2019
Annual Report

> "2019 was a very successful year and a fitting capstone to a **decade of powerful growth and expansion** for Kish Bancorp."

William P. Hayes
Chairman of the Board and Chief Executive Officer

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FROM THE CHAIRMAN

On behalf of the entire Kish team, I am pleased to report on a very successful year and a fitting capstone to a decade of powerful growth and expansion for Kish Bancorp. We will highlight the financial results of an extraordinary year of achievement in its own right, but also place 2019 in the context of the decade of the 2010s, a time period of great progress for Kish.

Kish Bank and each of its affiliates achieved dramatic expansion in market share in a ten-year span. Reflecting back, it is surprising to recall that Kish began the decade as a relative newcomer to Centre County during a dark economic period for the country and for banking. In stark contrast, Kish would end the period as a high-performing and fast-growing community bank holding company with a dominant market share among community banks in our region. We recognize that Kish's growth does not come without community growth. Our support of strong local businesses has aided in the recovery of our local economies—like our support of Kish customer, Metzler Forest Products, who has also seen tremendous growth over the decade.

Despite a challenging beginning to the decade created by a deep recession, a slow recovery, and the associated regulatory headwinds that disrupted banks of all sizes, we stayed steadily focused on sustaining and expanding our client-centric culture. With that commitment to customers and a deep confidence in the team's capacity to compete and thrive, the second half of the decade for Kish was marked by unprecedented growth and the attainment of powerful performance metrics that culminated in our 2019 financial results. Over the decade, these results were reflected in earnings growth, capital formation, rising returns on equity and assets, growth in customer numbers, rising client satisfaction, expanding market share in all counties, and investment in talent and infrastructure. Kish shareholders, clients, team members, and communities all benefited from the progress of the franchise during this period of growth and profitability.

Jill and Alan Metzler, Owners, Metzler Forest Products—a widely recognized forest products company based in the heart of Big Valley.

Earnings more than doubled during the decade, rising to just over $7 million in 2019 from $3.2 million ten years ago and up 16.22% over the prior year. Strong asset quality remained a hallmark throughout the ten-year period despite the challenging economic and regulatory environment through the first half of the decade. Net loan losses, which consistently compared favorably to peers during the decade, were actually a positive number in 2019 as recoveries exceeded charge-offs during the year after being near zero the previous year.

During the past decade, Kish Bancorp, Inc. stock doubled in value. Liquidity in Kish Bancorp shares was assisted by two splits during the decade, rising dividends, and an up-listing to the OTCQX exchange. We are confident that sustained financial performance, together with strategic investment for the future, will command investor attention going forward.

The main driver of performance over the decade was net interest income, which grew to $27.5 million from less than $15 million ten years before. This number reflected a $1.8 million increase over 2018 as well. Growth in net interest income was driven directly by

> “This acquisition will **roughly double** the revenue of Kish Insurance.”

the expansion of net loans outstanding, which ended 2019 at $679 million after starting the decade at $368 million. When compared to 2018, net loans outstanding grew by $49.1 million. The margin was further aided by a beneficial change in the deposit mix, which saw a movement to core deposits during the year from higher-cost municipal deposits. At year end 2019, total deposits stood at $710 million versus $682.4 million the prior year and $407.7 million the decade before.

Top: Pam Prosser, Owner, Seven Points Marina at Raystown Lake. *Bottom:* Ed and Nancy Lerch, Owners, Lerch RV, Milroy.

While net interest income expansion represented the main driver of earnings growth during the year and over the decade, the generation of noninterest income by the bank and non-bank affiliates also demonstrated impressive growth, reflecting the power and diversification of the Kish business model. Rising to $8.5 million in 2019 from $7.44 million the prior year and from just over $5 million a decade ago, the percentage of noninterest income to net operating income (after provision), while falling during the decade from approximately 34.6% to 30.9%, still ranks Kish Bank very highly among community bank peers for noninterest total revenue. The generation of fee-based income not only strengthens the performance of the Kish franchise, but is especially valuable in periods of less robust economic conditions. Most importantly, the greater number of services utilized by clients, the more deeply connected we are to those relationships.

There were some truly outstanding performances by the business units that drove fee income expansion in 2019. Gains on the sale of mortgage loans of just under $1.2 million was driven by over $100 million in mortgage originations during 2019 and represented a 36.5% rise over the prior year. The mortgage banking unit produced residential mortgage volumes that more than quadrupled during the decade.

Wealth advisory and fiduciary services continued to deliver financial planning services to a growing client base and registered another strong year on top of a truly extraordinary decade. Assets under management now exceed $350 million, while total revenue from the unit exceeded $1.64 million in 2019, up from $1.52 million the prior year. This compares with $102 million in assets under management and $420 thousand in revenue at the period ten years earlier. Among Kish Financial Solutions clients planning for their financial future, Pam Prosser of Seven Points Marina and Ed and Nancy Lerch of Lerch RV have, in turn, found success helping their employees and clients fulfill and enjoy their dreams.

Kish Insurance, the Bank’s property and casualty insurance subsidiary, has grown steadily as a contributor to Kish’s financial results since 1997, when Kish became the first bank in Pennsylvania to acquire an independent agency. In 2019, the agency grew personal and business line commissions by 10%, although a decline in contingency income led to modest total revenue growth for the unit year over year. When compared to the decade earlier, agency revenue has grown to $1.25 million compared to $821 thousand.

Most recently, we were pleased to announce the acquisition of the Sausman Agency in Juniata County. Premiums for the combined agencies will be just under $20 million with total revenue projected to be approximately $2.5 million. We are pleased to welcome the Sausman Agency’s owner and principal, Tim Burris, and his team, to the Kish family. This acquisition will roughly double the revenue of Kish Insurance and establish Kish’s physical presence in Juniata County, expanding our ability to provide a full range of services to clients in that market—like Rosewood Kitchens, Inc., which utilizes Kish solutions for employee health benefits and 401(k) planning.

With the overall focus on serving the critical business segment with lending and other financial services, employee benefit solutions has been an important addition to Kish’s product mix that holds great promise for the future. Kish Benefits Consulting, which provides group health insurance and employee benefits consulting services to small and medium-sized businesses, grew revenue by over 23% in 2019 in only its second full year within the Kish family of services. Total revenue for Kish Benefits Consulting in 2019 was $585 thousand, allowing the unit to add experienced healthcare consulting professionals.

Kish Travel, with revenue up over 19%, continues to expand dramatically in Centre County while maintaining a strong market position in Kish’s traditional markets. Kish Travel contributed $371 thousand in total revenue in 2019, up from $203 thousand the decade before.

Year over year, noninterest expense increased by $2.2 million in 2019, or 8.67%, to $27.7 million as of December 31, 2019, compared to $25.5 million the prior year. Most increases in noninterest expense categories were well controlled and close to budget, but overall noninterest expenses were impacted by one-time core processing conversion costs of $429 thousand. While the strong financial performance of 2019 was achieved despite these additional expenses, they are part of an investment in innovation that will result in a significant reduction in ongoing technology and data processing expenses for many years. Stated simply, we recognize that our ability to commit financial resources to vital strategic priorities is reliant on sustained financial performance. As a company, our willingness to continue to innovate, adapt, and invest is balanced with the discipline to deliver excellent financial results that are sustained over time. Much like the founders of Sensor Networks, who started an innovative ultrasonic sensor company with the assistance of Kish Bank’s business lending team, Kish is innovating to evolve and remain competitive as a means to continue to serve customers and improve lives. We would point to the record of the past decade as one which demonstrates our capacity to achieve that balance and to move into the future with confidence.

Top: Brandon Rowles, General Manager, second generation leadership at Rosewood Kitchens, Inc., Mifflintown. *Bottom:* Jim Barshinger and Jeff Anderson, Co-Founders of Sensor Networks, Inc. in State College, along with Bruce Pellegrino (missing from photo).

In prior shareholder communications, we have discussed our vision for “Kish 2020” that is positioning Kish to compete in a rapidly evolving digital environment, while creating long-term sustainability through strategic investment in scalable infrastructure and technology. Through a series of initiatives under the Kish Innovation focus, we are transforming our IT infrastructure to a modern, cloud-based architecture that

A 3-D rendering of the Kish Innovation Center, now under construction on Kish's Reedsville campus. The new 38,000-square-foot technology and operations hub will enhance employees' capacity to serve customers.

increases our speed and access to information. This also creates the foundation for digital client engagement and the branch of the future. We are concurrently advancing our information security program to provide real-time monitoring of cyber threats that better protects our data. We are also transforming Kish Bank's core banking platform from an outdated and inflexible legacy core system—one that presented obstacles to the adoption of emerging digital technologies—to an open solution that can integrate new fintech solutions for an elevated client experience and innovative product design. The conversion of our core processing system on May 15, 2020 will be followed this fall by the completion and occupancy of the Kish Innovation Center, which is presently under construction on the recently expanded Kish Reedsville campus. The Innovation Center will enable a more interactive and collaborative environment for a team-based approach to support evolving clients' needs through digital, yet personal, engagement. To view a live webcam of the construction of the Innovation Center, simply go to this link: kishbank.com/webcam.

"Not only will our customers **expect more**, they will actually **do more** through Kish."

We have defined Kish Innovation as an unwavering commitment to elevate the community banking-based customer experience while sustaining our focus on improving the lives of our customers, team members, and communities. As we execute on this focus, we will be innovative in the adoption of technologies that improve the customer experience and committed to the changing needs and expectations of our customers. Not only will our customers *expect more*, they will actually *do more* through Kish. We will know we have been successful when we see that aspirations are becoming actions. Customers will know when we have been successful because access to their data will be fast, secure, and straightforward; our knowledge of their individual situation and needs will be fully informed when they need solutions; and our responsiveness will be faster and more trustworthy than anything they might experience elsewhere.

As customers, investors, and community members, we want you to understand that while these transformational initiatives are exciting for all of us at Kish, we fully appreciate the importance of these undertakings. Our team has gone to

"**Kish Innovation**: an unwavering commitment to elevate the community banking experience and improve lives."

extraordinary lengths to be informed and knowledgeable about the requirements for a core transformation to a digital platform that fully preserves and elevates the Kish experience. We have also fully evaluated the financial impact of these transformational steps and are confident that our investment in Kish Innovation will improve efficiency and financial results. And finally, we are confident that undertaking these steps will elevate our value to our clients, thereby dramatically enhancing the sustainability, relevance, and viability of the Kish Bancorp franchise for many more decades to come.

Successful completion of the important and evolutionary initiatives in front of us will be reliant on the power of the team to perform and execute, but before I close this letter, we must speak to the critical role of our Board of Directors in charting the course for the future. We would simply not have been able to embark on the transformational challenges inherent in "Kish 2020" without the leadership, vision, and active engagement of our Board. Their deliberations over the years were integral to the development of Kish's long term strategies to adapt and change. The Board's appreciation for the fast and unrelenting pace of change was foundational to creating a vision that incorporated a sense of urgency in adopting innovative solutions balanced by the perspective of significant investors in the Corporation and its future. It is their vision that gives us confidence in our capacity to address the challenges and opportunities that face Kish as a regional, community-focused, and client-centric institution.

We thank you for your support and welcome your inquiries.

Sincerely,

William P. Hayes

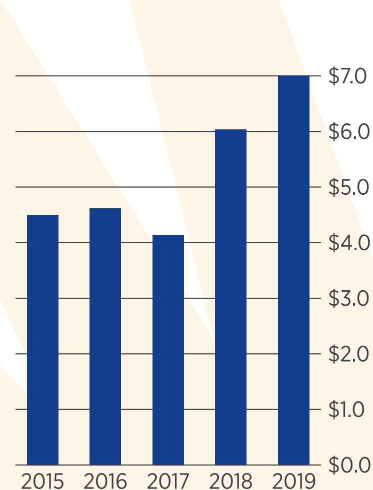
William P. Hayes
Chairman of the Board and
Chief Executive Officer

The Board of Directors of Kish Bancorp, Inc. ***Front row:*** *Kathleen Rhine, Bill Hayes, Greg Hayes, and Fran Vaughn.* ***Back row:*** *Eric Barron, Bill Lake, George Woskob, Paul Howes, Bill Dancy, Jim Lakso, Paul Silvis, and Spyros Degleris.* ***Not pictured:*** *Ed Friedman.*

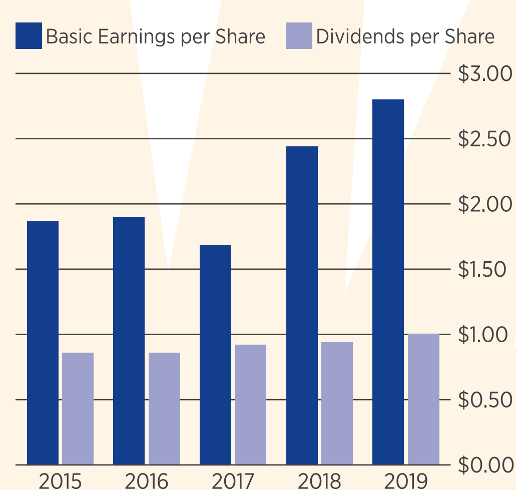
FINANCIAL HIGHLIGHTS

FOR THE YEAR	2019	2018	2017	2016	2015
Net Income	$ 7,006,914	$ 6,029,683	$ 4,139,770	$ 4,616,894	$ 4,494,241
Net Income Before Taxes	7,903,452	6,670,247	5,141,399	5,254,277	5,125,151
Total Dividends Declared	2,585,445	2,396,453	2,301,564	2,130,197	2,112,600
AT YEAR END (in $000s)					
Total Assets	$ 918,309	$ 850,508	$ 811,192	$ 725,071	$ 696,895
Total Loans (Net)	679,519	630,440	569,010	488,588	445,425
Total Deposits	710,226	682,350	653,687	561,928	542,629
Stockholders' Equity	64,352	59,728	56,339	53,593	51,281
Loan Loss Reserve	7,499	6,642	5,698	6,011	5,752
Net Loan Losses (Recoveries)	(467)	10	913	271	492
RATIO ANALYSIS					
Return on Average Assets*	0.79%	0.72%	0.54%	0.65%	0.66%
Return on Average Equity*	11.56%	10.71%	7.45%	8.54%	8.89%
Dividend Declared/Net Income	36.90%	39.74%	55.60%	46.14%	47.01%
Loans/Deposits	95.68%	92.39%	87.05%	86.95%	82.09%
Primary Capital/Total Assets	7.84%	7.80%	7.65%	8.22%	8.18%
Total Capital/Risk Weighted Assets	11.86%	11.95%	11.65%	13.10%	12.62%
Loan Loss Reserve/Loans	1.09%	1.04%	0.99%	1.22%	1.27%
Net Loan Losses to Total Loans (Net)	(0.07%)	0.00%	0.17%	0.06%	0.12%
PER SHARE DATA**					
Basic Earnings	$ 2.80	$ 2.44	$ 1.69	$ 1.90	$ 1.87
Fully Diluted Earnings	2.70	2.35	1.67	1.89	1.84
Dividends Paid	1.00	0.94	0.92	0.86	0.86
Equity (Book Value)	24.90	23.41	22.50	21.63	20.89
Equity Plus Loan Loss Reserve	27.80	26.01	24.77	24.06	23.23
Average Shares Outstanding (#)	2,499,536	2,499,673	2,459,168	2,430,134	2,407,260

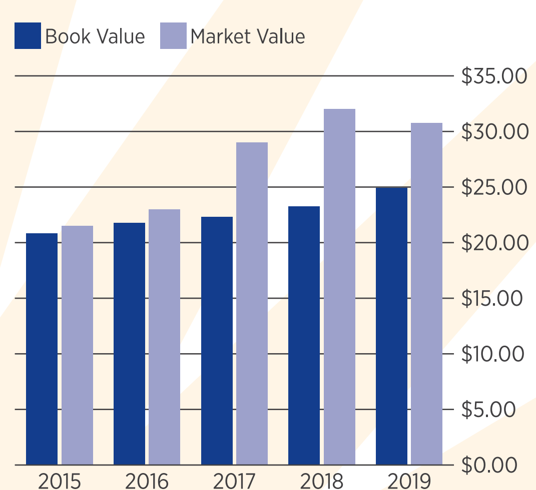
Net Income (in millions)



Earnings & Dividends (per share)**



Stock Valuation (per share)**



*Due to fluctuations in the mark to market valuation for investment securities, these are not included in the totals for average assets and average equity.
**For comparability, per share data for the years 2015 through 2017 have been adjusted to reflect the two-for-one stock split in 2018.

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders
Kish Bancorp, Inc.

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Kish Bancorp, Inc. and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and 2018; the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended; and the related notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

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

S.R. Snodgrass, P.C.

Cranberry Township, Pennsylvania
March 3, 2020

S.R. Snodgrass, P.C. • 2009 Mackenzie Way, Suite 340 • Cranberry Township, Pennsylvania 16066 • Phone: 724-934-0344 • Fax: 724-934-0345

CONSOLIDATED BALANCE SHEET

	December 31, 2019	2018
ASSETS		
Cash and due from banks	$ 6,878,336	$ 10,146,566
Interest-bearing deposits with other institutions	29,331,755	22,622,212
Cash and cash equivalents	36,210,091	32,768,778
Certificates of deposit in other financial institutions	1,474,000	3,119,532
Investment Securities available for sale, at fair value	131,180,513	124,731,597
Equity Securities	1,695,342	3,450,017
Investment Securities held to maturity, fair value of $7,378,098 and $7,095,937	7,250,000	7,000,000
Loans held for sale	3,464,876	156,565
Loans	687,018,196	637,082,546
Less allowance for loan losses	7,499,402	6,642,410
Net loans	679,518,794	630,440,136
Premises and equipment, net	15,635,486	14,182,308
Goodwill	1,843,699	2,143,699
Regulatory stock	6,915,000	6,110,700
Bank-owned life insurance	15,830,426	15,422,560
Accrued interest and other assets	17,290,797	10,983,033
TOTAL ASSETS	$ 918,309,024	$ 850,508,925
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 99,838,645	$ 93,954,532
Interest-bearing demand	13,496,720	12,234,873
Savings	69,073,873	64,318,889
Money market	248,203,646	253,787,230
Time	279,612,736	258,054,517
Total deposits	710,225,620	682,350,041
Short-term borrowings	46,740,021	22,484,169
Other borrowings	80,029,248	78,024,955
Accrued interest and other liabilities	16,961,740	7,921,055
TOTAL LIABILITIES	853,956,629	790,780,220
STOCKHOLDERS' EQUITY		
Preferred stock, $.50 par value; 500,000 shares authorized, no shares issued and outstanding	-	-
Common stock, $.50 par value; 8,000,000 shares authorized, 2,697,500 shares issued as of December 31, 2019 and 2018	1,348,750	1,348,750
Additional paid-in capital	2,494,671	2,460,838
Retained earnings	64,304,317	59,882,848
Accumulated other comprehensive loss	(1,014,506)	(1,301,777)
Treasury stock, at cost (114,206 and 130,609 shares at December 31, 2019 and 2018, respectively)	(2,780,837)	(2,661,954)
TOTAL STOCKHOLDERS' EQUITY	64,352,395	59,728,705
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 918,309,024	$ 850,508,925

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31, 2019	2018
INTEREST AND DIVIDEND INCOME		
Interest and fees on loans:		
Taxable	$ 32,146,548	$ 27,894,432
Exempt from federal income tax	1,230,229	1,193,287
Interest and dividends on investment securities:		
Taxable	2,605,465	2,582,358
Exempt from federal income tax	824,667	1,065,457
Interest-bearing deposits with other institutions	645,350	592,171
Other dividend income	644,456	636,019
Total interest and dividend income	38,096,715	33,963,724
INTEREST EXPENSE		
Deposits	7,480,980	5,764,414
Short-term borrowings	68,749	35,536
Other borrowings	3,009,361	2,406,694
Total interest expense	10,559,090	8,206,644
NET INTEREST INCOME	27,537,625	25,757,080
Provision for loan losses	390,000	955,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	27,147,625	24,802,080
NONINTEREST INCOME		
Service fees on deposit accounts	1,678,651	1,691,041
Investment securities gains, net	161,638	3,471
Equity securities gains (losses), net	232,874	(181,665)
Gain on sale of loans	1,171,428	858,426
Earnings on bank-owned life insurance	473,054	421,086
Insurance commissions	1,253,906	1,225,075
Travel agency commissions	371,349	311,250
Wealth management	1,642,592	1,516,089
Benefit management	584,926	473,720
Other	931,434	1,121,147
Total noninterest income	8,501,852	7,439,640
NONINTEREST EXPENSE		
Salaries and employee benefits	16,533,267	15,556,450
Occupancy and equipment	3,112,385	2,982,508
Data processing	2,519,299	2,293,683
Professional fees	523,490	243,482
Advertising	263,780	265,547
Federal deposit insurance	207,871	390,700
Pennsylvania shares tax	627,977	615,828
Other	3,957,956	3,223,275
Total noninterest expense	27,746,025	25,571,473
Income before income taxes	7,903,452	6,670,247
Income tax expense	896,538	640,564
NET INCOME	$ 7,006,914	$ 6,029,683
EARNINGS PER SHARE		
Basic	$ 2.80	$ 2.44
Diluted	$ 2.70	$ 2.35

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year Ended December 31, 2019	Year Ended December 31, 2018
Net income	$ 7,006,914	$ 6,029,683
Other comprehensive income (loss)		
Securities available for sale:		
Change in unrealized holding gains (losses) on available for sale securities	2,150,086	(1,323,406)
Tax effect	(451,520)	277,918
Change in cash flow hedges	(1,624,812)	(58,167)
Tax effect	341,211	12,215
Reclassification adjustment for net gains realized in net income	(161,638)	(3,471)
Tax effect	33,944	729
Total other comprehensive income (loss)	287,271	(1,094,182)
Total comprehensive income	$ 7,294,185	$ 4,935,501

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2017	$ 674,375	$ 2,066,936	$ 56,207,032	$ 509,366	$ (3,118,978)	$ 56,338,731
Net income			6,029,683			6,029,683
Other comprehensive loss				(1,094,182)		(1,094,182)
Reclassification of certain effects from equity securities			716,961	(716,961)		-
Stock-based compensation expense		48,401				48,401
Purchase of shares by restricted stock plan (15,286 shares)		(238,610)			238,610	-
Stock split effected in the form of a dividend (1,348,750)	674,375		(674,375)			-
Exercise of stock options (38,436 shares)		(186,211)				(186,211)
Forfeiture of shares by restricted stock plan (1,018 shares)		13,714			(13,714)	-
Amortization of unearned restricted stock plan shares		417,085				417,085
Cash dividends ($0.94 per share)			(2,396,453)			(2,396,453)
Purchase of treasury stock (17,518 shares)					(517,561)	(517,561)
Sale of treasury stock (44,225 shares)		339,523			749,689	1,089,212
Balance, December 31, 2018	1,348,750	2,460,838	59,882,848	(1,301,777)	(2,661,954)	59,728,705
Net income			7,006,914			7,006,914
Other comprehensive income				287,271		287,271
Stock option compensation expense		68,983				68,983
Purchase of shares by restricted stock plan (15,805 shares)		(254,899)			254,899	-
Exercise of stock options (24,155 shares)		(333,843)				(333,843)
Forfeiture of shares by restricted stock plan (1,314 shares)		32,781			(32,781)	-
Amortization of restricted stock plan shares		324,088				324,088
Cash dividends ($1.00 per share)			(2,585,445)			(2,585,445)
Purchase of treasury stock (27,861 shares)					(853,543)	(853,543)
Sale of treasury stock (27,773 shares)		196,723			512,542	709,265
Balance, December 31, 2019	$ 1,348,750	$ 2,494,671	$ 64,304,317	$ (1,014,506)	$ (2,780,837)	$ 64,352,395

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31, 2019	2018
OPERATING ACTIVITIES		
Net income	$ 7,006,914	$ 6,029,683
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	390,000	955,000
Investment securities gains, net	(161,638)	(3,471)
Equity security (gains) losses	(232,874)	181,665
Proceeds from sale of loans held for sale	44,070,616	37,559,342
Origination of loans held for sale	(46,207,499)	(35,578,050)
Gain on sales of loans	(1,171,428)	(858,426)
Depreciation, amortization, and accretion	1,210,994	1,291,020
Deferred income taxes	(314,366)	250,189
Decrease (increase) in accrued interest receivable	51,779	(170,155)
Increase in accrued interest payable	247,948	197,152
Earnings on bank-owned life insurance	(473,054)	(421,086)
Gain on sale of other assets	(6,335)	(14,910)
Compensation expense - non-cash	393,071	465,486
Other, net	1,411,654	1,143,565
Net cash provided by operating activities	6,215,782	11,027,004
INVESTING ACTIVITIES		
Maturities of certificates of deposit	1,646,000	373,000
Proceeds from bank owned life insurance	-	428,241
Investment securities available for sale:		
Proceeds from sale of investments	9,694,054	-
Proceeds from repayments and maturities	30,612,964	14,475,505
Purchases	(44,731,980)	(4,751,525)
Investment held to maturity:		
Purchases	(250,000)	(1,000,000)
Proceeds from sale of equity securities	1,987,549	420,180
Increase in loans, net	(49,504,658)	(62,384,910)
Purchase of regulatory stock	(1,404,700)	(1,250,200)
Redemption of regulatory stock	600,400	1,288,500
Purchase of premises and equipment	(2,532,174)	(2,265,909)
Proceeds from sale of other real estate owned	35,918	222,368
Net cash used for investing activities	(53,846,627)	(54,444,750)
FINANCING ACTIVITIES		
Increase in deposits, net	27,875,579	28,662,988
Increase in short-term borrowings, net	24,255,852	13,553,459
Proceeds from other borrowings	6,589,000	6,867,416
Repayments of other borrowings	(4,584,707)	(14,774,310)
Purchases of treasury stock	(853,543)	(517,561)
Proceeds from sale of treasury stock	709,265	1,089,212
Exercise of stock options	(333,843)	(186,211)
Cash dividends	(2,585,445)	(2,396,453)
Net cash provided by financing activities	51,072,158	32,298,540
Increase (decrease) in cash and cash equivalents	3,441,313	(11,119,206)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	32,768,778	43,887,984
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 36,210,091	$ 32,768,778
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest on deposits and borrowings	$ 10,311,142	$ 8,009,492
Income taxes	-	150,000
SUPPLEMENTAL DISCLOSURE OF NON-CASH CASH FLOW INFORMATION		
Real estate acquired in settlement of loans	$ 36,000	$ -
Right of use assets and lease liability	4,989,184	-

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Basis of Presentation

Kish Bancorp, Inc. (the “Company”) is a diversified financial services organization whose principal activity is the ownership and management of its subsidiaries, Kish Bank (the “Bank”), Kish Travel Services, Inc., and the Bank’s subsidiaries, Tri-Valley Properties, LLC, Kish Agency, Inc., and Kish Equities, LLC. The Company generates commercial and industrial, agricultural, commercial mortgage, residential real estate, and consumer loans and deposit services to its customers located primarily in central Pennsylvania and the surrounding areas. The Bank operates under a Pennsylvania Department of Banking and Securities bank charter and provides full banking services. Deposits are insured by the Federal Deposit Insurance Corporation (“FDIC”) to the extent provided by law. Kish Agency, Inc. provides insurance products and services. Kish Travel Services, Inc. is a Pennsylvania business established to provide travel services to its customers. Kish Equities, LLC is a subsidiary established to hold investments in equity securities.

The consolidated financial statements include the accounts of Kish Bancorp, Inc. and its subsidiaries, Kish Bank and Kish Travel Services, Inc., after elimination of all significant intercompany transactions.

The accounting principles followed by the Company and the methods of applying these principles conform to U.S. generally accepted accounting principles (“GAAP”) and to general practice within the banking industry. Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the Consolidated Balance Sheet date and revenues and expenses for that period. Actual results could differ from those estimates.

Investment Securities

Investment securities are classified at the time of purchase, based on management’s intention and ability, as securities held to maturity, available for sale, or trading. Debt securities acquired with the intent and ability to hold to maturity are stated at cost, adjusted for amortization of premium and accretion of discount, which are computed using the interest method and recognized as adjustments of interest income. Debt securities which are held principally as a source of liquidity are classified as available for sale. Unrealized holding gains and losses for available for sale securities are reported as a separate component of stockholders’ equity, net of tax, until realized. Realized security gains and losses are computed using the specific identification method. Debt securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in current earnings. Realized securities gains and losses are computed using the specific identification method. The Company does not have trading securities as of December 31, 2019 and 2018. Interest and dividends on investment securities is recognized as income when earned.

Investment Securities (Continued)

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

Equity Securities

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

Regulatory Stock

Common stock of the Federal Home Loan Bank ("FHLB") of Pittsburgh represents ownership in an institution that is wholly owned by other financial institutions. These equity securities are accounted for at cost and are shown separately on the Consolidated Balance Sheet as regulatory stock.

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

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are reported at their principal amount, net of the allowance for loan losses and deferred origination fees or costs. Interest on loans is recognized as income when earned on the accrual method. Generally, the policy has been to stop accruing interest on loans when it is determined that a reasonable doubt exists as to the collectability of additional interest. Interest previously accrued but deemed uncollectible is deducted from current interest income. Payments received on nonaccrual loans are recorded as income or applied against principal according to management's judgment as to the collectability of such principal. Nonaccrual loans will generally be put back on accrual status after demonstrating six consecutive months of no delinquency.

Loans (Continued)

The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance.

Loan origination fees and certain direct loan origination costs are being deferred and the net amount amortized is accounted for as an adjustment of the related loan's yield. Management is amortizing these amounts over the contractual life of the related loans.

In general, fixed rate, permanent residential mortgage loans originated by the Bank are held for sale and are carried in the aggregate at the lower of cost or fair value. The Bank sells these loans to various other financial institutions. Currently, the Bank retains the servicing of those loans sold to the FHLB and releases the servicing of loans sold to all other institutions.

Allowance for Loan Losses

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

Impaired loans are those for which it is probable the Company will not be able to collect all amounts due according to the contractual terms of the loan agreement. The Company evaluates commercial and industrial, agricultural, state and political subdivisions, commercial real estate, and all troubled debt restructuring loans for possible impairment. Consumer and residential real estate loans are also evaluated if part of a commercial lending relationship. The Company individually evaluates such loans for impairment and does not aggregate loans by major risk classifications. The definition of "impaired loans" is not the same as the definition of "nonaccrual loans," although the two categories overlap. Factors considered by management in determining impairment include payment status and collateral value. The amount of impairment for these types of loans is determined by the difference between the present value of the expected cash flows related to the loan using the original interest rate and its recorded value, or as a practical expedient in the case of collateralized loans, the difference between the fair value of the collateral and the recorded amount of the loans. When foreclosure is probable, impairment is measured based on the fair value of the collateral.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

In addition to the allowance for loan losses, the Company also estimates probable losses related to unfunded lending commitments, such as letters of credit, financial guarantees, and unfunded loan commitments. Unfunded lending commitments are subject to individual reviews and are analyzed and segregated by risk according to the Company's internal risk rating scale. These risk classifications, in conjunction with an analysis of historical loss experience, current economic conditions, performance trends within specific portfolio segments, and any other pertinent information, result in the estimation of the reserve for unfunded lending commitments. Provision for credit losses related to the loan portfolio and unfunded lending commitments are reported in the Consolidated Statement of Income.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets, which range from 3 to 7 years for furniture, fixtures, and equipment, and 31 to 39½ years for building premises. Leasehold improvements are depreciated over shorter of the term of the lease or useful life. Expenditures for maintenance and repairs are charged against income as incurred. Costs of major additions and improvements are capitalized.

Goodwill

The Company accounts for goodwill using a two-step process for testing the impairment of goodwill on at least an annual basis. This approach could cause more volatility in the Company's reported net income because impairment losses, if any, could occur irregularly and in varying amounts.

Bank-Owned Life Insurance ("BOLI")

The Company purchased life insurance policies on certain key employees. BOLI is recorded at its cash surrender value, or the amount that can be realized.

Real Estate Owned

Real estate acquired by foreclosure is included with other assets on the Consolidated Balance Sheet at the lower of the recorded investment in the property or its fair value less estimated costs of sale. Prior to foreclosure, the value of the underlying collateral is written down by a charge to the allowance for loan losses if necessary. Any subsequent write-downs are charged against operating expenses. Operating expenses of such properties, net of related income and losses on their disposition, are included in other noninterest expense.

Treasury Stock

Treasury stock is carried at cost. Sales are determined by the first-in, first-out method.

Advertising Costs

Advertising costs are expensed as the costs are incurred.

Income Taxes

The Company and its subsidiaries file a consolidated federal income tax return. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Earnings Per Share

The Company provides dual presentation of basic and diluted earnings per share. Basic earnings per share are calculated utilizing net income as reported in the numerator and average shares outstanding in the denominator. The computation of diluted earnings per share differs in that the dilutive effects of any stock options and restricted stock awards are adjusted in the denominator. Treasury shares are not deemed outstanding for earnings per share calculations.

Stock Split

The Board of Directors declared a two-for-one stock split effected in the form of a stock dividend payable October 11, 2018. All references to share and per share amounts in the consolidated financial statements, except the Consolidated Balance Sheet, and accompanying notes to the consolidated financial statements have been retroactively restated to reflect the stock split.

Stock Options

As of December 31, 2019 and 2018, the Company recorded compensation expense of $68,983 and $48,401, respectively, related to stock option compensation awards. At December 31, 2019, there was $100,005 in unrecognized compensation cost related to unvested stock option awards, with a weighted average remaining amortization period of 1.9 years.

For purposes of computing stock compensation expense, the Company estimated the fair values of stock options using the Black-Scholes option-pricing model. The model requires the use of subjective assumptions that can materially affect fair value estimates. The fair value of each option is amortized into compensation expense on a straight-line basis between the grant date for the option and each vesting date. The fair value of each stock option granted was estimated using the following weighted-average assumptions:

Grant Year	Expected Dividend Yield	Risk-Free Interest Rate	Expected Volatility	Expected Life (in Years)
2019	3.04 %	2.50 %	9.47 %	10.0
2018	3.39 %	2.73 %	9.40 %	10.0

The weighted-average fair value of each stock option granted for 2019 and 2018 was $2.24 and $1.91, respectively. Stock options exercised during the years ended December 31, 2019 and 2018 were 39,547 and 38,436, respectively.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Mortgage Servicing Rights ("MSRs")

The Company has agreements for the express purpose of selling loans in the secondary market. The Company retains servicing rights for certain loans. Originated MSRs are recorded by allocating total costs incurred between the loan and servicing rights based on their relative fair values. MSRs are amortized in proportion to the estimated servicing income over the estimated life of the servicing portfolio. The Company performs an impairment review of the MSRs and recognizes impairment through a valuation account. MSRs are a component of accrued interest and other assets on the Consolidated Balance Sheet. Gains and losses on sales of loans are recognized at settlement dates and are determined by the difference between the sales proceeds and the carrying value of the loans. All sales are made with limited recourse. For the years ended December 31, 2019 and 2018, the Company recorded gross servicing rights of $485,562 and $558,745, respectively, with a reserve for impairment of $187,634 and $169,523, respectively.

Transfer of Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Company; (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 Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Cash Flow Information

The Company has defined cash and cash equivalents as those amounts included in the balance sheet captions "Cash and due from banks" and "Interest-bearing deposits with other institutions" that have original maturities of less than 90 days.

Reclassification of Comparative Amounts

Certain items previously reported have been reclassified to conform to the current year's format. Such reclassifications did not affect net income or stockholders' equity.

Derivatives and Hedging Activities

The Company engages in a number of business activities that are vulnerable to interest rate risk. The associated variability in cash flows related to interest rate risk may impact the results of operations of the Company. The Company's hedging objective is to reduce, to the extent possible, unpredictable cash flows associated with interest rate risk, via approved hedging strategies, related to business strategies and business objectives.

All derivatives are recorded on the Consolidated Balance Sheet at fair value. The accounting for changes in the fair value of derivatives depends on whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge.

Derivatives and Hedging Activities (Continued)

Changes in the fair value of derivatives designated as fair value hedges are recorded in earnings, together and in the same income statement line item with changes in the fair value of the related hedged item. Changes in the fair value of derivatives designated as cash flow hedges are recorded in accumulated other comprehensive income (loss) and are reclassified into the line item in the income statement in which the hedged item is recorded and in the same period in which the hedged item affects earnings. Hedge ineffectiveness and gains and losses on the excluded component of a derivative in assessing hedge effectiveness are recorded in earnings.

Revenue Recognition

The Company's revenue is comprised of net interest income on financial assets and liabilities, which is explicitly excluded from the scope of the new guidance, and noninterest income. Certain components of noninterest income such as interest rate swap income, income from rabbi trust investments, trading securities gains, gains on sales of mortgage loans, and gains on sales of securities available for sale are accounted for under other U.S. GAAP standards, and are therefore out of scope of the ASC 606 revenue standard. Insurance commissions, service charges on deposit accounts, debit card processing fees, and trust and investment advisory fees are within the scope of the ASC 606 revenue standard. As such, the Company reviewed contracts related to these revenue streams and there were not any material changes to revenue recognition upon adoption.

Newly Adopted Accounting Standards

In February 2016, the FASB issued ASU 2016-02 "Leases." From the lessee's perspective, the new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement for a lessee. From the lessor's perspective, the new standard requires a lessor to classify leases as either sales-type, finance, or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing lease. If the lessor does not convey the risks and rewards or control of the underlying asset, an operating lease results.

For the Company, the provisions of this ASU were effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company adopted this ASU effective January 1, 2019, utilizing the optional transition method as provided by ASU 2018-11. Under the optional transition method, only the most recent period presented reflected the adoption with a cumulative-effect adjustment to the opening balance of retained earnings and the comparative prior periods will be presented under the previous guidance of Topic 840. ASU 2016-02 provides a number of optional transition-related practical expedients. The Company elected to apply the practical expedients that relate to the identification and classification of leases that commenced before January 1, 2019 and the initial direct costs of those leases. The election of these practical expedients allows the Company to continue to account for those leases that commenced before January 1, 2019 in accordance with previous U.S. GAAP. All of the Company's leases that commenced before January 1, 2019 were operating leases. Lease expense will continue to be recognized based on the terms of the leases. A ROU asset and related lease liability was recognized for each operating lease at January 1, 2019 based on the present value of the remaining minimum lease payments.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Newly Adopted Accounting Standards (Continued)

At January 1, 2019, the Company had six leases for real property, including five leases for bank branch and corporate office locations, and leased office space for Kish Benefits Consulting operations. Each lease provides one or more options for the Company to extend the lease term. The Company leases the land underlying the corporate office location, and owns the leasehold improvements constructed on the leased property.

Company assumed that it would exercise the next lease extension for the majority of the real estate leases in order to have use of the properties for at least a 5 to 10 year future period. The Company adopted this ASU effective January 1, 2019 and recognized an aggregate lease liability of $4,989,194 and combined ROU assets of $4,989,194.

2. EARNINGS PER SHARE

There are no convertible securities that would affect the numerator in calculating basic and diluted earnings per share; therefore, net income as presented on the Consolidated Statement of Income will be used as the numerator. The following table sets forth the composition of the weighted-average common shares (denominator) used in the basic and diluted earnings per share computation.

	2019	2018
Weighted-average common shares issued	2,697,500	2,697,500
Weighted-average treasury stock shares	(112,861)	(145,755)
Weighted-average unvested restricted stock awards	(85,103)	(80,441)
Basic weighted-average shares outstanding	2,499,536	2,471,304
Dilutive effect of outstanding restricted stock awards	44,138	39,013
Dilutive effect of outstanding stock options	49,605	52,555
Diluted weighted-average shares outstanding	2,593,279	2,562,872

For the year ended December 31, 2019, the Company has excluded from the computation of diluted weighted-average shares the impact of 41,058 options to purchase shares of the Company's common stock, as the effect would have been anti-dilutive.

For the year ended December 31, 2018, the Company has excluded from the computation of diluted weighted-average shares the impact of 36,440 options to purchase shares of the Company's common stock, as the effect would have been anti-dilutive.

3. INVESTMENT SECURITIES

The amortized cost, gross unrealized gains and losses, and fair value of investment securities are as follows:

	2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale:				
U.S. treasury securities	$ 2,011,276	$ -	$ (3,936)	$ 2,007,340
U.S. government agency securities	45,750,235	173,682	(64,705)	45,859,212
Obligations of states and political subdivisions	31,878,494	196,940	(92,845)	31,982,589
Corporate securities	15,381,522	212,511	(39,887)	15,554,146
Mortgage-backed securities in government-sponsored entities	35,854,180	172,080	(249,034)	35,777,226
Total Available for Sale	$ 130,875,707	$ 755,213	$ (450,407)	$ 131,180,513
Held to Maturity:				
Corporate Securities	$ 7,250,000	$ 128,098	$ -	$ 7,378,098

	2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale:				
U.S. treasury securities	$ 6,995,422	$ -	$ (301,712)	$ 6,693,710
U.S. government agency securities	36,722,369	-	(951,146)	35,771,223
Obligations of states and political subdivisions	46,044,802	236,722	(106,440)	46,175,084
Corporate securities	19,331,836	21,052	(294,807)	19,058,081
Mortgage-backed securities in government-sponsored entities	17,320,809	17,651	(304,961)	17,033,499
Total Available for Sale	$ 126,415,238	$ 275,425	$ (1,959,066)	$ 124,731,597
Held to Maturity:				
Corporate Securities	$ 7,000,000	$ 95,937	$ -	$ 7,095,937

3. INVESTMENT SECURITIES (Continued)

The following tables show the Company's gross unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position, at December 31, 2019 and 2018.

	2019					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. treasury securities	$ 2,007,340	$ (3,936)	$ -	$ -	$ 2,007,340	$ (3,936)
U.S. government agency securities	12,300,685	(55,361)	4,491,030	(9,344)	16,791,715	(64,705)
Obligations of states and political subdivisions	5,198,142	(91,999)	459,319	(846)	5,657,461	(92,845)
Corporate securities	525,295	(14,384)	2,201,645	(25,503)	2,726,940	(39,887)
Mortgage-backed securities in government-sponsored entities	16,984,833	(245,244)	836,110	(3,790)	17,820,943	(249,034)
Total	$ 37,016,295	$ (410,924)	$ 7,988,104	$ (39,483)	$ 45,004,399	$ (450,407)

	2018					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. treasury securities	$ -	$ -	$ 6,693,710	$ (301,712)	$ 6,693,710	$ (301,712)
U.S. government agency securities	-	-	35,771,223	(951,146)	35,771,223	(951,146)
Obligations of states and political subdivisions	5,043,758	(5,817)	12,264,334	(100,623)	17,308,092	(106,440)
Corporate securities	6,964,881	(42,206)	8,719,132	(252,601)	15,684,013	(294,807)
Mortgage-backed securities in government-sponsored entities	817,977	(1,151)	14,481,602	(303,810)	15,299,579	(304,961)
Total	$ 12,826,616	$ (49,174)	$ 77,930,001	$ (1,909,892)	$ 90,756,617	$ (1,959,066)

The Company had 42 investment securities, consisting of 1 U.S. treasury note, 14 U.S. government obligations and direct obligations of U.S. government agencies, 13 municipal bonds, 5 different debt securities, and 9 mortgage-backed securities that were in unrealized loss positions at December 31, 2019. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis or par value, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2019.

3. INVESTMENT SECURITIES (Continued)

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

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 13,324,552	$ 13,333,239	$ -	$ -
Due after one year through five years	63,945,280	64,453,729	-	-
Due after five years through ten years	28,997,234	28,884,338	7,250,000	7,378,098
Due after ten years	24,608,641	24,509,207	-	-
Total	$ 130,875,707	$ 131,180,513	$ 7,250,000	$ 7,378,098

Investment securities with a carrying value of $110,586,946 and $112,773,196 at December 31, 2019 and 2018, respectively, were pledged to secure deposits and other purposes as required by law.

The following is a summary of proceeds received, gross gains, and gross losses realized on the sale of investment securities available for sale for the years ended December 31:

	2019	2018
Proceeds from sales	$ 9,694,054	$ -
Proceeds from calls	6,607,143	1,055,000
Gross gains	162,275	3,471
Gross losses	(637)	-

Equity Securities

At December 31, 2017, the Company had $4,051,862 in equity securities recorded at fair value. Prior to January 1, 2018, equity securities were stated at fair value with unrealized gains and losses reported as a separate component of accumulated other comprehensive income, net of tax. At December 31, 2017, net unrealized gains of $716,961 had been recognized in accumulated other comprehensive income. On January 1, 2018, these unrealized gains and losses were reclassified out of accumulated other comprehensive income and into retained earnings, with subsequent changes in fair value being recognized in net equity securities gains (losses). The following summary of unrealized and realized gains and losses recognized in net income on equity securities during the years ended December 31, 2019 and December 31, 2018:

	2019	2018
Net gains (losses) recognized in equity securities during the year	$ 232,874	$ (181,665)
Less: Net gains realized on sale of equity securities during the year	230,053	60,765
Unrealized gains (losses) recognized in equity securities	$ 2,821	$ (242,430)

4. LOANS

Major classifications of loans are summarized as follows:

	2019	2018
Commercial real estate	$ 249,990,170	$ 216,677,128
Commercial and industrial	100,376,943	102,347,634
Agricultural	30,829,832	29,875,122
State and political subdivisions	36,726,830	39,747,975
Consumer	6,909,273	8,256,192
Residential real estate	262,185,148	240,178,495
	687,018,196	637,082,546
Less allowance for loan losses	7,499,402	6,642,410
Net loans	$ 679,518,794	$ 630,440,136

Mortgage loans serviced by the Company for others amounted to $49,164,176 and $55,853,584 at December 31, 2019 and 2018, respectively.

Unearned fees included in loans receivable amounted to $13,794 and $14,400 at December 31, 2019 and 2018, respectively.

The Company grants residential, commercial, and consumer loans to customers throughout its trade area, which is concentrated in central Pennsylvania. Such loans are subject to, at origination, credit risk assessment by management following the Company's lending policy. Although the Company has a diversified loan portfolio at December 31, 2019 and 2018, a substantial portion of its debtors' ability to honor their loan agreements is dependent upon the economic stability of its immediate trade area.

In the normal course of business, loans are extended to directors, executive officers, and their associates. A summary of loan activity for those directors, executive officers, and their associates with loan balances in excess of $60,000 for the years ended December 31, 2019 and 2018, is as follows:

Balance 2017	Additions	Amounts Collected	Balance 2018	Additions	Amounts Collected	Balance 2019
$ 16,701,750	$ 2,077,750	$ (1,743,239)	$ 17,036,261	$ 7,790,420	$ (6,129,819)	$ 18,696,862

5. ALLOWANCE FOR LOAN LOSSES

Management has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for loan losses, the Company has segmented certain loans in the portfolio by product type. Loans are segmented into the following pools: commercial real estate loans, commercial and industrial loans, agricultural loans, state and political subdivision loans, consumer loans, and residential real estate loans. Historical loss percentages for each risk category are calculated and used as the basis for calculating allowance allocations. These historical loss percentages are calculated over a five-year period for all portfolio segments. Certain qualitative factors are then added to the historical loss percentages to get the adjusted factor to be applied to non-classified loans.

5. ALLOWANCE FOR LOAN LOSSES (Continued)

The following qualitative factors are analyzed to determine allocations for non-classified loans for each portfolio segment:

- Changes in lending policies and procedures
- Changes in economic and business conditions
- Changes in nature and volume of the loan portfolio
- Changes in lending staff experience and ability
- Changes in past-due loans, nonaccrual loans, and classified loans
- Changes in credit risk management
- Changes in underlying value of collateral-dependent loans
- Levels of credit concentrations
- Effects of external factors, such as legal and regulatory requirements

These qualitative factors are reviewed each quarter and adjusted based upon relevant changes within the Bank's operating environment. During 2019, management decreased the qualitative factors reserve percentage for the commercial real estate pool of loans because of a decrease in the volume and severity of past dues, nonaccruals, and classifieds. Further reductions in the residential real estate and commercial real estate qualitative factors reserve percentages were made due to an increase in the underlying value of collateral dependent loans. Management decreased qualitative factors on reserve percentages for commercial and industrial loan participations transacted with the BancAlliance portfolio for related changes in the credit concentration levels in relation to the entire loan portfolio. The qualitative factors reserve for agriculture loans was increased due to an increase in the volume and severity of past dues, nonaccruals, and classifieds. Management decreased the qualitative factors reserve percentage for Lending Club, included in the consumer category, due to portfolio balances continuing to decline. Strong asset quality supported by low levels of past-due, non-accrual, and classified loans; no changes to the lending policy, risk management, or legal/competitive environment; and a diversified portfolio with minimal levels of concentration support management's decision to have the remaining qualitative factor reserve percentages unchanged in 2019.

We consider commercial real estate loans, commercial and industrial loans, agricultural loans, and consumer loans to be riskier than one-to-four family residential mortgage loans. Commercial real estate loans entail significant additional credit risks compared to one-to-four family residential mortgage loans, as they involve large loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment experience on loans secured by income-producing properties typically depends on the successful operation of the related real estate project and/or business operation of the borrower who is also the primary occupant, and thus may be subject to a greater extent to adverse conditions in the real estate market and in the general economy. Commercial and industrial loans, along with agricultural loans, involve a higher risk of default than residential mortgage loans of like duration since their repayment is generally dependent on the successful operation of the borrower's business and the sufficiency of collateral, if any.

The repayment of agricultural loans can also be impacted by commodity prices going up and down. Although a customer's ability to repay for both one-to-four family residential mortgage loans and consumer loans is highly dependent on the local economy, especially employment levels, consumer loans as a group generally present a higher degree of risk because of the nature of collateral, if any. State and political subdivision loans carry the lowest risk, as most state and political subdivision loans are either backed by the full taxing authority of a municipality or the revenue of a municipal authority.

5. ALLOWANCE FOR LOAN LOSSES (Continued)

The following tables present, by portfolio segment, the changes in the allowance for loan losses and the recorded investment in loans as of and for the years ended December 31:

2019	Commercial Real Estate	Commercial and Industrial	Agricultural	State and Political Subdivisions	Consumer	Residential Real Estate	Unallocated	Total
Allowance for loan losses:								
Beginning balance	$ 2,659,259	$ 1,428,801	$ 500,230	$ 188,661	$ 96,537	$ 1,606,577	$ 162,345	$ 6,642,410
Charge-offs	-	-	-	-	(71,764)	(5,333)	-	(77,097)
Recoveries	526,930	7,175	-	-	8,299	1,685	-	544,089
Provision	(432,837)	(1,836)	17,293	(21,553)	38,286	82,011	708,636	390,000
Ending balance	$ 2,753,352	$ 1,434,140	$ 517,523	$ 167,108	$ 71,358	$ 1,684,940	$ 870,981	$ 7,499,402
Ending balance individually evaluated for impairment	$ 31,593	$ 14,823	$ 59,233	$ -	$ -	$ 29,221	$ -	$ 134,870
Ending balance collectively evaluated for impairment	2,721,759	1,419,317	458,290	167,108	71,358	1,655,719	870,981	7,364,532
	$ 2,753,352	$ 1,434,140	$ 517,523	$ 167,108	$ 71,358	$ 1,684,940	$ 870,981	$ 7,499,402
Loans:								
Individually evaluated for impairment	$ 332,244	$ 20,414	$ 298,703	$ -	$ -	$ 470,146		$ 1,121,507
Collectively evaluated for impairment	249,657,926	100,356,529	30,531,129	36,726,830	6,909,273	261,715,002		685,896,689
Ending balance	$ 249,990,170	$ 100,376,943	$ 30,829,832	$ 36,726,830	$ 6,909,273	$ 262,185,148		$ 687,018,196

5. ALLOWANCE FOR LOAN LOSSES (Continued)

2018	Commercial Real Estate	Commercial and Industrial	Agricultural	State and Political Subdivisions	Consumer	Residential Real Estate	Unallocated	Total
Allowance for loan losses:								
Beginning balance	$ 2,498,768	$ 1,230,243	$ 266,516	$ 182,082	$ 134,224	$ 1,363,855	$ 22,122	$ 5,697,810
Charge-offs	-	(35,963)	(9,559)	-	(121,164)	(184,719)	-	(351,405)
Recoveries	304,875	13,754	946	-	21,430	-	-	341,005
Provision	(144,384)	220,767	242,327	6,579	62,047	427,441	140,223	955,000
Ending balance	$ 2,659,259	$ 1,428,801	$ 500,230	$ 188,661	$ 96,537	$ 1,606,577	$ 162,345	$ 6,642,410
Ending balance individually evaluated for impairment	$ 16,523	$ 2,967	$ 47,255	$ -	$ -	$ 27,843	$ -	$ 94,588
Ending balance collectively evaluated for impairment	2,642,736	1,425,834	452,975	188,661	96,537	1,578,734	162,345	6,547,822
	$ 2,659,259	$ 1,428,801	$ 500,230	$ 188,661	$ 96,537	$ 1,606,577	$ 162,345	$ 6,642,410
Loans:								
Individually evaluated for impairment	$ 1,556,745	$ 147,735	$ 308,024	$ -	$ -	$ 527,519		$ 2,540,023
Collectively evaluated for impairment	215,120,383	102,199,899	29,567,098	39,747,975	8,256,192	239,650,976		634,542,523
Ending balance	$ 216,677,128	$ 102,347,634	$ 29,875,122	$ 39,747,975	$ 8,256,192	$ 240,178,495		$ 637,082,546

From 2018 to 2019, the reserve requirement for commercial real estate loans increased by $94,093, for residential real estate loans increased by $78,363, for agricultural loans increased by $17,293, and for commercial and industrial loans increased by $5,339 during the same period. This was a result of increases in outstanding balances in each loan category during 2019, offset by significant recoveries of previous loan charge-offs. At December 31, 2019, total impaired and criticized assets and classified assets for commercial real estate loans was $5.5 million. This represents an increase of $952,173 from December 31, 2018, or 21.1%. This difference was due to a decrease in impaired and criticized assets of $1.2 million and an increase of $2.1 million in classified assets.

Credit Quality Information

The following tables represent the commercial credit exposures by internally-assigned grades for the years ended December 31, 2019 and 2018, respectively. The grading analysis estimates the capability of the borrower to repay the contractual obligations under the loan agreements as scheduled or at all. The Company's internal credit risk grading system is based on experiences with similarly graded loans.

5. ALLOWANCE FOR LOAN LOSSES (Continued)

Credit Quality Information (Continued)

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

Pass loans are loans which are protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral. Special Mention loans are loans where a potential weakness or risk exists, which could cause a more serious problem if not corrected. Substandard loans are loans that have a well-defined weakness based on objective evidence and are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Doubtful loans have all the weaknesses inherent in a substandard asset and these weaknesses make collection or liquidation in full highly questionable and improbable, based on existing circumstances. Finally, loans classified as Loss are considered uncollectible, or of such value that continuance as an asset is not warranted.

	2019				
	Commercial Real Estate	Commercial and Industrial	Agricultural	State and Political Subdivisions	Total
Pass	$ 244,520,026	$ 88,229,710	$ 26,121,832	$ 36,726,830	$ 395,598,398
Special Mention	5,470,144	9,112,844	-	-	14,582,988
Substandard	-	3,019,566	4,635,646	-	7,655,212
Doubtful	-	14,823	72,354	-	87,177
Total	$ 249,990,170	$ 100,376,943	$ 30,829,832	$ 36,726,830	$ 417,923,775

	2018				
	Commercial Real Estate	Commercial and Industrial	Agricultural	State and Political Subdivisions	Total
Pass	$ 212,159,157	$ 90,408,028	$ 24,713,695	$ 39,747,975	$ 367,028,855
Special Mention	3,344,988	11,021,024	-	-	14,366,012
Substandard	-	918,582	5,130,889	-	6,049,471
Doubtful	1,172,983	-	30,538	-	1,203,521
Total	$ 216,677,128	$ 102,347,634	$ 29,875,122	$ 39,747,975	$ 388,647,859

5. ALLOWANCE FOR LOAN LOSSES (Continued)

Credit Quality Information (Continued)

For consumer and residential real estate loans, the Company evaluates credit quality based on whether the loan is considered performing or nonperforming. Nonperforming loans are those loans past due 90 days or more and loans on nonaccrual. The following tables present the balances of consumer and residential real estate loans by classes of loan portfolio based on payment performance as of December 31:

	2019		
	Consumer	Residential Real Estate	Total
Performing	$ 6,903,682	$ 261,962,106	$ 268,865,788
Nonperforming	5,591	223,042	228,633
Total	$ 6,909,273	$ 262,185,148	$ 269,094,421

	2018		
	Consumer	Residential Real Estate	Total
Performing	$ 8,256,192	$ 239,975,590	$ 248,231,782
Nonperforming	-	202,905	202,905
Total	$ 8,256,192	$ 240,178,495	$ 248,434,687

Age Analysis of Past Due Loans by Class

The following are tables which show the aging analysis of past due loans as of December 31:

	2019						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans	90 Days and Accruing
Commercial real estate	$ -	$ 6,058	$ -	$ 6,058	$ 249,984,112	$ 249,990,170	$ -
Commercial and industrial	836	369,245	14,823	384,904	99,992,039	100,376,943	-
Agricultural	349,276	-	72,354	421,630	30,408,202	30,829,832	-
State and political subdivisions	-	-	-	-	36,726,830	36,726,830	-
Consumer	11,434	-	5,591	17,025	6,892,248	6,909,273	-
Residential real estate	701,037	11,907	223,042	935,986	261,249,162	262,185,148	-
Total	$ 1,062,583	$ 387,210	$ 315,810	$ 1,765,603	$ 685,252,593	$ 687,018,196	$ -

5. ALLOWANCE FOR LOAN LOSSES (Continued)

Age Analysis of Past Due Loans by Class (Continued)

	2018						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans	90 Days and Accruing
Commercial real estate	$ 162,971	$ -	$ 1,172,983	$ 1,335,954	$ 215,341,174	$ 216,677,128	$ -
Commercial and industrial	-	-	-	-	102,347,634	102,347,634	-
Agricultural	78,222	10,000	30,538	118,760	29,756,362	29,875,122	-
State and political subdivisions	-	-	-	-	39,747,975	39,747,975	-
Consumer	5,029	-	-	5,029	8,251,163	8,256,192	-
Residential real estate	291,704	1,476	202,905	496,085	239,682,410	240,178,495	-
Total	$ 537,926	$ 11,476	$ 1,406,426	$ 1,955,828	$ 635,126,718	$ 637,082,546	$ -

Consumer mortgage loans held by the Company in the process of foreclosure amounted to $328,680 as of December 31, 2019.

Impaired Loans

Management considers commercial real estate loans, commercial and industrial loans, agricultural loans, and state and political subdivision loans which are 90 days or more past due to be impaired. After becoming 90 days or more past due, these categories of loans are measured for impairment. Any consumer and residential real estate loans related to these delinquent loans are also considered to be impaired. Troubled debt restructurings are measured for impairment at the time of restructuring. These loans are analyzed to determine if it is probable that all amounts will not be collected according to the contractual terms of the loan agreement. If management determines that the fair value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs, and unamortized premium or discount), impairment is recognized through a provision or through a charge to the allowance for loan losses.

5. ALLOWANCE FOR LOAN LOSSES (Continued)

Impaired Loans (Continued)

The following tables include the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount as of December 31:

	2019				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial real estate	$ -	$ -	$ -	$ 432,900	$ -
Commercial and industrial	5,591	5,591	-	32,230	-
Agricultural	35,432	35,432	-	44,622	2,475
State and political subdivisions	-	-	-	-	-
Consumer	-	-	-	466	-
Residential real estate	296,741	296,741	-	259,129	4,164
	337,764	337,764	-	769,347	6,639
With an allowance recorded:					
Commercial real estate	332,244	332,244	31,593	243,942	21,159
Commercial and industrial	14,823	14,823	14,823	6,984	-
Agricultural	263,271	263,271	59,233	258,393	14,620
State and political subdivisions	-	-	-	-	-
Consumer	-	-	-	793	-
Residential real estate	173,405	173,405	29,221	188,320	10,024
	783,743	783,743	134,870	698,432	45,803
Total:					
Commercial real estate	332,244	332,244	31,593	676,842	21,159
Commercial and industrial	20,414	20,414	14,823	39,214	-
Agricultural	298,703	298,703	59,233	303,015	17,095
State and political subdivisions	-	-	-	-	-
Consumer	-	-	-	1,259	-
Residential real estate	470,146	470,146	29,221	447,449	14,188
Total	$ 1,121,507	$ 1,121,507	$ 134,870	$ 1,467,779	$ 52,442

5. ALLOWANCE FOR LOAN LOSSES (Continued)

Impaired Loans (Continued)

	2018				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial real estate	$ 1,377,295	$ 1,377,295	$ -	$ 2,797,828	$ 10,874
Commercial and industrial	-	-	-	175,644	-
Agricultural	42,895	42,895	-	57,605	2,900
State and political subdivisions	-	-	-	6,390	-
Consumer	-	-	-	-	-
Residential real estate	324,290	324,290	-	259,406	4,290
	1,744,480	1,744,480	-	3,296,872	18,064
With an allowance recorded:					
Commercial real estate	179,449	179,449	16,282	179,626	11,794
Commercial and industrial	147,735	147,735	2,967	25,189	9,819
Agricultural	265,129	265,129	47,254	239,601	13,996
State and political subdivisions	-	-	-	-	
Consumer	-	-	-	4,292	
Residential real estate	203,230	203,230	27,843	192,642	10,152
	795,543	795,543	94,588	641,350	45,761
Total:					
Commercial real estate	1,556,745	1,556,744	16,523	2,977,454	22,668
Commercial and industrial	147,735	147,735	2,967	200,833	9,819
Agricultural	308,024	308,024	47,255	297,205	16,896
State and political subdivisions	-	-	-	6,390	-
Consumer	-	-	-	4,292	-
Residential real estate	527,519	527,520	27,843	452,048	14,442
Total	$ 2,540,023	$ 2,540,023	$ 94,588	$ 3,938,222	$ 63,825

5. ALLOWANCE FOR LOAN LOSSES (Continued)

Nonaccrual Loans

Loans are considered nonaccrual upon reaching 90 days of delinquency even though the Company may be receiving partial payments of interest and partial repayments of principal on such loans. When a loan is placed on nonaccrual status, previously accrued but unpaid interest is deducted from interest income. Interest income that would have been recorded on nonaccrual loans in accordance with their original terms totaled approximately $23,000 in 2019 and $600,000 in 2018.

The following table includes the loan balances on nonaccrual status as of December 31:

	2019	2018
Commercial real estate	$ -	$1,172,983
Commercial and industrial	14,823	-
Agricultural	72,354	30,538
Consumer	5,591	-
Residential real estate	223,042	202,905
Total	$ 315,810	$1,406,426

Troubled Debt Restructuring (TDR's)

The Company's loan portfolio also includes certain loans that have been modified in a troubled debt restructuring, where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Company's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance, or other actions.

When the Company modifies a loan, management evaluates any possible impairment based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement. If management determines that the value of the modified loan is less than the recorded investment in the loan, impairment is recognized either through a charge-off to the allowance or a specific reserve. As of December 31, 2019 and 2018, specific reserve allocations of $83,124 and $94,588, respectively, had been established against the troubled debt restructurings and no charge-offs for the troubled debt restructurings were required.

There were no loans modified in a troubled debt restructuring from January 1, 2017 through December 31, 2018, that subsequently defaulted (i.e., 90 days or more past due following a modification) during the years ended December 31, 2019 and 2018, respectively. There were no loan modifications that were considered troubled debt restructurings for the year ended December 31, 2019.

Loan modifications considered troubled debt restructurings completed during the year ended December 31, 2018 consist of a single commercial loan. The Company's outstanding recorded investment in the loan was $17,577 at the time of the restructuring. The Company's outstanding recorded investment amount was not changed by the TDR modifications.

6. PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows:

	2019	2018
Land and land improvements	$ 2,394,918	$ 2,200,547
Building and leasehold improvements	20,293,423	18,496,846
Furniture, fixtures, and equipment	7,741,252	7,242,320
	30,429,593	27,939,713
Less accumulated depreciation	14,794,107	13,757,405
Total	$ 15,635,486	$ 14,182,308

Depreciation charged to operations was $1,085,331 in 2019 and $1,074,414 in 2018.

7. GOODWILL

As of December 31, 2019 and 2018, goodwill had a gross carrying amount of $2,457,712 and $2,757,712, respectively, and accumulated amortization of $614,013 for a net carrying value of $1,843,699 and $2,143,699, respectively. The carrying amount of goodwill was reduced by $300,000 during 2019 to offset and eliminate a related liability balance of $262,498, which was included in Accrued Interest and Other Liabilities at December 31, 2018, and increased 2019 non-cash compensation expense by $37,502. The reclasses reflect an amendment drafted during 2019 to clarify the terms of a restricted stock award issued in conjunction with the acquisition of Benefit Management Group in December 2017, and include the award with all other outstanding restricted stock awards representing incentive compensation awards issued by the Company for future employee services during the period the awards are subject to restriction. The carrying amount of goodwill was tested for impairment in the fourth quarter, after the annual forecasting process. There was no impairment for the years ended December 31, 2019 and 2018.

8. DEPOSITS

The scheduled maturities of time deposits approximate the following:

Year Ending December 31,	Amount
2020	$ 147,341,322
2021	95,779,946
2022	21,154,395
2023	9,769,375
2024	4,412,735
Thereafter	1,154,963
	$ 279,612,736

The aggregate of all time deposit accounts of $250,000 or more amounted to $71,658,616 and $65,257,519 at December 31, 2019 and 2018, respectively. Brokered Deposits included above as of December 31, 2019 was $2,800,000. Depositors with over 5% of total deposits includes one depositor of $20.5 million as of December 31, 2019.

9. SHORT-TERM BORROWINGS

Short-term borrowings include overnight repurchase agreements through the FHLB, federal funds purchased, and repurchase agreements with customers. The outstanding balances and related information for short-term borrowings are summarized as follows:

	2019	2018
Balance at year-end	$ 46,740,021	$ 22,484,169
Average balance outstanding	41,837,265	19,831,315
Maximum month-end balance	47,937,322	23,647,311
Weighted-average rate at year-end	1.95%	2.52%
Weighted-average rate during the year	0.25%	0.35%

The collateral pledged on the repurchase agreements by the remaining contractual maturity of the repurchase agreements in the Consolidated Balance Sheets as of years ended December 31, 2019 and 2018, is presented in the following table.

	Remaining Contractual Maturity Overnight and Continuous	
	December 31, 2019	December 31, 2018
Securities of U.S. Government Agencies, U.S. Treasuries, and obligations of state and political subdivisions pledged, fair value	$ 5,310,216	$ 7,465,235
Repurchase agreements	1,060,022	2,104,169

10. OTHER BORROWINGS

The following table sets forth information concerning other borrowings:

Description	Maturity Range From	Maturity Range To	Weighted-Average Interest Rate	Stated Interest Rate Range From	Stated Interest Rate Range To	At December 31, 2019	At December 31, 2018
Fixed rate	01/06/20	08/04/26	2.07 %	1.24 %	4.00 %	$ 53,075,499	$ 50,621,498
Fixed rate amortizing	02/03/21	07/15/24	1.70	1.33	1.96	7,612,749	10,097,457
Mid-term repos	05/10/18	05/10/21	2.75	2.75	2.75	3,135,000	1,000,000
Subordinated capital notes	03/24/24	03/03/26	5.07	4.75	5.25	10,020,000	10,120,000
Note payable	03/17/35	11/23/35	3.65	3.41	3.90	6,186,000	6,186,000
						$ 80,029,248	$ 78,024,955

10. OTHER BORROWINGS (Continued)

Maturities of other borrowings at December 31, 2019, are summarized as follows:

Year Ending December 31,		Amount	Weighted-Average Rate
2020	$	14,890,735	1.70 %
2021		11,447,476	2.06
2022		12,916,000	1.69
2023		13,075,780	2.05
2024		6,360,493	2.28
2025 and after		21,338,764	4.06
	$	80,029,248	2.48

Borrowing capacity consists of credit arrangements with the FHLB. FHLB borrowings are subject to annual renewal, incur no service charges, and are secured by a blanket security agreement on certain investment and mortgage-backed securities, outstanding residential mortgages, and the Bank's investment in FHLB stock. As of December 31, 2019, the Bank's maximum borrowing capacity with the FHLB was approximately $338.6 million.

The Bank may request a Federal Reserve Advance secured by acceptable collateral. The Bank's maximum borrowing capacity with the Federal Reserve Bank as of December 31, 2019 is approximately $7.9 million.

The Bank also maintains a $10.0 million, $10.0 million, and $5.0 million federal funds line of credit with three other financial institutions. The Bank did not have outstanding borrowings related to these lines of credit at December 31, 2019.

In 2014, the Company formed a special purpose entity ("Entity") to issue $3,093,000 of fixed/floating rate subordinated debt securities with a stated maturity of March 17, 2035. The rate on these securities is determined quarterly and floats based on three-month LIBOR plus 2.00 percent. The Entity may redeem them, in whole or in part, at face value on or after March 17, 2010. The Company borrowed the proceeds from the Entity in the form of a $3,093,000 note payable, which is included in the liabilities section of the Company's Consolidated Balance Sheet.

In 2015, the Company formed an additional special purpose entity to issue $3,093,000 of fixed/floating rate subordinated debt securities with a stated maturity of November 23, 2035. These securities had a fixed rate of 6.11 percent until November 23, 2015, at which time the rate converted to floating, is determined quarterly, and floats based on three-month LIBOR plus 1.50 percent. The Entity may redeem them, in whole or in part, at face value on or after November 23, 2010. The Company borrowed the proceeds from the Entity in the form of a $3,093,000 note payable, which is included in the liabilities section of the Company's Consolidated Balance Sheet.

The Company's minority interests in these entities were recorded at the initial investment amount and are included in the accrued interest and other assets on the Consolidated Balance Sheet. These entities are not consolidated as part of the Company's consolidated financial statements.

In 2014, the Company issued $3,620,000 of fixed rate subordinated capital notes with stated maturities of March 24, 2024 through December 26, 2024. These securities bear a fixed annual rate of 4.75 percent. The Company may redeem them, in whole or in part, at face value on or after March 24, 2019. These borrowings are included in the liabilities section of the Company's Consolidated Balance Sheet.

In 2015, the Company issued $6,500,000 of fixed rate subordinated capital notes with stated maturities of September 22, 2025 through March 3, 2026. The fixed securities bear an annual rate of 5.25 percent. The Company may redeem them, in whole or in part, at face value on or after September 22, 2020. These borrowings, with a current balance of $6,400,000, are included in the liabilities section of the Company's Consolidated Balance Sheet.

In 2015, the Company issued $650,000 of fixed rate senior debt with stated maturities of September 2020 through November 2020. The fixed rate securities bear an annual rate of 4.00 percent. These borrowings are included in the liabilities section of the Company's Consolidated Balance Sheet.

11. DERIVATIVE FINANCIAL INSTRUMENTS

Risk Management Objective of Using Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of its assets and liabilities and through the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to certain variable rate borrowings. The Company also has interest rate derivatives that result from a service provided to certain qualifying customers and, therefore, are not used to manage interest rate risk in the Company's assets or liabilities. The Company manages a matched book with respect to its derivative instruments in order to minimize its net risk exposure resulting from such transactions.

The Company has contracted with a third party to engage pay-fixed interest rate swap contracts and the outstanding as of December 31, 2019, is being utilized to hedge $44.0 million in floating rate debt. At December 31, 2019 and 2018, the information pertaining to outstanding interest rate swap agreements is as follows:

	2019	2018
Notional amount	$ 44,000,000	$ 20,000,000
Weighted-average pay rate	2.36 %	2.50 %
Receive rate	3-Month Libor	3-Month Libor
Weighted-average maturity in years	7.2	7.4
Unrealized (loss) gain relating to interest rate swaps	(1,588,991)	40,384

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to interest income and expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company has entered into interest rate swaps as part of its interest rate risk management strategy. These interest rate swaps are designated as cash flow hedges and involve the receipt of variable rate amounts from a counterparty in exchange for the Company making fixed interest payments. As of December 31, 2019, the Company had six interest rate swaps with a notional of $44.0 million associated with the Company's cash outflows associated with various floating-rate amounts.

11. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Cash Flow Hedges of Interest Rate Risk (Continued)

For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (outside of earnings), net of tax, and subsequently reclassified to earnings when the hedged transaction affects earnings, and the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. The Company assesses the effectiveness of each hedging relationship by comparing the changes in cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged transactions. The Company did not recognize any hedge ineffectiveness in earnings during the period ended December 31, 2019. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate liabilities. During the next twelve months, the Company estimates that $0 will be reclassified as an increase in interest expense.

Credit-Risk-Related Contingent Features

The Company has agreements with certain of its derivative counterparties that contain the following provisions:

- if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations;
- if the Company fails to maintain its status as a well/adequately capitalized institution, then the counterparty could terminate the derivative positions, and the Company would be required to settle its obligations under the agreements;
- if the Company fails to maintain a specified minimum leverage ratio, then the Company could be declared in default on its derivative obligations.

At December 31, 2019, the fair value of derivatives in a net liability position, which includes accrued interest and any credit valuation adjustments related to these agreements, was $1,588,991. At December 31, 2019, the Company had required cash collateral with certain of its derivative counterparties in the amount of $3,620,000 and was not holding cash collateral of certain derivative counterparties. If the Company had breached any of the above provisions at December 31, 2019, it would have been required to settle its obligations under the agreements at termination value and would have been required to pay any additional amounts due in excess of amounts previously posted as collateral with the respective counterparty.

Fair Values of Derivative Instruments on the Balance Sheet

The following table presents the fair values of derivative instruments in the balance sheet:

	Assets		Liabilities	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
December 31, 2019				
Interest rate derivatives	Other assets	$ -	Other liabilities	$ (1,588,991)
December 31, 2018				
Interest rate derivatives	Other assets	$ 40,384	Other liabilities	$ -

11. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Derivative Instruments

The Company enters into interest rate swaps that allow our commercial loan customers to effectively convert a variable-rate commercial loan agreement to a fixed-rate loan agreement. Under these agreements, the Company enters into a variable-rate loan agreement with a customer in addition to an interest rate swap agreement, which serves to effectively swap the customer's variable-rate into a fixed-rate. The Company then enters into a swap agreement with a third party in order to economically hedge its exposure through the customer agreement.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives may use Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, at December 31, 2019, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined they are not significant. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

	Notional Amount December 31,		Interest Rate Paid	Interest Rate Received	Fair Value December 31,	
	2019	2018			2019	2018
Third Party interest rate swap						
Maturing in 2024	$ 6,000,000	$ 6,000,000	Fixed	3-Month Libor	$ (79,454)	$ 172,609
Maturing in 2025	14,000,000	6,000,000	Fixed	3-Month Libor	(508,940)	(48,386)
Maturing in 2026	14,000,000	8,000,000	Fixed	3-Month Libor	(694,322)	(83,839)
Maturing in 2027	10,000,000	-	Fixed	3-Month Libor	(306,275)	-
	$ 44,000,000	$ 20,000,000			$ (1,588,991)	$ 40,384

12. INCOME TAXES

The provision for federal income taxes consists of:

	2019	2018
Current	$ 1,210,904	$ 390,375
Deferred	(314,366)	250,189
Total provision	$ 896,538	$ 640,564

12. INCOME TAXES (Continued)

The tax effects of deductible and taxable temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2019 and 2018 are as follows:

	2019	2018
Deferred tax assets:		
Allowance for loan losses	$ 1,574,874	$ 1,394,906
Deferred compensation	300,076	230,860
Core deposit intangible assets	17,159	17,159
Asset valuation allowances	79,988	76,185
Employee compensation accruals	317,360	316,275
Nonaccrual interest receivable	4,842	125,256
Unrealized loss on available for sale securities	-	353,116
Unrealized loss on swaps - balance sheet hedge	333,688	-
Lease liability	998,852	-
Other	1,175	3,174
Deferred tax assets	3,628,014	2,516,931
Deferred tax liabilities:		
Premises and equipment	528,015	677,740
Goodwill	345,281	342,831
Deferred loan fees	80,448	68,532
Partnerships	135,423	177,933
Other	3,346	3,346
Unrealized gain on available-for-sale securities	64,010	-
Unrealized gain on swaps - balance sheet hedge	-	7,523
Fair value adjustment - equity securities	42,977	141,849
Deferred gain - intercompany transaction	99,465	-
Right of use asset	993,421	-
Deferred tax liabilities	2,292,386	1,419,754
Net deferred tax assets	$ 1,335,628	$ 1,097,177

No valuation allowance was established at December 31, 2019 and 2018, in view of the Company's ability to carryback taxes paid in previous years and certain tax strategies, coupled with the anticipated future taxable income as evidenced by the Company's earnings potential.

The reconciliation between the federal statutory rate and the Company's effective consolidated income tax rate is as follows:

	2019		2018	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Provision at statutory rate	$ 1,659,725	21.0 %	$ 1,400,752	21.0 %
Tax-exempt interest	(431,528)	(5.5)	(474,336)	(7.1)
Life insurance income	(72,566)	(0.9)	(74,099)	(1.1)
Other	(259,093)	(3.3)	(211,753)	(3.2)
Income tax expense and effective rate	$ 896,538	11.3 %	$ 640,564	9.6 %

12. INCOME TAXES (Continued)

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

There is currently no liability for uncertain tax positions and no known unrecognized tax benefits. The Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the Consolidated Statement of Income. The Company's federal and state income tax returns for taxable years through 2015 have been closed for purposes of examination by the Internal Revenue Service and the Pennsylvania Department of Revenue.

13. EMPLOYEE BENEFITS

Savings Plan

The Bank maintains a qualified 401(k) salary reduction and profit sharing plan that covers substantially all employees. Under the plan, employees make voluntary, pretax contributions to their accounts, and the Bank contributions to the plan are at the discretion of the Board of Directors. Contributions by the Bank charged to operations were $409,077 and $404,238 for the years ended December 31, 2019 and 2018, respectively. The fair value of plan assets includes $2,373,014 and $2,536,411 pertaining to the value of the Company's common stock that is held by the plan as of December 31, 2019 and 2018, respectively.

Deferred Compensation Plan

The Company has a nonqualified deferred compensation plan that allows directors and senior executives to defer fees and salaries. Outstanding balances under this arrangement as of December 31, 2019 and 2018 were $1,428,933 and $1,099,333, respectively, and are reported as "Other liabilities" on the Consolidated Balance Sheet. Expenses related to this plan were a loss of $244,630 and a gain of $88,572 for the years ended December 31, 2019 and 2018, respectively.

Restricted Stock Plan

The Company maintains a Restricted Stock Plan (the "Plan"). Employees and non-employee corporate directors are eligible to receive awards of restricted stock based upon performance-related requirements. Awards granted under the Plan are in the form of the Company's common stock and are subject to certain vesting requirements including continuous employment or service with the Company. Since inception of the Plan in 1988, the Company has authorized a share pool of 240,000 shares of the Company's common stock to the plan. The Plan has a remaining available share pool of 4,808 shares and 19,299 shares as of December 31, 2019 and 2018, respectively. The Plan assists the Company in attracting, retaining and motivating employees and non-employee directors to make substantial contributions to the success of the Company and to increase the emphasis on the use of equity as a key component of compensation.

13. EMPLOYEE BENEFITS (Continued)

Restricted Stock Plan (Continued)

Compensation expense recognized related to restricted stock awards was $361,590 and $379,583 for the years ended December 31, 2019 and 2018, respectively. As of December 31, 2019, unrecognized compensation cost related to restricted stock awards was $1,168,030, which is expected to be recognized over a weighted average life of 3.08 years.

The following is a summary of the status of the Company's outstanding restricted stock awards as of December 31, 2019 and 2018, and changes therein during the years then ended:

	Shares of Restricted Stock Outstanding	Weighted-Average Grant Date Fair Value
Outstanding at December 31, 2017	84,228	$ 21.89
Granted	15,286	29.63
Released from Restrictions	(14,238)	17.51
Forfeited	(1,018)	22.40
Outstanding at December 31, 2018	84,258	24.03
Granted	15,805	31.57
Released from Restrictions	(16,829)	20.79
Forfeited	(1,314)	24.95
Outstanding at December 31, 2019	81,920	$ 26.13

Stock Option Plan

The Company has a stock option plan available for granting stock-based compensation awards to employees and board members. The Company authorized a share pool of 760,000 shares of the Company's common stock for granting incentive stock options and non-qualified stock option awards. The stock option plan has a remaining available share pool of 224,913 and 261,180 shares as of December 31, 2019 and 2018, respectively. The exercise price for the purchase of shares subject to a stock option may not be less than 100 percent of the fair market value of the shares covered by the option on the date of the grant. The term of stock options will not exceed ten years from the date of grant. Options granted are primarily vested evenly over a three-year period from the grant date. Compensation expense recognized related to stock option awards was $68,983 and $48,401 for the years ended December 31, 2019 and 2018, respectively. As of December 31, 2019, unrecognized compensation cost related to stock option awards was $86,167, which is expected to be recognized over a weighted-average life of 1.91 years.

13. EMPLOYEE BENEFITS (Continued)

Stock Option Plan (Continued)

The following table presents share data related to the outstanding option awards:

	Incentive Stock Options		Non-Qualified Stock Options	
	Options Outstanding	Weighted-Average Exercise Price	Options Outstanding	Weighted-Average Exercise Price
Outstanding, January 1, 2018	104,652	$ 19.36	107,026	$ 19.73
Granted	34,900	29.63	2,740	29.63
Exercised	(21,804)	17.75	(16,632)	17.70
Forfeited/Expired	(1,404)	28.52	(204)	22.00
Outstanding, December 31, 2018	116,344	22.63	92,930	20.38
Granted	36,250	31.62	5,580	31.60
Exercised	(19,651)	17.19	(19,896)	17.86
Forfeited/Expired	(4,174)	28.93	(1,389)	26.27
Outstanding, December 31, 2019	128,769	$ 25.79	77,225	$ 21.73
Exercisable at December 31, 2019	68,797	$ 21.56	65,275	$ 20.30

13. EMPLOYEE BENEFITS (Continued)

Stock Option Plan (Continued)

Option awards outstanding and exercisable as of December 31, 2019:

Incentive Stock Options

Expiration Date	Exercise Price	Share Awards Outstanding	Share Awards Exercisable	Remaining Contractual Life (years)
04/01/20	$ 17.06	3,800	3,800	0.25
04/28/21	14.88	1,800	1,800	1.33
04/02/22	15.00	5,200	5,200	2.25
04/01/23	16.63	8,180	8,180	3.25
04/01/24	18.25	4,582	4,582	4.25
09/22/24	19.75	500	500	4.73
04/01/25	19.48	9,568	9,568	5.25
03/30/26	22.00	14,100	14,100	6.25
10/31/26	22.40	1,000	1,000	6.83
12/12/26	22.38	1,000	1,000	6.95
04/03/27	27.00	12,023	8,381	7.26
04/02/28	29.63	31,766	10,686	8.26
03/01/29	32.00	1,500	-	9.17
04/01/29	31.60	33,750	-	9.25
		128,769	68,797	

Non-Qualified Stock Options

Expiration Date	Exercise Price	Share Awards Outstanding	Share Awards Exercisable	Remaining Contractual Life (years)
04/01/20	$ 17.06	3,800	3,800	0.25
04/28/21	14.88	1,800	1,800	1.33
04/02/22	15.00	6,200	6,200	2.25
04/01/23	16.63	8,180	8,180	3.25
04/01/24	18.25	5,182	5,182	4.25
09/22/24	19.75	500	500	4.73
04/01/25	19.48	11,004	11,004	5.25
03/30/26	22.00	15,906	15,906	6.25
10/31/26	22.40	1,000	1,000	6.83
12/12/26	22.38	1,000	1,000	6.95
04/03/27	27.00	14,445	9,905	7.26
04/02/28	29.63	2,628	798	8.26
04/01/29	31.60	5,580	-	9.25
		77,225	65,275	

14. COMMITMENTS

In the normal course of business, there are outstanding commitments and contingent liabilities such as commitments to extend credit, financial guarantees, and letters of credit that are not reflected in the accompanying consolidated financial statements. The Company does not anticipate any losses as a result of these transactions. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Consolidated Balance Sheet.

The contract or notional amounts of those instruments reflect the extent of involvement the Company has in the particular classes of financial instruments that consisted of the following:

	2019	2018
Commitments to extend credit	$ 172,809,626	$ 149,468,932
Standby letters of credit	5,408,070	4,996,216
Total	$ 178,217,696	$ 154,465,148

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. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

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

Lease Commitments

The Company leases office space and real estate for its bank branches with terms ranging from two years to eighteen years. The Company's leases are classified as operating leases, and, therefore, were not recognized on the Company's consolidated balance sheet prior to the adoption of the revised lease standard, ASC 842. With the adoption of ASC 842, operating lease agreements are required to be recognized on the consolidated balance sheet as a right-of-use (ROU) asset and a corresponding lease liability. As of December 31, 2019, a combined ROU asset balance of $4,730,575 related to these operating leases is included Accrued Interest and Other Assets on the consolidated balance sheet, and a combined lease liability of $4,756,436 related to these operating leases is included in Accrued Interest and Other Liabilities on the consolidated balance sheet.

14. **COMMITMENTS (Continued)**

Lease Commitments (Continued)

Maturities of our lease liabilities for all operating leases for each of the next five years and thereafter are as follows:

	Operating Lease Payments
2020	$ 402,876
2021	394,780
2022	387,724
2023	396,799
2024	405,874
Thereafter	4,398,061
Total lease payments	6,386,114
Less: imputed interest	1,629,678
Present value of lease liabilities	$ 4,756,436

The calculated amount of the lease liability in the preceding table is impacted by the length of the lease term and the discount rate used to present value the minimum lease payments. The Company's lease agreement includes one or more options to renew at the Company's discretion. If at lease inception the Company considers the exercising of a renewal option to be reasonably certain, the Company will include the extended term in the calculation of the ROU asset and lease liability. Regarding the discount rate, Topic 842 requires the use of the rate implicit in the lease whenever this rate is readily determinable. As most of our leases do not provide an implicit rate, we use the fully collateralized FHLB borrowing rate, commensurate with the lease terms based on the information available at the lease commencement date in determining the present value of the lease payments.

As of December 31, 2019, our combined operating leases have a weighted-average discount rate of 3.63%, and a weighted-average remaining lease term of 16.2 years.

Contingent Liabilities

The Company from time to time may be a party in various legal actions from the normal course of business activities. Management believes the liability, if any, arising from such actions will not have a material adverse effect on the Company's financial position.

15. **REGULATORY RESTRICTIONS**

Restriction on Cash and Due from Banks

The Bank is required to maintain reserve funds in cash or on deposit with the Federal Reserve Bank. The required reserve at December 31, 2019 and 2018 was $2,832,000 and $3,150,000, respectively.

Loans

Federal law prevents the Company from borrowing from the Bank unless the loans are secured by specific obligations. Further, such secured loans are limited in amount to 10 percent of the Bank's common stock and capital surplus. There were no such borrowings by the Company during 2019 and 2018.

Dividends

The Pennsylvania Banking Code restricts the availability of capital surplus for dividend purposes. At December 31, 2019, the Bank had a capital surplus of $5,723,535 which was not available for distribution to the Company as dividends.

16. **REGULATORY CAPITAL**

Federal regulations require the Company and the Bank to maintain minimum amounts of capital. Specifically, each is required to maintain certain minimum dollar amounts and ratios of Total Tier I and Common Equity Tier 1 capital to risk-weighted assets and of Tier I capital to average total assets.

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

As of December 31, 2019 and 2018, the FDIC categorized the Company and the Bank as well capitalized under the regulatory framework for prompt corrective action. To be classified as a well capitalized financial institution, Total risk-based, Common Equity Tier I, Tier I risk-based, and Tier I leverage capital ratios must be at least 10 percent, 6.50 percent, 8 percent, and 5 percent, respectively.

16. REGULATORY CAPITAL (Continued)

The Company's actual capital ratios are presented in the following table that shows the Company met all regulatory capital requirements:

	2019		2018	
	Amount	Ratio	Amount	Ratio
Total capital				
(to risk-weighted assets)				
Actual	$ 86,899,041	11.86 %	$ 81,649,007	11.95 %
For capital adequacy purposes	58,626,829	8.00	54,674,300	8.00
To be well capitalized	73,283,536	10.00	68,342,875	10.00
Common Equity Tier I				
(to risk-weighted assets)				
Actual	$ 63,910,378	8.72 %	$ 58,785,380	8.60 %
For capital adequacy purposes	32,977,591	4.50	30,754,294	4.50
To be well capitalized	47,634,299	6.50	44,422,869	6.50
Tier I capital				
(to risk-weighted assets)				
Actual	$ 69,910,378	9.54 %	$ 64,693,336	9.47 %
For capital adequacy purposes	43,970,122	6.00	41,005,725	6.00
To be well capitalized	58,626,829	8.00	54,674,300	8.00
Tier I capital				
(to average assets)				
Actual	$ 69,910,378	7.64 %	$ 64,693,336	7.67 %
For capital adequacy purposes	36,607,111	4.00	33,756,857	4.00
To be well capitalized	45,758,888	5.00	42,196,071	5.00

16. REGULATORY CAPITAL (Continued)

The Bank's actual capital ratios are presented in the following table which shows the Bank met all regulatory capital requirements:

	2019		2018	
	Amount	Ratio	Amount	Ratio
Total capital				
(to risk-weighted assets)				
Actual	$ 86,800,059	11.80 %	$ 78,784,431	11.47 %
For capital adequacy purposes	58,853,023	8.00	54,946,308	8.00
To be well capitalized	73,566,278	10.00	68,682,885	10.00
Common Equity Tier I				
(to risk-weighted assets)				
Actual	$ 79,107,396	10.75 %	$ 71,948,760	10.48 %
For capital adequacy purposes	33,104,825	4.50	30,907,298	4.50
To be well capitalized	47,818,081	6.50	44,643,875	6.50
Tier I capital				
(to risk-weighted assets)				
Actual	$ 79,107,396	10.75 %	$ 71,948,760	10.48 %
For capital adequacy purposes	44,139,767	6.00	41,209,731	6.00
To be well capitalized	58,853,023	8.00	54,946,308	8.00
Tier I capital				
(to average assets)				
Actual	$ 79,107,396	8.66 %	$ 71,948,760	8.55 %
For capital adequacy purposes	36,526,539	4.00	27,473,154	4.00
To be well capitalized	45,658,174	5.00	34,341,443	5.00

17. FAIR VALUE MEASUREMENTS

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

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

Level II: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.

Level III: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

17. FAIR VALUE MEASUREMENTS (Continued)

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

The following tables present the assets and liabilities reported on the Consolidated Balance Sheet at their fair value on a recurring basis as of December 31, 2019 and 2018, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	December 31, 2019			
	Level I	Level II	Level III	Total
Assets:				
U.S. treasury securities	$ -	$ 2,007,340	$ -	$ 2,007,340
U.S. government agency securities	-	45,859,212	-	45,859,212
Obligations of states and political subdivisions	-	31,982,589	-	31,982,589
Corporate securities	-	15,554,146	-	15,554,146
Mortgage-backed securities in government-sponsored entities	-	35,777,226	-	35,777,226
Equity securities	1,695,342	-	-	1,695,342
Total	$ 1,695,342	$ 131,180,513	$ -	$ 132,875,855
Liabilities:				
Derivatives	$ -	$ 1,586,179	$ -	$ 1,586,179
Total	$ -	$ 1,586,179	$ -	$ 1,586,179

	December 31, 2018			
	Level I	Level II	Level III	Total
Assets:				
U.S. treasury securities	$ -	$ 6,693,710	$ -	$ 6,693,710
U.S. government agency securities	-	35,771,223	-	35,771,223
Obligations of states and political subdivisions	-	46,175,084	-	46,175,084
Corporate securities	-	19,058,081	-	19,058,081
Mortgage-backed securities in government-sponsored entities	-	17,033,499	-	17,033,499
Equity securities	3,450,017	-	-	3,450,017
Derivatives	-	40,384	-	40,384
Total	$ 3,450,017	$ 124,771,981	$ -	$ 128,221,998

Investment Securities

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

Impaired Loans

The Company has measured impairment on loans 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. In some cases, management may adjust the appraised value due to the age of the appraisal, changes in market conditions, or observable deterioration of the property since the appraisal was completed. Additionally, management makes estimates about expected costs to sell the property which are also included in the net realizable value. If the fair value of the collateral dependent loan is less than the carrying amount of the loan, a specific reserve for the loan is made in the allowance for loan losses, or a charge-off is taken to reduce the loan to the fair value of the collateral (less estimated selling costs) and the loan is included in the table above as a Level III measurement.

Derivatives

Derivative instruments are recorded at fair value based upon commercially reasonable industry and market practices for valuing similar financial instruments. Certain inputs to the credit valuation models may be based on assumptions and best estimates that are not readily observable in the marketplace. Valuations do not reflect trading costs or counterparty charges that could apply if positions are terminated.

Other Real Estate Owned

OREO is carried at the lower of the recorded investment in the property or its fair value less estimated costs of sale. In some cases, management may adjust the appraised value due to age of the appraisal, changes in market conditions, or observable deterioration of the property since the appraisal was completed. The fair value of OREO is based on the appraised value of the property, which is generally unadjusted by management and is based on comparable sales for similar properties in the same geographic region as the subject property, and is included as a Level II measurement. In this case, the property is categorized as Level III measurement, because the adjustment is considered to be an "unobservable" input. Income and expenses from operations and further declines in the fair value of the collateral subsequent to foreclosure are included in net expenses from OREO.

Mortgage Servicing Rights

Mortgage servicing rights are accounted for under the amortization method and are adjusted to the lower of aggregate cost or estimated fair value as appropriate. Fair value is estimated by projecting and discounting future cash flows. Various assumptions including future cash flows, market discount rates, expected prepayment rates, servicing costs, and other factors are used in the valuation of mortgage servicing rights.

17. FAIR VALUE MEASUREMENTS (Continued)

The following tables present the assets measured on a nonrecurring basis on the Consolidated Balance Sheet at their fair value as of December 31, 2019 and 2018, by level within the fair value hierarchy. Impaired loans that are collateral dependent are written down to fair value through the establishment of specific reserves. Techniques used to value the collateral that secure the impaired loans include: quoted market prices for identical assets classified as Level I inputs and observable inputs employed by certified appraisers for similar assets classified as Level II inputs. In cases where valuation techniques included inputs that are unobservable and are based on estimates and assumptions developed by management based on the best information available under each circumstance, the asset valuation is classified as Level III input. Other real estate owned is measured at fair value, less cost to sell at the date of foreclosure. Valuations are periodically performed by management and the assets are carried at the lower of carrying amount, or fair value less cost to sell. The fair value for mortgage servicing rights is estimated by discounting contractual cash flows and adjusting for prepayment estimates. Discount rates are based upon rates generally charged for such loans with similar characteristics.

	December 31, 2019			
	Level I	Level II	Level III	Total
Assets:				
Impaired loans	$ -	$ -	$ 986,637	$ 986,637
Mortgage servicing rights	-	-	297,928	297,928

	December 31, 2018			
	Level I	Level II	Level III	Total
Assets:				
Impaired loans	$ -	$ -	$ 2,445,435	$ 2,445,435
Mortgage servicing rights	-	-	389,222	389,222

17. FAIR VALUE MEASUREMENTS (Continued)

The following tables provide a listing of significant unobservable inputs used in the fair value measurement process for items valued utilizing Level III techniques as of December 31, 2019 and 2018.

	December 31, 2019			
	Fair Value	Valuation Techniques	Unobservable Inputs	Range
Impaired loans	$ 722,573	Discounted Cash Flows	Discount Rate	4.00% - 8.50% discount Weighted Average (5.18%)
Impaired loans	$ 264,065	Property appraisals	Management discount for property type and recent market volatility	15.00% - 100.00% discount Weighted Average (28.93%)
Mortgage servicing rights	$ 297,928	Discounted cash flows	Discount rate	2.68 - 3.28% discount Weighted Average (2.98%)
			Prepayment speeds	1.47 - 2.99 prepayment factor Weighted Average (1.83%)

	December 31, 2018			
	Fair Value	Valuation Techniques	Unobservable Inputs	Range
Impaired loans	$ 1,793,513	Discounted Cash Flows	Discount Rate	4.00% - 6.75% discount Weighted Average (5.40%)
Impaired loans	$ 651,922	Property appraisals	Management discount for property type and recent market volatility	15.00% discount Weighted Average (15.00%)
Mortgage servicing rights	$ 389,222	Discounted cash flows	Discount rate	3.81 - 4.42% discount Weighted Average (4.12%)
			Prepayment speeds	1.09 - 2.20 prepayment factor Weighted Average (1.25%)

18. FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS

The estimated fair values of the Company's financial instruments not required to be measured or reported at fair value at December 31, 2019 and 2018 are as follows:

	2019				
	Carrying Value	Fair Value	Level I	Level II	Level III
Financial assets:					
Investment securities held to maturity	$ 7,250,000	$ 7,378,098	$ -	$ 7,378,098	$ -
Net loans	679,518,794	682,935,106	-	-	682,935,106
Financial liabilities:					
Deposits	$ 710,225,620	$ 711,098,065	$ 430,612,859	$ -	$ 280,485,206
Other borrowings	80,029,248	80,242,399	-	-	80,242,399

For cash and cash equivalents, certificates of deposits, loans held for sale, regulatory stock, bank-owned life insurance, accrued interest receivable, short-term borrowings, and accrued interest payable, the carrying value is a reasonable estimate of fair value.

	2018				
	Carrying Value	Fair Value	Level I	Level II	Level III
Financial assets:					
Investment securities held to maturity	$ 7,000,000	$ 7,095,937	$ -	$ 7,095,937	$ -
Net loans	630,440,136	601,794,275	-	-	601,794,275
Financial liabilities:					
Deposits	$ 682,350,041	$ 680,258,979	$ 424,295,482	$ -	$ 255,963,497
Other borrowings	78,024,955	76,510,385	-	-	76,510,385

For cash and cash equivalents, certificates of deposits, loans held for sale, regulatory stock, bank-owned life insurance, accrued interest receivable, short-term borrowings, and accrued interest payable, the carrying value is a reasonable estimate of fair value.

19. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents the changes in accumulated other comprehensive income (loss) by component net of tax for the year ended December 31, 2019 and 2018:

	Net Unrealized Gains on Investment Securities	Cash Flow Hedges	Total
Accumulated other comprehensive income, January 1, 2018	$ 447,333	$ 62,033	$ 509,366
Other comprehensive loss before reclassification	(1,045,488)	(45,952)	(1,091,440)
Amounts reclassified from accumulated other comprehensive loss	(2,742)	-	(2,742)
Reclassification of certain income tax effects from AOCI	(716,961)	-	(716,961)
Accumulated other comprehensive income (loss), December 31, 2018	$ (1,317,858)	$ 16,081	$ (1,301,777)
Other comprehensive income before reclassification	1,698,566	-	1,698,566
Amounts reclassified from accumulated other comprehensive loss	(127,694)	-	(127,694)
Amounts from change to AOCI related to cash flow hedges	-	(1,283,601)	(1,283,601)
Accumulated other comprehensive income (loss), December 31, 2019	$ 253,014	$ (1,267,520)	$ (1,014,506)

The following table presents significant amounts reclassified out of each component of accumulated other comprehensive income (loss) for the year ended December 31, 2019 and 2018:

	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Consolidated Statement of Income where Net Income is Presented
	$ 161,638	Investment securities gains, net
	(33,944)	Income tax expense
Unrealized gains on investment securities, December 31, 2019	$ 127,694	
	$ 3,471	Investment securities gains, net
	(729)	Income tax expense
Unrealized gains on investment securities, December 31, 2018	$ 2,742	

20. SUBSEQUENT EVENTS

On Friday, February 7, 2020, Kish Agency Inc., a wholly-owned subsidiary of Kish Bank, entered into a definitive agreement to acquire the assets of a local property and casualty insurance agency located in Juniata County. The sale includes the current book of business and fixed assets of the agency. In an associated transaction, Kish Bank has agreed to purchase the real estate where the agency office is located.

Management has reviewed events occurring through March 3, 2020, the date the financial statements were issued, and no additional subsequent events occurred requiring accrual or disclosure.

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Mark J. Cvrkel, Executive Vice President, Chief Financial Officer
Robert S. McMinn, Executive Vice President, General Counsel
Richard A. Sarfert, Executive Vice President, Chief Lending Officer

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4255 East Main Street
Belleville, PA 17004
1-800-981-5474
www.KishBank.com