2020 ANNUAL REPORT

You are why.

We are Kish.

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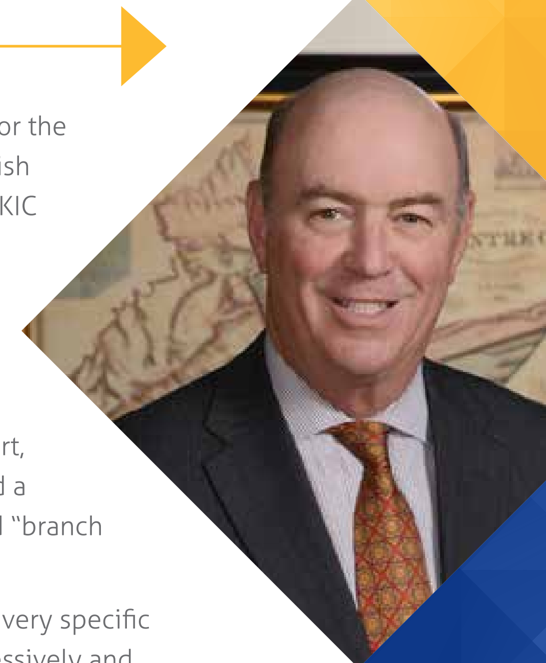
THE STORY OF KISH IN 2020 IS NOT ONE THAT CAN BE SUMMARIZED QUICKLY, ESPECIALLY IF WE ARE TO DO JUSTICE TO THE TEAM'S EXTRAORDINARY PERFORMANCE. THE YEAR WAS A PHENOMENON UNLIKE ANY OTHER, ONE OF WHICH KISH'S INVESTORS, CUSTOMERS, AND COMMUNITIES SHOULD BE FULLY AWARE.

Kish began 2020 with a robust agenda of projects critical to the long-term sustainability of the Corporation. The very aggressive plans for the year included important initiatives that were critical to our continued drive to elevate the Kish experience and advance our goal of touching more lives across our expanding central Pennsylvania market. The implementation of these projects had been under strategic development for years. The years of planning across multiple fronts were coming to fruition and the team's full attention would now shift to execution.

The execution of our vision for "Kish 2020" centered around the conversion of Kish's core processing system to a nimbler platform that would expand our ability to deliver advanced technology solutions and more efficiently support our growing customer base. The core conversion would touch every banking relationship and every element of our banking operation. The second pillar of our vision was the migration to a cloud-based IT architecture which would bring the flexibility and scalability necessary to support future growth. The migration to an Amazon Web Services hosted virtual environment, Office 365, and a cloud-based phone solution would also prove to be critical throughout the pandemic by providing a "work from anywhere" framework. While a separate undertaking, the accompanying work to reimagine Kish's Reedsville campus was also a critical part of the vision. The reconfiguration of the Reedsville Financial Center and branch, coupled with the development of the adjoining lot, would provide for the construction of a visionary new Kish Innovation Center. The Center, or KIC as we now call it, would support our focus on transforming Kish's customer fulfillment through digital technology adoption, data management, information security, client support, enhanced team collaboration, and a streamlined and digitally-enabled "branch of the future" concept.



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

As we entered 2020, we also had very specific objectives for continuing to aggressively and profitably grow the franchise. These included leveraging the growing capacity of the team to deliver across the full range of our banking and non-banking services. In addition to team development, that included recruiting talented new team members to support relationship acquisition and expansion and intensify our focus on serving the Juniata County market, and expansion into Altoona and Blair County.

With our sights clearly set on execution and backed by multiple years of strong financial performance and an expanding economy, we entered 2020 ready to tackle the tasks and opportunities at hand. Then, with little warning and incredible swiftness, COVID-19 descended upon us all. With rapidly mounting evidence of the disease's spread and severity, and against a backdrop of dire predictions, the U.S. economy ground to a halt within a matter of weeks. The COVID-19 Recession had arrived with the same speed and alarming

As all eyes turned first to the nation's healthcare system, and then to the banking system, the Kish team pivoted. And all other priorities were suddenly set aside.

impact as the contagion itself. The Fed and Treasury undertook massive fiscal stimulus initiatives. Rates fell to near zero. As all eyes turned first to the nation's healthcare system, and then to the banking system, the Kish team pivoted. And all other priorities were suddenly set aside.

RESPONSE TO COVID-19

We immediately took steps to safeguard the health of our customers and team members. Branch access was limited to drive-ups and remote delivery. Enabled by previous investments in technology, we quickly moved over 40% of our workforce to remote work status. Other teams could then be physically distanced from each other, thereby reducing the risk of spread that could compromise those teams and the delivery of mission critical services. When normal outside professional services were suspended by the governor's orders, we developed innovative solutions to sustain the delivery of banking services.

SUPPORT FOR HOMEOWNERS

In every area of the company, we became more agile and adaptive. When the regulatory agencies provided us with greater latitude to provide relief to borrowers, the credit administration and lending teams quickly moved forward to implement payment deferral programs to both residential mortgage and commercial customers.
When the Fed reduced interest rates to unprecedented levels, we found ways to sustain the closing of residential mortgages that reduced rates and payments and provided housing solutions to first-time homeowners, even as other market participants suspended all mortgage lending activity. Mortgage lenders, working remotely from their origination support teams, were unflagging in their drive to handle the unprecedented and sustained level of demand. By year end, with more than 800 mortgages closed, most originators were astonished to realize that they had more than doubled their mortgage originations from the record production levels of 2019. Additionally, there was an equal level of requests for mortgage loan modifications that Kish offered in lieu of refinancing. It was a creative solution to support existing mortgage customers that otherwise we would not have been able to support given the extraordinary level of new mortgage demand.

SUPPORT FOR SMALL BUSINESSES

After Treasury announced the Paycheck Protection Program (PPP), providing little in the way of initial guidance, we seized the challenge of this ill-defined program and developed an advanced application portal. As awareness of our application portal and personal attention to applications became more widespread, and local businesses found access when other banks were unable to deliver, word spread quickly. To support the ensuing demand, our credit and lending teams, even retail branch managers, worked around the clock to triage and process requests. In response to the desire for constant communications, we developed a two-way communication channel that allowed borrowers to stay abreast of progress with their application process. As Treasury and the SBA struggled with implementation, we actively engaged in industry discussions at the state and national levels that would help to shape the PPP submission, approval, and funding processes. When the smoke began to clear, we were surprised to discover that, in a few short months, we had received, processed, approved, and funded more than double the commercial loan requests that we had historically handled in a year—all this in addition to the regular lending activity that has kept us growing and active for the last several years.

Todd Erdley
CEO and Founder of Videon, a live streaming video encoder business in State College, and Kish PPP loan recipient

As the year wore on, the team moved through the second phase of PPP and then right into the PPP forgiveness process for the more than 800 relationships that had received PPP loans. Building on established technology relationships, Kish was a leader in providing PPP technology that put our borrowers at the front of the line for SBA consideration every step of the way. By year end, more than half of Kish's 2020 PPP loans had been forgiven, even as the team geared up for the next round of PPP lending.

INSURANCE AGENCY ACQUISITION

Although delayed several times by the coronavirus, the acquisition of Sausman Insurance Agency by Kish Insurance closed in the second quarter of the year and represented the first major insurance acquisition by Kish since the landmark Thompson-Wilson Agency acquisition in 1997. The closing was followed by the assimilation of the Sausman team and then the conversion of their operating core to the Kish Insurance core system. It was all hands on deck for both insurance teams as well as Kish's HR team, and just one of many projects supported by the impressive Kish IT team.

CORE CONVERSION INTO THE TEETH OF A GALE

The conversion to the new CSI core system was a massive undertaking that had been scheduled for May 2020 more than a year in advance so all the resources necessary for a successful conversion could be locked in place. As the pandemic worsened and travel became restricted, and as conversion drew nearer, it became clear that this conversion would need to be conducted virtually, without a single representative of CSI's conversion team on site and most of the Kish team working remotely as well. It would be the first virtual conversion of its size in the country. Our analogy going into conversion was that it would be like changing the engines on the plane while it was in flight. What we did not know in advance was that the CSI pilots and mechanics would be on the ground, talking the Kish conversion team through it.

Following the successful conversion over the weekend of May 15, and after a few challenging weeks that followed, we all could reflect on a high stakes undertaking that represented yet another triumph for the entire Kish team. It was an accomplishment that validated our growing confidence in the "team of teams" approach to executing across multiple, mission-critical fronts simultaneously.

CLOUD MIGRATION AT THE PERFECT TIME

Another critical part of Kish's transformation for the future was the migration to cloud-based IT structure that will support growth and long-term sustainability. In 2019, the

In a few short months, we had received, processed, approved, and funded more than double the commercial loan requests that we had historically handled in a year.

Kish IT team had transitioned our network architecture from a traditional MPLS connection to a much faster, more redundant, and flexible architecture called SDWAN. Beginning in January of 2020, the team started the final phase of our cloud migration for our phone system, the Microsoft Office 365 productivity suite, and a virtual desktop environment hosted in the cloud. Through a partnership with the cloud computing company, Summit Technology Group, Kish rolled out these new systems just in time to support the pandemic response and migration to a virtual work environment. Years of strategy and planning came together very fortuitously to quickly execute the migration while permanently establishing a scalable IT infrastructure that will benefit our clients, our employees, and our shareholders with more efficient, flexible, and faster technology.

REEDSVILLE CAMPUS AND THE KIC

Concurrent with the conversion project, a smaller but intensely focused team was also working hard on the Reedsville campus reformulation and the construction of the new KIC. While work on this critical facilities project was suspended under the governor's order and there were some delays in the delivery of key building components, we were pleased by year end to bring this enormously important and transformative project to fruition with only slight modifications to both budget and the KIC's completion date. The finished building's striking architectural design has already attracted attention far and wide, but the true beauty of the technology-enabled KIC is in its layout and internal systems. The interior space will provide a new working environment for our "team of teams" approach to solving problems, delivering solutions, and supporting our customers. Not only will it house multiple support teams working within the facility, but it will be a point of engagement for multi-disciplinary teams from across the company and across Kish's growing footprint. The KIC will support a new capability to work more effectively, efficiently, and collaboratively to transform how we advance our strategic priorities and support our customers, communities, and team members.

The new **Kish Innovation Center** on the Reedsville campus

Although we regret not being able to share the KIC through in-person tours until the COVID-19 crisis is behind us, the marketing team is developing a virtual tour of the facility with President and COO Greg Hayes. It was his vision for the Reedsville campus and Kish Innovation Center that drove this through to a final plan and that will make this transformational facility central to Kish's growth and expansion for decades to come. Recognition also goes to Facilities and Security Officer, Glenn Snyder, who was relentless in his management of all the various pieces of this complex and multi-phased project. The final execution stages of this facility project benefitted from exceptional support from the IT team to prepare for the switch-over of systems. We also should express our appreciation to Alexander Construction for their effective construction management and coordination of the primarily local sub-contractors. Credit also goes to Fernsler Hutchinson Architecture for their exceptional work in designing a facility reflective of the Kish culture of innovation and collaboration.

GROWTH AND EXPANSION

Finally, there was the focus on the critical priority of expanding our client base and geographic presence. We began the year with a strong focus on our stated goal of expansion into Juniata County. This was augmented by our agreement to acquire Sausman Insurance Agency, which not only provided us with an established base of business, but also with an existing office located just off the Mifflintown exit of Route 322. Following the closing of the transaction and the acquisition of the real estate, we quickly moved to have the office approved as a Limited Purpose Office (LPO) of Kish Bank (no deposits accepted or loans disbursed). Shortly thereafter, we began the selection of a Juniata regional advisory board and dedicated several commercial and mortgage lenders and a financial advisor to the market.

Our attention to market expansion in the Altoona/Blair County market did not lag far behind. In October, we were pleased to announce that Robert Bilger was joining Kish as a senior commercial lender and Market Leader. Bob brings more than 32 years of banking experience to Kish, all of it in the Blair region. Earlier in the year, we were pleased to announce that Ed Henderson had joined Kish as a Wealth and Trust Advisor. Ed is a native of Blair County and had spent the majority of his career as an advisor in that market. Together, Bob and Ed form a great nucleus for the development of an Altoona-based team and we are excited about the potential for growth in that market.

Additionally, we were pleasantly surprised when a northeastern Ohio commercial real estate lending team, with whom we had a longstanding working partnership, called to say they were interested in joining the Kish Bank team. Ken Goetz and Gary Wimer, seasoned bankers and commercial real estate development lenders, came to us following an unpleasant post-merger experience with their former employer. Because of the number of loans we had participated in over the prior five years, we were very familiar with the quality of their work and their borrowers and welcomed the opportunity to bring them on board. In a related development, shortly after year-end, Peter Collins stepped down as Kish's Chief Credit Officer to assume a Senior Portfolio Manager and Commercial Lender role working out of the Hudson, Ohio, office with Ken and Gary. Pete's home and family are in Cleveland, as were many of Pete's prior years of commercial lending experience, so this move made sense for both Kish and Pete. We are now very well-positioned to have this satellite office, for which we recently received regulatory LPO approval, become a meaningful part of our growth strategy going forward.

I am sure all of you are familiar with the circus act of plate spinning where the performer spins multiple plates simultaneously balanced on thin poles. It will not surprise you that this analogy has come to mind frequently as I have been writing this letter. The miraculous performance of the versatile and multi-talented Kish team was very akin to plate spinning on a massive scale. Amazingly, not a single plate was dropped. It will be a performance that goes down in the annals of Kish lore and in the stories told by our clients for many years to come.

The KIC will support a new capability to work more effectively, efficiently, and collaboratively.

Our long-term strategic focus of developing residential mortgage lending as a linchpin relationship acquisition tool has been an overwhelming success.

I will close with the final chapter in the amazing story of 2020, one in which our shareholders will have added interest. In addition to producing life-sustaining solutions for our customers, communities, and fellow team members, the extraordinary work of this team also generated exceptional results for Kish shareholders. I will simply preface by saying that 2020 was a remarkable year for performance in almost every respect, and clearly differentiated Kish from its peers.

FINANCIAL RESULTS

Unprecedented activity in almost every area of the company produced unprecedented revenue expansion in almost every area of the company. The bottom line was that net income for the year reached $8.04 million, an increase of $1.03 million, or 14.72%, compared to $7.01 million for the year ended 2019. Fully diluted earnings per share increased to $3.12 per share from $2.70 per share in 2019, up 15.60%. The increases reflect expansion in both net interest income, up 12.52% over the prior year, and noninterest income, which increased 19.07% overall.

The strong growth in net interest income to $31.1 million in 2020, an increase of $3.6 million, or 12.52%, compared to $27.5 million in 2019, was delivered because of several key contributors. Interest income benefitted from rising loan activity, net of PPP activity, with total loans closing the year up $78.7 million, or 11.46%, at $765.7 million. Net interest income, including fees from PPP lending, was more than sufficient to offset contributions to the loan loss reserve from earnings of $2.3 million in 2020, compared to $390 thousand in 2019.

Despite the dramatic fall in interest rates created by the COVID-19 Recession, balance sheet management strategies coupled with a dramatic rise in core deposits were more than sufficient to fund rising loan demand, thereby preserving the bank's net interest margin with only a modest decline of 9 basis points versus a 35 basis point decline for the bank's peers. Deposits finished the year up by $167.6 million to $877.8 million, an increase of 23.59% from $710.2 million a year ago, with a continued notable expansion in core deposits.

The expansion in noninterest income was equally impressive. Most notable was the more than 100% growth in fee income from the sale of residential mortgage loans to the secondary market, which increased to $2.4 million from $1.2 million in 2019. It was truly a blowout year for the Kish residential mortgage lenders and underwriters, as well as our mortgage unit leader, Deb Weikel. Our long-term strategic focus of developing residential mortgage lending as a linchpin relationship acquisition tool has been an overwhelming success as preparation met with opportunity over the past several years.

Other centers of noninterest income generation are evident from the income statement. The insurance agency, which achieved 10% internal revenue growth, was augmented by the addition of Sausman Insurance Agency. Consequently, insurance agency income grew to $2.2 million from $1.3 a year ago. The bank's interest in significant agency acquisition opportunities remains high.

Despite the incredible volatility in financial markets, the performance of the wealth management unit delivered impressive results of an 8.4% increase in revenues from 2019. Both the licensed advisory unit and the trust unit were successful in generating positive results for the year, with revenue increasing to $1.78 million from $1.64 million.

Several units hit hardest by the COVID shutdown were the employee benefits consulting group and the travel group. Benefits consulting achieved positive results given that many relationships under development chose not to move due to the uncertainties of the environment. Nevertheless, earnings for benefits consulting rose modestly higher to $599 thousand from $585 thousand in 2019. Travel quite expectedly experienced steep declines as revenues dropped to $88 thousand from $371 thousand the year prior. We expect pent-up demand for both employee benefits consulting and travel to rebound as COVID subsides later this year.

Noninterest expense was generally in line with the expansion of business activity, but also reflected the investment Kish is making in the future. While most conversion costs were covered in prior periods, there were some non-recurring consultancy costs incurred during the year, as well as some significant overtime cost related to the conversion. Of significant comparison was the rise in FDIC insurance costs, reflecting the 2019 credit from prior period events related to the funding of large non-banks choosing the bank charter and the benefits of FDIC insurance. Otherwise, most areas of expense were well-controlled in 2020.

CONCLUSION BUT NOT AN END

The extraordinary team at Kish responded to every challenge that came their way during the most challenging year in our history. Never once did I hear "no way" or "we can't," only, "we can find a way" and "we will get it done." As shareholders, I hope you are as proud as I am of the positive impact the Kish team had on the region we serve. As our reach expands and Kish's business model attracts new clients and new partners, we will continue to trust in the capacity of this team to deliver for our customers, communities, and, ultimately, for you, our shareholders. Thank you for your loyalty and support. Please stay safe and well.

Sincerely,

William P. Hayes

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

Sausman Insurance Agency, a division of Kish

At Kish, it's not about what we do, it's about **why we do it.**

Our "why" is the driving force behind everything: we believe in our hearts that we can make the lives of those around us—our employees, our clients, and our communities—better. Our team members act on this belief every day. We know we're making a difference because we hear the stories from our customers and our communities, and we celebrate their successes alongside them. Here are stories of people like you who started out with a vision and chose Kish to be their partner. We're honored to be part of their journey.

DUMOR, INC. – MIFFLINTOWN

DuMor, Inc., in Mifflintown, started 37 years ago with two friends who discovered a need for high quality, custom outdoor commercial and public site furnishings. Dick Rudy and Don Saner, the company's founders and only two employees, began operations in a newly constructed 4,800 square foot manufacturing facility with just a few designs for wood benches, trash receptacles, park grills, and a picnic table. Their steadfast commitment to quality and exceptional customer service propelled them to become one of the leading names in the site furnishings industry internationally, with 70 employees operating in an 85,000 square foot facility. They now offer over 78 bench designs, 35 receptacle designs, 23 table designs, and many more custom furnishings made out of a variety of materials. DuMor products are placed domestically and internationally in many types of venues. In Pennsylvania, the company's creations can be seen in places like Hersheypark, Penn State University, and the City of Pittsburgh, and in other states like in the City of Boston and Walt Disney World. Their unwavering focus on their core values remains strong today with the family's second and third generation management.

"My family has always worked with Kish Bank. They're a small, hometown bank with the capabilities and resources of a much larger bank, so it's really the best of both worlds. They have great customer service, and you are dealing with people that you know and trust. We will be staying with Kish Bank."

Anita Rudy
President, DuMor, Inc.

JOHN R. WALD COMPANY – HUNTINGDON

Nearly 100 years ago, John R. Wald—a visionary, engineer, and businessperson—had the idea to design equipment that would automate the production of license plates. The company he established would employ community members to manufacture production lines for correctional industries, while, at the same time, helping with prisoner rehabilitation by providing meaningful jobs for inmates. Today, the John R. Wald Company not only builds license plate digital printing and production lines, but they also make and sell license plates to jurisdictions that would rather buy them from private companies. The company has engaged Kish Bank on key projects to modernize production facilities and to introduce products to better serve their customers, such as a powerful new digital color license plate printing system.

"Kish has done a wonderful job of maintaining a focus on our business needs and working to deliver creative solutions so that we can continue to make this business successful. Like Wald itself, Kish is rooted in the community and cares about people. They're just as interested as we are in making the company successful, because they know when a company is successful, the people are successful ... and they will bring good things to the community."

Eric Pizzuti
CEO, John R. Wald Company

FOXPRO, INC. – LEWISTOWN

FOXPRO, Inc. began in the basement of Mike Dillon's parents' home with his father's determination to create a portable electronic predator calling device for his sons to take into the woods. 25 years later, FOXPRO, Inc. now is the number one predator calling manufacturer and distributor in the world, with 70 employees working from a 50,000 square foot facility.

"We're a very successful Mifflin County based business with what is today an expanding global reach. Being able to work with a local bank like Kish that is growing like us and reinvesting in our community is a great fit. They make it easy for us as we continue to focus on growth, knowing we can rely on the Kish team for the best advice available for our banking and financial needs."

Mike Dillon
General Manager, FOXPRO, Inc.

GIV LOCAL – STATE COLLEGE

A passion for giving back, a background in banking, and entrepreneurial creativity inspired three State College area friends to design a unique business model that allows local non-profits to benefit from credit card swipes. Kish customers Shizuka Buckley, along with her husband Sam and friend Christian Baum, recognized that while many small business owners want to give back, they don't have the means to donate from their bottom line. The three founded Giv Local in 2018 to connect businesses and non-profits and put money back into the community. When a business selects Giv Local for their credit card processing services, Giv Local seamlessly donates 20% of the standard processing fees to a verified non-profit of that business's choice. With typical merchant services providers, those fees would go to a large processing company or bank. Fitting with Kish Bank's commitment to community alignment, Kish switched its merchant services for business customers from a large national provider to Giv Local.

"I give kudos to Kish because they saw outside the box and rallied behind us. Kish saw what we had created and bought into our vision to enable businesses and their merchant services customers to make an impact in their communities. It's very heartwarming to know that we're part of that, and there's no better feeling. Actually, there is one better feeling—being able to issue the checks to the non-profits. Kish Bank and Giv Local share in underwriting the cost of the charitable contributions."

Shizuka Buckley
Charity Sorceress, Giv Local

STRAWBERRY FIELDS, INC. – STATE COLLEGE

Strawberry Fields was founded out of love for children with intellectual disabilities on a farm in Yarnell, PA, in 1972. The founders had a dream of a time when people with disabilities would be accepted and recognized for their unique contributions to our community. Today, they have grown from that farm to an organization that offers a continuum of services, enhancing the lives of individuals and families with developmental delays, intellectual disabilities, and mental illness. With Kish's help, they have opened two stores where they employ individuals with disabilities and mental illness, providing them with a greater sense of purpose and accomplishment.

"Kish Bank and Strawberry Fields share a common mission—to improve the lives of the people we serve. There is no better example of Kish's focus on us than when the pandemic first struck. We really had no idea how we were going to continue to operate our stores and keep our group residences safe and open. Kish Bank, on the other hand, was a step ahead of us. They put together a team very quickly that helped us get one of the first PPP loans. The PPP loan enabled us to keep our staff working and stores open prior to the mandated shutdown. We never had any doubt that moving to Kish Bank was the right decision, but during the pandemic, it was absolutely a blessing that they were there for us. There are no doubts that our relationship was meant to be."

Cindy Pasquinelli
CEO, Strawberry Fields, Inc.

Watch videos of more customer stories on Kish Bank's YouTube channel:

https://bit.ly/38zxake

FOR THE YEAR	2020	2019	2018	2017	2016
Net Income	$ 8,039,287	$ 7,006,914	$ 6,029,683	$ 4,139,770	$ 4,616,894
Net Income Before Taxes	9,278,885	7,903,452	6,670,247	5,141,399	5,254,277
Total Dividends Declared	2,804,385	2,585,445	2,396,453	2,301,564	2,130,197
AT YEAR END (in $000s)					
Total Assets	$ 1,106,609	$ 918,309	$ 850,508	$ 811,192	$ 725,071
Total Loans (Net)	755,960	679,519	630,440	569,010	488,588
Total Deposits	877,796	710,226	682,350	653,687	561,928
Stockholders' Equity	69,962	64,352	59,728	56,339	53,593
Loan Loss Reserve	9,771	7,499	6,642	5,698	6,011
Net Loan Losses (Recoveries)	(4)	(467)	10	913	271
RATIO ANALYSIS					
Return on Average Assets*	0.79%	0.79%	0.72%	0.54%	0.65%
Return on Average Equity*	12.90%	11.56%	10.71%	7.45%	8.54%
Dividend Declared/Net Income	34.88%	36.90%	39.74%	55.60%	46.14%
Loans/Deposits	86.12%	95.68%	92.39%	87.05%	86.95%
Primary Capital/Total Assets	7.21%	7.82%	7.80%	7.65%	8.22%
Total Capital/Risk Weighted Assets	12.32%	11.86%	11.95%	11.65%	13.10%
Loan Loss Reserve/Loans	1.28%	1.09%	1.04%	0.99%	1.22%
Net Loan Losses to Total Loans (Net)	0.00%	-0.07%	0.00%	0.17%	0.06%
PER SHARE DATA**					
Basic Earnings	$ 3.20	$ 2.80	$ 2.44	$ 1.69	$ 1.90
Fully Diluted Earnings	3.12	2.70	2.35	1.67	1.89
Dividends Paid	1.08	1.00	0.94	0.92	0.86
Equity (Book Value)	26.93	24.90	23.41	22.50	21.63
Equity Plus Loan Loss Reserve	30.69	27.80	26.01	24.77	24.06
Average Shares Outstanding (#)	2,597,978	2,499,536	2,499,673	2,459,168	2,430,134

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 2016 and 2017 have been adjusted to reflect the two-for-one stock split in 2018.

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, 2020 and 2019; 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, 2020 and 2019, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

S. R. Snodgrass, P.C.

Cranberry Township, Pennsylvania
March 12, 2021

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

	December 31, 2020	December 31, 2019
ASSETS		
Cash and due from banks	$ 12,442,465	$ 6,878,336
Interest-bearing deposits with other institutions	117,223,023	29,331,755
Cash and cash equivalents	129,665,488	36,210,091
Certificates of deposit in other financial institutions	490,000	1,474,000
Investment Securities available for sale, at fair value	128,037,046	131,180,513
Investment Securities held to maturity, fair value of $11,158,435 and $7,378,098	11,023,499	7,250,000
Equity Securities	2,132,287	1,695,342
Loans held for sale	5,666,999	3,464,876
Loans	765,730,956	687,018,196
Less allowance for loan losses	9,770,563	7,499,402
Net loans	755,960,393	679,518,794
Premises and equipment, net	24,268,706	15,635,486
Goodwill	3,560,942	1,843,699
Regulatory stock	6,875,100	6,915,000
Bank-owned life insurance	16,236,506	15,830,426
Accrued interest and other assets	22,692,322	17,290,797
TOTAL ASSETS	$ 1,106,609,288	$ 918,309,024
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 135,621,817	$ 99,838,645
Interest-bearing demand	70,550,356	13,496,720
Savings	91,167,858	69,073,873
Money market	328,846,611	248,203,646
Time	251,609,787	279,612,736
Total deposits	877,796,429	710,225,620
Short-term borrowings	69,360,211	46,740,021
Other borrowings	64,656,810	80,029,248
Accrued interest and other liabilities	24,833,601	16,961,740
TOTAL LIABILITIES	1,036,647,051	853,956,629
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; 2,603,040 and 2,583,294 shares outstanding at December 31, 2020 and 2019, respectively	1,348,750	1,348,750
Additional paid-in capital	2,703,924	2,494,671
Retained earnings	69,539,219	64,304,317
Accumulated other comprehensive loss	(1,009,136)	(1,014,506)
Treasury stock, at cost (94,460 and 114,206 shares at December 31, 2020 and 2019, respectively)	(2,620,520)	(2,780,837)
TOTAL STOCKHOLDERS' EQUITY	69,962,237	64,352,395
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,106,609,288	$ 918,309,024

See accompanying notes to consolidated financial statements.

	Year Ended December 31, 2020	Year Ended December 31, 2019
INTEREST AND DIVIDEND INCOME		
Interest and fees on loans:		
Taxable	$ 33,850,246	$ 32,146,548
Exempt from federal income tax	1,309,814	1,230,229
Interest and dividends on investment securities:		
Taxable	2,880,753	2,605,465
Exempt from federal income tax	436,694	824,667
Interest-bearing deposits with other institutions	206,080	645,350
Other dividend income	769,576	644,456
Total interest and dividend income	39,453,163	38,096,715
INTEREST EXPENSE		
Deposits	5,321,683	7,480,980
Short-term borrowings	84,843	68,749
Other borrowings	2,938,290	3,009,361
Total interest expense	8,344,816	10,559,090
NET INTEREST INCOME	31,108,347	27,537,625
Provision for loan losses	2,267,500	390,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	28,840,847	27,147,625
NONINTEREST INCOME		
Service fees on deposit accounts	1,580,854	1,678,651
Investment securities gains, net	80,903	161,638
Equity securities gains (losses), net	(313,055)	232,874
Gain on sale of loans	2,424,082	1,171,428
Earnings on bank-owned life insurance	485,614	473,054
Insurance commissions	2,173,549	1,253,906
Travel agency commissions	87,837	371,349
Wealth management	1,780,460	1,642,592
Benefit management	598,997	584,926
Other	1,223,451	931,434
Total noninterest income	10,122,692	8,501,852
NONINTEREST EXPENSE		
Salaries and employee benefits	17,983,683	16,533,267
Occupancy and equipment	3,055,611	3,112,385
Data processing	2,167,218	2,519,299
Professional fees	572,625	523,490
Advertising	398,380	263,780
Federal deposit insurance	500,000	207,871
Pennsylvania shares tax	664,625	627,977
Other	4,342,512	3,957,956
Total noninterest expense	29,684,654	27,746,025
Income before income taxes	9,278,885	7,903,452
Income tax expense	1,239,598	896,538
NET INCOME	$ 8,039,287	$ 7,006,914
EARNINGS PER SHARE		
Basic	$ 3.20	$ 2.80
Diluted	$ 3.12	$ 2.70

See accompanying notes to consolidated financial statements.

	Year Ended December 31, 2020	Year Ended December 31, 2019
Net income	$ 8,039,287	$ 7,006,914
Other comprehensive income		
Securities available for sale:		
Change in unrealized holding gains on available for sale securities	3,133,307	2,150,086
Tax effect	(657,993)	(451,520)
Change in comprehensive income related to cash flow hedges	(3,045,609)	(1,624,812)
Tax effect	639,578	341,211
Reclassification adjustment for net investment securities gains realized in net income	(80,903)	(161,638)
Tax effect	16,990	33,944
Total other comprehensive income	5,370	287,271
Total comprehensive income	$ 8,044,657	$ 7,294,185

See accompanying notes to consolidated financial statements.

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
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-based 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 unearned 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
Net income			8,039,287			8,039,287
Other comprehensive income				5,370		5,370
Stock option compensation expense		88,528				88,528
Purchase of shares by restricted stock plan (18,458 shares)		(374,535)			374,535	-
Exercise of stock options (19,026 shares)		(184,042)				(184,042)
Forfeiture of shares by restricted stock plan (215 shares)		6,279			(6,279)	-
Amortization of restricted stock plan shares		518,842				518,842
Cash dividends ($1.08 per share)			(2,804,385)			(2,804,385)
Purchase of treasury stock (27,656 shares)					(753,388)	(753,388)
Sale of treasury stock (29,159 shares)		154,181			545,449	699,630
Balance, December 31, 2020	$ 1,348,750	$ 2,703,924	$ 69,539,219	$ (1,009,136)	$ (2,620,520)	$ 69,962,237

See accompanying notes to consolidated financial statements.

	Year Ended December 31, 2020	2019
OPERATING ACTIVITIES		
Net income	$ 8,039,287	$ 7,006,914
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,267,500	390,000
Investment securities gains, net	(80,903)	(161,638)
Equity security (gains) losses	313,055	(232,874)
Proceeds from sale of loans held for sale	51,499,353	44,070,616
Origination of loans held for sale	(51,277,394)	(46,207,499)
Gain on sales of loans	(2,424,082)	(1,171,428)
Depreciation, amortization, and accretion	1,264,142	1,210,994
Deferred income taxes	(666,073)	(314,366)
Decrease (increase) in accrued interest receivable	(198,448)	51,779
(Decrease) increase in accrued interest payable	(512,129)	247,948
Earnings on bank-owned life insurance	(485,614)	(473,054)
Gain on sale of other assets	-	(6,335)
Non-cash compensation - equity awards	607,370	393,071
Other, net	(837,756)	1,411,654
Net cash provided by operating activities	7,508,308	6,215,782
INVESTING ACTIVITIES		
Maturities of certificates of deposit	984,000	1,646,000
Investment securities available for sale:		
Proceeds from sale of investments	-	9,694,054
Proceeds from repayments and maturities	62,650,078	30,612,964
Purchases	(60,320,838)	(44,731,980)
Investment held to maturity:		
Purchases	-	(250,000)
Equity securities:		
Proceeds from sale of securities	-	1,987,549
Purchases	(750,000)	-
Increase in loans, net	(78,709,100)	(49,504,658)
Purchase of regulatory stock	(1,025,400)	(1,404,700)
Redemption of regulatory stock	1,065,300	600,400
Purchase of premises and equipment	(9,723,327)	(2,532,174)
Proceeds from sale of other real estate owned	-	35,918
Net cash used for investing activities	(85,829,287)	(53,846,627)
FINANCING ACTIVITIES		
Increase in deposits, net	167,570,809	27,875,579
Increase in short-term borrowings, net	22,620,190	24,255,852
Proceeds from other borrowings	1,824,236	6,589,000
Repayments of other borrowings	(17,196,674)	(4,584,707)
Purchases of treasury stock	(753,388)	(853,543)
Proceeds from sale of treasury stock	699,630	709,265
Exercise of stock options	(184,042)	(333,843)
Cash dividends	(2,804,385)	(2,585,445)
Net cash provided by financing activities	171,776,376	51,072,158
Increase in cash and cash equivalents	93,455,397	3,441,313
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	36,210,091	32,768,778
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 129,665,488	$ 36,210,091
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest on deposits and borrowings	$ 9,003,543	$ 10,311,142
Income taxes	1,950,000	-
SUPPLEMENTAL DISCLOSURE OF NON-CASH CASH FLOW INFORMATION		
Real estate acquired in settlement of loans	$ -	$ 36,000
Right of use assets and lease liability	149,739	4,989,184

See accompanying 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.

Risks and Uncertainties

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

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, 2020 and 2019. Interest and dividends on investment securities is recognized as income when earned.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 noninterest 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Options

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)
2020	3.94 %	0.47 %	25.91 %	6.0
2019	3.04 %	2.50 %	9.47 %	10.0

The weighted-average fair value of each stock option granted for 2020 and 2019 was $3.63 and $2.24, respectively.

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, 2020 and 2019, the Company recorded gross servicing rights of $426,527 and $485,562, respectively, with a reserve for impairment of $226,221 and $187,634, respectively.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 ASC 606, 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.

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.

	2020	2019
Weighted-average common shares issued	2,697,500	2,697,500
Weighted-average treasury stock shares	(99,522)	(112,861)
Weighted-average unvested restricted stock awards	(82,595)	(85,103)
Basic weighted-average shares outstanding	2,515,383	2,499,536
Dilutive effect of outstanding restricted stock awards	37,365	44,138
Dilutive effect of outstanding stock options	23,407	49,605
Diluted weighted-average shares outstanding	2,576,155	2,593,279

For the year ended December 31, 2020, the Company has excluded from the computation of diluted weighted-average shares the impact of 114,021 options to purchase shares of the Company's common stock and 850 shares of restricted stock, as the effect would have been anti-dilutive.

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.

3. INVESTMENT SECURITIES

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

	2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale:				
U.S. treasury securities	$ 2,006,566	$ 37,974	$ -	$ 2,044,540
U.S. government agency securities	26,216,418	652,364	(9,135)	26,859,647
Obligations of states and political subdivisions	44,701,805	1,187,094	(84,068)	45,804,831
Corporate securities	13,209,467	282,784	(505)	13,491,746
Mortgage-backed securities in government-sponsored entities	38,545,580	1,339,953	(49,251)	39,836,282
Total Available for Sale	$ 124,679,836	$ 3,500,169	$ (142,959)	$ 128,037,046
Held to Maturity:				
Corporate Securities	$ 11,023,499	$ 145,127	$ (10,191)	$ 11,158,435

	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

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, 2020 and 2019.

2020	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available for Sale:						
U.S. government agency securities	$ 6,152,860	$ (9,135)	$ -	$ -	$ 6,152,860	$ (9,135)
Obligations of states and political subdivisions	6,211,972	(84,068)	-	-	6,211,972	(84,068)
Corporate securities	499,495	(505)	-	-	499,495	(505)
Mortgage-backed securities in government-sponsored entities	1,970,833	(49,251)	-	-	1,970,833	(49,251)
Total Available for Sale	$ 14,835,160	$ (142,959)	$ -	$ -	$ 14,835,160	$ (142,959)
Held to Maturity:						
Corporate Securities	$ 3,763,308	$ (10,191)	$ -	$ -	$ 3,763,308	$ (10,191)

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
Available for Sale:						
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)	1,463,330	(13,818)	1,988,625	(28,202)
Mortgage-backed securities in government-sponsored entities	16,984,833	(245,244)	836,110	(3,790)	17,820,943	(249,034)
Total Available for Sale	$ 37,016,295	$ (410,924)	$ 7,249,789	$ (27,798)	$ 44,266,084	$ (438,722)
Held to Maturity:						
Corporate Securities	$ -	$ -	$ 738,315	$ (11,685)	$ 738,315	$ (11,685)

The Company had 20 investment securities, consisting of 4 U.S. government obligations and direct obligations of U.S. government agencies, 9 obligations of states and political subdivisions, 6 different corporate securities, and 1 mortgage-backed security that were in unrealized loss positions at December 31, 2020. 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, 2020.

3. **INVESTMENT SECURITIES (Continued)**

The amortized cost and fair value of debt securities at December 31, 2020, 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	$ 7,831,140	$ 7,900,475	$ -	$ -
Due after one year through five years	39,776,640	40,933,975	1,750,000	1,749,982
Due after five years through ten years	26,298,890	27,103,524	9,273,499	9,408,453
Due after ten years	50,773,066	52,099,072	-	-
Total	$ 124,679,736	$ 128,037,046	$ 11,023,499	$ 11,158,435

Investment securities with a carrying value of $112,227,920 and $110,586,946 at December 31, 2020 and 2019, 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 and calls of investment securities available for sale for the years ended December 31:

	2020	2019
Proceeds from sales	$ -	$ 9,694,054
Proceeds from calls	17,384,109	6,607,143
Gross gains	80,903	162,275
Gross losses	-	(637)

Equity Securities

The Company recognized changes in fair value of equity securities in net equity securities gains (losses). The following is a summary of unrealized and realized gains and losses recognized in net income on equity securities during the years ended December 31, 2020 and December 31, 2019:

	2020	2019
Net gains (losses) recognized in equity securities during the year	$ (313,055)	$ 232,874
Less: Net gains realized on sale of equity securities during the year	-	230,053
Unrealized gains (losses) recognized in equity securities	$ (313,055)	$ 2,821

4. LOANS

Major classifications of loans are summarized as follows at December 31:

	2020	2019
Commercial real estate	$ 291,727,044	$ 249,990,170
Commercial and industrial	126,181,773	100,376,943
Agricultural	27,608,446	30,829,832
State and political subdivisions	41,967,923	36,726,830
Consumer	5,628,425	6,909,273
Residential real estate	272,617,345	262,185,148
	765,730,956	687,018,196
Less allowance for loan losses	9,770,563	7,499,402
Net loans	$ 755,960,393	$ 679,518,794

Mortgage loans serviced by the Company for others amounted to $43,354,290 and $49,164,176 at December 31, 2020 and 2019, 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, 2020 and 2019, a substantial portion of its debtors' ability to honor their loan agreements is dependent upon the economic stability of its immediate trade area.

Paycheck Protection Program

During 2020 the Company participated in the Paycheck Protection Program ("PPP"), administered directly by the U.S. SBA. The PPP provides loans to small businesses who were affected by economic conditions as a result of COVID-19 to provide cash-flow assistance to employers who maintain their payroll (including healthcare and certain related expenses), mortgage interest, rent, leases, utilities and interest on existing debt during the COVID-19 emergency. As of December 31, 2020, the Company had outstanding PPP loan principal balances of $43,367,158. The loans are fully guaranteed by the SBA and may be eligible for forgiveness by the SBA to the extent that the proceeds are used to cover eligible payroll costs, interest costs, rent, and utility costs over a period of up to 24 weeks after the loan is made as long as certain conditions are met regarding employee retention and compensation levels. PPP loans deemed eligible for forgiveness by the SBA will be repaid by the SBA to the Company. PPP loans are included in the Commercial and Industrial category.

In accordance with the SBA terms and conditions on these PPP loans, the Company received approximately $3.2 million in fees associated with the processing of these loans. Upon funding of the loans, these fees were deferred and amortized as earned as adjustments to yield in accordance with FASB ASC 310-20-25-2. Deferred PPP fees of $827,099 are included in loans receivable at December 31, 2020.

COVID-19 Loan Forbearance Programs

Section 4013 of the CARES Act provides that banks may elect not to categorize a loan modification as a TDR if the loan modification is (1) related to COVID-19; (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020, and the earlier of (A) 60 days after the date on which the national emergency concerning the novel coronavirus disease (COVID–19) outbreak declared by the President on March 13, 2020, under the National Emergencies Act terminates, or (B) December 31, 2020.

4. LOANS (Continued)

COVID-19 Loan Forbearance Programs (Continued)

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

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

During 2020, our customers requested loan payment deferrals or payments of interest only on 271 loans with balances totaling approximately $121.0 million. As of December 31, 2020, 37 loans remain in deferral status, with outstanding balances totaling approximately $28.2 million. In accordance with Section 4013 of the CARES Act and the interagency guidance issued on April 7, 2020, these short-term deferrals are not considered troubled debt restructurings.

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

Loans to Officers and Directors

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, 20120 and 2019, is as follows:

Balance 2018	Additions	Amounts Collected	Balance 2019	Additions	Amounts Collected	Balance 2020
$ 17,036,261	$ 7,790,420	$ (6,129,819)	$ 18,696,862	$ 3,392,844	$ (13,568,549)	$ 8,521,157

Loan amounts collected during 2020 includes $10,649,715 for six loans to an individual who is no longer a director as of December 31, 2020.

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.

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 2020, the emergence of the novel coronavirus ("COVID-19") pandemic caused significant disruption to local and national economies, with adverse effects evident across a wide range of industries, including banking and financial services. Management considered the broad potential effects and financial uncertainties posed by the COVID-19 environment when assessing the qualitative factors used in evaluating risk exposures within our loan pools. In response, during the second quarter of 2020 management increased the qualitative factor related to "changes in economic and business conditions" across all loan pools other than our loan pool representing loans to state and political subdivisions. The largest factor increases were applied to the commercial real estate loan pool, reflecting the downturn already evident in hotel and restaurant business. Factor increases were applied to the commercial real estate loan pool as well as the commercial and industrial loan pool as local unemployment rates began to show substantial increases, and in consideration of the loans collateralized by assets of borrowers in the hospitality and real estate businesses, among others. Additionally, due to the wide-ranging economic uncertainties resulting from the current COVID-19 environment, management determined a general increase in loss reserves across the entire loan portfolio was appropriate. The additional reserves will continue to be evaluated and allocated with respect to the specific loan pools as the economic impacts by loan types becomes more apparent.

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.

5. ALLOWANCE FOR LOAN LOSSES (Continued)

Repayment of agricultural loans can also be impacted by fluctuations in commodity prices. 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.

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:

	2020							
	Commercial Real Estate	Commercial and Industrial	Agricultural	State and Political Subdivisions	Consumer	Residential Real Estate	Unallocated	Total
Allowance for loan losses:								
Beginning balance	$ 2,753,352	$ 1,434,140	$ 517,523	$ 167,108	$ 71,358	$ 1,684,940	$ 870,981	$ 7,499,402
Charge-offs	-	(5,236)	-	-	(20,531)	-	-	(25,767)
Recoveries	2,640	11,000	-	-	10,455	5,333	-	29,428
Provision	1,544,922	(276,343)	(196,729)	23,846	(4,128)	181,015	994,917	2,267,500
Ending balance	$ 4,300,914	$ 1,163,561	$ 320,794	$ 190,954	$ 57,154	$ 1,871,288	$ 1,865,898	$ 9,770,563
Ending balance individually evaluated for impairment	$ 25,378	$ 38,546	$ 50,056	$ -	$ 2,742	$ 36,803	$ -	$ 153,525
Ending balance collectively evaluated for impairment	4,275,536	1,125,015	270,738	190,954	54,412	1,834,485	1,865,898	9,617,038
	$ 4,300,914	$ 1,163,561	$ 320,794	$ 190,954	$ 57,154	$ 1,871,288	$ 1,865,898	$ 9,770,563
Loans:								
Individually evaluated for impairment	$ 307,637	$ 193,672	$ 313,444	$ -	$ 2,742	$ 658,170		$ 1,475,665
Collectively evaluated for impairment	291,419,407	125,988,101	27,295,002	41,967,923	5,625,683	271,959,175		764,255,291
Ending balance	$ 291,727,044	$ 126,181,773	$ 27,608,446	$ 41,967,923	$ 5,628,425	$ 272,617,345		$ 765,730,956

5. ALLOWANCE FOR LOAN LOSSES (Continued)

	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

From 2019 to 2020, our reserve requirement by loan pool for Commercial Real Estate and Residential Real Estate increased by approximately $1.5 million and $0.2 million, respectively, due to increases in outstanding loan balances combined with managements' decision to increases certain qualitative factors in response to economic conditions evolving from the COVID-19 environment. Reserves for Agricultural loans decreased by approximately $0.2 million, a net effect of decreased outstanding loan balances and an increase applied to qualitative factors. Reserves for Commercial and Industrial loans decreased overall during 2020 by approximately $0.3 million, a net effect of decreased balances of loans within the pool other than PPP loans, and an increase applied to qualitative factors. The loan pool for Commercial and Industrial includes outstanding PPP loans of approximately $43.4 million at December 31, 2020, for which the qualitative risk factors used for calculating reserves are substantially lower due to the unique loan principal forgiveness and SBA loan guarantee features of the PPP loan program.

Credit Quality Information

The following tables represent the commercial credit exposures by internally-assigned grades for the years ended December 31, 2020 and 2019, 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.

	2020				
	Commercial Real Estate	Commercial and Industrial	Agricultural	State and Political Subdivisions	Total
Pass	$ 285,972,827	$ 122,513,801	$ 27,133,299	$ 41,967,923	$ 477,587,850
Special Mention	1,553,853	1,422,587	-	-	2,976,440
Substandard	4,182,555	2,082,635	377,000	-	6,642,190
Doubtful	17,809	162,750	98,147	-	278,706
Total	$ 291,727,044	$ 126,181,773	$ 27,608,446	$ 41,967,923	$ 487,485,186

	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

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:

	2020		
	Consumer	Residential Real Estate	Total
Performing	$ 5,628,425	$ 272,147,356	$ 277,775,781
Nonperforming	-	469,989	469,989
Total	$ 5,628,425	$ 272,617,345	$ 278,245,770

	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

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:

	2020						
	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	$ -	$ 107,880	$ 17,809	$ 125,689	$ 291,601,355	$ 291,727,044	$ -
Commercial and industrial	375,747	61,561	165,288	602,596	125,579,177	126,181,773	2,538
Agricultural	-	-	98,147	98,147	27,510,299	27,608,446	-
State and political subdivisions	-	-	-	-	41,967,923	41,967,923	-
Consumer	7,326	-	2,742	10,068	5,618,357	5,628,425	-
Residential real estate	71,751	225,109	786,727	1,083,587	271,533,758	272,617,345	469,989
Total	$ 454,824	$ 394,550	$ 1,070,713	$ 1,920,087	$ 763,810,869	$ 765,730,956	$ 472,527

5. **ALLOWANCE FOR LOAN LOSSES (Continued)**

Age Analysis of Past Due Loans by Class (Continued)

	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	$ -

Consumer mortgage loans held by the Company in the process of foreclosure amounted to $287,307 as of December 31, 2020.

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:

	2020				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial real estate	$ 17,809	$ 17,809	$ -	$ 15,745	$ -
Commercial and industrial	152,641	152,641	-	126,983	-
Agricultural	72,662	72,662	-	6,055	-
State and political subdivisions	-	-	-	-	-
Consumer	-	-	-	-	-
Residential real estate	406,999	406,999	-	348,900	9,712
	650,111	650,111	-	497,683	9,712
With an allowance recorded:					
Commercial real estate	289,828	289,828	25,378	309,394	19,032
Commercial and industrial	41,031	41,031	38,546	46,721	1,521
Agricultural	240,782	240,782	50,056	280,410	11,236
State and political subdivisions	-	-	-	-	-
Consumer	2,742	2,742	2,742	4,600	-
Residential real estate	251,171	251,171	36,803	198,358	10,162
	825,554	825,554	153,525	839,483	41,951
Total:					
Commercial real estate	307,637	307,637	25,378	325,139	19,032
Commercial and industrial	193,672	193,672	38,546	173,704	1,521
Agricultural	313,444	313,444	50,056	286,465	11,236
State and political subdivisions	-	-	-	-	-
Consumer	2,742	2,742	2,742	4,600	-
Residential real estate	658,170	658,170	36,803	547,258	19,874
Total	$ 1,475,665	$ 1,475,665	$ 153,525	$ 1,337,166	$ 51,663

5. **ALLOWANCE FOR LOAN LOSSES (Continued)**

Impaired Loans (Continued)

	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)

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 $40,600 in 2020 and $23,000 in 2019.

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

	2020	2019
Commercial real estate	$ 17,809	$ -
Commercial and industrial	162,750	14,823
Agricultural	98,147	72,354
Consumer	2,742	5,591
Residential real estate	316,738	223,042
Total	$ 598,186	$ 315,810

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, 2020 and 2019, specific reserve allocations of $107,860 and $83,124, 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, 2018 through December 31, 2019, that subsequently defaulted (i.e., 90 days or more past due following a modification) during the years ended December 31, 2020 and 2019, respectively.

Loan modifications considered troubled debt restructurings completed during the year ended December 31, 2020 consist of one commercial loan and one residential real estate loan. The Company's outstanding recorded investment in the loans at the time of the restructuring was $30,922 and $108,688, for the commercial loan and the real estate loan, respectively. The Company's outstanding recorded investment amount in these loans was not changed by the TDR modifications. There were no loan modifications that were considered troubled debt restructurings during the year ended 2019.

6. PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows:

	2020	2019
Land and land improvements	$ 2,394,918	$ 2,394,918
Buildings and leasehold improvements	19,334,135	18,548,238
Buildings - construction in progress	9,882,297	1,745,185
Furniture, fixtures, and equipment	8,541,569	7,741,252
	40,152,919	30,429,593
Less accumulated depreciation	15,884,213	14,794,107
Total	$ 24,268,706	$ 15,635,486

Depreciation charged to operations was $1,090,106 in 2020 and $1,085,331 in 2019.

7. GOODWILL

As of December 31, 2020 and 2019, goodwill had a gross carrying amount of $4,174,955 and $2,457,712, respectively, and accumulated amortization of $614,013 for a net carrying value of $3,560,942 and $1,843,699, 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, 2020 and 2019.

Insurance Agency Acquisition

During 2020 the Company completed the acquisition of a property and casualty insurance agency located in Juniata County. The acquisition included the current book of business, assets and liabilities of the agency, and the real estate where the agency office is located. Goodwill increased by $1,717,243 during 2020, representing the residual of the acquisition price of the agency after allocation of the purchase price to identified assets and assumed liabilities.

8. DEPOSITS

The scheduled maturities of time deposits approximate the following:

Year Ending December 31,	Amount
2021	$ 159,089,556
2022	69,275,996
2023	14,028,113
2024	4,883,432
2025	2,954,444
Thereafter	1,378,246
	$ 251,609,787

8. DEPOSITS (Continued)

The aggregate of all time deposit accounts of $250,000 or more amounted to $52,704,946 and $71,658,616 at December 31, 2020 and 2019, respectively. There were no brokered deposits as of December 31, 2020. As of December 31, 2020, there were no individual depositors representing over 5% of total deposits.

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:

	2020	2019
Balance at year-end	$ 69,360,211	$ 46,740,021
Average balance outstanding	62,163,630	41,837,265
Maximum month-end balance	69,390,211	47,937,322
Weighted-average rate at year-end	0.45%	1.95%
Weighted-average rate during the year	0.17%	0.25%

The collateral pledged on the repurchase agreements by the remaining contractual maturity of the repurchase agreements in the Consolidated Balance Sheet as of years ended December 31, 2020 and 2019, is presented in the following table.

	Remaining Contractual Maturity Overnight and Continuous	
	December 31, 2020	December 31, 2019
Securities of U.S. Government Agencies, U.S. Treasuries, and obligations of state and political subdivisions pledged, fair value	$ 4,116,853	$ 5,310,216
Repurchase agreements	1,151,378	1,060,022

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, 2020	At December 31, 2019
Fixed rate	01/13/21	08/04/26	2.19 %	1.40 %	2.68 %	$ 37,534,000	$ 53,075,499
Fixed rate amortizing	02/03/21	07/15/24	1.68	1.33	1.96	5,356,810	7,612,749
Mid-term repos	05/10/21	05/10/21	2.75	2.75	2.75	3,135,000	3,135,000
Subordinated capital notes	08/25/24	03/03/26	4.97	4.75	5.25	12,445,000	10,020,000
Note payable	03/17/35	11/23/35	1.97	1.71	2.23	6,186,000	6,186,000
						$ 64,656,810	$ 80,029,248

10. OTHER BORROWINGS (Continued)

Maturities of other borrowings at December 31, 2020, are summarized as follows:

Year Ending December 31,	Amount	Weighted-Average Rate
2021	$ 11,033,424	2.07 %
2022	12,916,000	1.69
2023	11,420,601	2.10
2024	13,068,785	3.60
2025	3,359,000	2.50
2026 and after	12,859,000	3.39
	$ 64,656,810	2.59

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, 2020, the Bank's maximum borrowing capacity with the FHLB was approximately $363.3 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, 2020 is approximately $90.5 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, 2020.

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.

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, with a current balance of $1,770,000, are included in the liabilities section of the Company's Consolidated Balance Sheet.

10. OTHER BORROWINGS (Continued)

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 $5,550,000, are included in the liabilities section of the Company's Consolidated Balance Sheet.

In 2020, the Company issued $5,125,000 of fixed rate subordinated capital notes with stated maturities of June 23, 2030 through December 30, 2030. 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 June 23, 2025. These borrowings are 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.

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, 2020, is being utilized to hedge $65.0 million in floating rate debt. At December 31, 2020 and 2019, the information pertaining to outstanding interest rate swap agreements is as follows:

	2020	2019
Notional amount	$ 120,518,422	$ 69,316,000
Weighted-average pay rate	2.99 %	3.26 %
Receive rate	1 or 3-Month Libor	1 or 3-Month Libor
Weighted-average maturity in years	6.5	6.3
Unrealized loss relating to interest rate swaps	(4,634,000)	(1,588,991)

11. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

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, 2020, the Company had six interest rate swaps with a notional of $65.0 million associated with the Company's cash outflows associated with various floating-rate amounts.

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, 2020. 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, 2020, the fair value of derivatives in a net liability position, which includes accrued interest and any credit valuation adjustments related to these agreements, was $4,634,600. At December 31, 2020, the Company had required cash collateral with certain of its derivative counterparties in the amount of $9,960,772 and was not holding cash collateral of certain derivative counterparties. If the Company had breached any of the above provisions at December 31, 2020, 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.

11. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

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, 2020				
Interest rate derivatives	Other assets	$ 5,074,982	Other liabilities	$ (9,709,582)
December 31, 2019				
Interest rate derivatives	Other assets	$ 1,805,370	Other liabilities	$ (3,394,361)

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, 2020, 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.

11. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Derivative Instruments (Continued)

	Notional Amount December 31,		Interest Rate Paid	Interest Rate Received	Fair Value December 31,	
	2020	2019			2020	2019
Cash flow interest rate swap						
Maturing in 2024	$ 6,000,000	$ 6,000,000	Fixed	3 Mo. Libor	$ (354,829)	$ (79,454)
Maturing in 2025	22,000,000	14,000,000	Fixed	3 Mo. Libor	(1,330,524)	(508,940)
Maturing in 2026	22,000,000	14,000,000	Fixed	3 Mo. Libor	(1,728,609)	(694,322)
Maturing in 2027	10,000,000	10,000,000	Fixed	3 Mo. Libor	(1,039,595)	(306,275)
Maturing in 2030	5,000,000	-	Fixed	3 Mo. Libor	(181,043)	-
	$ 65,000,000	$ 44,000,000			$ (4,634,600)	$ (1,588,991)
Customer interest rate swap						
Maturing in 2025	$ 9,100,000	$ 9,100,000	1 Mo. Libor + Margin	Fixed	$ 1,051,004	$ 618,947
Maturing in 2026	9,266,000	9,266,000		Fixed	1,364,263	858,291
Maturing in 2027	972,564	-		Fixed	7,303	-
Maturing in 2029	10,379,025	4,950,000		Fixed	1,010,039	298,610
Maturing in 2030	19,629,449	2,000,000		Fixed	1,616,774	29,522
Maturing in 2031	2,500,000	-		Fixed	44,509	-
Maturing in 2035	3,671,384	-		Fixed	(18,910)	-
	$ 55,518,422	$ 25,316,000			$ 5,074,982	$ 1,805,370
Third party interest rate swap						
Maturing in 2025	$ 9,100,000	$ 9,100,000	Fixed	1 Mo. Libor + Margin	$ (1,051,004)	$ (618,947)
Maturing in 2026	9,266,000	9,266,000	Fixed	1 Mo. Libor + Margin	(1,364,263)	(858,291)
Maturing in 2027	972,564	-	Fixed	1 Mo. Libor + Margin	(7,303)	-
Maturing in 2029	10,379,025	4,950,000	Fixed	1 Mo. Libor + Margin	(1,010,039)	(298,610)
Maturing in 2030	19,629,449	2,000,000	Fixed	1 Mo. Libor + Margin	(1,616,774)	(29,522)
Maturing in 2031	2,500,000	-	Fixed	1 Mo. Libor + Margin	(44,509)	-
Maturing in 2035	3,671,384	-	Fixed	1 Mo. Libor + Margin	18,910	-
	$ 55,518,422	$ 25,316,000			$ (5,074,982)	$ (1,805,370)

12. INCOME TAXES

The provision for federal income taxes consists of:

	2020	2019
Current	$ 1,905,671	$ 1,210,904
Deferred	(666,073)	(314,366)
Total provision	$ 1,239,598	$ 896,538

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, 2020 and 2019 are as follows:

	2020	2019
Deferred tax assets:		
Allowance for loan losses	$ 2,051,818	$ 1,574,874
Deferred compensation	370,849	300,076
Core deposit intangible assets	17,159	17,159
Asset valuation allowances	88,091	79,988
Employee compensation accruals	363,688	317,360
Nonaccrual interest receivable	10,233	4,842
Unrealized loss on swaps - balance sheet hedge	973,266	333,688
Fair value adjustment - equity securities	22,765	-
Lease liability	979,312	998,852
Other	1,174	1,175
Deferred tax assets	4,878,355	3,628,014
Deferred tax liabilities:		
Premises and equipment	605,522	528,015
Goodwill	369,342	345,281
Deferred loan fees	80,213	80,448
Partnerships	48,058	135,423
Unrealized gain on available-for-sale securities	705,015	64,010
Fair value adjustment - equity securities	-	42,977
Deferred gain - intercompany transaction	99,465	99,465
Right of use asset	967,121	993,421
Other	3,346	3,346
Deferred tax liabilities	2,878,082	2,292,386
Net deferred tax assets	$ 2,000,273	$ 1,335,628

No valuation allowance was established at December 31, 2020 and 2019, 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:

	2020		2019	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Provision at statutory rate	$ 1,948,566	21.0 %	$ 1,659,725	21.0 %
Tax-exempt interest	(366,767)	(4.0)	(431,528)	(5.5)
Life insurance income	(64,568)	(0.7)	(72,566)	(0.9)
Other	(277,633)	(3.0)	(259,093)	(3.3)
Income tax expense and effective rate	$ 1,239,598	13.3 %	$ 896,538	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 2016 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 $445,991 and $409,077 for the years ended December 31, 2020 and 2019, respectively. The fair value of plan assets includes $2,374,480 and $2,373,014 pertaining to the value of the Company's common stock that is held by the plan as of December 31, 2020 and 2019, 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, 2020 and 2019 were $1,765,947 and $1,428,933, respectively, and are reported as "Other liabilities" on the Consolidated Balance Sheet. Expenses related to this plan were $200,445 and $244,630 for the years ended December 31, 2020 and 2019, 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 share pools totaling 480,000 shares of the Company's common stock to the plan. The Plan has a remaining available share pool of 226,565 shares and 4,808 shares as of December 31, 2020 and 2019, 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 $518,842 and $361,590 for the years ended December 31, 2020 and 2019, respectively. As of December 31, 2020, unrecognized compensation cost related to restricted stock awards was $1,121,624, which is expected to be recognized over a weighted average life of 2.93 years.

The following is a summary of the status of the Company's outstanding restricted stock awards as of December 31, 2020 and 2019, and changes therein during the years then ended:

	Shares of Restricted Stock Outstanding	Weighted-Average Grant Date Fair Value
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
Granted	18,458	25.94
Released from Restrictions	(19,059)	21.80
Forfeited	(215)	29.20
Outstanding at December 31, 2020	81,104	$ 27.10

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 185,509 and 224,913 shares as of December 31, 2020 and 2019, 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 $88,528 and $68,983 for the years ended December 31, 2020 and 2019, respectively. As of December 31, 2020, unrecognized compensation cost related to stock option awards was $360,882, which is expected to be recognized over a weighted-average life of 2.0 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, 2019	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
Granted	32,893	26.03	8,312	25.96
Exercised	(15,438)	19.80	(14,988)	19.32
Forfeited/Expired	(666)	29.23	(1,135)	28.15
Outstanding, December 31, 2020	145,558	$ 26.46	69,414	$ 22.65
Exercisable at December 31, 2020	78,746	$ 24.68	57,598	$ 21.60

13. EMPLOYEE BENEFITS (Continued)

Stock Option Plan (Continued)

Option awards outstanding and exercisable as of December 31, 2020:

Incentive Stock Options

Expiration Date	Exercise Price	Share Awards Outstanding	Share Awards Exercisable	Remaining Contractual Life (years)
04/28/21	$ 14.88	1,800	1,800	0.32
04/02/22	15.00	4,000	4,000	1.25
04/01/23	16.63	6,980	6,980	2.25
04/01/24	18.25	3,582	3,582	3.25
09/22/24	19.75	500	500	3.73
04/01/25	19.48	7,468	7,468	4.25
03/30/26	22.00	9,700	9,700	5.24
10/31/26	22.40	1,000	1,000	5.83
12/12/26	22.38	1,000	1,000	5.95
04/03/27	27.00	10,185	10,185	6.25
04/02/28	29.63	31,200	20,791	7.25
03/01/29	32.00	1,500	500	8.16
04/01/29	31.60	33,750	11,240	8.25
04/03/30	25.65	29,993	-	9.25
12/01/30	30.00	2,900	-	9.92
		145,558	78,746	

Non-Qualified Stock Options

Expiration Date	Exercise Price	Share Awards Outstanding	Share Awards Exercisable	Remaining Contractual Life (years)
04/28/21	$ 14.88	1,800	1,800	0.32
08/22/21	31.60	443	443	0.64
09/30/21	27.00	350	350	0.75
04/02/22	15.00	5,000	5,000	1.25
04/01/23	16.63	5,980	5,980	2.25
04/01/24	18.25	4,182	4,182	3.25
09/22/24	19.75	500	500	3.73
04/01/25	19.48	8,704	8,704	4.25
03/30/26	22.00	12,906	12,906	5.24
10/31/26	22.40	1,000	1,000	5.83
12/12/26	22.38	1,000	1,000	5.95
04/03/27	27.00	12,477	12,477	6.25
04/02/28	29.63	2,400	1,596	7.25
04/01/29	31.60	4,980	1,660	8.25
04/03/30	25.65	6,692	-	9.25
10/28/30	28.25	1,000	-	9.82
		69,414	57,598	

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:

	2020	2019
Commitments to extend credit	$ 202,620,543	$ 172,809,626
Standby letters of credit	5,365,456	5,408,070
Total	$ 207,985,999	$ 178,217,696

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. A combined ROU asset balance of $4,605,388 and $4,730,575 related to these operating leases is included in Accrued Interest and Other Assets on the consolidated balance sheet as of December 31, 2020 and 2019, respectively. A combined lease liability of $4,663,391 and $4,756,436 related to these operating leases is included in Accrued Interest and Other Liabilities on the consolidated balance sheet as of December 31, 2020 and 2019, respectively.

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
2021	$ 399,275
2022	392,220
2023	401,294
2024	410,370
2025	387,309
Thereafter	4,055,701
Total lease payments	6,046,169
Less: imputed interest	1,382,778
Present value of lease liabilities	$ 4,663,391

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.

Our combined operating leases have a weighted-average discount rate of 3.31% and 3.63%, and a weighted-average remaining lease term of 15.4 years and 16.2 years as of December 31, 2020 and 2019, respectively.

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, 2020 and 2019 was $0 and $2,832,000, 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 2020 and 2019.

15. REGULATORY RESTRICTIONS (Continued)

Dividends

The Pennsylvania Banking Code restricts the availability of capital surplus for dividend purposes. At December 31, 2020, 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, 2020 and 2019, 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.

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

	2020		2019	
	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)				
Actual	$ 95,279,053	12.32 %	$ 86,899,041	11.86 %
For capital adequacy purposes	61,874,268	8.00	58,626,829	8.00
To be well capitalized	77,342,835	10.00	73,283,536	10.00
Common Equity Tier I (to risk-weighted assets)				
Actual	$ 68,158,230	8.81 %	$ 63,910,378	8.72 %
For capital adequacy purposes	34,804,276	4.50	32,977,591	4.50
To be well capitalized	50,272,842	6.50	47,634,299	6.50
Tier I capital (to risk-weighted assets)				
Actual	$ 74,158,230	9.59 %	$ 69,910,378	9.54 %
For capital adequacy purposes	46,405,701	6.00	43,970,122	6.00
To be well capitalized	61,874,268	8.00	58,626,829	8.00
Tier I capital (to average assets)				
Actual	$ 74,158,230	7.01 %	$ 69,910,378	7.64 %
For capital adequacy purposes	42,342,062	4.00	36,607,111	4.00
To be well capitalized	52,927,578	5.00	45,758,888	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:

	2020		2019	
	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)				
Actual	$ 94,267,202	12.17 %	$ 86,800,059	11.80 %
For capital adequacy purposes	61,988,287	8.00	58,853,023	8.00
To be well capitalized	77,485,359	10.00	73,566,278	10.00
Common Equity Tier I (to risk-weighted assets)				
Actual	$ 84,303,378	10.88 %	$ 79,107,396	10.75 %
For capital adequacy purposes	34,868,411	4.50	33,104,825	4.50
To be well capitalized	50,365,483	6.50	47,818,081	6.50
Tier I capital (to risk-weighted assets)				
Actual	$ 84,303,378	10.88 %	$ 79,107,396	10.75 %
For capital adequacy purposes	46,491,215	6.00	44,139,767	6.00
To be well capitalized	61,988,287	8.00	58,853,023	8.00
Tier I capital (to average assets)				
Actual	$ 84,303,378	7.97 %	$ 79,107,396	8.66 %
For capital adequacy purposes	42,296,429	4.00	36,526,539	4.00
To be well capitalized	52,870,536	5.00	45,658,174	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.

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

17. FAIR VALUE MEASUREMENTS (Continued)

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, 2020 and 2019, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	December 31, 2020			
	Level I	Level II	Level III	Total
Investment and equity securities at fair value:				
U.S. treasury securities	$ -	$ 2,044,540	$ -	$ 2,044,540
U.S. government agency securities	-	26,859,647	-	26,859,647
Obligations of states and political subdivisions	-	45,804,831	-	45,804,831
Corporate securities	-	13,491,746	-	13,491,746
Mortgage-backed securities in government-sponsored entities	-	39,836,282	-	39,836,282
Equity securities	2,132,287	-	-	2,132,287
Total	$ 2,132,287	$ 128,037,046	$ -	$ 130,169,333
Derivatives at fair value: (1)				
Assets	$ -	$ 5,074,982	$ -	$ 5,074,982
Liabilities	$ -	$ (9,775,453)	$ -	$ (9,775,453)

	December 31, 2019			
	Level I	Level II	Level III	Total
Investment and equity securities at fair value:				
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
Derivatives at fair value: (1)				
Assets	$ -	$ 1,805,370	$ -	$ 1,805,370
Liabilities	$ -	$ (3,391,549)	$ -	$ (3,391,549)

(1) Derivative assets and liabilities at fair value are included in our Consolidated Balance Sheet in *Accrued interest and other assets* and *Accrued interest and other liabilities*, respectively.

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.

17. FAIR VALUE MEASUREMENTS (Continued)

Impaired Loans

The Company has measured impairment on loans generally based on the fair value of the loan's collateral on a non-recurring basis. 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.

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 on a semi-annual basis or more frequently as deemed 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.

The following tables present the assets measured on a nonrecurring basis on the Consolidated Balance Sheet at their fair value as of December 31, 2020 and 2019, by level within the fair value hierarchy. Impaired loans that are collateral dependent are written down to fair value 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, 2020			
	Level I	Level II	Level III	Total
Assets:				
Impaired loans	$ -	$ -	$ 1,322,141	$ 1,322,141
Mortgage servicing rights	-	-	200,306	200,306

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

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, 2020 and 2019.

	December 31, 2020			
	Fair Value	Valuation Techniques	Unobservable Inputs	Range
Impaired loans	$ 660,932	Discounted Cash Flows	Discount Rate	4.00% - 8.50% discount Weighted Average (5.18%)
Impaired loans	$ 661,209	Property appraisals	Management discount for property type and recent market volatility	15.00% - 100.00% discount Weighted Average (28.93%)
Mortgage servicing rights	$ 200,306	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, 2019			
	Fair Value	Valuation Techniques	Unobservable Inputs	Range
Impaired loans	$ 722,572	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%)

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, 2020 and 2019 are as follows:

	2020				
	Carrying Value	Fair Value	Level I	Level II	Level III
Financial assets:					
Investment securities held to maturity	$ 11,023,499	$ 11,158,436	$ -	$ 11,158,436	$ -
Net loans	755,960,393	756,802,249	-	-	756,802,249
Financial liabilities:					
Deposits	$ 877,796,429	$ 879,819,942	$ 626,186,642	$ -	$ 253,633,300
Other borrowings	64,656,810	66,159,726	-	-	131,159,726

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.

	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.

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, 2020 and 2019:

	Net Unrealized Gains on Investment Securities	Cash Flow Hedges	Total
Accumulated other comprehensive income (loss), January 1, 2019	$ (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)
Other comprehensive income before reclassification	2,475,314	-	2,475,314
Amounts reclassified from accumulated other comprehensive loss	(63,913)	-	(63,913)
Amounts from change to AOCI related to cash flow hedges	-	(2,406,031)	(2,406,031)
Accumulated other comprehensive income (loss), December 31, 2020	$ 2,664,415	$ (3,673,551)	$ (1,009,136)

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

	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Consolidated Statement of Income where Net Income is Presented
	$ 80,903	Investment securities gains, net
	(16,990)	Income tax expense
Unrealized gains on investment securities, December 31, 2020	$ 63,913	
	$ 161,638	Investment securities gains, net
	(33,944)	Income tax expense
Unrealized gains on investment securities, December 31, 2019	$ 127,694	

20. SUBSEQUENT EVENTS

Management has reviewed events occurring through March 12, 2021, the date the financial statements were issued, and no additional subsequent events occurred requiring accrual or disclosure.

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Gregory T. Hayes, President and Chief Operating Officer
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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N. Robert Sunday, III, Vice President, Compliance Officer
Penny L. Zesiger, Vice President, Residential Lender

*Appointed at the January 2021 Board meeting.

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: Jim Troha*.

In Memoriam

EDWARD A. FRIEDMAN
1948–2020

Member of the Board of Directors of Kish Bancorp, Inc. and Kish Bank, and of the Centre County Regional Board

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