Northumberland Bancorp

Consolidated Financial Statements

December 31, 2020 and 2019

Northumberland Bancorp

Contents

Northumberland Bancorp

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April 22, 2021

To Our Stockholders:

What can we say about 2020 that has not already been said? We can say that this institution survived one global pandemic over 100 years ago and we did it again. At the start of the COVID-19 pandemic, public officials determined banking to be an essential business and thus required that we do our best to remain operating. We, and the entire banking industry, took this responsibility very seriously and immediately developed plans to remain in operation while the virus was rapidly spreading. In the spring of 2020 we temporarily closed our lobbies in order to keep our customers and employees safe. However, drive thru lanes, electronic banking services and ATMs were open for business. We also allowed in person customer visits by appointment only for various needs. Conducting those visits by appointment only allowed us to plan for a safe visit for both the customer and employee. Additionally, we added numerous protective measures including Plexiglas shields, masks, available gloves, and more robust and frequent cleaning. Additionally, we implemented social distancing and quarantine procedures designed to suppress the spread of the disease. During the summer months we re-opened our lobbies only to close them again in the fall, with the resurgence of the disease. As of March 8, 2021 all offices and lobbies are open for full service, with precautions in place. Hopefully, with the ongoing administration of the vaccines and spread of herd immunity, we will soon return to a sense of normal operations.

Regardless of the pandemic, you will see that your Bank experienced historically notable profitability. This was accomplished, even though total loan balances declined and other budgeted expectations were affected by the pandemic. Within this report, you will see that net income rose to $4,421,000 in 2020 over the $3,441,000 reported in 2019. This was fueled mainly by our mortgage banking activities, which flourished due to low interest rates, a surprisingly busy home buying market, combined with a refinance frenzy to take advantage of the low interest rates. The profits from those operations greatly offset the decline we experienced in net interest income, as the interest rate environment squeezed the interest margin and loans declined. Furthermore, you will notice that deposits grew by over $69,000,000. We believe many customers receiving various forms of stimulus money held those funds to some degree attributing to this fact. This deposit growth, combined with the inability to utilize it in funding loan growth, forced those funds to be invested in lower yielding investments suppressing net interest income performance as well.

Total assets grew to $611,745,000. This asset growth is the result of a significant increase in deposits that is now mainly residing in increased investments.

Regardless of net interest income actually declining year over year by $307,000, net income increased over 2019 results. Factors contributing to this position of increased profitability include the following:

- The Provision for Loan Losses declined $83,000
- Trust income increased $53,000 or 6.26% from 2019
- Gains from sale of mortgages increased $1,434,000 or 251.14% from 2019

- Service charges on deposit accounts actually fell $41,000 from 2019 as the bank waived certain fees for customers during the pandemic

We continue to be well capitalized. Tier one Leverage Capital of the Bank was 9.82% compared to 10.37% in 2019. Common Equity Tier One Capital, Tier One Risk Based Capital and Total Risked Based Capital were 17.08%, 17.08% and 18.16% compared to 16.45%, 16.45% and 17.47%, respectively. Past due loans decreased to $2,727,000 compared to $4,037,000 in 2019, or 0.74% of outstanding loans compared to 1.08% in 2019. Given the economic crisis and associated high unemployment rates of 2020, caused by the pandemic, one would expect the exact opposite. We are very proud that we were able to "gear up" to offer PPP loans to business customers and provide other proper assistance to retail customers as afforded under regulatory guidance.

We also want to provide this update. In last year's letter, you may recall that we were excited to announce the Bank filed an application with the Comptroller of the Currency to open a full-service branch office in Lewisburg, Pennsylvania. After having further research and initial site planning conducted, it was determined that the site was not ideal, mainly due to major changes planned for the adjoining intersection. Regardless, we continue to consider expanding our foot print into the Lewisburg market. In other branch office news, we completed a major renovation at our Port Trevorton office. Square footage was added for our employees and we greatly enhanced the drive thru services to provide 2 lanes and relocating the ATMs to a more suitable traffic flow. Previously there was only one lane which was a combined drive thru and ATMs lane.

We sincerely thank our stockholders, directors, officers and employees for your dedication, support and contributions to the Company's growth and success during the year.

J. Donald Steele, Jr.
Chairman & CEO

J. Todd Troxell
President & COO

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders
Northumberland Bancorp
Northumberland, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of Northumberland Bancorp which comprise the consolidated 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 consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements to design audit procedures that are appropriate in the circumstances, but not for 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 Northumberland Bancorp 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.

Crowe LLP

Crowe LLP

Washington, D.C.
April 22, 2021

Northumberland Bancorp

Consolidated Balance Sheets

(amounts in thousands except share and per share data)

December 31,		2020		2019
Assets				
Cash and due from banks	$	**1,281**	$	4,659
Interest-bearing deposits in other banks		**26,095**		5,721
Total cash and cash equivalents		**27,376**		10,380
Investment securities available-for-sale		**189,636**		127,026
Investment securities held-to-maturity (fair value of $1,030 in 2020 And $920 in 2019)		**1,014**		906
Equity securities		**205**		229
Total investment securities		**190,855**		128,161
Restricted stock, at cost		**3,002**		3,425
Loans held for sale		**2,622**		969
Loans		**364,529**		373,633
Less allowance for loan losses		**3,721**		3,451
Net loans		**360,808**		370,182
Premises and equipment		**9,434**		9,319
Bank-owned life insurance		**14,084**		11,805
Accrued interest and other assets		**3,564**		3,856
Total Assets	$	**611,745**	$	538,097
Liabilities and Stockholders' Equity				
Liabilities				
Deposits:				
Noninterest-bearing demand	$	**130,351**	$	96,251
Interest-bearing demand		**185,462**		141,816
Savings		**102,814**		85,093
Time deposits		**126,553**		152,700
Total deposits		**545,180**		475,860
Borrowings		**2,000**		3,500
Accrued interest and other liabilities		**2,523**		2,053
Total Liabilities		**549,703**		481,413
Stockholders' Equity				
Common stock, par value $0.10; 5,000,000 shares authorized, 1,502,500 shares issued and 1,327,858 shares outstanding in 2020 and 2019		**150**		150
Capital surplus		**3,832**		3,832
Retained earnings		**57,961**		54,669
Accumulated other comprehensive income		**2,358**		330
Treasury stock, at cost (174,642 shares in 2020 and 2019)		**(2,265)**		(2,265)
Total Northumberland Bancorp stockholders' equity		**62,037**		56,716
Non-controlling interest		**6**		(32)
Total Stockholders' Equity		**62,042**		56,684
Total Liabilities and Stockholders' Equity	$	**611,745**	$	538,097

Northumberland Bancorp

Consolidated Statements of Income

(amounts in thousands except share and per share data)

Years Ended December 31,		**2020**		2019
Interest and Dividend Income				
Interest and fees on loans:				
Taxable	$	**16,213**	$	16,617
Tax-exempt		**220**		350
Interest on interest-bearing deposits in other banks		**37**		176
Interest and dividends on investment securities:				
Taxable		**1,650**		2,174
Tax-exempt		**733**		772
Dividends		**228**		259
Total Interest and Dividend Income		**19,081**		20,348
Interest Expense				
Deposits		**3,425**		4,418
Short-term borrowings		**46**		13
Total Interest Expense		**3,471**		4,431
Net interest income		**15,610**		15,917
Provision for Loan Losses		**270**		353
Net Interest Income After Provision for Loan Losses		**15,340**		15,564
Noninterest Income				
Service charges on deposit accounts		**1,277**		1,318
Trust services income		**899**		846
Investment securities gains, net		**109**		69
Gains on sales of loans		**2,005**		571
Earnings on bank-owned life insurance		**278**		282
Change in fair value of equity securities		**(24)**		46
Other income		**1,027**		834
Total Noninterest Income		**5,571**		3,966
Noninterest Expense				
Salaries and employee benefits		**8,813**		8,757
Occupancy expense, net		**844**		762
Equipment expense		**976**		932
Professional fees		**876**		1,093
Data processing		**867**		935
Shares tax		**412**		450
Federal deposit insurance expense		**107**		71
Other expense		**2,681**		2,504
Total Noninterest Expense		**15,576**		15,504
Income before income taxes		**5,335**		4,026
Income Taxes		**876**		568
Net Income		**4,459**		3,458
Net income attributable to non-controlling interest		**38**		17
Net Income Attributable to Northumberland Bancorp	$	**4,421**	$	3,441
Earnings Per Share	$	**3.33**	$	2.59
Weighted-Average Shares Outstanding		**1,327,858**		1,327,858

Northumberland Bancorp

Consolidated Statements of Comprehensive Income

(amounts in thousands)

Years Ended December 31,		**2020**		2019
Net Income	$	**4,459**	$	3,458
Other Comprehensive Income / (Loss)				
Change in unrealized holding gains/(losses) on investment securities available-for-sale		**2,668**		2,444
Tax effect		**(560)**		(513)
Reclassification adjustment for investment securities (gains) / losses recognized in net income		**(101)**		(69)
Tax effect		**21**		15
Change in unrecognized pension costs		**-**		572
Tax effect		**-**		(120)
Reclassification adjustment for pension costs		**-**		342
Tax effect		**-**		(72)
Other Comprehensive Income, Net of Tax		**2,028**		2,599
Comprehensive income before non-controlling interest		**6,487**		6,057
Less: net income attributable to non-controlling interest		**38**		17
Comprehensive Income	$	**6,449**	$	6,040

See accompanying notes to consolidated financial statements.

Northumberland Bancorp

Consolidated Statements of Stockholders' Equity

(amounts in thousands excepts share and per share data)

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Non-controlling Interest	Total
Balance, January 1, 2019	$ 150	$ 3,832	$ 52,304	$ (2,269)	$ (2,265)	$ (49)	$ 51,703
Net income	-	-	3,441	-	-	17	3,458
Other comprehensive income	-	-	-	2,599	-	-	2,599
Dividends declared ($0.81 per share)	-	-	(1,076)	-	-	-	(1,076)
Balance, December 31, 2019	150	3,832	54,669	330	(2,265)	(32)	56,684
Net income	**-**	**-**	**4,421**	**-**	**-**	**38**	**4,459**
Other comprehensive income	**-**	**-**	**-**	**2,028**	**-**	**-**	**2,028**
Dividends declared ($0.85 per share)	**-**	**-**	**(1,129)**	**-**	**-**	**-**	**(1,129)**
Balance, December 31, 2020	**$ 150**	**$ 3,832**	**$ 57,961**	**$ 2,358**	**$ (2,265)**	**$ 6**	**$ 62,042**

See accompanying notes to consolidated financial statements.

Northumberland Bancorp

Consolidated Statements of Cash Flows
(amounts in thousands)

Years Ended December 31,	**2020**	2019
Cash Flows from Operating Activities		
Net income	$ **4,459**	$ 3,458
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**270**	353
Depreciation, amortization, and accretion, net	**1,650**	1,448
Proceeds from sales of loans held for sale	**47,819**	20,845
Gains on sales of loans	**(2,005)**	(571)
Originations of residential loans held for sale	**(47,467)**	(18,830)
Investment securities gains, net	**(109)**	(69)
Deferred income tax benefit	**(28)**	(79)
Earnings on bank-owned life insurance	**(278)**	(283)
Write-down of other real estate owned	**-**	59
(Increase) decrease in accrued interest receivable	**(38)**	109
Increase (decrease) in accrued interest payable	**(42)**	13
Other, net	**64**	(96)
Net Cash Provided by Operating Activities	**4,295**	6,357
Cash Flows from Investing Activities		
Investment securities available-for-sale:		
Proceeds from sales	**18,999**	20,563
Proceeds from maturities or redemptions	**29,140**	25,996
Purchases	**(109,199)**	(29,103)
Investment securities held-to-maturity:		
Proceeds from maturities or redemptions	**673**	925
Purchases	**(772)**	-
(Increase) decrease in loans, net	**9,185**	(24,025)
Purchases of premises and equipment, net	**(726)**	(343)
Purchases of restricted stock	**(500)**	(703)
Redemptions of restricted stock	**923**	877
Purchase of Bank-Owned Life Insurance	**(2,000)**	-
Proceeds from sale of real estate owned	**287**	330
Net Cash Used in Investing Activities	**(53,990)**	(5,483)
Cash Flows from Financing Activities		
Net Increase (decrease) in deposits	**69,320**	(1,647)
Net Increase (decrease) in short-term borrowed funds	**(1,500)**	325
Cash dividends paid	**(1,129)**	(1,076)
Net Cash Provided by Financing Activities	**66,691**	(2,398)
Decrease in cash and cash equivalents	**16,996**	(1,524)
Cash and Cash Equivalents, Beginning Of Year	**10,380**	11,904
Cash and Cash Equivalents, End Of Year	$ **27,376**	$ 10,380

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

A summary of significant accounting and reporting policies applied in the presentation of the accompanying consolidated financial statements follows:

Nature of Operations and Basis of Presentation

Northumberland Bancorp (the "Company") is a Pennsylvania corporation and is registered under the Bank Holding Company Act. The Company was organized as the holding company of its wholly owned subsidiary, The Northumberland National Bank (the "Bank"). The Bank is a nationally chartered commercial bank located in Northumberland, Pennsylvania. The Bank's service area includes portions of Northumberland, Snyder, and Union counties in Pennsylvania. The Company and the Bank derive substantially all of their income from banking and bank-related services, which include interest earnings on commercial, commercial mortgage, residential real estate, and consumer loan financing as well as interest earnings on investment securities and deposit and trust services to their customers. The Bank has a subsidiary, NNB Financial Services, which sells financial and insurance products. The Company is supervised by the Federal Reserve Board, while the Bank is subject to regulation and supervision by the Office of the Comptroller of the Currency.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, the Bank. Intercompany activity has been eliminated in consolidation.

Use of Estimates

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles and with general practice within the banking industry. In preparing the financial statements, management makes estimates and assumptions based upon available information. These estimates and assumptions affect the amounts reported in financial statements and the disclosures provided. Actual results could differ significantly from those estimates.

Investment Securities

Investment securities are classified at the time of purchase, based on management's intention and ability, as securities held-to-maturity or securities available-for-sale. Debt securities acquired with the intent and ability to hold to maturity are stated at cost adjusted for amortization of premium and accretion of discount that are computed using the level yield method and recognized as adjustments of interest income. Certain other debt securities have been classified as available-for-sale to serve principally as a source of liquidity. Equity securities are measured at fair value with changes in fair value recognized in current period earnings. Unrealized holding gains and losses for available- for-sale securities are reported as a separate component of stockholders' equity, net of tax, until realized. Realized securities gains and losses are computed using the specific identification method. Interest and dividends on investment securities are recognized as income when earned.

Debt securities are periodically reviewed for other-than-temporary impairment ("OTTI") based upon a number of factors including, but not limited to, the length of time and extent to which the market value has been less than cost, the financial condition of the underlying issuer, and the ability of the issuer to meet contractual obligations. Management also assesses whether it intends to sell, or is more likely than not that it will be required to sell, a debt security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: OTTI related to credit loss, which must be recognized in the income statement, and OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

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, as well as a minimum level of mortgages in the Mortgage Partnership Finance ("MPF") program. FHLB Stock is carried at cost, classified as restricted securities, and periodically evaluated or impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income.

Loans Held for Sale and Loans Serviced

Loans held for sale are carried at the lower of cost or fair value, as determined on an aggregate basis. Gains and losses on sales of mortgage loans are determined by the difference between the sale proceeds and the carrying value of loans. All sales are made with limited recourse. Loans held for sale were $2,622,000 and $969,000 at December 31, 2020 and 2019, respectively. At December 31, 2020 and 2019, the amounts of loans serviced by the Company for the benefit of others were $136,432,000 and $126,980,000, respectively. These loans are not included in the Company's consolidated balance sheet.

Mortgage Servicing Rights ("MSRs")

The Company has agreements for the express purpose of selling loans in the secondary market. The Company maintains servicing rights for certain loans. Originated MSRs are recorded by allocating total costs incurred between the loan and servicing rights based on their relative fair values. MSRs are amortized in proportion to the estimated servicing income over the estimated life of the servicing portfolio. Annually, the Company performs an impairment review of the MSRs and recognizes impairment through a valuation account. No impairment was recognized in 2020 or 2019. MSRs are a component of other assets on the consolidated balance sheets. The balance of loan servicing assets was $493,000 and $542,000 at December 31, 2020 and 2019, respectively.

Loans

Loans originated with the intention to hold to maturity are reported at their principal amount, net of unearned income and the allowance for loan losses. Interest income on all loans is recognized on an accrual basis. Nonrefundable loan fees and certain direct costs are deferred and amortized over the life of the loans using the interest method. The amortization is reflected as an interest yield adjustment, and the deferred portion of the net fees and costs is reflected as part of the loan balance.

Accrual of interest is discontinued when, in the opinion of management, reasonable doubt exists as to the collectability of additional interest. Loans are returned to accrual status when past due interest is collected and the collection of principal is probable. Commercial and commercial real estate loans are considered for nonaccrual status upon 90 days delinquency, unless the loan is well- secured and in the process of collection. Residential mortgages are considered for nonaccrual when they are 180 days past due, unless they are well secured and in the process of collection. Consumer loans continue to accrue interest until they are charged off after they have reached 120 days past due. Past due status is based upon the contractual terms of the loan. In all cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days and still accruing may include smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired 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 are particularly susceptible to changes in the near term.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings (TDRs) and classified as impaired.

Impaired loans are commercial and commercial real estate loans for which it is probable the Company will not be able to collect all amounts due according to the contractual terms of the loan agreement. The Company individually evaluates such loans for impairment and does not aggregate loans by major risk classifications. Factors considered by management in determining impairment include payment status and collateral value. The amount of impairment for these types of impaired 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 on one-to-four family properties and all consumer loans are large groups of smaller-balance homogeneous loans, are collectively evaluated for impairment, and accordingly, they are not included in the separate identified impairment disclosures. 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 surrounding the loan and the borrower including the length of the delay, the borrower's prior payment record, and the amount of shortfall in relation to the principal and interest owed.

Loans whose terms are modified are classified as troubled debt restructurings if the Bank grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate or an extension of a loan's stated maturity date. Nonaccrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as troubled debt restructurings are designated as impaired.

The general component convers loans that are collectively evaluated for impairment. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not included in the separately identified impairment disclosures. The general allowance component also includes loans that are not individually identified for impairment evaluation, such as commercial loans below the individual evaluation threshold, as well as those loans that are individually evaluated but are not considered impaired. The general component is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent 2 years. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans (including TDRs); levels of and trend in charge-offs and recoveries; migration of loans to the classification of special mention, substandard, or doubtful; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentration.

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 15 to 50 years for buildings and building improvements. 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 fair value minus estimated cost to sell. Prior to foreclosure, the estimated collectible value of the collateral is evaluated to determine whether a partial charge-off of the loan balance is necessary. After transfer to real estate owned, any subsequent write-downs are charged against other operating expenses. Direct costs incurred in the foreclosure process and subsequent holding costs incurred on such properties are recorded as expenses of current operations. The balance of real estate owned included in accrued interest and other assets was $274,000 and $0 at December 31, 2020 and 2019, respectively.

Bank Owned Life Insurance

The Company invests in 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 select group of employees. The Company is the owner and beneficiary 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 or from death benefits realized is included in other income on the consolidated statements of income.

Loan Commitments and Related Financial Instruments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet financing needs. The face amount for these items represents the exposure to loss, before considering customer ability to repay. Such financial instruments are recorded when they are funded.

Advertising Costs

Advertising costs are expensed as the costs are incurred. Advertising expenses amounted to $120,000 and $110,000 for 2020 and 2019, respectively.

Income Taxes

The Company and the Bank file a consolidated federal income tax return. Deferred tax assets or liabilities are computed based on the difference between the financial statement and income tax basis of assets and liabilities using the enacted marginal tax rates. Deferred income tax expenses or benefits are based on the changes in the deferred tax asset or liability from period to period.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

Employee Benefit Plans

The Bank had a noncontributory defined benefit pension plan that covered all eligible employees. Benefits are based upon years of service, the employee's compensation, and age at retirement. The plan was frozen effective December 31, 2018, at which time no new participants were added to the plan and service costs were no longer accrued. Effective July 1, 2019, the plan was terminated. See Note 11 for more details on this plan.

The Bank also has a defined contribution benefit plan in the form of a 401(k) plan, that covers all eligible employees. During 2019, the Bank amended the 401(k) plan to include Roth elective deferral contributions by employees. The amendment also included employer Safe Harbor Matching Contributions by the Bank for both traditional 401(k) employee contributions and Roth contributions. The Bank matches 100% of employee contributions up to 3%, and 50% of employee contributions that exceed 3% up to a maximum of 5%.

Trust Assets

Assets held by the Bank in a fiduciary or agency capacity for its customers are not included in the accompanying financial statements, since such items are not assets of the Bank. The fair value of trust assets under administration were $148,032,000 and $140,978,000 as of December 31, 2020 and 2019, respectively.

Comprehensive Income

The Company is required to present comprehensive income and its components in a full set of general-purpose financial statements for all periods presented. Other comprehensive income (loss) is comprised of net unrealized holding gains or losses on its available-for-sale investment securities as well as changes in unrecognized pension cost, net of tax.

Earnings Per Share

The Company currently maintains a simple capital structure; therefore, there are no dilutive effects on earnings per share. As such, earnings per share are calculated using the weighted-average number of shares outstanding for the periods.

Loss contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Cash Flow Information

The Company has defined cash and cash equivalents as those amounts included in the consolidated balance sheet captions "cash and due from banks," and "interest-bearing deposits in other banks," with original maturities of 90 days or less. The following are supplemental disclosures for the consolidated statements of cash flows (in thousands):

	December 31,	
	2020	**2019**
Cash paid during the year for:		
Interest	**$ 4,472**	$ 4,444
Income taxes	**825**	775
Noncash investing transactions:		
Transfer of loans to real estate owned	**562**	-
Lease Liabilities arising from obtaining right-of-use assets	**0**	394

Reclassification of Comparative Amounts

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

Risk and Uncertainties for COVID

On March 11, 2020, the World Health Organization announced that the COVID-19 outbreak was deemed a pandemic, and on March 13, 2020, the President declared the ongoing COVID-19 pandemic of sufficient magnitude to warrant an emergency declaration. The extent to which the coronavirus may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus or teat its impact, among others. The economic effects of the COVID-19 pandemic may negatively impact significant estimates and the assumptions underlying those estimates. The estimate that is particularly susceptible to material change is the determination of the allowance for loan loss.

2. Investment Securities

The amortized cost and fair values of investment securities are as follows (in thousands):

December 31, 2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Available-for-sale:				
Obligations of states and political subdivisions	$ 64,227	$ 1,921	$ (20)	$ 66,128
Mortgage-backed securities in government sponsored entities	122,424	1,294	(210)	123,508
Total	$ 186,651	$ 3,215	$ (230)	$ 189,636
December 31, 2019				
Available-for-sale:				
Obligations of states and political subdivisions	$ 46,127	$ 576	$ (80)	$ 46,623
Mortgage-backed securities in government sponsored entities	80,481	316	(394)	80,403
Total	$ 126,608	$ 892	$ (474)	$ 127,026

December 31, 2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Held-to-maturity:				
Obligations of states and political subdivisions	$ 1,014	$ 16	$ -	$ 1,030
Total	$ 1,014	$ 16	$ -	$ 1,030
December 31, 2019				
Held-to-maturity:				
Obligations of states and political subdivisions	$ 906	$ 14	$ -	$ 920
Total	$ 906	$ 14	$ -	$ 920

The following tables show the Company's gross unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position, at December 31, 2020 and 2019 (in thousands).

	Less than 12 Months		12 months or Longer		Total	
2020	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale:						
Obligations of state and political subdivisions	$ 5,478	$ (20)	$ -	$ -	$ 5,478	$ (20)
Mortgage-backed securities in government sponsored entities	21,019	(159)	8,295	(51)	29,314	(210)
Total	$ 26,497	$ (179)	$ 8,295	$ (51)	$ 34,792	$ (230)
Held-to-maturity:						
Obligations of state and political subdivisions	$ -	$ -	$ -	$ -	$ -	$ -
Total	$ -	$ -	$ -	$ -	$ -	$ -

	Less than 12 Months		12 months or Longer		Total	
2019	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale:						
Obligations of state and political subdivisions	$ 6,377	$ (51)	$ 727	$ (29)	$ 7,104	$ (80)
Mortgage-backed securities in government sponsored entities	14,490	(94)	30,514	(300)	45,004	(394)
Total	$ 20,867	(145)	$ 31,241	$ (329)	$ 52,108	$ (474)
Held-to-maturity:						
Obligations of state and political subdivisions	$ -	$ -	$ -	$ -	$ -	$ -
Total	$ -	$ -	$ -	$ -	$ -	$ -

The Company reviews its unrealized loss positions quarterly and has asserted that at December 31, 2020 and 2019, the declines outlined in the above tables represent temporary declines and the Company 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. There were 61 and 109 positions that were temporarily impaired at December 31, 2020 and 2019, respectively. The Company has concluded that the unrealized losses disclosed above are not other than temporary but are the result of interest rate changes, or issuer-specific ratings changes that are not expected to result in the non-collection of principal and interest during the period. In each case, the issuers continue to make timely principal and interest payments. Fair value is expected to recover as the security approaches maturity.

The amortized cost and fair value of debt securities at December 31, 2020, by contractual maturity, are shown below. Securities not due at a single maturity date are shown separately. 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 (in thousands).

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 8,587	$ 8,630	$ 230	$ 233
Due after one year through five years	26,555	27,623	768	780
Due after five years through ten years	29,085	29,875	-	-
Due after ten years	-	-	16	17
Mortgage Backed Securities	122,424	123,508	-	-
Total	$ 186,651	$ 189,636	$ 1,014	$ 1,030

Proceeds from the sales of available-for-sale securities during 2020 amounted to $18,999,000 resulting in gross gains and gross losses of $159,000 and $50,000, respectively. Proceeds from the sales of available-for-sale securities during 2019 amounted to $20,563,000 resulting in gross gains and gross losses of $82,000 and $13,000, respectively.

Investment securities with fair values of $71,032,000 and $70,558,000 at December 31, 2020 and 2019, respectively, were pledged to secure public deposits and other purposes as required by law.

3. Loans

Major classifications of loans are summarized as follows (in thousands):

	December 31,	
	2020	2019
Commercial	$ 82,692	$ 87,293
Commercial real estate	91,928	84,969
Residential real estate	185,294	196,391
Consumer	4,615	4,980
	364,529	373,633
Less allowance for loan losses	3,721	3,451
Net Loans	$ 360,808	$ 370,182

The Company grants residential, commercial, and consumer loans to customers throughout its trade area, which is concentrated in North Central Pennsylvania. Although the Company has a diversified loan portfolio at December 31, 2020 and 2019, a substantial portion of its debtors' ability to honor their loan agreements is dependent upon the economic stability of its immediate trade area. The bank also participated in the SBA Paycheck Protection Program Loan Program with 58 loans at $3,533,000, which is included in the commercial segment above.

4. Allowance for Loan Losses

Changes in the allowance for loan losses by portfolio segment are as follows (in thousands):

December 31, 2020	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Beginning Balance	**$ 884**	**$ 654**	**$ 1,512**	**$ 54**	**$ 347**	**$ 3,451**
Charge-offs	**-**	**-**	**(11)**	**(55)**	**-**	**(66)**
Recoveries	**-**	**-**	**66**	**-**	**-**	**66**
Provision	**(140)**	**162**	**(68)**	**136**	**180**	**270**
Ending Balance	**$ 744**	**$ 816**	**$ 1,499**	**$ 135**	**$ 527**	**$ 3,721**

December 31, 2019	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Beginning Balance	$ 706	$ 544	$ 1,537	$ 63	$ 313	$ 3,163
Charge-offs	-	-	(58)	(8)	-	(66)
Recoveries	-	-	1	-	-	1
Provision	178	110	32	(1)	34	353
Ending Balance	$ 884	$ 654	$ 1,512	$ 54	$ 347	$ 3,451

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 Company has segmented certain loans in the portfolio by product type. Loans are segmented into the following pools: commercial, commercial real estate loans, residential real estate loans, 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 two-year period during 2020 and during 2019 for all portfolio segments. Certain qualitative factors are then added to the historical allocation percentage to apply the adjusted factor to non-classified loans. The following qualitative factors are analyzed for each portfolio segment and are adjusted based upon relevant changes within the portfolio:

- Levels of and trends in delinquencies
- Trends in volume and terms
- Trends in credit quality ratings
- Changes in management and lending staff
- Economic trends
- Concentrations of credit

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the consolidated balance sheet date. 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 evaluation method as of December 31, 2020 and 2019 (in thousands):

December 31, 2020	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses:						
Individually evaluated for impairment	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Collectively evaluated for impairment	**744**	**816**	**1,499**	**135**	**527**	**3,721**
Total	**$ 744**	**$ 816**	**$ 1,499**	**$ 135**	**$ 527**	**$ 3,721**
Loans:						
Individually evaluated for impairment	**$ 679**	**$ -**	**$ 319**	**$ -**	**$ -**	**$ 998**
Collectively evaluated for impairment	**82,013**	**91,928**	**184,975**	**4,615**	**-**	**363,531**
Total	**$ 82,692**	**$ 91,928**	**$ 185,294**	**$ 4,615**	**$ -**	**$ 364,529**

December 31, 2019	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	884	654	1,512	54	347	3,451
Total	$ 884	$ 654	$ 1,512	$ 54	$ 347	$ 3,451
Loans:						
Individually evaluated for impairment	$ 877	$ -	$ 344	$ -	$ -	$ 1,221
Collectively evaluated for impairment	86,416	84,969	196,047	4,980	-	372,412
Total	$ 87,293	$ 84,969	$ 196,391	$ 4,980	$ -	$ 373,633

Credit Quality Information

The Company's internally assigned loan grades are as follows:

Pass loans 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 are loans for which a potential weakness or risk exists, which could cause a more serious problem if not corrected.

Substandard loans 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 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 are considered uncollectible, or of such value that continuance as an asset is not warranted.

The following tables represent credit exposures for commercial real estate and commercial and industrial loans 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 Company's internal credit risk grading system is based on experiences with similarly graded loans (in thousands).

December 31, 2020	Loans to States and Political Subdivisions	Other Commercial Loans	Loans for Investment Properties	Other Commercial Real Estate Loans	Total
Pass	**$ 12,389**	**$ 70,147**	**$ 33,766**	**$ 57,064**	**$ 173,366**
Special Mention	**-**	**150**	**-**	**1,077**	**1,227**
Substandard	**-**	**4,254**	**21**	**-**	**4,275**
Doubtful	**-**	**-**	**-**	**-**	**-**
Loss	**-**	**-**	**-**	**-**	**-**
Ending Balance	**$ 12,389**	**$ 74,551**	**$ 33,787**	**$ 58,141**	**$ 178,868**

December 31, 2019	Loans to States and Political Subdivisions	Other Commercial Loans	Loans for Investment Properties	Other Commercial Real Estate Loans	Total
Pass	$ 10,930	$ 69,879	$ 30,724	$ 53,696	$ 165,229
Special Mention	-	1,967	-	436	2,403
Substandard	-	4,517	25	88	4,630
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Ending Balance	$ 10,930	$ 76,363	$ 30,749	$ 54,220	$ 172,262

The Company evaluates credit quality for residential real estate and consumer loans based upon the aging status of the loan, which is presented below, and by payment activity. The following tables present performing and nonperforming residential real estate and consumer loans based on payment activity for the years ended December 31, 2020 and 2019 (in thousands):

December 31, 2020	First Mortgages	Home Equity Loans	Consumer	Total
Performing	**$ 158,424**	**$ 26,366**	**$ 4,615**	**$ 189,405**
Nonperforming (Nonaccrual loans)	**475**	**30**	**-**	**505**
Total	**$ 158,899**	**$ 26,396**	**$ 4,615**	**$ 189,910**

December 31, 2019	First Mortgages	Home Equity Loans	Consumer	Total
Performing	$ 164,770	$ 30,445	$ 4,980	$ 200,195
Nonperforming (Nonaccrual loans)	1,110	66	-	1,176
Total	$ 165,880	$ 30,511	$ 4,980	$ 201,371

Following are tables which include an aging analysis of the recorded investment of past-due loans as of December 31, 2020 and 2019 (in thousands):

	Loans Past Due (Days)					
2020	**30-59**	**60-89**	**90+**	**Total**	**Current**	**Total Loans**
Commercial:						
Obligations of states and political subdivisions	**$ -**	**$ -**	**$ -**	**$ -**	**$ 12,389**	**$ 12,389**
Other commercial loans	**50**	**-**	**-**	**50**	**70,253**	**70,303**
Commercial real estate:						
Loans for investment property	**147**	**207**	**-**	**354**	**33,433**	**33,787**
Other commercial real estate loans	**26**	**-**	**-**	**26**	**58,115**	**58,141**
Residential mortgage loans:						
First mortgages	**1,285**	**166**	**647**	**2,098**	**156,800**	**158,898**
Home equity loans	**161**	**-**	**-**	**161**	**26,235**	**26,396**
Consumer	**10**	**-**	**-**	**10**	**4,605**	**4,615**
Total	**$ 1,679**	**$ 373**	**$ 647**	**$ 2,699**	**$ 361,830**	**$ 364,529**

2019	Loans Past Due (Days) 30-59	60-89	90+	Total	Current	Total Loans
Commercial:						
Obligations of states and political subdivisions	$ -	$ -	$ -	$ -	$ 10,930	$ 10,930
Other commercial loans	8	50	73	131	76,232	76,363
Commercial real estate:						
Loans for investment property	563	-	-	563	30,186	30,749
Other commercial real estate loans	29	-	-	29	54,191	54,220
Residential mortgage loans:						
First mortgages	2,117	244	686	3,047	162,833	165,880
Home equity loans	140	49	20	209	30,302	30,511
Consumer	31	15	12	58	4,922	4,980
Total	$ 2,888	$ 358	$ 791	$ 4,037	$ 369,596	$ 373,633

Impaired Loans

Management evaluates commercial loans and commercial real estate loans which are 90 days or more past due and considers them to be impaired. Loans rated substandard or doubtful are also evaluated for impairment. 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, if applicable, as of and for the years ending December 31 (in thousands):

December 31, 2020	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial:					
Other commercial loans	**$ 679**	**$ 1,170**	**$ -**	**$ 780**	**$ -**
Commercial real estate:					
Loans for investment properties	**-**	**-**	**-**	**-**	**-**
Residential real estate:					
First mortgages	**319**	**357**	**-**	**330**	**19**
With an allowance recorded:					
Commercial:					
Other commercial loans	**-**	**-**	**-**	**-**	**-**
Commercial real estate:					
Loans for investment properties	**-**	**-**	**-**	**-**	**-**
Residential mortgage loans:					
First mortgages	**-**	**-**	**-**	**-**	**-**
Total	**$ 998**	**$ 1,527**	**$**	**$ 1,110**	**$ 19**

December 31, 2019	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial:					
Other commercial loans	$ 877	$ 1,315	$ -	$ 895	$ -
Commercial real estate:					
Loans for investment properties	-	-	-	-	-
Residential real estate:					
First mortgages	344	379	-	333	18
With an allowance recorded:					
Commercial:					
Other commercial loans	-	-	-	-	-
Commercial real estate:					
Loans for investment properties	-	-	-	-	-
Residential mortgage loans:					
First mortgages	-	-	-	-	-
Total	$ 1,221	$ 1,694	$ -	$ 1,228	$ 18

Nonaccrual Loans

Loans are considered 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 (in thousands):

December 31, 2020	**Nonaccrual**	**Past Due 90 Days or More and Still Accruing**
Commercial:	$	$
Obligations of states and political subdivisions	**-**	**-**
Other commercial loans	**679**	**-**
Commercial real estate:		
Loans for investment properties	**-**	**-**
Other commercial real estate loans	**-**	**-**
Residential mortgage loans:		
First mortgages	**475**	**248**
Home equity loans	**30**	**-**
Consumer loans	**-**	**-**
	$ 1,184	**$ 248**

December 31, 2019	Nonaccrual	Past Due 90 Days or More and Still Accruing
Commercial:		
Obligations of states and political subdivisions	$ -	$ -
Other commercial loans	877	73
Commercial real estate:		
Loans for investment properties	-	-
Other commercial real estate loans	-	-
Residential mortgage loans:		
First mortgages	1,110	-
Home equity loans	66	25
Consumer loans	-	5
	$ 2,053	$ 103

Interest income on nonaccrual loans not recognized during 2020 and 2019 was $110,000 and $151,000, respectively.

Additionally, the Company is working with borrowers impacted by COVID-19 and providing modifications to include interest only deferral or principal and interest deferral, including payment extensions and interest only payments. These modifications are excluded from troubled open restructuring classification under Section 4013 of the CARES Act or under applicable interagency guidance of the federal banking regulators. As of December 31, 2020, the Company modified 34 loans with outstanding balances of $13,218,000.

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.

Troubled debt restructurings (TDR) may be designated as performing or non-performing. A TDR may be designated as performing if the loan has demonstrated sustained performance under the modified terms. The period of sustained performance may include the periods prior to modification if prior performance met or exceeded the modified terms. For non-performing restructured loans, the loan will remain on non-accrual status until the borrower demonstrates a sustained period of performance, generally six consecutive months of payments. The Bank had $319,000 and $344,000 in total performing restructured loans as of December 31, 2020 and 2019, respectively. During the year ended December 31, 2020 and 2019, the Bank did not have any loans classified as troubled debt restructurings that subsequently defaulted.

The following table reflects the Bank's troubled debt restructuring activity during 2020 and 2019 (in thousands):

December 31, 2020	2020		2019	
	Modification of Payment and Other Terms		Modification of Payment and Other Terms	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Residential real estate	-	$ -	1	$ 20
Total	-	$ -	1	$ 20

5. Premises and Equipment

Major classifications of premises and equipment are summarized as follows (in thousands):

December 31,	**2020**	**2019**
Land and improvements	**$ 1,969**	$ 1,458
Buildings and improvements	**10,181**	10,453
Furniture, fixtures and equipment	**4,973**	4,747
	17,123	16,658
Less accumulated depreciation	**7,689**	7,339
Total	**$ 9,434**	$ 9,319

Depreciation expense for the years ended December 31, 2020 and 2019 was $611,000 and $543,000, respectively.

6. Leases

In the normal course of business, the Company leases a property for one of our branch locations.

This lease has a remaining term of nine years with no renewal options remaining. This lease was classified as an operating lease as of the commencement date. Lease expense for operating leases is recognized on a straight line basis over the lease term. Right-of-use assets represent our right to use an underlying asset for the lease term, and lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

The Company uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known. The Company's incremental borrowing rate is based on the FHLB amortizing advance rate, adjusted for the lease term and other factors. The incremental borrowing rate used at lease commencement was 3.001%.

Right-of-use assets and lease liabilities by lease type and associated balance sheet captions are as follows (in thousands):

	Balance Sheet Classification	December 31, 2020
Right-of-use asset:		
Operating Lease	Building	**$422**
Lease liability:		
Operating Lease	Other Liabilities	**422**

Future undiscounted lease payments for operating lease of branch as of December 31, 2020 are as follows (in thousands):

Year Ending December 31,		
2021	$	65
2022		65
2023		65
2024		65
2025		65
Thereafter		275
Total undiscounted lease payments		600
Less: imputed interest		(178)
Net lease Liabilities	$	422

7. Deposits

The components of deposits at December 31, 2020 and 2019 are as follows (in thousands):

December 31,		2020		2019
Demand, noninterest-bearing	$	**130,351**	$	96,251
Demand, interest-bearing		**84,560**		68,472
Savings		**102,814**		85,093
Money Market Accounts		**100,902**		73,344
Time, $250 and over		**22,391**		30,945
Time, other		**104,162**		121,755
Total	$	**545,180**	$	475,860

Time deposits and their remaining maturities at December 31, 2020 are as follows (in thousands):

Year Ending December 31,		
2021	$	78,414
2022		11,988
2023		14,793
2024		8,241
2025		12,704
Thereafter		413
	$	126,553

Time deposits $250,000 and greater were $22,391 and time deposits less than $250,000 were $104,162 as of December 31, 2020.

8. Borrowings

Borrowings at December 31, 2020 and 2019 consisted of the following notes with the Federal Home Loan Bank (dollars in thousands):

Maturity Date	**Interest Rate**	**December 31, 2020**		**2019**	
March 31, 2020	**1.88%**	**$**	**-**	$	2,000
June 30, 2020	**1.88%**		**-**		1,500
March 8, 2021	**0.849%**		**1,000**		0
March 7, 2022	**0.90936%**		**1,000**		0
Total		**$**	**2,000**	$	3,500

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The advances were collateralized by $287,287,000 and $255,292,000 on mortgage and non-mortgage loans under a blanket lien arrangement at December 31, 2020 and December 31, 2019. Based on this collateral, and the Company's holding of FHLB stock, the Company is eligible to borrow up to $216,646,000 at December 31, 2020. Additionally, the Company also had unused unsecured lines of credit with correspondent banks which provided another $11,000,000 of available credit at December 31, 2020.

9. Revenue Recognition

All of the revenue from contracts with customers, within the scope of ASC 606 is recognized in the Non-Interest Income. The following table presents the Company's sources of Non-Interest Income for the years ended December 31, 2020 and 2019, respectively. Items outside the scope of ASC 606 are noted as such.

December 31,	2020	2019
Non-Interest Income		
Service Charges on deposit accounts	**$ 371**	$ 489
Trust Services	**841**	819
Estate Settlement	**58**	27
Debit Card Income	**906**	829
Insurance and investment management fees	**79**	79
ATM Service Charge Income	**36**	49
Loan servicing income	**419**	409
Gains on sale of loans*	**2,005**	571
Earnings on bank owned life insurance*	**278**	282
Investment security gains (losses)*	**100**	69
Other	**478**	343
Total	**$ 5,571**	$ 3,966

"*" Not within the scope of ASC 606

Sources of revenue for the Company which fall within the scope of ASC 606 are described as follows:

- Deposit Service Charges – The Bank earns fees from its deposit customers for various services transaction based services and periodic account maintenance. Transaction based services include but are not limited to stop payment fees, overdraft fees, check cashing fees, wire transfer fees, and early withdrawal penalties. Maintenance fees include account maintenance fees, minimum balance fees, and monthly service charge. Transaction based fees are only recognized when the transaction is complete, and maintenance fees are recognized when the period of the obligation is complete.

- Trust Services Income
  - Asset Management - The Trust department receives fees for providing trust related services including Investment Management, Security Custody, and Other Trust Services. These fees are based upon the value of assets under management and are assessed using a tiered rate schedule. Fees are recognized on a monthly basis when the service obligation is complete.

  - Estate Settlement – The trust department provides estate settlement services. These fees are based on the estimated fair value of the estate according to a tiered rate schedule. Each estate is unique in the nature, size, and complexity, and may include many tasks or milestones to complete. Fees are recognized in proportion to the number of milestones completed which is a judgement made by the trust management team. Estate settlement fees amounted to $58,000 in 2020 and $27,000 in 2019. These fees are included in Trust Services Income on the Consolidated Statements of Income.

- Debit Card Income – The Bank provides electronic funds transfer processing services for the debit cards it offers to its customers. The Bank earns interchange fees from each cardholder transaction conducted through various networks. The fees are transaction based and are earned when the transaction is complete.

- Insurance and Investment Service Fees – The Company sells investments and insurance through its Trust and Wealth Management division. Commissions from the sale of these products are recognized upon the completion of the transaction.
- ATM Service Charges – ATM service charges are earned when non customers use Bank ATMs. These fees are recognized when the transaction is complete.
- Gains/ Losses on the Sale of Other Real Estate – these assets are de-recognized when control of the property transfers to the buyer. These gains/losses are included in Other Income on the Consolidated Statements of Income.

The Company expenses all contract acquisition costs as costs are incurred.

10. Income Taxes

The provision for Federal income taxes consists of (in thousands):

December 31,	2020	2019
Current expense	**$ 908**	$ 647
Deferred (benefit)	**(32)**	(79)
Total	**$ 876**	$ 568

The tax effects of deductible and taxable temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities, respectively, at December 31 are as follows (in thousands):

December 31,	2020	2019
Deferred tax assets:		
Allowance for loan losses	**$ 763**	$ 692
Nonaccrual loan interest	**138**	119
Lease liability	**89**	83
Other	**134**	120
Total gross deferred tax assets	**1,124**	1,014
Deferred tax liabilities:		
Premises and equipment	**331**	229
Investment accretion	**7**	5
Loan origination fees and costs	**84**	105
Mortgage servicing rights	**104**	114
Right of use asset	**89**	83
Unrealized gain on investment securities	**627**	99
Other	**52**	42
Total gross deferred tax liabilities	**1,294**	677
Net Deferred Tax Asset/(Liability)	**$ (170)**	$ 337

No valuation allowance was established at December 31, 2020 and 2019, in view of the Company's ability to carryback to taxes paid in previous years and certain tax strategies, coupled with the anticipated future taxable income as evidenced by the Company's earnings potential. Net deferred tax assets are included in Accrued Interest and Other Assets on the balance sheet.

The following is a reconciliation of the federal statutory rate and the Company's effective income tax rate for the years ended December 31 (dollars in thousands):

	2020		2019	
	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Provision at statutory rate	**$ 1,120**	**21.0 %**	$ 845	21.0 %
Effect of tax-exempt income	**(200)**	**(3.7)**	(236)	(5.9)
Nondeductible interest expense	**(58)**	**(1.1)**	16	0.4
Bank Owned Life Insurance	**11**	**0.2**	(59)	(1.5)
Other	**3**	**0.0**	52	1.3
Actual Tax Expense and Effective Rate	**$ 876**	**16.4 %**	$ 618	12.6 %

The Company prescribes 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 Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the consolidated statements of income. With few exceptions, the Company is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2017.

11. Commitments and Contingencies

In the normal course of business, the Company makes various commitments that are not reflected in the accompanying consolidated financial statements. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The Company's exposure to credit loss in the event of nonperformance by the other parties to the financial instruments is represented by the contractual amounts as disclosed. Losses, if any, are charged to the allowance for loan losses. The Company minimizes its exposure to credit loss under these commitments by subjecting them to credit approval, review procedures, and collateral requirements as deemed necessary.

The off-balance sheet commitments consisted of the following (in thousands):

December 31,	**2020**	2019
Commitments to extend credit	**$ 104,668**	$ 85,179
Standby letters of credit	**4,240**	4,174

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 are composed primarily of available commercial lines of credit and mortgage loan commitments. The Company uses the same credit policies in making loan commitments and conditional obligations as it does for on-balance sheet instruments. The Company 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 Company's lending policy guidelines. Customers use credit commitments to ensure funds will be available for working capital purposes, for capital expenditures, and to ensure access to funds at specified terms and conditions.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Performance letters of credit represent conditional commitments issued by the Company 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 company deposit instruments or customer business assets.

12. Pension Plan

Effective July 1, 2019, the Bank terminated the defined benefit plan. As a result of the termination, those individuals employed and in the plan as of December 31, 2018 would become vested effective July 1, 2019. As a result of the termination, the plan offered annuities of similar benefit to all employees and retirees. In addition, the Bank offered a lump sum option to terminated vested and active employees. As of December 31, 2019, 100% of plan assets were distributed to participants.

During 2019, the Bank contributed $73,000 to the plan in order to fully fund the plan before the final distribution. As a result of the termination and distribution, the Bank has no remaining liability to the plan.

As a result of the termination, effective July 1, 2019, the bank recognized an additional $342,000 in pension costs previously recorded in accumulated other comprehensive income.

13. Accumulated Other Comprehensive Loss

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

	Unrealized Gains (Losses) on Available-for-Sale Securities	Unrecognized Pension Costs	Total
Balance as of December 31, 2018	$ (1,547)	$ (722)	$ (2,269)
Other comprehensive income before reclassification	1,931	452	2,383
Amount reclassified from accumulated other comprehensive loss	(54)	270	216
Total other comprehensive income	1,877	722	2,599
Balance as of December 31, 2019	330	-	330
Other comprehensive income before reclassification	**2,108**	**-**	**2,108**
Amount reclassified from accumulated other comprehensive loss	**(80)**	**-**	**(80)**
Total other comprehensive income	**2,028**	**-**	**2,028**
Balance as of December 31, 2020	**$ 2,358**	**$ -**	**$ 2,358**

The following table presents significant amounts reclassified out of each component of accumulated other comprehensive loss for the years ended December 31, 2020 and 2019 (in thousands):

	Amount Reclassified from Accumulated Other Comprehensive Loss		Affected Line Item in the Statement Where Net Income is Presented
	2020	2019	
Unrealized gains on available-for-sale securities:			
	$ **(101)**	$ (69)	Investment securities gains, net
	21	15	Income taxes
	$ **(80)**	$ (54)	Net of tax
Unrecognized pension costs:			
	$ **0**	$ 342	Salaries and employee benefits
	0	(72)	Income taxes
	$ **0**	$ 270	Net of tax

14. Regulatory Matters

Cash and Due from Banks

The Bank is required to maintain average cash reserve balances in vault cash or with the Federal Reserve Bank. The amount of these restricted cash reserve balances at December 31, 2020 and 2019 was $-0- and $-0-, respectively.

Loans

Federal law prevents the Company from borrowing from the Bank unless the loans are secured by specific collateral. Further, such secured loans are limited in amount to 10 percent of the Bank's common stock and capital surplus.

Dividends

The Bank is subject to a dividend restriction that generally limits the amount of dividends that can be paid by a national bank. Prior approval of the Office of the Comptroller of the Currency ("OCC") is required if the total of all dividends declared by a national bank in any calendar year exceeds net profits, as defined for the year, combined with its retained net profits for the two preceding calendar years less any required transfers to surplus. Using this formula, the amount available for payment of dividends by the Bank in 2020, without approval of the OCC, is approximately $5,249,000 plus 2021 net profits retained up to the date of the dividend declaration.

Capital Requirements

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

Information presented for December 31, 2020 and 2019, reflects the Basel III capital requirements that became effective January 1, 2015 for the Bank. Prior to January 1, 2015, the Bank was subject to capital requirements under Basel I. Under these capital requirements and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk-weightings and other factors.

The risk-based capital rules adopted effective January 1, 2015 require that banks and holding companies maintain a "capital conservation buffer" of 250 basis points in excess of the "minimum capital ratio." The minimum capital ratio is equal to the prompt corrective action adequately capitalized threshold ratio. The capital conservation buffer is 2.5% for 2019 and thereafter. Failure to maintain the required capital conservation buffer will result in limitations on capital distributions and on discretionary bonuses to executive officers.

Effective January 1, 2020, the capital levels required for the Bank to avoid these limitations were as follows:

- Common Equity Tier 1 capital ratio of 7.00%
- Tier 1 risk based capital ratio of 8.50%
- Total risk based capital ratio of 10.50%

As of December 31, 2020, the Bank had a conservation buffer greater than 2.5%.

In addition to the capital requirements, the Federal Deposit Insurance Corporation Improvement Act ("FDICIA") established five capital categories ranging from "well capitalized" to "critically undercapitalized." Should any institution fail to meet the requirements to be considered "adequately capitalized," it would become subject to a series of increasingly restrictive regulatory actions.

As of December 31, 2020 and 2019, the OCC categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be classified as a well-capitalized financial institution, Common equity Tier 1, Total risk-based, Tier I risk-based, and Tier I leverage capital ratios must be at least 6.5 percent, 10 percent, 8 percent, and 5 percent, respectively.

The Company's actual capital ratios are presented in the following table that shows the Company met all regulatory capital requirements. The capital position of the Bank does not differ significantly from the Company's capital position (dollars in thousands).

	Actual		To be Adequately Capitalized under Prompt Corrective Action Provisions		To be Well Capitalized under Prompt Corrective Action Provisions	
2020	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Common equity Tier 1 (total risk-weighted assets)	**$ 59,016**	**17.08%**	**$ 15,549**	**≥4.5%**	**$ ≥22,460**	**≥6.5%**
Total capital (to risk-weighted assets)	**62,737**	**18.16%**	**27,643**	**≥8.0%**	**≥34,554**	**≥10.0%**
Tier I capital (to risk-weighted assets)	**59,016**	**17.08%**	**20,733**	**≥6.0%**	**≥27,643**	**≥8.0%**
Tier I capital (to average assets)	**59,016**	**9.82%**	**24,034**	**≥4.0%**	**≥30,043**	**≥5.0%**
2019						
Common equity Tier 1 (total risk-weighted assets)	$ 55,906	16.45%	$ ≥15,290	≥4.5%	$ ≥22,085	≥ 6.5%
Total capital (to risk-weighted assets)	59,357	17.47%	≥27,182	≥8.0%	≥33,977	≥10.0%
Tier I capital (to risk-weighted assets)	55,906	16.45%	≥20,386	≥6.0%	≥27,182	≥ 8.0%
Tier I capital (to average assets)	55,906	10.37%	≥21,561	≥4.0%	≥26,951	≥ 5.0%

15. 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 of pricing observations are as follows:

Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level 2: 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 3: 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 sheets 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 (in thousands).

December 31, 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured on a recurring basis:				
Investment securities available-for-sale:	$	$	$	$
Obligations of states and political subdivisions	-	**66,128**	-	**66,128**
Mortgage-backed securities in government-sponsored entities	-	**123,508**	-	**123,508**
Equity securities in financial institutions	**205**	**-**	-	**205**
Total	$ **205**	$ **189,636**	$ -	$ **189,841**

December 31, 2019	Level 1	Level 2	Level 3	Total
Assets measured on a recurring basis:				
Investment securities available-for-sale:				
Obligations of states and political subdivisions	$ -	$ 46,623	$ -	$ 46,623
Mortgage-backed securities in government-sponsored entities	-	80,403	-	80,403
Equity securities in financial institutions	229	-	-	229
Total	$ 229	$ 127,026	$ -	$ 127,255

Other real estate owned ("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 1	Level 2	Level 3	Total
Fair value measurements on nonrecurring basis:				
Other real estate owned	**$ -**	**$ -**	**$ 274**	**$ 274**
Total	**$ -**	**$ -**	**$ 274**	**$ 274**

December 31, 2019	Level 1	Level 2	Level 3	Total
Fair value measurements on nonrecurring basis:				
Other real estate owned	$ -	$ -	$ -	$ -
Total	$ -	$ -	$ -	$ -

The following table provides information describing the valuation processes used to determine nonrecurring fair value measurements categorized within Level III of the fair value hierarchy:

December 31, 2020	Quantitative Information About Level 3 Fair Value Measurements			
	Fair Value	**Valuation Techniques**	**Unobservable Input**	**Range (Weighted Average)**
Other real estate owned	**$ 274**	Appraisal of collateral (1) (3)	Appraisal adjustments (2)	10% - 59% (29%)

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which include various level III inputs which are not identifiable.
(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions, aging, and/or estimated liquidation expenses incurred when selling the collateral. The range and weighted average of appraisal adjustments and liquidation expenses are presented as a percentage of the appraisal.
(3) Includes qualitative adjustments by management and estimated liquidation expenses.

16. Fair Value of Financial Instruments

The fair values at December 31 of the Company's financial instruments are as follows (in thousands):

December 31, 2020	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Financial Assets:					
Cash and cash equivalents	$ 27,376	$ 27,376	$ 27,376	$ -	$ -
Investment securities:					
Available-for-sale	189,636	189,636	-	189,636	-
Held-to-maturity	1,014	1,030	-	1,030	-
Equity securities	205	205	230	-	-
Loans held for sale	2,622	2,622	2,622	-	-
Net loans	364,529	372,451	-	-	372,451
Restricted stock	3,002	N/A	N/A	N/A	N/A
Mortgage servicing rights	493	746	-	746	-
Accrued interest receivable	1,629	1,629	-	1,629	-
Financial Liabilities:					
Deposits	545,180	543,476	-	543,476	-
Borrowings	2,000	2,000	-	2,000	-
Accrued interest payable	112	112	-	112	-

December 31, 2019	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Financial Assets:					
Cash and cash equivalents	$ 10,380	$ 10,380	$ 10,380	$ -	$ -
Investment securities:					
Available-for-sale	127,026	127,026	-	127,026	-
Held-to-maturity	906	920	-	920	-
Equity securities	229	229	229	-	-
Loans held for sale	969	969	969	-	-
Net loans	370,060	372,847	-	372,847	-
Restricted stock	3,425	N/A	N/A	N/A	N/A
Mortgage servicing rights	542	1,008	-	1,008	-
Accrued interest receivable	1,591	1,591	-	1,591	-
Financial Liabilities:					
Deposits	475,860	459,262	-	459,262	-
Borrowings	3,500	3,525	-	3,525	-
Accrued interest payable	154	154	-	154	-

Financial instruments are defined as cash, evidence of ownership interest in an entity, or a contract that creates an obligation or right to receive or deliver cash or another financial instrument from/to a second entity on potentially favorable or unfavorable terms.

Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. If a quoted market price is available for a financial instrument, the estimated fair value would be calculated based upon the market price per trading unit of the instrument.

If no readily available market exists, the fair value estimates for financial instruments should be based upon management's judgment regarding current economic conditions, interest rate risk, expected cash flows, future estimated losses, and other factors as determined through various option pricing formulas. As many of these assumptions result from judgments made by management based upon estimates that are inherently uncertain, the resulting estimated fair values may not be indicative of the amount realizable in the sale of a particular financial instrument. In addition, changes in assumptions on which the estimated fair values are based may have a significant impact on the resulting estimated fair values.

In accordance with Accounting Standards Update (ASU) 2016-01, *Recognition and Measurement of Financial Assets and Liabilities*, the Company has considered the exit price notion when measuring the fair value of financial instruments.

The Company employed simulation modeling in determining the estimated fair value of financial instruments for which quoted market prices were not available based upon the following assumptions:

Investment Securities

The fair market value of investment securities is equal to the available quoted market price. If no quoted market price is available, fair value is estimated using the quoted market price for similar securities. Fair values for certain corporate bonds were determined utilizing discounted cash flow models, due to the absence of a current market to provide reliable market quotes for the instruments.

Mortgage Servicing Rights

The fair value for mortgage servicing rights is estimated by discounting contractual cash flows and adjusting for prepayment estimates. Discount rates are based upon rates generally charged for such loans with similar characteristics.

Commitments to Extend Credit and Commercial Letters of Credit

These financial instruments are generally not subject to sale, and estimated fair values are not readily available.

The carrying value, represented by the net deferred fee arising from the unrecognized commitment or letter of credit, and the fair value, determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk, are not considered material for disclosure. The contractual amounts of unfunded commitments and letters of credit are presented in Note 11.

17. Related Party Transactions

Certain officers, directors and other related parties have loans and conduct other transactions with the Bank. Deposits of related parties totaled $3,324,000 and $1,928,000 at December 31, 2020 and 2019, respectively. The aggregate dollar amount of loans to related parties, along with an analysis of the activity for December 31, 2020 and 2019 are as follows (in thousands):

December 31,	2020	2019
Balance, beginning	$ **2,305**	$ 1,940
Additions	**1,059**	829
Repayments	**(868)**	(463)
Effect of changes in composition of related parties	**13,503**	(1)
Balance, ending	$ **15,999**	$ 2,305

18. Subsequent Events

Management has reviewed events occurring through April 22, 2021, the date the financial statements were available to be issued for items that should potentially be recognized or disclosed in these consolidated financial statements.