First Resource Bank

Celebrating 15 Years

2020 ANNUAL REPORT

LEADERSHIP

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LETTER FROM OUR LEADERSHIP

Dear First Resource Bank Shareholder:

The Bank achieved record net income for year ended December 31, 2020 of $3,250,967, representing a 40% increase year-over-year! We are proud to present our 2020 Annual Report, which reflects a year of exceptional productivity, strength, and community support despite the unprecedented events that unfolded during the pandemic.

Highlights through year-end December 31, 2020 included:

- Total interest income increased 8%, while total interest expense declined 14%
- Non-interest bearing deposits increased 97%
- Total deposits increased 33%
- Total loans increased 21%
- $58.8 million of Paycheck Protection Program Loans generated
- Completed $23.2 million in Paycheck Protection Program Loan Forgiveness prior to year-end
- Subordinated debt offering was completed totaling $6 million
- Total assets increased 26%, ending the year at $424 million
- Non-performing assets to total assets improved by 79%
- 98.7% of loans that were modified due to the pandemic have returned to a regular payment schedule
- First Resource Bank was named Best Bank in Chester County by readers of the Daily Local News for the fourth consecutive year

In the midst of a global pandemic, our overwhelming success is evidence of an exceptional team of individuals who remain dedicated to deepening customer relationships by following the Bank's guiding principle of making customer service our number one priority. The Bank's employees viewed the unique challenges presented in 2020 as an opportunity to serve businesses, individuals, families and shareholders who have put their trust in us. Their tireless efforts were validated as we were named Best Bank in Chester County for the fourth consecutive year and received raving five-star reviews on Google and social media. We are incredibly proud and grateful for their efforts and for the continued support and patronage of our customers and shareholders.

If there's one thing that was reinforced so strongly this year, it's that when it comes to banking it's all about relationships. We watched heartbroken as several neighboring small businesses closed their doors indefinitely due to the tragic consequences of the coronavirus. Our proactive approach in contacting all of our small business customers early on, not only amplified our PPP Loan production, but also allowed us to capture a host of new customers who were seemingly lost in the shuffle at their former financial institution. Our customers shared multiple horror stories about non-customers who were unable to get in touch with their bank when they needed them most. These stories hit close to home with our employees and are an important reminder to remain focused on recognizing customer needs and cultivating strong relationships – that's what community banking is all about. We thank our customers for referring their neighbors to our better banking experience.

LETTER FROM OUR LEADERSHIP

In past cycles, banks could equate periods of economic and social stress as contributing factors to declines in loan portfolio performance. The events of 2020 proved to be the exact opposite. As our community grappled with mandatory lockdowns from March through June and beyond, our primary focus was helping every small business navigate the uncharted waters presented by the pandemic. The Bank jumped into the Paycheck Protection Program to help not only our existing loan and deposit customers, but every small business in need in our community. Many of these new customers have since transitioned their full banking relationship to First Resource Bank. We offered an internal loan relief program, secured $58 million under the SBA Paycheck Protection Program, and granted temporary payment assistance to help our small business customers survive. We are pleased to report that 98.7% of those customers who were granted temporary payment relief have successfully returned to their regular payment schedule.

During 2020, we continued our efforts to reduce our non-performing assets ratio. Last year's annual report touted a decrease in non-performing assets of 54%; we are pleased to have surpassed that milestone this year with a 79% decline as compared to our prior year-end. As of December 31, 2020, non-performing assets were 0.09% of total assets.

Our commitment to relationship banking continues to fuel our non-interest bearing and low cost deposit growth year-over-year. This sustainable growth is reflected in our percentage of checking to total deposits, which expanded from 13% at December 31, 2016 to 34% at December 31, 2020. Total checking balances increased by 369% over the last four years, from $26 million at December 31, 2016 to $122 million at December 31, 2020. These low-cost core deposits provide for growth and stability, unlike certificates of deposits, as they are less likely to be withdrawn in a volatile rate environment. We are proud of these remarkable accomplishments and our ongoing efforts to focus the team on checking, checking, checking.

It is said that you learn more about people in troubling times than you do in the good times. First Resource Bank is grateful for the opportunity to have serviced our community with care and conviction through this pandemic. On behalf of the Board of Directors, we extend our deepest appreciation to our customers, employees, and shareholders for your ongoing trust in us and for playing an integral role in our 2020 success. We look forward to continued growth in 2021 and the opportunity to deliver increased community service and shareholder value. If you have any questions about First Resource Bank or would like to learn more about our banking services, please contact our CEO, Glenn Marshall at 610-996-6661 or our President and Chief Financial Officer, Lauren Ranalli at 610-561-6014.

Sincerely,

James B. Griffin

JAMES B. GRIFFIN
CHAIRMAN OF THE BOARD

Glenn B Marshall

GLENN B. MARSHALL
CEO

Lauren C. Ranalli

LAUREN C. RANALLI
PRESIDENT & CFO

First Resource Bank

Financial Statements

December 31, 2020 and 2019

The report accompanying these financial statements was issued by
BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of
BDO International Limited, a UK company limited by guarantee.

First Resource Bank

Contents

BDO

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Independent Auditor's Report

Board of Directors
First Resource Bank
Exton, Pennsylvania

Opinion

We have audited the financial statements of First Resource Bank (the Company), which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of income, comprehensive income, shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

BDO USA, LLP

Philadelphia, Pennsylvania
March 4, 2021

Financial Statements

First Resource Bank

Balance Sheets

December 31,		**2020**		2019
Assets				
Cash and due from banks	$	**26,008,820**	$	2,516,374
Time deposits at other banks		**599,000**		599,000
Securities available-for-sale, at fair value		**34,280,660**		30,159,670
Securities held-to-maturity (fair value of $8,910,562 at December 31, 2020 and $7,051,362 at December 31, 2019)		**8,779,375**		6,961,128
Loans receivable, net of allowance for loan losses of $2,907,023 at December 31, 2020 and $2,507,845 at December 31, 2019		**336,033,019**		277,694,527
Restricted investment in bank stock		**1,213,500**		1,539,600
Bank premises and equipment, net		**8,380,269**		8,675,596
Accrued interest receivable		**1,172,990**		830,339
Bank owned life insurance		**5,840,800**		5,692,706
Other assets		**2,125,874**		1,749,985
Total Assets	$	**424,434,307**	$	336,418,925
Liabilities and Shareholders' Equity				
Liabilities				
Deposits:				
Noninterest-bearing	$	**99,898,323**	$	50,616,321
Interest-bearing		**258,126,793**		219,183,573
Total deposits		**358,025,116**		269,799,894
Short-term borrowings		**-**		10,896,000
Long-term borrowings		**24,206,000**		21,045,500
Subordinated debt		**7,940,649**		3,994,591
Accrued interest payable		**250,448**		288,786
Other liabilities		**2,556,284**		2,416,797
Total Liabilities		**392,978,497**		308,441,568
Shareholders' Equity				
Preferred stock; authorized 489,769 shares, none issued and outstanding		**-**		-
Common stock, $1 par value; authorized 20,000,000 shares; 2,779,607 shares issued and outstanding at December 31, 2020; and 2,768,729 shares issued and outstanding at December 31, 2019		**2,779,607**		2,768,729
Surplus		**16,830,983**		16,761,668
Accumulated other comprehensive income		**233,055**		85,762
Retained earnings		**11,612,165**		8,361,198
Total Shareholders' Equity		**31,455,810**		27,977,357
Total Liabilities and Shareholders' Equity	$	**424,434,307**	$	336,418,925

See accompanying notes to financial statements.

First Resource Bank

Statements of Income

Years Ended December 31,	**2020**	2019
Interest Income		
Loans receivable, including fees	**$ 16,172,232**	$ 14,793,138
Securities	**418,601**	509,268
Other	**63,250**	100,073
Total Interest Income	**16,654,083**	15,402,479
Interest Expense		
Deposits	**2,863,718**	3,556,578
Borrowings	**826,796**	732,271
Total Interest Expense	**3,690,514**	4,288,849
Net interest income	**12,963,569**	11,113,630
Provision for Loan Losses	**554,510**	786,129
Net Interest Income After Provision for Loan Losses	**12,409,059**	10,327,501
Other Income		
Service charges and other fees	**265,598**	284,655
Bank owned life insurance income	**148,094**	151,692
Gain on sale of SBA loans	**-**	24,463
Referral fee income	**244,100**	302,760
Other	**124,002**	101,625
Total Other Income	**781,794**	865,195
Other Expenses		
Salaries and employee benefits	**5,493,150**	4,826,060
Occupancy and equipment	**980,158**	817,652
Professional fees	**382,827**	384,113
Advertising and promotion	**282,958**	206,182
Data processing	**552,917**	532,578
FDIC premium expense	**225,738**	168,185
Other	**1,227,929**	1,384,115
Total Other Expenses	**9,145,677**	8,318,885
Income before federal income tax expense	**4,045,176**	2,873,811
Federal Income Tax Expense	**794,209**	552,043
Net Income	**$ 3,250,967**	$ 2,321,768

See accompanying notes to financial statements.

First Resource Bank

Statements of Comprehensive Income

Years Ended December 31,	**2020**	2019
Net Income	**$ 3,250,967**	$ 2,321,768
Other Comprehensive Income		
Unrealized holding gains on available-for-sale securities	**186,448**	375,311
Tax effect	**(39,155)**	(78,814)
Total other comprehensive income	**147,293**	296,497
Total Comprehensive Income	**$ 3,398,260**	$ 2,618,265

See accompanying notes to financial statements.

First Resource Bank

Statements of Shareholders' Equity

	Common Stock	Surplus	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance, January 1, 2019	$ 2,628,316	$ 15,535,963	$ (210,735)	$ 7,323,924	$ 25,277,468
Net income	-	-	-	2,321,768	2,321,768
Other comprehensive income	-	-	296,497	-	296,497
5% stock dividend (131,492 shares)	131,492	1,152,120	-	(1,283,612)	-
Cash in lieu of fractional shares on 5% stock dividend	-	-	-	(882)	(882)
Sale of common stock (8,921 shares)	8,921	73,585	-	-	82,506
Balance, December 31, 2019	$ 2,768,729	$ 16,761,668	$ 85,762	$ 8,361,198	$ 27,977,357
Net income	-	-	-	3,250,967	3,250,967
Other comprehensive income	-	-	147,293	-	147,293
Sale of common stock (10,878 shares)	10,878	69,315	-	-	80,193
Balance, December 31, 2020	$ 2,779,607	$ 16,830,983	$ 233,055	$ 11,612,165	$ 31,455,810

First Resource Bank

Statements of Cash Flows

Years Ended December 31,	2020	2019
Cash Flows from Operating Activities		
Net income	$ 3,250,967	$ 2,321,768
Adjustments to reconcile change in net income to net cash provided by operating activities:		
Provision for loan losses	554,510	786,129
Depreciation and amortization	442,727	375,605
Net amortization on securities	51,420	56,001
Net amortization of subordinated debt issuance costs	8,194	8,494
Amortization of servicing rights	19,598	21,573
Accretion of discount on SBA loans	(24,534)	(27,069)
Net accretion of deferred loan origination fees	(1,386,794)	(278,672)
Deferred tax (benefit) expense	(204,161)	51,531
Loss recorded on other real estate owned	-	3,385
Bank owned life insurance income	(148,094)	(151,692)
Proceeds from sales of SBA loans originated for sale	-	363,015
SBA loans originated for sale	-	(338,552)
Gains on sales of SBA loans originated for sale	-	(24,463)
Increase in accrued interest receivable	(342,651)	(57,206)
Increase in other assets	(230,481)	(864,109)
Increase (decrease) in accrued interest payable	(38,338)	68,998
Increase in other liabilities	139,487	1,170,548
Net Cash Provided by Operating Activities	2,091,850	3,485,284
Cash Flows from Investing Activities		
Net increase in loans	(57,481,674)	(36,000,370)
Purchases of securities available-for-sale	(27,079,121)	(21,949,597)
Purchases of securities held-to-maturity	(2,845,914)	-
Maturities and principal repayments of securities available-for-sale	23,103,520	22,897,953
Maturities and principal repayment of securities held-to-maturity	1,017,306	12,346
Redemption of restricted bank stock	326,100	105,400
Proceeds from sale of other real estate owned	-	529,494
Purchases of premises and equipment	(147,400)	(2,404,035)
Net Cash Used in Investing Activities	(63,107,183)	(36,808,809)
Cash Flows from Financing Activities		
Net increase in deposits	88,225,222	33,597,998
Net change in short-term borrowings	(10,896,000)	(6,104,400)
Proceeds from long-term borrowings	8,100,000	5,280,000
Repayment of long-term borrowings	(4,939,500)	(2,750,000)
Proceeds from subordinated debt	5,937,864	-
Repayment of subordinated debt	(2,000,000)	-
Cash in lieu of fractional shares on 5% stock dividend	-	(882)
Sale of common stock	80,193	82,506
Net Cash Provided by Financing Activities	84,507,779	30,105,222
Net increase (decrease) in cash and cash equivalents	23,492,446	(3,218,303)
Cash and Cash Equivalents, Beginning of Year	2,516,374	5,734,677
Cash and Cash Equivalents, End of Year	$ 26,008,820	$ 2,516,374
Supplementary Cash Flows Information		
Interest paid	$ 3,728,852	$ 4,219,851
Federal income taxes paid	$ 790,581	$ 491,195
Other real estate owned acquired in settlement of loans	$ -	$ 532,879
Initial recognition of operating lease right-of-use asset	$ 13,430	$ 1,036,836
Initial recognition of operating lease liability	$ 13,430	$ 1,112,830

See accompanying notes to financial statements.

1. Summary of Significant Accounting Policies

Organization and Nature of Operations

First Resource Bank (the "Bank") is incorporated under the laws of the Commonwealth of Pennsylvania and is a Pennsylvania state chartered bank. The Bank is a full service bank providing personal and business lending and deposit services. As a state chartered bank, the Bank is subject to regulation of the Pennsylvania Department of Banking and Securities and the Federal Deposit Insurance Corporation. The region served by the Bank is the southeastern area of Pennsylvania.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of deferred tax assets.

Significant Group Concentrations of Credit Risk

Most of the Bank's activities are with customers located within Chester, Montgomery and Delaware Counties in Pennsylvania. Note 3 discusses the types of lending that the Bank engages in. Although the Bank has a diversified loan portfolio, its debtors' ability to honor their contracts is influenced by the region's economy. The Bank does not have any significant concentrations to any one industry or customer.

Presentation of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold. Generally, federal funds are sold for one day periods. As of December 31, 2020 and 2019, the Bank had no federal funds sold.

The Bank maintains cash deposits in other depository institutions that occasionally exceed the amount of deposit insurance available. Management periodically assesses the financial condition of these institutions and believes that the risk of any possible credit loss is minimal.

Comprehensive Income

Accounting principles generally recognized in the United States of America require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on securities available-for-sale, are reported as a separate component of the shareholders' equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

Securities

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date.

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

Securities classified as held-to-maturity are those debt securities the Bank has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost adjusted for the amortization of premium and accretion of discount, computed by using the interest method over the terms of the securities.

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a 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: 1) OTTI related to credit loss, which must be recognized in the income statement, and 2) 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.

Loans Receivable

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

The loans receivable portfolio is segmented into commercial and consumer loans. Commercial loans consist of the following classes: commercial, commercial real estate and commercial construction. Consumer loans consist of the following classes: home equity loans and other consumer loans.

For all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans, including impaired loans, generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Non-residential consumer loans are generally charged off no later than 120 days past due on a contractual basis, earlier in the event of bankruptcy, or if there is an amount deemed uncollectible. Because all identified losses are immediately charged off, no portion of the allowance for loan losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Bank's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as home equity loans and other consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These qualitative risk factors include:

1. Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices.

2. National, regional, and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans.

3. Nature and volume of the portfolio and terms of loans.

4. Experience, ability, and depth of lending management and staff.

5. Volume and severity of past due, classified and nonaccrual loans and other loan modifications.

6. Quality of the Bank's loan review system, and the degree of oversight by the Bank's Board of Directors.

7. Existence and effect of any concentrations of credit and changes in the level of such concentrations.

8. Effect of external factors, such as competition and legal and regulatory requirements.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A majority of the Bank's loans are loans to business owners of many types. The Bank makes commercial loans for real estate development, equipment financing, accounts receivable and inventory financing and other purposes as required by the customer base.

The Bank's credit policies determine advance rates against the different forms of collateral that can be pledged against commercial loans. Typically, the majority of loans will be limited to a percentage of their underlying collateral values such as real estate values, equipment, eligible accounts receivable and finished inventory or raw material. Individual loan advance rates may be higher or lower depending upon the financial strength of the borrower and/or the term of the loan.

The evaluation of the adequacy of the allowance is based on an analysis which categorizes the entire loan portfolio by certain risk characteristics. The loan portfolio is segmented into the following loan classes, where the risk level for each class is analyzed when determining the allowance for loan losses.

1. Commercial loans are made to entrepreneurs, proprietors, professionals, partnerships, LLP's, LLC's and corporations. The assets financed are used within the business for its ongoing operation. Repayment of these kinds of loans generally comes from the cash flow of the business or the ongoing conversions of assets, such as accounts receivable and inventory, to cash. These loans can be affected by economic conditions. Commercial term loans may have maturities up to 10 years and generally have fixed interest rates for up to five years. Commercial lines of credit are renewed annually and generally carry variable interest rates. Typical collateral for commercial loans include the borrower's accounts receivable, inventory and machinery and equipment. Included in commercial loans are Paycheck Protection Program ("PPP") loans that are outlined below in "Certain Regulatory Developments Relating to the COVID-19 Pandemic."

2. Commercial real estate loans include long-term loans financing commercial properties, either owner occupied or rental properties. Repayment of this kind of loan is dependent

upon either the ongoing cash flow of the borrowing entity or the resale of or lease of the subject property. These loans can be affected by economic conditions and the value of the underlying properties. Commercial real estate loans require a loan to value ratio of not greater than 80%. Loan amortizations vary from one year to twenty-five years and terms typically do not exceed 10 years. Interest rates can be either floating or adjustable periods of up to five years with either a rate reset provision or a balloon payment.

3. Commercial construction loans include loans to finance the construction or rehabilitation of either commercial properties or 1 to 4 family residential structures. The vast majority of the commercial construction portfolio finances 1 to 4 family residential properties. Construction loans generally are considered to involve a higher degree of risk of loss than occupied real estate due to uncertainty of construction costs. Inspections are performed prior to disbursement of loan proceeds as construction progress to mitigate these risks. These loans can also be affected by economic conditions. The commercial construction portfolio is focused on small spot lot builders and smaller building companies. These loans carry variable interest rates and are usually interest only loans with maturities ranging from one year to three years.

4. Home equity loans, home equity lines of credit, residential mortgages and residential construction loans are secured by the borrower's residential real estate in either a first or second lien position. These loans can be affected by economic conditions and the value of the underlying property. The risk is considered low on loans in these categories that are secured by first liens. The credit risk is considered slightly higher on loans in these categories with second liens as these loans are dependent on the value of the underlying properties and have the added risk of the subordinate collateral positions. Home equity loans require a loan to value ratio of not greater than 85% with limited exceptions. Home equity lines of credit have variable rates. Closed end home equity loans have maturities up to fifteen years and carry fixed interest rates. Residential mortgages have adjustable rates and terms up to thirty years.

5. Other consumer loans include installment loans, car loans and overdraft lines of credit. The majority of these loans are unsecured and therefore are considered to involve a higher risk of loss.

6. Cash collateralized loans consist of loans secured by deposit accounts. These loans have low credit risk as they are fully secured by their collateral.

The vast majority of the commercial and consumer loans are located in Chester County, Pennsylvania.

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

An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value, or the amount by which its carrying value exceeds its estimated fair value is charged-off. The estimated carrying values of the Bank's impaired loans are measured based on the estimated fair value of the loan's collateral or the present value of expected future cash flows.

For commercial loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For commercial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable aging or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

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, to a below market rate for a loan with similar credit risk, 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 allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans criticized special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses and may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

U.S. Small Business Association (SBA) Lending Activities

The Bank originates loans to customers in its primary market area under an SBA program that generally provides for SBA guarantees of up to 90 percent of each loan. The Bank generally sells the guaranteed portion of its SBA loans to a third party and retains the servicing, holding the nonguaranteed portion ("retained interest") in its portfolio. A portion of the premium on the sale of SBA loans is recognized as gain on sale of loans at the time of the sale by allocating the carrying amount between the asset sold and the retained interest, including servicing assets, based on their relative fair values. The remaining portion of the premium is recorded as a discount on the remaining life of the loan as an adjustment to yield. The retained interest, net of any discount, is included in loans receivable in the accompanying balance sheets.

Servicing assets are recognized separately when rights are acquired through the sale of the SBA guaranteed portion. These servicing rights are initially measured at fair value at the date of sale and included in the gain on sale. To determine the fair value of servicing rights, the Bank uses market prices for comparable mortgage servicing contracts, when available, or alternatively, uses a valuation model that calculates the present value of estimated future net servicing income. In using this valuation method, the Bank incorporates assumptions that market participants would use in estimating future net servicing income, which includes estimates of the cost to service, the discount rate, custodial earnings rate, an inflation rate, ancillary income, prepayment speeds, default rates, late fees and losses.

Servicing rights are amortized in proportion to, and over the period of, the estimated net servicing income or net servicing loss and measured for impairment based on fair value at each reporting date. The amortization of the servicing rights is analyzed periodically and is adjusted to reflect changes in prepayment rates and other estimates.

Serviced loans sold to others are not included in the accompanying balance sheets. Income (losses) and fees collected for loan servicing are included within other income on the statements of income.

Transfers of Financial Assets

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

Bank Owned Life Insurance

The Bank 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 chosen group of officers. The Bank is the owner and beneficiary of the policies. This life insurance investment is carried at the cash surrender value of the underlying policies. Increases in cash surrender value are recorded in other income.

Restricted Investment in Bank Stock

Restricted stock at December 31, 2020 and 2019 is comprised of stock in the Federal Home Loan Bank of Pittsburgh ("FHLB") in the amount of $1,163,500 and $1,489,600, respectively, and in Atlantic Community Bankers Bank ("ACBB") in the amount of $50,000 for both years. Federal law requires a member institution of the Federal Home Loan Bank to hold stock according to a predetermined formula. All restricted stock is recorded at cost.

Other Real Estate Owned

Other real estate owned ("OREO") is comprised of property acquired through a foreclosure proceeding or acceptance of a deed-in-lieu of foreclosure and loans classified as in-substance foreclosure. Such assets are recorded in other assets in the accompanying balance sheets. A loan is classified as in-substance foreclosure when the Bank has taken possession of the collateral regardless of whether formal proceedings take place. OREO initially is recorded at fair value, net of estimated selling costs, at the date of foreclosure establishing a new cost basis. Any write-downs based on fair value at the date of foreclosure are charged to the allowance for loan losses. If an increase in cost basis results, it is classified as non-interest income unless there has been a prior charge-off, in which case a recovery to the allowance for loan losses is recorded. After foreclosure, valuations are periodically performed by management and the assets are carried at the lower of cost or fair value minus estimated costs to sell. Revenues and expenses from operations and write-downs are included in other expenses. In addition, any gain or loss realized upon disposal is included in other expense. The Bank had OREO of $-0- at December 31, 2020 and December 31, 2019.

Bank Premises and Equipment

Bank 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 related assets. Leasehold improvements are depreciated over the lesser of the useful life, or term of the lease, including renewal options, if reasonably assured, on a straight-line basis.

Advertising Costs

The Bank follows the policy of charging the costs of advertising to expense as incurred.

Employee Benefit Plans

The Bank has established a 401(k) Plan (the "Plan"). All employees are eligible to participate after they have attained the age of 18. The employees may contribute up to the maximum percentage allowable by law of their compensation to the Plan. During 2020 and 2019, the Bank has elected to make a 3% safe harbor contribution for all employees. This contribution is vested immediately. The Bank's contribution to the Plan for the years ended December 31, 2020 and 2019 was $136,872 and $120,688, respectively.

The Bank has implemented non-qualified Supplemental Executive Retirement Plans for certain executive officers that provide for payments upon retirement, death or disability. As of December 31, 2020 and 2019, other liabilities include $431,158 and $364,185 accrued under these plans, respectively. For the years ended December 31, 2020 and 2019, salaries and employee benefits expense includes $66,973 and $61,655 expensed under these plans, respectively.

Income Taxes

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

Off-Balance Sheet Financial Instruments

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

Certain Regulatory Developments Relating to the COVID-19 Pandemic

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") was passed by Congress and signed into law by the President. The CARES Act provided approximately $2.2 trillion in direct economic relief in response to the public health and economic impacts of COVID-19. Many of the CARES Act's programs are, and remain, dependent upon the direct involvement of U.S. financial institutions like the Bank. These programs have been implemented through rules and guidance adopted by federal departments and agencies, including the U.S. Department of Treasury, the Federal Reserve, and other federal bank regulatory authorities, including those with direct supervisory jurisdiction over the Bank. Furthermore, as the COVID-19 pandemic evolves, federal regulatory authorities continue to issue additional guidance with respect to the implementation, lifecycle, and eligibility requirements for the various CARES Act programs as well as industry-specific recovery procedures for COVID-19. Set forth below is a brief overview of select provisions of the CARES Act and other regulations and supervisory guidance related to the COVID-19 pandemic that are applicable to the operations and activities of the Company.

Paycheck Protection Program The CARES Act included an allocation of $349 billion for loans to be issued by financial institutions through the SBA. This program is known as the Paycheck Protection Program ("PPP"). PPP loans are forgivable, in whole or in part, if the proceeds are used for payroll and other permitted purposes in accordance with the requirements of the PPP. These loans carry a fixed rate of 1.00% and a term of two or five years dependent on when they were booked, if not forgiven, in whole or in part. Payments are deferred for the first six months of the loan. The loans are 100% guaranteed by the SBA. The SBA pays the originating bank a processing fee ranging from 1% to 5%, based on the size of the loan. The SBA began accepting submissions for these PPP loans on Friday, April 3, 2020. The Paycheck Protection Program and Health Care Enhancement Act ("PPP / HCEA Act") was passed by Congress on April 23, 2020 and signed into law on April 24, 2020. The PPP / HCEA Act authorizes additional funding under the CARES Act of $310 billion for PPP loans to be issued by financial institutions through the SBA. On June 5, 2020, the President signed the Paycheck Protection Program Flexibility Act of 2020 ("Flexibility Act"). This Act provides a minimum maturity of 5 years for all PPP loans made on or after June 5, 2020. It also permits lenders and borrowers to extend the maturity date, by mutual agreement for PPP loans made prior to June 5, 2020. In addition, the Flexibility Act provided the ability to extend the covered period from 8 weeks after the date of disbursement of the PPP loan to 24 weeks. If the borrower does not apply for loan forgiveness within 10 months after the last day of the covered period, or if SBA determined the loan is not eligible for forgiveness, the PPP loan is no longer deferred and the borrower must begin paying principal and interest. On December 27, 2020, the Coronavirus Response and Relief Supplemental Appropriations Act was signed into law by the President, which allowed an additional $284 million for second draw PPP loans to eligible small businesses.

During the year ended December 31, 2020, the Bank originated $58,781,461 of PPP loans, with associated deferred fees amounting to $1,660,720 at origination which are being accreted over the life of the loans, primarily two years. At December 31, 2020, $601,772 of deferred fees related to PPP loans remain to be accreted.

Troubled Debt Restructuring and Loan Modifications for Affected Borrowers The CARES Act permits banks to suspend requirements under GAAP that certain loan modifications be characterized as TDRs and suspend any determination related thereto if (i) the loan modification is made between March 1, 2020 and the earlier of December 31, 2020 or 60 days after the end of the COVID-19 emergency declaration and (ii) the applicable loan was not more than 30 days past due as of December 31, 2019. Under the Coronavirus Response and Relief Supplemental Appropriations Act, the suspension of requirements of GAAP for certain loan modifications that would otherwise be categorized as a TDR was extended until the earlier of 60 days after the termination of the COVID-19 national emergency, of January 1, 2022. Federal bank regulatory authorities also issued guidance to encourage banks to make loan modifications for borrowers affected by COVID-19 and to assure banks that they will not be criticized by examiners for doing so. Additionally, FASB accounting standard codification subtopic 310-40 allows for delays in payments that are insignificant in consideration to the total contractual amount due and the timing of the delay.

The Bank implemented a modification program to defer principal or principal and interest payments for borrowers that were directly impacted by the pandemic who were not more than 30 days past due as of December 31, 2019, all of which were modified in accordance with Cares Act. In accordance with the Cares Act, the Company has elected to not apply troubled debt restructuring classification to these modifications. Accordingly, these modifications would not be classified as TDRs. At December 31, 2020, the Bank had two commercial loan deferrals, with either deferred principal or principal and interest payments, with outstanding balances amounting to $4,859,670, which were not deemed to be TDRs.

The full impact of COVID-19 pandemic continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Bank's financial condition, results of operations, liquidity and capital levels. Management is actively monitoring the rapid developments of and uncertainties caused by the COVID-19 pandemic, including changes in interest rates, competition for deposits and quality loans, and credit performance and credit risk in the Bank's loan portfolio, all of which could have an adverse impact on the Bank's business, financial condition, operating results, liquidity and capital ratios in future periods.

2. Securities

The amortized cost and fair value of securities available-for-sale and held-to-maturity at December 31, 2020 and 2019 are summarized as follows:

December 31, 2020	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Available-for-sale:				
U. S. government securities	**$ 24,999,784**	**$ -**	**$ (499)**	**$ 24,999,285**
U. S. government mortgage-backed securities - residential	**8,985,869**	**295,588**	**(82)**	**9,281,375**
	$ 33,985,653	**$ 295,588**	**$ (581)**	**$ 34,280,660**
Held-to-maturity:				
U. S. government mortgage-backed securities - residential	**$ 2,064,844**	**$ 5,280**	**$ (4,413)**	**$ 2,065,711**
Municipal bonds	**6,714,531**	**130,320**	**-**	**6,844,851**
	$ 8,779,375	**$ 135,600**	**$ (4,413)**	**$ 8,910,562**

December 31, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U. S. government securities	$ 19,998,329	$ -	$ (6,529)	$ 19,991,800
U. S. government mortgage-backed securities - residential	10,052,782	122,334	(7,246)	10,167,870
	$ 30,051,111	$ 122,334	$ (13,775)	$ 30,159,670
Held-to-maturity:				
U. S. government mortgage-backed securities - residential	$ 71,632	$ 4,260	$ -	$ 75,892
Municipal bonds	6,889,496	87,146	(1,172)	6,975,470
	$ 6,961,128	$ 91,406	$ (1,172)	$ 7,051,362

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

December 31, 2020	**Less than 12 Months**		**12 Months or Longer**		**Total**	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Securities available-for-sale:						
U. S. government securities	**$ 16,999,300**	**$ (499)**	**$ -**	**$ -**	**$ 16,999,300**	**$ (499)**
U. S. government mortgage-backed securities - residential	**59,494**	**(82)**	**-**	**-**	**59,494**	**(82)**
	$ 17,058,794	**$ (581)**	**$ -**	**$ -**	**$ 17,058,794**	**$ (581)**
Securities held-to-maturity:						
U.S. government mortgage-backed securities - residential	**$ 1,014,720**	**$ (4,413)**	**$ -**	**$ -**	**$ 1,014,720**	**$ (4,413)**

December 31, 2019	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities available-for-sale:						
U. S. government securities	$ 19,991,800	$ (6,529)	$ -	$ -	$ 19,991,800	$ (6,529)
U. S. government mortgage-backed securities - residential	995,223	(2,650)	517,732	(4,596)	1,512,955	(7,246)
	$ 20,987,023	$ (9,179)	$ 517,732	$ (4,596)	$ 21,504,755	$ (13,775)
Securities held-to-maturity:						
Municipal bonds	$ 260,515	$ (425)	$ 378,259	$ (747)	$ 638,774	$ (1,172)

As of December 31, 2020, five securities were in unrealized loss positions for less than twelve months due to interest rate fluctuations and no securities were in unrealized loss positions for longer than twelve months. As of December 31, 2019, thirty-six securities were in unrealized loss positions for less than twelve months due to interest rate fluctuations and fourteen securities were in unrealized loss positions for longer than twelve months due to interest rate fluctuations. No securities were deemed to be other-than-temporarily impaired.

The amortized cost and fair value of securities as of December 31, 2020, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the securities may be called without any penalties.

December 31, 2020	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due less than one year	$ 24,999,784	$ 24,999,285	$ 665,000	$ 665,937
Due after one year through five years	-	-	376,091	377,389
Due after five years through ten years	-	-	4,450,293	4,564,744
Due over 10 years	-	-	1,223,147	1,236,781
	24,999,784	24,999,285	6,714,531	6,844,851
U.S. government mortgage-backed securities - residential	8,985,869	9,281,375	2,064,844	2,065,711
	$ 33,985,653	$ 34,280,660	$ 8,779,375	$ 8,910,562

Securities with a carrying value of $3,994,000 and $2,039,000 at December 31, 2020 and 2019, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

During the years ended December 31, 2020 and 2019, there were no securities sold by the Bank.

3. Loans Receivable

The composition of loans receivable at December 31, 2020 and 2019 is as follows:

	2020	2019
Commercial[1]	$ 67,090,150	$ 30,753,073
Commercial real estate	227,813,834	203,948,912
Commercial construction	25,217,171	29,623,273
Home equity	19,382,318	15,495,134
Consumer, other	837,569	1,097,960
Total loans	340,341,042	280,918,352
Unearned net loan origination fees and costs	(1,401,000)	(715,980)
Allowance for loan losses	(2,907,023)	(2,507,845)
Net Loans	$ 336,033,019	$ 277,694,527

[1] Commercial loans include $34,956,834 in PPP loans as of December 31, 2020 compared to $-0- as of December 31, 2019.

Loan Sales

The Bank originates and sells loans secured by the SBA. The Bank retains the unguaranteed portion of the loan and the servicing on the loans sold and receives a fee based upon the principal balance outstanding.

During the years ended December 31, 2020 and 2019, the Bank sold SBA loans originated for sale for total proceeds of $-0- and $363,015, respectively. The loan sales resulted in realized gains of $-0- and $24,463 for the years ended December 31, 2020 and 2019, respectively. There were no SBA loans originated for sale held at December 31, 2020 and 2019.

Loans serviced for others are not included in the accompanying balance sheets. The unpaid principal balances of loans serviced for others were $6,654,401 and $7,105,979 at December 31, 2020 and 2019, respectively.

The following summarizes the activity pertaining to the servicing rights using the amortization method for the years ended December 31, 2020 and 2019:

	2020	2019
Balance, Beginning	**$ 113,687**	$ 135,197
Additions	**-**	6,398
Impairment	**4,651**	(6,335)
Amortization	**(19,598)**	(21,573)
Balance, Ending	**$ 98,740**	$ 113,687

The risks inherent in the servicing rights relate primarily to changes in prepayments that result from shifts in interest rates. The servicing rights are included in other assets in the balance sheets.

4. Allowance for Loan Losses

The following tables summarize the activity in the allowance for loan losses by loan class for the years ended December 31, 2020 and 2019, and information in regards to the allowance for loan losses and the recorded investment in loans receivable by loan class as of December 31, 2020 and 2019:

2020	Allowance for Loan Losses						
	Beginning Balance	Charge-offs	Recoveries	Provisions	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial	$ 389,438	$ -	$ 5,592	$ 19,617	$ 414,647	$ 138,193	$ 276,454
Commercial real estate	1,694,900	(172,221)	7,177	458,563	1,988,419	9,675	1,978,744
Commercial construction	322,894	-	4,120	(47,986)	279,028	-	279,028
Home equity	91,728	-	-	28,693	120,421	-	120,421
Consumer, other	8,885	-	-	(4,377)	4,508	-	4,508
Unallocated	-	-	-	100,000	100,000	-	100,000
	$ 2,507,845	$ (172,221)	$ 16,889	$ 554,510	$ 2,907,023	$ 147,868	$ 2,759,155

2020

	Loans Receivable		
	Ending Balance	**Ending Balance: Individually Evaluated for Impairment**	**Ending Balance: Collectively Evaluated for Impairment**
Commercial	**$ 67,090,150**	**$ 500,738**	**$ 66,589,412**
Commercial real estate	**227,813,834**	**5,782,207**	**222,031,627**
Commercial construction	**25,217,171**	**-**	**25,217,171**
Home equity	**19,382,318**	**857,526**	**18,524,792**
Consumer, other	**837,569**	**122,006**	**715,563**
	$ 340,341,042	**$ 7,262,477**	**$ 333,078,565**

2019

	Allowance for Loan Losses						
	Beginning Balance	Charge-offs	Recoveries	Provisions	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial	$ 309,780	$ (61,163)	$ 17,517	$ 123,304	$ 389,438	$ 139,837	$ 249,601
Commercial real estate	1,275,390	(184,165)	2,283	601,392	1,694,900	-	1,694,900
Commercial construction	223,374	(49,466)	5,250	143,736	322,894	-	322,894
Home equity	170,753	-	-	(79,025)	91,728	-	91,728
Consumer, other	10,956	-	1,207	(3,278)	8,885	-	8,885
	$ 1,990,253	$ (294,794)	$ 26,257	$ 786,129	$ 2,507,845	$ 139,837	$ 2,368,008

2019

	Loans Receivable		
	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial	$ 30,753,073	$ 996,515	$ 29,756,558
Commercial real estate	203,948,912	1,302,042	202,646,870
Commercial construction	29,623,273	-	29,623,273
Home equity	15,495,134	978,509	14,516,625
Consumer, other	1,097,960	209,469	888,491
	$ 280,918,352	$ 3,486,535	$ 277,431,817

The following tables present the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention and substandard within the Bank's internal risk rating system as of December 31, 2020 and 2019:

December 31, 2020	**Commercial**	**Commercial Real Estate**	**Commercial Construction**	**Home Equity**	**Consumer, Other**	**Total**
Pass	**$ 66,589,412**	**$ 222,031,627**	**$ 25,217,171**	**$ 18,552,077**	**$ 837,569**	**$ 333,227,856**
Special mention	**56,420**	**4,977,845**	**-**	**-**	**-**	**5,034,265**
Substandard	**444,318**	**804,362**	**-**	**830,241**	**-**	**2,078,921**
	$ 67,090,150	**$ 227,813,834**	**$ 25,217,171**	**$ 19,382,318**	**$ 837,569**	**$ 340,341,042**

December 31, 2019	Commercial	Commercial Real Estate	Commercial Construction	Home Equity	Consumer, Other	Total
Pass	$ 29,756,558	$ 202,646,870	$ 29,623,273	$ 14,546,574	$1,097,960	$ 277,671,235
Substandard	996,515	1,302,042	-	948,560	-	3,247,117
	$ 30,753,073	$ 203,948,912	$ 29,623,273	$ 15,495,134	$1,097,960	$ 280,918,352

The following tables summarize information in regards to impaired loans by loan portfolio class as of and for the years ended December 31, 2020 and 2019:

December 31, 2020	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Recorded Investment**	**Interest Income Recognized**
With no related allowance recorded:					
Commercial	**$ 118,306**	**$ 118,306**	**$ -**	**$ 86,264**	**$ 4,775**
Commercial real estate	**1,912,292**	**2,031,240**	**-**	**1,652,929**	**59,106**
Commercial construction	**-**	**-**	**-**	**-**	**-**
Home equity	**857,526**	**857,526**	**-**	**964,283**	**40,441**
Consumer - other	**122,006**	**122,006**	**-**	**193,409**	**4,871**
With an allowance recorded:					
Commercial	**$ 382,432**	**$ 382,432**	**$ 138,193**	**$ 825,838**	**$ -**
Commercial real estate	**3,869,915**	**3,869,915**	**9,675**	**1,195,490**	**23,669**
Commercial construction	**-**	**-**	**-**	**-**	**-**
Home equity	**-**	**-**	**-**	**-**	**-**
Consumer - other	**-**	**-**	**-**	**-**	**-**
Total:					
Commercial	**$ 500,738**	**$ 500,738**	**$ 138,193**	**$ 912,102**	**$ 4,775**
Commercial real estate	**5,782,207**	**5,901,155**	**9,675**	**2,848,419**	**82,775**
Commercial construction	**-**	**-**	**-**	**-**	**-**
Home equity	**857,526**	**857,526**	**-**	**964,283**	**40,441**
Consumer, other	**122,006**	**122,006**	**-**	**193,409**	**4,871**

December 31, 2019	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ 64,267	$ 64,267	$ -	$ 275,333	$ 15,464
Commercial real estate	1,302,042	1,420,990	-	2,574,265	45,426
Commercial construction	-	-	-	40,027	-
Home equity	978,509	978,509	-	986,864	52,462
Consumer - other	209,469	262,658	-	213,142	5,325
With an allowance recorded:					
Commercial	$ 932,248	$ 932,248	$ 139,837	$ 932,248	$ 970
Commercial real estate	-	-	-	-	-
Commercial construction	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer - other	-	-	-	-	-
Total:					
Commercial	$ 996,515	$ 996,515	$ 139,837	$ 1,207,581	$ 16,434
Commercial real estate	1,302,042	1,420,990	-	2,574,265	45,426
Commercial construction	-	-	-	40,027	-
Home equity	978,509	978,509	-	986,864	52,462
Consumer, other	209,469	262,658	-	213,142	5,325

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due status as of December 31, 2020 and 2019:

December 31, 2020	**30-59 Days Past Due**	**60-89 Days Past Due**	**Greater Than 90 Days**	**Total Past Due**	**Current**	**Total Loans Receivables**	**Recorded Investmen t >90 Days and Accruing**
Commercial	**$ -**	**$ -**	**$ -**	**$ -**	**$ 67,090,150**	**$ 67,090,150**	**$ -**
Commercial real estate	**-**	**-**	**-**	**-**	**227,813,834**	**227,813,834**	**-**
Commercial construction	**-**	**-**	**-**	**-**	**25,217,171**	**25,217,171**	**-**
Home equity	**153,417**	**269,490**	**-**	**422,907**	**18,959,411**	**19,382,318**	**-**
Consumer, other	**-**	**-**	**-**	**-**	**837,569**	**837,569**	**-**
	$ 153,417	**$ 269,490**	**$ -**	**$ 422,907**	**$ 339,918,135**	**$ 340,341,042**	**$ -**

December 31, 2019	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivables	Recorded Investment >90 Days and Accruing
Commercial	$ -	$ -	$ 932,248	$ 932,248	$ 29,820,825	$ 30,753,073	$ -
Commercial real estate	1,246,761	-	471,452	1,718,213	202,230,699	203,948,912	-
Commercial construction	-	-	-	-	29,623,273	29,623,273	-
Home equity	174,605	285,884	-	460,489	15,034,645	15,495,134	-
Consumer, other	1,014	-	-	1,014	1,096,946	1,097,960	-
	$ 1,422,380	$ 285,884	$ 1,403,700	$ 3,111,964	$ 277,806,388	$ 280,918,352	$ -

The following table presents nonaccrual loans by classes of the loan portfolio as of December 31, 2020 and 2019:

	2020	2019
Commercial	**$ 382,432**	$ 932,248
Commercial real estate	**-**	471,452
Commercial construction	**-**	-
Home equity	**-**	-
	$ 382,432	$ 1,403,700

The Bank may grant a concession or modification for economic or legal reasons related to a borrower's financial condition that it would not otherwise consider resulting in a modified loan which is then identified as a troubled debt restructuring (“TDR”). Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate, to a below market rate for a loan with similar credit risk, or an extension of a loan’s stated maturity date. Loan modifications are intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral.

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.

There were no troubled debt restructurings during the years ended December 31, 2020 and 2019.

There were no troubled debt restructurings with a payment default within twelve months of the restructure date, during the years ended December 31, 2020 and 2019.

At December 31, 2020 and 2019, the Bank had $-0- and $-0-, respectively, of residential real estate held in other real estate owned. At December 31, 2020 and 2019, the Bank had initiated foreclosure proceedings on approximately $-0- and $-0-, respectively, of loans secured by residential real estate.

5. Bank Premises and Equipment

The components of premises and equipment at December 31, 2020 and 2019 are as follows:

	2020	2019
Land	$ 2,609,586	$ 2,609,586
Land improvements	812,096	797,033
Buildings	5,071,118	5,063,741
Leasehold improvements	24,429	24,429
Furniture, fixtures and equipment	1,609,768	1,526,902
Computer equipment and data processing software	790,241	748,147
	10,917,238	10,769,838
Accumulated depreciation and amortization	(2,536,969)	(2,094,242)
	$ 8,380,269	$ 8,675,596

Depreciation and amortization expense was $442,727 and $375,605 for the years ended December 31, 2020 and 2019, respectively.

6. Deposits

The components of deposits at December 31, 2020 and 2019 are as follows:

	2020	2019
Demand, noninterest-bearing	$ 99,898,323	$ 50,616,321
Demand, interest-bearing	23,726,721	11,797,456
Money market accounts	140,480,421	102,433,910
Time, $250,000 and over	14,931,510	15,794,248
Time, other	78,988,141	89,157,959
	$ 358,025,116	$ 269,799,894

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

Year ending December 31,	
2021	$ 62,496,315
2022	6,836,613
2023	16,075,598
2024	7,905,548
2025	605,577
	$ 93,919,651

At December 31, 2020 and 2019, the Bank had brokered deposits of $5,678,908 and $5,675,258, respectively.

7. Borrowings

Short-term borrowings at December 31, 2020 were $-0-. Short-term borrowings at December 31, 2019 consist of an advance from the Federal Home Loan Bank (FHLB) of $10,896,000, due January 2, 2020 with interest at 1.80%. The Bank utilizes overnight borrowings from the FHLB for cash flow needs.

Long-term borrowings at December 31, 2020 and 2019 consisted of FHLB borrowings with the following maturity dates and interest rates:

	2020	2019
Fixed note at 2.232%, maturing on February 3, 2020	-	1,000,000
Fixed note at 1.617%, maturing on March 30, 2020	-	850,000
Fixed note at 1.235%, maturing on June 3, 2020	-	2,000,000
Fixed note at 2.077%, maturing on June 17, 2020	-	437,500
Fixed note at 2.712%, maturing on August 27, 2020	-	652,000
Fixed note at 1.545%, maturing on January 21, 2021	2,198,000	2,198,000
Fixed note at 1.854%, maturing on March 30, 2021	850,000	850,000
Fixed note at 2.548%, maturing on February 28, 2022	1,000,000	1,000,000
Fixed note at 0.833%, maturing on March 16, 2022	1,850,000	-
Fixed note at 2.916%, maturing on May 16, 2022	900,000	900,000
Fixed note at 1.562%, maturing on June 2, 2022	2,000,000	2,000,000
Fixed note at 2.685%, maturing on February 2, 2023	1,000,000	1,000,000
Fixed note at 2.988%, maturing on May 15, 2023	900,000	900,000
Fixed note at 2.627%, maturing on February 27, 2024	1,000,000	1,000,000
Fixed note at 2.863%, maturing on March 22, 2024	1,078,000	1,078,000
Fixed note at 1.917%, maturing on July 23, 2024	1,500,000	1,500,000
Fixed note at 1.557%, maturing on August 7, 2024	1,780,000	1,780,000
Fixed note at 1.709%, maturing on January 8, 2025	2,000,000	-
Fixed note at 2.895%, maturing on February 3, 2025	1,000,000	1,000,000
Fixed note at 3.211%, maturing on May 15, 2025	900,000	900,000
Fixed note at 1.236%, maturing on March 16, 2026	1,850,000	-
Fixed note at 1.309%, maturing on March 1, 2027	2,400,000	-
	$ 24,206,000	$ 21,045,500

Borrowings from the FHLB are secured by a blanket lien on the Bank's assets. The Bank has a maximum borrowing capacity with the FHLB of approximately $163,855,000 at December 31, 2020, of which $24,206,000 was outstanding.

The Bank also has access to borrowings from the Federal Reserve Bank Discount Window. All borrowings through this facility are secured by specific pledge of investments. There were no borrowings outstanding under this facility at December 31, 2020 and 2019.

8. Subordinated Debt

On July 31, 2015, the Bank issued $2 million in subordinated notes. These notes have a maturity date of September 15, 2025, and bear interest at a fixed rate of 6.50%. These notes were redeemed in whole on September 15, 2020.

On October 15, 2015, the Bank issued another $2 million in subordinated notes. These notes have a maturity date of October 1, 2025, and bear interest at a fixed rate of 6.50%. The Bank may, at its option, at any time on an interest payment date on or after October 15, 2020, redeem the notes, in whole or in part, at par plus accrued interest to the date of redemption.

On September 15, 2020, the Bank issued $6 million in subordinated notes. These notes have a maturity date of December 15, 2030, and bear interest at a fixed rate of 6.00%. The Bank may, at its option, at any time on an interest payment date on or after December 15, 2025, redeem the notes, in whole or in part, at par plus accrued interest to the date of redemption.

The principal and unamortized debt issuance costs of subordinated debt at December 31, 2020 are as follows:

December 31, 2020	**Principal**	**Unamortized Debt Issuance Costs**	**Net**
6.5% subordinated notes, due October 1, 2025	**$ 2,000,000**	**$ -**	**$ 2,000,000**
6.0% subordinated notes, due December 15, 2030	**6,000,000**	**59,351**	**5,940,649**
	$ 8,000,000	**$ 59,351**	**$ 7,940,649**

The principal and unamortized debt issuance costs of subordinated debt at December 31, 2019 are as follows:

December 31, 2019	Principal	Unamortized Debt Issuance Costs	Net
6.5% subordinated notes, due September 15, 2025	$ 2,000,000	$ 3,366	$ 1,996,634
6.5% subordinated notes, due October 1, 2025	2,000,000	2,043	1,997,957
	$ 4,000,000	$ 5,409	$ 3,994,591

All subordinated notes are not subject to repayment at the option of the noteholders. These notes are all unsecured and rank junior in right of payment to the Bank's obligations to its general creditors and qualify as Tier 2 capital for regulatory purposes.

9. Leases

In 2013, the Bank entered into an operating lease agreement for its corporate office. This lease commenced in May 2014 and has a ten year and seven month term with two additional five year option periods.

In 2019, the Bank entered into an amendment to the corporate office lease to expand the leased space. The amendment commenced in November 2019 and follows the same term as the original lease.

The Bank also has lease agreements for office equipment.

On January 1, 2019, the Bank adopted ASU No. 2016-02 *"Leases"* ("Topic 842") and all subsequent ASUs that modified Topic 842. All of the leases in which the Bank is the lessee are classified as operating leases, and therefore, were previously not recognized on the balance sheet. With the adoption of Topic 872, operating lease agreements are required to be recognized on the balance sheet as a right of use asset and a corresponding lease liability. The Bank has elected not to include short term leases (i.e., leases with initial terms of twelve months or less) on the balance sheet.

The following table presents the balance sheet classification of our ROU assets and lease liabilities, included in other assets and other liabilities, respectively.

Year ending December 31,		
Lease ROU assets	$	742,524
Lease liabilities		803,850

The calculation of the ROU assets and lease liabilities in the table above are impacted by the length of the lease term and the discount rate used to calculate the present value of the minimum lease payments, which is the Bank's incremental borrowing rate for a loan term similar to the lease term. The weighted-average remaining lease term was 3.9 years and the weighted-average discount rate was 2.63% as of December 31, 2020.

Lease expense was $203,091 and $155,467 for the years ended December 31, 2020 and 2019, respectively.

Cash paid on operating lease liabilities amounted to $209,947 and $162,492 for the years ended December 31, 2020 and 2019, respectively.

Future minimum lease payments by year and in the aggregate for leases as of December 31, 2020 and 2019 are as follows:

Year ending December 31, 2020		
2021	**$**	**198,129**
2022		**220,517**
2023		**222,494**
2024		**205,214**
2025		**-**
Thereafter		**-**
Total		**846,354**
Less: imputed interest		**(42,504)**
Total	**$**	**803,850**

Year ending December 31, 2019		
2020	$	190,671
2021		211,501
2022		216,475
2023		219,489
2024		205,214
Thereafter		-
Total		1,043,350
Less: imputed interest		(66,195)
Total	$	977,155

10. Employment Agreements

The Bank has employment agreements with its chief executive officer and chief financial officer. The agreements include minimum annual salary commitments and change of control provisions. The Bank also has a change of control agreement with its chief operating officer. The change in control provisions in these agreements provide that upon resignation after a change in the control of the Bank, as defined in the agreement, the individual will receive monetary compensation in the amount set forth in the agreement.

11. Shareholders' Equity

During 2019, the Bank declared a 5% common stock dividend which resulted in the issuance of 131,492 common stock shares. All share and per share amounts are adjusted for the stock dividend.

The Bank has a Director Fee Plan. The Plan allows for non-employee directors to elect to receive a specified percentage of fees for services on the Board of Directors in the form of shares of the Bank's common stock. The purchase price for these shares is the volume weighted average price of the Bank's common stock as reported on the over-the-counter market on the OTCQX Marketplace for Banks, for the calendar quarter for which a Director's compensation is payable. During 2020 and 2019, the Bank sold 5,493 and 4,149 shares of common stock under this Plan.

The Bank has an Employee Stock Purchase Plan. The Employee Plan allows employees with at least six months of service and who customarily work more than five months per calendar year to purchase shares through a payroll deduction at a price set by the Capital Committee between 85 percent and 100 percent of the fair market value of such share on each quarterly purchase date. Payroll deductions for this Plan cannot exceed the lower of 5% of the employee's compensation or $2,500 per quarter. During 2020 and 2019, the Bank sold 5,385 and 4,772 shares of common stock under this Plan.

12. Federal Income Taxes

The components of federal income tax expense for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
Current expense	$ 998,370	$ 500,512
Deferred (benefit) expense	(204,161)	51,531
	$ 794,209	$ 552,043

A reconciliation of the statutory federal income tax at a rate of 21% for 2020 and 2019 to federal income tax expense included in the statements of income for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
Federal income tax at statutory rate	$ 849,487	$ 603,500
Tax exempt interest	(31,203)	(31,524)
Bank owned life insurance income	(31,100)	(31,855)
Other	7,025	11,922
	$ 794,209	$ 552,043

The components of the net deferred tax asset at December 31, 2020 and 2019 are as follows:

	2020	2019
Deferred tax assets:		
Allowance for loan losses	$ 553,525	$ 460,967
Organization and start-up costs	-	1,813
Supplemental executive retirement plan	90,543	76,479
Nonaccrual interest	70	13,356
Deferred PPP fees	126,372	-
Deferred rent	16,535	18,176
Total deferred tax assets	787,045	570,791
Deferred tax liabilities:		
Deferred loan costs	(107,550)	(89,124)
Depreciation on premises and equipment	(248,417)	(271,790)
Prepaid expenses	(33,561)	(16,521)
Unrealized gain on available-for-sale securities	(61,952)	(22,798)
Total deferred tax liabilities	(451,480)	(400,233)
Net Deferred Tax Assets, Included in Other Assets	$ 335,565	$ 170,558

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Management believes it is more likely than not that the Bank will realize the benefits of these deferred tax assets at December 31, 2020.

The Bank follows the provisions of Financial Accounting Standards Board ASC 740, *Accounting for Uncertainty in Income Taxes*. 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 has a likelihood of being realized on examination of more than 50%. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. Under the “more-likely-than-not” threshold guidelines, the Bank believes no significant uncertain tax positions exist, either individually or in the aggregate, that would give rise to the non-recognition of an existing tax benefit. As of December 31, 2020 and 2019, the Bank had no material unrecognized tax benefits or accrued interest and penalties. The Bank’s policy is to account for interest as a component of interest expense and penalties as a component of other expense. The Bank is no longer subject to examination by taxing authorities for the years before January 1, 2017.

The CARES Act did not have any impact on the Bank’s 2020 tax provision.

13. Transactions with Executive Officers, Directors and Principal Stockholders

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, principal stockholders, their immediate families and affiliated companies (commonly referred to as related parties). Loans receivable of related parties totaled $3,669,661 at December 31, 2020 and $5,473,538 at December 31, 2019. During 2020, $209,675 of advances were made and repayments totaled $598,386. Loans receivable totaling $1,415,166 were included as loans to related parties as of December 31, 2019, however the accompanying borrower is no longer considered to be related party as of December 31, 2020. Deposits of related parties totaled $11,697,328 and $8,665,713 at December 31, 2020 and 2019, respectively.

The Bank paid legal fees of approximately $5,147 and $3,626 to a law firm of a director for the years ended December 31, 2020 and 2019, respectively. The Bank uses a related party for site maintenance and for diesel fuel purchases for an onsite generator. Total payments to this related party were $11,930 and $-0- in 2020 and 2019, respectively.

14. Financial Instruments with Off-Balance Sheet Risk

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

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

A summary of the Bank's financial instrument commitments at December 31, 2020 and 2019 is as follows:

	Contract Amount	
	2020	2019
Commitments to grant loans	**$ 12,618,000**	$ 9,397,000
Unfunded commitments under lines of credit	**67,857,521**	44,859,078
Letters of credit	**5,330,891**	2,776,834

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

Outstanding letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next twelve months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Bank requires collateral supporting these letters of credit as deemed necessary. The maximum undiscounted exposure related to those commitments at December 31, 2020 and 2019 was $5,330,891 and $2,776,834, respectively. The current amount of the liability as of December 31, 2020 and 2019 for guarantees under standby letters of credit issued is not material.

15. Regulatory Matters

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.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth below) of Total, Tier 1, and Common Equity Tier 1 capital (as defined in the regulations) to risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of December 31, 2020, that the Bank meets all capital adequacy requirements to which it is subject.

In July 2013, the federal banking agencies adopted revisions to the agencies' capital adequacy guidelines and prompt corrective action rules, which were designed to enhance such requirements and implement the revised standards of the Basel Committee on Banking Supervision, commonly referred to as Basel III, that (i) introduced a new capital ratio pursuant to the prompt corrective action provisions, the common equity tier 1 capital to risk weighted assets ratio, (ii) increased the adequately capitalized and well capitalized thresholds for the Tier 1 risk based capital ratios to 6% and 8%, respectively, (iii) changed the treatment of certain capital components for determining Tier 1 and Tier 2 capital, and (iv) changed the risk weighting of certain assets and off balance sheet items in determining risk weighted assets. The new rules, which were effective January 1, 2015, also require that banks 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 was phased in over four years beginning on January 1, 2016, with a maximum buffer of 0.625% of risk weighted assets for 2016, 1.25% for 2017, 1.875% for 2018, and 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.

The Bank’s actual capital amounts and ratios at December 31, 2020 and 2019 are presented below:

December 31, 2020	**Actual**		**Minimum Capital Adequacy**		**Minimum Capital Adequacy with Capital Buffer**		**To be Well Capitalized under Prompt Corrective Action Provisions**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total capital (to risk-weighted assets)	**$ 41,671**	**14.94%**	**$ ≥22,321**	**≥8.0%**	**$ ≥29,296**	**≥10.5%**	**$ ≥27,901**	**≥10.0%**
Tier 1 capital (to risk-weighted assets)	**31,223**	**11.19%**	**≥16,741**	**≥6.0%**	**≥23,716**	**≥8.5%**	**≥22,321**	**≥ 8.0%**
Common Equity Tier 1 capital (to risk-weighted assets)	**31,223**	**11.19%**	**≥12,556**	**≥4.5%**	**≥19,531**	**≥7.0%**	**≥18,136**	**≥ 6.5%**
Tier 1 capital (to average assets)	**31,223**	**7.47%**	**≥16,722**	**≥4.0%**	**N/A**	**N/A**	**≥20,902**	**≥ 5.0%**

December 31, 2019	Actual		Minimum Capital Adequacy		Minimum Capital Adequacy with Capital Buffer		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)	$ 34,394	13.15%	$ ≥20,925	≥8.0%	$ ≥27,464	≥10.5%	$ ≥26,156	≥10.0%
Tier 1 capital (to risk-weighted assets)	27,891	10.66%	≥15,694	≥6.0%	≥22,233	≥8.5%	≥20,925	≥ 8.0%
Common Equity Tier 1 capital (to risk-weighted assets)	27,891	10.66%	≥11,770	≥4.5%	≥18,309	≥7.0%	≥17,002	≥ 6.5%
Tier 1 capital (to average assets)	27,891	8.63%	≥12,927	≥4.0%	N/A	N/A	≥16,158	≥ 5.0%

The Bank is subject to certain restrictions on the amount of cash dividends that it may declare due to regulatory considerations. The Pennsylvania Banking Code provides that cash dividends may be declared and paid only out of accumulated net earnings.

16. Fair Value Measurements and Fair Values of Financial Instruments

Management uses its best judgment in estimating the fair value of the Bank's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Bank could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to these respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each reporting date.

The Bank uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. In accordance with the accounting guidance adopted by the Bank, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Fair value measurement guidance establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 - Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported with little or no market activity).

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

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

December 31, 2020	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Securities available-for-sale:				
U. S. government agency securities	**$ 24,999,285**	**$ -**	**$ 24,999,285**	**$ -**
U. S. government mortgage-backed securities, residential	**9,281,375**	**-**	**9,281,375**	**-**
	$ 34,280,660	**$ -**	**$ 34,280,660**	**$ -**

December 31, 2019	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available-for-sale:				
U. S. government agency securities	$ 19,991,800	$ -	$ 19,991,800	$ -
U. S. government mortgage-backed securities, residential	10,167,870	-	10,167,870	-
	$ 30,159,670	$ -	$ 30,159,670	$ -

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

December 31, 2020		**Total**		**Quoted Prices in Active Markets for Identical Assets (Level 1)**		**Significant Other Observable Inputs (Level 2)**		**Significant Unobservable Inputs (Level 3)**
Impaired loans	**$**	**4,104,479**	**$**	**-**	**$**	**-**	**$**	**4,104,479**

December 31, 2019		Total		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)
Impaired loans	$	792,411	$	-	$	-	$	792,411

There were no non-financial assets measured at fair value on a nonrecurring basis at December 31, 2020 and 2019.

Quantitative information about Level 3 Fair Value Measurements at December 31, 2020 is included in the table below:

December 31, 2020	**Quantitative Information about Level 3 Fair Value Measurements**			
	Fair Value Estimate	**Valuation Techniques**	**Unobservabl e Inputs**	**Estimated Range (Weighted Average)**
Impaired loans	**$ 4,104,479**	**Appraisal of property**	**Liquidation expenses**	**6.0%-16.0% (6.6%)**

Quantitative information about Level 3 Fair Value Measurements at December 31, 2019 is included in the table below:

December 31, 2019	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value Estimate	Valuation Techniques	Unobservable Inputs	Estimated Range (Weighted Average)
Impaired loans	$ 792,411	Appraisal of property	Liquidation expenses	15.0%-15.0% (15.0%)

Below is management's estimate of the fair value of all financial instruments whether carried at cost or fair value on the Bank's balance sheet. The following information should not be interpreted as an estimate of the fair value of the entire Bank since a fair value calculation is only provided for a limited portion of the Bank's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Bank's disclosures and those of other companies may not be meaningful.

Fair value estimates, methods and assumptions for the Bank's financial instruments are set forth below:

Cash and Short-Term Time Deposits (Carried at Cost)

The carrying amounts reported in the balance sheets for cash and due from banks and short-term time deposits approximate their fair values due primarily to their short-term nature.

Securities

The fair value of securities available-for-sale (carried at fair value) and held-to-maturity (carried at amortized cost) are determined by matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices.

Loans Receivable (Carried at Cost)

The fair values of loans other than impaired loans are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

Impaired Loans (Generally Carried at Fair Value)

Impaired loans are those in which the Bank has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties. Impaired loans with current year write downs are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value at December 31, 2020 consists of loan balances of $4,252,347, net of related allowances of $147,868. The fair value at December 31, 2019 consists of loan balances of $932,248, net of related allowances of $139,837.

Restricted Investment in Bank Stock (Carried at Cost)

The carrying amount of restricted investment in bank stock approximates fair value, and considers the limited marketability of such securities.

Servicing Rights (Carried at Lower of Cost or Fair Value)

The fair values of the servicing rights are based on a valuation model that calculates the present value of estimated net servicing income. The valuation incorporates assumptions that market participants would use in estimating future net servicing income.

Accrued Interest Receivable and Payable (Carried at Cost)

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

Deposit Liabilities (Carried at Cost)

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

Short-Term Borrowings (Carried at Cost)

The carrying amounts of short-term borrowings approximate their fair values.

Long-Term Borrowings (Carried at Cost)

Fair values of FHLB advances are estimated using discounted cash flow analysis, based on quoted prices for new FHLB advances with similar credit risk characteristics, terms and remaining maturity. These prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party.

Subordinated Debt (Carried at Cost)

The fair values of subordinated debt are estimated using discounted cash flow analysis, based on current interest rates from debt with similar credit risk characteristics, terms and remaining maturity.

Off-Balance Sheet Instruments (Disclosed at Cost)

Off-balance sheet instruments are primarily comprised of loan commitments that are generally priced at market at the time of funding. Fees on commitments to extend credit are deemed to be immaterial, and these instruments are expected to be settled at face value or expire unused. It is impractical to assign any fair value to these instruments.

The following tables summarize the carrying amount and fair value estimates of the Bank's financial instruments at December 31, 2020 and 2019 (in thousands):

December 31, 2020	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Observable Inputs (Level 3)
Assets:					
Cash and short-term time deposits	$ 26,608	$ 26,608	$ 26,608	$ -	$ -
Securities available-for-sale	34,281	34,281	-	34,281	-
Securities held-to-maturity	8,779	8,911	-	8,911	-
Loans receivable, net	336,033	342,269	-	-	342,269
Restricted investment in bank stock	1,214	1,214	-	1,214	-
Servicing rights	99	99	-	99	-
Accrued interest receivable	1,173	1,173	-	1,173	-
Liabilities:					
Demand and savings deposits	264,105	264,105	-	264,105	-
Time deposits	93,920	95,694	-	95,694	-
Accrued interest payable	250	250	-	250	-
Long-term borrowings	24,206	25,026	-	25,026	-
Subordinated debt	7,941	8,932	-	8,932	-
Off-Balance Sheet Asset (Liability):					
Commitments to extend credit	-	-	-	-	-
Unfunded commitments under lines of credit	-	-	-	-	-

December 31, 2019	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Observable Inputs (Level 3)
Assets:					
Cash and short-term time deposits	$ 3,115	$ 3,115	$ 3,115	$ -	$ -
Securities available-for-sale	30,160	30,160	-	30,160	-
Securities held-to-maturity	6,961	7,051	-	7,051	-
Loans receivable, net	277,695	280,303	-	-	280,303
Restricted investment in bank stock	1,540	1,540	-	1,540	-
Servicing rights	114	114	-	114	-
Accrued interest receivable	830	830	-	830	-
Liabilities:					
Demand and savings deposits	164,848	164,848	-	164,848	-
Time deposits	104,952	105,836	-	105,836	-
Accrued interest payable	289	289	-	289	-
Short-term borrowings	10,896	10,896	-	10,896	-
Long-term borrowings	21,046	21,196	-	21,196	-
Subordinated debt	3,995	4,370	-	4,370	-
Off-Balance Sheet Asset (Liability):					
Commitments to extend credit	-	-	-	-	-
Unfunded commitments under lines of credit	-	-	-	-	-

17. Revenue Recognition

The Bank adopted Topic 606 using the modified retrospective method applied to all contracts not completed as of January 1, 2018.

The revenue standard's core principle is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled.

Management determined that revenue derived from financial instruments, including revenue from loans and investment securities, along with non-interest income resulting from gains (losses) from the sale of investment securities or SBA loans, commitment and other loan related fees as well as income from bank owned life insurance are not within the scope of Topic 606.

Topic 606 is applicable to non-interest income streams such as service charges on deposits and other non-interest income. Noninterest revenue streams in-scope of Topic 606 are discussed below.

Service Charges on Deposit Accounts

Service charges on deposit accounts consist of monthly service charges, check orders, other deposit account related fees, wire transfers, returned deposit fees, and safe deposit box rentals. 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. The Bank's performance obligation for wire transfers, returned deposit fees, and safe deposit box rental are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month.

Referral Fee Income

Referral fee income consists of fees paid by a third party correspondent bank to the Bank for referring borrowers to the correspondent bank to execute interest rate swaps. These transactions are transactional in nature, and therefore, the Bank's performance obligation is satisfied, and related revenue recognized, at a point in time.

Other

Other fees are primarily comprised of debit card income, ATM fees, merchant services income, and other service charges. Debit card income is primarily comprised of interchange fees earned whenever the Bank's debit cards are processed through card payment networks such as MasterCard, Visa and STAR. ATM fees are primarily generated when a non-Bank customer uses a Bank ATM. Merchant services income mainly represents fees charged to merchants to process their debit and credit card transactions. Other noninterest income consists primarily of other non-recurring revenue which is not recorded in the categories listed above. This revenue is miscellaneous in nature and is recognized as income upon receipt.

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the years ended December 31, 2020 and 2019.

For the Years Ended December 31,		**2020**		2019
Non-Interest Income				
In-scope of Topic 606:				
Service charges on deposits	$	**265,598**	$	284,655
Referral fee income		**244,100**		302,760
Other		**124,002**		101,625
Non-interest income (in scope of Topic 606)		**633,700**		689,040
Non-interest income (out of scope of Topic 606)		**148,094**		176,155
Total Non-Interest Income	**$**	**781,794**	$	865,195

Contract Balances

A contract asset balance occurs when an entity performs a service for a customer before the customer pays consideration (resulting in a contract receivable) or before payment is due (resulting in a contract asset). A contract liability balance is an entity's obligation to transfer a service to a customer for which the entity has already received payment (or payment is due) from the customer. The Bank's noninterest revenue streams are largely based on transactional activity. Consideration is often received immediately or shortly after the Bank satisfies its performance obligation and revenue is recognized. The Bank does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of December 31, 2020 and December 31, 2019, the Bank did not have any contract balances.

Contract Acquisition Costs

In connection with the adoption of Topic 606, an entity is required to capitalize, and subsequently amortize into expense, certain incremental costs of obtaining a contract with a customer if these costs are expected to be recovered. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (for example, sales commission). The Bank utilizes the practical expedient which allows entities to immediately expense contract acquisition costs when the asset that would have resulted from capitalizing these costs would have been amortized in one year or less. Upon adoption of Topic 606, the Bank did not capitalize any contract acquisition cost.

18. Subsequent Events

The Bank has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2020 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through March 4, 2021, the date these financial statements were available to be issued.

NOTES

ACHIEVEMENTS

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