ANNUAL Report

2020

Proxy Statement & Form 10-K

Emclaire Financial Corp

Parent Company of
The Farmers National Bank of Emlenton

Emclaire Financial Corp

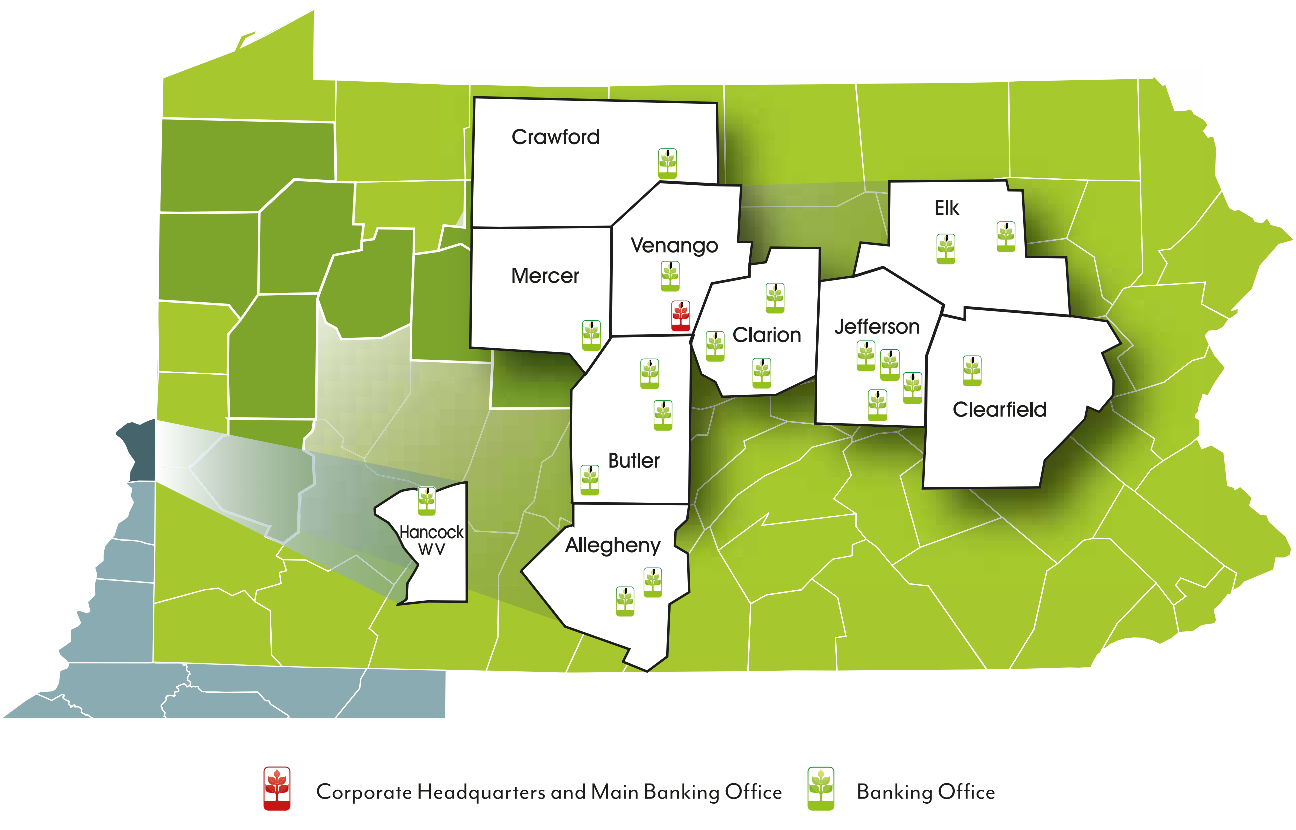
Emclaire Financial Corp
612 Main Street, Emlenton, Pennsylvania 16373
844.767.2311
emclairefinancial.com
farmersnb.com

Corporate Profile

Emclaire Financial Corp (NASDAQ: EMCF), a publicly traded Pennsylvania corporation and financial holding company, provides retail and commercial financial products and services to customers in western Pennsylvania and northern West Virginia through its wholly owned subsidiary bank, The Farmers National Bank of Emlenton.

The Farmers National Bank of Emlenton is an FDIC-insured national banking association, which conducts business through twenty offices in Allegheny, Butler, Clarion, Clearfield, Crawford, Elk, Jefferson, Mercer and Venango counties, Pennsylvania and Hancock County, West Virginia.

The Farmers National Bank of Emlenton Market Area



For a complete listing of banking office locations and hours, please visit www.farmersnb.com/locations

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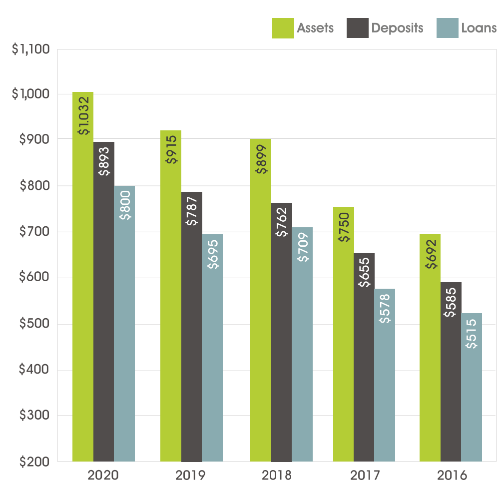
Consolidated Financial Highlights

(Dollar amounts in thousands, except share data)

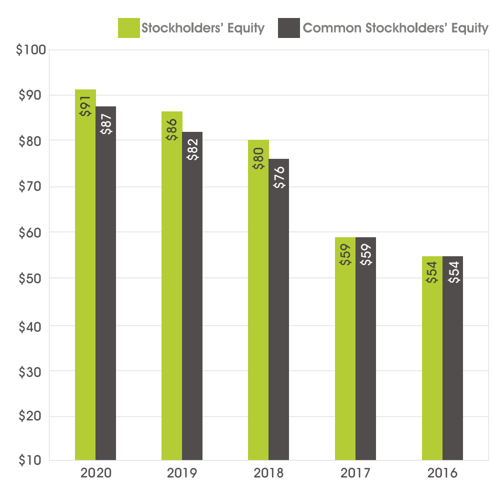
As of or for the year ended December 31,

Balance Sheet	2020	2019	2018	2017	2016
Total assets	$ 1,032,323	$ 915,296	$ 898,875	$ 750,084	$ 692,135
Loans receivable, net	800,338	695,348	708,664	577,738	515,435
Deposits	893,627	787,124	761,546	654,643	584,940
Borrowed funds	32,050	28,550	45,350	26,000	44,000
Stockholders' equity	91,480	85,858	80,008	59,091	54,073
Stockholders' equity per common share	$32.07	$30.14	$28.09	$26.02	$25.12
Tangible stockholders' equity per common share	$24.52	$22.50	$20.35	$21.28	$20.08
Market value per common share	$30.63	$32.53	$30.34	$30.35	$29.25
Common shares outstanding	2,721,212	2,708,712	2,698,712	2,271,139	2,152,358
Income Statement					
Net interest income	$ 29,085	$ 28,062	$ 25,576	$ 21,907	$ 19,480
Noninterest income	4,363	4,391	4,208	5,022	3,655
Net income	6,748	7,954	4,211	4,277	3,986
Basic earnings per common share	$2.42	$2.88	$1.73	$1.95	$1.86
Diluted earnings per common share	$2.41	$2.86	$1.72	$1.93	$1.85
Cash dividends per common share	$1.20	$1.16	$1.12	$1.08	$1.04
Key Ratios					
Return on average assets	0.68%	0.88%	0.53%	0.59%	0.60%
Return on average equity	7.61%	9.50%	6.56%	7.52%	7.32%
Return on average common equity	7.76%	9.77%	6.52%	7.52%	7.32%
Net interest margin	3.16%	3.35%	3.47%	3.29%	3.23%
Nonperforming assets to total assets	0.43%	0.34%	0.42%	0.56%	0.52%
Efficiency ratio	66.32%	67.39%	77.99%	71.49%	72.78%

Asset, Deposit & Loan Levels (in millions)



Stockholders Equity Levels (in millions)



Shareholder Letter

William C. Marsh
Chairman, President & Chief Executive Officer

Dear Fellow Shareholders:

We are proud of how we endured 2020 and all that it unexpectedly presented and look forward to embracing the new and evolving operating environment that will benefit our customers, employees, the Bank, the communities we serve and society generally. The challenges and opportunities that this period presents make our strategies and disciplines as essential as ever, and when an organization has survived and thrived for 120 years – as Emclaire Financial Corp has in the unprecedented year that was 2020 – it places the experience within a unique perspective.

Our history of safe and sound banking practices, robust products and sincere service proved resilient and innovative, our customers remained loyal and central to our every decision and action, and our employees performed even beyond our already high expectations to produce a year with solid financial results, record organic loan and deposit growth, operational improvements and steady shareholder returns. We also eclipsed $1 billion in assets for the first time. All noteworthy achievements during a global health crisis and related economic downturn.

We attribute these results to the same guiding principle that has served the Bank since its inception – an unwavering belief in community banking, focusing on business owners and residents in the places where we operate, the vital source of our strength. It means taking bold steps when appropriate and adhering to clear standards in our decision-making and conduct.

In short, it means doing what has brought us successfully through 120 years of world wars, depressions and recessions, and yes, global pandemics – fundamental, safe and sound community banking.

Managing The Pandemic

Our leadership team moved swiftly and decisively in mid-March 2020 to keep employees and customers safe by establishing a remote work environment that remains in place today and adopting a drive-through, virtual and appointment-only banking environment for commercial and retail banking customers. As stay-at-home restrictions became more prevalent, we made a dedicated push to adapt and upgrade our technological tools, making it easier and more convenient for customers to conduct their banking with us. Thanks in large part to these new protocols, along with a diligent insistence on social distancing and other recommended steps, our employee population has avoided any serious hospitalizations or deaths.

We quickly realized that we could adjust to how we serve our customers. Our teams proved quite adept and effective, reaching out to contact customers, providing a caring perspective, showing that we're in touch with them and giving us a better handle on where the greatest areas of need existed.

Once the federal Coronavirus Aid, Relief and Economic Security (CARES) Act became law near the end of the first quarter 2020, we implemented the Small Business Administration's Paycheck Protection Program (PPP) to quickly provide nearly 700 loans totaling $55 million to local businesses struggling to survive the pandemic. We are actively assisting these existing and new customers navigate the loan forgiveness process and to date we have successfully obtained close to $41 million of full forgiveness on almost 500 loans. This program is expected to generate in excess of $2 million in fees and interest income for the Bank between 2020 and early 2021. We are currently participating in the second round of PPP lending which is part of the Economic Aid Act passed in December 2020. We expect to disburse an additional $22 million over 250 loans through this second program which is expected to augment earnings by more than $900,000 during the latter half of 2021. Both programs required diligent staff commitment to implement and process, support our communities and simultaneously have and will enhance earnings.

In addition to early and regular balance sheet and earnings stress tests, we implemented and have maintained enhanced monitoring of all loan portfolios in light of prevailing economic conditions and recorded additional loan loss reserves accordingly. As the pandemic made it difficult for some customers to continue making timely loan payments, similar to other financial institutions, we granted payment deferrals when the need was validated and verified. At its peak, this loan assistance program covered more than 400 loans totaling $112 million of which all but $35 million have resumed normal repayment. Of the loans remaining on deferral status, $33 million are related to the hospitality industry which was hit hard by the crisis and remains a top focus still today.

While no one can accurately predict when the economy will emerge completely from the current crisis, we believe that as vaccines become widely available and the associated fears and apprehension surrounding the virus recedes, key economic indicators will begin to strengthen. As that happens, the Bank will be ready to capitalize on the opportunities.

Financial Overview

Certainly 2020 presented challenges with the pandemic and continued pressure from low market interest rates, however we did realize significant financial success and continued balance sheet, credit quality and capital stability. Total assets, loans and deposits grew to record levels along with earnings that were tempered by the economic impact of the pandemic.

We wish to note the following financial highlights:

• We ended 2020 with total assets in excess of $1 billion. This represented an increase of $117 million, or 13%, driven primarily by an increase in loans receivable that was funded by customer deposits.

• Loans increased to $800 million. This represented an increase of $105 million, or 15%, as the result of loan production and purchases across all avenues. The Bank's commercial mortgage, consumer loan and residential mortgage portfolios grew by $56 million, $25 million and $15 million, respectively.

• Deposits increased to $894 million. This represented an increase of $107 million, or 14%, fueled by increases in public funds and government stimulus deposits coupled with decreased consumer spending and retention of certain PPP loan proceeds.

• Stockholders' equity increased $6 million, or 7%, to $91 million. We remain well capitalized and positioned to achieve continued growth with stockholders' equity at 9% of total assets.

• We reported consolidated net income available to common stockholders of $6.6 million, or $2.41 per diluted common share, for the year ended December 31, 2020, a decrease of $1.2 million, or 15.6%, from $7.8 million, or $2.86 per diluted common share for 2019. This decrease was largely driven by an increase in the provision for loan losses resulting from record loan growth and economic uncertainties related to the pandemic.

• Net interest income increased $1.0 million, or 3.7%, to $29.1 million, resulting from an increase in interest income of $1.0 million, or 2.8%, as average loans outstanding grew by $90 million due to record loan production and the addition of the PPP loans. During the year, we recognized $1.6 million of income related to the PPP loans.

• The provision for loan losses increased $2.5 million to $3.2 million due to growth in the residential real estate, commercial real estate, and consumer loan portfolios, the addition of a specific pandemic qualitative allowance factor and risk rating changes for loans that were granted payment deferrals.

• Classified and criticized assets increased $27.4 million to $44.4 million or 4.3% of total assets, largely due to downgrades within the hospitality loan portfolio, of which $30 million out of a total portfolio of $36 million was rated classified or criticized at year-end.

• Nonperforming asset levels remain remarkably low despite a $1.2 million increase to $4.4 million, or 0.43% of total assets at the end of 2020 compared to $3.2 million, or 0.34% of total assets at the prior year end.

• The U.S. stock markets experienced a tumultuous 2020 with unprecedented levels of volatility. It took only 22 trading days for the S&P 500 to drop more than 30% by the end of March. As fast as these market drops were, they were offset by record-setting surges and both the Dow Jones Industrial Average and the S&P 500 finished the year at new all-time highs. Our stock suffered this volatility as well as stock prices ranged between $18.10 and $33.50 during the year. Our stock price has rebounded nicely from lows seen in May and has recently traded in the $26 to $30 per share range. We continue to provide our shareholders with an attractive dividend yield and increased our cash dividends nearly 3.5% to $1.20 per share in 2020 from $1.16 per share in 2019. At December 31, 2020, our dividend yield stood at nearly 4%.

Shareholder Letter

Operational Highlights

During the year, while simultaneously navigating the pandemic, we continued to focus on several ongoing operational initiatives. Most importantly, we completed the full rollout of our enterprise risk management (ERM) platform, enhancing our ability to gauge investments and to improve data-driven decision-making. And a bank-wide policy and procedure system was launched.

Our program of carefully evaluating branch office and other banking institution purchases continued, with a pickup in this activity anticipated as the pandemic's economic impact fades.

We improved our marketing presence and branding through social media. At the same time, we performed an in-depth assessment of our technology function leading to important progress in our long-term digital strategy.

Caring for Our Community

We continued our long-standing tradition of investing in our communities in 2020 by participating in the Educational Improvement Tax Credit (EITC) program, providing funds to organizations dedicated to educational improvement and scholarships such as the Butler County Community College Education Foundation, Inc., Clarion University Foundation, Inc., the STAR Foundation, the Brookville Area Raider Scholastic Foundation, the Children's Scholarship Fund of PA and several other local organizations. The Bank also supported local non-profit organizations through various donations and provided pandemic related relief to area foodbanks and fire departments.

Directors and employees volunteered time and contributions to more than 100 local non-profit agencies, charitable organizations and trade associations, including serving as board members. Our employees have contributed more than $64,000 through the Bank's Community Jeans Day program alone since the program's inception.

Operating in a Consolidating Industry

Despite a significant slow-down in mergers and acquisitions during the year due to the pandemic, it is no surprise that faced with ongoing regulatory, technological and staffing challenges and the added headwinds of pandemic management and margin compression, the banking industry continues to experience consolidation at an average rate of nearly 4% a year.

The need for scale has never been more evident, and we have proven our ability to accomplish this through a history of both acquisitions and organic growth. Our sound asset quality, attractive deposit mix, strong capital base, advanced technology platforms and dedicated employees position us to remain an active participant in the acquisition arena and continue executing on our strategy of achieving enduring relevant scale.

Closing Thoughts

We are thrilled to welcome Steven Hunter to the boards of both the holding company and the Bank, stepping up to replace the decades-long and invaluable service of his father, Robert Hunter. Steve will be a valuable addition to the board given his deep finance background and investment banking experience. We wish Bob all the best and express our heartfelt appreciation for his nearly 50 years of guidance, integrity and counsel on our board of directors.

Twenty-twenty completed my 12th year as your Chairman and Chief Executive Officer, and it persists as my great honor and privilege to lead your bank and this incredible team, every member of which holds our customers and our communities in the highest regard. Reflecting on the 120th anniversary of the Bank's formation also made clear how prescient and brilliant our founders must have been, all those years ago, to have instilled a culture of community banking that continues to this day.

We continue to weather this storm of virus and the associated economic disruptions. But we also take heart, knowing that the Bank has weathered tougher periods in our past and has always emerged stronger, smarter and even more dedicated to our customers and neighbors. I have every confidence that will be the case in 2021 and beyond.

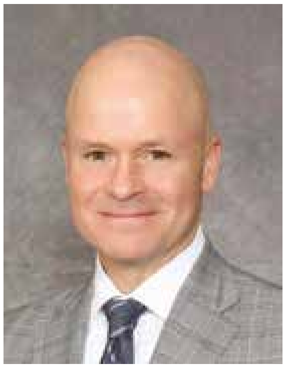
On behalf of the board of directors, management and staff, I thank you for your continued belief and support. We pledge to continue working to provide fundamental, safe and sound community banking every day.

Very truly yours,

William C. Marsh

William C. Marsh
Chairman of the Board
President and Chief Executive Officer
March 2021

Board Of Directors



William C. Marsh
Chairman of the Board
President and Chief Executive Officer
Emclaire Financial Corp
Farmers National Bank

Milissa S. Bauer
Executive Vice President
Kriebel Companies

David L. Cox
Retired President
Emclaire Financial Corp
Farmers National Bank

James M. Crooks
President and Owner
F.L. Crooks Clothing Co., Inc.

Henry H. Deible
Retired President
Community First Bancorp, Inc.
Community First Bank

Henry H. Deible II
President and Owner
Forestland Investments, LLC

Robert W. Freeman
General Partner
Beaconfield Consulting Group, LLC

Mark A. Freemer, CPA
Chief Financial Officer
Varischetti Holdings, LP

Steven J. Hunter
Managing Director
TM Capital Corp.

John B. Mason
Retired President
H.B. Beels & Sons, Inc.

Deanna K. McCarrier, CPA
Owner
McCarrier, CPAs

Nicholas D. Varischetti
Attorney
Burns White

Director Emeritus

Robert L. Hunter
Retired Chairman
Hunter Truck Sales and Service
Hunter Leasing

Officers and Senior Management

Emclaire Financial Corp and The Farmers National Bank of Emlenton

Officers of Emclaire Financial Corp

William C. Marsh
Chairman of the Board

Amanda L. Engles
Treasurer

Jennifer A. Poulsen
Secretary

Senior Management of The Farmers National Bank of Emlenton

William C. Marsh
Chairman of the Board
President and Chief Executive Officer

Amanda L. Engles
Senior Vice President
Chief Financial Officer

Eric J. Gantz
Senior Vice President
Chief Credit Officer

Aubery L. Guzzo
Senior Vice President
Chief Retail Banking Officer

Jerome F. Millin
Senior Vice President
Chief Technology Officer

Jennifer A. Poulsen
Senior Vice President
Chief Operating Officer

Robert A. Vernick
Senior Vice President
Chief Lending Officer

EMCLAIRE FINANCIAL CORP
612 MAIN STREET
EMLENTON, PENNSYLVANIA 16373

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO THE SHAREHOLDERS OF EMCLAIRE FINANCIAL CORP:

Notice is hereby given that the Annual Meeting of Shareholders of Emclaire Financial Corp (the "Corporation") will be held virtually at 9:00 a.m., local time, on Wednesday, April 21, 2021, for the following purposes:

1. To elect four (4) directors to serve for three-year terms and until their successors are duly elected and qualified;
2. To consider and approve the 2021 Stock Incentive Plan;
3. To ratify the selection of BKD, LLP, Certified Public Accountants, as the Corporation's independent registered public accounting firm for the fiscal year ending December 31, 2021; and
4. To transact such other business as may properly come before the Annual Meeting and any adjournment or postponement thereof.

Due to the public health impact of the COVID-19 pandemic and to support the well-being of our employees and shareholders, we have decided to hold this year's Annual Meeting in a virtual format only. Shareholders of record at the close of business on March 1, 2021, the voting record date fixed by the Board of Directors, may attend the Annual Meeting, vote and submit questions during the meeting. You may access the Annual Meeting via the "2021 Annual Meeting of Shareholders" link on our website at www.emclairefinancial.com and by following the instructions on the website. In addition, you may also access the Annual Meeting on a telephone conference call at (877) 309-2071 and entering the access code 890787116#.

A copy of the Corporation's Annual Report for the fiscal year ended December 31, 2020 is being mailed with this notice.

To assure that your shares of common stock will be voted at the meeting, please indicate your voting instructions: (i) over the Internet at www.voteproxy.com, (ii) by telephone at 1-800-776-9437, or (iii) by completing and signing the enclosed proxy card and returning it promptly in the enclosed, postage prepaid, addressed envelope. No additional postage is required if mailed in the United States. The giving of a proxy will not affect your right to vote in person if you attend the meeting.

By Order of the Board of Directors,

William C. Marsh

William C. Marsh
Chairman, President and Chief Executive Officer

March 19, 2021

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON APRIL 21, 2021

The proxy materials for the Annual Meeting of Shareholders of Emclaire Financial Corp, including the Proxy Statement and the Corporation's Annual Report for the fiscal year ended December 31, 2020, are available in the Financial Information section on our website at www.emclairefinancial.com.

PROXY STATEMENT FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD APRIL 21, 2021

GENERAL

Introduction, Date, Place and Time of Meeting

This Proxy Statement is being furnished for the solicitation by the Board of Directors of Emclaire Financial Corp (the "Corporation"), a Pennsylvania business corporation and the bank holding company for the Farmers National Bank of Emlenton (the "Bank"), of proxies to be voted at the Annual Meeting of Shareholders of the Corporation to be held virtually on Wednesday, April 21, 2021, at 9:00 a.m. local time, or at any adjournment or postponement of the annual meeting.

The main office of the Corporation is located at 612 Main Street, Emlenton, Pennsylvania 16373. The telephone number for the Corporation is (844) 767-2311. All inquiries should be directed to William C. Marsh, Chairman, President and Chief Executive Officer. This Proxy Statement and the enclosed form of proxy are first being sent to shareholders of the Corporation on or about March 19, 2021. This Proxy Statement and the Annual Report for the fiscal year ended December 31, 2020 are available in the Financial Information section on our website at www.emclairefinancial.com and www.sec.gov.

Due to the public health impact of the COVID-19 pandemic and to support the well-being of our employees and shareholders, we have decided to hold this year's annual meeting in a virtual meeting format only. Shareholders of record at the close of business on March 1, 2021 may attend the annual meeting, vote and submit questions during the meeting. You may access the annual meeting via the "2021 Annual Meeting of Shareholders" link on our website at www.emclairefinancial.com and by following the instructions on the website. In addition, you may also access the annual meeting on a telephone conference call at (877) 309-2071 and entering the access code 890787116#. You may ask questions and vote during the annual meeting by following the instructions available on the website during the meeting.

How to Vote

Shareholders may vote (i) via the Internet at www.voteproxy.com by following the instructions contained on that website, (ii) by telephone at 1-800-776-9437, (iii) by completing and signing the enclosed proxy card and returning it promptly in the enclosed, postage prepaid, addressed envelope, or (iv) appearing at the virtual annual meeting and voting electronically. Proxies properly executed and delivered by shareholders (via the Internet, telephone or by mail as described above) and timely received by us will be voted at the annual meeting in accordance with the instructions contained therein. If you authorize a proxy to vote your shares over the Internet or by telephone, you should not return a proxy by mail (unless you are revoking your previous proxy).

Solicitation of Proxies

The proxy solicited hereby, if properly voted via the Internet or telephone or signed and returned to us and not revoked prior to its use, will be voted in accordance with your instructions contained in the proxy. If no contrary instructions are given, each proxy signed and received will be voted in the manner recommended by the Board of Directors as follows: (i) FOR the nominees for director described herein; (ii) FOR the adoption of the 2021 Stock Incentive Plan; (iii) FOR the ratification of BKD, LLP, as the Corporation's independent registered public accounting firm for the year ending December 31, 2021; and (iv) upon the transaction of such other business as may properly come before the meeting, in accordance with the best judgment of the persons appointed as proxies. Proxies solicited hereby may be exercised only at the annual meeting and any adjournment of the annual meeting and will not be used for any other meeting. Execution and return of the enclosed proxy will not affect a shareholder's right to attend the annual meeting and vote in person.

The cost of preparing, assembling, mailing and soliciting proxies will be borne by the Corporation. In addition to solicitations by mail, directors, officers and employees of the Corporation may solicit proxies personally or by telephone without additional compensation. In addition to the use of the mail, certain directors, officers and employees of the Corporation intend to solicit proxies personally, by telephone and by facsimile. Arrangements will be made with brokerage houses and other custodians, nominees and fiduciaries to forward proxy solicitation material to the beneficial owners of stock held of record by these persons, and, upon request, the Corporation will reimburse them for their reasonable forwarding expenses.

Quorum

The presence of shareholders, in person or by proxy, entitled to cast at least a majority of the votes which all shareholders are entitled to cast shall constitute a quorum at the annual meeting. Abstentions, broker non-votes, which are discussed below, and votes withheld from director nominees count as "shares present" at the meeting for purposes of determining a quorum.

Voting

At the close of business on March 1, 2021, the voting record date, the Corporation had outstanding 2,721,212 shares of common stock, $1.25 par value per share. Only shareholders of record, at the close of business on the voting record date, will be entitled to notice of and to vote at the annual meeting. Each issued and outstanding share of common stock owned on the record date will be entitled to one vote on each matter to be voted on at the annual meeting, in person or by proxy.

Directors are elected by a plurality of the votes cast with a quorum present. The four nominees for director receiving the most votes of the common stock represented in person or by proxy at the annual meeting will be elected as directors. The affirmative vote of a majority of the total votes present in person or by proxy is required for the approval of the 2021 Stock Incentive Plan and for the approval of the proposal to ratify the appointment of the independent registered public accounting firm.

With regard to the election of directors, you may vote in favor of or withhold authority to vote for one or more nominees for director. Votes that are withheld in connection with the election of one or more nominees for director will not be counted as votes cast for such individuals and accordingly will have no effect. An abstention may be specified on the proposals to approve the 2021 Stock Incentive Plan and to ratify the appointment of BKD, LLP as our independent registered public accounting firm for 2021. Abstentions will have the same effect as a vote against these proposals.

Under rules applicable to broker-dealers, the proposals for the election of directors and to approve the 2021 Stock Incentive Plan are considered to be non-routine matters. Brokerage firms may not vote on non-routine matters in their discretion on behalf of their clients if such clients have not furnished voting instructions. A "broker non-vote" occurs when a broker's customer does not provide the broker with voting instructions on non-routine matters for shares owned by the customer but held in the name of the broker. For such non-routine matters, the broker cannot vote on the proposal and reports the number of such shares as "non-votes." Because the election of directors and the proposal to approve the 2021 Stock Plan are not considered routine matters, there potentially can be "broker non-votes" at the annual meeting. Any "broker non-votes" submitted by brokers or nominees in connection with the annual meeting will have no effect on the vote for the election of directors or the proposal to approve the 2021 Stock Incentive Plan.

Shares Held in Street Name

If you hold your shares through an intermediary, such as a bank or broker, you must register in advance to attend the annual meeting. You must contact your broker who holds your shares in street name to provide you with a legal proxy. To register you must submit proof of your proxy power (legal proxy) by email reflecting your holdings along with your name and email address to lbartley@farmersnb.com. You must either attach an image of your legal proxy to your email or forward the email that includes the legal proxy received from your bank or broker. Requests for registration must have "Legal Proxy" in the email's subject line and be received no later than 5:00 p.m., Eastern Time, on April 20, 2021**.**

Revocation of Proxies and Changing a Vote

A shareholder who votes via the Internet (as described above) or telephone (as described above) or returns a proxy via mail may revoke it at any time before it is voted by: (i) delivering written notice of revocation to Jennifer A. Poulsen, Secretary, Emclaire Financial Corp, 612 Main Street, Post Office Box D, Emlenton, Pennsylvania 16373, telephone: (844) 767-2311; or (ii) voting electronically at the virtual annual meeting after giving written notice to the Secretary of the Corporation. Executing and returning a later-dated proxy, giving written notice of revocation to the Secretary of the Corporation or voting again via the Internet or telephone will revoke an earlier proxy. Only the latest dated proxy, ballot or Internet or telephone proxy submitted by a shareholder prior to the annual meeting will be counted.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON APRIL 21, 2021

The proxy materials for the Annual Meeting of Shareholders of Emclaire Financial Corp, including the Proxy Statement and the Corporation's Annual Report for the fiscal year ended December 31, 2020, are available in the Financial Information section on our website at www.emclairefinancial.com or www.sec.gov.

PRINCIPAL BENEFICIAL OWNERS OF THE CORPORATION'S COMMON STOCK

Persons and groups owning in excess of 5% of the common stock are required to file certain reports regarding such ownership pursuant to the Securities Exchange Act of 1934, as amended (the "1934 Act"). The following table sets forth, as of the voting record date, certain information as to the common stock beneficially owned by (i) persons or groups who own more than 5% of the common stock, (ii) the directors of the Corporation, (iii) certain executive officers of the Corporation included in the Summary Compensation Table (which we refer to as "named executive officers"), and (iv) all directors and executive officers of the Corporation as a group. Management knows of no person or group that owned more than 5% of the outstanding shares of common stock at the voting record date.

Name	Amount and Nature of Beneficial Ownership(1)	Percent of Outstanding Common Stock Beneficially Owned
Directors:		
Henry H. Deible	74,120(2)	2.72%
Robert W. Freeman	61,960(3)	2.28%
William C. Marsh	57,214(4)	2.10%
Nicholas D. Varischetti	45,043	1.66%
John B. Mason	40,542	1.49%
Milissa S. Bauer	36,706(5)	1.35%
James M. Crooks	29,529(6)	1.09%
Deanna K. McCarrier	22,731	*
David L. Cox	20,330(7)	*
Mark A. Freemer	18,600	*
Henry H. Deible II	384	*
Steven J. Hunter	200	*
Named Executive Officers:		
Jennifer A. Poulsen	5,540(8)	*
Robert A. Vernick	3,224(9)	*
All directors and executive officers as a group (16 persons)	420,417(10)	15.45%

* Represents less than 1% of the outstanding common stock.

(1) Based upon information provided by the respective beneficial owners and filings with the Securities and Exchange Commission ("SEC") made pursuant to the 1934 Act. For purposes of this table, pursuant to rules promulgated under the 1934 Act, a person or entity is considered to beneficially own shares of common stock if they directly or indirectly have or share (1) voting power, which includes the power to vote or to direct the voting of the shares, or (2) investment power, which includes the power to dispose or direct the disposition of the shares. Unless otherwise indicated, a person or entity has sole voting power and sole investment power with respect to the indicated shares.

(2) Of the 74,120 shares beneficially owned by Mr. Deible, 34,254 shares are owned jointly with his spouse and 7,165 shares are held by an entity owned and controlled by Mr. Deible.

(3) Of the 61,960 shares beneficially owned by Mr. Freeman, 1,757 shares are owned individually by his spouse.

(4) Of the 57,214 shares beneficially owned by Mr. Marsh, 4,014 shares are held in the Corporation's 401(k) Plan.

(5) Of the 36,706 shares beneficially owned by Ms. Bauer, 6,052 shares are owned jointly with her spouse, 13,553 shares are owned individually by her spouse and 100 shares are owned individually by her son.

(6) Of the 29,529 shares beneficially owned by Mr. Crooks, 3,273 shares are owned jointly with his spouse and 635 shares are owned individually by his spouse.

(7) Of the 20,330 shares beneficially owned by Mr. Cox, 18,330 are owned jointly with his spouse and 500 shares are owned individually by his spouse.

(8) Of the 5,540 shares beneficially owned by Ms. Poulsen, 2,190 shares are held in the Corporation's 401(k) Plan.

(9) Of the 3,224 shares beneficially owned by Mr. Vernick, 1,964 shares are held in the Corporation's 401(k) Plan.

(10) Of the 420,417 shares beneficially owned by all directors and officers as a group, 11,262 shares are held in the Corporation's 401(k) Plan.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

The Corporation's common stock is registered pursuant to Section 12(b) of the 1934 Act. The officers and directors of the Corporation and beneficial owners of greater than 10% of the common stock are required to file reports on Forms 3, 4, and 5 with the SEC disclosing changes in beneficial ownership of the common stock. Based on the Corporation's review of such ownership reports, to the Corporation's knowledge, no executive officer, director, or 10% beneficial owner of the Corporation failed to file such ownership reports on a timely basis for the fiscal year ended December 31, 2020.

INFORMATION WITH RESPECT TO NOMINEES FOR DIRECTOR, CONTINUING DIRECTORS AND EXECUTIVE OFFICERS

Election of Directors

The Corporation has a classified Board of Directors with staggered three-year terms of office. In a classified board, the directors are generally divided into separate classes of equal number. The terms of the separate classes expire in successive years. Thus, at each annual meeting of shareholders, successors to the class of directors whose term then expires are to be elected to hold office for a term of three years, so that the office of one class will expire each year.

A majority of the members of our Board of Directors are independent based on an assessment of each member's qualifications by the Board, taking into consideration the NASDAQ Stock Market's requirements for independence. The Board of Directors has concluded that Directors Bauer, Cox, Crooks, Deible, Deible II, Freeman, Freemer, Hunter, Mason, McCarrier and Varischetti do not have any material relationships with the Corporation that would impair their independence. Each of such directors will be re-nominated for an additional term, subject to the fiduciary duties of the Board of Directors and any applicable eligibility requirements set forth in the Corporation's or the Bank's, as the case may be, articles of incorporation, bylaws, or nominating and corporate governance committee guidelines, or any applicable law, rule, regulation or listing standard. There are no other arrangements or understandings between the Corporation and any other person pursuant to which such person has been elected a director. Shareholders of the Corporation are not permitted to cumulate their votes for the election of directors.

Unless otherwise directed, each proxy executed and returned by a shareholder will be voted for the election of the nominees for director listed below. If the person named as nominee should be unable or unwilling to stand for election at the time of the annual meeting, the proxies will vote for one or more replacement nominees recommended by the Board of Directors. At this time, the Board of Directors knows of no reason why the nominees listed below may not be able to serve as a director if elected. Any vacancy occurring on the Board of Directors of the Corporation for any reason may be filled by a majority of the directors then in office until the expiration of the term of office of the class of directors to which he or she was appointed. Ages are reflected as of December 31, 2020.

Nominees for Director for Three-Year Term Expiring 2024

Name	Age	Principal Occupation for Past Five Years	Director Since Bank/Corporation
Milissa S. Bauer	58	Executive Vice President of Kriebel Companies and President of Z Train Corporation. As a business executive in the Corporation's market area as well as extensive involvement with various business and civic organizations in the communities that the Corporation operates, Ms. Bauer is well qualified to serve as a director.	2015/2015
Henry H. Deible	66	Former President and Chief Executive Officer of Community First Bancorp, Inc., Owner of Northern Horizons, LLC and Owner/Partner of Forestland Investments, LLC and Sustainable Forestry Consultants, LLC. As a business executive in the Corporation's market area and with his extensive prior service in community banking, Mr. Deible provides the Board with valuable knowledge and experience and is well qualified to serve as a director.	2018/2018
Deanna K. McCarrier	57	Owner, McCarrier, CPAs. Ms. McCarrier is a certified public accountant. As a business owner in the Corporation's market area as well as involvement with various business and civic organizations in the communities that the Corporation operates, Ms. McCarrier is well qualified to serve as a director.	2016/2016
Nicholas D. Varischetti	37	Attorney with Burns White and Partner in Varischetti Holdings, LP and Allegheny Strategy Partners. Based on Mr. Varischetti's legal background, business ownership within the Corporation's market area and involvement with various business and civic organizations, he is well qualified to serve as a director.	2015/2015

The Board of Directors recommends that you vote "FOR" for each of the nominees for director.

Members of the Board of Directors Continuing in Office

Directors Whose Terms Expire in 2022

Name	Age	Principal Occupation for Past Five Years	Director Since Bank/Corporation
David L. Cox	70	Retired, former Chairman, President and Chief Executive Officer of the Bank and the Corporation. Mr. Cox's prior service as Chairman, President and Chief Executive Officer as well as his subsequent years of service as a director provide the Board with valuable knowledge and experience.	1991/1991
Henry H. Deible II	38	Owner and President of Forestland Investments, LLC and Owner and Forester for Sustainable Forestry Consultants, LLC. As a business executive in the Corporation's market area as well as previous experience as a director of a community banking institution, Mr. Deible is well qualified to serve as a director.	2018/2018
Mark A. Freemer	61	Chief Financial Officer for Varischetti Holdings, LP. Mr. Freemer is a certified public accountant. As a business executive in the Corporation's market area as well as his many years of service as a director of the Corporation and his public accounting experience, Mr. Freemer is well qualified to serve as a director.	2004/2004
William C. Marsh	54	Chairman, President and Chief Executive Officer of the Bank and the Corporation. Mr. Marsh is a certified public accountant. Mr. Marsh's positions as Chairman, President and Chief Executive Officer, his extensive involvement with and background in the banking industry and involvement in business and civic organizations in the communities that the Corporation operates, as well as his prior accounting background provide the Board valuable insight regarding the business and operations of the Corporation.	2006/2006

Directors Whose Terms Expire in 2023

Name	Age	Principal Occupation for Past Five Years	Director Since Bank/Corporation
James M. Crooks	68	Owner, F.L. Crooks Clothing Company, Inc. As a business owner in the Corporation's market area as well as his many years of service as a director of the Corporation, Mr. Crooks is well qualified to serve as a director.	2004/2004
Robert W. Freeman	63	Partner, Beaconfield Consulting Group, LLC. Based on Mr. Freeman's past employment experiences and financial and technological background, he is well qualified to serve as a director.	2015/2015
Steven J. Hunter	51	Managing Director of TM Capital Corp. He previously served as Managing Director of Greene Holcomb Fisher and Morgan Keegan. Based on Mr. Hunter's past employment experiences and extensive background in finance and investment banking, he is well qualified to serve as a director.	2021/2021
John B. Mason	72	Retired, former President, H. B. Beels & Son, Inc. As a former business owner in the Corporation's market area as well as his many years of service as a director of the Corporation, Mr. Mason is well qualified to serve as a director.	1985/1989

Board Leadership Structure and Risk Oversight

Board Leadership Structure. Since the Corporation was founded in 1989, the Corporation has employed a traditional board leadership model, with our Chief Executive Officer also serving as Chairman of our Board of Directors. We believe this traditional leadership structure benefits the Corporation. A combined Chairman and Chief Executive Officer role helps provide strong, unified leadership for our management team and Board of Directors. William C. Marsh has served as our Chairman and Chief Executive Officer since January 1, 2009. Prior to becoming Chairman and Chief Executive Officer, Mr. Marsh served as Executive Vice President and Chief Financial Officer of the Corporation beginning in 2006. Our Board of Directors is currently comprised of twelve directors of which eleven, or a majority, are independent directors. The board has three standing committees with separate chairs—the audit, executive and human resources committees. The audit committee and human resources committee are led by independent directors and our executive committee is comprised of a majority of independent directors. We do not have a lead independent director position. The Board has reviewed our Corporation's current Board leadership structure in light of the composition of the Board, the Corporation's size, the nature of the Corporation's business, the regulatory framework under which the Corporation operates, the Corporation's shareholder base, the Corporation's peer group and other relevant factors, and has determined that a combined Chairman and Chief Executive Officer position, is currently the most appropriate Board leadership structure for our Corporation. The Board noted the following factors in reaching its determination:

- The Board acts efficiently and effectively under its current structure, where the Chief Executive Officer also acts as Chairman.
- A combined Chairman and Chief Executive Officer is in the best position to be aware of major issues facing the Corporation on a day-to-day and long-term basis, and is in the best position to identify key risks and developments facing the Corporation to be brought to the Board's attention.
- A combined Chairman and Chief Executive Officer position eliminates the potential for confusion and duplication of efforts, including among employees.
- A combined Chairman and Chief Executive Officer position eliminates the potential for confusion as to who leads the Corporation, providing the Corporation with a single public "face" in dealing with shareholders, employees, regulators, analysts and other constituencies.

Risk Oversight. The Board's role in the Corporation's risk oversight process includes receiving regular reports from members of senior management on areas of material risk to the Corporation, including operational, financial, legal and regulatory, and strategic and reputational risks. The full Board (or the appropriate committee in the case of risks that are under the purview of a particular committee) receives these reports from the appropriate "risk owner" within the organization to enable it to understand our risk identification, risk management and risk mitigation strategies. When a committee receives the report, the Chairman of the relevant committee reports on the discussion to the full Board during the next Board meeting. This enables the Board and its committees to coordinate the risk oversight role, particularly with respect to risk interrelationships.

Directors Attendance at Annual Meetings

Although we do not have a formal policy regarding attendance by members of the Board of Directors at annual meetings of shareholders, all directors are expected to attend the Corporation's annual meeting of shareholders. All twelve directors of the Corporation at the time attended the Corporation's 2020 annual meeting of shareholders.

Committees and Meetings of the Corporation and the Bank

During 2020, the Board of Directors of the Corporation held eight regular meetings and one special meeting, and the Board of Directors of the Bank held 13 regular meetings and one special meeting. Each of the directors attended at least seventy-five percent (75%) of the combined total number of meetings of the Corporation's Board of Directors and of the committees on which they serve.

PROXY

Membership on Certain Board Committees. The Board of Directors of the Corporation has established an audit committee, executive committee, human resources committee and a nominating and corporate governance committee. The human resources committee functions as the Corporation's compensation committee.

The following table sets forth the membership of such committees as of the date of this proxy statement.

Directors	Audit	Executive	Human Resources	Nominating and Corporate Governance
Milissa S. Bauer	**	*		
David L. Cox		*		*
James M. Crooks	*			
Henry H. Deible	*		*	*
Henry H. Deible II				
Robert W. Freeman		*	*	
Mark A. Freemer	*	*	*	**
Steven J. Hunter (1)	*		*	
William C. Marsh		**		
John B. Mason		*	*	*
Deanna C. McCarrier	*	*	**	
Nicholas D. Varischetti	*		*	*

* Member
** Chairman
(1) Robert L. Hunter retired from the Board of Directors effective December 31, 2020. Steven J. Hunter, the son of Robert L. Hunter, was elected as a member of the Board of Directors effective January 1, 2021.

Audit Committee. The audit committee of the Board is composed of six members and operates under a written charter adopted by the Board of Directors. During 2020, the audit committee consisted of Directors Bauer (Chairman), Crooks, Deible, Freemer, Robert Hunter, McCarrier and Varischetti. The Board of Directors has identified Milissa S. Bauer as an audit committee financial expert. The audit committee met four times in 2020. The Board of Directors has determined that each committee member is "independent," as defined by Corporation policy, SEC rules and the NASDAQ listing standards.

The audit committee charter adopted by the Board sets forth the responsibilities, authority and specific duties of the audit committee. The full text of the audit committee charter is available on our website at www.emclairefinancial.com. Pursuant to the charter, the audit committee has the following responsibilities:

- To monitor the preparation of quarterly and annual financial reports;
- To review the adequacy of internal control systems and financial reporting procedures with management and independent auditors; and
- To review the general scope of the annual audit and the fees charged by the independent auditors.

Human Resources Committee. The human resources committee of the Board functions as the compensation committee and has the responsibility to evaluate the performance of and determine the compensation for the Chairman of the Board, President and Chief Executive Officer of the Corporation, to approve the compensation structure for senior management and the members of the Board of Directors, to review the Corporation's salary administration program and to review and administer the Corporation's bonus plans, including the management incentive program.

The human resources committee, which is currently composed entirely of independent directors, administers the Corporation's executive compensation program. In 2020, the members of the human resources committee consisted of Directors McCarrier (Chairman), Deible, Freeman, Freemer, Robert Hunter, Mason and Varischetti. All of the members meet all of the independence requirements under the listing requirements of the NASDAQ Stock Market.

The human resources committee is committed to high standards of corporate governance. The human resources committee's charter reflects the foregoing responsibilities and commitment, and the human resources committee and the Board will periodically review and revise the charter, as appropriate. The full text of the human resources committee charter is available on our website at www.emclairefinancial.com. The human resources committee's membership is determined by the Board. There were four meetings of the full human resources committee in 2020.

The human resources committee has exercised exclusive authority over the compensation paid to the Corporation's Chairman of the Board, President and Chief Executive Officer and reviews and approves salary increases and bonuses for the Corporation's other executive officers as prepared and submitted to the human resources committee by the Chairman of the Board, President and Chief Executive Officer. Although the human resources committee does not delegate any of its authority for determining executive compensation, the human resources committee has the authority under its charter to engage the services of outside advisors, experts and others to assist the human resources committee.

Nominating and Corporate Governance Committee. The Corporation has established a nominating and corporate governance committee to identify and recommend to the full Board of Directors the selection of qualified individuals to serve as Board members, recommend to the full Board director nominees for each annual meeting of shareholders, review existing corporate governance documents, establish corporate governance principles applicable to the Corporation and to govern the conduct of the Board and its members, and review nominations for director submitted by shareholders. During 2020, the members of this committee were Directors Robert Hunter (Chairman), Cox, Deible, Freemer and Mason. Each of these persons is independent within the meaning of the rules of the NASDAQ Stock Market. The nominating and corporate governance committee operates pursuant to a written charter, which can be viewed on our website at www.emclairefinancial.com. The nominating and corporate governance committee met two times in connection with the nomination for the election of directors.

The nominating and corporate governance committee considers candidates for director suggested by its members and other directors, as well as management and shareholders. The nominating and corporate governance committee also may solicit prospective nominees. The committee will also consider whether to nominate any person nominated pursuant to the provision of our bylaws relating to shareholder nominations. The nominating and corporate governance committee has the authority and ability to retain a search firm to identify or evaluate potential nominees if it so desires.

The charter of the nominating and corporate governance committee sets forth certain criteria the committee may consider when recommending individuals for nomination as director including: (a) ensuring that the Board of Directors, as a whole, is diverse and consists of individuals with various and relevant career experience, relevant technical skills, industry knowledge and experience, financial expertise (including expertise that could qualify a director as a "financial expert," as that term is defined by the rules of the SEC), local or community ties and (b) minimum individual qualifications, including strength of character, mature judgment, familiarity with our business and industry, independence of thought and an ability to work collegially. The committee also may consider the extent to which the candidate would fill a present need on the Board of Directors.

Once the nominating and corporate governance committee has identified a prospective nominee, the committee makes an initial determination as to whether to conduct a full evaluation of the candidate. This initial determination is based on whatever information is provided to the committee with the recommendation of the prospective candidate, as well as the committee's own knowledge of the prospective candidate, which may be supplemented by inquiries to the person making the recommendation or others.

Section 10.1 of our bylaws governs shareholder nominations for election to the Board of Directors and requires all nominations for election to the Board of Directors by a shareholder to be made pursuant to timely notice in writing to the Secretary of the Corporation. To be timely, a shareholders' notice must be received by the Corporation no later than 60 days prior to the annual meeting called for the election of directors. Each written notice of a shareholder nomination must set forth certain information specified in the bylaws. Any nomination of any person not made in compliance with the procedures set forth in the bylaws shall be disregarded by the presiding officer of the meeting and any votes for such nominee shall be disregarded.

PROXY

Executive Officers Who are Not Directors

Set forth below is information with respect to the principal occupations during at least the last five years for the current executive officers of the Corporation who do not serve as directors. All executive officers of the Corporation are elected annually by the Board of Directors and serve at the discretion of the Board. There are no arrangements or understandings between the executive officers and the Corporation and any person pursuant to which such persons have been selected officers. Ages are reflected as of December 31, 2020.

Jennifer A. Poulsen, age 51. Ms. Poulsen is Secretary of the Corporation and Senior Vice President and Chief Operating Officer of the Bank. Ms. Poulsen was appointed Assistant Secretary in 2018 and has served in her role at the Bank since October 2011.

Robert A. Vernick, age 54. Mr. Vernick is Senior Vice President and Chief Lending Officer of the Bank, a position he has held since July 2012.

Amanda L. Engles, age 42. Ms. Engles is Treasurer and Chief Financial Officer of the Corporation and Senior Vice President and Chief Financial Officer of the Bank, positions she has held since July 2017. Ms. Engles previously served as Principal Accounting Officer and Secretary of the Corporation as well as Vice President and Controller of the Bank since October 2007. She previously served as Treasurer of the Corporation from October 2007 through August 2010.

Eric J. Gantz, age 34. Mr. Gantz is Senior Vice President and Chief Credit Officer of the Bank, a position he has held since April 2019. Mr. Gantz previously served as Vice President and Senior Credit Officer from September 2018 through April 2019, Assistant Vice President and Senior Risk Analyst from September 2017 through September 2018 and Assistant Vice President and Senior Credit Analyst from August 2014 through September 2017.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth a summary of certain information concerning the compensation awarded to or paid by the Corporation or its subsidiaries for services rendered in all capacities during the past two years to our principal executive officer as well as our two other highest compensated executive officers in 2020 (who we refer to as “named executive officers”).

Name and Principal Position	Year	Salary	Stock Awards (1)	Non-equity Incentive Plan Compensation (2)	All Other Compensation (3)	Total
William C. Marsh, Chairman,	2020	$ 417,857	$ 122,400	$ 48,939	$ 19,757	$ 608,954
President and Chief Executive Officer	2019	375,687	127,510	74,354	48,314	625,864
Jennifer A. Poulsen, Senior Vice	2020	194,151	12,240	15,159	11,774	233,324
President, Secretary and Chief Operating Officer	2019	188,496	46,650	24,871	11,675	271,692
Robert A. Vernick, Senior Vice President,	2020	178,447	18,360	23,933	9,955	230,695
Chief Lending Officer	2019	173,250	46,650	22,859	12,176	254,935

(1) Reflects the grant date fair value, computed in accordance with FASB ASC Topic 718, for stock awards granted in 2020 and 2019 pursuant to the 2014 Stock Incentive Plan adopted in 2014. For a description of the assumptions used for purposes of determining grant date fair value, see Note 14 to the Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2020.

(2) Amounts presented for a fiscal year were paid in the next year for performance pursuant to the Corporation's Incentive Compensation Plan.

(3) Includes matching amounts and discretionary profit sharing contributions made under the Corporation’s 401(k) plan for all the named executive officers. Includes director's fees from the Corporation and the Bank totaling $30,000 for 2019 for Mr. Marsh. Starting in 2020, Mr. Marsh no longer receives director's fees.

Outside Compensation Consultants

Periodically, the Corporation retains a compensation consulting firm to review its compensation structure. The Corporation retained McLagan Partners, Inc. in 2020 and 2019 to assist the human resources committee in setting compensation levels. The human resources committee considered the consultants to be independent and concluded that the consultants had no conflicts of interest with respect to the engagements. The consultants' reviewed the Corporation's compensation practices and compared them with compensation practices of institutions similar in size and performance to the Corporation. The human resources committee considered the consultants' reviews of compensation levels in establishing the compensation amounts of the Corporation's President and Chief Executive Officer and Board of Directors.

Pension Plan

The Bank previously maintained a defined benefit pension plan for all eligible employees which was frozen in 2013. An employee became vested in the plan after three years. Upon retirement at age 65, a terminated participant is entitled to receive a monthly benefit. Prior to a 2002 amendment to the plan, the benefit formula was 1.1% of average monthly compensation plus 0.4% of average monthly compensation in excess of $675 multiplied by years of service. In 2002, the plan was amended to change the benefit structure to a cash balance formula under which the benefit payable is the actuarial equivalent of the hypothetical account balance at normal retirement age. However, the benefits already accrued by the employees prior to the amendment were not reduced. In addition, the prior benefit formula continued through December 31, 2012, as a minimum benefit. The Bank amended the defined benefit pension plan to freeze the benefits under the plan effective as of April 30, 2013, with no additional benefits to accrue after such date.

401(k) Plan

The Corporation maintains a defined contribution 401(k) plan. Employees are eligible to participate by providing tax-deferred contributions up to 20% of qualified compensation. Employee contributions are vested at all times. The Corporation provides a matching contribution of up to 4% of the participant's salary, which vest after three years. The Corporation may also make, at the sole discretion of its Board of Directors, a profit sharing contribution.

Supplemental Retirement Agreements

The Bank maintains Supplemental Executive Retirement Plan Agreements (the "SERPs") with William C. Marsh, Chairman, President and Chief Executive Officer of the Corporation and the Bank, Jennifer A. Poulsen, Secretary of the Corporation and Senior Vice President and Chief Operating Officer of the Bank and Robert A. Vernick, Senior Vice President and Chief Lending Officer of the Bank as well as other officers. The SERPs are periodically amended to conform to the current salary levels of the officers.

The SERPs are non-qualified defined benefit plans and are unfunded. The SERPs have no assets, and the benefits payable under the SERPs are not secured. The SERP participants are general creditors of the Bank in regards to their vested SERP benefits. The SERPs provide for retirement benefits upon reaching age 65, and the participants become vested in their benefits up until their normal retirement age. Upon attaining normal retirement age, Mr. Marsh, Ms. Poulsen and Mr. Vernick would be entitled to receive an annual payment of $110,000, $56,500 and $36,000, respectively, payable in equal monthly installments each year for a 20-year period under the SERPs, as amended.

Each of the SERPs provide that in the event of a change in control of the Corporation or the Bank (as defined in the agreements), the executive will receive their supplemental retirement benefits in a lump sum payment if the change in control occurs before the executive's employment is terminated and before the executive reaches normal retirement age. If a change in control had occurred on December 31, 2020, Mr. Marsh, Ms. Poulsen and Mr. Vernick would have been entitled to lump sum payments of $942,302, $411,556 and $278,878, respectively. Such payments could be limited if they are deemed "parachute payments" under Section 280G of the Internal Revenue Code, as amended.

The SERPs prohibit the executives from competing against the Bank or soliciting customers or employees of the Bank for a period of three years following a termination of employment if such termination occurs prior to a change in control. If the executives are still employed at the time of a change in control, the SERPs impose non-compete and non-solicitation provisions on Ms. Poulsen and Mr. Vernick for a period of six months following the change in control. An existing employment agreement imposes non-compete and non-solicitation provisions on Mr. Marsh for a period of 12 months following a change in control.

Employment and Change in Control Agreements

The Corporation and the Bank maintain an employment agreement with William C. Marsh to serve as Chairman, President and Chief Executive Officer. The current term of the agreement expires on December 31, 2021 and will renew for successive one-year periods each January 1 unless notice to the contrary is provided at least 30 days prior to the renewal. The agreement also provides that if the executive is terminated by the Corporation or the Bank for other than cause, disability, retirement or the executive's death or the executive terminates employment for good reason (as defined in the agreement) after a change in control of the Corporation or the Bank, then Mr. Marsh will be entitled to the payment of a lump sum cash severance amount equal to three times his average annual compensation (as defined in the agreement) during the five calendar years preceding the year of termination, the continuation of his insurance benefits for up to 36 months and a lump sum cash payment equal to the projected cost of providing certain other benefits for 36 months, provided that such payments will be limited if they are deemed "parachute payments" under Section 280G of the Internal Revenue Code as amended. The employment agreement imposes non-compete and non-solicitation provisions on Mr. Marsh for a period of 18 months if his employment is terminated prior to a change in control and for a period of 12 months if his employment is terminated concurrently with or following a change in control.

The Corporation and the Bank maintain change in control agreements with Jennifer A. Poulsen and Robert A. Vernick. The change in control agreements currently expire on December 31, 2021, and the term will renew for successive one-year periods each January 1 unless notice to the contrary is provided at least 30 days prior to the renewal. If a change in control occurs during the term of the agreements at a time when there is less than one year remaining in the term, then the remaining term of the agreements will be automatically extended until the one-year anniversary of the completion of the change in control.

The change in control agreements for Ms. Poulsen and Mr. Vernick provide that if the executive is terminated by the Corporation or the Bank (or any successor) within 24 months subsequent to a change in control of the Corporation or the Bank for other than cause, disability, retirement or the executive's death or the executive terminates employment for good reason (as defined in the agreement) after a change in control of the Corporation or the Bank, then the executive will be entitled to the payment of a lump sum cash severance amount equal to two times the executive's highest annual compensation (as defined in the agreement) during the year of termination or either of the two preceding calendar years, the continuation of the executive's insurance benefits for up to 24 months and a lump sum cash payment equal to the projected cost of providing certain other benefits for 24 months, provided that such payments will be limited if they are deemed "parachute payments" under Section 280G of the Internal Revenue Code as amended. The Corporation and the Bank have entered into similar change in control agreements with other officers.

Outstanding Equity Awards at Fiscal Year-End

The following tables set forth, with respect to the executive officers named in the Summary Compensation Table, information with respect to the number of restricted stock awards held as of December 31, 2020. All awards were granted pursuant to the Corporation's 2014 Stock Incentive Plan.

	Stock Awards		
Name	**Number of Shares of Stock Not Vested**	**Market Value of Shares of Stock Not Vested (1)**	**Vesting Date**
William C. Marsh	4,000	$ 122,520	12/07/2021
William C. Marsh	4,100	125,583	12/06/2022
William C. Marsh	5,000	153,150	12/11/2023
Jennifer A. Poulsen	1,500	45,945	12/07/2021
Jennifer A. Poulsen	1,500	45,945	12/06/2022
Jennifer A. Poulsen	500	15,315	12/11/2023
Robert A. Vernick	500	15,315	12/07/2021
Robert A. Vernick	1,500	45,945	12/06/2022
Robert A. Vernick	750	22,973	12/11/2023

(1) Based upon the fair market value of a share of common stock of the Corporation as of December 31, 2020.

Certain Transactions

Other than as set forth below, there have been no material transactions, proposed or consummated, between the Corporation and the Bank with any director or executive officer of the Corporation or the Bank, or any associate of the foregoing persons.

The Bank, like many financial institutions, has followed a written policy of granting various types of loans to officers, directors, and employees and under such policy grants a discount of 100 basis points on loans extended to all employees, including executive officers. With the exception of such policy, all loans to executive officers and directors of the Corporation and the Bank have been made in the ordinary course of business and on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the time for comparable transactions with persons not related to the Bank, and do not involve more than the normal risk of collectibility nor present other unfavorable features. All such loans are approved by the Board of Directors.

The following table presents a summary of loans in excess of $120,000 with preferential pricing (100 basis point discount) extended by the Bank to any of the Corporation's directors, executive officers or immediate family members of such individuals. In addition, the Corporation had two directors and one executive officer whose loans totaled more than $120,000 at December 31, 2020, however in these instances the loans made with preferential pricing did not exceed $120,000.

Name and Position	Type	Year Made	Highest Principal Balance During Year	Balance 12/31/20	Amount Paid During Year Principal	Amount Paid During Year Interest	Interest Rate
David L. Cox, Director	Residential Mortgage	2010	$ 137,448	$133,284	$ 4,165	$ 5,882	2.88%

Director Compensation

During 2020, directors received $1,750 per month for their services as a director of the Bank and $750 for attendance at board meetings. The Chairmen of each committee received an additional $200 per month for their services as Committee Chairmen. No additional compensation is paid for service as a director of the Corporation. In addition, non-employee directors received $400 for each Bank committee meeting that they attended during 2020.

The following table sets forth information concerning compensation paid or accrued by the Corporation and the Bank to each member of the Board of Directors with the exception of named executive officers reported within the Summary Compensation Table during the year ended December 31, 2020.

Name	Fees Earned or Paid in Cash	Stock Awards (1)	All Other Compensation (2)	Total
Milissa S. Bauer	$ 41,150	$ 18,360	$ -	$ 59,510
David L. Cox	43,150	18,360	26,000	87,510
James M. Crooks	41,550	18,360	-	59,910
Henry H. Deible	34,750	18,360	11,000	64,110
Henry H. Deible II	38,350	18,360	-	56,710
Robert W. Freeman	36,350	18,360	-	54,710
Mark A. Freemer	37,150	18,360	-	55,510
Robert L. Hunter	37,150	18,360	-	55,510
John B. Mason	42,750	18,360	-	61,110
Deanna K. McCarrier	37,950	18,360	-	56,310
Nicholas D. Varischetti	34,350	18,360	-	52,710

(1) Reflects the grant date fair value, computed in accordance with FASB ASC Topic 718, for stock awards granted in 2020 pursuant to the 2014 Stock Incentive Plan adopted in 2014. For a description of the assumptions used for purposes of determining grant date fair value, see Note 14 to the Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2020. Each director has a total of 1,850 stock awards of which 500 vest on December 7, 2021, 600 vest on December 6, 2022 and 750 vest on December 11, 2023.

(2) Reflects amounts distributed under the Corporation's Supplemental Retirement Agreement for Directors Cox and Deible.

REPORT OF THE AUDIT COMMITTEE

In discharging its oversight responsibility, the audit committee has met and held discussions with management and Crowe LLP, the independent auditors for the Corporation. Management represented to the audit committee that all consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, and the audit committee has reviewed and discussed the consolidated financial statements with management and the independent auditors.

In addition, the audit committee has discussed with the independent auditors the auditors' independence from management and the Corporation, and has received and discussed with the independent auditors the matters in the written disclosures required by the Independence Standards Board and as required under the Sarbanes-Oxley Act of 2002, including considering the permissibility of non-audit services with the auditors' independence.

The audit committee also obtained from the independent auditors a formal written statement describing all relationships between the Corporation and Crowe LLP that bear on the auditors' independence consistent with the applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the audit committee concerning independence. The audit committee discussed with the independent auditors any relationships that may impact the firm's objectivity and independence and satisfied itself as to the auditors' independence.

Based on these discussions and reviews, the audit committee recommended that the Board of Directors approve the inclusion of the Corporation's audited consolidated financial statements in its Annual Report on Form 10-K for the year ended December 31, 2020, for filing with the SEC.

Respectfully submitted by the members of the audit committee of the Board of Directors:

Milissa S. Bauer, Chairman
James M. Crooks
Henry H. Deible
Mark A. Freemer
Robert L. Hunter
Deanna K. McCarrier
Nicholas D. Varischetti

PROPOSAL TO ADOPT THE 2021 STOCK INCENTIVE PLAN

General

The Board of Directors has adopted the 2021 Stock Incentive Plan which is designed to attract and retain qualified personnel in key positions, provide officers and key employees with a proprietary interest in the Corporation as an incentive to contribute to the success of the Corporation and reward key employees for outstanding performance. The Incentive Plan is also designed to attract and retain qualified directors for the Corporation. The Incentive Plan provides for the grant of incentive stock options intended to comply with the requirements of Section 422 of the Code ("incentive stock options"), non-incentive or compensatory stock options and share awards of restricted stock, which may be based upon performance goals (collectively "Awards"). Awards will be available for grant to officers, key employees and directors of the Corporation and any subsidiaries.

Description of the Incentive Plan

The following description of the 2021 Stock Incentive Plan is a summary of its terms and is qualified in its entirety by reference to the Incentive Plan, a copy of which is attached to this proxy statement as Appendix A.

Administration. The Incentive Plan will be administered and interpreted by a committee of the Board of Directors that is comprised solely of two or more non-employee directors. The Human Resources Committee of the Board of Directors, currently comprised of Ms. McCarrier (Chairman), Messrs. Deible Freeman, Freemer, Hunter, Mason and Varischetti, will serve as the committee to administer the plan.

Stock Options. Under the Incentive Plan, the Board of Directors or the committee will determine which officers, key employees and non-employee directors will be granted options, whether such options will be incentive or compensatory options (in the case of options granted to employees), the number of shares subject to each option, the exercise price of each option, whether such options may be exercised by delivering other shares of common stock and when such options become exercisable. The per share exercise price of a stock option shall be at least equal to the fair market value of a share of common stock on the date the option is granted. Non-employee directors are not eligible to receive incentive stock options under the plan.

All options granted to participants under the Incentive Plan shall become vested and exercisable at the rate, and subject to such limitations, as specified by the Board of Directors or the committee at the time of grant. Notwithstanding the foregoing, no vesting shall occur on or after a participant's employment or service with the Corporation is terminated for any reason other than his death, disability or retirement. Unless the committee or Board of Directors shall specifically state otherwise at the time an option is granted, all options granted to participants shall become vested and exercisable in full on the date an optionee terminates his employment or service with the Corporation or a subsidiary company because of his death, disability or retirement. In addition, all stock options will become vested and exercisable in full upon a change in control of the Corporation, as defined in the plan.

Each stock option or portion thereof shall be exercisable at any time on or after it vests and is exercisable until the earlier of ten years after its date of grant or six months after the date on which the employee's employment terminated (three years after termination of service in the case of non-employee directors), unless extended by the committee or the Board of Directors to a period not to exceed five years from such termination. Unless stated otherwise at the time an option is granted (i) if an employee terminates his employment with the Corporation as a result of disability or retirement without having fully exercised his options, the optionee shall have two years following his termination due to disability or retirement to exercise such options, and (ii) if an optionee terminates his employment or service with the Corporation following a change in control of the Corporation without having fully exercised his options, the optionee shall have the right to exercise such options during the remainder of the original ten year term of the option. However, failure to exercise incentive stock options within three months after the date on which the optionee's employment terminates (or within one year for termination due to disability) may result in adverse tax consequences to the optionee. If an optionee dies while serving as an employee or a non-employee director or terminates employment or service as a result of disability or retirement and dies without having fully exercised his options, the optionee's executors, administrators, legatees or distributees of his estate shall have the right to exercise such options during the two year period following his death, provided no option will be exercisable more than ten years from the date it was granted.

Stock options are non-transferable except by will or the laws of descent and distribution. Notwithstanding the foregoing, an optionee who holds non-qualified options may transfer such options to his or her spouse, lineal ascendants, lineal descendants, or to a duly established trust for the benefit of one or more of these individuals. Options so transferred may thereafter be transferred only to the optionee who originally received the grant or to an individual or trust to whom the optionee could have initially transferred the option. Options which are so transferred shall be exercisable by the transferee according to the same terms and conditions as applied to the optionee.

Payment for shares purchased upon the exercise of options may be made (i) in cash or by check, (ii) by delivery of a properly executed exercise notice, together with irrevocable instructions to a broker to sell the shares and then to properly deliver to the Corporation the amount of sale proceeds to pay the exercise price, all in accordance with applicable laws and regulations, (iii) at the discretion of the board or the committee, by delivering shares of common stock (including shares acquired pursuant to the exercise of an option) equal in fair market value to the purchase price of the shares to be acquired pursuant to the option, (iv) at the discretion of the Board or the committee, by withholding some of the shares of common stock which are being purchased upon exercise of an option, or (v) any combination of the foregoing. With respect to subclause (iii) hereof, the shares of common stock delivered to pay the purchase price must have either been (x) purchased in open market transactions or (y) issued by the Corporation pursuant to a plan thereof, in each case more than six months prior to the exercise date of the option.

Share Awards. Under the Incentive Plan, the Board of Directors or the committee is authorized to grant share awards, which are a right to receive a distribution of shares of common stock. Shares of common stock granted pursuant to a share award will be in the form of restricted stock which shall vest upon such terms and conditions as established by the committee. The Board or the committee will determine which officers, key employees and directors will be granted share awards, the number of shares subject to each share award, whether the share award is contingent upon achievement of certain performance goals and the performance goals, if any, required to be met in connection with a share award.

If the employment or service of a share award recipient is terminated before the share award is completely earned, the recipient will forfeit the right to any shares subject to the share award that has not been earned, except as set forth below. All shares subject to a share award held by a recipient whose employment or service with the Corporation or a subsidiary company terminates due to death or disability will be deemed fully earned as of the recipient's last day of employment or service. In addition, all shares subject to a share award held by a recipient will be deemed to be fully earned as of the effective date of a change of control of the Corporation.

A recipient of a share award will not be entitled to receive any dividends declared on the common stock and will not be entitled to any voting rights with respect to an unvested share award until it vests. Share awards are not transferable by the recipient and shares subject to a share award may only be earned by and paid to the recipient who was notified in writing of such award by the Board or the committee.

The Board or the committee may determine to make any share award a performance share award by making such award contingent upon the achievement of a performance goal, or any combination of performance goals. Each performance share award will be evidenced by a written agreement setting forth the performance goals applicable to such award. All determinations regarding the achievement of any performance goal will be made by the committee. Notwithstanding anything to the contrary in the Incentive Plan, a recipient of a performance award shall have no rights as a stockholder until the shares of common stock covered by the performance share award are issued to the recipient according to the terms thereof.

Number of Shares Covered by the Incentive Plan. A total of 204,091 shares of common stock, which is equal to approximately 7.5% of the issued and outstanding common stock, has been reserved for future issuance pursuant to the Incentive Plan. In the event of a stock split, reverse stock split, subdivision, stock dividend or any other capital adjustment, the number of shares of common stock under the Incentive Plan, the number of shares to which any Award relates and the exercise price per share under any option shall be adjusted to reflect such increase or decrease in the total number of shares of common stock outstanding or such capital adjustment.

Amendment and Termination of the Incentive Plan. The Board of Directors may at any time terminate or amend the Incentive Plan with respect to any shares of common stock as to which Awards have not been granted, subject to any required stockholder approval or any stockholder approval which the board may deem to be advisable. The board of directors may not, without the consent of the holder of an Award, alter or impair any Award previously granted or awarded under the Incentive Plan except as specifically authorized by the plan.

Unless sooner terminated, the Incentive Plan shall continue in effect for a period of ten years from February 17, 2021, the date that the Incentive Plan was adopted by the board of directors. Termination of the Incentive Plan shall not affect any previously granted Awards.

Awards to be Granted. The Corporation has not made any determination as to the timing or recipients of grants of Awards under the Incentive Plan.

Awards Granted or Available Under Existing Plans. As of December 31, 2020, awards covering 81,650 shares of restricted common stock were granted under the Corporation's existing stock incentive plan and 6,783 shares were available for the grant of future share awards under such plan. In recent years, the Corporation has only granted share awards under the plan and not stock options.

Equity Compensation Plan Information. The following table sets forth certain information for all equity compensation plans (other than the proposed 2021 Stock Incentive Plan) in effect as of December 31, 2020, which consists of the 2014 Stock Incentive Plan.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)	Weighted-average exercise price of outstanding options, warrants and rights (1)	Number of securities remaining available for issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders	—	$ —	95,216
Equity compensation plans not approved by security holders	—	—	—
Total	—	$ —	95,216

(1) The 2014 Stock Incentive Plan provides for issuance of up to 176,866 shares of common stock pursuant to the grant of stock options and restricted common stock (with no more than 88,433 shares of restricted common stock to be issued under the plan). No options to purchase shares of common stock were ever granted or issued under the plan and 81,650 shares of restricted common stock were granted, 54,733 of which were not yet vested or issued as of December 31, 2020.

Federal Income Tax Consequences. Set forth below is a summary of the federal income tax consequences under the Internal Revenue Code relating to awards which may be granted under the Incentive Plan.

Incentive Stock Options. No taxable income is recognized by the optionee upon the grant or exercise of an incentive stock option that meets the requirements of Section 422 of the Code. However, the exercise of an incentive stock option may result in alternative minimum tax liability for the optionee. If no disposition of shares issued to an optionee pursuant to the exercise of an incentive stock option is made by the optionee within two years from the date of grant or within one year after the date of exercise, then upon sale of such shares, any amount realized in excess of the exercise price (the amount paid for the shares) will be taxed to the optionee as a long-term capital gain and any loss sustained will be a long-term capital loss, and no deduction will be allowed to the Corporation for federal income tax purposes.

If shares of common stock acquired upon the exercise of an incentive stock option are disposed of prior to the expiration of the two-year and one-year holding periods described above (a "disqualifying disposition"), the optionee generally will recognize ordinary income in the year of disposition in an amount equal to the excess (if any) of the fair market value of the shares on the date of exercise (or, if less, the amount realized on an arm's length sale of such shares) over the exercise price of the underlying options, and the Corporation will be entitled to deduct such amount. Any gain realized from the shares in excess of the amount taxed as ordinary income will be taxed as capital gain and will not be deductible by the Corporation.

PROXY

An incentive stock option will not be eligible for the tax treatment described above if it is exercised more than three months following termination of employment, except in certain cases where the incentive stock option is exercised after the death or permanent and total disability of the optionee. If an incentive stock option is exercised at a time when it no longer qualifies for the tax treatment described above, the option will be treated as a nonqualified stock option.

Nonqualified Stock Options. No taxable income is recognized by the optionee at the time a nonqualified stock option is granted under the Incentive Plan. Generally, on the date of exercise of a nonqualified stock option, ordinary income is recognized by the optionee in an amount equal to the difference between the exercise price and the fair market value of the shares on the date of exercise, and the Corporation receives a tax deduction for the same amount. Upon disposition of the shares acquired, an optionee generally recognizes the appreciation or depreciation on the shares after the date of exercise as either short-term or long-term capital gain or loss depending on how long the shares have been held. In general, common stock issued upon exercise of an option granted under the Incentive Plan will be transferable and not subject to a risk of forfeiture at the time issued.

Share Awards. No taxable income is recognized by the recipient of a share award at the time the award is granted under the Incentive Plan, unless the recipient makes an election to accelerate the recognition of income as described below. Pursuant to Section 83 of the Code, recipients of share awards will recognize ordinary income in an amount equal to the fair market value of the shares of common stock granted to them at the time that the shares vest and become transferable. A recipient of a share award may elect, however, to accelerate the recognition of income with respect to his or her grant to the time when shares of common stock are first transferred to him or her, notwithstanding the vesting schedule of such awards. The Corporation will be entitled to deduct as a compensation expense for tax purposes the same amounts recognized as income by recipients of share awards in the year in which such amounts are included in income.

Code Section 162(m). Section 162(m) of the Code generally limits the deduction for certain compensation in excess of $1 million per year paid by a publicly-traded corporation to its chief executive officer, its chief financial officer and the three other most highly compensated executive officers ("covered executive"). In addition, any officer who is deemed to be a covered executive for any tax year beginning after December 31, 2017 continues to remain a covered executive following his termination of employment, and the deductibility of any compensation paid to a covered executive after his termination of employment (or to his beneficiary following his death) is subject to the $1 million per year limit. The prior Section 162(m) exemption for performance-based compensation was repealed in 2017. As a result, it is possible that we may not be able to fully deduct compensation recognized by a participant with respect to awards granted under the 2021 Plan even if such awards are subject to the satisfaction of performance goals. The Board of Directors believes that the likelihood of any impact on the Corporation from the deduction limitation contained in Section 162(m) of the Code is remote at this time.

The above description of tax consequences under federal income tax law is necessarily general in nature and does not purport to be complete. Moreover, statutory provisions are subject to change, as are their interpretations, and their application may vary in individual circumstances. Finally, the consequences under applicable state and local income tax laws may not be the same as under the federal income tax laws.

Accounting Treatment. The Corporation will generally recognize compensation expense with respect to the granting of stock options and restricted stock awards over the vesting period associated with such awards. For stock options, the compensation expense is based on the grant-date fair value of the option, using an option-pricing model. For restricted stock awards, the amount of compensation expense recognized for accounting purposes is based upon the fair market value of the common stock at the date of grant to recipients, rather than the fair market value at the time of vesting for tax purposes, unless the grants are performance based. For performance-based awards, compensation expense will be based on the probable outcome of the performance condition. Compensation expense will be recognized over the requisite service period if it is probable that the performance condition will be satisfied, with the amount recognized based on the extent to which the performance condition has been satisfied. Compensation expense will not be accrued if it is not probable that the performance condition will be achieved. The granting of plan share awards will have the effect of increasing the Corporation's compensation expense and will be a factor in determining the Corporation's earnings per share on a fully diluted basis.

Stockholder Approval. No Awards will be granted under the Incentive Plan unless the Incentive Plan is approved by shareholders. Shareholder ratification of the Incentive Plan will satisfy listing requirements of the NASDAQ Stock Market and certain federal tax requirements applicable to incentive stock options.

The Board of Directors recommends that stockholders vote "FOR" the adoption of the 2021 Stock Incentive Plan.

RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The audit committee of the Board of Directors of the Corporation has appointed BKD, LLP, Certified Public Accountants, to perform the audit of the Corporation's consolidated financial statements for the year ending December 31, 2021, and has further directed that the selection of BKD as the Corporation's independent registered public accounting firm be submitted for ratification by the shareholders at the annual meeting. The Corporation has been advised by BKD that neither the firm nor any of its associates has any relationship with the Corporation other than the usual relationship that exists between independent public accountants and clients. BKD will have a representative at the annual meeting who will have an opportunity to make a statement, if he or she so desires, and who will be available to respond to appropriate questions.

Vote Required; Effect

Unless instructed to the contrary, it is intended that proxies will be voted for the ratification of the selection of BKD, as the Corporation's independent registered public accounting firm for the fiscal year ending December 31, 2021. Ratification of BKD as the Corporation's independent registered public accounting firm will require the affirmative vote of a majority of the shares of common stock present in person or by proxy at the annual meeting.

Recommendation of the Board of Directors

The Board of Directors recommends that shareholders vote "FOR" the ratification of the appointment by the audit committee of the Board of Directors of BKD, LLP as the Corporation's independent registered public accounting firm for the year ending December 31, 2021.

It is understood that even if the selection of BKD is ratified, the Board of Directors, in its discretion, may direct the appointment of a new independent registered public accounting firm at any time during the year if the Board of Directors determines that such a change would be in the best interest of the Corporation and its shareholders.

PROXY

RELATIONSHIP WITH INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

General

The audit committee of the Board of Directors has appointed BKD, LLP, Certified Public Accountants, as the independent registered public accounting firm to audit the Corporation's financial statements for the year ending December 31, 2021. In addition to performing customary audit services related to the audit of the Corporation's financial statements, BKD will perform required retirement plan audits.

The audit committee selects the Corporation's independent registered public accounting firm and separately pre-approves all audit services to be provided by it to the Corporation. The audit committee also reviews and separately pre-approves all audit-related, tax and all other services rendered by our independent registered public accounting firm in accordance with the audit committee's charter and policy on pre-approval of audit-related, tax and other services. In its review of these services and related fees and terms, the audit committee considers, among other things, the possible effect of the performance of such services on the independence of our independent registered public accounting firm.

Change in Auditors

Crowe performed audits of the Corporation's consolidated financial statements for the years ended December 31, 2020 and 2019. Crowe's reports did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. During the two years ended December 31, 2020, there were no (i) disagreements between the Corporation and Crowe on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to its satisfaction, would have caused Crowe to make reference to the subject matter of such disagreements in connection with its report, or (ii) "reportable events," as described in Item 304(a)(1)(v) of Regulation S-K promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended. During the two years ended December 31, 2020 and through the engagement of BKD as the Corporation's independent registered public accounting firm, neither the Corporation nor anyone on its behalf had consulted BKD with respect to any accounting or auditing issues involving the Corporation.

Auditor Fees

The following table sets forth the aggregate fees paid by us to Crowe for professional services rendered in connection with the audit of the Corporation's consolidated financial statements for 2020 and 2019, as well as the fees paid for audit-related services, tax services and all other services rendered by Crowe in 2020 and 2019.

	2020	2019
Audit fees (1)	$ 159,500	$ 122,000
Audit-related fees (2)	26,000	26,000
Tax fees	24,763	48,201
Total	$ 210,263	$ 196,201

(1) The audit fees include only fees that are customary under generally accepted auditing standards and are the aggregate fees the Corporation incurred for professional services rendered for the audit of the Corporation's annual financial statements for fiscal years 2020 and 2019 and the reviews of the financial statements included in the Corporation's Quarterly Reports on Forms 10-Q for fiscal years 2020 and 2019.

(2) The audit-related fees include audits of the Corporation's benefit plans for both years. These audit-related services are assurance and related services that are reasonably related to the performance of the audit or review of the Corporation's financial statements.

ANNUAL REPORT

A copy of the Corporation's Annual Report for its fiscal year ended December 31, 2020, is being mailed with this Proxy Statement and is available over the Internet at www.emclairefinancial.com. **Such Annual Report is not to be treated as part of the proxy solicitation material or having been incorporated herein by reference.**

SHAREHOLDER PROPOSALS

Any shareholder who, in accordance with and subject to the provisions of the proxy rules of the SEC, wishes to submit a proposal for inclusion in the Corporation's proxy statement for its 2022 Annual Meeting of Shareholders to be held in April 2022 must deliver such proposal in writing to the Secretary of Emclaire Financial Corp at the principal executive offices of the Corporation at 612 Main Street, Post Office Box D, Emlenton, Pennsylvania 16373, no later than November 21, 2021.

Under the Corporation's current bylaws, business proposal nominations for directors other than those to be included in the Corporation's proxy materials following the procedures described in Rule 14a-8 under the 1934 Act, may be made by shareholders entitled to vote at the meeting if notice is timely given and if the notice contains the information required by the bylaws. Nominations must be received no less than sixty (60) days prior to the annual meeting.

In the event the Corporation receives notice of a shareholder proposal to take action at next year's annual meeting of shareholders that is not submitted for inclusion in the Corporation's proxy material, or is submitted for inclusion but is properly excluded from the proxy material, the persons named in the proxy sent by the Corporation to its shareholders intend to exercise their discretion to vote on the shareholder proposal in accordance with their best judgment.

SHAREHOLDER COMMUNICATION WITH THE BOARD

The Corporation does not have a formal procedure for shareholder communication with its Board of Directors. In general, officers are easily accessible by telephone or mail. Any matter intended for the Board, or for any individual member or members of the Board, should be directed to the President with a request to forward the same to the intended recipient. In the alternative, shareholders can send correspondence to the Board to the attention of the Board Chairman, William C. Marsh, or to the attention of the Chairman of the Audit Committee, Milissa S. Bauer, in care of the Corporation at the Corporation's address. All such communications will be forwarded unopened.

OTHER MATTERS

The Board of Directors does not know of any matters to be presented for consideration other than the matters described in the Notice of Meeting, but if any matters are properly presented, it is the intention of the persons named in the accompanying proxy to vote on such matters in accordance with their judgment.

ADDITIONAL INFORMATION

Upon written request, a copy of the Corporation's Annual Report on Form 10-K for the year ended December 31, 2020 may be obtained, without charge from Jennifer A. Poulsen, Secretary, Emclaire Financial Corp, 612 Main Street, Post Office Box D, Emlenton, Pennsylvania 16373. In addition, the Corporation files reports with the SEC. Free copies can be obtained from the SEC website at www.sec.gov or on the Corporation's website at www.emclairefinancial.com.

APPENDIX A

EMCLAIRE FINANCIAL CORP 2021 STOCK INCENTIVE PLAN

ARTICLE I ESTABLISHMENT OF THE PLAN

Emclaire Financial Corp (the "Corporation") hereby establishes this 2021 Stock Incentive Plan (the "Plan") upon the terms and conditions hereinafter stated.

ARTICLE II PURPOSE OF THE PLAN

The purpose of this Plan is to improve the growth and profitability of the Corporation and its Subsidiary Companies by providing Employees and Non-Employee Directors with a proprietary interest in the Corporation as an incentive to contribute to the success of the Corporation and its Subsidiary Companies, and rewarding Employees for outstanding performance and the attainment of targeted goals. All Incentive Stock Options issued under this Plan are intended to comply with the requirements of Section 422 of the Code and the regulations thereunder, and all provisions hereunder shall be read, interpreted and applied with that purpose in mind.

ARTICLE III DEFINITIONS

3.01 "Award" means an Option or Share Award granted pursuant to the terms of this Plan.

3.02 "Bank" means The Farmers National Bank of Emlenton, the wholly owned subsidiary of the Corporation.

3.03 "Beneficiary" means the person or persons designated by a Recipient or Optionee to receive any benefits payable under the Plan in the event of such Recipient's death. Such person or persons shall be designated in writing on forms provided for this purpose by the Committee and may be changed from time to time by similar written notice to the Committee. In the absence of a written designation, the Beneficiary shall be the Recipient's surviving spouse, if any, or if none, his estate.

3.04 "Board" means the Board of Directors of the Corporation.

3.05 "Change in Control" shall mean a change in the ownership of the Corporation or the Bank, a change in the effective control of the Corporation or the Bank or a change in the ownership of a substantial portion of the assets of the Corporation or the Bank, in each case as provided under Section 409A of the Code and the regulations thereunder.

3.06 "Code" means the Internal Revenue Code of 1986, as amended.

3.07 "Committee" means a committee of two or more directors appointed by the Board pursuant to Article IV hereof.

3.08 "Common Stock" means shares of the common stock, $1.25 par value per share, of the Corporation.

3.09 "Disability" means in the case of any Optionee or Recipient that the Optionee or Recipient: (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Corporation or the Bank (or would have received such benefits for at least three months if he had been eligible to participate in such plan).

3.10 "Effective Date" means the day upon which the Board approves this Plan.

3.11 "Employee" means any person who is employed by the Corporation or a Subsidiary Company, or is an Officer of the Corporation or a Subsidiary Company, but not including directors who are not also Officers of or otherwise employed by the Corporation or a Subsidiary Company.

3.12 "Exchange Act" means the Securities Exchange Act of 1934, as amended.

3.13 "Exercise Price" means the price at which a share of Common Stock may be purchased by an Optionee pursuant to an Option.

3.14 "Fair Market Value" shall be equal to the fair market value per share of the Corporation's Common Stock on the date an Award is granted. For purposes hereof, the Fair Market Value of a share of Common Stock shall be the closing sale price of a share of Common Stock on the date in question (or, if such day is not a trading day in the U.S. markets, on the nearest preceding trading day), as reported with respect to the principal market (or the composite of the markets, if more than one) or national quotation system in which such shares are then traded, or if no such closing prices are reported, the mean between the high bid and low asked prices that day on the principal market or national quotation system then in use. Notwithstanding the foregoing, if the Common Stock is not readily tradable on an established securities market for purposes of Section 409A of the Code, then the Fair Market Value shall be determined by means of a reasonable valuation method that takes into consideration all available information material to the value of the Corporation and that otherwise satisfies the requirements applicable under Section 409A of the Code and the regulations thereunder.

3.15 "Incentive Stock Option" means any Option granted under this Plan which the Board intends (at the time it is granted) to be an incentive stock option within the meaning of Section 422 of the Code or any successor thereto.

3.16 "Non-Employee Director" means a member of the Board of the Corporation or Board of Directors of the Bank, including an advisory director or a director emeritus of the Board of the Corporation and/or the Bank, who is not an Officer or Employee of the Corporation or any Subsidiary Company.

3.17 "Non-Qualified Option" means any Option granted under this Plan which is not an Incentive Stock Option.

3.18 "Officer" means an Employee whose position in the Corporation or Subsidiary Company is that of a corporate officer, as determined by the Board.

3.19 "Option" means a right granted under this Plan to purchase Common Stock and includes both Incentive Stock Options and Non-Qualified Options..

3.20 "Optionee" means an Employee or Non-Employee Director or former Employee or Non-Employee Director to whom an Option is granted under the Plan.

3.21 "Performance Share Award" means a Share Award granted to a Recipient pursuant to Section 9.06 of the Plan.

3.22 "Performance Goal" means an objective for the Corporation or any Subsidiary Company or any unit thereof or any Employee of the foregoing that may be established by the Committee for a Performance Share Award to become vested, earned or exercisable. The Performance Goals shall be based on one or more of the following criteria:

(i) net income, as adjusted for non-recurring items;
(ii) cash earnings;
(iii) earnings per share;
(iv) cash earnings per share;
(v) return on average equity;
(vi) return on average common equity;
(vii) return on average assets;
(viii) assets;
(ix) stock price;
(x) total stockholder return;
(xi) capital;
(xii) net interest income;
(xiii) market share;
(xiv) cost control or efficiency ratio;
(xv) asset growth;
(xvi) asset quality;
(xvii) deposit growth; and
(xviii) loan production.

3.23 "Recipient" means an Employee who receives a Share Award or Performance Share Award under the Plan.

3.24 "Retirement" means:

(a) A termination of employment which constitutes a "retirement" at the "normal retirement age" or later under any tax-qualified defined benefit pension plan maintained by the Corporation or a Subsidiary Company as may be designated by the Board or the Committee, or, if no such plan is applicable, which would constitute "retirement" under the Corporation's 401(k) plan if such individual were a participant in that plan; provided, however, that the provisions of this subsection (a) will not apply as long as an Optionee continues to serve as a Non-Employee Director, including service as an Advisory Director.

(b) With respect to Non-Employee Directors, retirement means retirement from service on the Board of Directors of the Corporation or a Subsidiary Company or any successors thereto (including retirement from service as an Advisory Director to the Corporation or any Subsidiary Company) after reaching normal retirement age as established by the Corporation.

3.25 "Share Award" means a right granted under this Plan to receive a distribution of shares of Common Stock upon completion of the service and other requirements described in Article IX and includes Performance Share Awards.

3.26 **"**Subsidiary Companies" means those subsidiaries of the Corporation, including the Bank, which meet the definition of "subsidiary corporations" set forth in Section 425(f) of the Code, at the time of granting of the Award in question.

ARTICLE IV
ADMINISTRATION OF THE PLAN

4.01 **Duties of the Committee**. The Plan shall be administered and interpreted by the Committee, as appointed from time to time by the Board pursuant to Section 4.02. The Committee shall have the authority to adopt, amend and rescind such rules, regulations and procedures as, in its opinion, may be advisable in the administration of the Plan, including, without limitation, rules, regulations and procedures which (i) deal with satisfaction of an Optionee's tax withholding obligation pursuant to Section 13.02 hereof, (ii) include arrangements to facilitate the Optionee's ability to borrow funds for payment of the exercise or purchase price of an Award, if applicable, from securities brokers and dealers, and (iii) include arrangements which provide for the payment of some or all of such exercise or purchase price by delivery of previously-owned shares of Common Stock or other property and/or by withholding some of the shares of Common Stock which are being acquired. The interpretation and construction by the Committee of any provisions of the Plan, any rule, regulation or procedure adopted by it pursuant thereto or of any Award shall be final and binding in the absence of action by the Board.

4.02 **Appointment and Operation of the Committee** The members of the Committee shall be appointed by, and will serve at the pleasure of, the Board. The Board from time to time may remove members from, or add members to, the Committee, provided the Committee shall continue to consist of two or more members of the Board, each of whom shall be a Non-Employee Director, as defined in Rule 16b-3(b)(3)(i) of the Exchange Act or any successor thereto. In addition, each member of the Committee shall be an "independent director" as such term is defined in Rule 5605(a)(2) of the Marketplace Rules of the Nasdaq Stock Market or any successor thereto. The Committee shall act by vote or written consent of a majority of its members. Subject to the express provisions and limitations of the Plan, the Committee may adopt such rules, regulations and procedures as it deems appropriate for the conduct of its affairs. It may appoint one of its members to be chairman and any person, whether or not a member, to be its secretary or agent. The Committee shall report its actions and decisions to the Board at appropriate times but in no event less than one time per calendar year.

4.03 **Revocation for Misconduct**. The Board or the Committee may by resolution immediately revoke, rescind and terminate any Award, or portion thereof, to the extent not yet vested or exercised, previously granted or awarded under this Plan to an Employee who is discharged from the employ of the Corporation or a Subsidiary Company for cause, which, for purposes hereof, shall mean termination because of the Employee's personal dishonesty, incompetence, willful misconduct, breach of fiduciary duty involving personal profit, intentional failure to perform stated duties, willful violation of any law, rule, or regulation (other than traffic violations or similar offenses) or final cease-and-desist order. Awards granted to a Non-Employee Director who is removed for cause pursuant to the Corporation's Articles of Incorporation and Bylaws or the Bank's Articles of Incorporation and Bylaws shall terminate as of the effective date of such removal.

4.04 Limitation on Liability. Neither the members of the Board nor any member of the Committee shall be liable for any action or determination made in good faith with respect to the Plan, any rule, regulation or procedure adopted by it pursuant thereto or any Awards granted under it. If a member of the Board or the Committee is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of anything done or not done by him in such capacity under or with respect to the Plan, the Corporation shall, subject to the requirements of applicable laws and regulations, indemnify such member against all liabilities and expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in the best interests of the Corporation and its Subsidiary Companies and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful.

4.05 Compliance with Laws and Regulations. All Awards granted hereunder shall be subject to all applicable federal and state laws, rules and regulations and to such approvals by any government or regulatory agency as may be required. The Corporation shall not be required to issue or deliver any certificates for shares of Common Stock prior to the completion of any registration or qualification of or obtaining of consents or approvals with respect to such shares under any federal or state law or any rule or regulation of any government body, which the Corporation shall, in its sole discretion, determine to be necessary or advisable. Moreover, no Option may be exercised if such exercise would be contrary to applicable laws and regulations.

4.06 Restrictions on Transfer. The Corporation may place a legend upon any certificate representing shares acquired pursuant to an Award granted hereunder noting that the transfer of such shares may be restricted by applicable laws and regulations.

4.07 No Deferral of Compensation Under Section 409A of the Code. All Awards granted under the Plan are designed to not constitute a deferral of compensation for purposes of Section 409A of the Code. Notwithstanding any other provision in this Plan to the contrary, all of the terms and conditions of any Options granted under this Plan shall be designed to satisfy the exemption for stock options set forth in the regulations issued under Section 409A of the Code. Both this Plan and the terms of all Options granted hereunder shall be interpreted in a manner that requires compliance with all of the requirements of the exemption for stock options set forth in the regulations issued under Section 409A of the Code. No Optionee shall be permitted to defer the recognition of income beyond the exercise date of a Non-Qualified Option or beyond the date that the Common Stock received upon the exercise of an Incentive Stock Option is sold. No Recipient shall be permitted to defer the recognition of income beyond the date a Share Award shall be deemed earned pursuant to Article IX of this Plan.

ARTICLE V
ELIGIBILITY

Awards may be granted to such Employees and Non-Employee Directors of the Corporation and its Subsidiary Companies as may be designated from time to time by the Board or the Committee. Awards may not be granted to individuals who are not Employees or Non-Employee Directors of either the Corporation or its Subsidiary Companies. Non-Employee Directors shall not be eligible to receive Incentive Stock Options under the Plan.

ARTICLE VI
COMMON STOCK COVERED BY THE PLAN

6.01 Number of Shares. The aggregate number of shares of Common Stock which may be issued pursuant to this Plan, subject to adjustment as provided in Article X, shall be 204,091. None of such shares shall be the subject of more than one Award at any time, but if an Option or Share Award as to any shares is surrendered before exercise or vesting or expires or terminates for any reason without having been exercised or vesting in full, the number of shares covered thereby shall again become available for grant under the Plan as if no Awards had been previously granted with respect to such shares. Other than the above-referenced maximum of 204,091 shares (as such amount may be adjusted pursuant to Article X) that may be issued pursuant to this Plan, there is no limit on the number of shares that may be covered by Incentive Stock Options, Non-Qualified Options or Share Awards.

6.02 Source of Shares. The shares of Common Stock issued under the Plan may be authorized but unissued shares, treasury shares or shares purchased by the Corporation on the open market or from private sources for use under the Plan.

ARTICLE VII
DETERMINATION OF
AWARDS, NUMBER OF SHARES, ETC.

7.01 Determination of Awards. The Board or the Committee shall, in its discretion, determine from time to time which Employees and Non-Employee Directors will be granted Awards under the Plan, the number of shares of Common Stock subject to each Award, whether each Option will be an Incentive Stock Option or a Non-Qualified Stock Option and the Exercise Price of an Option, the vesting requirements and the features of an Award and whether a Share Award will be a Performance Share Award. In making all such determinations there shall be taken into account the duties, responsibilities and performance of each Optionee, his present and potential contributions to the growth and success of the Corporation, his salary and such other factors deemed relevant to accomplishing the purposes of the Plan.

ARTICLE VIII
OPTIONS

Each Option granted hereunder shall be on the following terms and conditions:

8.01 Stock Option Agreement. The proper Officers on behalf of the Corporation and each Optionee shall execute a Stock Option Agreement which shall set forth the total number of shares of Common Stock to which it pertains, the exercise price, whether it is a Non-Qualified Option or an Incentive Stock Option, and such other terms, conditions, restrictions and privileges as the Board or the Committee in each instance shall deem appropriate, provided they are not inconsistent with the terms, conditions and provisions of this Plan. Each Optionee shall receive a copy of his executed Stock Option Agreement. Any Option granted with the intention that it will be an Incentive Stock Option but which fails to satisfy a requirement for Incentive Stock Options shall continue to be valid and shall be treated as a Non-Qualified Option.

8.02 Option Exercise Price.

(a) Incentive Stock Options. The per share price at which the subject Common Stock may be purchased upon exercise of an Incentive Stock Option shall be no less than one hundred percent (100%) of the Fair Market Value of a share of Common Stock at the time such Incentive Stock Option is granted, except as provided in Section 8.09(b).

(b) Non-Qualified Options. The per share price at which the subject Common Stock may be purchased upon exercise of a Non-Qualified Option shall be established by the Committee at the time of grant, but in no event shall be less than one hundred percent (100%) of the Fair Market Value of a share of Common Stock at the time such Non-Qualified Option is granted.

8.03 Vesting and Exercise of Options.

(a) General Rules. Incentive Stock Options and Non-Qualified Options shall become vested and exercisable at the rate, to the extent and subject to such limitations as may be specified by the Board or the Committee. Notwithstanding the foregoing, except as provided in Section 8.03(b) hereof, no vesting shall occur on or after an Optionee's employment or service as a Non-Employee Director with the Corporation and all Subsidiary Companies is terminated for any reason other than his death, Disability, Retirement or a Change in Control. In determining the number of shares of Common Stock with respect to which Options are vested and/or exercisable, fractional shares will be rounded up to the nearest whole number if the fraction is 0.5 or higher, and down if it is less.

(b) Accelerated Vesting. Unless the Committee or Board shall specifically state otherwise at the time an Option is granted, all Options granted under this Plan shall become vested and exercisable in full on the date an Optionee terminates his employment with the Corporation or a Subsidiary Company or service as a Non-Employee Director because of his death, Disability or Retirement. In addition, all outstanding Options shall become immediately vested and exercisable in full as of the effective date of a Change in Control.

8.04 Duration of Options.

(a) Employee Grants. Except as provided in Sections 8.04(c) and 8.09, each Option or portion thereof granted to an Employee shall be exercisable at any time on or after it vests and remain exercisable until the earlier of (i) ten (10) years after its date of grant or (ii) six (6) months after the date on which the Employee ceases to be employed by Corporation and all Subsidiary Companies, or any successor thereto, unless the Board or the Committee in its discretion decides at the time of grant to extend such six-month period in clause (ii) to a period not exceeding five (5) years.

(b) Non-Employee Director Grants. Except as provided in Section 8.04(c), each Option or portion thereof granted to a Non-Employee Director shall be exercisable at any time on or after it vests and becomes exercisable until the earlier of (i) ten (10) years after its date of grant or (ii) three (3) years after the date on which the Optionee ceases to serve as a Non-Employee Director, unless the Board or the Committee in its discretion decides at the time of grant to extend such three-year period in clause (ii) to a period not exceeding five (5) years.

(c) Exceptions. Unless the Board or the Committee shall specifically state otherwise at the time an Option is granted, if an Employee terminates his employment with the Corporation or a Subsidiary Company as a result of Disability or Retirement without having fully exercised his Options, the Employee shall have the right to exercise such Options following his termination due to Disability or Retirement until the later of (i) the expiration of the exercise period following a termination of employment for reasons other than Disability or Retirement preceding a Change in Control or (ii) five (5) years following the date of termination of employment due to Disability or Retirement, in each case subject to the last sentence of this Section 8.04(c).

Unless the Board or the Committee shall specifically state otherwise at the time an Option is granted, if an Employee or Non-Employee Director terminates his employment or service with the Corporation or a Subsidiary Company following a Change in Control without having fully exercised his Options, the Optionee shall have the right to exercise such Options during the remainder of the original ten (10) year term (or five (5) year term for Options subject to Section 8.09(b) hereof) of the Option from the date of grant.

If an Optionee dies while in the employ or service of the Corporation or a Subsidiary Company or terminates employment or service with the Corporation or a Subsidiary Company as a result of Disability or Retirement and dies without having fully exercised his Options, the executors, administrators, legatees or distributees of his estate shall have the right, during the two (2) year period following his death, to exercise such Options.

In no event, however, shall any Option be exercisable more than ten (10) years (five (5) years for Options subject to Section 8.09(b) hereof) from the date it was granted.

8.05 Nonassignability. Options shall not be transferable by an Optionee except by will or the laws of descent or distribution, and during an Optionee's lifetime shall be exercisable only by such Optionee or the Optionee's guardian or legal representative. Notwithstanding the foregoing, or any other provision of this Plan, an Optionee who holds Non-Qualified Options may transfer such Options to his or her spouse, lineal ascendants, lineal descendants, or to a duly established trust for the benefit of one or more of these individuals. Options so transferred may thereafter be transferred only to the Optionee who originally received the grant or to an individual or trust to whom the Optionee could have initially transferred the Option pursuant to this Section 8.05. Options which are transferred pursuant to this Section 8.05 shall be exercisable by the transferee according to the same terms and conditions as applied to the Optionee.

8.06 Manner of Exercise. Options may be exercised in part or in whole and at one time or from time to time. The procedures for exercise shall be set forth in the written Stock Option Agreement provided for in Section 8.01 above.

8.07 Payment for Shares. Payment in full of the purchase price for shares of Common Stock purchased pursuant to the exercise of any Option shall be made to the Corporation upon exercise of the Option. All shares sold under the Plan shall be fully paid and nonassessable. Payment for shares may be made by the Optionee (i) in cash or by check, (ii) by delivery of a properly executed exercise notice, together with irrevocable instructions to a broker to sell the shares and then to properly deliver to the Corporation the amount of sale proceeds to pay the exercise price, all in accordance with applicable laws, regulations and accounting standards, (iii) at the discretion of the Board or the Committee, by delivering shares of Common Stock (including shares acquired pursuant to the exercise of an Option) equal in Fair Market Value to the purchase price of the shares to be acquired pursuant to the Option, (iv) at the discretion of the Board or the Committee, by withholding some of the shares of Common Stock which are being purchased upon exercise of an Option, or (v) any combination of the foregoing. With respect to subclause (iii) hereof, the shares of Common Stock delivered to pay the purchase price must have either been (x) purchased in open market transactions or (y) issued by the Corporation pursuant to a plan thereof, in each case more than six months prior to the exercise date of the Option.

8.08 Voting and Dividend Rights. No Optionee shall have any voting or dividend rights or other rights of a stockholder in respect of any shares of Common Stock covered by an Option prior to the time that his name is recorded on the Corporation's stockholder ledger as the holder of record of such shares acquired pursuant to an exercise of an Option.

8.09 Additional Terms Applicable to Incentive Stock Options. All Options issued under the Plan as Incentive Stock Options will be subject, in addition to the terms detailed in Sections 8.01 to 8.08 above, to those contained in this Section 8.09.

(a) Amount Limitations. Notwithstanding any contrary provisions contained elsewhere in this Plan and as long as required by Section 422 of the Code, the aggregate Fair Market Value, determined as of the time an Incentive Stock Option is granted, of the Common Stock with respect to which Incentive Stock Options are exercisable for the first time by the Optionee during any calendar year under this Plan, and stock options that satisfy the requirements of Section 422 of the Code under any other stock option plan or plans maintained by the Corporation (or any parent or Subsidiary Company), shall not exceed $100,000.

(b) Limitation on Ten Percent Stockholders. The price at which shares of Common Stock may be purchased upon exercise of an Incentive Stock Option granted to an individual who, at the time such Incentive Stock Option is granted, owns, directly or indirectly, more than ten percent (10%) of the total combined voting power of all classes of stock issued to stockholders of the Corporation or any Subsidiary Company, shall be no less than one hundred and ten percent (110%) of the Fair Market Value of a share of the Common Stock of the Corporation at the time of grant, and such Incentive Stock Option shall by its terms not be exercisable after the earlier of the date determined under Section 8.04 or the expiration of five (5) years from the date such Incentive Stock Option is granted.

(c) Notice of Disposition; Withholding; Escrow. An Optionee shall immediately notify the Corporation in writing of any sale, transfer, assignment or other disposition (or action constituting a disqualifying disposition within the meaning of Section 421 of the Code) of any shares of Common Stock acquired through exercise of an Incentive Stock Option, within two (2) years after the grant of such Incentive Stock Option or within one (1) year after the acquisition of such shares, setting forth the date and manner of disposition, the number of shares disposed of and the price at which such shares were disposed of. The Corporation shall be entitled to withhold from any compensation or other payments then or thereafter due to the Optionee such amounts as may be necessary to satisfy any withholding requirements of federal or state law or regulation and, further, to collect from the Optionee any additional amounts which may be required for such purpose. The Committee may, in its discretion, require shares of Common Stock acquired by an Optionee upon exercise of an Incentive Stock Option to be held in an escrow arrangement for the purpose of enabling compliance with the provisions of this Section 8.09(c).

ARTICLE IX
SHARE AWARDS

9.01 Share Award Notice. As promptly as practicable after the granting of a Share Award pursuant to the terms hereof, the Board or the Committee shall notify the Recipient in writing of the grant of the Share Award, the number of shares covered by the Share Award, whether the Share Award is a Performance Share Award and the terms upon which the shares subject to the Share Award shall be distributed to the Recipient. The Board or the Committee shall maintain records as to all grants of Share Awards and Performance Share Awards under the Plan.

9.02 Earning Plan Shares; Forfeitures.

(a) General Rules. Subject to the terms hereof, Share Awards granted hereunder shall be earned at the rate and to the extent as may be specified by the Committee at the date of grant thereof. If the employment of an Employee or service as a Non-Employee Director is terminated before the Share Award has been completely earned for any reason (except as specifically provided in subsections (b) and (c) below), the Recipient shall forfeit the right to any shares subject to the Share Award which have not theretofore been earned. In the event of a forfeiture of the right to any shares subject to a Share Award, such forfeited shares shall become available for grant pursuant to this Plan as if no Share Award had been previously granted with respect to such shares. No fractional shares shall be distributed pursuant to this Plan.

(b) Exception for Termination Due to Death or Disability. Notwithstanding the general rule contained in Section 9.02(a), all shares subject to a Share Award held by a Recipient whose employment with the Corporation or any Subsidiary Company terminates due to death or Disability shall be deemed fully earned as of the Recipient's last day of employment with the Corporation or any Subsidiary Company and shall be distributed as soon as practicable thereafter.

(c) Exception for a Change in Control. Notwithstanding the general rule contained in Section 9.02(a), all shares subject to a Share Award held by a Recipient shall be deemed to be fully earned as of the effective date of a Change in Control.

9.03 Dividends and Voting. A Recipient shall not be entitled to receive any cash dividends declared on the Common Stock with respect to any unvested Share Award. A Recipient shall not be entitled to any voting rights with respect to any unvested Share Award which has not yet been earned and distributed to him or her pursuant to Section 9.04.

9.04 Distribution of Plan Shares.

(a) Timing of Distributions: General Rule. Subject to the provisions of Section 9.06 hereof, shares shall be distributed to the Recipient or his Beneficiary, as the case may be, as soon as practicable after they have been earned.

(b) Form of Distributions. All shares shall be distributed in the form of Common Stock. One share of Common Stock shall be given for each share earned and distributable.

(c) Restrictions on Selling of Plan Shares. Share Awards may not be sold, assigned, pledged or otherwise disposed of prior to the time that they are earned and distributed pursuant to the terms of this Plan. Upon distribution, the Board or the Committee may require the Recipient or his Beneficiary, as the case may be, to agree not to sell or otherwise dispose of his distributed shares except in accordance with all then applicable federal and state securities laws, and the Board or the Committee may cause a legend to be placed on the stock certificate(s) representing the distributed shares in order to restrict the transfer of the distributed shares for such period of time or under such circumstances as the Board or the Committee, upon the advice of counsel, may deem appropriate.

9.05 Rights of Recipients. Notwithstanding anything to the contrary herein, a Participant who receives a Share Award payable in Common Stock shall have no rights as a stockholder until the Common Stock is issued pursuant to the terms of the Award Agreement.

9.06 Performance Awards

(a) Designation of Performance Share Awards. The Committee may determine to make any Share Award a Performance Share Award by making such Share Award contingent upon the achievement of a Performance Goal or any combination of Performance Goals. Each Performance Share Award shall be evidenced by a written agreement ("Award Agreement"), which shall set forth the Performance Goals applicable to the Performance Share Award, the maximum amounts payable and such other terms and conditions as are applicable to the Performance Share Award.

(b) Timing of Grants. Any Performance Share Award shall be made not later than 90 days after the start of the period for which the Performance Share Award relates and shall be made prior to the completion of 25% of such period. All determinations regarding the achievement of any Performance Goals will be made by the Committee. The Committee may not increase during a year the amount of a Performance Share Award that would otherwise be payable upon achievement of the Performance Goals but may reduce or eliminate the payments as provided for in the Award Agreement.

(c) Restrictions on Grants. Nothing contained in the Plan will be deemed in any way to limit or restrict the Committee from making any Award or payment to any person under any other plan, arrangement or understanding, whether now existing or hereafter in effect.

(d) Distribution. No Performance Share Award or portion thereof that is subject to the attainment or satisfaction of a condition of a Performance Goal shall be distributed or considered to be earned or vested until the Committee certifies in writing that the conditions or Performance Goal to which the distribution, earning or vesting of such Award is subject have been achieved.

9.07 Nontransferable. Share Awards and Performance Share Awards and rights to shares shall not be transferable by a Recipient, and during the lifetime of the Recipient, shares which are the subject of Share Awards may only be earned by and paid to a Recipient who was notified in writing of a Share Award by the Committee pursuant to Section 9.01. No Recipient or Beneficiary shall have any right in or claim to any assets of the Plan nor shall the Corporation or any Subsidiary Company be subject to any claim for benefits hereunder.

ARTICLE X
ADJUSTMENTS FOR CAPITAL CHANGES

10.01 General Adjustments. The aggregate number of shares of Common Stock available for issuance under this Plan, the number of shares to which any outstanding Award relates, any maximum number of shares that can be covered by Awards to each Employee, each Non-Employee Director and all Non-Employee Directors as a group, and the exercise price per share of Common Stock under any outstanding Option shall be proportionately adjusted for any increase or decrease in the total number of outstanding shares of Common Stock issued subsequent to the effective date of this Plan resulting from a split, subdivision or consolidation of shares or any other capital adjustment, the payment of a stock dividend, or other increase or decrease in such shares effected without receipt or payment of consideration by the Corporation.

10.02 Adjustments for Mergers and Other Corporate Transactions. If, upon a merger, consolidation, reorganization, liquidation, recapitalization or the like of the Corporation, the shares of the Corporation's Common Stock shall be exchanged for other securities of the Corporation or of another corporation, each Award shall be converted, subject to the conditions herein stated, into the right to purchase or acquire such number of shares of Common Stock or amount of other securities of the Corporation or such other corporation as were exchangeable for the number of shares of Common Stock of the Corporation which such Optionees or Recipients would have been entitled to purchase or acquire except for such action, and appropriate adjustments shall be made to the per share exercise price of outstanding Options, provided that in each case the number of shares or other securities subject to the substituted or assumed stock options and the exercise price thereof shall be determined in a manner that satisfies the requirements of Treasury Regulation §1.424-1 and the regulations issued under Section 409A of the Code so that the substituted or assumed option is not deemed to be a modification of the outstanding Options. Notwithstanding any provision to the contrary herein, the term of any Option granted hereunder and the property which the Optionee shall receive upon the exercise or termination thereof shall be subject to and be governed by the provisions regarding the treatment of any such Option set forth in a definitive agreement with respect to any of the aforementioned transactions entered into by the Corporation to the extent any such Option remains outstanding and unexercised upon consummation of the transactions contemplated by such definitive agreement.

ARTICLE XI
AMENDMENT AND TERMINATION OF THE PLAN

The Board may, by resolution, at any time terminate or amend the Plan with respect to any shares of Common Stock as to which Awards have not been granted, subject to any required stockholder approval or any stockholder approval which the Board may deem to be advisable for any reason, such as for the purpose of obtaining or retaining any statutory or regulatory benefits under tax, securities or other laws or satisfying any applicable stock exchange listing requirements. The Board may not, without the consent of the holder of an Award, alter or impair any Award previously granted or awarded under this Plan except as specifically authorized herein.

ARTICLE XII
EMPLOYMENT AND SERVICE RIGHTS

Neither the Plan nor the grant of any Awards hereunder nor any action taken by the Committee or the Board in connection with the Plan shall create any right on the part of any Employee or Non-Employee Director to continue in such capacity.

ARTICLE XIII
WITHHOLDING

13.01 Tax Withholding. The Corporation may withhold from any cash payment made under this Plan sufficient amounts to cover any applicable withholding and employment taxes, and if the amount of such cash payment is insufficient, the Corporation may require the Optionee or Recipient to pay to the Corporation the amount required to be withheld as a condition to delivering the shares acquired pursuant to an Award. The Corporation also may withhold or collect amounts with respect to a disqualifying disposition of shares of Common Stock acquired pursuant to exercise of an Incentive Stock Option, as provided in Section 8.09(c).

13.02 Methods of Tax Withholding. The Board or the Committee is authorized to adopt rules, regulations or procedures which provide for the satisfaction of an Optionee's or Recipient's tax withholding obligation by the retention of shares of Common Stock to which the Optionee or Recipient would otherwise be entitled pursuant to an Award and/or by the Optionee's delivery of previously-owned shares of Common Stock or other property.

ARTICLE XIV
EFFECTIVE DATE OF THE PLAN; TERM

14.01 Effective Date of the Plan. This Plan shall become effective on the Effective Date, and Awards may be granted hereunder no earlier than the date that this Plan is approved by stockholders of the Corporation and no later than the termination of the Plan, provided this Plan is approved by stockholders of the Corporation pursuant to Article XV hereof.

14.02 Term of the Plan. Unless sooner terminated, this Plan shall remain in effect for a period of ten (10) years ending on the tenth anniversary of the Effective Date. Termination of the Plan shall not affect any Awards previously granted and such Awards shall remain valid and in effect until they have been fully exercised or earned, are surrendered or by their terms expire or are forfeited.

ARTICLE XV
STOCKHOLDER APPROVAL

The Corporation shall submit this Plan to stockholders for approval at a meeting of stockholders of the Corporation held within twelve (12) months following the Effective Date in order to meet the requirements of (i) Section 422 of the Code and regulations thereunder, and (ii) the Nasdaq Stock Market for listing of the Common Stock on the Nasdaq Stock Market.

ARTICLE XVI
MISCELLANEOUS

16.01 Governing Law. To the extent not governed by federal law, this Plan shall be construed under the laws of the Commonwealth of Pennsylvania.

16.02 Pronouns. Wherever appropriate, the masculine pronoun shall include the feminine pronoun, and the singular shall include the plural.

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One):

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2020

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from: ___________ to ___________

Commission File Number: 000-18464

EMCLAIRE FINANCIAL CORP

(Exact name of registrant as specified in its charter)

Pennsylvania	25-1606091
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
612 Main Street, Emlenton, PA	16373
(Address of principal executive office)	(Zip Code)

Registrant's telephone number: (844) 767-2311

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value $1.25 per share	EMCF	NASDAQ Capital Market (NASDAQ)
(Title of Class)	(Trading Symbol)	(Name of exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐ NO ☒.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ☐ NO ☒.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒NO ☐ .

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 month (or for such shorter period that the registrant was required to submit and post such files). YES ☒ NO ☐.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company (do not check if a smaller reporting company).

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☒ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES ☐ NO ☒.

As of June 30, 2020, the aggregate value of the 2,208,502 shares of Common Stock of the Registrant issued and outstanding on such date, which excludes 500,210 shares held by the directors and officers of the Registrant as a group, was approximately $44.2 million. This figure is based on the last sales price of $20.01 per share of the Registrant's Common Stock on June 30, 2020. The number of outstanding shares of common stock as of March 19, 2021, was 2,721,212.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2021 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

EMCLAIRE FINANCIAL CORP

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Discussions of certain matters in this Form 10-K and other related year end documents may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), and as such, may involve risks and uncertainties. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies, and expectations, are generally identifiable by the use of words or phrases such as "believe", "plan", "expect", "intend", "anticipate", "estimate", "project", "forecast", "may increase", "may fluctuate", "may improve" and similar expressions of future or conditional verbs such as "will", "should", "would", and "could". These forward-looking statements relate to, among other things, expectations of the business environment in which Emclaire Financial Corp operates, projections of future performance, potential future credit experience, perceived opportunities in the market and statements regarding the Corporation's mission and vision. The Corporation's actual results, performance and achievements may differ materially from the results, performance, and achievements expressed or implied in such forward-looking statements due to a wide range of factors. These factors include, but are not limited to, changes in interest rates, the effects of the COVID-19 pandemic on the Corporation or the U.S. economy, general economic conditions, the local economy, the demand for the Corporation's products and services, accounting principles or guidelines, legislative and regulatory changes, monetary and fiscal policies of the U.S. Government, U.S. Treasury, and Federal Reserve, real estate markets, competition in the financial services industry, attracting and retaining key personnel, performance of new employees, regulatory actions, changes in and utilization of new technologies and other risks detailed in the Corporation's reports filed with the Securities and Exchange Commission (SEC) from time to time. These factors should be considered in evaluating the forward-looking statements, and undue reliance should not be placed on such statements. The Corporation does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

PART I

Item 1. Business

General

Emclaire Financial Corp (the Corporation) is a Pennsylvania corporation and financial holding company that provides a full range of retail and commercial financial products and services to customers in western Pennsylvania and northwestern West Virginia through its wholly owned subsidiary bank, The Farmers National Bank of Emlenton (the Bank).

The Bank was organized in 1900 as a national banking association and is a financial intermediary whose principal business consists of attracting deposits from the general public and investing such funds in real estate loans secured by liens on residential and commercial properties, consumer loans, commercial business loans, marketable securities and interest-earning deposits. The Bank currently operates through a network of 20 retail branch offices in Venango, Allegheny, Butler, Clarion, Clearfield, Crawford, Elk, Jefferson and Mercer counties, Pennsylvania and Hancock county, West Virginia. The Corporation and the Bank are headquartered in Emlenton, Pennsylvania.

The Bank is subject to examination and comprehensive regulation by the Office of the Comptroller of the Currency (OCC), which is the Bank's chartering authority, and the Federal Deposit Insurance Corporation (FDIC), which insures customer deposits held by the Bank to the full extent provided by law. The Bank is a member of the Federal Reserve Bank of Cleveland (FRB) and the Federal Home Loan Bank of Pittsburgh (FHLB). The Corporation is a registered bank holding company pursuant to the Bank Holding Company Act of 1956, as amended (BHCA), and a financial holding company under the Gramm-Leach Bliley Act of 1999 (GLBA) and is subject to regulation and examination by the FRB.

At December 31, 2020, the Corporation had $1.0 billion in total assets, $91.5 million in stockholders' equity, $800.3 million in net loans and $893.6 million in total deposits.

Use of Non-GAAP Financial Measures

In addition to the results of operations presented in accordance with generally accepted accounting principals (GAAP), management uses certain non-GAAP financial measures, such as net interest income on a fully taxable equivalent basis. Management believes these non-GAAP financial measures provide information that is useful to investors in understanding the underlying operations, performance and business trends as they facilitate comparison with the performance of others in the financial services industry. Although management believes that these non-GAAP financial measures enhance investors' understanding of the Corporation's business and performance, these non-GAAP financial measures should not be considered an alternative to GAAP.

Management believes the presentation of net interest income on a fully taxable equivalent basis ensures comparability of net interest income arising from both taxable and tax-exempt sources and is consistent with industry practice. Interest income per the audited Consolidated Statements of Net Income is reconciled to net interest income adjusted to a fully taxable equivalent basis on page K-24 for years ended December 31, 2020 and 2019.

COVID-19 Pandemic

The coronavirus (COVID-19) pandemic has negatively impacted the global economy, disrupted global supply chains and increased unemployment levels. Although the temporary closure of many businesses and shelter-in-place policies have eased, restrictions and social distancing continue to impact many of the Corporation's customers. While the full effects of the pandemic still remain unknown, the Corporation is committed to supporting its customers, employees and communities during this difficult time. The Corporation has given hardship relief assistance to customers, including the consideration of various loan payment deferral and fee waiver options, and encourages customers to reach out for assistance to support their individual circumstances. The pandemic could result in the recognition of credit losses in our loan portfolios and increases in our allowance for credit losses, particularly if businesses remain closed, the impact on the global economy worsens, or more customers draw on their lines of credit or seek additional loans to help finance their businesses. Similarly, because of changing economic and market conditions, we may be required to recognize impairments on securities, goodwill or other significant estimates. The extent to which the pandemic impacts our business, results of operations, and financial condition, as well as our regulatory capital and liquidity ratios, will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic.

Effective March 16, 2020, the Federal Reserve lowered the federal funds target rate to a range of between zero and 0.25%. This action followed a prior reduction of the federal funds target rate to a range of 1.00% to 1.25% effective on March 4, 2020. These actions were taken in an emergency response to stem the economic impact of the pandemic. The Federal Reserve has indicated that it expects to maintain the targeted federal funds rate at current levels until such time that the economic environment has stabilized for a period of time. The Corporation’s earnings and related cash flows are largely dependent upon net interest income, representing the difference between interest income received on interest-earnings assets, primarily loans and securities, and the interest paid on interest-bearing liabilities, primarily customer deposits and borrowed funds. Since the Corporation’s balance sheet is asset sensitive, earnings are more adversely affected by falling rates since rate sensitive assets reprice more quickly than rate sensitive liabilities. Should the Federal Reserve take any further action regarding rates in relation to the pandemic, the Corporation’s margins could be compressed even further, perpetuating the negative effect on net income.

The U.S. government also enacted certain fiscal stimulus measures in several phases to assist in counteracting the economic disruptions caused by the pandemic. On March 6, 2020, the Coronavirus Preparedness and Response Supplemental Appropriations Act was enacted to authorize funding for research and development of vaccines and to allocate money to state and local governments for response and containment measures. On March 18, 2020, the Families First Coronavirus Response Act was put in place to provide for paid sick/medical leave, no-cost coverage for testing, expanded unemployment benefits and additional funding to states for the ongoing economic consequences of the pandemic. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed by the President of the United States. Among other measures, the CARES Act provided $349 billion for the Paycheck Protection Program (PPP) administered by the Small Business Administration (SBA) to assist qualified small businesses with certain operational expenses, certain credits for individuals and their dependents against their 2020 personal income tax and expanded eligibility for unemployment benefits. This legislation was later amended on April 24, 2020, by the Paycheck Protection Program and Healthcare Enhancement Act (PPPHE Act) which provided an additional $310 billion of funding for PPP loans.

Certain provisions within the CARES Act encourage financial institutions to practice prudent efforts to work with borrowers impacted by the pandemic. Under these provisions, loan modifications deemed to be COVID-19 related would not be considered a troubled debt restructuring (TDR) if the loan was not more than 30 days past due as of December 31, 2019 and the deferral was executed between March 1, 2020 and the earlier of 60 days after the date of the termination of the COVID-19 national emergency or December 31, 2020. The banking regulators issued a similar guidance, which also clarified that a COVID-19 related modification should not be considered a TDR if the borrower was current on payments at the time the underlying loan modification program was implemented and if the modification is considered to be short-term. The Corporation implemented a short-term modification program to provide relief to consumer and commercial customers following the guidelines of these provisions. Most modifications fall into the 90 to 180-day range with deferred principal and interest due and payable on the maturity date of the existing loans. Specific detail describing these modifications made in relation to the CARES Act can be found in the TDR discussion in "Note 3 - Loans" to the Consolidated Financial Statements on page F-19.

Following the enactment of these provisions, in December 2020, the Bipartisan-Bicameral Omnibus COVID Relief Deal was enacted to provide additional economic stimulus to individuals and businesses in response tor the extended economic distress caused by the pandemic. This included additional stimulus payments to individuals and their dependents, and extension of enhanced unemployment benefits, $284 billion of additional funds for a second round of PPP loans and a new simplified forgiveness procedure for PPP loans of $150,000 or less. The Bank was a lender for the initial SBA program and closed 688 PPP loans totaling $54.9 million. As of February 28, 2021, 504 loans totaling $40.7 million were fully repaid, including 5 loan totaling $66,000 that were voluntarily repaid, rather than forgiven by the SBA. Two loans have aggregate unforgiven balances totaling $15,000. The Bank is also participating in the second round of the program and through February 28, 2021 has closed 149 loans totaling $15.9 million. There are an additional 93 loans totaling $4.6 million awaiting final processing and approval in the pipeline.

The Corporation has responded to the circumstances surrounding the pandemic to support the safety and well-being of the employees, customers and shareholders by enacting the following measures:

- The 2020 Annual Shareholder Meeting was held virtually, as will the 2021 meeting.
- Non-essential travel and large external gatherings were restricted and mandatory quarantine periods and testing were instituted for anyone that has known exposure to COVID.
- Remote-access availability was expanded to enable, where possible, work at home or alternate locations, in order to segregate employees in operational areas to mitigate possible spread of illness to an entire department.
- At times when widespread COVID cases do not require complete lobby closures, limited lobby hours are available to the public for walk-in transactions. Appointments can be made as necessary to complete paperwork or complex transactions.
- Drive-thru services remain open where available, and the use of ATMs and on-line banking is encouraged.
- Social distancing policies were implemented and customers and employees are required to wear masks.

Given the dynamic nature of the circumstances surrounding the pandemic, it is difficult to ascertain the full impact the ongoing economic disruption will have on the Corporation. While this impact cannot be predicted or measured, there will be a definite impact on income. It is anticipated that the provision for loan loss expense will remain elevated in expectation of a deterioration in a portion of the loan portfolio. As a result of the significant decline in interest rates, the Corporation has and will continue to experience a decline in net income and resulting net interest margin, however, there will be a benefit from the fees arising from the PPP loan program. Also, it is expected that noninterest income will continue to be reduced as customers may use fewer fee-based services due to continuing COVID-19 mitigation efforts, such as stay-at-home orders. The Corporation will continue to closely monitor situations arising from the pandemic and adjust operations accordingly.

Lending Activities

General. The principal lending activities of the Corporation are the origination of residential mortgage, commercial mortgage, commercial business and consumer loans. The majority of the Corporation's loans are originated in and secured by property within the Corporation's primary market area.

One-to-Four Family Mortgage Loans. The Corporation offers first mortgage loans secured by one-to-four family residences located mainly in the Corporation's primary lending area. One-to-four family mortgage loans amounted to 38.0% of the total loan portfolio at December 31, 2020. Typically such residences are single-family owner occupied units. The Corporation is an approved, qualified lender for the Federal Home Loan Mortgage Corporation (FHLMC) and the FHLB. As a result, the Corporation may sell loans to and service loans for the FHLMC and FHLB in market conditions and circumstances where this is advantageous in managing interest rate risk.

Home Equity Loans. The Corporation originates home equity loans secured by single-family residences. Home equity loans amounted to 10.8% of the total loan portfolio at December 31, 2020. These loans may be either a single advance fixed-rate loan with a term of up to 20 years or a variable rate revolving line of credit. These loans are made only on owner-occupied single-family residences.

Commercial Business and Commercial Real Estate Loans. Commercial lending constitutes a significant portion of the Corporation's lending activities. Commercial business and commercial real estate loans amounted to 46.3% of the total loan portfolio at December 31, 2020. Commercial real estate loans generally consist of loans granted for commercial purposes secured by commercial or other nonresidential real estate. Commercial loans consist of secured and unsecured loans for such items as capital assets, inventory, operations and other commercial purposes.

Consumer Loans. Consumer loans generally consist of fixed-rate term loans for automobile purchases, home improvements not secured by real estate, capital and other personal expenditures. The Corporation also offers unsecured revolving personal lines of credit and overdraft protection. Consumer loans amounted to 4.9% of the total loan portfolio at December 31, 2020.

Loans to One Borrower. National banks are subject to limits on the amount of credit that they can extend to one borrower. Under current law, loans to one borrower are limited to an amount equal to 15% of unimpaired capital and surplus on an unsecured basis, and an additional amount equal to 10% of unimpaired capital and surplus if the loan is secured by readily marketable collateral. At December 31, 2020, the Bank's loans to one borrower limit based upon 15% of unimpaired capital was $12.7 million. The Bank may grant credit to borrowers in excess of the legal lending limit as part of the Legal Lending Limit Pilot Program approved by the OCC which allows the Bank to exceed its legal lending limit within certain parameters. At December 31, 2020, the Bank's largest single lending relationship had an outstanding balance of $17.1 million, which was permissible under the pilot program.

Loan Portfolio. The following table sets forth the composition and percentage of the Corporation's loans receivable in dollar amounts and in percentages of the portfolio as of December 31:

	2020		2019		2018		2017		2016	
(Dollar amounts in thousands)	Dollar Amount	%	Dollar Amount	%	Dollar Amount	%	Dollar Amount	%	Dollar Amount	%
Mortgage loans on real estate:										
Residential mortgages	$ 308,031	38.0%	$ 293,170	41.8%	$ 295,405	41.3%	$ 221,823	38.1%	$ 198,167	38.0%
Home equity loans and lines of credit	87,088	10.8%	97,541	13.9%	103,752	14.5%	99,940	17.1%	91,359	17.5%
Commercial real estate	285,625	35.3%	229,951	32.7%	238,734	33.4%	193,068	33.1%	166,994	32.1%
Total real estate loans	680,744	84.1%	620,662	88.4%	637,891	89.2%	514,831	88.3%	456,520	87.6%
Other loans:										
Commercial business	89,139	11.0%	66,603	9.5%	66,009	9.2%	58,941	10.1%	57,788	11.1%
Consumer	40,035	4.9%	14,639	2.1%	11,272	1.6%	9,589	1.6%	6,672	1.3%
Total other loans	129,174	15.9%	81,242	11.6%	77,281	10.8%	68,530	11.7%	64,460	12.4%
Total loans receivable	809,918	100.0%	701,904	100.0%	715,172	100.0%	583,361	100.0%	520,980	100.0%
Less:										
Allowance for loan losses	9,580		6,556		6,508		6,127		5,545	
Net loans receivable	$ 800,338		$ 695,348		$ 708,664		$ 577,234		$ 515,435	

The following table sets forth the final maturity of loans in the Corporation's portfolio as of December 31, 2020. Demand loans having no stated schedule of repayment and no stated maturity are reported as due within one year.

(Dollar amounts in thousands)	Due in one year or less	Due from one to five years	Due from five to ten years	Due after ten years	Total
Residential mortgages	$ 663	$ 4,793	$ 32,333	$ 270,242	$ 308,031
Home equity loans and lines of credit	463	8,439	17,731	60,455	87,088
Commercial real estate	3,977	42,868	98,066	140,714	285,625
Commercial business	2,048	48,507	13,550	25,034	89,139
Consumer	270	8,446	11,351	19,968	40,035
	$ 7,421	$ 113,053	$ 173,031	$ 516,413	$ 809,918

The following table sets forth the dollar amount of the Corporation's fixed and adjustable rate loans with maturities greater than one year as of December 31, 2020:

(Dollar amounts in thousands)	Fixed rates	Adjustable rates
Residential mortgages	$ 297,012	$ 10,356
Home equity loans and lines of credit	75,678	10,947
Commercial real estate	66,933	214,715
Commercial business	54,346	32,745
Consumer	38,259	1,506
	$ 532,228	$ 270,269

Contractual maturities of loans do not reflect the actual term of the Corporation's loan portfolio. The average life of mortgage loans is substantially less than their contractual terms because of loan prepayments and enforcement of due-on-sale clauses, which give the Corporation the right to declare a loan immediately payable in the event, among other things, that the borrower sells the real property subject to the mortgage. Scheduled principal amortization also reduces the average life of the loan portfolio. The average life of mortgage loans tends to increase when current market mortgage rates substantially exceed rates on existing mortgages and conversely, decrease when rates on existing mortgages substantially exceed current market interest rates.

Delinquencies and Classified Assets

Delinquent Loans and Other Real Estate Acquired Through Foreclosure (OREO). Typically, a loan is considered past due and a late charge is assessed when the borrower has not made a payment within 15 days from the payment due date. When a borrower fails to make a required payment on a loan, the Corporation attempts to cure the deficiency by contacting the borrower. The initial contact with the borrower is made shortly after the 17th day following the due date for which a payment was not received. In most cases, delinquencies are cured promptly.

If the delinquency exceeds 60 days, the Corporation works with the borrower to set up a satisfactory repayment schedule. Typically, loans are considered nonaccruing upon reaching 90 days delinquent unless the credit is well secured and in the process of collection, although the Corporation may be receiving partial payments of interest and partial repayments of principal on such loans. When a loan is placed in nonaccrual status, previously accrued but unpaid interest is deducted from interest income. The Corporation institutes foreclosure action on secured loans only if all other remedies have been exhausted. If an action to foreclose is instituted and the loan is not reinstated or paid in full, the property is sold at a judicial or trustee's sale at which the Corporation may be the buyer.

Real estate properties acquired through, or in lieu of, foreclosure are to be sold and are initially recorded at fair value at the date of foreclosure less costs to sell, thereby establishing a new cost basis. After foreclosure, management periodically performs valuations and the real estate is carried at the lower of carrying amount or fair value less the cost to sell the property. Changes in the valuation allowance are included in the loss on foreclosed real estate. The Corporation generally attempts to sell its OREO properties as soon as practical upon receipt of clear title.

As of December 31, 2020, the Corporation's nonperforming assets were $4.4 million, or 0.43% of the Corporation's total assets, compared to $3.2 million, or 0.34% of the Corporation's total assets, at December 31, 2019. Nonperforming assets at December 31, 2020 included nonperforming loans and OREO of $4.1 million and $344,000, respectively. Included in nonaccrual loans at December 31, 2020 were five loans totaling $396,000 considered to be TDRs.

Classified Assets. Regulations applicable to insured institutions require the classification of problem assets as "substandard," "doubtful," or "loss" depending upon the existence of certain characteristics as discussed below. A category designated "special mention" must also be maintained for assets currently not requiring the above classifications but having potential weaknesses or risk characteristics that could result in future problems. An asset is classified as substandard if not adequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. A substandard asset is characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all the weaknesses inherent in those classified as substandard and these weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable or improbable. Assets classified as loss are considered uncollectible and of such little value that their continuance as assets is not warranted.

The Corporation's classification of assets policy requires the establishment of valuation allowances for loan losses in an amount deemed prudent by management. Valuation allowances represent loss allowances that have been established to recognize the inherent risk associated with lending activities. When the Corporation classifies a problem asset as a loss, the portion of the asset deemed uncollectible is charged off immediately.

The Corporation regularly reviews the problem loans and other assets in its portfolio to determine whether any require classification in accordance with the Corporation's policy and applicable regulations. As of December 31, 2020, the Corporation's classified and criticized assets amounted to $44.4 million or 4.3% of total assets, with $21.7 million identified as special mention and $22.7 million classified as substandard.

Included in classified and criticized assets at December 31, 2020, is a combination of relationships with an outstanding balance of $30.1 million at December 31, 2020, representing eight distinct relationships with extensions of credit supporting hotel operations. The debt obligations are primarily secured with nationally franchised hotels along with related furniture, fixtures, and equipment. These hotels were adversely impacted by state-wide travel restrictions in response to the COVID-19 pandemic and shifting consumer and business behaviors. Current data supports improvement in occupancy levels which is resulting in an improvement in operating performance. Ultimately, due to the estimated value of the collateral and the willingness and ability of the guarantors to support the loans, the Corporation does not currently expect to incur a loss on these loans.

Additionally, there are two other large loan relationships exhibiting credit deterioration that may impact the ability of the borrowers to comply with their present loan repayment terms on a timely basis.

The first relationship, with an outstanding balance of $2.0 million at December 31, 2020, consists of one commercial mortgage which primarily refinanced third-party debt obligations and is primarily secured with all buildings and improvements of a university campus. The subject loan represents a portion of a participated credit facility led by a third-party financial institution. A decline in student enrollment has resulted in a corresponding decline in financial performance of the university. The university maintains satisfactory capital structure ratios and is undergoing efforts to increase enrollment and reduce operating expenditures. At December 31, 2020, the loan was performing and classified as substandard. Ultimately, due to the estimated value of the university campus and ancillary collateral, the Corporation does not currently expect to incur a loss on this loan.

The second relationship, with an outstanding balance of $1.6 million at December 31, 2020, consists of two commercial mortgages and one commercial business loan which primarily refinanced third-party debt obligations and is secured with residential rental investment properties. Excessive personal debt obligations have resulted in marginal financial performance of the borrowers. The collateral properties securing the indebtedness services the related debt at a satisfactory level. Ultimately, due to the estimated value of the collateral held, the Corporation does not currently expect to incur a loss on these loans.

The following table sets forth information regarding the Corporation's nonperforming assets as of December 31:

(Dollar amounts in thousands)	2020	2019	2018	2017	2016
Nonperforming loans	$ 4,102	$ 2,907	$ 3,028	$ 3,693	$ 3,323
Total as a percentage of gross loans	0.51%	0.41%	0.42%	0.63%	0.64%
Repossessions	—	—	13	—	—
Real estate acquired through foreclosure	344	249	701	492	291
Total as a percentage of total assets	0.03%	0.03%	0.08%	0.07%	0.04%
Total nonperforming assets	$ 4,446	$ 3,156	$ 3,742	$ 4,185	$ 3,614
Total nonperforming assets as a percentage of total assets	0.43%	0.34%	0.42%	0.56%	0.52%
Allowance for loan losses as a percentage of nonperforming loans	233.54%	225.52%	214.93%	165.91%	166.87%

Allowance for Loan Losses. Management establishes allowances for estimated losses on loans based upon its evaluation of the pertinent factors underlying the types and quality of loans; historical loss experience based on volume and types of loans; trend in portfolio volume and composition; level and trend of nonperforming assets; detailed analysis of individual loans for which full collectability may not be assured; determination of the existence and realizable value of the collateral and guarantees securing such loans; and the current economic conditions affecting the collectability of loans in the portfolio. The Corporation analyzes its loan portfolio at least quarterly for valuation purposes and to determine the adequacy of its allowance for loan loszses. Based upon the factors discussed above, management believes that the Corporation's allowance for loan losses as of December 31, 2020 of $9.6 million was adequate to cover probable incurred losses in the portfolio at such time.

The following table sets forth an analysis of the allowance for losses on loans receivable for the years ended December 31:

(Dollar amounts in thousands)	2020	2019	2018	2017	2016
Balance at beginning of period	$ 6,556	$ 6,508	$ 6,127	$ 5,545	$ 5,205
Provision for loan losses	3,247	715	1,280	903	464
Charge-offs:					
Residential mortgages	(27)	(227)	(71)	(40)	(101)
Home equity loans and lines of credit	(126)	(61)	(155)	(114)	(118)
Commercial real estate	(75)	(242)	(484)	(127)	(18)
Commercial business	(163)	(250)	—	(14)	(11)
Consumer loans	(82)	(133)	(279)	(71)	(48)
	(473)	(913)	(989)	(366)	(296)
Recoveries:					
Residential mortgages	6	40	3	—	—
Home equity loans and lines of credit	15	6	14	23	3
Commercial real estate	107	134	48	8	158
Commercial business	70	—	1	2	—
Consumer loans	52	66	24	12	11
	250	246	90	45	172
Net charge-offs	(223)	(667)	(899)	(321)	(124)
Balance at end of period	$ 9,580	$ 6,556	$ 6,508	$ 6,127	$ 5,545
Ratio of net charge-offs to average loans outstanding	0.03%	0.09%	0.14%	0.06%	0.03%
Ratio of allowance to total loans at end of period	1.18%	0.93%	0.91%	1.05%	1.06%

The following table provides a breakdown of the allowance for loan losses by major loan category for the years ended December 31:

(Dollar amounts in thousands)	2020		2019		2018		2017		2016	
Loan Categories:	Dollar Amount	Percent of total loans	Dollar Amount	Percent of total loans	Dollar Amount	Percent of total loans	Dollar Amount	Percent of total loans	Dollar Amount	Percent of total loans
Residential mortgages	$ 2,774	38.0%	$ 2,309	41.8%	$ 2,198	41.3%	$ 2,090	38.1%	$ 1,846	32.0%
Home equity loans and lines of credit	620	10.8%	626	13.9%	648	14.5%	646	17.1%	633	20.1%
Commercial real estate	5,180	35.3%	2,898	32.7%	3,106	33.4%	2,753	33.1%	2,314	29.8%
Commercial business	677	11.0%	636	9.5%	500	9.2%	585	10.1%	700	16.5%
Consumer loans	329	4.9%	87	2.1%	56	1.6%	53	1.6%	52	1.6%
	$ 9,580	100.0%	$ 6,556	100.0%	$ 6,508	100.0%	$ 6,127	100.0%	$ 5,545	100.0%

Investment Activities

General. The Corporation maintains an investment portfolio of securities such as U.S. government agencies, mortgage-backed securities, collateralized mortgage obligations, municipal, corporate and equity securities.

Investment decisions are made within policy guidelines as established by the Board of Directors. This policy is aimed at maintaining a diversified investment portfolio, which complements the overall asset/liability and liquidity objectives of the Corporation, while limiting the related credit risk to an acceptable level.

The following table sets forth certain information regarding the fair value, weighted average yields and contractual maturities of the Corporation's securities as of December 31, 2020:

(Dollar amounts in thousands)	Due in 1 year or less	Due from 1 to 3 years	Due from 3 to 5 years	Due from 5 to 10 years	Due after 10 years	No scheduled maturity	Total
U.S. government sponsored entities and agencies	$ —	$ 1,011	$ —	$ —	$ 1,996	$ —	$ 3,007
U.S. agency mortgage-backed securities: residential	—	—	—	—	16,581	—	16,581
U.S. agency collateralized mortgage obligations: residential	—	—	—	1,273	14,638	—	15,911
State and political subdivision	—	250	1,327	6,793	47,207	—	55,577
Corporate securities	500	—	2,043	19,422	—	—	21,965
Equity securities	—	—	—	—	—	15	15
Estimated fair value	$ 500	$ 1,261	$ 3,370	$ 27,488	$ 80,422	$ 15	$ 113,056
Weighted average yield (1)	3.88%	3.03%	4.67%	3.99%	2.65%	0.00%	0.83%

(1) Taxable equivalent adjustments have been made in calculating yields on state and political subdivision securities.

The following table sets forth the fair value of the Corporation's investment securities as of December 31:

(Dollar amounts in thousands)	2020	2019	2018
U.S. Treasury	$ —	$ —	$ 4,445
U.S. government sponsored entities and agencies	3,007	7,077	16,783
U.S. agency mortgage-backed securities: residential	16,581	41,075	27,176
U.S. agency collateralized mortgage obligations: residential	15,911	32,837	18,664
State and political subdivision	55,577	11,322	7,918
Corporate securities	21,965	27,796	22,732
Equity securities	15	19	7
	$ 113,056	$ 120,126	$ 97,725

For additional information regarding the Corporation's investment portfolio see "Note 2 – Securities" to the Consolidated Financial Statements on page F-14.

Sources of Funds

General. Deposits are the primary source of the Corporation's funds for lending and investing activities. Secondary sources of funds are derived from loan repayments, investment maturities and borrowed funds. Loan repayments can be considered a relatively stable funding source, while deposit activity is greatly influenced by interest rates and general market conditions. The Corporation also has access to funds through other various sources. For additional information about the Corporation's sources of funds, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity" in Item 7.

Deposits. The Corporation offers a wide variety of deposit account products to both consumer and commercial deposit customers, including time deposits, noninterest bearing and interest bearing demand deposit accounts, savings deposits and money market accounts.

Deposit products are promoted in periodic newspaper, radio and other forms of advertisements, along with notices provided in customer account statements. The Corporation's marketing strategy is based on its reputation as a community bank that provides quality products and personalized customer service.

The Corporation sets interest rates on its interest bearing deposit products that are competitive with rates offered by other financial institutions in its market area. Management reviews interest rates on deposits weekly and considers a number of factors, including: (1) the Corporation's internal cost of funds; (2) rates offered by competing financial institutions; (3) investing and lending opportunities; and (4) the Corporation's liquidity position.

The following table summarizes the Corporation's deposits as of December 31:

(Dollar amounts in thousands)	2020			2019		
Type of accounts	Weighted average rate	Amount	Percent	Weighted average rate	Amount	Percent
Non-interest bearing deposits	—	$ 193,752	21.7%	—	$ 148,842	18.9%
Interest bearing demand deposits	0.42%	511,928	57.3%	0.76%	420,515	53.4%
Time deposits	2.03%	187,947	21.0%	2.17%	217,767	27.7%
Total	0.67%	$ 893,627	100.0%	1.01%	$ 787,124	100.0%

The following table sets forth maturities of the Corporation's time deposits of $100,000 or more at December 31, 2020 by time remaining to maturity:

(Dollar amounts in thousands)	Amount
Three months or less	$ 11,246
Over three months to six months	8,225
Over six months to twelve months	30,841
Over twelve months	60,023
	$ 110,335

Borrowings. Borrowings may be used to compensate for reductions in deposit inflows or net deposit outflows, or to support lending and investment activities. These borrowings include FHLB advances, federal funds, repurchase agreements, advances from the Federal Reserve Discount Window and lines of credit at the Bank and the Corporation with other correspondent banks. The following table summarizes information with respect to borrowings at or for the years ending December 31:

(Dollar amounts in thousands)	2020	2019
Ending balance	$ 32,050	$ 28,550
Average balance	39,896	36,508
Maximum balance	61,300	60,050
Average rate	2.25%	2.73%

For additional information regarding the Corporation's deposit base and borrowed funds, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Deposits and Borrowed Funds" in Item 7 and "Note 8 – Deposits" on page F-23 and "Note 9 – Borrowed Funds" on page F-24 to the Consolidated Financial Statements.

Subsidiary Activity

The Corporation has one wholly owned subsidiary, the Bank. As of December 31, 2020, the Bank had no subsidiaries. Emclaire Settlement Services, LLC, a former subsidiary of the Corporation ceased operations and was dissolved during 2019, provided real estate settlement services to the Bank and other customers.

Personnel

At December 31, 2020, the Corporation had 160 full time equivalent employees, compared to 162 at December 31, 2019. There is no collective bargaining agreement between the Corporation and its employees, and the Corporation believes its relationship with its employees is satisfactory.

Competition

The Corporation competes for loans, deposits and customers with other commercial banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market funds, credit unions and other nonbank financial service providers.

Supervision and Regulation

General. Bank holding companies and banks are extensively regulated under both federal and state law. Set forth below is a summary description of certain provisions of certain laws that relate to the regulation of the Corporation and the Bank. The description does not purport to be complete and is qualified in its entirety by reference to the applicable laws and regulations.

The Corporation. The Corporation is a registered bank holding company and subject to regulation and examination by the FRB under the BHCA. The Corporation is required to file periodic reports with the FRB and such additional information as the FRB may require. The Bank Holding Company rating system emphasizes risk management and evaluation of the potential impact of non-depository entities on safety and soundness.

The FRB may require the Corporation to terminate an activity or terminate control of or liquidate or divest certain subsidiaries, affiliates or investments when the FRB believes the activity or the control of the subsidiary or affiliate constitutes a significant risk to the financial safety, soundness or stability of any of its banking subsidiaries. The FRB also has the authority to regulate provisions of certain bank holding company debt, including the authority to impose interest rate ceilings and reserve requirements on such debt. Under certain circumstances, the Corporation must file written notice and obtain FRB approval prior to purchasing or redeeming its equity securities.

The Corporation is required to obtain prior FRB approval for the acquisition of more than 5% of the outstanding shares of any class of voting securities or substantially all of the assets of any bank or bank holding company. Prior FRB approval is also required for the merger or consolidation of the Corporation and another bank holding company.

The BHCA generally prohibits a bank holding company from acquiring direct or indirect ownership or control of more than 5% of the outstanding voting shares of any company that is not a bank or bank holding company and from engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or furnishing services to its subsidiaries. However, subject to the prior FRB approval, a bank holding company may engage in any, or acquire shares of companies engaged in, activities that the FRB deems to be so closely related to banking or managing or controlling banks as to be a proper incident thereto.

The BHCA also authorizes bank holding companies to engage in securities, insurance and other activities that are financial in nature or incidental to a financial activity. In order to undertake these activities, a bank holding company must become a financial holding company by submitting to the appropriate FRB a declaration that the company elects to be a financial holding company and a certification that all of the depository institutions controlled by the company are well capitalized and well managed. The Corporation submitted a declaration of election to become a financial holding company with the FRB which became effective in March 2007. Federal legislation also directed federal regulators to require depository institution holding companies to serve as a source of strength for their depository institution subsidiaries.

Under FRB regulations, the Corporation is required to serve as a source of financial and managerial strength to the Bank and may not conduct operations in an unsafe or unsound manner. In addition, it is the FRB's policy that a bank holding company should stand ready to use available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity and should maintain the financial flexibility and capital raising capacity to obtain additional resources for assisting its subsidiary banks. A bank holding company's failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered by the FRB to be an unsafe and unsound banking practice or a violation of FRB regulations or both.

The Corporation is also a bank holding company within the meaning of the Pennsylvania Banking Code. As such, the Corporation and its subsidiaries are subject to examination by, and may be required to file reports with, the Pennsylvania Department of Banking and Securities.

The Corporation's securities are registered with the SEC under the Exchange Act. As such, the Corporation is subject to the information, proxy solicitation, insider trading, corporate governance, and other requirements and restrictions of the Exchange Act. The public may obtain all forms and information filed with the SEC through its website http://www.sec.gov.

In December 2013, federal regulators adopted final rules to implement the provisions of the Dodd Frank Act commonly referred to as the Volcker Rule and established July 21, 2015 as the end of the conformance period. The regulations contain prohibitions and restrictions on the ability of financial institutions, holding companies and their affiliates to engage in proprietary trading and to hold certain interests in, or to have certain relationships with, various types of investment funds, including hedge funds and private equity funds. Recently promulgated Federal regulations exclude from the Volcker Rule restrictions community banks with $10 billion or less in total consolidated assets and total trading assets and liabilities of 5% or less of total consolidated assets. The Corporation qualifies for the exclusion from the Volcker Rule restrictions.

The Bank. As a national banking association, the Bank is subject to primary supervision, examination and regulation by the OCC. The Bank is also subject to regulations of the FDIC as administrator of the Deposit Insurance Fund (DIF) and the FRB. If, as a result of an examination of the Bank, the OCC should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of the Bank's operations are unsatisfactory or that the Bank is violating or has violated any law or regulation, various remedies are available to the OCC. Such remedies include the power to enjoin "unsafe or unsound practices," to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in capital, to restrict the Bank's growth, to assess civil monetary penalties, and to remove officers and directors. The FDIC has similar enforcement authority, in addition to its authority to terminate the Bank's deposit insurance in the absence of action by the OCC and upon a finding that the Bank is operating in an unsafe or unsound condition, is engaging in unsafe or unsound activities, or that the Bank's conduct poses a risk to the deposit insurance fund or may prejudice the interest of its depositors.

A national bank may have a financial subsidiary engaged in any activity authorized for national banks directly or certain permissible activities. Generally, a financial subsidiary is permitted to engage in activities that are "financial in nature" or incidental thereto, even though they are not permissible for the national bank itself. The definition of "financial in nature" includes, among other items, underwriting, dealing in or making a market in securities, including, for example, distributing shares of mutual funds. The subsidiary may not, however, engage as principal in underwriting insurance, issue annuities or engage in real estate development or investment or merchant banking.

The Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 established a comprehensive framework to modernize and reform the oversight of public company auditing, improve the quality and transparency of financial reporting by those companies and strengthen the independence of auditors. Among other things, the legislation (i) created a public company accounting oversight board that is empowered to set auditing, quality control and ethics standards, to inspect registered public accounting firms, to conduct investigations and to take disciplinary actions, subject to SEC oversight and review; (ii) strengthened auditor independence from corporate management by limiting the scope of consulting services that auditors can offer their public company audit clients; (iii) heightened the responsibility of public company directors and senior managers for the quality of the financial reporting and disclosure made by their companies; (iv) adopted a number of provisions to deter wrongdoing by corporate management; (v) imposed a number of new corporate disclosure requirements; (vi) adopted provisions which generally seek to limit and expose to public view possible conflicts of interest affecting securities analysis; and (vii) imposed a range of new criminal penalties for fraud and other wrongful acts and extended the period during which certain types of lawsuits can be brought against a company or its insiders.

2010 Regulatory Reform. On July 21, 2010, the Dodd Frank Wall Street Reform and Consumer Protection Act of 2010 was signed into law. The goals of the Dodd Frank Act included restoring public confidence in the financial system following the financial crisis, preventing another financial crisis and permitting regulators to identify shortfalls in the system before another financial crisis can occur. The Dodd Frank Act is also intended to promote a fundamental restructuring of federal banking regulation by taking a systemic view of regulation rather than focusing on regulation of individual financial institutions.

Many of the provisions in the Dodd Frank Act require that regulatory agencies draft implementing regulations. Implementation of the Dodd Frank Act has had and will continue to have a broad impact on the financial services industry by introducing significant regulatory and compliance changes including, among other things: (i) changing the assessment base for federal deposit insurance from the amount of insured deposits to average consolidated total assets less average tangible equity, eliminating the ceiling and increasing the size of the floor of the DIF and offsetting the impact of the increase in the minimum floor on institutions with less than $10 billion in assets; (ii) making permanent the $250,000 limit for federal deposit insurance and increasing the cash limit of Securities Investor Protection Corporation protection to $250,000; (iii) eliminating the requirement that the FDIC pay dividends from the DIF when the reserve ratio is between 1.35% and 1.50%, but continuing the FDIC's authority to declare dividends when the reserve ratio at the end of a calendar year is at least 1.50%; however, the FDIC is granted sole discretion in determining whether to suspend or limit the declaration or payment of dividends; (iv) repealing the federal prohibition on payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts; (v) implementing certain corporate governance revisions that apply to all public companies, including regulations that require publicly traded companies to give shareholders a non-binding advisory vote to approve executive compensation, commonly referred to as a "say-on-pay" vote and an advisory role on so-called "golden parachute" payments in connection with approvals of mergers and acquisitions; new director independence requirements and considerations to be taken into account by compensation committees and their advisers relating to executive compensation; additional executive compensation disclosures; and a requirement that companies adopt a policy providing for the recovery of executive compensation in the event of a restatement of its financial statements, commonly referred to as a "clawback" policy; (vi) centralizing responsibility for consumer financial protection by creating a new independent federal agency, the Consumer Financial Protection Bureau (CFPB) responsible for implementing federal consumer protection laws to be applicable to all depository institutions; (vii) imposing new requirements for mortgage lending, including new minimum underwriting standards, limitations on prepayment penalties and imposition of new mandated disclosures to mortgage borrowers; (viii) imposing new limits on affiliate transactions and causing derivative transactions to be subject to lending limits and other restrictions including adoption of the "Volcker Rule" regulating transactions in derivative securities; (ix) limiting debit card interchange fees that financial institutions with $10 billion or more in assets are permitted to charge their customers; and (x) implementing regulations to incentivize and protect individuals, commonly referred to as whistleblowers to report violations of federal securities laws.

2018 Regulatory Reform. In May 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act (the Act), was enacted to modify or remove certain financial reform rules and regulations, including some of those implemented under the Dodd Frank Act. While the Act maintains most of the regulatory structure established by the Dodd Frank Act, it amends certain aspects of the regulatory framework for small depository institutions with assets of less than $10 billion and for large banks with assets of more than $50 billion. Many of these changes could result in meaningful regulatory relief for community banks such as the Bank.

The Act, among other matters, expands the definition of qualified mortgages which may be held by a financial institution and simplifies the regulatory capital rules for financial institutions and their holding companies with total consolidated assets of less than $10 billion by instructing the federal banking regulators to establish a single "Community Bank Leverage Ratio" of between 8 and 10 percent to replace the leverage and risk-based regulatory capital ratios. The Act also expands the category of holding companies that may rely on the "Small Bank Holding Company and Savings and Loan Holding Company Policy Statement" by raising the maximum amount of assets a qualifying holding company may have from $1 billion to $3 billion. This expansion also excludes such holding companies from the minimum capital requirements of the Dodd Frank Act. In addition, the Act includes regulatory relief for community banks regarding regulatory examination cycles, call reports, the Volcker Rule (proprietary trading prohibitions), mortgage disclosures and risk weights for certain high-risk commercial real estate loans.

Anti-Money Laundering. All financial institutions, including national banks, are subject to federal laws that are designed to prevent the use of the U.S. financial system to fund terrorist activities. Financial institutions operating in the United States must develop anti-money laundering compliance programs, due diligence policies and controls to ensure the detection and reporting of money laundering. Such compliance programs are intended to supplement compliance requirements, also applicable to financial institutions, under the Bank Secrecy Act and the Office of Foreign Assets Control Regulations. The Bank has established policies and procedures to ensure compliance with these provisions.

Privacy. Federal banking rules limit the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. Pursuant to these rules, financial institutions must provide (i) initial notices to customers about their privacy policies, describing conditions under which they may disclose nonpublic personal information to nonaffiliated third parties and affiliates; (ii) annual notices of their privacy policies to current customers and (iii) a reasonable method for customers to "opt out" of disclosures to nonaffiliated third parties. These privacy provisions affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. The Corporation's privacy policies have been implemented in accordance with the law.

Dividends and Other Transfers of Funds. Dividends from the Bank constitute the principal source of income to the Corporation. The Corporation is a legal entity separate and distinct from the Bank. The Bank is subject to various statutory and regulatory restrictions on its ability to pay dividends to the Corporation. In addition, the Bank's regulators have the authority to prohibit the Bank from paying dividends, depending upon the Bank's financial condition, if such payment is deemed to constitute an unsafe or unsound practice.

Limitations on Transactions with Affiliates. Transactions between national banks and any affiliate are governed by Sections 23A and 23B of the Federal Reserve Act. An affiliate of a national bank includes any company or entity which controls the national bank or that is controlled by a company that controls the national bank. In a holding company context, the holding company of a national bank (such as the Corporation) and any companies which are controlled by such holding company are affiliates of the national bank. Generally, Section 23A limits the extent to which the national bank or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of such bank's capital stock and surplus, and contains an aggregate limit on all such transactions with all affiliates to an amount equal to 20% of such capital stock and surplus. Section 23B applies to "covered transactions" as well as certain other transactions and requires that all transactions be on terms substantially the same, or at least as favorable, to the national bank as those provided to a non-affiliate. The term "covered transaction" includes the making of loans to, purchase of assets from and issuance of a guarantee to an affiliate and similar transactions. Section 23B transactions also include the provision of services and the sale of assets by a national bank to an affiliate.

In addition, Sections 22(g) and (h) of the Federal Reserve Act place restrictions on loans to executive officers, directors and principal shareholders of the national bank and its affiliates. Under Section 22(h), loans to a director, an executive officer and to a greater than 10% shareholder of a national bank, and certain affiliated interests of either, may not exceed, together with all other outstanding loans to such person and affiliated interests, the national bank's loans to one borrower limit (generally equal to 15% of the bank's unimpaired capital and surplus). Section 22(h) also requires that loans to directors, executive officers and principal shareholders be made on terms substantially the same as offered in comparable transactions to other persons unless the loans are made pursuant to a benefit or compensation program that (i) is widely available to employees of the bank and (ii) does not give preference to any director, executive officer or principal shareholder, or certain affiliated interests of either, over other employees of the national bank. Section 22(h) also requires prior board approval for certain loans. In addition, the aggregate amount of extensions of credit by a national bank to all insiders cannot exceed the bank's unimpaired capital and surplus. Furthermore, Section 22(g) places additional restrictions on loans to executive officers. The Bank currently is subject to Sections 22(g) and (h) of the Federal Reserve Act and at December 31, 2020, was in compliance with the above restrictions.

Loans to One Borrower Limitations. With certain limited exceptions, the maximum amount that a national bank may lend to any borrower (including certain related entities of the borrower) at one time may not exceed 15% of the unimpaired capital and surplus of the institution, plus an additional 10% of unimpaired capital and surplus for loans fully secured by readily marketable collateral. At December 31, 2020, the Bank's loans-to-one-borrower limit was $12.7 million based upon the 15% of unimpaired capital and surplus measurement. The Bank may grant credit to borrowers in excess of the legal lending limit as part of the Legal Lending Limit Pilot Program approved by the OCC which allows the Bank to exceed its legal lending limit within certain parameters. At December 31, 2020, the Bank's largest single lending relationship had an outstanding balance of $17.1 million.

Capital Standards. The Bank is required to comply with applicable capital adequacy standards established by the federal banking agencies. Beginning on January 1, 2015, the Bank became subject to a new comprehensive capital framework for U.S. banking organizations. In July 2013, the Federal Reserve Board, FDIC and OCC adopted a final rule that implements the Basel III changes to the international regulatory capital framework. The Basel III rules include requirements contemplated by the Dodd Frank Act as well as certain standards initially adopted by the Basel Committee on Banking Supervision in December 2010.

Effective January 1, 2020, qualifying community banking organizations may elect to comply with a greater than 9% community bank leverage ratio (the "CBLR") requirement in lieu of the currently applicable requirements for calculating and reporting risk-based capital ratios. The CBLR is equal to Tier 1 capital divided by average total consolidated assets. In order to qualify for the CBLR election, a community bank must (i) have a leverage capital ratio greater than 9 percent, (ii) have less than $10 billion in average total consolidated assets, (iii) not exceed certain levels of off-balance sheet exposure and trading assets plus trading liabilities and (iv) not be an advanced approaches banking organization. A community bank that meets the above qualifications and elects to utilize the CBLR is considered to have satisfied the risk-based and leverage capital requirements in the generally applicable capital rules and is also considered to be "well capitalized" under the prompt corrective action rules. The Bank has not elected to be subject to the CBLR.

Unless a community bank qualifies for, and elects to comply with, the CBLR beginning on January 1, 2020, national banks are required to maintain the Basel III minimum levels of regulatory capital described below. The Basel III rules include risk-based and leverage capital ratio requirements that refine the definition of what constitutes "capital" for purposes of calculating those ratios. The minimum capital level requirements are (i) a common equity Tier 1 risk-based capital ratio of 4.5%; (ii) a Tier 1 risk-based capital ratio of 6% (increased from 4%); (iii) a total risk-based capital ratio of 8% (unchanged from previous rules); and (iv) a Tier 1 leverage ratio of 4% for all institutions. Common equity Tier 1 capital consists of retained earnings and common stock instruments, subject to certain adjustments.

The Basel III rules also establish a "capital conservation buffer" of 2.5% above the new regulatory minimum risk-based capital requirements. The conversation buffer was fully phased in as of January 1, 2019 and results in the following minimum ratios: (i) a common equity Tier 1 risk-based capital ratio of 7.0%, (ii) a Tier 1 risk-based capital ratio of 8.5% and (iii) a total risk-based capital ratio of 10.5%. An institution is subject to limitations on certain activities including payment of dividends, share repurchases and discretionary bonuses to executive officers if its capital level is below the buffer amount.

The Basel III rules also revise the prompt corrective action framework, which is designed to place restrictions on insured depository institutions if their capital levels do not meet certain thresholds. The prompt corrective action rules were modified to include a common equity Tier 1 capital component and to increase certain other capital requirements for the various thresholds. Insured depository institutions are required to meet the following capital levels in order to qualify as "well capitalized": (i) a new common equity Tier 1 risk-based capital ratio of 6.5%; (ii) a Tier 1 risk-based capital ratio of 8% (increased from 6%); (iii) a total risk-based capital ratio of 10% (unchanged from previous rules); and (iv) a Tier 1 leverage ratio of 5% (unchanged from previous rules).

The Basel III rules set forth certain changes in the methods of calculating risk-weighted assets, which in turn affect the calculation of risk-based ratios. Under the Basel III rules, higher or more sensitive risk weights are assigned to various categories of assets including certain credit facilities that finance the acquisition, development or construction of real property, certain exposures of credits that are 90 days past due or on nonaccrual, foreign exposures and certain corporate exposures. In addition, Basel III rules include (i) alternate standards of credit worthiness consistent with the Dodd Frank Act; (ii) greater recognition of collateral guarantees and (iii) revised capital treatment for derivatives and repo-style transactions.

In addition, the final rule includes certain exemptions to address concerns about the regulatory burden on community banks. Banking organizations with less than $15 billion in consolidated assets as of December 31, 2009 are permitted to include in Tier 1 capital trust preferred securities and cumulative perpetual preferred stock issued and included in Tier 1 capital prior to May 19, 2010 on a permanent basis without any phase out. Community banks were required to make this election by their March 31, 2015 quarterly filings with the appropriate federal regulator to opt-out of the requirement to include most accumulated other comprehensive income (AOCI) components in the calculation of Common equity Tier 1 capital and in effect retain the AOCI treatment under the current capital rules. The Bank made in its March 31, 2015 quarterly filing a one-time permanent election to continue to exclude accumulated other comprehensive income from capital. If it would not have made this election, unrealized gains and losses would have been included in the calculation of its regulatory capital.

The Basel III rules generally became effective beginning January 1, 2015; however, certain calculations under the Basel III rules have phase-in periods. In 2015, the Board of Governors of the Federal Reserve System amended its Small Bank Holding Company Policy Statement by increasing the policy's consolidated assets threshold from $500 million to $1 billion and the 2018 legislation summarized above increased that asset threshold to $3 billion. The primary benefit of being deemed a "small bank holding company" is the exemption from the requirement to maintain consolidated regulatory capital ratios; instead, regulatory capital ratios only apply at the subsidiary bank level.

The following table sets forth certain information concerning regulatory capital ratios of the Bank as of the dates presented. The capital adequacy ratios disclosed below are exclusive of the capital conservation buffer.

(Dollar amounts in thousands)	December 31, 2020		December 31, 2019	
	Amount	Ratio	Amount	Ratio
Total capital to risk-weighted assets:				
Actual	$ 84,583	12.71%	$ 80,418	13.74%
For capital adequacy purposes	53,255	8.00%	46,836	8.00%
To be well capitalized	66,569	10.00%	58,544	10.00%
Tier 1 capital to risk-weighted assets:				
Actual	$ 76,246	11.45%	$ 73,862	12.62%
For capital adequacy purposes	39,941	6.00%	35,127	6.00%
To be well capitalized	53,255	8.00%	46,836	8.00%
Common Equity Tier 1 capital to risk-weighted assets:				
Actual	$ 76,246	11.45%	$ 73,862	12.62%
For capital adequacy purposes	29,956	4.50%	26,345	4.50%
To be well capitalized	43,270	6.50%	38,054	6.50%
Tier 1 capital to average assets:				
Actual	$ 76,246	7.58%	$ 73,862	8.17%
For capital adequacy purposes	40,213	4.00%	36,146	4.00%
To be well capitalized	50,267	5.00%	45,182	5.00%

Prompt Corrective Action and Other Enforcement Mechanisms. Federal banking agencies possess broad powers to take corrective and other supervisory action to resolve the problems of insured depository institutions, including but not limited to those institutions that fall below one or more prescribed minimum capital ratios. Each federal banking agency has promulgated regulations defining the following five categories in which an insured depository institution will be placed, based on its capital ratios: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. At December 31, 2020, the Bank exceeded the required ratios for classification as “well capitalized.”

An institution that, based upon its capital levels, is classified as well capitalized, adequately capitalized, or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition or an unsafe or unsound practice warrants such treatment. At each successive lower capital category, an insured depository institution is subject to more restrictions. The federal banking agencies, however, may not treat a significantly undercapitalized institution as critically undercapitalized.

In addition to measures taken under the prompt corrective action provisions, commercial banking organizations may be subject to potential enforcement actions by the federal regulators for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation, or any condition imposed in writing by the agency or any written agreement with the agency. Finally, pursuant to an interagency agreement, the FDIC can examine any institution that has a substandard regulatory examination score or is considered undercapitalized – without the permission of the institution’s primary regulator.

Safety and Soundness Standards. The federal banking agencies have adopted guidelines designed to assist the federal banking agencies in identifying and addressing potential safety and soundness concerns before capital becomes impaired. The guidelines set forth operational and managerial standards relating to: (i) internal controls, information systems and internal audit systems, (ii) loan documentation, (iii) credit underwriting, (iv) asset growth, (v) earnings, and (vi) compensation, fees and benefits. In addition, the federal banking agencies have also adopted safety and soundness guidelines with respect to asset quality and earnings standards. These guidelines provide six standards for establishing and maintaining a system to identify problem assets and prevent those assets from deteriorating. Under these standards, an insured depository institution should: (i) conduct periodic asset quality reviews to identify problem assets, (ii) estimate the inherent losses in problem assets and establish reserves that are sufficient to absorb estimated losses, (iii) compare problem asset totals to capital, (iv) take appropriate corrective action to resolve problem assets, (v) consider the size and potential risks of material asset concentrations, and (vi) provide periodic asset quality reports with adequate information for management and the board of directors to assess the level of asset risk. These guidelines also set forth standards for evaluating and monitoring earnings and for ensuring that earnings are sufficient for the maintenance of adequate capital and reserves.

Insurance of Accounts. Deposit accounts are currently insured by the DIF generally up to a maximum of $250,000 per separately insured depositor. As insurer, the FDIC is authorized to conduct examinations of, and to require reporting by, insured institutions. It also may prohibit any insured institution from engaging in any activity determined by regulation or order to pose a serious threat to the FDIC. The FDIC also has the authority to initiate enforcement actions against insured institutions.

The Dodd Frank Act raised the minimum reserve ratio of the DIF from 1.15% to 1.35% and required the FDIC to offset the effect of this increase on insured institutions with assets of less than $10 billion (small institutions). In March 2016, the FDIC adopted a rule to accomplish this by imposing a surcharge on larger institutions commencing when the reserve ratio reaches 1.15% and ending when it reaches 1.35%. The reserve ratio reached 1.15% effective as of June 30, 2016 and exceeded 1.35% effective as of September 30, 2018. Small institutions receive credits for the portion of their regular assessments that contributed to growth in the reserve ratio between 1.15% and 1.35%. The credits apply to reduce regular assessments by 2 basis points for quarters when the reserve ratio is at least 1.38%.

Effective July 1, 2016, the FDIC adopted changes that eliminated its risk-based premium system. Under the new premium system, the FDIC assesses deposit insurance premiums on the assessment base of a depository institution, which is its average total assets reduced by the amount of its average tangible equity. For a small institution (one with assets of less than $10 billion) that has been federally insured for at least five years, effective July 1, 2016, the initial base assessment rate ranges from 3 to 30 basis points, based on the institution’s CAMELS composite and component ratings and certain financial ratios; its leverage ratio; its ratio of net income before taxes to total assets; its ratio of nonperforming loans and leases to gross assets; its ratio of other real estate owned to gross assets; its brokered deposits ratio (excluding reciprocal deposits if the institution is well capitalized and has a CAMELS composite rating of 1 or 2); its one year asset growth ratio (which penalizes growth adjusted for mergers in excess of 10%); and its loan mix index (which penalizes higher risk loans based on historical industry charge off rates). The initial base assessment rate is subject to downward adjustment (not below 1.5%) based on the ratio of unsecured debt the institution has issued to its assessment base, and to upward adjustment (which can cause the rate to exceed 30 basis points) based on its holdings of unsecured debt issued by other insured institutions. Institutions with assets of $10 billion or more are assessed using a scorecard method.

In addition, all FDIC insured institutions were required to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation, an agency of the federal government established to recapitalize the predecessor to the Savings Association Insurance Fund. The first Financing Corporation bonds matured in 2019.

Under the Federal Deposit Insurance Act, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule order or condition imposed by the FDIC.

The FDIC applied credits to the Bank's assessments due in 2019. In 2020, the FDIC announced that all credits have been remitted and the credit program has ended.

Interstate Banking and Branching. Banks have the ability, subject to certain state restrictions, to acquire, by acquisition or merger, branches outside its home state. In addition, federal legislation permits a bank headquartered in Pennsylvania to enter another state through de novo branching (as compared to an acquisition) if under the state law in the state which the proposed branch is to be located a state-chartered institution would be permitted to establish the branch. Interstate branches are subject to certain laws of the states in which they are located. Competition may increase further as banks branch across state lines and enter new markets.

Consumer Protection Laws and Regulations. The bank regulatory agencies are focusing greater attention on compliance with consumer protection laws and their implementing regulations. Examination and enforcement have become more intense in nature, and insured institutions have been advised to carefully monitor compliance with such laws and regulations. The Bank is subject to many federal consumer protection statutes and regulations, some of which are discussed below.

The Community Reinvestment Act (CRA) is intended to encourage insured depository institutions, while operating safely and soundly, to help meet the credit needs of their communities. The CRA specifically directs the federal regulatory agencies, in examining insured depository institutions, to assess a bank's record of helping meet the credit needs of its entire community, including low- and moderate-income neighborhoods, in a manner consistent with safe and sound banking practices. CRA regulations (i) establish the definition of "Intermediate Small Bank" as an institution with total assets of $330 million to $1.322 billion, without regard to any holding company; and (ii) take into account abusive lending practices by a bank or its affiliates in determining a bank's CRA rating. The CRA further requires the agencies to take a financial institution's record of meeting its community credit needs into account when evaluating applications for, among other things, domestic branches, mergers or acquisitions, or holding company formations. The agencies use the CRA assessment factors in order to provide a rating to the financial institution. The ratings range from a high of "outstanding" to a low of "substantial noncompliance." In its last examination for CRA compliance, as of January 15, 2019, the Bank was rated "satisfactory."

In June 2020, the OCC issued a final rule clarifying and expanding the activities that qualify for Community Reinvestment Act credit and seeking to create a more consistent and objective method for evaluating Community Reinvestment Act performance. The final rule became effective October 1, 2020, but compliance with the revised requirements is not mandatory until January 1, 2024 for institutions the Bank's asset size.

The Fair Credit Reporting Act (FCRA), as amended by the Fair and Accurate Credit Transactions Act of 2003 (FACTA), requires financial firms to help deter identity theft, including developing appropriate fraud response programs, and give consumers more control of their credit data. It also reauthorizes a federal ban on state laws that interfere with corporate credit granting and marketing practices. In connection with the FACTA, financial institution regulatory agencies proposed rules that would prohibit an institution from using certain information about a consumer it received from an affiliate to make a solicitation to the consumer, unless the consumer has been notified and given a chance to opt out of such solicitations. A consumer's election to opt out would be applicable for at least five years.

The Federal Trade Commission (FTC), the federal bank regulatory agencies and the National Credit Union Administration (NCUA) have issued regulations (the Red Flag Rules) requiring financial institutions and creditors to develop and implement written identity theft prevention programs as part of the FACTA. The programs must provide for the identification, detection and response to patterns, practices or specific activities – known as red flags – that could indicate identity theft. These red flags may include unusual account activity, fraud alerts on a consumer report or attempted use of suspicious account application documents. The program must also describe appropriate responses that would prevent and mitigate the crime and detail a plan to update the program. The program must be managed by the Board of Directors or senior employees of the institution or creditor, include appropriate staff training and provide oversight of any service providers.

The Check Clearing for the 21st Century Act (Check 21) facilitates check truncation and electronic check exchange by authorizing a new negotiable instrument called a "substitute check," which is the legal equivalent of an original check. Check 21 does not require banks to create substitute checks or accept checks electronically; however, it does require banks to accept a legally equivalent substitute check in place of an original.

The Equal Credit Opportunity Act (ECOA) generally prohibits discrimination in any credit transaction, whether for consumer or business purposes, on the basis of race, color, religion, national origin, sex, marital status, age (except in limited circumstances), receipt of income from public assistance programs, or good faith exercise of any rights under the Consumer Credit Protection Act.

The Truth in Lending Act (TILA) is designed to ensure that credit terms are disclosed in a meaningful way so that consumers may compare credit terms more readily and knowledgeably. As a result of the TILA, all creditors must use the same credit terminology to express rates and payments, including the annual percentage rate, the finance charge, the amount financed, the total of payments and the payment schedule, among other things.

The Fair Housing Act (FHA) regulates many practices, including making it unlawful for any lender to discriminate in its housing-related lending activities against any person because of race, color, religion, national origin, sex, handicap or familial status. A number of lending practices have been found by the courts to be, or may be considered, illegal under the FHA, including some that are not specifically mentioned in the FHA itself.

The Home Mortgage Disclosure Act (HMDA) grew out of public concern over credit shortages in certain urban neighborhoods and provides public information that will help show whether financial institutions are serving the housing credit needs of the neighborhoods and communities in which they are located. The HMDA also includes a "fair lending" aspect that requires the collection and disclosure of data about applicant and borrower characteristics as a way of identifying possible discriminatory lending patterns and enforcing anti-discrimination statutes.

The term "predatory lending," much like the terms "safety and soundness" and "unfair and deceptive practices," is far-reaching and covers a potentially broad range of behavior. As such, it does not lend itself to a concise or a comprehensive definition. Generally speaking, predatory lending involves at least one, and perhaps all three, of the following elements (i) making unaffordable loans based on the assets of the borrower rather than on the borrower's ability to repay an obligation ("asset-based lending"); (ii) inducing a borrower to refinance a loan repeatedly in order to charge high points and fees each time the loan is refinanced ("loan flipping"); and (iii) engaging in fraud or deception to conceal the true nature of the loan obligation from an unsuspecting or unsophisticated borrower.

FRB regulations aimed at curbing such lending significantly widened the pool of high-cost home-secured loans covered by the Home Ownership and Equity Protection Act of 1994, a federal law that requires extra disclosures and consumer protections to borrowers. Lenders that violate the rules face cancellation of loans and penalties equal to the finance charges paid.

OCC guidelines require national banks and their operating subsidiaries to comply with certain standards when making or purchasing loans to avoid predatory or abusive residential mortgage lending practices. Failure to comply with the guidelines could be deemed an unsafe and unsound or unfair or deceptive practice, subjecting the bank to supervisory enforcement actions.

Finally, the Real Estate Settlement Procedures Act (RESPA) requires lenders to provide borrowers with disclosures regarding the nature and cost of real estate settlements. Also, RESPA prohibits certain abusive practices, such as kickbacks, and places limitations on the amount of escrow accounts. Penalties under the above laws may include fines, reimbursements and other penalties. Due to heightened regulatory concern related to compliance with the CRA, FACTA, TILA, FHA, ECOA, HMDA and RESPA generally, the Bank may incur additional compliance costs or be required to expend additional funds for investments in its local community.

Federal Home Loan Bank System. The Bank is a member of the FHLB. Among other benefits, each FHLB serves as a reserve or central bank for its members within its assigned region. Each FHLB is financed primarily from the sale of consolidated obligations of the FHLB system. Each FHLB makes available loans or advances to its members in compliance with the policies and procedures established by the Board of Directors of the individual FHLB. As an FHLB member, the Bank is required to own a certain amount of capital stock in the FHLB. At December 31, 2020, the Bank was in compliance with the stock requirements.

Federal Reserve System. The FRB requires all depository institutions to maintain noninterest bearing reserves at specified levels against their transaction accounts (primarily checking) and non-personal time deposits. At December 31, 2020, the Bank was in compliance with these requirements.

Item 1A. Risk Factors

Not required as the Corporation is a smaller reporting company.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Corporation owns no real property but utilizes the main office of the Bank, which is owned by the Bank. The Corporation's and the Bank's executive offices are located at 612 Main Street, Emlenton, Pennsylvania. The Corporation pays no rent or other form of consideration for the use of this facility.

The Bank owns and leases numerous other premises for use in conducting business activities. The Bank considers these facilities owned or occupied under lease to be adequate. For additional information regarding the Bank's properties, see "Note 5 - Premises and Equipment" to the Consolidated Financial Statements on page F-21.

Item 3. Legal Proceedings

Neither the Bank nor the Corporation is involved in any material legal proceedings. The Bank, from time to time, is party to litigation that arises in the ordinary course of business, such as claims to enforce liens, claims involving the origination and servicing of loans, and other issues related to the business of the Bank. In the opinion of management, the resolution of any such issues would not have a material adverse impact on the financial position, results of operation, or liquidity of the Bank or the Corporation.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market, Holder and Dividend Information

Emclaire Financial Corp common stock is traded on NASDAQ Capital Market (NASDAQ) under the symbol “EMCF”. The listed market makers for the Corporation’s common stock include:

Boenning and Scattergood, Inc.
4 Tower Bridge
200 Barr Harbor Drive, Suite 300
West Conshohocken, PA 19428-2979
Telephone: (800) 883-1212

Janney Montgomery Scott LLC
1717 Arch Street
Philadelphia, PA 19103
Telephone: (215) 665-6000

Raymond James & Associates, Inc.
550 West Washington Boulevard
Suite 1050
Chicago, IL 60661
Telephone: (312) 869-3800

The Corporation has traditionally paid regular quarterly cash dividends. Future dividends will be determined by the Board of Directors after giving consideration to the Corporation’s financial condition, results of operations, tax status, industry standards, economic conditions, regulatory requirements and other factors.

The following table sets forth the high and low sale and quarter-end closing market prices of our common stock for the last two years as reported by the Nasdaq Capital Market as well as cash dividends paid for the quarterly periods presented.

	Market Price			Cash
	High	Low	Close	Dividend
2020:				
Fourth quarter	$ 32.00	$ 23.10	$ 30.63	$ 0.30
Third quarter	28.35	20.40	25.11	0.30
Second quarter	26.10	18.10	20.01	0.30
First quarter	33.50	20.92	23.47	0.30
2019:				
Fourth quarter	$ 34.00	$ 29.92	$ 32.53	$ 0.29
Third quarter	37.00	30.42	32.90	0.29
Second quarter	34.50	29.83	34.50	0.29
First quarter	32.35	29.34	30.80	0.29

As of March 1, 2021, there were approximately 722 stockholders of record and 2,721,212 shares of common stock entitled to vote, receive dividends and considered outstanding for financial reporting purposes. The number of stockholders of record does not include the number of persons or entities who hold their stock in nominee or “street name."

Common stockholders may have dividends reinvested to purchase additional shares through the Corporation’s dividend reinvestment plan. Participants may also make optional cash purchases of common stock through this plan. To obtain a plan document and authorization card to participate in the plan, please call 888-509-4619.

Purchases of Equity Securities

The Corporation did not repurchase any of its equity securities in the year ended December 31, 2020.

Item 6. Selected Financial Data

Not required as the Corporation is a smaller reporting company.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis represents a review of the Corporation’s consolidated financial condition and results of operations for the years ended December 31, 2020 and 2019. This review should be read in conjunction with the consolidated financial statements beginning on page F-4.

Overview

The Corporation reported consolidated net income available to common stockholders of $6.6 million, or $2.41 per diluted common share, for 2020, compared to $7.8 million, or $2.86 per diluted common share, for 2019. Net income available to common stockholders was impacted by the following:

- Net interest income increased $1.0 million, or 3.6%, to $29.1 million for the year ended December 31, 2020 from $28.1 million for 2019. This increase primarily related to an increase in interest income of $1.0 million, or 2.8%, while interest expense remained flat. Driving the increase in interest income was a $90.2 million increase in the average balance of loans. Interest expense increased a modest $21,000 as a result of growth in average interest-bearing liabilities of $52.0 million, which was offset by a decrease in the cost of interest-bearing liabilities of 9 basis points to 1.13% at December 31, 2020 from 1.22% at December 31, 2019.
- Provision for loan losses increased $2.5 million to $3.2 million for the year ended December 31, 2020 from $715,000 for 2019. This increase was primarily related to the $105.0 million increase in outstanding loan balances and the addition of a specific pandemic allowance qualitative factor and risk rating changes for loans that were granted payment deferrals.
- Noninterest income decreased $28,000 to remain flat at $4.4 million for the year ended December 31, 2020 and 2019 due to decreases in fees and service charges and earnings on bank-owned life insurance of $659,000 and $165,000, respectively, offset by increases in gains on the sale of securities, gains on the sale of loans and other noninterest income of $609,000, $127,000 and $60,000, respectively.
- Noninterest expense decreased $104,000 to $22.0 million for the year ended December 31, 2020 from $22.1 million for 2019. This decrease was primarily related to decreases in compensation and employee benefits, professional fees and premises and equipment expense of $590,000, $87,000 and $73,000, respectively, partially offset by increases in other noninterest expense and FDIC insurance expense of $393,000 and $265,000, respectively. The increase in other expense was primarily related to $238,000 in FHLB prepayment penalties resulting from the early retirement of $15.0 million of FHLB long-term debt.

Changes in Financial Condition

Total assets increased $117.0 million, or 12.8%, to $1.03 billion at December 31, 2020 from $915.3 million at December 31, 2019. This increase primarily related to increases in net loans and cash and cash equivalents of $105.0 million and $22.5 million, respectively, partially offset by decreases in securities and interest earning time deposits of $7.1 million and $4.0 million, respectively. Liabilities increased $111.4 million, or 13.4%, to $940.8 million at December 31, 2020 from $829.4 million at December 31, 2019 due to increases in customer deposits and borrowed funds of $106.5 million and $3.5 million, respectively.

Cash and cash equivalents. Cash and cash equivalents increased $22.5 million to $37.4 million at December 31, 2020 from $15.0 million at December 31, 2019. This increase primarily resulted from an increase in customer deposits and borrowed funds and a decrease in securities, partially offset by an increase in loans.

Interest earning time deposits. Interest earning time deposits decreased $4.0 million, or 41.0%, to $5.7 million at December 31, 2020 from $9.7 million at December 31, 2019. This decrease resulted from maturities of certificates of deposits with other financial institutions totaling $4.7 million, partially offset by purchases totaling $746,000 during the year.

Securities. Securities decreased $7.1 million, or 5.9%, to $113.0 million at December 31, 2020 from $120.1 million at December 31, 2019. This decrease primarily resulted from investment security sales, maturities and repayments totaling $67.1 million, partially offset by purchases of $56.8 million during the year.

Loans receivable. Net loans receivable increased $105.0 million, or 15.1%, to $800.3 million at December 31, 2020 from $695.3 million at December 31, 2019. The increase was driven by increases in the Corporation's commercial mortgage, consumer, commercial business and residential mortgage portfolios of $55.7 million, $25.4 million, $22.5 million and $14.9 million, respectively, partially offset by a decrease in the home equity portfolio of $10.5 million. Included in commercial business loan balances at December 31, 2020 was $30.4 million of loans made under the SBA's PPP lending program.

Nonperforming assets. Nonperforming assets include nonaccrual loans, loans 90 days past due and still accruing, repossessions and real estate owned. Nonperforming assets were $4.4 million, or 0.43% of total assets, at December 31, 2020 compared to $3.2 million, or 0.34% of total assets, at December 31, 2019. Nonperforming assets consisted of nonperforming loans and real estate owned of $4.1 million and $344,000, respectively, at December 31, 2020 and $2.9 million and $249,000, respectively, at December 31, 2019. At December 31, 2020, nonperforming loans consisted primarily of residential mortgage and commercial mortgage loans.

Federal bank stocks. Federal bank stocks were comprised of FHLB stock and FRB stock of $3.8 million and $1.8 million, respectively, at December 31, 2020. These stocks are purchased and redeemed at par as directed by the federal banks and levels maintained are based primarily on borrowing and other correspondent relationships between the Corporation and the federal banks.

Bank-owned life insurance (BOLI). The Corporation maintains single premium life insurance policies on certain current and former officers and employees of the Bank. In addition to providing life insurance coverage, whereby the Bank as well as the officers and employees receive life insurance benefits, the appreciation of the cash surrender value of the BOLI will serve to offset and finance existing and future employee benefit costs. Increases in this account are typically associated with an increase in the cash surrender value of the policies, partially offset by certain administrative expenses. BOLI increased $181,000, or 1.2%, to $15.5 million at December 31, 2020 from $15.3 million at December 31, 2019.

Premises and equipment. Premises and equipment decreased $839,000 to $18.2 million at December 31, 2020 from $19.0 million at December 31, 2019. The overall decrease in premises and equipment during the year was due to depreciation and amortization of $1.4 million, partially offset by purchases of $1.2 million. In addition, the Corporation sold $350,000 in assets and recorded asset write-downs of approximately $250,000.

Goodwill. Goodwill remained unchanged at $19.5 million at December 31, 2020 and 2019. Goodwill represents the excess of the total purchase price paid for the acquisition over the fair value of the identifiable assets acquired, net of the fair value of the liabilities assumed. Goodwill is evaluated for impairment at least annually and more frequently if events and circumstances indicate that the asset might be impaired. Management evaluated goodwill and concluded that no impairment existed during the year ended December 31, 2020.

Core deposit intangible. The core deposit intangible was $1.1 million at December 31, 2020, compared to $1.2 million at December 31, 2019. The core deposit intangible includes amounts associated with the assumption of deposits in the 2018 Community First Bancorp, Inc. (CFB) acquisition, the 2017 Northern Hancock Bank and Trust Co. (NHB) acquisition and the 2016 United American Savings Bank (UASB) acquisition. This asset represents the long-term value of the core deposits acquired. In each instance, the fair value was determined using a third-party valuation expert specializing in estimating fair values of core deposit intangibles. The fair value was derived using an industry standard present value methodology. All-in costs and runoff balances by year were discounted by comparable term FHLB advance rates, used as an alternative cost of funds measure. This intangible asset amortizes over a weighted average estimated life of the related deposits. The core deposit intangible asset is not estimated to have a significant residual value. The Corporation recorded $164,000 and $176,000 of intangible amortization in 2020 and 2019, respectively.

Deposits. Total deposits increased $106.5 million, or 13.5%, to $893.6 million at December 31, 2020 from $787.1 million at December 31, 2019. Interest bearing deposits increased $61.6 million, or 9.7%, and non-interest bearing deposits increased $44.9 million, or 30.2%. These increases were driven by increases in public funds and government stimulus deposits coupled with decreased consumer spending and the retention of certain PPP loan proceeds.

Borrowed funds. Borrowed funds increased $3.5 million, or 12.3%, to $32.1 million at December 31, 2020 from $28.6 million at December 31, 2019. Borrowed funds at December 31, 2020 consisted of short-term borrowings of $2.1 million and long-term borrowings of $30.0 million. Short-term borrowed funds at December 31, 2020 consisted of an outstanding balance of $2.1 million on a line of credit with a correspondent bank at rate of 4.25%. Long-term borrowed funds consisted of six $5.0 million FHLB term advances totaling $30.0 million, maturing between 2021 and 2025 and having fixed interest rates between 0.97% and 2.85%. Long-term advances are utilized primarily to fund loan growth and short-term advances are utilized primarily to compensate for normal deposit fluctuations.

Stockholders' equity. Stockholders' equity increased $5.6 million, or 6.5%, to $91.5 million at December 31, 2020 from $85.9 million at December 31, 2019. The increase was primarily due to net income of $6.7 million and an increase of $1.9 million in accumulated other comprehensive income, partially offset by common stock and preferred dividends paid of $3.3 million and $186,000, respectively.

Changes in Results of Operations

The Corporation reported net income before preferred stock dividends of $6.7 million and $8.0 million in 2020 and 2019, respectively. The following "Average Balance Sheet and Yield/Rate Analysis" and "Analysis of Changes in Net Interest Income" tables should be utilized in conjunction with the discussion of the interest income and interest expense components of net interest income.

Average Balance Sheet and Yield/Rate Analysis. The following table sets forth, for the periods indicated, information concerning the total dollar amounts of interest income from interest-earning assets and the resulting average yields, the total dollar amounts of interest expense on interest-bearing liabilities and the resulting average costs, net interest income, interest rate spread and the net interest margin earned on average interest-earning assets. For purposes of this table, average loan balances include nonaccrual loans and exclude the allowance for loan losses and interest income includes accretion of net deferred loan fees. Interest and yields on tax-exempt loans and securities (tax-exempt for federal income tax purposes) are shown on a fully tax equivalent basis. The information is based on average daily balances during the periods presented.

(Dollar amounts in thousands)	For the year ended December 31,					
	2020			2019		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Interest-earning assets:						
Loans, taxable	$ 771,073	$ 33,402	4.33%	$ 679,607	$ 31,824	4.68%
Loans, tax exempt	19,463	745	3.83%	20,736	812	3.92%
Total loans receivable	790,536	34,147	4.32%	700,343	32,636	4.66%
Securities, taxable	81,812	2,070	2.53%	87,544	2,258	2.58%
Securities, tax exempt	22,205	559	2.52%	16,995	457	2.69%
Total securities	104,017	2,629	2.53%	104,539	2,715	2.60%
Interest-earning deposits with banks	26,570	191	0.72%	31,905	566	1.77%
Federal bank stocks	6,040	371	6.14%	5,858	419	7.15%
Total interest-earning cash equivalents	32,610	562	1.72%	37,763	985	2.61%
Total interest-earning assets	**927,163**	**37,338**	**4.03%**	**842,645**	**36,336**	**4.31%**
Cash and due from banks	3,507			3,333		
Other noninterest-earning assets	61,123			62,572		
Total Assets	$ 991,793			$ 908,550		
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 471,766	$ 2,858	0.61%	$ 401,564	$ 2,630	0.65%
Time deposits	201,662	4,307	2.14%	223,222	4,457	2.00%
Total interest-bearing deposits	673,428	7,165	1.06%	624,786	7,087	1.13%
Borrowed funds, short-term	4,366	131	3.00%	4,663	183	3.93%
Borrowed funds, long-term	35,530	766	2.16%	31,845	813	2.55%
Total borrowed funds	39,896	897	2.25%	36,508	996	2.73%
Total interest-bearing liabilities	**713,324**	**8,062**	**1.13%**	**661,294**	**8,083**	**1.22%**
Noninterest-bearing demand deposits	175,279	—	—	149,744	—	—
Funding and cost of funds	**888,603**	**8,062**	**0.91%**	**811,038**	**8,083**	**1.00%**
Other noninterest-bearing liabilities	14,473			13,761		
Total Liabilities	903,076			824,799		
Stockholders' Equity	88,717			83,751		
Total Liabilities and Stockholders' Equity	$ 991,793			$ 908,550		
Net interest income		**$ 29,276**			**$ 28,253**	
Interest rate spread (difference between weighted average rate on interest-earning assets and interest-bearing liabilities)			**2.90%**			**3.09%**
Net interest margin (net interest income as a percentage of average interest-earning assets)			**3.16%**			**3.35%**

Analysis of Changes in Net Interest Income. The following table analyzes the changes in interest income and interest expense in terms of: (1) changes in volume of interest-earning assets and interest-bearing liabilities and (2) changes in yields and rates. The table reflects the extent to which changes in the Corporation's interest income and interest expense are attributable to changes in rate (change in rate multiplied by prior year volume), changes in volume (changes in volume multiplied by prior year rate) and changes attributable to the combined impact of volume/rate (change in rate multiplied by change in volume). The changes attributable to the combined impact of volume/rate are allocated on a consistent basis between the volume and rate variances. Changes in interest income on loans and securities reflect the changes in interest income on a fully tax equivalent basis.

(Dollar amounts in thousands)	For the year ended December 31, 2020 versus 2019 Increase (Decrease) due to		
	Volume	**Rate**	**Total**
Interest income:			
Loans	$ 4,007	$ (2,496)	$ 1,511
Securities	(13)	(73)	(86)
Interest-earning deposits with banks	(82)	(293)	(375)
Federal bank stocks	13	(61)	(48)
Total interest-earning assets	3,925	(2,923)	1,002
Interest expense:			
Interest-bearing deposits	533	(455)	78
Borrowed funds, short-term	(11)	(41)	(52)
Borrowed funds, long-term	88	(135)	(47)
Total interest-bearing liabilities	610	(631)	(21)
Net interest income	$ 3,315	$ (2,292)	$ 1,023

FORM 10-K

2020 Results Compared to 2019 Results

The Corporation reported net income available to common stockholders of $6.6 million and $7.8 million for 2020 and 2019, respectively. The $1.2 million, or 15.6%, decrease in net income was attributed to $2.5 million increase in the provision for loan losses and a $28,000 decrease in noninterest income, partially offset by a $1.0 million increase in net interest income and decreases in the provision for income taxes and noninterest expense of $227,000 and $104,000, respectively. Returns on average equity and assets were 7.61% and 0.68%, respectively, for 2020, compared to 9.50% and 0.88%, respectively, for 2019.

Net interest income. The primary source of the Corporation's revenue is net interest income. Net interest income is the difference between interest income on earning assets, such as loans and securities, and interest expense on liabilities, such as deposits and borrowed funds, used to fund the earning assets. Net interest income is impacted by the volume and composition of interest-earning assets and interest-bearing liabilities, and changes in the level of interest rates. Tax equivalent net interest income increased $1.0 million to $29.3 million for 2020, compared to $28.3 million for 2019. This increase in net interest income can be attributed to an increase in tax equivalent interest income of $1.0 million.

Interest income. Tax equivalent interest income increased $1.0 million, or 2.8%, to $37.3 million for 2020, compared to $36.3 million for 2019. This increase can be attributed to a $1.5 million increase in interest earned on loans, partially offset by decreases in interest earned on deposits with banks and securities and dividends received on federal bank stocks of $375,000, $86,000 and $48,000, respectively.

Tax equivalent interest earned on loans receivable increased $1.5 million, or 4.6%, to $34.1 million for 2020, compared to $32.6 million for 2019. The average balance of loans increased $90.2 million, or 12.9%, generating $4.0 million of additional interest income on loans. Partially offsetting this increase, the average yield on loans decreased 34 basis points to 4.32% for 2020, versus 4.66% for 2019 causing an $2.5 million decrease in interest income. Included in interest earned on loans for the year ended December 31, 2020, is $1.6 million of interest and fees earned on the SBA's PPP lending program.

Interest earned on interest-earning deposits with banks decreased $375,000, or 66.3%, to $191,000 for 2020, compared to $566,000 for 2019. The average yield on interest-earning deposits decreased 105 basis points to 0.72% for 2020, versus 1.77% for 2019 causing a $293,000 decrease in interest income. In addition, the average balance of these accounts decreased $5.3 million, or 16.7%, causing an $82,000 decrease in interest income.

Tax equivalent interest earned on securities decreased $86,000, or 3.2%, to $2.6 million for 2020, compared to $2.7 million for 2019. The average yield on securities decreased 7 basis points to 2.53% for 2020 versus 2.60% for 2019 causing a $73,000 decrease in interest income. Additionally, the average balance of securities decreased $522,000 causing a $13,000 reduction in interest income.

Interest earned on federal bank stocks decreased $48,000, or 11.5%, to $371,000 for 2020, compared to $419,000 for 2019. The average yield on federal bank stocks decreased 101 basis points to 6.14% for 2020 versus 7.15% for 2019 causing a $61,000 decrease in interest income. Partially offsetting this decrease, the average balance of federal bank stocks increased $182,000, or 3.1%, resulting in $13,000 of additional interest income.

Interest expense. Interest expense decreased $21,000 to remain flat at $8.1 million for 2020 and 2019. This decrease can be attributed to a $99,000 decrease in interest expense on borrowed funds, partially offset by a $78,000 increase in interest expense on interest-bearing deposits.

Interest expense on deposits increased $78,000, or 1.1%, to $7.2 million for 2020, compared to $7.1 million for 2019. The average balance of interest-bearing deposits increased $48.6 million, or 7.8%, causing a $533,000 increase in interest expense. Partially offsetting this increase, the average rate on interest-bearing deposits decreased by 7 basis points to 1.06% for 2020 versus 1.13% for 2019 causing a $455,000 decrease in interest expense.

Interest expense on borrowed funds decreased $99,000, or 9.9%, to $897,000 for 2020, compared to $996,000 for 2019. The average rate on borrowed funds decreased 48 basis points to 2.25% for 2020 versus 2.73% for 2019 causing a $176,000 decrease in interest expense. Partially offsetting this decrease, the average balance of borrowed funds increased $3.4 million, or 9.3%, to $39.9 million for 2020, compared to $36.5 million for 2019 causing a $77,000 increase in interest expense.

The following table reconciles interest income on the Consolidated Statements of Net Income to net interest income adjusted to a fully taxable equivalent basis for the years ended December 31:

(Dollar amounts in thousands)	2020	2019
Interest income per Consolidated Statements of Income	$ 37,147	$ 36,145
Adjustment to fully taxable equivalent basis	191	191
Interest income adjusted to fully taxable equivalent basis (non-GAAP)	**37,338**	**36,336**
Interest expense	8,062	8,083
Net interest income adjusted to fully taxable equivalent basis (non-GAAP)	**$ 29,276**	**$ 28,253**

Provision for loan losses. The Corporation records provisions for loan losses to maintain a level of total allowance for loan losses that management believes, to the best of its knowledge, covers all probable incurred losses estimable at each reporting date. Management considers historical loss experience, the present and prospective financial condition of borrowers, current conditions (particularly as they relate to markets where the Corporation originates loans), the status of nonperforming assets, the estimated underlying value of the collateral and other factors related to the collectability of the loan portfolio.

Nonperforming loans increased $1.2 million, or 41.1%, to $4.1 million at December 31, 2020 from $2.9 million at December 31, 2019. The increase in nonperforming loans was primarily related to an increase in non-accrual loans in the residential mortgage and commercial real estate portfolios of $664,000 and $706,000, respectively.

The provision for loan losses increased $2.5 million to $3.2 million for 2020 from $715,000 for 2019. The Corporation's allowance for loan losses amounted to $9.6 million, or 1.18% of the Corporation's total loan portfolio at December 31, 2020 compared to $6.6 million or 0.93% of total loans at December 31, 2019. The allowance for loan losses, as a percentage of nonperforming loans at December 31, 2020 and 2019, was 233.5% and 225.5%, respectively. The allocation of the allowance for loan losses related to commercial real estate, residential mortgage and consumers loans increased during the year primarily as a result of growth in the balances, partially offset by a reduction of net charge-off in these portfolios. In addition, the allowance increased in general, due to risk rating changes for loans which were granted payment deferrals in connection with the pandemic, an increase in criticized and classified loans and the addition of a specific pandemic qualitative allowance factor. This pandemic factor, which was initially set at 2 basis points for the first quarter, increased to 9 basis points and added approximately $628,000 to the provision expense during the year ended December 31, 2020. Significant uncertainty remains regarding future levels of criticized and classified loans, nonperforming loans and charge-offs, but some deterioration is expected as a result of the pandemic. The Corporation will continue to closely monitor changes in the loan portfolio and adjust the provision expense accordingly. At December 31, 2020, there was no provision for loan losses allocated to loans acquired from UASB, NHB or CFB because the unaccreted purchase discount still exceeded the calculated allowance.

Noninterest income. Noninterest income includes revenue that is related to services rendered and activities conducted in the financial services industry, including fees on depository accounts, general transaction and service fees, security and loan sale gains and losses, and earnings on BOLI. Noninterest income decreased $28,000 and remained flat at $4.4 million for 2020 and 2019. The decrease in noninterest income is due to decreases in fees and service charges and earnings on BOLI of $659,000 and $165,000, respectively, partially offset by increases in gains on the sale of securities and loans and other income of $609,000, $127,000 and $60,000, respectively. The reductions in fees and service charges was primarily caused by a substantial decrease in consumer spending related to the pandemic, resulting in higher deposit balances and less account overdrafts. Additionally, the Corporation sold approximately $43.2 million of low yielding securities, in part to repay higher cost overnight borrowings, and to realize a gain of $687,000.

Noninterest expense. Noninterest expense decreased $104,000 to $22.0 million for 2020, compared to $22.1 million for 2019. This decrease was primarily related to decreases in compensation and employee benefits, professional fees and premises and equipment expense of $590,000, $87,000 and $73,000, respectively. These decreases were partially offset by increases in other noninterest expense and FDIC insurance expense of $393,000 and $265,000, respectively.

Compensation and employee benefits expense decreased $590,000, or 5.0%, to $11.1 million for 2020, compared to $11.7 million for 2019. Salary expense decreased $350,000 primarily due to lobby closures and reduced branch hours put in place as a result of the pandemic. Also, the Corporation experienced a $146,000 reduction of expense related to employee retirement plans.

Professional fee expense decreased $87,000, or 9.4%, to $841,000 for 2020, compared to $928,000 for 2019. This decrease is primarily related to a decrease in legal costs due to a decrease in foreclosure activity as a result of the pandemic.

Premises and equipment expense decreased $73,000, or 2.2%, to $3.3 million for 2020, compared to $3.4 million for 2019. This decrease primarily related to reductions in equipment service contract expense of $112,000, partially offset by an increase in building repairs and maintenance expense of $58,000.

Other noninterest expense increased $393,000, or 7.0%, to $6.0 million for 2020, compared to $5.6 million for 2019. This increase primarily related to increases in item processing and software subscription expenses, and FHLB prepayment penalties of $501,000 and $238,000, respectively, partially offset by a reduction of $223,000 in travel, entertainment and conference expense, due to meeting and travel restrictions put in place because of the pandemic.

FDIC insurance expense increased $265,000, or 97.1%, to $538,000 for 2020, compared to $273,000 for 2019. This increase was primarily related to an increase in assessment charges due to increases in non-performing assets and decreases in capital ratios during 2020 related to the pandemic and $215,000 in Small Bank Assessment credits received by the Bank and utilized in the third and fourth quarters of 2019.

The provision for income taxes decreased $227,000, or 13.7%, to $1.4 million for 2020, compared to $1.7 million for 2019 primarily due to the decrease in net income available to common stockholders.

Market Risk Management

Market risk for the Corporation consists primarily of interest rate risk exposure and liquidity risk. The Corporation is not subject to currency exchange risk or commodity price risk, and has no trading portfolio, and therefore, is not subject to any trading risk. In addition, the Corporation does not participate in hedging transactions such as interest rate swaps and caps. Changes in interest rates will impact both income and expense recorded and also the market value of long-term interest-earning assets.

The primary objective of the Corporation's asset liability management function is to maximize the Corporation's net interest income while simultaneously maintaining an acceptable level of interest rate risk given the Corporation's operating environment, capital and liquidity requirements, balance sheet mix, performance objectives and overall business focus. One of the primary measures of the exposure of the Corporation's earnings to interest rate risk is the timing difference between the repricing or maturity of interest-earning assets and the repricing or maturity of interest-bearing liabilities.

The Corporation's Board of Directors has established a Finance Committee, consisting of five outside directors, the President and Chief Executive Officer (CEO), Treasurer and Chief Financial Officer (CFO) and Chief Operating Officer (COO), to monitor market risk, including primarily interest rate risk. This committee, which meets at least quarterly, generally establishes and monitors the investment, interest rate risk and asset liability management policies of the Corporation.

In order to minimize the potential for adverse affects of material and prolonged changes in interest rates on the Corporation's results of operations, the Corporation's management team has implemented and continues to monitor asset liability management policies to better match the maturities and repricing terms of the Corporation's interest-earning assets and interest-bearing liabilities. Such policies have consisted primarily of (i) originating adjustable-rate mortgage loans; (ii) originating short-term secured commercial loans with the rate on the loan tied to the prime rate or reset features in which the rate changes at determined intervals; (iii) emphasizing investment in shorter-term (expected duration of five years or less) investment securities; (iv) selling longer-term (30-year) fixed-rate residential mortgage loans in the secondary market; (v) maintaining a high level of liquid assets (including securities classified as available for sale) that can be readily reinvested in higher yielding investments should interest rates rise; (vi) emphasizing the retention of lower cost savings accounts and other core deposits; and (vii) lengthening liabilities and locking in lower borrowing rates with longer terms whenever possible.

Interest Rate Sensitivity Gap Analysis

The implementation of asset and liability initiatives and strategies and compliance with related policies, combined with other external factors such as demand for the Corporation's products and economic and interest rate environments in general, has resulted in the Corporation typically maintaining a one-year cumulative interest rate sensitivity gap within internal policy limits of between a positive and negative 15% of total assets. The one-year interest rate sensitivity gap is identified as the difference between the Corporation's interest-earning assets that are scheduled to mature or reprice within one year and interest-bearing liabilities that are scheduled to mature or reprice within one year.

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The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or repricing within a specific time period and the amount of interest-bearing liabilities maturing or repricing within that time period. A gap is considered positive when the amount of interest rate-sensitive assets exceeds the amount of interest rate-sensitive liabilities, and is considered negative when the amount of interest rate-sensitive liabilities exceeds the amount of interest rate-sensitive assets. Generally, during a period of rising interest rates, a negative gap would adversely affect net interest income while a positive gap would result in an increase in net interest income. Conversely, during a period of falling interest rates, a negative gap would result in an increase in net interest income and a positive gap would adversely affect net interest income. The closer to zero, or more neutral, that gap is maintained, generally, the lesser the impact of market interest rate changes on net interest income.

Based on certain assumptions derived from the Corporation's historical experience, at December 31, 2020, the Corporation's interest-earning assets maturing or repricing within one year totaled $383.0 million while the Corporation's interest-bearing liabilities maturing or repricing within one year totaled $160.4 million, providing an excess of interest-earning assets over interest-bearing liabilities of $222.6 million or 21.6% of total assets. At December 31, 2020, the percentage of the Corporation's assets to liabilities maturing or repricing within one year was 238.8%.

The following table presents the amounts of interest-earning assets and interest-bearing liabilities outstanding as of December 31, 2020 which are expected to mature, prepay or reprice in each of the future time periods presented:

(Dollar amounts in thousands)	Six months or less	Six months to one year	One to three years	Three to four years	Over four years	Total
Total interest-earning assets	$ 283,739	$ 99,269	$ 244,145	65,137	$ 267,003	$ 959,293
Total interest-bearing liabilities	71,714	88,678	234,728	106,796	227,959	729,875
Interest rate sensitivity gap	$ 212,025	$ 10,591	$ 9,417	$ (41,659)	$ 39,044	$ 229,418
Cumulative rate sensitivity gap	$ 212,025	$ 222,616	$ 232,033	$ 190,374	$ 229,418	
Ratio of gap during the period to total interest earning assets	22.10%	1.10%	0.98%	(4.34%)	4.07%	
Ratio of cumulative gap to total interest earning assets	22.10%	23.21%	24.19%	19.85%	23.92%	

Although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different degrees to changes in market interest rates. The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types of assets and liabilities may lag behind changes in market interest rates. In the event of a change in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in calculating the table. The ability of many borrowers to service their debt may decrease in the event of an interest rate increase.

Interest Rate Sensitivity Simulation Analysis

The Corporation also utilizes income simulation modeling in measuring its interest rate risk and managing its interest rate sensitivity. The Finance Committee of the Board of Directors believes that simulation modeling enables the Corporation to more accurately evaluate and manage the possible effects on net interest income due to the exposure to changing market interest rates and different loan and security prepayment and deposit decay assumptions under various interest rate scenarios.

As with gap analysis and earnings simulation modeling, assumptions about the timing and variability of cash flows are critical in net portfolio equity valuation analysis. Particularly important are the assumptions driving mortgage prepayments and the assumptions about expected attrition of the core deposit portfolios. These assumptions are based on the Corporation's historical experience.

The Corporation has established the following guidelines for assessing interest rate risk:

Net interest income simulation. Given a 200 basis point immediate increase or decrease in market interest rates, net interest income may not change by more than 8% for a one-year period.

Economic value of equity simulation. Economic value of equity is the present value of the Corporation's existing assets less the present value of the Corporation's existing liabilities. Given a 200 basis point immediate and permanent increase or decrease in market interest rates, economic value of equity may not correspondingly decrease or increase by more than 20%.

These guidelines take into consideration the current interest rate environment, the Corporation's financial asset and financial liability product mix and characteristics and liquidity sources among other factors. Given the current rate environment, a drop in short-term market interest rates of 200 basis points immediately or over a one-year horizon would seem unlikely. This should be considered in evaluating modeling results outlined in the table below.

The following table presents the simulated impact of a 100 basis point or 200 basis point upward or downward shift of market interest rates on net interest income for the years ended December 31, 2020 and 2019, respectively. This analysis was done assuming that the interest-earning asset and interest-bearing liability levels at December 31, 2020 remained constant. The impact of the market rate movements on net interest income was developed by simulating the effects of rates changing immediately for a one-year period from the December 31, 2020 levels for net interest income.

	Increase		Decrease	
	+100 BP	+200 BP	-100 BP	-200 BP
2020 Net interest income - increase (decrease)	3.53%	5.84%	(2.77%)	(1.87%)
2019 Net interest income - increase (decrease)	1.87%	2.06%	(1.83%)	(5.28%)

The expected increase in 2019 and 2020 net interest income in the rising rate scenarios shown in the table above resulted from the Corporation having an excess of immediately repricing interest-earning assets over immediately repricing interest-bearing liabilities.

Impact of Inflation and Changing Prices

The consolidated financial statements of the Corporation and related notes presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) which require the measurement of financial condition and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation.

Unlike most industrial companies, substantially all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services since such prices are affected by inflation to a larger degree than interest rates. In the current interest rate environment, liquidity and the maturity structure of the Corporation's assets and liabilities are critical to the maintenance of acceptable performance levels.

Capital Resources

Total stockholders' equity increased $5.6 million, or 6.5%, to $91.5 million at December 31, 2020 from $85.9 million at December 31, 2019. Net income available to common stockholders of $6.6 million in 2020 represented a decrease in earnings of $1.2 million, or 15.6%, compared to 2019. The Corporation's capital to assets ratio decreased to 8.9% at December 31, 2020 from 9.4% at December 31, 2019.

While continuing to sustain a strong capital position, dividends on common stock increased to $3.3 million in 2020 from $3.1 million in 2019. In addition, stockholders have taken part in the Corporation's dividend reinvestment plan introduced during 2003 with 39% of registered shareholder accounts active in the plan at December 31, 2020. Dividend reinvestment is achieved through the purchase of common shares on the secondary market.

Capital adequacy is intended to enhance the Corporation's ability to support growth while protecting the interest of stockholders and depositors and to ensure that capital ratios are in compliance with regulatory minimum requirements. Regulatory agencies have developed certain capital ratio requirements that are used to assist them in monitoring the safety and soundness of financial institutions. At December 31, 2020, the Bank was in excess of all regulatory capital requirements. See "Note 10 - Regulatory Matters" to the consolidated financial statements on page F-25.

Liquidity

The Corporation's primary sources of funds generally have been deposits obtained through the offices of the Bank, borrowings from the FHLB, and amortization and prepayments of outstanding loans and maturing securities. During 2020, the Corporation used its sources of funds primarily to fund additional loans and increase interest-earning deposits. As of December 31, 2020, the Corporation had outstanding loan commitments, including undisbursed loans and amounts available under credit lines, totaling $115.2 million, and standby letters of credit totaling $493,000, net of cash collateral maintained by the Bank. The Bank has established policies to monitor and manage liquidity levels to ensure the Bank's ability to meet demands for customer withdrawals and the repayment of borrowings.

At December 31, 2020, time deposits amounted to $187.9 million, or 21.0%, of the Corporation's total consolidated deposits, including approximately $76.1 million scheduled to mature within the next year. Management believes that the Corporation has adequate resources to fund all of its commitments, that all of its commitments will be funded as required by related maturity dates and that, based upon past experience and current pricing policies, it can adjust the rates of time deposits to retain a substantial portion of maturing liabilities.

Aside from liquidity available from customer deposits or through sales and maturities of securities, the Corporation and the Bank have alternative sources of funds. These sources include a line of credit for the Corporation with a correspondent bank, the Bank's line of credit and term borrowing capacity from the FHLB and, to a more limited extent, through the sale of loans. At December 31, 2020, the Bank's borrowing capacity with the FHLB, net of funds borrowed and irrevocable standby letters of credit issued to secure certain deposit accounts, was $268.6 million.

The Corporation pays a regular quarterly cash dividend. The Corporation paid dividends of $0.30 and $0.29 per common share for each of the four quarters of 2020 and 2019, respectively. On February 17, 2021, the Corporation declared a quarterly dividend of $0.30 per common share payable on March 19, 2021 to shareholders of record on March 1, 2021. The determination of future dividends on the Corporation's common stock will depend on conditions existing at that time with consideration given to the Corporation's earnings, capital and liquidity needs, among other factors.

Management is not aware of any conditions, including any regulatory recommendations or requirements, which would adversely impact its liquidity or its ability to meet funding needs in the ordinary course of business.

Critical Accounting Policies

The Corporation's consolidated financial statements are prepared in accordance with GAAP and follow general practices within the industry in which it operates. Application of these principles requires management to make estimates or judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates or judgments. Certain policies inherently have a greater reliance on the use of estimates, and as such, have a greater possibility of producing results that could be materially different than originally reported. Estimates or judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by third-party sources, when available. When third-party information is not available, valuation adjustments are estimated in good faith by management primarily though the use of internal cash flow modeling techniques.

The most significant accounting policies followed by the Corporation are presented in "Note 1 - Summary of Significant Accounting Policies" to the Consolidated Financial Statements beginning on page F-9. These policies, along with the disclosures presented in the other financial statement notes, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Management views critical accounting policies to be those which are highly dependent on subjective or complex judgments, estimates and assumptions, and where changes in those estimates and assumptions could have a significant impact on the financial statements. Management has identified the following as critical accounting policies:

Allowance for loan losses. The Corporation considers that the determination of the allowance for loan losses involves a higher degree of judgment and complexity than other significant accounting policies. The balance in the allowance for loan losses is determined based on management's review and evaluation of the loan portfolio in relation to past loss experience, the size and composition of the portfolio, current economic events and conditions and other pertinent factors, including management's assumptions as to future delinquencies, recoveries and losses. All of these factors may be susceptible to significant change. Among the many factors affecting the allowance for loan losses, some are quantitative while others require qualitative judgment. Although management believes its process for determining the allowance adequately considers all of the potential factors that could potentially result in credit losses, the process includes subjective elements and may be susceptible to significant change. To the extent actual outcomes differ from management's estimates, additional provisions for loan losses may be required that would adversely impact the Corporation's financial condition or earnings in future periods.

Other-than-temporary impairment. Management evaluates debt securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic, market or other concerns warrant such evaluation. Consideration is given to: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions and (4) whether the Corporation has the intent to sell the security or more likely than not will be required to sell the security before its anticipated recovery.

Goodwill and intangible assets. Goodwill represents the excess cost over fair value of assets acquired in a business combination. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values. Goodwill is subject to ongoing periodic impairment tests based on the fair value of the reporting unit compared to its carrying amount, including goodwill. Impairment exists when a reporting unit's carrying amount exceeds its fair value. As part of the Corporation's qualitative assessment of goodwill impairment, management considered the triggering event of the COVID-19 pandemic and determined that significant change in the general economic environment and financial markets, including the Corporation's market capitalization, represented an interim impairment indicator requiring continued evaluation. Because of the economic uncertainty surrounding the pandemic, the Corporation engaged an independent third party to perform the Step 1, quantitative analysis of goodwill as of November 30. Based on the analysis performed, management concluded that the Corporation's goodwill was not impaired as of November 30, 2020. If for any future period it is determined that there has been impairment in the carrying value of our goodwill balances, the Corporation will record a charge to earnings, which could have a material adverse effect on net income, but not risk-based capital ratios. See "Note 1 - Summary of Significant Accounting Policies" on page F-11 for the Corporation's accounting policy on goodwill and see "Note 6 - Goodwill and Intangible Assets" on page F-22 in the Consolidated Financial Statements for a detailed discussion of the factors considered by management in the assessment.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Information required by this item is included in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7.

Item 8. Financial Statements and Supplementary Data

Information required by this item is included beginning on page F-1.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

The information required by this item is incorporated herein by reference to the sections captioned "Relationship with Independent Registered Public Accounting Firm" in the Corporation's definitive proxy statement for the Corporation's Annual Meeting of Stockholders to be held on April 21, 2021 (the Proxy Statement).

Item 9A. Controls and Procedures

The Corporation maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Corporation's Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Corporation's management, including its CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure based on the definition of "disclosure controls and procedures" in Rule 13a-15(e).

As of December 31, 2020, the Corporation carried out an evaluation, under the supervision and with the participation of the Corporation's management, including the Corporation's CEO and CFO, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures. Based on the foregoing, the Corporation's CEO and CFO concluded that the Corporation's disclosure controls and procedures were effective.

During the fourth quarter of fiscal year 2020, there has been no change made in the Corporation's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

There have been no significant changes in the Corporation's internal controls or in other factors that could significantly affect the internal controls subsequent to the date the Corporation completed its valuation.

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Corporation. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Management's Report on Internal Control Over Financial Reporting

Management completed an assessment of the Corporation's internal control over financial reporting as of December 31, 2020. This assessment was based on criteria for evaluating internal control over financial reporting established in the 2013 *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that the Corporation's internal control over financial reporting was effective as of December 31, 2020. Our independent registered public accounting firm has not expressed an opinion on our internal control over financial reporting for the year ended December 31, 2020.

Item 9B. Other Information

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated herein by reference to the sections captioned "Principal Beneficial Owners of the Corporation's Common Stock", "Section 16(a) Beneficial Ownership Reporting Compliance" and "Information With Respect to Nominees For Director, Continuing Director and Executive Officers" in the Proxy Statement.

The Corporation maintains a Code of Personal and Business Conduct and Ethics (the Code) that applies to all employees, including the CEO and the CFO. A copy of the Code has previously been filed with the SEC and is posted on our website at www.emclairefinancial.com. Any waiver of the Code with respect to the CEO and the CFO will be publicly disclosed in accordance with applicable regulations.

Item 11. Executive Compensation

The information required by this item is incorporated herein by reference to the section captioned "Executive Compensation" in the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated herein by reference to the section captioned "Principal Beneficial Owners of the Corporation's Common Stock" in the Proxy Statement.

Equity Compensation Plan Information. The following table provides certain information as of December 31, 2020 with respect to shares of common stock that may be issued under our 2014 Stock Incentive Plan, which was approved by shareholders in April 2014.

Plan Category	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for issuance under equity compensation plans (excluding securities reflected in the first column) (1)
Equity compensation plans approved by security holders	—	$ —	95,216
Equity compensation plans not approved by security holders	—	—	—
Total	—	$ —	95,216

(1) The 2014 Stock Incentive Plan provides for the grant of options to purchase up to 88,433 shares of common stock and for grants of up to 88,433 shares of restricted common stock of which no options and 81,650 shares of restricted stock have been granted at December 31, 2020.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated herein by reference to the sections captioned "Information With Respect to Nominees For Director, Continuing Directors and Executive Officers" and "Executive Compensation" in the Proxy Statement.

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated herein by reference to the section captioned "Relationship With Independent Registered Public Accounting Firm" in the Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1)-(2) Financial Statements and Schedules:

(i) The financial statements required in response to this item are incorporated by reference from Item 8 of this report.

(b) Exhibits are either attached as part of this Report or incorporated herein by reference.

3.1	Amended and Restated Articles of Incorporation of Emclaire Financial Corp (1)
3.2	Bylaws of Emclaire Financial Corp (2)
4.1	Specimen Common Stock Certificate of Emclaire Financial Corp (3)
4.2	Description of Emclaire Common Stock (13)
10.1	Amended and Restated Employment Agreement between Emclaire Financial Corp, The Farmers National Bank of Emlenton and William C. Marsh, dated as of November 18, 2015 (4)*
10.2	Amended and Restated Change in Control Agreement between Emclaire Financial Corp, The Farmers National Bank of Emlenton and Jennifer A. Roxbury, dated as of November 18, 2015 (12)*
10.3	Amended and Restated Change in Control Agreement between Emclaire Financial Corp, The Farmers National Bank of Emlenton and Amanda L. Engles, dated as of November 15, 2017 (5)*
10.4	Amended and Restated Change in Control Agreement between Emclaire Financial Corp, The Farmers National Bank of Emlenton and Robert A. Vernick dated November 18, 2015 (12)*
10.5	Amended and Restated Supplemental Executive Retirement Plan Agreement between The Farmers National Bank of Emlenton and William C. Marsh, dated as of November 18, 2015 (4)*
10.6	Amended and Restated Supplemental Executive Retirement Plan Agreement between The Farmers National Bank of Emlenton and Jennifer A. Roxbury, dated as of November 18, 2015 (6)*
10.7	Supplemental Executive Retirement Plan Agreement between the Farmers National Bank of Emlenton and Amanda L. Engles, dated as of November 15, 2017 (5)*
10.8	Supplemental Executive Retirement Plan Agreement between The Farmers National Bank of Emlenton and Robert A. Vernick dated November 18, 2015 (12)*
10.9	First Amendment dated as of February 8, 2019 to the Amended and Restated Supplemental Executive Retirement Plan Agreement between The Farmers National Bank of Emlenton and William C. Marsh, dated as of November 18, 2015 (6)*
10.10	First Amendment dated as of February 8, 2019 to the Amended and Restated Supplemental Executive Retirement Plan Agreement between The Farmers National Bank of Emlenton and Jennifer A Roxbury, dated as of November 18, 2015 (6)*
10.11	First Amendment dated as of February 8, 2019 to the Amended and Restated Supplemental Executive Retirement Plan Agreement between The Farmers National Bank of Emlenton and Amanda L. Engles, dated as of November 15, 2017 (6)*
10.12	Group Term Carve-Out Plan between the Farmers National Bank of Emlenton and Officers and Employees (7)*
10.13	Farmers National Bank Deferred Compensation Plan (8)*
10.14	Emclaire Financial Corp 2014 Stock Incentive Plan (9)*
11.1	Statement regarding computation of earnings per share (see Note 1 of the Notes to Consolidated Financial Statements in the Annual Report).
14.0	Code of Personal and Business Conduct and Ethics. (10)
20.0	Emclaire Financial Corp Dividend Reinvestment and Stock Purchase Plan. (11)
21.0	Subsidiaries of the Registrant (see information contained herein under “Item 1. Description of Business - Subsidiary Activity”).
31.1	Principal Executive Officer Section 302 Certification.
31.2	Principal Financial Officer Section 302 Certification.
32.1	Principal Executive Officer Section 906 Certification.
32.2	Principal Financial Officer Section 906 Certification.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Compensatory plan or arrangement.
(1) Incorporated by reference to the Registrant’s Current Report on Form 8-K/A dated May 23, 2018.
(2) Incorporated by reference to the Registrant’s Registration Statement on Form SB-2, as amended, (File No. 333-11773) declared effective by the SEC on October 25, 1996.
(3) Incorporated by reference to the Registrant’s Annual Report on Form 10-KSB40 for the year ended December 31, 1997.
(4) Incorporated by reference to the Registrant’s Current Report on Form 8-K dated November 18, 2015.
(5) Incorporated by reference to the Registrant’s Current Report on Form 8-K dated November 15, 2017.
(6) Incorporated by reference to the Registrant’s Current Report on Form 8-K dated February 8, 2019.
(7) Incorporated by reference to the Registrant’s Annual Report on Form 10-KSB for the year ended December 31, 2002.
(8) Incorporated by reference to the Registrant’s Current Report on Form 8-K dated December 15, 2008.
(9) Incorporated by reference to the Registrant’s Definitive Proxy Statement dated March 24, 2016.
(10) Incorporated by reference to the Registrant’s Annual Report on Form 10-K for the year ended December 31, 2004.
(11) Incorporated by reference to the Registrant’s Annual Report on Form 10-KSBfor the year ended December 31, 2001.
(12) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2018.
(13) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2019.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EMCLAIRE FINANCIAL CORP

Dated: March 19, 2021

By: /s/ William C. Marsh
William C. Marsh
Chairman, Chief Executive Officer, President and Director
(Duly Authorized Representative)

Pursuant to the requirement of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: /s/ William C. Marsh
William C. Marsh
Chairman of the Board
Chief Executive Officer
President
Director
(Principal Executive Officer)
Date: March 19, 2021

By: /s/ Amanda L. Engles
Amanda L. Engles
Treasurer and Chief Financial Officer
(Principal Financial Officer)
Date: March 19, 2021

By: /s/ Milissa S. Bauer
Milissa S. Bauer
Director
Date: March 19, 2021

By: /s/ David L. Cox
David L. Cox
Director
Date: March 19, 2021

By: /s/ James M. Crooks
James M. Crooks
Director
Date: March 19, 2021

By: /s/ Henry H. Deible
Henry H. Deible
Director
Date: March 19, 2021

By: /s/ Henry H. Deible II
Henry H. Deible II
Director
Date: March 19, 2021

By: /s/ Robert W. Freeman
Robert W. Freeman
Director
Date: March 19, 2021

By: /s/ Mark A. Freemer
Mark A. Freemer
Director
Date: March 19, 2021

By: /s/ Steven J. Hunter
Steven J. Hunter
Director
Date: March 19, 2021

/s/ John B. Mason
John B. Mason
Director
Date: March 19, 2021

By: /s/ Deanna K. McCarrier
Deanna K. McCarrier
Director
Date: March 19, 2021

By: /s/ Nicholas D. Varischetti
Nicholas D. Varischetti
Director
Date: March 19, 2021

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and the Board of Directors
Emclaire Financial Corp
Emlenton, Pennsylvania

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Emclaire Financial Corp (the Corporation) as of December 31, 2020 and 2019, the related consolidated statements of net income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Loan Losses – Qualitative Factors

As described in Notes 1 and 3 to the consolidated financial statements, the Corporation's allowance for loan losses is a critical accounting estimate that requires significant management judgment in the evaluation of credit quality and the application of qualitative factors. The allowance for loan losses includes components related to loans individually and collectively evaluated for impairment. The specific component relates to loans individually evaluated for impairment, which includes loans for which it is probable that the Corporation will be unable to collect principal and interest when due and restructured loans. The general component relates to loans collectively evaluated for impairment, which is based on historical loss experience adjusted for qualitative factors.

The calculation of the general component of the allowance for loan losses involves significant estimates and subjective assumptions, which require a high degree of judgment. The qualitative factors component of the general allowance is based on national and local economic and business conditions, changes in the nature and volume of the loan portfolio, quality of loan review systems, and changes in trends, volume and severity of past due, nonaccrual and classified loans, and loss and recovery trends. The amount of the allowance for loan loss allocated is increased or decreased for each loan segment based on management's assessment of these qualitative factors.

We identified auditing the impact of the qualitative factors in the allowance for loan losses as a critical audit matter as it involved especially subjective auditor judgment. Auditing management's determination of qualitative factors involved especially subjective auditor judgment because management's estimate relies on an inherently subjective analysis to determine the quantitative impact the qualitative factors have on the allowance. Management's analysis of these factors requires significant judgment.

The primary procedures we performed to address this critical audit matter included:

Substantively testing management's process, including evaluating their judgments and assumptions, for developing the qualitative factors which included:

- Evaluating the reliability and relevancy of data used as a basis for the adjustments relating to qualitative factors;
- Evaluating the reasonableness of management's judgments related to the qualitative and quantitative assessment of the data used in the determination of qualitative factors and the resulting allocation to the allowance;
- Analytically evaluating the collectively evaluated for impairment component year over year;
- Verifying the mathematical accuracy of the adjustment factors for the qualitative component;
- Evaluating the reasonableness of the qualitative factor allowance allocation derived by management;
- Recalculating the dollar amount of the reserve derived from the qualitative factor assessment; and
- Agreeing the allowance allocation from the qualitative factor analysis to the overall allowance calculation.

Crowe LLP

Crowe LLP

We have served as the Company's auditor since 2010.

Oak Brook, Illinois
March 19, 2021

Consolidated Balance Sheets

(Dollar amounts in thousands, except share and per share data)

	December 31, 2020	December 31, 2019
Assets		
Cash and due from banks	$ 3,526	$ 3,750
Interest earning deposits with banks	33,913	11,236
Total cash and cash equivalents	37,439	14,986
Interest earning time deposits	5,718	9,698
Securities - available-for-sale	113,041	120,107
Securities - equity investments	15	19
Loans held for sale	75	—
Loans receivable, net of allowance for loan losses of $9,580 and $6,556	800,338	695,348
Federal bank stocks, at cost	5,635	5,790
Bank-owned life insurance	15,468	15,287
Accrued interest receivable	3,786	2,600
Premises and equipment, net	18,202	19,041
Goodwill	19,460	19,460
Core deposit intangible, net	1,083	1,247
Prepaid expenses and other assets	12,063	11,713
Total Assets	**$ 1,032,323**	**$ 915,296**
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	$ 193,752	$ 148,842
Interest bearing	699,875	638,282
Total deposits	893,627	787,124
Short-term borrowed funds	2,050	2,050
Long-term borrowed funds	30,000	26,500
Accrued interest payable	474	616
Accrued expenses and other liabilities	14,692	13,148
Total Liabilities	940,843	829,438
Commitments and Contingent Liabilities (Note 11)	—	—
Stockholders' Equity		
Preferred stock, $1.00 par value, 3,000,000 shares authorized; Series C, non-cumulative preferred stock, $2.9 million liquidation value, 286,888 shares issued and outstanding; Series D, non-cumulative preferred stock, $1.3 million liquidation value, 133,705 shares issued and outstanding	4,206	4,206
Common stock, $1.25 par value, 12,000,000 shares authorized; 2,823,229 and 2,810,729 shares issued; 2,721,212 and 2,708,712 shares outstanding	3,529	3,513
Additional paid-in capital	47,200	46,757
Treasury stock, at cost; 102,017 shares	(2,114)	(2,114)
Retained earnings	42,143	38,831
Accumulated other comprehensive loss	(3,484)	(5,335)
Total Stockholders' Equity	91,480	85,858
Total Liabilities and Stockholders' Equity	**$ 1,032,323**	**$ 915,296**

See accompanying notes to consolidated financial statements.

FINANCIALS

Consolidated Statements of Net Income

(Dollar amounts in thousands, except share and per share data)

	Year ended December 31, 2020	2019
Interest and dividend income		
Loans receivable, including fees	$ 34,029	$ 32,507
Securities:		
Taxable	2,070	2,258
Exempt from federal income tax	486	395
Federal bank stocks	371	419
Interest earning deposits with banks	191	566
Total interest and dividend income	37,147	36,145
Interest expense		
Deposits	7,165	7,087
Short-term borrowed funds	131	183
Long-term borrowed funds	766	813
Total interest expense	8,062	8,083
Net interest income	29,085	28,062
Provision for loan losses	3,247	715
Net interest income after provision for loan losses	25,838	27,347
Noninterest income		
Fees and service charges	1,498	2,157
Net gain on sales of available for sale securities	687	78
Net gain on sales of loans	241	114
Earnings on bank-owned life insurance	401	566
Other	1,536	1,476
Total noninterest income	4,363	4,391
Noninterest expense		
Compensation and employee benefits	11,148	11,738
Premises and equipment	3,300	3,373
Intangible asset amortization	164	176
Professional fees	841	928
Federal deposit insurance	538	273
Other	6,027	5,634
Total noninterest expense	22,018	22,122
Income before provision for income taxes	8,183	9,616
Provision for income taxes	1,435	1,662
Net income	**6,748**	**7,954**
Preferred stock dividends	186	182
Net income available to common stockholders	**$ 6,562**	**$ 7,772**
Earnings per common share		
Basic	**$ 2.42**	**$ 2.88**
Diluted	**$ 2.41**	**$ 2.86**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income
(Dollar amounts in thousands)

	Year ended December 31, 2020	2019
Net income	$ 6,748	$ 7,954
Other comprehensive income		
Unrealized gains on securities available-for-sale:		
Unrealized holding gain arising during the period	3,634	1,861
Reclassification adjustment for gains included in net income	(687)	(78)
Net period change	2,947	1,783
Tax effect	(619)	(374)
Net of tax	2,328	1,409
Defined benefit pension plans:		
Unrealized holding gain arising during the period	(871)	(742)
Reclassification adjustment for gains included in net income	268	252
Net period change	(603)	(490)
Tax effect	126	103
Net of tax	(477)	(387)
Total other comprehensive income	1,851	1,022
Comprehensive income	**$ 8,599**	**$ 8,976**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity
(Dollar amounts in thousands, except share and per share data)

	Preferred Stock	Additional Paid-in Capital - Preferred	Common Stock	Additional Paid-in Capital - Common	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance at January 1, 2019	**$ 421**	**$ 3,785**	**$ 3,501**	**$ 46,401**	**$ (2,114)**	**$ 34,190**	**$ (6,357)**	**$ 79,827**
Net income	—	—	—	—	—	7,954	—	7,954
Other comprehensive income	—	—	—	—	—	—	1,022	1,022
Cash dividends declared on preferred stock	—	—	—	—	—	(182)	—	(182)
Issuance of common stock for restricted stock awards (10,000 shares)	—	—	12	(12)	—	—	—	—
Stock compensation expense	—	—	—	368	—	—	—	368
Cash dividends declared on common stock ($1.16 per share)	—	—	—	—	—	(3,131)	—	(3,131)
Balance at December 31, 2019	**$ 421**	**$ 3,785**	**$ 3,513**	**$ 46,757**	**$ (2,114)**	**$ 38,831**	**$ (5,335)**	**$ 85,858**
Balance at January 1, 2020	**$ 421**	**$ 3,785**	**$ 3,513**	**$ 46,757**	**$ (2,114)**	**$ 38,831**	**$ (5,335)**	**$ 85,858**
Net income	—	—	—	—	—	6,748	—	6,748
Other comprehensive income	—	—	—	—	—	—	1,851	1,851
Cash dividends declared on preferred stock	—	—	—	—	—	(186)	—	(186)
Issuance of common stock for restricted stock awards (12,500 shares)	—	—	16	(16)	—	—	—	—
Stock compensation expense	—	—	—	459	—	—	—	459
Cash dividends declared on common stock ($1.20 per share)	—	—	—	—	—	(3,250)	—	(3,250)
Balance at December 31, 2020	**$ 421**	**$ 3,785**	**$ 3,529**	**$ 47,200**	**$ (2,114)**	**$ 42,143**	**$ (3,484)**	**$ 91,480**

See accompanying notes to consolidated financial statements.

FINANCIALS

Consolidated Statements of Cash Flows

(Dollar amounts in thousands, except share and per share data)

	For the year ended December 31, 2020	2019
Cash flows from operating activities		
Net income	$ 6,748	$ 7,954
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	1,406	1,388
Provision for loan losses	3,247	715
Amortization/accretion of premiums, discounts and deferred costs and fees, net	(213)	406
Amortization of operating lease right-of-use assets	136	132
Amortization of intangible assets and mortgage servicing rights	261	249
Realized gain on sales of debt securities, net	(687)	(78)
Change in fair value of equity securities	4	(12)
Net gain on sales of loans	(241)	(114)
Net (gain) loss on foreclosed real estate	3	(49)
Net loss on sale of premises and equipment	277	279
Loans originated for sale	(213)	(6,027)
Proceeds from the sale of loans originated for sale	144	6,178
Write-down of foreclosed real estate	56	37
Stock compensation expense	459	368
Increase in bank-owned life insurance	(401)	(406)
Proceeds from bank-owned life insurance claim	—	(160)
Decrease (increase) in deferred taxes	(603)	122
Increase in accrued interest receivable	(1,186)	(30)
Increase in prepaid expenses and other assets	(590)	(107)
Increase (decrease) in accrued interest payable	(142)	121
Increase (decrease) in accrued expenses and other liabilities	1,066	(538)
Net cash provided by operating activities	9,531	10,428
Cash flows from investing activities		
Loan originations and principal collections, net	(113,305)	10,791
Proceeds from sales of loans held for sale previously classified as portfolio loans	5,260	967
Available-for-sale securities:		
Sales	43,906	36,370
Maturities, repayments and calls	23,238	19,007
Purchases	(56,777)	(76,149)
Purchase of federal bank stocks	(3,190)	(1,946)
Redemption of federal bank stocks	3,345	2,507
Net change in interest earning time deposits	3,980	(2,960)
Proceeds from surrender of bank-owned life insurance	220	—
Proceeds from the sale of bank premises and equipment	397	251
Purchases of premises and equipment	(1,155)	(1,809)
Proceeds from the sale of foreclosed real estate	436	1,109
Net cash used in investing activities	(93,645)	(11,862)
Cash flows from financing activities		
Net increase in deposits	106,503	25,578
Proceeds from long-term debt	20,000	—
Repayments on long-term debt	(16,500)	(6,000)
Net change in short-term borrowings	—	(10,800)
Dividends paid	(3,436)	(3,313)
Net cash provided by financing activities	106,567	5,465
Net increase in cash and cash equivalents	22,453	4,031
Cash and cash equivalents at beginning of period	14,986	10,955
Cash and cash equivalents at end of period	$ 37,439	$ 14,986
Supplemental information:		
Interest paid	$ 8,204	$ 7,962
Income taxes paid	1,350	1,410
Supplemental noncash disclosure:		
Transfers from loans to foreclosed real estate	590	645
Initial recognition of operating lease right-of-use assets	—	1,642
Initial recognition of operating lease liabilities	—	1,858
Transfers from portfolio loans to loans held for sale	5,025	1,004

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation. The consolidated financial statements include the accounts of Emclaire Financial Corp (the Corporation) and its wholly owned subsidiary, The Farmers National Bank of Emlenton (the Bank). All significant intercompany balances and transactions have been eliminated in consolidation.

Nature of Operations. The Corporation provides a variety of financial services to individuals and businesses through its offices in Pennsylvania and West Virginia. Its primary deposit products are checking, savings and term certificate accounts and its primary lending products are residential and commercial mortgages, commercial business loans and consumer loans.

Use of Estimates and Classifications. In preparing consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Certain amounts previously reported may have been reclassified to conform to the current year financial statement presentation. Such reclassifications did not affect net income or stockholders' equity. Additionally, the global spread of the coronavirus resulted in business and social disruption and was declared a Public Health Emergency of International Concern by the World Health Organization. The operations and business results of the Corporation could be materially adversely effected. Significant estimates as disclosed in Note 1, including the allowance for loan losses, valuation of financial instruments and the carrying of goodwill may be materially adversely impacted by national and local events designed to contain the coronavirus.

Significant Group Concentrations of Credit Risk. Most of the Corporation's activities are with customers located within the Western Pennsylvania region of the country. Note 2 discusses the type of securities that the Corporation invests in. Note 3 discusses the types of lending the Corporation engages in. The Corporation does not have any significant concentrations to any one industry or customer.

Cash and Cash Equivalents. For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand, cash items, interest-earning deposits with other financial institutions and federal funds sold and due from correspondent banks. Interest-earning deposits are generally short-term in nature and are carried at cost. Federal funds are generally sold or purchased for one day periods. Net cash flows are reported for loan and deposit transactions and short-term borrowings.

Dividend Restrictions. Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the Corporation or by the Corporation to stockholders.

Securities Available for Sale. Debt securities are classified as available for sale when they might be sold before maturity. Debt securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

Interest income from securities includes amortization of purchase premium or discount. Discounts on securities are accreted using the level yield method through the maturity date. Premiums are amortized using the level yield method through the first call date. In the absence of a call date, the premium is amortized through the maturity date. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates debt securities for other-than-temporary impairment (OTTI) at least on a quarterly basis, and more frequently when economic, market or other concerns warrant such evaluation. Consideration is given to: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions and (4) whether the Corporation has the intent to sell the security or more likely than not will be required to sell the security before the recovery of its amortized cost basis. If the Corporation intends to sell an impaired security, or if it is more likely than not the Corporation will be required to sell the security before its anticipated recovery, the Corporation records an other-than-temporary loss in an amount equal to the entire difference between fair value and amortized cost through earnings. Otherwise, only the credit portion of the estimated loss on debt securities is recognized in earnings, with the other portion of the loss recognized in other comprehensive income.

Equity Securities. Equity securities are carried at fair value. The holding gains or losses are reported in net income.

Loans Receivable. The Corporation grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by loans collateralized by real estate primarily located throughout Western Pennsylvania. The ability of the Corporation's debtors to honor their contracts is dependent upon real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans or premiums or discounts on purchased loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, and premiums and discounts are deferred and recognized in interest income as an adjustment of the related loan yield using the interest method.

1. Summary of Significant Accounting Policies (continued)

The accrual of interest on all classes of loans is typically discontinued at the time the loan is 90 days past due unless the credit is well secured and in the process of collection. At 120 days past due, all loans are considered nonaccrual. Loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified as impaired loans. All interest accrued but not collected for loans that are placed on nonaccrual status or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for a return to accrual status. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses. The allowance for loan losses is established for probable incurred credit losses through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are typically credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of loans in light of historic experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, prevailing economic conditions and other factors. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings (TDR) and classified as impaired.

Factors considered by management in determining impairment on all loan classes include demonstrated ability to repay, payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Impairment is measured on a loan by loan basis for commercial loans by either the present value of expected future cash flows discounted at the loans effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Large groups of small balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual consumer and residential mortgage loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

TDRs are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a TDR is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of collateral. For TDRs that subsequently default, the Corporation determines the amount of reserves in accordance with accounting policies for the allowance for loan losses.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Corporation over the prior 12 quarters. Qualitative factors considered by management include national and local economic and business conditions, changes in the nature and volume of the loan portfolio, quality of loan review systems, and changes in trends, volume and severity of past due, nonaccrual and classified loans, and loss and recovery trends. The Corporation's portfolio segments are as follows:

Residential mortgages: Residential mortgage loans are loans to consumers utilized for the purchase, refinance or construction of a residence. Changes in interest rates or market conditions may impact a borrower's ability to meet contractual principal and interest payments.

Home equity loans and lines of credit: Home equity loans and lines of credit are credit facilities extended to homeowners who wish to utilize the equity in their property in order to borrow funds for almost any consumer purpose. Property values may fluctuate due to economic and other factors.

1. **Summary of Significant Accounting Policies (continued)**

Commercial real estate: Commercial real estate loans are subject to underwriting standards and processes similar to commercial loans. These loans are viewed primarily as cash flow loans and the repayment of these loans is largely dependent on the successful operation of the property. Loan performance may be adversely affected by factors impacting the general economy or conditions specific to real estate markets such as geographic location and property type.

Commercial business: Commercial credit is extended to business customers for use in normal operations to finance working capital needs, equipment purchases or other projects. The majority of these borrowers are customers doing business within our geographic region. These loans are generally underwritten individually and secured with the assets of the company and the personal guarantee of the business owners. Commercial loans are made based primarily on the historical and projected cash flow of the borrower and the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not behave as forecasted and collateral securing loans may fluctuate in value due to economic or individual performance factors.

Consumer: Consumer loans are loans to an individual for non-business purposes such as automobile purchases or debt consolidation. These loans are originated based primarily on credit scores and debt-to-income ratios which may be adversely affected by economic or individual performance factors.

Loans Held for Sale. Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Mortgage loans held for sale are generally sold with servicing retained. The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of mortgages are based on the difference between the selling price and the carrying value of the related loan sold.

Federal Bank Stocks. The Bank is a member of the Federal Home Loan Bank of Pittsburgh (FHLB) and the Federal Reserve Bank of Cleveland (FRB). As a member of these federal banking systems, the Bank maintains an investment in the capital stock of the respective regional banks. These stocks are held at cost and classified as restricted stock. These stocks are purchased and redeemed at par as directed by the federal banks and levels maintained are based primarily on borrowing and other correspondent relationships. These stocks are periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Bank-Owned Life Insurance (BOLI). The Bank purchased life insurance policies on certain key officers and employees. BOLI is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Premises and Equipment. Land is carried at cost. Premises, furniture and equipment, and leasehold improvements are carried at cost less accumulated depreciation or amortization. Depreciation is calculated on a straight-line basis over the estimated useful lives of the related assets, which are twenty-five years to forty years for buildings and three to ten years for furniture and equipment. Amortization of leasehold improvements is computed using the straight-line method over the shorter of their estimated useful life or the expected term of the leases. Expected terms include lease option periods to the extent that the exercise of such option is reasonably assured. Premises and equipment are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, assets are recorded at fair value.

Goodwill and Intangible Assets. Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of acquired assets and liabilities. Core deposit intangible assets arise from whole bank or branch acquisitions and are measured at fair value and then are amortized over their estimated useful lives. Goodwill is not amortized but is assessed at least annually for impairment, and more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value below the carrying amount. An initial qualitative evaluation is made to assess the likelihood of impairment and determine whether further quantitative testing to calculate the fair value is necessary. When the qualitative evaluation indicates that impairment is more likely than not, quantitative testing is required whereby the fair value of each reporting unit is calculated and compared to the recorded book value. If the calculated fair value of the reporting unit exceeds its carrying value, goodwill is not considered impaired. In the event of an impairment, any such charges is recognized as a deduction from earnings in the period identified in an amount equal to the difference. The Corporation performs an annual assessment as of November 30 each year. Goodwill is the only intangible asset with an indefinite life on the Corporation's balance sheet.

Servicing Assets. Servicing assets represent the allocated value of retained servicing rights on loans sold. Servicing assets are expensed in proportion to, and over the period of, estimated net servicing revenues. Impairment is evaluated based on the fair value of the assets, using groupings of the underlying loans as to interest rates. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Any impairment of a grouping is reported as a valuation allowance, to the extent that fair value is less than the capitalized amount for a grouping. At December 31, 2020 and 2019, the outstanding balance of loans serviced for other totaled $26.8 million and $32.8 million, respectively, and are not included in the accompanying consolidated balance sheet. At December 31, 2020 and 2019, the mortgage servicing rights associated with these outstanding balances were $165,000 and $211,000, respectively, and are included with other assets in the consolidated balance sheet. In addition, for the years ended December 31, 2020 and 2019, the Corporation recognized $80,000 and $85,000, respectively, for the servicing of these loans and is recorded in other noninterest income.

1. **Summary of Significant Accounting Policies (continued)**

Other Real Estate Acquired Through Foreclosure (OREO). Real estate properties acquired through foreclosure are initially recorded at fair value less cost to sell when acquired, thereby establishing a new cost basis for the asset. These assets are subsequently accounted for at the lower of carrying amount or fair value less cost to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Revenue and expenses from operations of the properties, gains and losses on sales and additions to the valuation allowance are included in operating results. Real estate acquired through foreclosure is classified in prepaid expenses and other assets and totaled $344,000 and $249,000 at December 31, 2020 and 2019, respectively. Loans secured by residential real estate properties for which formal foreclosure proceedings are in process totaled $1.3 million and $545,000 at December 31, 2020 and 2019, respectively.

Treasury Stock. Common stock purchased for treasury is recorded at cost. At the date of subsequent reissue, the treasury stock account is reduced by the cost of such stock on the first-in, first-out basis.

Income Taxes. Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. The Corporation recognizes interest and/or penalties related to income tax matters in income tax expense.

Earnings Per Common Share (EPS). Basic EPS excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted EPS includes the dilutive effect of additional potential common shares issuable under stock options and restricted stock awards.

Comprehensive Income. Comprehensive income includes net income and other comprehensive income (loss). Other comprehensive income (loss) is comprised of unrealized holding gains and losses on securities available for sale and changes in the funded status of pension which are also recognized as separate components of equity.

Operating Segments. Operations are managed and financial performance is evaluated on a corporate-wide basis. Accordingly, all financial services operations are considered by management to be aggregated in one reportable operating segment.

Retirement Plans. The Corporation maintains a noncontributory defined benefit plan covering eligible employees and officers. Effective January 1, 2009 the plan was closed to new participants. The Corporation provided the requisite notice to plan participants on March 12, 2013 of the determination to freeze the plan (curtailment). Therefore, employees ceased to earn benefits as of January 1, 2013. This amendment to the plan did not affect benefits earned by the participant prior to the date of the freeze. The Corporation also maintains a 401(k) plan, which covers substantially all employees, and a supplemental executive retirement plan for key executive officers.

Stock Compensation Plans. Compensation expense is recognized for stock options and restricted stock awards issued based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Corporation’s common stock at the date of grant is used for restricted stock awards. Compensation expense is recognized over the required service period, generally defined as the vesting period. It is the Corporation’s policy to issue shares on the vesting date for restricted stock awards. Unvested restricted stock awards do not receive dividends declared by the Corporation.

Transfers of Financial 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 Corporation, (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 Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Off-Balance Sheet Financial Instruments. In the ordinary course of business, the Corporation has entered into off-balance sheet financial instruments consisting of commitments to extend credit, commitments under line of credit lending arrangements and letters of credit. Such financial instruments are recorded in the financial statements when they are funded.

1. **Summary of Significant Accounting Policies (continued)**

Fair Value of Financial Instruments. Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

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

Newly Issued Not Yet Effective Accounting Standards. In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”. ASU 2016-13 significantly changes the way impairment of financial instruments is recognized by requiring immediate recognition of estimated credit losses expected to occur over the remaining life of the financial instruments. The main provisions of the guidance include (1) replacing the “incurred loss” approach under current GAAP with an “expected loss” model for instruments measured at amortized cost, (2) requiring entities to record an allowance for available-for-sale debt securities rather than reduce the carrying amount of the investments, as is required by the other-than-temporary impairment model under current GAAP, and (3) a simplified accounting model for purchased credit-impaired debt securities and loans. The ASU was originally effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. However, on October 16, 2019, FASB announced a delay for the effective date of this ASU for smaller reporting companies until fiscal years beginning after December 15, 2022. As the Corporation is a smaller reporting company, the delay would be applicable. Management has selected a software vendor and is currently working through the implementation process. The Corporation is reviewing available historical information in order to assess the expected credit losses and determine the impact the adoption of ASU 2016-13 will have on the financial statements.

In August 2018, the FASB issued ASU 2018-14, "Compensation - Retirement Benefits - Defined Benefit Plans". ASU 2018-14 removes disclosures pertaining to (a) the amounts of AOCI expected to be recognized as pension costs over the next fiscal year, (b) the amount and timing of plan assets expected to be returned to the employer, and (c) the effect of one-percentage-point change in the assumed health care trends on (i) service and interest costs and (ii) post-retirement health care benefit obligation. A disclosure will be added requiring an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. The amendments in this update are effective retrospectively for annual periods and interim periods within those annual periods beginning after December 15, 2020. The Corporation does not expect ASU 2018-14 to have a material impact on its financial statements and disclosures.

In December 2019, the FASB issued ASU 2019-12, "Income Taxes - Simplifying the Accounting for Income Taxes". ASU 2019-12 is effective for fiscal years beginning after December 15, 2020. Certain provisions under ASU 2019-12 require prospective application, some require modified retrospective adoption, while other provisions require retrospective application to all periods presented in the consolidated financial statements upon adoption. The Corporation is currently evaluating the effect that this ASU will have on its financial statements and disclosures.

In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform". ASU 2020-04 contains optional guidance to ease the potential burden in accounting for, or recognizing the effects from, reference rate reform on financial reporting. The new standard is a result of the London Interbank Offered Rate (LIBOR) likely being discontinued as a benchmark rate. The standard is elective and provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, or other transactions that reference LIBOR, or another reference rate that may be discontinued. This ASU became effective upon issuance and generally can be applied through December 31, 2022. The Corporation has identified fourteen purchased participation loans totaling $40.4 million in outstanding balances and two tax-exempt commercial business loans totaling $2.5 million in outstanding balances tied to the LIBOR reference rate. The Corporation has not yet made any contract modifications related to the outstanding loans, however, does not expect any changes to have a material impact on financial statements or disclosures.

1. Summary of Significant Accounting Policies (continued)

Adoption of New Accounting Policies. In January 2017, the FASB issued ASU 2017-04, "Simplifying the Test for Goodwill Impairment". This ASU simplifies the measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Instead, under this amendment, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss should not exceed the total amount of goodwill allocated to that reporting unit. The Corporation has goodwill from prior business combinations and performs an annual impairment test or more frequently if changes or circumstances occur that would more likely than not reduce the fair value of the reporting unit below its carrying value. ASU 2017-04 was effective on January 1, 2020 and the adoption did not have a material impact on the Corporation's financial statement disclosures.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement". ASU 2018-13 eliminates, adds and modifies certain disclosure requirements for fair value measurements. Disclosures for transfers between Level 1 and Level 2, the policy for timing of transfers between levels, and the valuation processes for Level 3 fair value measurement were removed. Additional disclosures were required relating to (a) changes in unrealized gains/losses in OCI for Level 3 fair value measurements for assets held at the end of the reporting period, and (b) the process of calculating weighted average for significant unobservable inputs used to develop Level 3 fair value measurements. ASU 2018-03 was effective on January 1, 2020 and the adoption did not have a material impact on the Corporation's financial statement disclosures.

2. Securities

Equity Securities. The Corporation held equity securities with fair values of $15,000 and $19,000 as of December 31, 2020 and 2019, respectively. Changes in the fair value of these securities are included in other income on the consolidated statements of net income and is included in other noninterest income on the consolidated statement of income. The Corporation recognized a loss of $4,000 and a gain of $12,000 on the equity securities held at December 31, 2020 and 2019, respectively.

Debt Securities - Available for Sale. The following table summarizes the Corporation's securities as of December 31:

(Dollar amounts in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2020:				
U.S. government sponsored entities and agencies	$ 3,036	$ 11	$ (40)	$ 3,007
U.S. agency mortgage-backed securities: residential	16,151	436	(6)	16,581
U.S. agency collateralized mortgage obligations: residential	15,658	263	(10)	15,911
State and political subdivisions	53,834	1,781	(38)	55,577
Corporate debt securities	21,553	434	(22)	21,965
Total securities available-for-sale	$ 110,232	$ 2,925	$ (116)	$ 113,041
December 31, 2019:				
U.S. government sponsored entities and agencies	$ 7,069	$ 14	$ (6)	$ 7,077
U.S. agency mortgage-backed securities: residential	40,868	291	(84)	41,075
U.S. agency collateralized mortgage obligations: residential	33,001	71	(235)	32,837
State and political subdivisions	27,848	217	(269)	27,796
Corporate debt securities	11,459	93	(230)	11,322
Total securities available-for-sale	$ 120,245	$ 686	$ (824)	$ 120,107

Securities with carrying values of $36.0 million and $22.1 million as of December 31, 2020 and 2019, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

Gains on sales of available for sale debt securities for the years ended December 31 were as follows:

	2020	2019
Proceeds	$ 43,906	$ 36,370
Gains	699	135
Losses	(12)	(57)
Tax provision related to gains (losses)	144	16

2. Securities (continued)

The following table summarizes scheduled maturities of the Corporation's debt securities as of December 31, 2020. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities and collateralized mortgage obligations are not due at a single maturity and are shown separately.

(Dollar amounts in thousands)	Available-for-sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 497	$ 500
Due after one year through five years	4,547	4,631
Due after five years through ten years	25,648	26,215
Due after ten years	47,731	49,203
Mortgage-backed securities: residential	16,151	16,581
Collateralized mortgage obligations: residential	15,658	15,911
Total securities available-for-sale	$ 110,232	$ 113,041

Information pertaining to securities with gross unrealized losses at December 31, 2020 and 2019 aggregated by investment category and length of time that individual securities have been in a continuous loss position are included in the table below:

(Dollar amounts in thousands)	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2020:						
U.S. government sponsored entities and agencies	$ 1,996	$ (40)	$ —	$ —	$ 1,996	$ (40)
U.S. agency mortgage-backed securities: residential	1,547	(6)	—	—	1,547	(6)
U.S. agency collateralized mortgage obligations: residential	1,515	(4)	4,845	(6)	6,360	(10)
State and political subdivisions	1,705	(11)	1,641	(27)	3,346	(38)
Corporate debt securities	2,509	(10)	988	(12)	3,497	(22)
Total	$ 9,272	$ (71)	$ 7,474	$ (45)	$ 16,746	$ (116)
December 31, 2019:						
U.S. government sponsored entities and agencies	$ —	$ —	$ 2,032	$ (6)	$ 2,032	$ (6)
U.S. agency mortgage-backed securities: residential	14,578	(76)	2,325	(8)	16,903	(84)
U.S. agency collateralized mortgage obligations: residential	12,319	(32)	11,621	(203)	23,940	(235)
State and political subdivisions	15,636	(269)	—	—	15,636	(269)
Corporate debt securities	4,031	(229)	499	(1)	4,530	(230)
Total	$ 46,564	$ (606)	$ 16,477	$ (218)	$ 63,041	$ (824)

Management evaluates debt securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic, market or other conditions warrant such evaluation. Consideration is given to: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions and (4) whether the Corporation has the intent to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis. If the Corporation intends to sell an impaired security, or if it is more likely than not the Corporation will be required to sell the security before its anticipated recovery, the Corporation records an other-than-temporary loss in an amount equal to the entire difference between fair value and amortized cost. Otherwise, only the credit portion of the estimated loss on debt securities is recognized in earnings, with the other portion of the loss recognized in other comprehensive income.

2. Securities (continued)

There were 20 debt securities in an unrealized loss position as of December 31, 2020, of which 7 were in an unrealized loss position for more than 12 months. Of these 20 securities, 7 were corporate securities, 6 were collateralized mortgage obligations (issued by U.S. government sponsored entities), 4 were state and political subdivisions securities, 2 were mortgage-backed securities and 1 was a U.S. government sponsored entities and agencies security. The unrealized losses associated with these securities were not due to the deterioration in the credit quality of the issuer that is likely to result in the non-collection of contractual principal and interest, but rather have been caused by a rise in interest rates from the time the securities were purchased. Based on that evaluation and other general considerations, and given that the Corporation's current intention is not to sell any impaired securities and it is more likely than not it will not be required to sell these securities before the recovery of its amortized cost basis, the Corporation does not consider the debt securities with unrealized losses as of December 31, 2020 to be other-than-temporarily impaired.

3. Loans Receivable and Related Allowance for Loan Losses

The following table summarizes the Corporation's loans receivable as of December 31:

(Dollar amounts in thousands)	December 31, 2020	December 31, 2019
Mortgage loans on real estate:		
Residential first mortgages	$ 308,031	$ 293,170
Home equity loans and lines of credit	87,088	97,541
Commercial real estate	285,625	229,951
Total real estate loans	680,744	620,662
Other loans:		
Commercial business	89,139	66,603
Consumer	40,035	14,639
Total other loans	129,174	81,242
Total loans, gross	809,918	701,904
Less allowance for loan losses	9,580	6,556
Total loans, net	$ 800,338	$ 695,348

Included in total loans above are net deferred costs of $2.5 million and $2.6 million at December 31, 2020 and 2019, respectively. In addition, included in commercial loans at December 31, 2020 are $30.4 million of Paycheck Protection Program (PPP) loans that are guaranteed by the Small Business Administration (SBA). The Corporation received $2.1 million of fees related to the origination of these loans, of which $1.3 million was recognized in 2020 and $795,000 will be recognized in 2021 upon forgiveness by the SBA.

An allowance for loan losses (ALL) is maintained to absorb probable incurred losses from the loan portfolio. The ALL is based on management's continuing evaluation of the risk characteristics and credit quality of the loan portfolio, assessment of current economic conditions, diversification and size of the portfolio, adequacy of collateral, past and anticipated loss experience and the amount of nonperforming loans. While to Corporation has historically experienced strong trends in asset quality, as a result of the situation regarding the COVID-19 pandemic, management has recognized the need to incorporate factors into the allowance evaluation to help compensate for the effects of any credit deterioration due to the current economic situation.

Management reviews the loan portfolio on a quarterly basis using a defined, consistently applied process in order to make appropriate and timely adjustments to the ALL. When information confirms all or part of specific loans to be uncollectible, these amounts are promptly charged off against the ALL.

Following is an analysis of the changes in the ALL for the years ended December 31:

(Dollar amounts in thousands)	2020	2019
Balance at the beginning of the year	$ 6,556	$ 6,508
Provision for loan losses	3,247	715
Charge-offs	(473)	(913)
Recoveries	250	246
Balance at the end of the year	$ 9,580	$ 6,556

3. Loans Receivable and Related Allowance for Loan Losses (continued)

The following table details activity in the ALL and the recorded investment by portfolio segment based on impairment method at December 31, 2020 and 2019:

(Dollar amounts in thousands)	Residential Mortgages	Home Equity & Lines of Credit	Commercial Real Estate	Commercial Business	Consumer	Total
At December 31, 2020:						
Beginning Balance	$ 2,309	$ 626	$ 2,898	$ 636	$ 87	$ 6,556
Charge-offs	(27)	(126)	(75)	(163)	(82)	(473)
Recoveries	6	15	107	70	52	250
Provision	486	105	2,250	134	272	3,247
Ending Balance	$ 2,774	$ 620	$ 5,180	$ 677	$ 329	$ 9,580
Ending ALL balance attributable to loans:						
Individually evaluated for impairment	$ —	$ —	$ 40	$ 20	$ —	$ 60
Acquired loans collectively evaluated for impairment	—	—	—	—	—	—
Originated loans collectively evaluated for impairment	2,774	620	5,140	657	329	9,520
Total	$ 2,774	$ 620	$ 5,180	$ 677	$ 329	$ 9,580
Total loans:						
Individually evaluated for impairment	$ 329	$ 3	$ 1,639	$ 143	$ —	$ 2,114
Acquired loans collectively evaluated for impairment	44,209	8,491	30,913	5,131	1,017	89,761
Originated loans collectively evaluated for impairment	263,493	78,594	253,073	83,865	39,018	718,043
Total	$ 308,031	$ 87,088	$ 285,625	$ 89,139	$ 40,035	$ 809,918
At December 31, 2019:						
Beginning Balance	$ 2,198	$ 648	$ 3,106	$ 500	$ 56	$ 6,508
Charge-offs	(227)	(61)	(242)	(250)	(133)	(913)
Recoveries	40	6	134	—	66	246
Provision	298	33	(100)	386	98	715
Ending Balance	$ 2,309	$ 626	$ 2,898	$ 636	$ 87	$ 6,556
Ending ALL balance attributable to loans:						
Individually evaluated for impairment	$ 5	$ —	$ —	$ —	$ —	$ 5
Acquired loans collectively evaluated for impairment	—	—	—	—	—	—
Originated loans collectively evaluated for impairment	2,304	626	2,898	636	87	6,551
Total	$ 2,309	$ 626	$ 2,898	$ 636	$ 87	$ 6,556
Total loans:						
Individually evaluated for impairment	$ 358	$ 4	$ 81	$ 40	$ —	$ 483
Acquired loans collectively evaluated for impairment	60,523	10,901	41,993	7,930	1,982	123,329
Originated loans collectively evaluated for impairment	232,289	86,636	187,877	58,633	12,657	578,092
Total	$ 293,170	$ 97,541	$ 229,951	$ 66,603	$ 14,639	$ 701,904

The allowance for loan losses is based on estimates, and actual losses will vary from current estimates. Management believes that the granularity of the homogeneous pools and the related historical loss ratios and other qualitative factors, as well as the consistency in the application of assumptions, result in an ALL that is representative of the risk found in the components of the portfolio at any given date.

At December 31, 2020 and 2019, there was no allowance for loan losses allocated to loans acquired from United American Savings Bank (2016), Northern Hancock Bank and Trust Co. (2017) or Community First Bancorp, Inc (2018) because the unaccreted purchase discount still exceeded the calculated allowance.

3. Loans Receivable and Related Allowance for Loan Losses (continued)

The following tables present impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of December 31:

(Dollar amounts in thousands)

	Impaired Loans with Specific Allowance					
	As of December 31, 2020			For the year ended December 31, 2020		
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized in Period	Cash Basis Interest Recognized in Period
Residential first mortgages	$ —	$ —	$ —	$ 43	$ —	$ —
Home equity and lines of credit	—	—	—	2	—	—
Commercial real estate	380	380	40	106	17	11
Commercial business	78	78	20	53	5	4
Consumer	—	—	—	—	—	—
Total	$ 458	$ 458	$ 60	$ 204	$ 22	$ 15

	Impaired Loans with No Specific Allowance				
	As of December 31, 2020		For the year ended December 31, 2020		
	Unpaid Principal Balance	Recorded Investment	Average Recorded Investment	Interest Income Recognized in Period	Cash Basis Interest Recognized in Period
Residential first mortgages	$ 440	$ 329	$ 300	$ 7	$ 7
Home equity and lines of credit	3	3	2	—	—
Commercial real estate	1,259	1,259	1,167	76	66
Commercial business	65	65	80	10	6
Consumer	—	—	—	—	—
Total	$ 1,767	$ 1,656	$ 1,549	$ 93	$ 79

(Dollar amounts in thousands)

	Impaired Loans with Specific Allowance					
	As of December 31, 2019			For the year ended December 31, 2019		
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized in Period	Cash Basis Interest Recognized in Period
Residential first mortgages	$ 72	$ 72	$ 5	$ 72	$ 3	$ 3
Home equity and lines of credit	4	4	—	5	—	—
Commercial real estate	—	—	—	—	—	—
Commercial business	—	—	—	—	—	—
Consumer	—	—	—	—	—	—
Total	$ 76	$ 76	$ 5	$ 77	$ 3	$ 3

	Impaired Loans with No Specific Allowance				
	As of December 31, 2019		For the year ended December 31, 2019		
	Unpaid Principal Balance	Recorded Investment	Average Recorded Investment	Interest Income Recognized in Period	Cash Basis Interest Recognized in Period
Residential first mortgages	$ 398	$ 286	$ 301	$ 4	$ 4
Home equity and lines of credit	—	—	—	—	—
Commercial real estate	81	81	1,019	88	35
Commercial business	40	40	79	7	2
Consumer	—	—	—	—	—
Total	$ 519	$ 407	$ 1,399	$ 99	$ 41

3. Loans Receivable and Related Allowance for Loan Losses (continued)

Unpaid principal balance includes any loans that have been partially charged off but not forgiven. Accrued interest is not included in the recorded investment in loans presented above or in the tables that follow based on the amounts not being material.

Troubled debt restructurings (TDR). The Corporation has certain loans that have been modified in order to maximize collection of loan balances. If, for economic or legal reasons related to the customer's financial difficulties, management grants a concession compared to the original terms and conditions of the loan that it would not have otherwise considered, the modified loan is classified as a TDR. Concessions related to TDRs generally do not include forgiveness of principal balances. The Corporation has no legal obligation to extend additional credit to borrowers with loans classified as TDRs.

At December 31, 2020 and 2019, the Corporation had $396,000 and $409,000, respectively, of loans classified as TDRs, which are included in impaired loans above. At December 31, 2020 and 2019, the Corporation had $6,000 and $5,000, respectively, of the allowance for loan losses allocated to these specific loans.

During the year ended December 31, 2020, the Corporation modified one commercial term loan with a recorded investment of $64,000. In order to cure the delinquency on the loan, the maturity date was extended by 32 months and the loan payments reamortized over the extended period. At December 31, 2020, there was $6,000 of allowance for loan losses allocated to this loan. The modification did not have a material impact on the Corporation's income statement during the period. During the year ended December 31, 2019, the Corporation initially reported one modified commercial mortgage loans with a recorded investment of $67,000. Subsequently, it was determined that the parameters applied to the loan did not required reporting as a TDR. As a result, the Corporation did not have any loans modified to TDR status for the year ending December 31, 2019.

A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms. During the year ended December 31, 2020 and 2019, there were no loans classified as TDRs which defaulted within twelve months of their modification.

Under the provisions of the CARES Act, as of December 31, 2020, the Corporation had granted modifications on 410 loans with an aggregate balance of $110.4 million, representing 13.6% of gross outstanding loan balances. As of February 28, 2021, 28 loans with an aggregate balance of $35.4 million remained on deferral while 382 loans with an aggregate balance of $75.0 million have resumed normal repayment or paid off. Also, as of February 28, 2021, hospitality (hotel and restaurant) loans comprised $32.8 million, or 92.7% of the loans remaining on deferral. The characteristics of these modifications are considered short-term and do not result in a reclassification of these loans to TDR status.

Credit Quality Indicators. Management categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors.

Commercial real estate and commercial business loans not identified as impaired are evaluated as risk rated pools of loans utilizing a risk rating practice that is supported by a quarterly special asset review. In this review process, strengths and weaknesses are identified, evaluated and documented for each criticized and classified loan and borrower, strategic action plans are developed, risk ratings are confirmed and the loan's performance status reviewed.

Management has determined certain portions of the loan portfolio to be homogeneous in nature and assigns like reserve factors for the following loan pool types: residential real estate, home equity loans and lines of credit, and consumer installment and personal lines of credit. These homogeneous loans are not rated unless identified as impaired.

Management uses the following definitions for risk ratings:

Pass: Loans classified as pass typically exhibit good payment performance and have underlying borrowers with acceptable financial trends where repayment capacity is evident. These borrowers typically would have sufficient cash flow that would allow them to weather an economic downturn and the value of any underlying collateral could withstand a moderate degree of depreciation due to economic conditions.

Special Mention: Loans classified as special mention are characterized by potential weaknesses that could jeopardize repayment as contractually agreed. These loans may exhibit adverse trends such as increasing leverage, shrinking profit margins and/or deteriorating cash flows. These borrowers would inherently be more vulnerable to the application of economic pressures.

Substandard: Loans classified as substandard exhibit weaknesses that are well-defined to the point that repayment is jeopardized. Typically, the Corporation is no longer adequately protected by both the apparent net worth and repayment capacity of the borrower.

Doubtful: Loans classified as doubtful have advanced to the point that collection or liquidation in full, on the basis of currently ascertainable facts, conditions and value, is highly questionable or improbable.

3. Loans Receivable and Related Allowance for Loan Losses (continued)

The following table presents the classes of the loan portfolio summarized by the aggregate pass and the criticized categories of special mention, substandard and doubtful within the Corporation's internal risk rating system as of December 31, 2020 and 2019:

(Dollar amounts in thousands)

	Not Rated	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2020:						
Residential first mortgages	$ 306,237	$ —	$ —	$ 1,794	$ —	$ 308,031
Home equity and lines of credit	86,867	—	—	221	—	87,088
Commercial real estate	—	249,357	19,669	16,599	—	285,625
Commercial business	—	83,059	2,054	4,026	—	89,139
Consumer	39,987	—	—	48	—	40,035
Total loans	$ 433,091	$ 332,416	$ 21,723	$ 22,688	$ —	$ 809,918
December 31, 2019:						
Residential first mortgages	$ 291,843	$ —	$ —	$ 1,327	$ —	$ 293,170
Home equity and lines of credit	97,087	—	—	454	—	97,541
Commercial real estate	—	216,744	5,370	7,837	—	229,951
Commercial business	—	64,636	204	1,763	—	66,603
Consumer	14,557	—	—	82	—	14,639
Total loans	$ 403,487	$ 281,380	$ 5,574	$ 11,463	$ —	$ 701,904

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a required payment is past due. As of December 31, 2020, the Corporation had made short-term modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment for borrowers. Under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), borrowers that are considered current are those that are less than 30 days past due on their contractual payments at the time a modification program is implemented. As such, the modifications made under the CARES Act are not included in the Corporation's past due or nonaccrual loans as of December 31, 2020. The following table presents the classes of the loan portfolio summarized by the aging categories of performing loans and nonperforming loans as of December 31, 2020 and 2019:

(Dollar amounts in thousands)

	Performing			Nonperforming		
	Accruing Loans Not Past Due	Accruing 30-59 Days Past Due	Accruing 60-89 Days Past Due	Accruing 90+ Days Past Due	Nonaccrual	Total
December 31, 2020:						
Residential first mortgages	$ 304,161	$ 1,836	$ 239	$ 176	$ 1,619	$ 308,031
Home equity and lines of credit	86,093	446	328	146	75	87,088
Commercial real estate	283,373	580	41	18	1,613	285,625
Commercial business	88,614	72	46	239	168	89,139
Consumer	39,917	28	42	—	48	40,035
Total loans	$ 802,158	$ 2,962	$ 696	$ 579	$ 3,523	$ 809,918
December 31, 2019:						
Residential first mortgages	$ 288,399	$ 2,405	$ 1,039	$ 372	$ 955	$ 293,170
Home equity and lines of credit	95,908	626	553	26	428	97,541
Commercial real estate	226,133	2,141	543	227	907	229,951
Commercial business	66,087	225	72	4	215	66,603
Consumer	14,458	84	15	—	82	14,639
Total loans	$ 690,985	$ 5,481	$ 2,222	$ 629	$ 2,587	$ 701,904

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3. Loans Receivable and Related Allowance for Loan Losses (continued)

The following table presents the Corporation's nonaccrual loans by aging category as of December 31, 2020 and 2019:

(Dollar amounts in thousands)	Not Past Due	30-59 Days Past Due	60-89 Days Past Due	90 Days + Past Due	Total
December 31, 2020:					
Residential first mortgages	$ 220	$ 70	$ —	$ 1,329	$ 1,619
Home equity and lines of credit	4	—	—	71	75
Commercial real estate	1,016	—	24	573	1,613
Commercial business	168	—	—	—	168
Consumer	—	—	—	48	48
Total loans	$ 1,408	$ 70	$ 24	$ 2,021	$ 3,523
December 31, 2019:					
Residential first mortgages	$ 245	$ —	$ 72	$ 638	$ 955
Home equity and lines of credit	4	—	—	424	428
Commercial real estate	28	309	31	539	907
Commercial business	—	—	175	40	215
Consumer	—	—	—	82	82
Total loans	$ 277	$ 309	$ 278	$ 1,723	$ 2,587

4. Federal Bank Stocks

The Bank is a member of the FHLB and the FRB. As a member of these federal banking systems, the Bank maintains an investment in the capital stock of the respective regional banks, which are carried at cost. These stocks are purchased and redeemed at par as directed by the federal banks and levels maintained are based primarily on borrowing and other correspondent relationships. The Bank's investment in FHLB and FRB stocks was $3.8 million and $1.8 million, respectively, at December 31, 2020, and $4.0 million and $1.8 million, respectively, at December 31, 2019.

5. Premises, Equipment and Leases

Premises and Equipment

Premises and equipment at December 31 are summarized by major classification as follows:

(Dollar amounts in thousands)	2020	2019
Land	$ 5,290	$ 5,269
Buildings and improvements	15,228	15,127
Leasehold improvements	1,541	1,522
Furniture, fixtures and equipment	10,749	10,539
Software	3,440	3,397
Construction in progress	2	321
Total	36,250	36,175
Less: accumulated depreciation and amortization	18,048	17,134
Net premises and equipment	$ 18,202	$ 19,041

Depreciation and amortization expense for the years ended December 31, 2020 and 2019 were $1.4 million and $1.4 million, respectively.

5. Premises, Equipment and Leases (continued)

Leases

As of December 31, 2020, the Corporation leases real estate for five branch offices under various operating lease agreements. The lease agreements have maturity dates ranging from August 2025 to December 2056, including all extension periods. There are currently no circumstances in which the leases would be terminated before expiration. The weighted average remaining life of the lease term for these leases was 12.45 years as of December 31, 2020 compared to 12.99 years as of December 31,2019.

The discount rate used in determining the lease liability for each individual lease was the FHLB fixed advance rate which corresponded with the remaining lease terms as of January 1, 2019 for leases that existed at adoption. This methodology will be continued for the commencement of any subsequent lease agreements. The weighted average discount rate for the leases was was 3.51% as of December 31, 2020 compared to 3.49% as of December 31, 2019.

The total operating lease costs were $192,000 and $194,000, respectively, for the years ended December 31, 2020 and 2019. The right-of-use asset, included in other assets, and lease liability, included in other liabilities, were $1.4 million and $1.6 million, respectively, as of December 31, 2020, and $1.5 million and $1.7 million, respectively, as of December 31, 2019.

Total estimated rental commitments for the operating leases were as follows as of December 31, 2020:

(Dollar amounts in thousands)		
Year ending December 31:		
2021	$	217
2022		222
2023		222
2024		227
2025		212
Thereafter		851
Total minimum lease payments		1,951
Discount effect of cash flows		(400)
Present value of lease liabilities	$	1,551

6. Goodwill and Intangible Assets

The following table summarizes the Corporation's acquired goodwill and intangible assets as of December 31:

(Dollar amounts in thousands)	December 31, 2020				December 31, 2019			
	Gross Carrying Amount		Accumulated Amortization		Gross Carrying Amount		Accumulated Amortization	
Goodwill	$	19,460	$	—	$	19,460	$	—
Core deposit intangibles		5,634		4,551		5,634		4,387
Total	$	25,094	$	4,551	$	25,094	$	4,387

The goodwill on the Corporation's financial statements resulted from five prior acquisitions. Goodwill represents the excess of the total purchase price paid for the acquisitions over the fair value of the identifiable assets acquired, net of the fair value of the liabilities assumed. Goodwill is not amortized, but is subject to impairment tests on an annual basis and more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. As part of the Corporation's qualitative assessment of goodwill impairment, management considered the triggering event of the COVID-19 pandemic and determined that significant change in the general economic environment and financial markets, including the Corporation's market capitalization, represented an interim impairment indicator requiring continued evaluation. Management performed a quarterly qualitative assessment beginning with the onset of the pandemic, concluding no impairment. Because of the economic uncertainty surrounding the pandemic, the Corporation engaged an independent third party to perform the annual, November 30, impairment testing, including the Step 0 and Step 1, qualitative and quantitative analyses to determine the fair value of the Corporation. Based on the analysis performed, the fair value of the Corporation's equity was $89.0 million, which exceeded the recorded book value of $87.4 million as of November 30, 2020. Management concluded that the Corporation's goodwill was not impaired as of November 30, 2020. Although no goodwill impairment was noted, there can be no assurances that future goodwill impairment will not occur. No goodwill impairment charges were recorded in 2020 or 2019.

6. Goodwill and Intangible Assets (continued)

The core deposit intangible asset, resulting from three acquisitions, is amortized over a weighted average estimated life of the related deposits and is not estimated to have a significant residual value. The Corporation recorded intangible amortization expense totaling $164,000 and $176,000 in 2020 and 2019, respectively.

The estimated amortization expense of the core deposit intangible for the years ending December 31 is as follows:

(Dollar amounts in thousands)	Amortization Expense
2021	$ 154
2022	149
2023	149
2024	149
2025	143
Thereafter	339
Total	$ 1,083

7. Related Party Balances and Transactions

In the ordinary course of business, the Bank maintains loan and deposit relationships with employees, principal officers and directors and their affiliates. The Bank has granted loans to principal officers and directors and their affiliates amounting to $5.5 million and $4.7 million at December 31, 2020 and 2019, respectively. During 2020, there were $1.3 million of principal additions while total principal reductions associated with these loans were $540,000. Deposits from principal officers and directors and their affiliates held by the Bank at December 31, 2020 and 2019 totaled $3.1 million and $3.1 million, respectively.

8. Deposits

The following table summarizes the Corporation's deposits as of December 31:

(Dollar amounts in thousands)	2020			2019		
Type of accounts	Weighted average rate	Amount	Percent	Weighted average rate	Amount	Percent
Non-interest bearing deposits	—	$ 193,752	21.7%	—	$ 148,842	18.9%
Interest bearing demand deposits	0.42%	511,928	57.3%	0.76%	420,515	53.4%
Time deposits	2.03%	187,947	21.0%	2.17%	217,767	27.7%
Total	0.67%	$ 893,627	100.0%	1.01%	$ 787,124	100.0%

Scheduled maturities of time deposits for the next five years and thereafter are as follows:

(Dollar amounts in thousands)	Amount	Percent
2021	$ 76,091	40.5%
2022	24,022	12.8%
2023	41,622	22.1%
2024	35,659	18.9%
2025	6,503	3.5%
Thereafter	4,050	2.2%
Total	$ 187,947	100.0%

8. Deposits (continued)

The Corporation had a total of $58.7 million and $67.9 million in time deposits of $250,000 or more at December 31, 2020 and 2019, respectively. Scheduled maturities of time deposits of $250,000 or more at December 31, 2020 are as follows:

(Dollar amounts in thousands)	Amount
Three months or less	$ 6,894
Over three months to six months	3,902
Over six months to twelve months	20,538
Over twelve months	27,374
Total	$ 58,708

9. Borrowed Funds

The following table summarizes the Corporation's borrowed funds as of and for the year ended December 31:

(Dollar amounts in thousands)	2020			2019		
	Balance	Average Balance	Average Rate	Balance	Average Balance	Average Rate
Short-term borrowed funds	$ 2,050	$ 4,366	3.00%	$ 2,050	$ 4,663	3.93%
Long-term borrowed funds	30,000	35,530	2.16%	26,500	31,845	2.55%
Total	$ 32,050	$ 39,896		$ 28,550	$ 36,508	

Short-term borrowed funds at December 31, 2020 consisted of $2.1 million outstanding on a $4.5 million unsecured line of credit with a correspondent bank with a rate of 4.25%, compared to $2.1 million outstanding on a $7.0 million unsecured line of credit with a correspondent bank with a rate of 5.00% at December 31, 2019.

Long-term borrowed funds at December 31, 2020 consisted of six $5.0 million FHLB term advances totaling $30.0 million, maturing between 2021 and 2025 and having fixed interest rates between 0.97% and 2.85%. This compares to five $5.0 million FHLB advances totaling $25.0 million at December 31, 2019. All borrowings from the FHLB are secured by a blanket lien of qualified collateral. Qualified collateral at December 31, 2020 totaled $436.3 million. In addition, the Corporation had a five year unsecured term advance with a correspondent bank, which was paid in full during June 2020. At December 31, 2019, the outstanding balance on this term advance was $1.5 million.

Scheduled maturities of borrowed funds for the next five years are as follows:

(Dollar amounts in thousands)	Amount
2021	$ 7,050
2022	—
2023	10,000
2024	5,000
2025	10,000
Thereafter	—
Total	$ 32,050

The Bank maintains a credit arrangement with the FHLB as a source of additional liquidity. The total maximum borrowing capacity with the FHLB, excluding loans outstanding of $30.0 million and irrevocable standby letters of credit issued to secure certain deposit accounts of $137.7 million at December 31, 2020 was $268.6 million. In addition, the Corporation has $2.4 million of funds available on a line of credit through a correspondent bank.

10. Regulatory Matters

Restrictions on Dividends, Loans and Advances

The Bank is subject to a regulatory dividend restriction that generally limits the amount of dividends that can be paid by the Bank to the Corporation. Prior regulatory approval is required if the total of all dividends declared in any calendar year exceeds net profits (as defined in the regulations) for the year combined with net retained earnings (as defined) for the two preceding calendar years. In addition, dividends paid by the Bank to the Corporation would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements. As of December 31, 2020, $7.4 million of undistributed earnings of the Bank was available for distribution of dividends without prior regulatory approval.

Loans or advances from the Bank to the Corporation are limited to 10% of the Bank's capital stock and surplus on a secured basis. Funds available for loans or advances by the Bank to the Corporation amounted to approximately $6.0 million. As of December 31, 2020 and 2019, the Corporation had no outstanding loans or advances from the Bank.

Minimum Regulatory Capital Requirements

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action.

The Small Bank Holding Company threshold for consolidated assets is $3 billion. The primary benefit of being deemed a "small bank holding company" is the exemption from the requirement to maintain consolidated regulatory capital ratios; instead, regulatory capital ratios only apply at the subsidiary bank level.

The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (BASEL III rules) became effective for the Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in on January 1, 2019. Under the BASEL III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer was phased in from 0.0% for 2015 to 2.50% in 2019 and subsequent periods. Amounts recorded to accumulated other comprehensive income are not included in computing regulatory capital. Management believes as of December 31, 2020, the Bank meets all capital adequacy requirements to which they are subject.

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

10. Regulatory Matters (continued)

The following table sets forth certain information concerning the Bank's regulatory capital as of the dates presented. The capital adequacy ratios disclosed below are exclusive of the capital conservation buffer.

(Dollar amounts in thousands)	December 31, 2020		December 31, 2019	
	Amount	Ratio	Amount	Ratio
Total capital to risk-weighted assets:				
Actual	$ 84,583	12.71%	$ 80,418	13.74%
For capital adequacy purposes	53,255	8.00%	46,836	8.00%
To be well capitalized	66,569	10.00%	58,544	10.00%
Tier 1 capital to risk-weighted assets:				
Actual	$ 76,246	11.45%	$ 73,862	12.62%
For capital adequacy purposes	39,941	6.00%	35,127	6.00%
To be well capitalized	53,255	8.00%	46,836	8.00%
Common Equity Tier 1 capital to risk-weighted assets:				
Actual	$ 76,246	11.45%	$ 73,862	12.62%
For capital adequacy purposes	29,956	4.50%	26,345	4.50%
To be well capitalized	43,270	6.50%	38,054	6.50%
Tier 1 capital to average assets:				
Actual	$ 76,246	7.58%	$ 73,862	8.17%
For capital adequacy purposes	40,213	4.00%	36,146	4.00%
To be well capitalized	50,267	5.00%	45,182	5.00%

11. Commitments and Legal Contingencies

In the ordinary course of business, the Corporation has various outstanding commitments and contingent liabilities that are not reflected in the accompanying consolidated financial statements. In addition, the Corporation is involved in certain claims and legal actions arising in the ordinary course of business. The outcome of these claims and actions are not presently determinable; however, in the opinion of the Corporation's management, after consulting legal counsel, the ultimate disposition of these matters will not have a material adverse effect on the consolidated financial statements.

12. Income Taxes

The Corporation and the Bank file a consolidated federal income tax return. The provision for income taxes for the years ended December 31 is comprised of the following:

(Dollar amounts in thousands)	2020	2019
Current	$ 1,916	$ 1,437
Deferred	(481)	225
Total	$ 1,435	$ 1,662

A reconciliation between the provision for income taxes and the amount computed by multiplying operating results before income taxes by the statutory federal income tax rate of 21% for the years ended December 31, 2020 and 2019 is as follows:

(Dollar amounts in thousands)	2020		2019	
	Amount	% Pre-tax Income	Amount	% Pre-tax Income
Provision at statutory tax rate	$ 1,718	21.0%	$ 2,019	21.0%
Increase (decrease) resulting from:				
Tax free interest, net of disallowance	(219)	(2.7%)	(210)	(2.2%)
Earnings on bank-owned life insurance	(84)	(1.0%)	(85)	(0.9%)
Other, net	20	0.2%	(62)	(0.6%)
Provision	$ 1,435	17.5%	$ 1,662	17.3%

12. Income Taxes (continued)

The tax effects of temporary differences between the financial reporting basis and income tax basis of assets and liabilities that are included in the net deferred tax asset as of December 31 relate to the following:

(Dollar amounts in thousands)	2020	2019
Deferred tax assets:		
Allowance for loan losses	$ 2,005	$ 1,365
Funded status of pension plan	1,516	1,389
Lease liability	326	358
Net unrealized loss on securities	—	26
Deferred compensation	444	417
Accrued incentive compensation	60	91
Nonaccrual loan interest income	48	40
Securities impairment	70	70
Stock compensation	105	91
Other	15	9
Gross deferred tax assets	4,589	3,856
Deferred tax liabilities:		
Accrued pension liability	1,036	1,029
Depreciation	772	656
Deferred loan fees and costs	519	555
Lease right-of-use asset	289	317
Intangible assets	305	260
Net unrealized gains on securities	593	—
Business combination adjustments	188	137
Other	47	51
Gross deferred tax liabilities	3,749	3,005
Net deferred tax asset	$ 840	$ 851

In accordance with relevant accounting guidance, the Corporation determined that it was not required to establish a valuation allowance for deferred tax assets since it is more likely than not that the deferred tax asset will be realized through future taxable income, future reversals of existing taxable temporary differences and tax strategies. The Corporation's net deferred tax asset or liability is recorded in the consolidated financial statements as a component of other assets or other liabilities.

At December 31, 2020 and December 31, 2019, the Corporation had no unrecognized tax benefits. The Corporation does not expect the total amount of unrecognized tax benefits to significantly increase within the next twelve months. The Corporation recognizes interest and penalties on unrecognized tax benefits in income taxes expense in its Consolidated Statements of Income.

The Corporation and the Bank are subject to U.S. federal income tax, a capital-based franchise tax in the Commonwealth of Pennsylvania as well as a corporate income tax in West Virginia based on earnings derived from business activity in the state. The Corporation and the Bank are no longer subject to examination by taxing authorities for years before 2017.

13. Employee Benefit Plans

Defined Benefit Plan

The Corporation provides pension benefits for eligible employees through a defined benefit pension plan. Substantially all employees participate in the retirement plan on a non-contributing basis, and are fully vested after three years of service. Effective January 1, 2009, the plan was closed to new participants. The Corporation provided the requisite notice to plan participants on March 12, 2013 of the determination to freeze the plan (curtailment). While the freeze was not effective until April 30, 2013, management determined that participants would not satisfy, within the provisions of the plan, 2013 eligibility requirements based on minimum hours worked for 2013. Therefore, employees ceased to earn benefits as of January 1, 2013. This amendment to the plan did not affect benefits earned by the participant prior to the date of the freeze. The Corporation measures the funded status of the plan as of December 31.

Information pertaining to changes in obligations and funded status of the defined benefit pension plan for the years ended December 31 is as follows:

(Dollar amounts in thousands)	2020	2019
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 10,599	$ 9,482
Actual return on plan assets	1,156	1,534
Employer contribution	—	-
Benefits paid	(439)	(417)
Fair value of plan assets at end of year	11,316	10,599
Change in benefit obligation:		
Benefit obligation at beginning of year	12,304	10,628
Interest cost	395	443
Actuarial (gain) loss	(29)	(22)
Effect of change in assumptions	1,357	1,672
Benefits paid	(439)	(417)
Benefit obligation at end of year	13,588	12,304
Funded status (plan assets less benefit obligation)	$ (2,272)	$ (1,705)
Amounts recognized in accumulated other comprehensive loss consists of:		
Accumulated net actuarial loss	$ 7,220	$ 6,616
Accumulated prior service benefit	—	—
Amount recognized, end of year	$ 7,220	$ 6,616

13. Employee Benefit Plans (continued)

The following table presents the Corporation's pension plan assets measured and recorded at estimated fair value on a recurring basis and their level within the estimated fair value hierarchy as described in Note 15:

(Dollar amounts in thousands) Description	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
December 31, 2020:				
Money markets	$ 143	$ 143	$ —	$ —
Mutual funds - debt	4,518	4,518	—	—
Mutual funds - equity	5,798	5,798	—	—
Emclaire stock	857	857	—	—
	$ 11,316	$ 11,316	$ —	$ —
December 31, 2019:				
Money markets	$ 385	$ 385	$ —	$ —
Mutual funds - debt	4,322	4,322	—	—
Mutual funds - equity	4,981	4,981	—	—
Emclaire stock	911	911	—	—
	$ 10,599	$ 10,599	$ —	$ —

There were no transfers between Level 1 and Level 2 during 2019.

The accumulated benefit obligation for the defined benefit pension plan was $13.6 million and $12.3 million at December 31, 2020 and 2019, respectively.

The components of the periodic pension costs and other amounts recognized in other comprehensive income for the years ended December 31 are as follows:

(Dollar amounts in thousands)	2020	2019
Interest cost	$ 395	$ 443
Expected return on plan assets	(699)	(626)
Amortization of prior service beneft and net loss	268	252
Net periodic pension cost	(36)	69
Amortization of prior service benefit and net loss	(268)	(252)
Net loss	871	742
Total recognized in other comprehensive loss	603	490
Total recognized in net periodic benefit and other comprehensive loss	$ 567	$ 559

The estimated net loss and prior service benefit for the defined benefit pension plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $293,000 as of December 31, 2020.

Weighted-average actuarial assumptions for the years ended December 31 include the following:

	2020	2019
Discount rate for net periodic benefit cost	3.28%	4.26%
Discount rate for benefit obligations	2.54%	3.28%
Expected rate of return on plan assets	6.75%	6.75%

13. Employee Benefit Plans (continued)

The Corporation's pension plan asset allocation at December 31, 2020 and 2019, target allocation for 2021, and expected long-term rate of return by asset category are as follows:

Asset Category	Target Allocation 2021	Percentage of Plan Assets at Year End 2020	2019	Weighted-Average Expected Long-Term Rate of Return 2020
Equity securities	55%	59%	56%	5.15%
Debt securities	37%	40%	41%	1.57%
Money markets	8%	1%	3%	0.03%
	100%	100%	100%	6.75%

Investment Strategy

The intent of the pension plan is to provide a range of investment options for building a diversified asset allocation strategy that will provide the highest likelihood of meeting the aggregate actuarial projections. In selecting the options and asset allocation strategy, the Corporation has determined that the benefits of reduced portfolio risk are best achieved through diversification. The following asset classes or investment categories are utilized to meet the Pension plan's objectives: Small company stock, International stock, Mid-cap stock, Large company stock, Diversified bond, Money Market/Stable Value and Cash. The pension plan does not prohibit any certain investments.

The Corporation does currently not expect to make a contribution to its pension plan in 2021.

Estimated future benefit payments are as follows:

(Dollar amounts in thousands) For year ended December 31,	Pension Benefits
2021	$ 470
2022	506
2023	507
2024	516
2025	551
2026-2030	2,762

Defined Contribution Plan

The Corporation maintains a defined contribution 401(k) Plan. Employees are eligible to participate by providing tax-deferred contributions up to 20% of qualified compensation. Employee contributions are vested at all times. The Corporation provides a matching contribution of up to 4% of the participant's salary. For the years ended 2020 and 2019, matching contributions were $260,000 and $266,000, respectively. The Corporation may also make, at the sole discretion of its Board of Directors, a profit sharing contribution. For the years ended 2020 and 2019, the Corporation made profit sharing contributions of $143,000 and $140,000, respectively.

Supplemental Executive Retirement Plan

The Corporation maintains a Supplemental Executive Retirement Plan (SERP) to provide certain additional retirement benefits to participating officers. The SERP is subject to certain vesting provisions and provides that the officers shall receive a supplemental retirement benefit if the officer's employment is terminated after reaching the normal retirement age of 65, with benefits also payable upon death, disability, a change of control or a termination of employment prior to normal retirement age. As of December 31, 2020 and 2019, the Corporation's SERP liability was $2.0 million and $1.9 million, respectively. For the years ended December 31, 2020 and 2019, the Corporation recognized expense of $205,000 and $224,000, respectively, related to the SERP.

14. Stock Compensation Plans

In April 2014, the Corporation adopted the 2014 Stock Incentive Plan (the 2014 Plan), which is shareholder approved and permits the grant of restricted stock awards and options to its directors, officers and employees for up to 176,866 shares of common stock, of which 6,783 shares of restricted stock and 88,433 stock options remain available for issuance under the plan.

Incentive stock options, non-incentive or compensatory stock options and share awards may be granted under the Plans. The exercise price of each option shall at least equal the market price of a share of common stock on the date of grant and have a contractual term of ten years. Options shall vest and become exercisable at the rate, to the extent and subject to such limitations as may be specified by the Corporation. Compensation cost related to share-based payment transactions must be recognized in the financial statements with measurement based upon the fair value of the equity instruments issued.

During 2020 and 2019, the Corporation granted restricted stock awards of 16,000 and 17,950 shares, respectively, with a face value of $392,000 and $558,000, respectively, based on the weighted-average grant date stock prices of $24.48 and $31.10, respectively. These restricted stock awards are 100% vested on the third anniversary of the date of grant, except in the event of death, disability or retirement. Nonvested restricted stock is not included in common shares outstanding on the consolidated balance sheets. It is the Corporation's policy to issue shares on the vesting date for restricted stock awards. Unvested restricted stock awards do not receive dividends declared by the Corporation. There were no stock options granted during 2020 or 2019. For the year ended December 31, 2020 and 2019 the Corporation recognized $459,000 and $368,000, respectively, in stock compensation expense.

A summary of the status of the Corporation’s nonvested restricted stock awards as of December 31, 2020, and changes during the period then ended is presented below:

	Shares	Weighted-Average Grant-date Fair Value
Nonvested at January 1, 2020	44,450	$ 31.11
Granted	16,000	24.48
Vested	(12,500)	31.37
Forfeited	—	—
Nonvested as of December 31, 2020	47,950	$ 28.83

As of December 31, 2020, there was $884,000 of total unrecognized compensation expense related to nonvested share-based compensation arrangements granted under the plans. That expense is expected to be recognized over the next three years.

15. Fair Values of Financial Instruments

The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. An asset or liability's level is based on the lowest level of input that is significant to the fair value measurement. There are three levels of inputs that may be used to measure fair value.

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Corporation has the ability to access at the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect the Corporation’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

15. Fair Values of Financial Instruments (continued)

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

Assets measured at fair value on a recurring basis. The Corporation used the following methods and significant assumptions to estimate the fair value of the following assets:

Debt securities available for sale, equity securities – The fair value of all investment securities are based upon the assumptions market participants would use in pricing the security. If available, investment securities are determined by quoted market prices (Level 1). Level 1 includes U.S. Treasury, federal agency securities and certain equity securities. For investment securities where quoted market prices are not available, fair values are calculated based on market prices on similar securities (Level 2). Level 2 includes U.S. Government sponsored entities and agencies, mortgage-backed securities, collateralized mortgage obligations, state and political subdivision securities and certain corporate debt securities. For investment securities where quoted prices or market prices of similar securities are not available, fair values are calculated by using unobservable inputs (Level 3) and may include certain corporate debt securities held by the Corporation. The Level 3 corporate debt securities valuations were supported by inputs such as the security issuer's publicly attainable financial information, multiples derived from prices in observed transactions involving comparable businesses and other market, financial and nonfinancial factors.

For assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy are as follows:

(Dollar amounts in thousands) Description	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
December 31, 2020:				
Securities available-for-sale				
U.S. government sponsored entities and agencies	$ 3,007	$ —	$ 3,007	$ —
U.S. agency mortgage-backed securities: residential	16,581	—	16,581	—
U.S. agency collateralized mortgage obligations: residential	15,911	—	15,911	—
State and political subdivision	55,577	—	55,577	—
Corporate debt securities	21,965	—	19,959	2,006
Total available-for-sale securities	$ 113,041	$ —	$ 111,035	$ 2,006
Equity securities	$ 15	$ 15	$ —	$ —
December 31, 2019:				
Securities available-for-sale				
U.S. government sponsored entities and agencies	$ 7,077	$ —	$ 7,077	$ —
U.S. agency mortgage-backed securities: residential	41,075	—	41,075	—
U.S. agency collateralized mortgage obligations: residential	32,837	—	32,837	—
State and political subdivisions	27,796	—	27,796	—
Corporate debt securities	11,322	—	7,300	4,022
Total available-for-sale securities	$ 120,107	$ —	$ 116,085	$ 4,022
Equity securities	$ 19	$ 19	$ —	$ —

15. Fair Values of Financial Instruments (continued)

The Corporation's policy is to transfer assets or liabilities from one level to another when the methodology to obtain the fair value changes such that there are more or fewer unobservable inputs as of the end of the reporting period. During 2020, certain corporate debt securities were tranferred out of Level 3 because of the availability of market pricing. During 2019, certain corporate debt securities were purchased and placed into Level 3 because of a lack of observable market data. The following table presents changes in Level 3 assets measured on a recurring basis for the years ended December 31, 2020 and 2019:

(Dollar amounts in thousands)	2020	2019
Balance at the beginning of the period	$ 4,022	$ 3,500
Total gains or losses (realized/unrealized):		
Included in other comprehensive income	234	(228)
Purchased into Level 3	—	1,250
Transfers in and/or out of Level 3	(2,250)	(500)
Balance at the end of the period	$ 2,006	$ 4,022

Assets measured at fair value on a non-recurring basis. The Corporation used the following methods and significant assumptions to estimate the fair value of the following assets:

Impaired loans – At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive a specific allowance for loan losses. For collateral dependent loans, fair value is commonly based on real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly. As of December 31, 2020, the Corporation had two impaired commercial real estate loans carried at a fair value of $340,000, which consisted of the outstanding balance of the outstanding balance of $380,000 less a specific reserve of $40,000. In addition, the Corporation had three commercial business loans carried at a fair value of $58,000, which consisted of the outstanding balance of the outstanding balance of $78,000 less a specific reserve of $20,000. As of December 31, 2019, the Corporation did not have any impaired loans carried at fair value measured using the fair value of collateral. During the years ended December 31, 2020 and 2019, there was additional provision for loan losses of $81,000 and $63,000, respectively, recorded for impaired loans.

Other real estate owned (OREO) – Assets acquired through or instead of foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals. Management's ongoing review of appraisal information may result in additional discounts or adjustments to the valuation based upon more recent market sales activity or more current appraisal information derived from properties of similar type and/or locale. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. As of December 31, 2020, OREO measured at fair value less costs to sell had a net carrying amount of $9,000, which consisted of the outstanding balance of $18,000 less write-downs of $9,000. As of December 31, 2019, OREO measured at fair value less costs to sell had a net carrying amount of $88,000, which consisted of the outstanding balance of $91,000 less write-downs of $3,000.

Appraisals for both collateral-dependent impaired loans and OREO are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed by the Corporation. Once received, management reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. On an annual basis, the Corporation compares the actual selling price of OREO that has been sold to the most recent appraised value to determine what additional adjustment should be made to the appraisal value to arrive at fair value. The most recent analysis performed indicated that a discount of 10% should be applied.

15. Fair Values of Financial Instruments (continued)

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

(Dollar amounts in thousands) Description	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
December 31, 2020:				
Impaired commercial business loans	$ 58	$ —	$ —	$ 58
Impaired commercial real estate loans	340	—	—	340
Other real estate owned	9	—	—	9
Total	$ 407	$ —	$ —	$ 407
December 31, 2019:				
Other real estate owned	$ 88	$ —	$ —	$ 88
Total	$ 88	$ —	$ —	$ 88

The following table presents quantitative information about Level 3 fair value measurements for assets measured at fair value on a non-recurring basis:

(Dollar amounts in thousands)		Valuation Techniques(s)	Unobservable Input(s)	Weighted Average
December 31, 2020:				
Impaired commercial business loans	$ 58	Sales comparison approach	Adjustment for differences between comparable sales	10%
Impaired commercial real estate loans	340	Sales comparison approach	Adjustment for differences between comparable sales	10%
Other real estate owned	9	Sales comparison approach	Adjustment for differences between comparable sales	10%
December 31, 2019:				
Other real estate owned	$ 88	Sales comparison approach	Adjustment for differences between comparable sales	10%

Excluded from the tables above at December 31, 2020 were two unsecured commercial business loans totaling $14,000. At December 31, 2019, there was one impaired residential mortgage loan totaling $67,000 and one impaired home equity loan totaling $4,000 which were classified as TDRs and measured using a discounted cash flow methodology.

15. Fair Values of Financial Instruments (continued)

During the first quarter of 2018, the Corporation adopted ASU 2016-01 that requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. The following table sets forth the carrying amount and fair value of the Corporation's financial instruments included in the consolidated balance sheet as of December 31:

(Dollar amounts in thousands)

Description	Carrying Amount	Total	Fair Value Measurements using: Level 1	Level 2	Level 3
December 31, 2020:					
Financial Assets:					
Cash and cash equivalents	$ 37,439	$ 37,439	$ 37,439	$ —	$ —
Interest earning time deposits	5,718	5,718	—	5,718	—
Securities - available-for-sale	113,041	113,041	—	111,035	2,006
Securities - equities	15	15	15	—	—
Loans held for sale	75	75	—	75	—
Loans, net	800,338	807,170	—	—	807,170
Federal bank stock	5,635	N/A	N/A	N/A	N/A
Accrued interest receivable	3,786	3,786	52	513	3,221
Total	$ 966,047	$ 967,244	$ 37,506	$ 117,341	$ 812,397
Financial Liabilities:					
Deposits	893,627	899,446	705,680	193,766	—
Borrowed funds	32,050	33,256	—	33,256	—
Accrued interest payable	474	474	19	455	—
Total	$ 926,151	$ 933,176	$ 705,699	$ 227,477	$ —
December 31, 2019:					
Financial Assets:					
Cash and cash equivalents	$ 14,986	$ 14,986	$ 14,986	$ —	$ —
Interest earning time deposits	9,698	9,698	—	9,698	—
Securities - available-for-sale	120,107	120,107	—	116,085	4,022
Securities - equities	19	19	19	—	—
Loans, net	695,348	697,990	—	—	697,990
Federal bank stock	5,790	N/A	N/A	N/A	N/A
Accrued interest receivable	2,600	2,600	78	419	2,103
Total	$ 848,548	$ 845,400	$ 15,083	$ 126,202	$ 704,115
Financial Liabilities:					
Deposits	787,124	793,999	569,357	224,642	—
Borrowed funds	28,550	29,133	—	29,133	—
Accrued interest payable	616	616	51	565	—
Total	$ 816,290	$ 823,748	$ 569,408	$ 254,340	$ —

This information should not be interpreted as an estimate of the fair value of the entire Corporation since a fair value calculation is only provided for a limited portion of the Corporation's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Corporation's disclosures and those of other companies may not be meaningful.

Off-Balance Sheet Financial Instruments

The Corporation is party to credit related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and commercial letters of credit. Commitments to extend credit involve, to a varying degree, elements of credit and interest rate risk in excess of amounts recognized in the consolidated balance sheets. The Corporation's exposure to credit loss in the event of non-performance by the other party for commitments to extend credit is represented by the contractual amount of these commitments, less any collateral value obtained. The Corporation uses the same credit policies in making commitments as for on-balance sheet instruments. The Corporation's distribution of commitments to extend credit approximates the distribution of loans receivable outstanding.

15. Fair Values of Financial Instruments (continued)

The following table presents the notional amount of the Corporation's off-balance sheet commitment financial instruments as of December 31:

(Dollar amounts in thousands)	2020		2019	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to make loans	$ 3,749	$ 3,737	$ 1,646	$ 10,840
Unused lines of credit	20,229	87,478	21,928	88,071
Total	$ 23,978	$ 91,215	$ 23,574	$ 98,911

Commitments to make loans are generally made for periods of 30 days or less. Commitments to extend credit include agreements to lend to a customer as long as there is no violation of any condition established in the contract. These commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Commitments to extend credit also include unfunded commitments under commercial and consumer lines of credit, revolving credit lines and overdraft protection agreements. These lines of credit may be collateralized and usually do not contain a specified maturity date and may be drawn upon to the total extent to which the Corporation is committed.

Standby letters of credit are conditional commitments issued by the Corporation usually for commercial customers to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Corporation generally holds collateral supporting those commitments if deemed necessary. Standby letters of credit, net of collateral maintained by the Bank, were $493,000 and $548,000 at December 31, 2020 and 2019, respectively. The current amount of the liability as of December 31, 2020 and 2019 for guarantees under standby letters of credit issued is not material.

16. Emclaire Financial Corp – Condensed Financial Statements, Parent Corporation Only

Following are condensed financial statements for the parent company as of and for the years ended December 31:

Condensed Balance Sheets *(Dollar amounts in thousands)*	2020	2019
Assets:		
Cash and cash equivalents	$ 114	$ 40
Equity in net assets of subsidiaries	88,132	84,065
Goodwill	5,190	5,190
Other assets	134	171
Total Assets	$ 93,570	$ 89,466
Liabilities and Stockholders' Equity:		
Other short-term borrowed funds	$ 2,050	$ 2,050
Long-term borrowed funds	—	1,500
Accrued expenses and other liabilities	40	58
Stockholders' equity	91,480	85,858
Total Liabilities and Stockholders' Equity	$ 93,570	$ 89,466

16. Emclaire Financial Corp – Condensed Financial Statements, Parent Corporation Only (continued)

Condensed Statements of Income *(Dollar amounts in thousands)*	2020	2019
Income:		
Dividends from subsidiaries	$ 5,186	$ 4,688
Expense:		
Interest expense	118	205
Noninterest expense	710	634
Total expense	828	839
Income before income taxes and undistributed subsidiary income	4,358	3,849
Undistributed equity in net income of subsidiary	2,216	3,922
Net income before income taxes	6,574	7,771
Income tax benefit	174	183
Net income	$ 6,748	$ 7,954
Comprehensive income	$ 8,599	$ 8,976

Condensed Statements of Cash Flows *(Dollar amounts in thousands)*	2020	2019
Operating activities:		
Net income	$ 6,748	$ 7,954
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed equity in net income of subsidiary	(2,216)	(3,922)
Other, net	478	303
Net cash provided by operating activities	5,010	4,335
Financing activities:		
Net change in borrowings	(1,500)	(1,000)
Dividends paid	(3,436)	(3,313)
Net cash used in financing activities	(4,936)	(4,313)
Increase (decrease) in cash and cash equivalents	74	22
Cash and cash equivalents at beginning of period	40	18
Cash and cash equivalents at end of period	$ 114	$ 40

17. Other Noninterest Income and Expense

Other noninterest income includes electronic banking fees of $1.4 million and $1.4 million for 2020 and 2019, respectively.

The following summarizes the Corporation's other noninterest expenses for the years ended December 31:

(Dollar amounts in thousands)	2020	2019
Subscriptions	$ 752	$ 607
Customer bank card processing	700	697
Item processing	669	310
Telephone and data communications	572	567
Pennsylvania shares and use taxes	474	482
Correspondent bank and courier fees	402	411
Internet banking and bill pay	357	347
Credit bureau and other loan expense	246	132
Marketing and advertising	240	264
FHLB prepayment penalties	238	—
Printing and supplies	219	278
Bad checks and other losses	193	199
Regulatory examinations	186	204
Charitable contributions	185	240
Travel, entertainment and conferences	167	390
Postage and freight	148	169
Memberships and dues	99	112
Other	180	225
Total other noninterest expenses	$ 6,027	$ 5,634

18. Earnings Per Share

The factors used in the Corporation's earnings per share computation follow:

(Dollar amounts in thousands, except for per share amounts)	**For the year ended December 31,**	
	2020	**2019**
Net income	$ 6,748	$ 7,954
Less: Preferred stock dividends	186	182
Net income available to common stockholders	$ 6,562	$ 7,772
Average common shares outstanding	2,709,532	2,699,397
Add: Dilutive effects of restricted stock awards	17,815	19,349
Average shares and dilutive potential common shares	2,727,347	2,718,746
Basic earnings per common share	$ 2.42	$ 2.88
Diluted earnings per common share	$ 2.41	$ 2.86

19. Accumulated Other Comprehensive Income (Loss)

The following are changes in Accumulated Other Comprehensive Income (Loss) by component, net of tax for the year ending December 31, 2020:

(Dollar amounts in thousands)	Unrealized Gains and Losses on Available-for-Sale Securities	Defined Benefit Pension Items	Totals
Accumulated Other Comprehensive Income (Loss) at January 1, 2020	$ (108)	$ (5,227)	$ (5,335)
Other comprehensive income (loss) before reclassification	2,871	(689)	2,182
Amounts reclassified from accumulated other comprehensive income (loss)	(543)	212	(331)
Net current period other comprehensive income (loss)	2,328	(477)	1,851
Accumulated Other Comprehensive Income (Loss) at December 31, 2020	$ 2,220	$ (5,704)	$ (3,484)

The following are significant amounts reclassified out of each component of Accumulated Other Comprehensive Income (Loss) for the year ending December 31, 2020:

(Dollar amount in thousands) Details about Accumulated Other Comprehensive (Income) Loss Components	Amount Reclassified from Accumulated Other Comprehensive Income For the year ended December 31, 2020	Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains and losses on available-for-sale securities	$ (687)	Net gain on sale of available-for-sale securities
Tax effect	144	Provision for income taxes
Total security reclassifications for the period	(543)	
Amortization of defined benefit pension items		
Prior service costs	—	Other noninterest income
Actuarial gains	268	Compensation and employee benefits
Total before tax	268	
Tax effect	(56)	Provision for income taxes
Total defined benefit pension reclassifications for the period	212	
Total reclassifications for the period	$ (331)	Net of tax

The following are changes in Accumulated Other Comprehensive Income (Loss) by component, net of tax for the year ending December 31, 2019:

(Dollar amounts in thousands)	Unrealized Gains and Losses on Available-for-Sale Securities	Defined Benefit Pension Items	Totals
Accumulated Other Comprehensive Income (Loss) at January 1, 2019	$ (1,517)	$ (4,840)	$ (6,357)
Other comprehensive income (loss) before reclassification	1,471	(586)	885
Amounts reclassified from accumulated other comprehensive income (loss)	(62)	199	137
Net current period other comprehensive income (loss)	1,409	(387)	1,022
Accumulated Other Comprehensive Income (Loss) at December 31, 2019	$ (108)	$ (5,227)	$ (5,335)

19. Accumulated Other Comprehensive Income (Loss) (continued)

The following are significant amounts reclassified out of each component of Accumulated Other Comprehensive Income (Loss) for the year ending December 31, 2019:

(Dollar amount in thousands) Details about Accumulated Other Comprehensive (Income) Loss Components	Amount Reclassified from Accumulated Other Comprehensive Income For the year ended December 31, 2019	Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains and losses on available-for-sale securities	$ (78)	Net gain on sale of available-for-sale securities
Tax effect	16	Provision for income taxes
Total security reclassifications for the period	(62)	
Amortization of defined benefit pension items		
Prior service costs	—	Other noninterest income
Actuarial gains	252	Compensation and employee benefits
Total before tax	252	
Tax effect	(53)	Provision for income taxes
Total defined benefit pension reclassifications for the period	199	
Total reclassifications for the period	$ 137	Net of tax

20. Revenue Recognition

On January 1, 2018, the Corporation adopted ASU 2014-09 "Revenue from Contracts with Customers" (Topic 606) and all subsequent ASUs that modified Topic 606. Interest income, net securities gains (losses) and bank-owned life insurance are not included within the scope of Topic 606. For the revenue streams in the scope of Topic 606, service charges on deposits and electronic banking fees, there are no significant judgments related to the amount and timing of revenue recognition. All of the Corporation's revenue from contracts with customers is recognized within noninterest income.

Service charges on deposits: The Corporation earns fees from its deposit customers for transaction-based, account maintenance and overdraft services. Transaction-based fees, which include services such as stop payment charges, statement rendering and other fees, are recognized at the time the transaction is executed as that is the point in time the Corporation fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Corporation satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Electronic banking fees: The Corporation earns interchange and other ATM related fees from cardholder transactions conducted through the various payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. The gross amount of these fees are processed through noninterest income. Other fees, such as transaction surcharges and card replacement fees are withdrawn from the customer's account balance at the time of service.

The following table presents the Corporation's sources of noninterest income for the year ended December 31:

(Dollar amounts in thousands)	**2020**	**2019**
Noninterest income		
In-scope of Topic 606:		
Service charges on deposits		
Maintenance fees	$ 203	$ 190
Overdraft fees	1,044	1,657
Other fees	251	310
Electronic banking fees (1)	1,497	1,446
Noninterest income (in-scope of Topic 606)	2,995	3,603
Noninterest income (out-of-scope of Topic 606)	1,368	788
Total noninterest income	$ 4,363	$ 4,391

(1) included in other noninterest income on the Consolidated Statements of Net Income

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Corporate Information

Corporate Headquarters

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612 Main Street
Emlenton, PA 16373
Phone: 844-767-2311
Website: www.emclairefinancial.com

Subsidiary Bank

The Farmers National Bank of Emlenton
Website: www.farmersnb.com

Annual Meeting

The annual meeting of the Corporation's stockholders will be held virtually at 9:00 a.m., on Wednesday, April 21, 2021.

Stockholder and Investor Information

Copies of annual reports, quarterly reports and related stockholder literature are available upon written request without charge to stockholders. Requests should be addressed to Jennifer A. Poulsen, Secretary, Emclaire Financial Corp, 612 Main Street, Emlenton, Pennsylvania 16373.

In addition, other public filings of the Corporation, including the Annual Report on Form 10-K, can be obtained from the Corporation's website.

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