

HAMLIN BANK
AND
TRUST COMPANY



ESTABLISHED 1863

2020 ANNUAL REPORT

FINANCIAL HIGHLIGHTS

	2020	2019
Net income	\$ (458,164)	\$ 9,021,684
Dividend	4,033,271	4,048,885
Per Share		
Net income	\$ (1.25)	\$ 24.51
Dividends	11.00	11.00
Year End		
Total assets	\$ 419,313,179	\$ 388,934,460
Investment securities	129,107,466	136,161,285
Net loans	236,607,7878	235,159,628
Deposits	321,577,729	285,694,404
Shareholders' equity	86,806,337	90,641,422
Ratios		
Return on average shareholders' equity	-0.54%	10.3%
Return on average assets	-0.11%	2.28%
Trust Funds (market value)	\$ 97,959,457	\$ 89,158,104

TO OUR SHAREHOLDERS AND FRIENDS

Hamlin Bank reported a net loss of \$458,164 for 2020 as compared with net income of \$9,021,684 or \$24.51 per share, reported in 2019. Dividends paid in 2020 were \$11.00 per share, the same as 2019.

The change in 2020 earnings was caused by the 2019 adoption of fair market value Accounting Standard (ASU) 2016-014: Recognition and Measurement of Financial Assets and Financial Liabilities. This accounting standard calls for equity investments to be measured at fair value, with changes in fair value recognized in net income. The result of this accounting method change was a \$6,837,382 unrealized loss in Hamlin Bank's equity securities. This market value change was caused by equity investments declining in value due to the slowdown in economic activity during the public health crisis.

All banks were classified as essential businesses throughout the health crisis of 2020. We are deeply appreciative of our staff's work to safely provide banking services to our customers in new and often creative ways. Hamlin Bank was able to maintain service levels at all of our locations throughout the health crisis, while continuing to emphasize safety for our staff as well as our customers.

Hamlin Bank participated in distributing Payroll Protection Program loans which have provided needed funds to small business customers during the 2020 health crisis. Additionally, the Bank has allowed borrowers experiencing difficulty due to the health crisis to defer loan payments.

As 2021 progresses, Hamlin Bank will experience continued volatility in investment security valuations. The Bank's investment holdings are diversified and high quality, and provide attractive dividend income. While the accounting treatment of these holdings has changed, the Bank's long-term goal remains constant in terms of holding high quality investments which provide near term income, and growth over the longer term.

On an operating basis, that is, excluding unrealized gains and losses and adjusting taxes, Hamlin Bank's net income was \$5,007,365 or \$13.70 per share in 2020. Net interest income after provision for loan losses decreased 1.6% or \$223,056 in 2020 due to lower earning rates on loans and investment securities offset in part by a \$380,000 reduction in the provision for loan losses.

Noninterest expenses decreased 2.5% in 2020 or \$232,122. Employee benefit expenses were reduced by strong investment results in the Bank's defined benefit plan causing a lower pension expense. The Bank also benefited from lower equipment and occupancy expenses. Importantly, Hamlin Bank's efficiency ratio is in the top third of the peer group at 58%.

Loan volume decreased \$1,777,571 or 1.1% in 2020 and totaled \$236,607,787 at year end. Net loan charge-offs in 2020 were 0.19% of average loans, down from 0.52% in 2019. The Bank's allowance for loan losses increased to \$3,366,453 in 2020 anticipating economic weakness related to public health crisis unemployment.

The Bank's equity capitalization ratio was 20.8% at year end, ranking the Bank among the most well capitalized banks in the peer group.

We invite our shareholders to visit, or contact us with questions regarding your investment in Hamlin Bank and Trust Company.

Sincerely,



Martin J. Digel

Chairman, President, and Chief Executive Officer

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Shareholders
Hamlin Bank and Trust Company

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Hamlin Bank and Trust Company and its subsidiary, which comprise the consolidated balance sheet as of December 31, 2020 and 2019; the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended; and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

S.R. Snodgrass, P.C.

Cranberry Township, Pennsylvania
March 1, 2021

HAMLIN BANK AND TRUST COMPANY
CONSOLIDATED BALANCE SHEET

	December 31,	
	2020	2019
ASSETS		
Cash and due from banks	\$ 50,518,625	\$ 10,988,138
Investment securities available for sale	100,820,865	101,037,302
Equity securities, at fair value	28,286,601	35,123,983
Loans	236,607,787	238,385,304
Less allowance for loan losses	3,366,453	3,225,676
Net loans	233,241,334	235,159,628
Premises and equipment, net	3,429,936	3,479,725
Accrued interest and other assets	3,015,818	3,145,684
TOTAL ASSETS	\$ 419,313,179	\$ 388,934,460
LIABILITIES		
Deposits:		
Noninterest-bearing demand	\$ 64,576,552	\$ 50,803,267
Interest-bearing demand	34,850,745	33,582,059
Money market	57,682,405	44,959,678
Savings	109,211,413	97,913,704
Time	55,256,614	58,435,696
Total deposits	321,577,729	285,694,404
Lease liability	141,872	150,993
Accrued post retirement benefit plans	3,581,137	4,346,390
Accrued interest and other liabilities	7,209,104	8,101,251
TOTAL LIABILITIES	332,509,842	298,293,038
SHAREHOLDERS' EQUITY		
Common stock, par value \$2.50; 379,782 and 382,337 shares authorized and issued at December 31, 2020 and 2019	949,455	955,843
Surplus	8,871,788	9,558,451
Retained earnings	78,333,831	82,825,266
Accumulated other comprehensive loss	(1,282,516)	(2,628,917)
Treasury stock (14,281 shares, at cost)	(69,221)	(69,221)
TOTAL SHAREHOLDERS' EQUITY	86,803,337	90,641,422
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 419,313,179	\$ 388,934,460

See accompanying notes to the consolidated financial statements.

HAMLIN BANK AND TRUST COMPANY
CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31,	
	2020	2019
INTEREST AND DIVIDEND INCOME		
Interest and fees on loans	\$ 12,381,777	\$ 12,601,452
Interest-bearing deposits in other institutions	65,419	86,942
Investment securities:		
Taxable interest	1,937,445	2,425,577
Tax-exempt interest	587,495	830,722
Dividends	1,166,180	1,139,939
Total interest and dividend income	16,138,316	17,084,632
INTEREST EXPENSE		
Deposits	1,762,831	2,025,069
Borrowings	15,696	96,717
Total interest expense	1,778,527	2,121,786
NET INTEREST INCOME	14,359,789	14,962,846
Provision for loan losses	600,000	980,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	13,759,789	13,982,846
NONINTEREST INCOME		
Trust Department income	337,379	342,846
Service charges on deposit accounts	347,242	466,054
Investment securities gains	90,370	7,795
Change in fair value of equity securities	(6,837,382)	5,107,343
Debit card fees	421,611	387,723
Other	34,037	37,164
Total noninterest income	(5,606,743)	6,348,925
NONINTEREST EXPENSE		
Salaries and employee benefits	4,843,301	4,811,519
Net occupancy	464,853	514,286
Equipment and data processing	681,352	730,047
Federal deposit insurance	65,772	6,045
Losses on real estate owned	73,962	148,103
Shares tax	662,941	615,842
Other	2,232,979	2,431,440
Total noninterest expense	9,025,160	9,257,282
(Loss) Income before income taxes	(872,114)	11,074,489
Income tax (benefit) expense	(413,950)	2,052,805
NET (LOSS) INCOME	\$ (458,164)	\$ 9,021,684
(LOSS) EARNINGS PER SHARE	\$ (1.25)	\$ 24.51
WEIGHTED-AVERAGE SHARES OUTSTANDING	365,501	368,090

See accompanying notes to the consolidated financial statements.

HAMLIN BANK AND TRUST COMPANY
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year Ended December 31,	
	2020	2019
Net (loss) income	\$ (458,164)	\$ 9,021,684
Other comprehensive income:		
Unrealized gain on available-for-sale securities	1,335,518	2,826,930
Income tax effect	(280,459)	(593,655)
Reclassification adjustment for investment securities		
gains included in net income	(90,370)	(7,795)
Income tax effect	18,978	1,635
Change in unrecognized pension costs	459,157	356,025
Income tax effect	(96,423)	(74,765)
Other comprehensive income, net of tax	1,346,401	2,508,375
Comprehensive income	\$ 888,237	\$ 11,530,059

See accompanying notes to the consolidated financial statements.

HAMLIN BANK AND TRUST COMPANY
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	<u>Common Stock</u>	<u>Surplus</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Treasury Stock</u>	<u>Total</u>
Balance, January 1, 2019	\$ 955,943	\$ 9,569,701	\$ 77,852,467	\$ (5,137,292)	\$ (69,221)	\$ 83,171,598
Net income			9,021,684			9,021,684
Other comprehensive income				2,508,375		2,508,375
Retirement of common stock (40 shares)	(100)	(11,250)				(11,350)
Cash dividends declared (\$11.00 per share)			(4,048,885)			(4,048,885)
Balance, December 31, 2019	955,843	9,558,451	82,825,266	(2,628,917)	(69,221)	90,641,422
Net loss			(458,164)			(458,164)
Other comprehensive income				1,346,401		1,346,401
Retirement of common stock (2,555 shares)	(6,388)	(686,663)				(693,051)
Cash dividends declared (\$11.00 per share)			(4,033,271)			(4,033,271)
Balance, December 31, 2020	<u>\$ 949,455</u>	<u>\$ 8,871,788</u>	<u>\$ 78,333,831</u>	<u>\$ (1,282,516)</u>	<u>\$ (69,221)</u>	<u>\$ 86,803,337</u>

See accompanying notes to the consolidated financial statements.

HAMLIN BANK AND TRUST COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,	
	2020	2019
OPERATING ACTIVITIES		
Net (loss) income	\$ (458,164)	\$ 9,021,684
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization, net	362,550	320,570
Investment securities gains	(90,370)	(7,795)
Equity securities losses (gains)	6,837,382	(5,107,343)
Provision for loan losses	600,000	980,000
Deferred federal income taxes	(1,399,966)	1,121,811
Losses on real estate owned	118,897	148,103
Decrease in accrued interest receivable	206,227	124,833
(Decrease) increase in accrued interest payable	(130,336)	82,587
Other, net	95,970	(12,920)
Net cash provided by operating activities	6,142,190	6,671,530
INVESTING ACTIVITIES		
Investment securities available for sale:		
Proceeds from maturities and calls	38,295,622	24,330,005
Purchases	(36,724,576)	-
Decrease (increase) in loans, net	843,337	(3,952,458)
Acquisitions of premises and equipment	(234,063)	(124,147)
Proceeds from the sale of real estate owned	63,801	103,630
Purchase of regulatory stock	(80,000)	(1,787,500)
Redemption of regulatory stock	90,400	2,023,000
Net cash provided by investing activities	2,254,521	20,592,530
FINANCING ACTIVITIES		
Net increase (decrease) in deposits	35,883,325	(17,225,139)
Retirement of common stock	(693,051)	(11,350)
Change in short-term borrowings	-	(2,000,000)
Proceeds from lease	(9,121)	(8,907)
Cash dividends paid	(4,047,377)	(4,049,050)
Net cash provided by (used for) financing activities	31,133,776	(23,294,446)
Increase in cash and cash equivalents	39,530,487	3,969,614
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	10,988,138	7,018,524
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 50,518,625	\$ 10,988,138
SUPPLEMENTAL INFORMATION:		
Cash paid during the year for:		
Interest on deposits and borrowings	\$ 1,908,863	\$ 2,039,199
Income taxes	889,654	992,179
Noncash investing transactions:		
Real estate loans transferred to real estate owned	\$ 809,664	\$ 596,362
Loans to facilitate the sale of real estate owned	(432,499)	(553,392)
Initial recognition of financing lease liability	-	159,900
Initial recognition of financing right of use asset	-	(159,900)

See accompanying notes to the consolidated financial statements.

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Hamlin Bank and Trust Company (the “Bank”) is a state-chartered bank located in Smethport, Pennsylvania. The Bank’s principal sources of revenue emanate from its portfolio of residential real estate, commercial mortgage, commercial, and consumer loans, as well as interest on investment securities and a variety of deposit and trust services provided to its customers through six locations. The Bank is supervised by the Federal Deposit Insurance Corporation (FDIC) and the Pennsylvania Department of Banking.

The consolidated financial statements of the Bank include the accounts of the wholly owned subsidiary, Hamlin Corporation. All significant intercompany transactions have been eliminated in consolidation. The investment in subsidiary on the Bank’s financial statements is carried at the Bank’s equity in the underlying net assets of the subsidiary.

The U.S. generally accepted accounting principles (GAAP) followed by the Bank and the methods of applying these principles conform to U.S. generally accepted accounting principles and to general practice within the banking industry. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the balance sheet date and reported amounts of revenues and expenses for the period. Actual results could differ significantly from those estimates.

Investment Securities

The Bank has classified debt securities as available for sale to serve principally as a source of liquidity. Investment securities are recorded at fair value, with unrealized holding gains and losses reported as a separate component of shareholders’ equity, net of tax, until realized. Realized securities gains and losses are computed using the specific identification method for debt securities and by the average cost method for marketable equity securities. Interest and dividends on investment securities are recognized as income when earned. Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

Other-Than-Temporary Impairment of Securities

Securities are evaluated on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in their value is other than temporary. For debt securities, management considers whether the present value of cash flows 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 noncredit 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.

Equity Securities

Equity securities are held at fair value. Holding gains and losses are recorded in income. Dividends are recognized as income when earned.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Federal Home Loan Bank Stock

The Bank is a member of the Federal Home Loan Bank (FHLB) of Pittsburgh and, as such, is required to maintain a minimum investment in stock of the FHLB that varies with the level of advances outstanding with the FHLB. The stock is bought from and sold to the FHLB based upon its \$100 par value. The stock does not have a readily determinable fair value and, as such, is classified as restricted stock, carried at cost and evaluated for impairment, as necessary. The stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and the length of time this situation has persisted, (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance, (c) the impact of legislative and regulatory changes on the customer base of the FHLB, and (d) the liquidity position of the FHLB.

Management evaluated the stock and concluded that the stock was not impaired for the periods presented herein. Management considered that the FHLB maintains regulatory capital ratios in excess of all regulatory capital requirements, liquidity appears adequate, and new shares of FHLB stock continue to change hands at the \$100 par value and at the resumption of dividends.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are generally reported at their principal amount net of unearned income and the allowance for loan losses. Interest on all loans is recognized as income when earned on the accrual method. The Bank's general policy is to stop accruing interest on loans when it is determined that reasonable doubt exists as to the collectability of additional interest. Payments received on nonaccrual loans are recorded as income or applied against principal 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 origination fees and certain direct loan origination costs are being deferred and the net amount amortized as an adjustment of the related loan's yield, based on the interest method. The Bank is amortizing these amounts over the contractual life of the related loans.

Allowance for Loan Losses

The allowance for loan losses represents the amount that management estimates is adequate to provide for probable losses inherent in its loan portfolio. The allowance method is used in providing for loan losses. Accordingly, all loan losses are charged to the allowance, and all recoveries are credited to it. The allowance for loan losses is established through a provision for loan losses charged to operations. The provision for loan losses is based on management's periodic evaluation of individual loans, economic factors, past loan loss experience, changes in the composition and volume of the portfolio, and other relevant factors. The estimates used in determining the adequacy of the allowance for loan losses, including the amounts and timing of future cash flows expected on impaired loans, are particularly susceptible to change in the near term.

Impaired loans are commercial and commercial real estate loans, for which it is probable the Bank will not be able to collect all amounts due according to the contractual terms of the loan agreement. The Bank individually evaluates such loans for impairment and does not aggregate loans by major risk classifications. The definition of "impaired loans" is not the same as the definition of "nonaccrual loans," although the two categories overlap.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

The Bank may choose to place a loan on nonaccrual status due to payment delinquency or uncertain collectability while not classifying the loan as impaired, provided the loan is not a commercial or commercial real estate classification. Factors considered by management in determining impairment include payment status and collateral value. The amount of impairment for these types of loans is determined by the difference between the present value of the expected cash flows related to the loan, using the original interest rate, and its recorded value or, as a practical expedient in the case of collateralized loans, the difference between the fair value of the collateral and the recorded amount of the loans. When foreclosure is probable, impairment is measured based on the fair value of the collateral.

Mortgage loans secured by one-to-four family properties and all consumer loans are large groups of smaller-balance homogeneous loans and are measured for impairment collectively. Loans that experience insignificant payment delays, which are defined as 90 days or less, generally are not classified as impaired. Management determines the significance of payment delays on a case-by-case basis, taking into consideration all circumstances concerning the loan, the creditworthiness and payment history of the borrower, the length of the payment delay, and the amount of shortfall in relation to the principal and interest owed.

Management establishes the allowance for loan losses based upon its evaluation of the pertinent factors underlying the types and quality of loans in the portfolio. Commercial loans and commercial real estate loans are reviewed on a regular basis, with a focus on larger loans along with loans that have experienced past payment or financial deficiencies. Larger commercial loans and commercial real estate loans that are 90 days or more past due are selected for impairment testing. These loans are analyzed to determine whether they are “impaired,” which means that it is probable that all amounts will not be collected according to the contractual terms of the loan agreement. All commercial and commercial real estate loans that are 90 days delinquent are classified on an individual basis. The remaining loans are evaluated and classified as groups of loans with similar risk characteristics and delinquency status. The Bank allocates allowances based on certain factors. In reviewing risk, 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 overall loan portfolio, (ii) loans 60 days or more delinquent within the commercial and commercial real estate portfolio, (iii) loans 60 days or more delinquent within the consumer loan portfolio, and (iv) loans 90 days or more delinquent within the mortgage loan portfolio. Factors considered in this process included general loan terms, collateral, and availability of historical data to support the analysis. A historical loss percentage is calculated and used as the basis for calculating a portion of the allowance allocation. A qualitative factor is then added to the historical allocation percentage to get the adjusted factor to be applied to nonclassified loans. The Bank analyzes its loan portfolio each quarter to determine the appropriateness of its allowance for loan losses.

Loans whose terms are modified are classified as troubled debt restructuring (TDR)s if the Bank grants such borrowers concessions for economic or legal reasons, and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a TDR generally involve a temporary or permanent reduction in interest rate, a modified rate that is below the market rate given the associated credit risk, an extension of a loan’s stated maturity date or payment modifications to better match the timing of cash flows, due under the restructured terms with the cash flows from the borrowers’ operations. Loan modifications are intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. Nonaccrual TDRs are restored to accrual status if principal and interest payments, under the modified terms, are current for a reasonable period of time, generally six consecutive months after modification. Loans classified as TDRs are designated as impaired.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

The Bank identifies loans for potential restructure primarily through direct communication with the borrower and evaluation of the borrower's financial statements, revenue projections, tax returns, and credit reports. Even if the borrower is not presently in default, management will consider the likelihood that cash flow shortages, adverse economic conditions, and negative trends may result in a payment default in the near future. _

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, which range from 3 to 20 years for furniture, fixtures, and equipment, and 10 to 40 years for buildings. Expenditures for maintenance and repairs are charged against income, as incurred. Costs of major additions and improvements are capitalized.

Real Estate Owned

Real estate owned acquired in settlement of foreclosed loans is carried as a component of other assets at the lower of cost or fair value less estimated cost to sell. Direct costs incurred in the foreclosure process and subsequent holding costs incurred on such properties are recorded as expenses of current operations.

As of December 31, 2020 and 2019, the Bank had \$816,399 and \$621,929, respectively, of foreclosed residential real estate property obtained by physical possession. As of December 31, 2020, the Bank had \$434,878 of loans secured by residential real estate properties, for which foreclosure proceedings are in process, according to local jurisdictions.

Trust Department

Trust Department assets (other than cash deposits) held by the Bank in fiduciary or agency capacities for its customers are not included in the accompanying Consolidated Balance Sheet, since such items are not assets of the Bank.

Pension Plan and Other Postretirement Plans

The Bank maintains a noncontributory defined benefit pension plan covering substantially all employees. The plan calls for benefits to be paid to eligible employees at retirement based primarily upon years of service with the Bank and compensation rates near retirement.

The Bank also maintains a noncontributory defined benefit postretirement plan covering all employees. The plan provides a level of life insurance coverage to retirees that is based upon their annual compensation prior to retirement.

Income Taxes

Deferred tax assets and liabilities are reflected at currently enacted income tax rates, applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Comprehensive Income

The Bank is required to present comprehensive income in a full set of general-purpose financial statements for all periods presented. Other comprehensive income is composed of unrealized holding gains and losses on the available-for-sale securities portfolio and change in unrecognized pension costs.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash Equivalents

For purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents include cash and due from banks.

Earnings Per Share

The Bank currently maintains a simple capital structure; therefore, there are no dilutive effects on earnings per share. As such, earnings per share are calculated by dividing net income by the weighted-average number of shares of stock outstanding during the year.

Reclassification of Comparative Amounts

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

2. REVENUE RECOGNITION

On January 1, 2018, the Bank adopted ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* and all subsequent ASUs that modified Topic 606.

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain noninterest income streams, such as fees associated with mortgage servicing rights, financial guarantees, derivatives, and certain credit card fees, are also not in scope of the new guidance. Topic 606 is applicable to noninterest revenue streams, such as trust and asset management income, deposit-related fees, interchange fees, merchant income, and annuity and insurance commissions. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Substantially, all of the Bank's revenue is generated from contracts with customers. Noninterest revenue streams in scope of Topic 606 are discussed below.

Trust Department Fees

Trust and asset management income is primarily comprised of fees earned from the management and administration of trusts and other customer assets. The Bank's performance obligation is generally satisfied over time, and the resulting annual fees are based on the market value of assets held in the account as valued at the end of each quarter. Payment is generally received within a few days after the end of the quarter via a debit from the customers' accounts. The Bank does not earn performance based incentives. Additional services, including, but not limited to, additional accountings and supervision of personal affairs for the elderly may be provided on a case by case basis. The Bank's performance obligation for these transactional-based services is generally satisfied, and related revenue recognized, at a point in time (i.e., as incurred). Payment is received shortly after services are rendered.

Service Charges

Service charges on deposit accounts consist of overdraft charges, monthly service fees, check orders, and other deposit account related fees. The Bank's performance obligation for monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transactional-based, and, therefore, the Bank's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts.

2. REVENUE RECOGNITION (Continued)

Debit Card Network Fees

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

Gain on Sale of Other Real Estate Owned (OREO)

The Bank records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of delivery of an executed deed. When the Bank finances the sale of OREO to the buyer, management assesses whether the buyer is committed to perform the buyer's obligation 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.

3. INVESTMENT SECURITIES AVAILABLE FOR SALE

The amortized cost, gross unrealized gains and losses, and fair values of investment securities available for sale are as follows at December 31:

	2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agencies	\$ 44,607,936	\$ 1,326,435	\$ (38,502)	\$ 45,895,869
Obligations of states and political subdivisions	18,555,875	453,410	(255)	19,009,030
Corporate securities	34,174,328	1,741,638	-	35,915,966
Total	<u>\$ 97,338,139</u>	<u>\$ 3,521,483</u>	<u>\$ (38,757)</u>	<u>\$ 100,820,865</u>
	2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agencies	\$ 33,099,464	\$ 749,266	\$ (33,564)	\$ 33,815,166
Obligations of states and political subdivisions	25,480,142	409,014	-	25,889,156
Corporate securities	40,220,118	1,114,568	(1,706)	41,332,980
Total	<u>\$ 98,799,724</u>	<u>\$ 2,272,848</u>	<u>\$ (35,270)</u>	<u>\$ 101,037,302</u>

3. INVESTMENT SECURITIES AVAILABLE FOR SALE (Continued)

The following tables show the Bank's gross unrealized losses and fair values, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position, at December 31.

	2020					
	Less Than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government agencies	\$ 19,966,772	\$ (38,502)	\$ -	\$ -	\$ 19,966,772	\$ (38,502)
Obligations of states and political subdivisions	349,745	(255)	-	-	349,745	(255)
Total	<u>\$ 20,316,517</u>	<u>\$ (38,757)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,316,517</u>	<u>\$ (38,757)</u>
	2019					
	Less Than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government agencies	\$ 1,999,246	\$ (754)	\$ 5,467,190	\$ (32,810)	\$ 7,466,436	\$ (33,564)
Corporate securities	-	-	496,794	(1,706)	496,794	(1,706)
Total	<u>\$ 1,999,246</u>	<u>\$ (754)</u>	<u>\$ 5,963,984</u>	<u>\$ (34,516)</u>	<u>\$ 7,963,230</u>	<u>\$ (35,270)</u>

There were nine positions that were temporarily impaired at December 31, 2020. The Bank reviews its position quarterly and has asserted that at December 31, 2020 and 2019, the declines outlined in the above table represent temporary declines, and the Bank does not intend to sell, and does not believe it will be required to sell, these securities before recovery of their cost basis, which may be at maturity.

The Bank has concluded that any impairment of its investment securities portfolio outlined in the above table is not other than temporary and is the result of interest rate changes, sector credit rating changes, or company-specific rating changes that are not expected to result in the noncollection of principal and interest during the period.

The amortized cost and fair values of debt securities by contractual maturity at December 31, 2020, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due in one year or less	\$ 6,105,459	\$ 6,149,636
Due after one year through five years	58,661,762	60,936,765
Due after five years through ten years	31,104,765	32,253,969
Due after ten years	1,466,153	1,480,495
Total	<u>\$ 97,338,139</u>	<u>\$ 100,820,865</u>

During 2020, the Bank recorded a gain of \$90,370 on a called security. During 2019, the Bank recorded a gain of \$7,795 on a called security.

Investment securities with carrying values of \$45,237,664 and \$33,815,166 were pledged to secure public deposits and other purposes as required by law at December 31, 2020 and 2019, respectively.

3. INVESTMENT SECURITIES AVAILABLE FOR SALE (Continued)

The following table presents the net gains and losses on equity investments recognized in earnings during the year ended December 31, 2020, and the portion of unrealized gains and losses for the period that related to equity investments held at December 31, 2020.

	Year Ended December 31,	
	2020	2019
Net equity security (losses) gains recognized during the year	\$ (6,837,382)	\$ 5,107,343
Net gains realized on the sale of equity securities during the year	<u>-</u>	<u>-</u>
Net equity security unrealized (losses) gains recognized during the year	<u>\$ (6,837,382)</u>	<u>\$ 5,107,343</u>

4. LOANS

Major classifications of loans are summarized as follows:

	2020	2019
Real estate:		
Residential	\$ 202,028,968	\$ 201,315,743
Commercial	12,928,516	13,564,307
Construction	908,608	695,346
Commercial and industrial	4,054,239	4,942,194
Consumer	16,687,456	17,867,714
	<u>236,607,787</u>	<u>238,385,304</u>
Less allowance for loan losses	<u>3,366,453</u>	<u>3,225,676</u>
Net loans	<u>\$ 233,241,334</u>	<u>\$ 235,159,628</u>

The Bank's primary business activity is with customers located within its local trade area. Although the Bank has a diversified loan portfolio at December 31, 2020 and 2019, loans outstanding to individuals and businesses are dependent upon the local economic conditions in its immediate trade area.

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 and age of delinquency. Loans are segmented into the following pools: residential real estate, commercial real estate, construction real estate, commercial and industrial, and consumer. Historical loss percentages are calculated and used as the basis for calculating allowance allocations. These historical loss percentages are calculated over a two-year period. Qualitative factors are then added to the historical allocation percentage to get the adjusted factor to be applied to nonclassified loans.

Changes in the allowance for loan losses by portfolio segment for the years ended December 31 are as follows:

	2020						
	Residential Real Estate	Commercial Real Estate	Construction Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
Beginning balance	\$ 1,353,635	\$ 118,123	\$ -	\$ 411,404	\$ 978,250	\$ 364,264	\$ 3,225,676
Charge-offs	(280,241)	(75,623)	-	(22,491)	(365,332)	-	(743,687)
Recoveries	37,323	-	-	73,705	173,436	-	284,464
Provision	540,873	112,475	-	(47,494)	87,416	(93,270)	600,000
Ending balance	<u>\$ 1,651,590</u>	<u>\$ 154,975</u>	<u>\$ -</u>	<u>\$ 415,124</u>	<u>\$ 873,770</u>	<u>\$ 270,994</u>	<u>\$ 3,366,453</u>
	2019						
	Residential Real Estate	Commercial Real Estate	Construction Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
Beginning balance	\$ 1,173,878	\$ 120,024	\$ -	\$ 768,642	\$ 1,344,251	\$ 77,096	\$ 3,483,891
Charge-offs	(126,107)	(15,000)	-	(653,622)	(603,312)	-	(1,398,041)
Recoveries	24,214	940	-	9,202	125,470	-	159,826
Provision	281,650	12,159	-	287,182	111,841	287,168	980,000
Ending balance	<u>\$ 1,353,635</u>	<u>\$ 118,123</u>	<u>\$ -</u>	<u>\$ 411,404</u>	<u>\$ 978,250</u>	<u>\$ 364,264</u>	<u>\$ 3,225,676</u>

During the year ended December 31, 2020, the Bank made additional provisions to the residential real estate portfolio, due to the increase in the portfolio, as well as due to economic uncertainty with the COVID-19 pandemic.

The total allowance for loan losses reflects management's estimate of loan losses inherent in the loan portfolio at the Consolidated Balance Sheet date. The Bank considers the allowance for loan losses adequate to cover loan losses inherent in the loan portfolio at December 31, 2020. The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2020 and 2019.

5. ALLOWANCE FOR LOAN LOSSES (Continued)

	2020						
	Residential Real Estate	Commercial Real Estate	Construction Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
Allowance for loan losses:							
Individually evaluated for impairment	\$ 30,954	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,954
Collectively evaluated for impairment	<u>1,620,636</u>	<u>154,975</u>	<u>-</u>	<u>415,124</u>	<u>873,770</u>	<u>270,994</u>	<u>3,335,499</u>
Total ending allowance balance	<u>\$ 1,651,590</u>	<u>\$ 154,975</u>	<u>\$ -</u>	<u>\$ 415,124</u>	<u>\$ 873,770</u>	<u>\$ 270,994</u>	<u>\$ 3,366,453</u>
Loans:							
Individually evaluated for impairment	\$ 367,551	\$ 853,690	\$ -	\$ 48,673	\$ -	\$ -	\$ 1,269,914
Collectively evaluated for impairment	<u>201,661,417</u>	<u>12,074,826</u>	<u>908,608</u>	<u>4,005,566</u>	<u>16,687,456</u>	<u>-</u>	<u>235,337,873</u>
Total ending loans balance	<u>\$ 202,028,968</u>	<u>\$ 12,928,516</u>	<u>\$ 908,608</u>	<u>\$ 4,054,239</u>	<u>\$ 16,687,456</u>	<u>\$ -</u>	<u>\$ 236,607,787</u>
	2019						
	Residential Real Estate	Commercial Real Estate	Construction Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
Allowance for loan losses:							
Individually evaluated for impairment	\$ 12,784	\$ 7,937	\$ -	\$ -	\$ 1,410	\$ -	\$ 22,131
Collectively evaluated for impairment	<u>1,340,851</u>	<u>110,186</u>	<u>-</u>	<u>411,404</u>	<u>976,840</u>	<u>364,264</u>	<u>3,203,545</u>
Total ending allowance balance	<u>\$ 1,353,635</u>	<u>\$ 118,123</u>	<u>\$ -</u>	<u>\$ 411,404</u>	<u>\$ 978,250</u>	<u>\$ 364,264</u>	<u>\$ 3,225,676</u>
Loans:							
Individually evaluated for impairment	\$ 364,662	\$ 815,090	\$ -	\$ 244,747	\$ 1,410	\$ -	\$ 1,425,909
Collectively evaluated for impairment	<u>200,951,081</u>	<u>12,749,217</u>	<u>695,346</u>	<u>4,697,447</u>	<u>17,866,304</u>	<u>-</u>	<u>236,959,395</u>
Total ending loans balance	<u>\$ 201,315,743</u>	<u>\$ 13,564,307</u>	<u>\$ 695,346</u>	<u>\$ 4,942,194</u>	<u>\$ 17,867,714</u>	<u>\$ -</u>	<u>\$ 238,385,304</u>

5. ALLOWANCE FOR LOAN LOSSES (Continued)

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 experiences with similarly graded loans.

	2020					
	Residential Real Estate	Commercial Real Estate	Construction Real Estate	Commercial and Industrial	Consumer	Total
Pass	\$ 199,460,326	\$ 11,812,128	\$ 908,608	\$ 3,920,239	\$ 16,362,801	\$ 232,464,102
Substandard	2,568,642	1,116,388	-	122,338	205,467	4,012,835
Doubtful	-	-	-	11,662	119,188	130,850
Ending balance	<u>\$ 202,028,968</u>	<u>\$ 12,928,516</u>	<u>\$ 908,608</u>	<u>\$ 4,054,239</u>	<u>\$ 16,687,456</u>	<u>\$ 236,607,787</u>
	2019					
	Residential Real Estate	Commercial Real Estate	Construction Real Estate	Commercial and Industrial	Consumer	Total
Pass	\$ 198,496,434	\$ 12,777,590	\$ 695,346	\$ 4,535,006	\$ 17,445,782	\$ 233,950,158
Substandard	2,819,309	107,806	-	73,241	249,250	3,249,606
Doubtful	-	678,911	-	333,947	172,682	1,185,540
Ending balance	<u>\$ 201,315,743</u>	<u>\$ 13,564,307</u>	<u>\$ 695,346</u>	<u>\$ 4,942,194</u>	<u>\$ 17,867,714</u>	<u>\$ 238,385,304</u>

The Bank's internally assigned grades are as follows:

Pass – loans that are protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral.

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. Substandard loans typically consist of residential real estate loans contractually past due 90 days or more, and commercial real estate, construction real estate, commercial and industrial, and consumer loans contractually past due 60 to 89 days.

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. Doubtful loans typically consist of commercial real estate, construction real estate, commercial and industrial, and consumer loans contractually past due 90 days or more.

Nonperforming loans consist of loans that are on a nonaccrual basis and loans contractually past due 90 days or more but are not on nonaccrual status because they are well secured or in the process of collection.

5. ALLOWANCE FOR LOAN LOSSES (Continued)

Credit Quality Information (Continued)

Following are tables that include an aging analysis of the recorded investment of past-due loans as of December 31, 2020 and 2019.

	2020					
	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans
Real estate:						
Residential	\$ 8,300,840	\$ 2,596,389	\$ 2,568,642	\$ 13,465,871	\$ 188,563,097	\$ 202,028,968
Commercial	1,017,009	262,698	307,028	1,586,735	11,341,781	12,928,516
Construction	-	-	34,257	34,257	874,351	908,608
Commercial and industrial	329,937	73,665	11,662	415,264	3,638,975	4,054,239
Consumer	968,919	205,467	119,188	1,293,574	15,393,882	16,687,456
Total	<u>\$ 10,616,705</u>	<u>\$ 3,138,219</u>	<u>\$ 3,040,777</u>	<u>\$ 16,795,701</u>	<u>\$ 219,812,086</u>	<u>\$ 236,607,787</u>
	2019					
	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans
Real estate:						
Residential	\$ 9,861,077	\$ 4,727,079	\$ 2,688,416	\$ 17,276,572	\$ 184,039,171	\$ 201,315,743
Commercial	385,990	74,858	-	460,848	13,103,459	13,564,307
Construction	-	-	-	-	695,346	695,346
Commercial and industrial	139,627	51,577	-	191,204	4,750,990	4,942,194
Consumer	920,787	434,364	211,284	1,566,435	16,301,279	17,867,714
Total	<u>\$ 11,307,481</u>	<u>\$ 5,287,878</u>	<u>\$ 2,899,700</u>	<u>\$ 19,495,059</u>	<u>\$ 218,890,245</u>	<u>\$ 238,385,304</u>

5. ALLOWANCE FOR LOAN LOSSES (Continued)

Impaired Loans

Commercial loans and commercial real estate loans with larger balances that are 90 days or more past due are selected for impairment testing. These loans are analyzed to determine whether 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 tables include the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount at December 31, 2020 and 2019:

	2020						
	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance	Total Impaired Loans			
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Average Recorded Investment	Unpaid Principal Balance	Interest Income Recognized
Commercial real estate	\$ -	\$ -	\$ 853,690	\$ 853,690	\$ 925,978	\$ 853,690	\$ 72,115
Commercial and industrial	-	-	48,673	48,673	52,514	48,673	5,562
Residential real estate	183,594	30,594	183,957	367,551	359,739	367,551	20,570
	<u>\$ 183,594</u>	<u>\$ 30,594</u>	<u>\$ 1,086,320</u>	<u>\$ 1,269,914</u>	<u>\$ 1,338,231</u>	<u>\$ 1,269,914</u>	<u>\$ 98,247</u>
	2019						
	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance	Total Impaired Loans			
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Average Recorded Investment	Unpaid Principal Balance	Interest Income Recognized
Commercial real estate	\$ 108,737	\$ 7,937	\$ 706,353	\$ 815,090	\$ 807,446	\$ 815,090	\$ 41,131
Commercial and industrial	-	-	244,747	244,747	906,218	244,747	46,190
Residential real estate	75,784	12,784	157,985	364,662	388,060	364,662	19,262
Consumer	1,410	1,410	-	1,410	1,964	1,410	202
	<u>\$ 185,931</u>	<u>\$ 22,131</u>	<u>\$ 1,109,085</u>	<u>\$ 1,425,909</u>	<u>\$ 2,103,688</u>	<u>\$ 1,425,909</u>	<u>\$ 106,785</u>

5. ALLOWANCE FOR LOAN LOSSES (Continued)

Nonaccrual Loans

Loans are evaluated for nonaccrual status upon 90 days delinquency. When a loan is placed in nonaccrual status, previously accrued but unpaid interest is deducted from interest income.

The following tables present loans that are on nonaccrual status and that are 90 days delinquent and still accruing interest by portfolio segment as of December 31, 2020 and 2019:

	2020		2019	
	<u>> 90 Days and Accruing</u>	<u>Nonaccrual</u>	<u>> 90 Days and Accruing</u>	<u>Nonaccrual</u>
Real estate:				
Residential	\$ 2,434,994	\$ 133,648	\$ 2,688,416	\$ 130,893
Commercial	-	699,990	-	999,556
Construction	34,257	-	-	-
Commercial and industrial	-	54,886	-	1,033,870
Consumer	119,188	-	211,284	-
Total	<u>\$ 2,588,439</u>	<u>\$ 888,524</u>	<u>\$ 2,899,700</u>	<u>\$ 2,164,319</u>

Troubled Debt Restructuring (TDR)

The loan portfolio also includes certain loans that have been modified in a TDR, where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance, or other actions. Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months. TDRs at December 31, 2020 and 2019 were \$800,652 and \$0, respectively. No specific reserves have been established for TDRs for the years ended December 31, 2020 and 2019.

The Bank granted modifications that are considered TDRs to seven residential loans totaling \$694,274 and one commercial real estate loan totaling \$106,378 during the year ended December 31, 2020. The pre-modification and the post-modification balances of these loans totaled \$694,274 for the residential loans and \$106,378 for the commercial real estate loan. The Bank granted payment extensions to all eight of the borrowers.

The Bank did not grant any TDRs during the year ended December 31, 2019. Additionally, the Bank did not have any TDRs that were granted in the previous 12 months that defaulted in either of the years ended December 31, 2020, or 2019.

COVID-19 Loan Forbearance Programs

Section 4013 of the CARES Act provides that banks may elect not to categorize a loan modification as a TDR if the loan modification is (1) related to the novel coronavirus disease (COVID-19); (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020, and the earlier of (a) 60 days after the date on which the national emergency concerning the COVID-19 outbreak declared by the president on March 13, 2020, under the National Emergencies Act terminates, or (b) December 31, 2020. This expiration date was subsequently extended to January 1, 2022, when the 2021 Consolidated Appropriation Act was signed into law on December 27, 2020.

5. ALLOWANCE FOR LOAN LOSSES (Continued)

COVID-19 Loan Forbearance Programs (Continue)

On April 7, 2020, federal banking regulators issued a revised interagency statement that included guidance on their approach for the accounting of loan modifications in light of the economic impact of the COVID-19 pandemic. The guidance interprets current accounting standards and indicates that a lender can conclude that a borrower is not experiencing financial difficulty if short-term modifications are made in response to COVID-19, such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant related to the loans in which the borrower is less than 30 days past due on its contractual payments at the time a modification program is implemented.

According to the Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised) issued by the federal bank regulatory agencies on April 7, 2020, short-term loan modifications not otherwise eligible under Section 4013 that are made on a good-faith basis in response to COVID-19 to borrowers who were current prior to any relief are not TDRs. This includes short-term (e.g., six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant.

For the year ended December 31, 2020, the Bank had 575 customers who had requested loan payment deferrals or payments of interest only on loans totaling \$24.6 million, which, in accordance with Section 4013 of the CARES Act and the interagency guidance issued on April 7, 2020, were not TDRs.

In addition, the risk-rating on COVID-19 modified loans did not change, and these loans will not be considered past due until after the deferral period is over and scheduled payments resume. The credit quality of these loans will be reevaluated after the deferral period ends.

Paycheck Protection Program

During 2020 the Bank participated in the Paycheck Protection Program (PPP), administered directly by the U.S. SBA. The PPP provides loans to small businesses who were affected by economic conditions as a result of COVID-19 to provide cash-flow assistance to employers who maintain their payroll (including healthcare and certain related expenses), mortgage interest, rent, leases, utilities and interest on existing debt during the COVID-19 emergency. As of December 31, 2020, the Bank had outstanding principal balances of approximately \$572,000. The PPP loans are fully guaranteed by the SBA and may be eligible for forgiveness by the SBA to the extent that the proceeds are used to cover eligible payroll costs, interest costs, rent, and utility costs over a period of up to 24 weeks after the loan is made as long as certain conditions are met regarding employee retention and compensation levels. PPP loans deemed eligible for forgiveness by the SBA will be repaid by the SBA to the Bank. PPP loans are included in the commercial loan category.

In accordance with the SBA terms and conditions on these PPP loans, the Bank received approximately \$32,000 in fees associated with the processing of these loans. Upon funding of the loan, these fees were deferred and will be amortized over the life of the loan as an adjustment to yield in accordance with FASB ASC 310-20-25-2.

6. PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows:

	<u>2020</u>	<u>2019</u>
Land and improvements	\$ 708,544	\$ 708,544
Buildings and improvements	5,907,932	5,907,932
Furniture, fixtures, and equipment	3,532,317	3,453,481
Right of use asset	136,211	148,055
Construction in process	22,711	-
	<u>10,307,715</u>	<u>10,218,012</u>
Less accumulated depreciation	<u>6,877,779</u>	<u>6,738,287</u>
Total	<u>\$ 3,429,936</u>	<u>\$ 3,479,725</u>

Depreciation charged to operations was \$272,008 in 2020 and \$323,748 in 2019.

7. DEPOSITS

Time deposits at December 31, 2020, mature \$44,622,702, \$6,346,901, and \$4,287,011 during 2021, 2022, and 2023, respectively.

The aggregate of all time deposit accounts of \$250,000 or more amounted to \$10,309,950 and \$14,731,577 at December 31, 2020 and 2019, respectively.

Maturities on time deposits of \$250,000 or more at December 31, 2020, are as follows:

Three months or less	\$ 1,918,931
Three to six months	3,101,274
Six to twelve months	4,775,229
Over one year	514,516
Total	<u>\$ 10,309,950</u>

8. LEASE

Due to the adoption of ASU 2016-02, *Leases (Topic 842)*, the Bank completed a comprehensive review and analysis of all its property contracts. As a result of this review, it was determined that the Bank has one financing lease.

	December 31,	
	<u>2020</u>	<u>2019</u>
Financing lease cost:		
Amortization of right-of-use asset	\$ 11,844	\$ 11,844
Interest expense	<u>3,479</u>	<u>3,694</u>
Total lease cost	<u>\$ 15,323</u>	<u>\$ 15,538</u>

The following tables present the weighted-average remaining lease term and discount rate for the lease outstanding at December 31, 2020.

	<u>Financing</u>
Weighted-average remaining term (months)	138
Weighted-average discount rate	2.37%

8. LEASE (Continued)

The following table presents the undiscounted cash flows due related to the financing lease as of December 31, 2020.

Undiscounted cash flows due within:

2021	\$	12,600
2022		13,200
2023		13,800
2024		13,800
2025		13,800
2026 and thereafter		<u>95,700</u>
Total undiscounted cash flows		162,900
Discount on cash flows		<u>(21,028)</u>
Total lease liability	\$	<u><u>141,872</u></u>

9. INCOME TAXES

The provision for income taxes consists of:

	<u>2020</u>	<u>2019</u>
Current	\$ 986,016	\$ 930,994
Deferred	<u>(1,399,966)</u>	<u>1,121,811</u>
Total (benefit) provision	<u>\$ (413,950)</u>	<u>\$ 2,052,805</u>

The following temporary differences gave rise to the net deferred tax liabilities:

	<u>2020</u>	<u>2019</u>
Deferred tax assets:		
Allowance for loan losses	\$ 528,442	\$ 485,660
Impairment of investment securities	108,338	108,338
Defined pension benefit plan	575,860	826,018
Other employee benefits	161,113	150,121
Other	<u>17,989</u>	<u>27,917</u>
Total gross deferred tax assets	<u>1,391,742</u>	<u>1,598,054</u>
Net unrealized gains on investment securities	(731,373)	(469,892)
Equity securities fair market value adjustment	(2,720,580)	(4,156,430)
Investment securities basis adjustments	(1,165,560)	(1,165,560)
Premises and equipment	<u>(128,193)</u>	<u>(121,610)</u>
Total gross deferred tax liabilities	<u>(4,745,706)</u>	<u>(5,913,492)</u>
Net deferred tax liabilities	<u>\$ (3,353,964)</u>	<u>\$ (4,315,438)</u>

9. INCOME TAXES (Continued)

No valuation allowance was established at December 31, 2020 and 2019, in view of the Bank's ability to carry-back to taxes paid in previous years and certain tax strategies, coupled with the anticipated future taxable income, as evidenced by the Bank's earnings potential.

The reconciliation of the federal statutory rate and the Bank's effective income tax rate is as follows:

	2020		2019		
	Amount	% of Pretax Income	Amount	% of Pretax Income	
Provision at statutory rate	\$ (183,144)	(21.0) %	\$ 2,325,643	21.0	%
Effect of tax-free income	(123,672)	(14.2)	(175,679)	(1.6)	
Nondeductible interest expense	3,897	0.4	5,375	-	
Dividend received deduction	(122,449)	(14.0)	(119,694)	(1.1)	
Other, net	11,418	1.3	17,160	0.2	
Actual tax (benefit) expense and effective rate	<u>\$ (413,950)</u>	<u>(47.5) %</u>	<u>\$ 2,052,805</u>	<u>18.5</u>	<u>%</u>

GAAP prescribe a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met.

There is currently no liability for uncertain tax positions and no known unrecognized tax benefits. The Bank recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the Consolidated Statement of Income. With few exceptions, the Bank is no longer subject to U.S. federal, state, or local income tax examinations by tax authorities for years before 2017.

10. EMPLOYEE BENEFITS

The Bank sponsors a trusted, noncontributory defined benefit pension plan covering substantially all employees and officers. The plan calls for benefits to be paid to eligible employees at retirement based primarily upon years of service with the Bank and compensation rates near retirement. The Bank's funding policy is to make annual contributions, if needed, based upon the funding formula developed by the plan's actuary.

The Bank also sponsors a defined postretirement life insurance plan covering all employees and retirees. The plan provides for life insurance upon retirement for life. The benefit is based on a percentage of annual compensation immediately preceding retirement, and the benefit is reduced annually by 10 percent of compensation until the benefit reaches a minimum of \$6,000.

Obligations and Funded Status

The following table sets forth the change in the plan assets and the projected benefit obligations at December 31:

	Pension Benefits		Other Benefits	
	2020	2019	2020	2019
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 25,783,492	\$ 22,658,136	\$ 909,045	\$ 785,391
Service cost	686,257	612,049	18,285	13,835
Interest cost	883,304	941,575	31,633	33,198
Actuarial loss	2,007,472	2,486,428	47,690	86,041
Benefits paid	(957,072)	(914,696)	(10,123)	(9,420)
Benefit obligation at end of year	<u>28,403,453</u>	<u>25,783,492</u>	<u>996,530</u>	<u>909,045</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	22,346,147	18,630,770	-	-
Actual return gain on plan assets	3,829,771	4,012,073	-	-
Employer contribution	600,000	618,000	10,123	9,420
Benefits paid	(957,072)	(914,696)	(10,123)	(9,420)
Fair value of plan assets at end of year	<u>25,818,846</u>	<u>22,346,147</u>	<u>-</u>	<u>-</u>
Funded status	<u>\$ (2,584,607)</u>	<u>\$ (3,437,345)</u>	<u>\$ (996,530)</u>	<u>\$ (909,045)</u>
Amounts recognized in accumulated other comprehensive income consist of:				
Net loss	\$ 4,934,290	\$ 5,438,712	\$ 171,872	\$ 126,607
Prior service cost	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 4,934,290</u>	<u>\$ 5,438,712</u>	<u>\$ 171,872</u>	<u>\$ 126,607</u>

The accumulated benefit obligation for the defined benefit pension plan was \$25,386,882 and \$23,055,925 at December 31, 2020 and 2019, respectively.

10. EMPLOYEE BENEFITS (Continued)

Components of Net Periodic Benefit Cost

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Service cost	\$ 686,257	\$ 612,049	\$ 18,285	\$ 13,835
Interest cost	883,304	941,575	31,633	33,198
Expected return on plan assets	(1,543,993)	(1,286,914)	-	-
Amortization of prior service cost	-	-	-	5,800
Amortization of net loss	226,116	298,480	2,425	-
Net periodic benefit cost	<u>\$ 251,684</u>	<u>\$ 565,190</u>	<u>\$ 52,343</u>	<u>\$ 52,833</u>

The estimated net loss and prior service cost that will be amortized from accumulated other comprehensive income into the net periodic benefit cost in 2021 are as follows:

	<u>Pension Benefits</u>	<u>Other Benefits</u>
Net loss	\$ 153,740	\$ 4,588
Prior service costs	-	-
Total	<u>\$ 153,740</u>	<u>\$ 4,588</u>

Assumptions

The weighted-average assumptions used to determine benefit obligations at December 31 are as follows:

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Discount rate	3.00 %	3.50 %	3.00 %	3.50 %
Expected long-term return on plan assets	7.00	7.00	7.00	7.00
Rate of compensation increase	3.00	3.00	3.00	3.00

The weighted-average assumptions used to determine net periodic benefit cost for years ended December 31 are as follows:

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Discount rate	3.50 %	4.25 %	3.50 %	4.25 %
Expected long-term return on plan assets	7.00	7.00	7.00	7.00
Rate of compensation increase	3.00	3.00	3.00	3.00

The long-term rate of return on plan assets gives consideration to returns currently being earned on plan assets, as well as future rates expected to be earned.

Plan Assets

The Bank's defined benefit pension plan weighted-average asset allocations at December 31 by assets category are as follows:

<u>Asset Category</u>	<u>2020</u>	<u>2019</u>
Stock fund	62.32 %	60.00 %
Bond fund	37.68	40.00
Total	<u>100.00 %</u>	<u>100.00 %</u>

The investment policy for the defined benefit pension plan assets is to maintain approximately 60 percent in an equity securities fund and 40 percent in a fixed income bond fund.

10. EMPLOYEE BENEFITS (Continued)

Plan Assets (Continued)

The following tables set forth by level, within the fair value hierarchy, the plan's assets at fair value as of December 31, 2020 and 2019:

	December 31, 2020			
	Level I	Level II	Level III	Total
Assets:				
Vanguard Balanced Index Fund #869	\$ 13,650,794	\$ -	\$ -	\$ 13,650,794
Vanguard Wellington Fund #521	2,438,334	-	-	2,438,334
Vanguard Star Fund #56	9,729,718	-	-	9,729,718
Total assets at fair value	<u>\$ 25,818,846</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,818,846</u>
	December 31, 2019			
	Level I	Level II	Level III	Total
Assets:				
Vanguard Balanced Index Fund #869	\$ 12,635,696	\$ -	\$ -	\$ 12,635,696
Vanguard Wellington Fund #521	1,705,025	-	-	1,705,025
Vanguard Star Fund #56	8,005,426	-	-	8,005,426
Total assets at fair value	<u>\$ 22,346,147</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,346,147</u>

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2020.

Mutual Funds

Mutual funds are valued at the net asset value (NAV) of shares held by the plan at year-end.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Cash Flows

The Bank expects to contribute \$600,000 to its defined benefit pension plan in 2021.

The following benefit payments that reflect expected future service, as appropriate, are expected to be paid:

	Plan Benefits
2021	\$ 1,096,000
2022	1,203,000
2023	1,199,000
2024	1,415,000
2025	1,456,000
Thereafter	<u>7,371,000</u>
Total	<u>\$ 13,740,000</u>

11. COMMITMENTS

In the normal course of business, there are outstanding commitments and contingent liabilities, such as commitments to extend credit, financial guarantees, and letters of credit, which are not reflected in the accompanying consolidated financial statements. The Bank does not anticipate any losses as a result of these transactions. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Consolidated Balance Sheet. The contract or notional amounts of these instruments reflect the extent of involvement the Bank has in the particular classes of financial instruments.

The off-balance-sheet commitments at December 31 comprise the following:

	<u>2020</u>	<u>2019</u>
Commitments to extend credit	\$ 6,532,026	\$ 9,870,175
Standby letters of credit	<u>1,746,568</u>	<u>2,891,441</u>
Total	<u>\$ 8,278,594</u>	<u>\$ 12,761,616</u>

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the loan agreement. These commitments consist primarily of available commercial lines of credit and mortgage loan commitments. The Bank uses the same credit policies in making loan commitments and conditional obligations as it does for on-balance-sheet instruments. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, as deemed necessary, is based upon management's credit evaluation in compliance with the Bank's lending policy guidelines. Customers use credit commitments to ensure funds will be available for working capital purposes and capital expenditures and to ensure access to funds at specified terms and conditions.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Performance letters of credit represent conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. These instruments are issued primarily to support bid or performance-related contracts. The coverage period for these instruments is typically a one-year period, with an annual renewal option subject to prior approval by management. Fees earned from the issuance of these letters are recognized over the coverage period. For secured letters of credit, the collateral is typically Bank deposit instruments or customer business assets.

12. REGULATORY RESTRICTIONS

Cash and Due From Banks

Included in cash and due from banks are required federal reserves of \$0 and \$2,055,000 at December 31, 2020 and 2019, respectively, for facilitating the implementation of monetary policy by the Federal Reserve System. The required reserves are computed by applying prescribed ratios to the classes of average deposit balances. These reserves are held in the form of cash on hand.

Dividends

The Pennsylvania Banking Code restricts the availability of surplus for dividend purposes. At December 31, 2020, surplus funds of \$8,871,788 were not available for dividends.

13. REGULATORY CAPITAL REQUIREMENTS

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, under-capitalized, significantly under-capitalized, and critically under-capitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If under-capitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. As of December 31, 2020 and 2019, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

In November 2019, federal bank regulatory agencies finalized a rule that simplifies capital requirements for community banks by allowing them to optionally adopt a simple leverage ratio to measure capital adequacy, which removes requirements for calculating and reporting risk-based capital ratios for a qualifying community bank that have less than \$10 billion in total consolidated assets, limited amounts of off-balance-sheet exposures and trading assets and liabilities, and a leverage ratio greater than 9 percent. The community bank leverage ratio framework was effective on January 1, 2020. The Bank has elected to adopt the optional community bank leverage ratio framework in the first quarter of 2020.

In April 2020, the federal banking regulatory agencies modified the original community bank leverage ratio (CBLR) framework and provided that, as of the second quarter 2020, a banking organization with a leverage ratio of 8 percent or greater and that meets the other existing qualifying criteria may elect to use the community bank leverage ratio framework. The modified rule also states that the community bank leverage ratio requirement will be greater than 8 percent for the second through fourth quarters of calendar year 2020, greater than 8.5 percent for calendar year 2021, and greater than 9 percent thereafter. The transition rule also maintains a two-quarter grace period for a qualifying community banking organization whose leverage ratio falls no more than 100 basis points below the applicable community bank leverage ratio requirement.

The leverage ratios of the Bank at December 31, 2020, and the Tier 1 risk based, Tier 1 common equity, and Tier 1 leverage ratios of the Bank as of December 31, 2019, are as follows:

	2020			2019		
	Amount	Ratio		Amount	Ratio	
<u>Total capital</u>						
<u>(to risk-weighted assets)</u>						
Actual	\$	N/A	N/A %	\$ 76,147,001	27.15 %	
For capital adequacy purposes		N/A	N/A	22,438,400	8.00	
To be well capitalized		N/A	N/A	28,048,000	10.00	
<u>Common equity Tier 1 capital</u>						
<u>(to risk-weighted assets)</u>						
Actual	\$	N/A	N/A %	\$ 72,921,325	26.00 %	
For capital adequacy purposes		N/A	N/A	12,621,325	4.50	
To be well capitalized		N/A	N/A	18,231,200	6.50	
<u>Tier 1 capital</u>						
<u>(to risk-weighted assets)</u>						
Actual	\$	N/A	N/A %	\$ 72,921,325	26.00 %	
For capital adequacy purposes		N/A	N/A	16,828,800	6.00	
To be well capitalized		N/A	N/A	22,438,400	8.00	
<u>Tier 1 capital</u>						
<u>(to average assets)</u>						
Actual	\$	85,581,796	20.85 %	\$ 72,921,325	19.72 %	
For capital adequacy purposes		16,420,678	4.00	14,613,383	4.00	
To be well capitalized		20,525,847	5.00	18,266,728	5.00	

14. FAIR VALUE MEASUREMENTS

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

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

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

The following tables present the assets measured on a recurring basis on the Consolidated Balance Sheet at their fair value as of December 31, 2020 and 2019, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	December 31, 2020			
	Level I	Level II	Level III	Total
Investment securities available for sale:				
U.S. government agencies	\$ -	\$ 45,895,869	\$ -	\$ 45,895,869
Obligations of states and political subdivisions	-	19,009,030	-	19,009,030
Corporate securities	-	35,915,966	-	35,915,966
Equity securities in financial institutions	28,286,601	-	-	28,286,601
Total	\$ 28,286,601	\$ 100,820,865	\$ -	\$ 129,107,466
	December 31, 2019			
	Level I	Level II	Level III	Total
Investment securities available for sale:				
U.S. government agencies	\$ -	\$ 33,815,166	\$ -	\$ 33,815,166
Obligations of states and political subdivisions	-	25,889,156	-	25,889,156
Corporate securities	-	41,332,980	-	41,332,980
Equity securities in financial institutions	35,123,983	-	-	35,123,983
Total	\$ 35,123,983	\$ 101,037,302	\$ -	\$ 136,161,285

The following tables present the assets measured on a nonrecurring basis on the Consolidated Balance Sheet at their fair value as of December 31, 2020 and 2019, by level within the fair value hierarchy. Impaired loans that are collateral-dependent are written down to fair value. Techniques used to value the collateral that secure the impaired loan include quoted market prices for identical assets classified as Level I inputs and observable inputs, employed by certified appraisers, for similar assets classified as Level II inputs. In cases where valuation techniques included inputs that are unobservable and are based on estimates and assumptions developed by management based on the best information available under each circumstance, the asset valuation is classified as Level III inputs.

14. FAIR VALUE MEASUREMENTS (Continued)

OREO is measured 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.

	December 31, 2020			
	Level I	Level II	Level III	Total
Impaired loans	\$ -	\$ -	\$ 1,239,320	\$ 1,239,320
Other real estate owned	-	-	816,399	816,399
Total	\$ -	\$ -	\$ 2,055,719	\$ 2,055,719

	December 31, 2019			
	Level I	Level II	Level III	Total
Impaired loans	\$ -	\$ -	\$ 1,403,778	\$ 1,403,778
Other real estate owned	-	-	621,929	621,929
Total	\$ -	\$ -	\$ 2,025,707	\$ 2,025,707

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

	Fair Value	December 31, 2020		
		Valuation Techniques	Unobservable Input	Range (Weighted Average)
Impaired loans	\$ 1,239,320	Appraisal of collateral (1)	Appraisal adjustments (2)	0.0% – 0.0% (0.0)
Other real estate owned	\$ 816,399	Appraisal of collateral (1), (2)		

	Fair Value	December 31, 2019		
		Valuation Techniques	Unobservable Input	Range (Weighted Average)
Impaired loans	\$ 1,403,778	Appraisal of collateral (1)	Appraisal adjustments (2)	1.0% – 10.0% (9.2%)
Other real estate owned	\$ 621,929	Appraisal of collateral (1), (2)		

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

(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range and weighted average of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of the Bank's financial instruments are as follows:

	2020				Fair Value
	Carrying Value	Level I	Level II	Level III	
Financial assets:					
Net loans	\$ 233,241,334	\$ -	\$ -	\$ 235,605,115	\$ 235,605,115
Financial liabilities:					
Deposits	321,577,729	266,321,115	-	55,589,373	321,910,488
	2019				Fair Value
	Carrying Value	Level I	Level II	Level III	
Financial assets:					
Net loans	\$ 235,159,628	\$ -	\$ -	\$ 237,530,931	\$ 237,530,931
Financial liabilities:					
Deposits	285,694,404	227,258,708	-	58,935,906	286,194,614

For cash and due from banks, accrued interest receivable, restricted stock, lease liabilities, and accrued interest payable, the carrying value approximates fair value, which is considered a Level I measurement.

16. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents the changes in accumulated other comprehensive income (loss) by component net of tax for the years ended December 31, 2020 and 2019:

	Unrealized Gains on Available-for-Sale Securities	Unrecognized Pension Costs	Total
Balance as of January 1, 2019	\$ (459,409)	\$ (4,677,883)	\$ (5,137,292)
Other comprehensive income before reclassification	2,233,275	459,892	2,693,167
Amount reclassified from accumulated other comprehensive loss	(6,160)	(178,632)	(184,792)
Total other comprehensive income	2,227,115	281,260	2,508,375
Balance as of December 31, 2019	1,767,706	(4,396,623)	(2,628,917)
Other comprehensive income before reclassification	1,055,059	487,813	1,542,872
Amount reclassified from accumulated other comprehensive loss	(71,392)	(125,079)	(196,471)
Total other comprehensive income	983,667	362,734	1,346,401
Balance as of December 31, 2020	\$ 2,751,373	\$ (4,033,889)	\$ (1,282,516)

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

The following tables present significant amounts reclassified out of each component of accumulated other comprehensive income for the years ended December 31, 2020 and 2019:

December 31, 2020	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Consolidated Statement of Income
Unrealized gains on available-for-sale securities	\$ (90,370)	Investment securities gains
	<u>18,978</u>	Income tax (benefit) expense
	<u>\$ (71,392)</u>	
Net unrecognized pension costs	\$ (158,328)	Other noninterest expense
	<u>33,249</u>	Income tax (benefit) expense
	<u>\$ (125,079)</u>	

December 31, 2019	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Consolidated Statement of Income
Unrealized gains on available-for-sale securities	\$ 7,795	Investment securities gains
	<u>(1,635)</u>	Income tax (benefit) expense
	<u>\$ 6,160</u>	
Net unrecognized pension costs	\$ 226,116	Other noninterest expense
	<u>(47,484)</u>	Income tax (benefit) expense
	<u>\$ 178,632</u>	

17. RISKS AND UNCERTAINTIES

The impact of the COVID-19 pandemic is fluid and continues to evolve, adversely affecting many of the Bank's customers. The pandemic and its associated impacts on trade, travel, employee productivity, unemployment, and consumer spending has resulted in less economic activity and volatility and disruption in the financial markets. The ultimate extent of the impact of the COVID-19 pandemic on the Bank's business, financial condition, and results of operations is currently uncertain and will depend on various developments and other factors, including, among others, the duration and scope of the pandemic, as well as governmental, regulatory, and private sector responses to the pandemic, and the associated impacts on the economy, financial markets, and our customers, employees, and vendors. While the full effects of the pandemic remains unknown, the Company is committed to supporting its customers, employees, and communities during this difficult time.

18. SUBSEQUENT EVENTS

Management has reviewed events occurring through March 1, 2021, the date the financial statements were issued, and no subsequent events occurred requiring accrual or disclosure.

BOARD OF DIRECTORS

T. Charles Chambers	Kenneth C. Kane
Martin J. Digel	Douglas E. Kuntz
Daniel J. Hartle	John W. Pierotti
Andrew O. Kane	John H. Yoder

ADVISORY BOARDS

Kane

Martin J. Digel	W. Graham Nannen
Kenneth C. Kane	Jon R. Peterson
David J. Malone	

Eldred

Gregory C. Bell	Deborah K. Keesler
Martin J. Digel	David J. Malone
Kristie D. Burgess	Lance L. Ours

Bradford

Jonathan H. Benedict	Kenneth C. Kane
Martin J. Digel	David J. Malone
Daniel J. Hartle	Margaret C. Tornatela

OFFICERS

Martin J. DigelChairman, President, Chief Executive Officer
Jeffrey A. Wilson.....Senior Vice President Operations, and Treasurer
Jon R. Peterson.....Manager - Kane Office and Mortgage Loan Officer
Lance L. Ours.....Manager - Olean Office and Mortgage Loan Officer
Kristie D. BurgessManager - Eldred Office and Mortgage Loan Officer
Jonathan H. BenedictManager - Bradford Office and Mortgage Loan Officer
Tammy L. Alexis.....Manager - Mt Jewett Office and Mortgage Loan Officer
David Seipp.....Trust Officer
Jeanmarie A. McClureTrust Officer
W. Graham NannenMortgage Loan Officer; Security Officer
David C. Yoder.....Information Technology Officer
Laurie J. KnappCompliance Officer, BSA Officer
Brian P. BaileyManager - Technology
Mischelle G. Heffner.....Secretary and Personnel Administrator
Nancy WolfeManager - Electronic Banking
Julia G. VanGorder.....Manager - Customer Service
Kelly V. BrinkleyLoan Officer
Tammy L. Johnson.....Loan Officer
Drew ShafferLoan Officer, Collections
Julie A. BlintInstallment Loan Officer
Jennifer J. Southard.....Installment Loan Officer
Christine A. BurdickCollections Officer/Installment Loan Officer
Kyle J. MeseroleCollections Officer
Lisa M. ClarkAssistant Secretary

EMPLOYEES

Smethport

Denise M. App	Paula J. Dodge	Amy L. Spitler
Zoe R. Barr	Sarah E. Irons	Laurie J. Strang
David A. Catalone	Melissa A. Keech	Sandra K. Swanson
Dianna L. Chapman	Tammy M. Nolte	Crystal L. VanGorder
Kimberley A. Conn	Shyanna RL Olson	Wendy E. Whitsell
Tina L. Dawley	Katelin E. Rooke	Cindi L. Wymer
	Jessica M. Seipp	

Mt. Jewett

Leah M. Carlson
Penny J. Conant
Haylee Himes
Linda I. Motts

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