, or other delays that are insignificant related to loans in which the borrower is less than 30 days past due on its contractual payments at the time a modification program is implemented. Therefore, all short-term loan modifications (loan deferrals for six months or less) that meet the above criteria are not considered to be TDRs.

5. Allowance for Loan Losses (Continued)

Troubled Debt Restructurings (Continued)

Loan modifications that are considered TDRs completed during the years ended December 31, 2020 and 2019, were as follows:

(Dollars in 000s)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
2020			
Troubled debt restructurings:			
Commercial real estate	2	$ 1,290	$ 1,290
Secured by residential real estate	3	325	325
Home equity lines of credit	1	235	235
Total	6	$ 1,850	$ 1,850

(Dollars in 000s)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
2019			
Troubled debt restructurings:			
Commercial	1	$ 65	$ 65
Commercial real estate	2	850	850
Secured by residential real estate	4	468	468
Home equity lines of credit	1	164	164
Total	8	$ 1,547	$ 1,547

All of the TDRs are performing and are in compliance with their modified terms and there were no commitments to lend more funds to these borrowers. The restructuring of the majority of loans for both 2020 and 2019 was either an extension of the maturity date or temporary reduction or moratorium on the payment terms or amounts. No modifications involved any changes in principal balances for 2020 or 2019.

6. Mortgage Servicing

The Bank entered into agreements to sell residential mortgages to the FHLB of Pittsburgh. An older agreement included a maximum credit enhancement of $397,000 which the Bank may be required to pay if realized losses on any of the sold mortgages exceed the amount held in the FHLB's Spread Account. The FHLB had funded the Spread Account at 0.04 percent of the outstanding balance when the bank was selling under this agreement. The Bank's historical losses on residential mortgages have been lower than the amount that will be funded to the Spread Account. Therefore, the Bank does not anticipate paying a credit enhancement and has not recorded a liability for the credit enhancement. As compensation for the credit enhancement, the FHLB is paying the Bank 0.10 percent of the outstanding loan balance in the portfolio on a monthly basis.

Loans serviced for others are not included in the accompanying balance sheets. The unpaid principal balances of mortgage loans serviced for others were $90,204,000 and $78,280,000 at December 31, 2020 and 2019, respectively.

The Bank retains the servicing on certain loans sold to the FHLB and receives a fee based upon the principal balance outstanding. The balance of mortgage servicing rights included in other assets on the balance sheets was $317,000 and $224,000 at December 31, 2020 and 2019. Mortgage servicing fee income for the years ended December 31,

6. Mortgage Servicing (continued)

2020 and 2019 was $102,000 and $128,000, respectively, which is included in mortgage banking activities in the Statements of Income.

The following summarizes mortgage servicing rights capitalized and amortized:

(Dollars in 000s)		Years Ended December 31, 2020		2019
Beginning Balance	$	224	$	215
Mortgage servicing rights capitalized		198		87
Mortgage servicing rights amortized		(105)		(78)
Ending balance	$	317	$	224

7. Bank Premises and Equipment

Components of Bank premises and equipment are as follows:

(Dollars in 000s)		December 31, 2020		2019
Land and improvements	$	2,253	$	2,253
Buildings		10,173		8,912
Furniture and equipment		4,031		3,710
Contruction in progress		-		391
Right of Use assets		2,167		2,463
Total premises and equipment	$	18,624	$	17,729
Less accumulated depreciation		(6,281)		(5,851)
Net premises and equipment	$	12,343	$	11,878

Depreciation expense for the years ended December 31, 2020 and 2019 was approximately $666,000 and $604,000, respectively.

7. Bank Premises and Equipment (continued)

The Bank leases land and office space under operating leases. Rental expense for these leases was $396,000 and $410,000 for years ended December 31, 2020 and 2019 respectively. Future lease payments under operating leases are presented below along with remaining average lease term and discount rate:

(Dollars in 000s)	December 31, 2020
2021	$ 353
2022	361
2023	311
2024	240
2025	249
Thereafter	1,022
Total	2,536
Less: Inputed interest	351
Total operating lease liabilities	2,185
Weighted average remaining lease term in years	8.72
Weighted average discount rate	3.39%

All leases are operating leases. Below is a table the operating lease right of use (ROU) assets and lease liabilities.

	December 31,	
(Dollars in 000s)	2020	2019
Right of Use assets	2,167	2,463
Lease Liability	2,185	2,492

Our operating leases predominantly expire within the next 3 to 12 years with the longest expiring in 12 years.

Location Name	Term	Expiration of Term	Lessee Renewal Options
Quentin	5 years	2023	None
Smile Center	5 years	2023	Two 5 year renewal periods
Ephrata	15 years	2026	One 15 year period
Northside	20 years	2030	Two 5 year renewal periods
Lititz	15 years	2032	One 15 year period

We do not include renewal or termination options in the establishment of the lease term when we are not reasonably certain that we will exercise them.

8. Deposits

The composition of deposits is as follows:

(Dollars in 000s)	December 31, 2020	2019
Demand, non-interest-bearing	$ 82,986	$ 57,922
Checking with interest and money market	335,987	246,013
Savings	68,192	56,025
Time deposits greater than $250,000	24,187	22,573
Other time deposits	136,891	155,802
Total	$ 648,243	$ 538,335

At December 31, 2020, the scheduled maturities of time deposits are as follows:

(Dollars in 000s)	Years Ended December 31,
2021	$ 87,311
2022	48,301
2023	20,581
2024	2,064
2025	2,821
Total	$ 161,078

9. Employee Benefits

The Bank has a defined contribution 401(k) plan for employees who meet the eligibility requirements set forth in the plan. All of the Bank's employees that are 21 years and older are eligible for the plan. The Bank increased its match in 2013 to 100% of elective contributions of employees not to exceed 4% of the employee's salary, plus 50% of the employee's elective contribution that exceed 4% of their salary but not to exceed 6% of their salary. The Bank's contributions to this plan were $328,000 in 2020 and $288,000 in 2019.

The Bank has a noncontributory defined benefit pension plan (the "Plan") covering substantially all employees hired prior to February 1, 2006. The Plan's benefit formulas generally base payments to retired employees upon their length of service and the employees' average monthly compensation. This plan was frozen as of December 31, 2012 and no employees are accruing any more benefits.

9. Employee Benefits (Continued)

The following table sets forth the Plan's funded status and the amounts recognized in the Bank's financial statements. The measurement date for purposes of these valuations was December 31, 2020 and 2019.

(Dollars in 000s)	December 31, 2020	December 31, 2019
Change in benefit obligation		
Benefit obligation at beginning of year	$ 4,011	$ 3,517
Interest cost	127	146
Actuarial (gain) loss	527	547
Benefits paid	(101)	(87)
Settlements	(60)	(112)
Benefit obligation at end of year	4,504	4,011
Change in plan assets		
Fair value of plan assets at beginning of year	3,765	3,352
Employer contribution	-	-
Actual return on plan assets	593	612
Benefits paid	(101)	(87)
Settlements	(60)	(112)
Fair value of plan assets at end of year	4,197	3,765
Funded status (Included in other liabilities)	$ (307)	$ (246)
Amounts recognized in the Balance Sheets consist of:		
Accrued benefit cost in other liabilities	$ (307)	$ (246)
Accumulated other comprehensive loss	1,151	1,085
Net amount recognized	$ 844	$ 839
Amounts recognized in accumulated other comprehensive income (loss) consist of:		
Net actuarial loss	$ (1,151)	$ (1,085)
Deferred tax benefit	243	228
Total	$ (908)	$ (857)

9. Employee Benefits (Continued)

Net periodic pension expense included the following components:

(Dollars in 000s)		Years Ended December 31, 2020		2019
Interest cost	$	127	$	146
Expected return on plan assets		(213)		(198)
Settlement Charge		-		-
Net amortization and deferral		83		83
Net periodic pension expense	$	(3)	$	31

The components of net periodic benefit cost are included in salaries and employee benefits in the Statements of Income.

The accumulated benefit obligation was $4,504,000 and $4,011,000 at December 31, 2020 and 2019 respectively.

The following is a summary of actuarial assumptions used for the Bank's pension plan:

	December 31, 2020	2019
Discount rate	2.52%	3.22%
Expected long-term return on Plan assets	5.00%	5.75%
Rate of compensation increase	N/A	N/A

The estimated net actuarial gain that will be amortized into net periodic pension cost over the next year is $3,000.

The selected long-term rate of return on Plan assets (5.00 percent) was primarily based on the asset allocation of the Plan's assets. Analysis of the historic returns on these asset classes and projections of expected future returns were considered in setting the long-term rate of return.

The Bank's pension plan target asset allocations, by asset category, are as follows:

	December 31, 2020	2019
Equities	65%	65%
Fixed income	35%	35%
Other	0%	0%
Total	100%	100%

9. Employee Benefits (Continued)

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value:

	As of December 31, 2020			
(Dollars in 000s)	Level I	Level II	Level III	Total
Assets:				
Mutual funds:				
Equities				
Large-Cap Value	$ 264	$ -	$ -	$ 264
Large-Cap Core	355	-	-	355
Mid-Cap Core	334	-	-	334
Small-Cap Core	171	-	-	171
International Core	806	-	-	806
Large Cap Growth	540	-	-	540
Small/midcap Growth	172	-	-	172
Fixed income				
Fixed Income- US Core	936	-	-	936
Intermediate Duration	323	-	-	323
Other		267		267
Cash Equivalent	29	-	-	29
Total assets at fair value	$ 3,930	$ 267	$ -	$ 4,197

	As of December 31, 2019			
(Dollars in 000s)	Level I	Level II	Level III	Total
Assets:				
Mutual funds:				
Equities				
Large-Cap Value	$ 233	$ -	$ -	$ 233
Large-Cap Core	332	-	-	332
Mid-Cap Core	272	-	-	272
Small-Cap Core	111	-	-	111
International Core	558	-	-	558
Large Cap Growth	516	-	-	516
Small/midcap Growth	146	-	-	146
Fixed income				
Fixed Income- US Core	986	-	-	986
Intermediate Duration	336	-	-	336
Other	-	250	-	250
Cash Equivalent	25	-	-	25
Total assets at fair value	$ 3,515	$ 250	$ -	$ 3,765

9. **Employee Benefits (Continued)**

The Bank does not expect to contribute to its pension plan in 2021.

The following benefit payments are expected to be paid:

(Dollars in 000s)	Years Ended December 31,
2021	$ 121
2022	133
2023	143
2024	152
2025	161
2026 through 2030	935
	$ 1,645

10. **Borrowed Funds**

The Bank has available a $25 million line with the FHLB of Pittsburgh. This line expires in June 2021. The interest rate on this line was 0.41 percent at December 31, 2020, and 1.81 percent at December 31, 2019. The outstanding balance under this line was $0 as of December 31, 2020 and 2019. The Bank also has an unsecured $7.5 million line with the Atlantic Community Bankers Bank (ACBB), which was not used in 2020 or 2019. The Bank also entered into unsecured subordinated debt with ACBB in 2015, maturing in November 2025, at a fixed rate of 5.5% for five years and then a variable rate based on prime rate plus 0.50% for the last five years. The debt can be redeemed after November 2020.

Long-term debt is composed of the following FHLB fixed-rate advances and ACBB subordinated debt:

(Dollars in 000s)			December 31,	
Maturity Date		Rate	2020	2019
June 2020	(Non-amortizing)	1.84	$ -	$ 10,000
March 2021	(Non-amortizing)	0.85	3,125	-
June 2021	(Non-amortizing)	1.97	3,000	3,000
March 2022	(Non-amortizing)	0.92	6,250	-
May 2022	(Non-amortizing)	2.37	3,000	3,000
May 2022	(Non-amortizing)	2.33	3,000	3,000
February 2023	(Non-amortizing)	1.32	6,250	-
March 2023	(Non-amortizing)	1.03	3,125	-
May 2023	(Amortizing)	4.57	527	728
May 2023	(Amortizing)	4.68	286	395
March 2025	(Non-amortizing)	1.11	3,125	-
November 2025 subordinated debt		3.75	3,000	3,000
(requires $150,000 quarterly payments beginning in February 2021)				
			$ 34,688	$ 23,123

10. Borrowed Funds (Continued)

The following table represents maturities/repayments of the remaining FHLB advances and subordinated debt at December 31, 2020:

(Dollars in 000s)	Amount
2021	$ 7,051
2022	13,190
2023	10,122
2024	600
2025	3,725
Thereafter	-
Total	$ 34,688

Borrowings from the FHLB are collateralized by certain qualifying assets of the Bank with an approximate value of $281,691,000 at December 31, 2020. The Bank has a maximum borrowing capacity with the FHLB of approximately $193,657,000 of which $56,538,000 is outstanding and includes $24,850,000 in total letters of credits issued to municipalities to secure deposits.

There was no activity related to the Bank's short-term borrowings under the $25 million line of credit with the FHLB of Pittsburgh in either 2020 or 2019.

11. Related-Party Transactions

The Bank has had banking transactions in the ordinary course of business with its executive officers, directors, principal stockholders, and their affiliated companies (related parties) on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. A summary of loan activity during the year ended December 31, 2020 is as follows:

Balance at December 31, 2019	Additions	Amount Collected	Balance at December 31, 2020
$2,487	$396	$751	$2,132

Deposits from related parties totaled $6,303,000 and $5,611,000 as of December 31, 2020 and 2019 respectively.

12. Off-Balance Sheet Commitments

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet.

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

12. Off-Balance Sheet Commitments (continued)

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

Outstanding letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next 12 months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Bank requires collateral supporting these letters of credit, as deemed necessary. Management believes that the proceeds obtained through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees.

A summary of the Bank's financial instrument commitments is as follows:

	December 31,	
(Dollars in 000s)	2020	2019
Commitments to extend credit	$ 22,582	$ 18,402
Unfunded commitments	103,107	83,112
Standby letters of credit	9,333	9,048
Total	$ 135,022	$ 110,562

13. Income Taxes

The provision for federal income taxes consisted of the following:

	Years Ended December 31,	
(Dollars in 000s)	2020	2019
Current	$ 1,170	$ 995
Deferred	(115)	138
Total	$ 1,055	$ 1,133

13. Income Taxes (continued)

Reconciliation of the statutory income tax expense computed at 21% to the income tax expense included in the Statements of Income is as follows:

	Years Ended December 31,			
(Dollars in 000s)	2020		2019	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Provision at statutory rate	$ 1,273	21.0 %	$ 1,381	21.0 %
Tax exempt interest, net	(147)	(2.6)	(175)	(2.7)
Life insurance	(61)	(1.0)	(62)	(1.0)
Other, net	(10)	(0.2)	(11)	(0.1)
Actual tax expense and effective rate	$ 1,055	17.2 %	$ 1,133	17.2 %

Net deferred tax assets (liabilities) consisted of the following components:

	As of December 31,	
(Dollars in 000s)	2020	2019
Deferred tax assets:		
Allowance for loan losses	$ 1,612	$ 1,214
Other pension adjustments	242	228
Nonaccrual loan interest	37	44
Net unrealized loss on securities	-	-
Deferred loan fees	380	244
Deferred gains from sale of assets	-	23
Other	119	83
Total deferred tax assets	2,390	1,836
Deferred tax liabilities:		
Accrued pension	(177)	(189)
Net unrealized gain on securities	(305)	(127)
Premises and equipment	(457)	(435)
Deferred loan fees costs	(1,933)	(1,560)
Mortgage servicing rights	(67)	(47)
Prepaid expenses	(120)	(100)
Total deferred tax liabilities	(3,059)	(2,458)
Net deferred tax assets (liability)	$ (669)	$ (622)

14. Concentration of Credit Risk

The Bank grants commercial, residential, and consumer loans to customers primarily located in Lebanon County, Pennsylvania. The concentrations of credit by type of loan are set forth in Note 4. Although the Bank has a diversified loan portfolio, its debtors' ability to honor their contracts is influenced by the region's economy.

15. Regulatory Matters

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

The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components and other factors.

The bank has opted into the Community Bank Leverage Ratio (CBLR) framework in 2020 so the bank will not be required to calculate or report risk-based capital ratios. A qualifying community banking organization is defined as having less than $10 billion in total consolidated assets, a leverage ratio greater than 9%, off-balance sheet exposures of 25% or less of total consolidated assets, and trading assets and liabilities of 5% or less of total consolidated assets. The CARES Act of 2020 has temporarily lowered the 9% threshold to 8% through December 31, 2020, 8.5% for 2021 and back to 9% thereafter.

Management believes, as of December 31, 2020, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2020, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios as of December 31 are also presented below:

	Actual		To Be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in 000s)	Amount	Ratio	≥ Amount	≥ Ratio
Community Bank Leverage Ratio				
2020	$ 62,123	8.46 %	$ 58,761	8.00 %
2019	$ 58,747	9.28 %	$ 31,735	5.00 %

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. At December 31, 2020, $49,963,000 of retained earnings was available for dividend declaration without prior regulatory approval, subject to the above regulatory capital requirements.

16. Fair Value

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

16. Fair Value (continued)

The three levels of the fair value hierarchy are described as follows:

Level I: Inputs to the valuation methodology are quoted prices (unadjusted) in active markets for identical assets or liabilities that the organization can access at the measurement date.

Level II: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level III*:* Inputs that are unobservable inputs for the asset or liability.

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

All securities available for sale are priced using pricing models, quoted prices of securities with similar characteristics or using discounted cash flows and therefore are classified in the level 2 hierarchy.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2020 and 2019 are as follows:

	As of December 31, 2020			
(Dollars in 000s)	Level I	Level II	Level III	Total
Assets measured on a recurring basis:				
Available-for-sale securities:				
Certificates of deposit	$ -	$ 603	$ -	$ 603
Obligations of states and political subdivisions	-	6,081	-	6,081
Other corporate debt		1,000		1,000
Mortgage-backed securities in government-sponsored entities	-	22,340	-	22,340
Total	$ -	$ 30,024	$ -	$ 30,024

	As of December 31, 2019			
(Dollars in 000s)	Level I	Level II	Level III	Total
Assets measured on a recurring basis:				
Available-for-sale securities:				
Certificates of deposit	$ -	$ 1,997	$ -	$ 1,997
Obligations of states and political subdivisions	-	5,732	-	5,732
Mortgage-backed securities in government-sponsored entities	-	29,275	-	29,275
Total	$ -	$ 37,004	$ -	$ 37,004

16. Fair Value (Continued)

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

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

Other Real Estate Owned

Certain assets such as other real estate owned (OREO) acquired through foreclosure are initially recorded at fair value of the property at the transfer date less estimated selling costs. At or near the time of foreclosure, real estate appraisals are obtained on the properties acquired through foreclosure in order to establish fair value. Appraised values are typically determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Bank using observable market data or on a recent sale offer (Level 2). However, if the appraisal for the acquired property is over two years old, then the fair value is considered Level 3. The estimate of costs to sell the property is based on historical transactions of similar holdings. There were no OREO properties with write-downs during the years ended December 31, 2020 or 2019.

Impaired Loans

Loans of a commercial nature are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due will not be collected according to the contractual terms of the loan agreement. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan, the fair value of the collateral (if collateral dependent), or the present value of expected future cash flows. Fair value is measured based on the value of the collateral securing the loan less estimated costs to sell or the expected present value of future cash flows. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The value of the collateral is typically determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Bank using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the real estate property is stale, then the fair value is considered Level 3. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business' financial statements if not considered significant. Likewise, values for inventory and accounts receivable collateral are based on financial statement balances or aging reports (Level 3). Impaired loans with an allocation to the allowance for loan losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Statements of Income.

The fair value of impaired loans reported below is based on the total impaired loans with a specific allowance for loan loss allocation less the total allocations for such loans, while the fair value measurement level is based on the age of the underlying appraisal of the collateral securing the loans. Specific allocations to the allowance for loan losses for impaired loans were $88,000 and $111,000 at December 31, 2020 and 2019, respectively.

There were no loans held for sale as of December 31, 2020 or December 31, 2019.

16. Fair Value (Continued)

Impaired Loans (Continued)

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2020 and 2019 are as follows:

	As of December 31, 2020			
(Dollars in 000s)	**Level I**	**Level II**	**Level III**	**Total**
Impaired loans	$ -	$ -	$ 628	$ 628
Total	$ -	$ -	$ 628	$ 628

	As of December 31, 2019			
(Dollars in 000s)	Level I	Level II	Level III	Total
Impaired loans	$ -	$ -	$ 856	$ 856
Other real estate owned	-	-	191	191
Total	$ -	$ -	$ 1,047	$ 1,047

The following table provides a listing of the significant unobservable inputs used in the fair value measurement process for items valued utilizing Level III techniques:

	As of December 31, 2020			
(Dollars in 000s)	**Fair Value**	**Valuation Techniques**	**Unobservable Input**	**Range**
Impaired Loans	$ 628	Appraised collateral values	Discount for time since appraisal	0-30%
		and discounted cash flows	Selling costs	0-8%

	As of December 31, 2019			
(Dollars in 000s)	**Fair Value**	**Valuation Techniques**	**Unobservable Input**	**Range**
Impaired Loans	$ 856	Appraised collateral values	Discount for time since appraisal	0-30%
		and discounted cash flows	Selling costs	0-8%
Other real estate owned	$ 191	Appraised collateral values	Selling costs	0-8%

17. Fair Values of Financial Instruments

The following information should not be interpreted as an estimate of the fair value of the entire Bank, since a fair value calculation is only provided for a limited portion of the Bank's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Bank's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Bank's financial instruments at December 31, 2020 and 2019.

Cash and due from banks and interest bearing balances with other banks
The carrying amounts reported in the balance sheet for cash and short-term instruments approximate those assets' fair values.

Securities available for sale and held to maturity
The Bank utilizes a third-party source to determine the fair value of its securities available for sale (carried at fair value) and held to maturity (carried at amortized cost). The methodology consists of pricing models based on asset class and includes available trade, bid, other market information, broker quotes, proprietary models, various databases and trading desk quotes, some of which are heavily influenced by unobservable inputs. The carrying amount of time certificates of deposit approximates its fair value.

Loans receivable
For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values for other loans (e.g., residential real estate and consumer loans) are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Restricted investment in Bank stock
The carrying amount of restricted investment in Bank stock approximates fair value.

Accrued interest receivable and payable
The carrying amount of accrued interest receivable and accrued interest payable approximates its fair value.

Mortgage servicing rights
The fair value of mortgage servicing rights is based on observable market prices, when available, or the present value of expected future cash flows.

Deposits
The fair values disclosed for demand deposits (e.g., interest and noninterest checking, passbook savings, and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Short-term debt
The amounts of short-term debt approximate their fair value.

Long-term debt
Fair values of long-term debt are estimated using discounted cash flow analysis, based on rates currently available to the Bank for advances from the FHLB with similar terms and remaining maturities.

Off-balance sheet financial instruments
Fair values for the Bank's off-balance sheet financial instruments (lending commitments and letters of credit) are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

17. Fair Values of Financial Instruments (Continued)

The estimated fair values of the Bank's financial instruments were as follows at December 31, 2020 and 2019:

			As of December 31, 2020		
(Dollars in 000s)	Carrying Amount	Fair Value	Level I	Level II	Level III
Financial assets:					
Cash and due from banks	$ 5,529	$ 5,529	$ 5,529	$ -	$ -
Interest Bearing Balances with other Banks	57,002	57,002	57,002	-	-
Available-for-sale securities	30,024	30,024	-	30,024	-
Held-to-maturity securities	823	823	-	823	-
Net loans	622,096	653,377	-	652,749	628
Accrued interest receivable and dealer reserve	3,859	3,859	3,859	-	-
Restricted investment in Bank stock	1,894	1,894	1,894	-	-
Mortgage servicing rights	317	459	-	459	-
Financial liabilities:					
Deposits	$ 648,243	$ 650,474	$ -	$ 650,474	$ -
Long-term debt	34,688	35,608	-	35,608	-
Accrued interest payable	160	160	160	-	-

			As of December 31, 2019		
(Dollars in 000s)	Carrying Amount	Fair Value	Level I	Level II	Level III
Financial assets:					
Cash and due from banks	$ 3,987	$ 3,987	$ 3,987	$ -	$ -
Interest Bearing Balances with other Banks	20,783	20,783	20,783	-	-
Available-for-sale securities	37,004	37,004	-	37,004	-
Held-to-maturity securities	832	832	-	832	-
Net loans	532,993	545,104	-	544,248	856
Accrued interest receivable and dealer reserve	1,929	1,929	1,929	-	-
Restricted investment in Bank stock	1,836	1,836	-	1,836	-
Mortgage servicing rights	224	524	-	524	-
Financial liabilities:					
Deposits	$ 538,335	$ 539,955	$ -	$ 539,955	$ -
Long-term debt	23,123	23,926	-	23,926	-
Accrued interest payable	246	246	246	-	-

18. Contingencies

The Bank is subject to claims and lawsuits which arise primarily in the ordinary course of business. Based on information presently available and advice received from legal counsel representing the Bank in connection with any such claims and lawsuits, it is the opinion of management that the disposition or ultimate determination of any such claims and lawsuits will not have a material adverse effect on the financial position, results of operations or liquidity of the Bank.

19. Subsequent Events

Management has reviewed events occurring through February 25, 2021, the date the financial statements were available to be issued and no subsequent events occurred requiring disclosure.

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