2019
Annual Report

YORK TRADITIONS
B·A·N·K

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York Traditions Bank

Contents

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Independent Auditor's Report

Board of Directors
York Traditions Bank
York, Pennsylvania

We have audited the accompanying financial statements of York Traditions Bank, which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of income, comprehensive income, shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

BDO USA, LLP

Philadelphia, Pennsylvania
February 20, 2020

Financial Statements

York Traditions Bank

Balance Sheets
(in thousands, except share data)

December 31,		2019		2018
Assets				
Cash and due from banks	$	**4,646**	$	6,323
Interest bearing deposits		**3,360**		2,000
Cash and cash equivalents		**8,006**		8,323
Securities available-for-sale		**78,817**		57,918
Loans held-for-sale		**24,342**		16,617
Loans receivable, net of allowance for loan losses 2019: $3,886; 2018: $3,735		**405,545**		375,183
Investment in restricted bank stocks		**1,795**		2,430
Property and equipment, net		**7,799**		8,337
Operating leases right-of-use assets		**2,943**		-
Accrued interest receivable		**1,327**		1,336
Foreclosed real estate		**-**		105
Other assets		**11,820**		12,669
Total Assets	$	**542,394**	$	482,918
Liabilities and Shareholders' Equity				
Liabilities				
Deposits:				
Demand, non-interest bearing	$	**68,250**	$	59,802
Interest bearing		**391,093**		335,377
Total Deposits		**459,343**		395,179
Short-term borrowings		**1,620**		9,670
Long-term borrowings		**19,208**		25,958
Operating leases liabilities		**2,977**		-
Other liabilities		**2,304**		2,031
Total Liabilities		**485,452**		432,838
Shareholders' Equity				
Common stock, par value $1 per share; 9,996,684 shares authorized; issued and outstanding 3,113,881 shares in 2019 and 2,820,898 shares in 2018		**3,114**		2,821
Surplus		**33,165**		27,820
Retained earnings		**19,779**		19,929
Accumulated other comprehensive income (loss)		**884**		(490)
Total Shareholders' Equity		**56,942**		50,080
Total Liabilities and Shareholders' Equity	$	**542,394**	$	482,918

See accompanying notes to financial statements.

York Traditions Bank

Statements of Income
(in thousands, except per share data)

Years Ended December 31,	2019	2018
Interest Income		
Loans receivable, including fees	$ 20,814	$ 18,185
Securities:		
Taxable	1,222	894
Tax-exempt	471	415
Federal funds sold and other	308	229
Total Interest Income	22,815	19,723
Interest Expense		
Deposits	4,783	3,495
Federal funds purchased and short-term borrowings	240	138
Long-term borrowings	660	728
Total Interest Expense	5,683	4,361
Net interest income	17,132	15,362
Provision for Loan Losses	300	220
Net Interest Income After Provision for Loan Losses	16,832	15,142
Noninterest Income		
Service charges on deposits	376	317
Loss on sale/call of securities	(5)	(100)
Gain on sale of loans	4,557	3,918
Electronic banking income	608	546
Income from bank owned life insurance	233	191
Asset management referral fees	195	160
Other	327	270
Total Noninterest Income	6,291	5,302
Noninterest Expenses		
Salaries and employee benefits	9,945	8,447
Occupancy and equipment	2,447	1,898
Advertising and marketing	360	326
Professional fees	598	652
Data processing	972	952
FDIC deposit insurance	74	180
Bank shares tax	330	284
Foreclosed real estate	40	30
Loan expenses	225	279
Director fees	268	255
Charitable contributions	278	270
Other	1,188	1,052
Total Noninterest Expenses	16,725	14,625
Income before income taxes	6,398	5,819
Income Tax Expense	1,181	1,091
Net Income	$ 5,217	$ 4,728
Earnings per Share, Basic	$ 1.67	$ 1.53
Earnings per Share, Diluted	1.66	1.52

See accompanying notes to financial statements.

York Traditions Bank

Statements of Comprehensive Income
(in thousands)

Years Ended December 31,	**2019**	2018
Net Income	**$ 5,217**	$ 4,728
Other Comprehensive Income (Loss), Net of Income Tax		
Unrealized gains (losses) arising on available-for-sale securities, net of income tax expense (benefit) of $364 and ($92), respectively	**1,370**	(345)
Reclassification adjustment for loss realized in net income, net of income tax benefit of $1 and $21, respectively, and included in noninterest income on the statements of income	**4**	79
Other comprehensive income (loss), net of income tax	**1,374**	(266)
Total Comprehensive Income	**$ 6,591**	$ 4,462

See accompanying notes to financial statements.

York Traditions Bank

Statements of Shareholders' Equity
(in thousands)

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2017	$ 2,807	$ 27,535	$ 15,201	$ (224)	$ 45,319
Net income	-	-	4,728	-	4,728
Other comprehensive loss, net of taxes	-	-	-	(266)	(266)
Common stock retired	(1)	(13)	-	-	(14)
Stock-based compensation awards	3	170	-	-	173
Exercise of stock options	12	128	-	-	140
Balance, December 31, 2018	$ 2,821	$ 27,820	$ 19,929	$ (490)	$ 50,080
Net income	-	-	5,217	-	5,217
Other comprehensive income, net of taxes	-	-	-	1,374	1,374
10% common stock dividend, 282,394 shares at fair value	283	5,084	(5,367)	-	-
Common stock retired	(1)	(16)	-	-	(17)
Stock-based compensation awards	4	211	-	-	215
Exercise of stock options	7	66	-	-	73
Balance, December 31, 2019	**$ 3,114**	**$ 33,165**	**$ 19,779**	**$ 884**	**$ 56,942**

See accompanying notes to financial statements.

York Traditions Bank

Statements of Cash Flows
(in thousands)

Years Ended December 31,	**2019**	2018
Cash Flows from Operating Activities		
Net income	$ **5,217**	$ 4,728
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**300**	220
Provision for depreciation and amortization	**782**	484
Amortization of debt issuance costs	**20**	20
Amortization of securities, net	**180**	374
Amortization of operating lease right-of-use asset	**349**	-
Gain on sale of loans	**(4,557)**	(3,918)
Proceeds from sale of loans	**179,488**	161,680
Loans originated for sale	**(182,656)**	(160,494)
Deferred loan fees, net	**64**	62
Loss on sale/call of securities	**5**	100
(Gain) loss on sale of foreclosed real estate	**(1)**	60
Deferred income (benefit) taxes	**(79)**	105
Stock-based compensation expense	**215**	173
Net increase in cash surrender value of bank-owned life insurance	**(233)**	(191)
Decrease (increase) in accrued interest receivable and other assets	**1,027**	(1,163)
Net change in operating lease liabilities	**(315)**	-
Increase in other liabilities	**38**	374
Net Cash (Used in) Provided by Operating Activities	**(156)**	2,614
Cash Flows from Investing Activities		
Proceeds from sales of available-for-sale securities	**635**	6,877
Proceeds from calls, paydowns and maturities of securities available-for-sale	**9,860**	9,939
Purchase of securities available-for-sale	**(29,840)**	(20,287)
Net sale (purchase) of investment in restricted bank stocks	**635**	(198)
Net increase in loans	**(30,770)**	(30,674)
Purchase of Bank Owned Life Insurance	**-**	(2,255)
Purchases of property and equipment	**(286)**	(2,081)
Proceeds from sale of property and equipment	**42**	-
Proceeds from sale of foreclosed real estate	**143**	324
Net Cash Used in Investing Activities	**(49,581)**	(38,355)
Cash Flows from Financing Activities		
Net increase in deposits	**64,164**	32,090
Net (decrease) increase in short-term borrowings	**(8,050)**	8,279
Proceeds of long-term borrowings	**2,000**	3,125
Payments of long-term borrowings	**(8,750)**	(7,000)
Proceeds from issuance of common stock	**73**	140
Common stock retired	**(17)**	(14)
Net Cash Provided by Financing Activities	**49,420**	36,620
Net (decrease) increase in cash and cash equivalents	**(317)**	879
Cash and Cash Equivalents, Beginning of Year	**8,323**	7,444
Cash and Cash Equivalents, End of Year	$ **8,006**	$ 8,323
Supplementary Cash Flows Information		
Interest paid	$ **5,644**	$ 4,252
Income taxes paid	**1,125**	1,233
Loans transferred to foreclosed real estate	**44**	191
Operating cash flows from operating leases	**472**	-

See accompanying notes to financial statements.

1. Summary of Significant Accounting Policies

The accounting policies discussed below are followed by York Traditions Bank (the “Bank”). These policies are in accordance with accounting principles generally accepted in the United States of America and conform to common practices in the banking industry.

Nature of Operations

The Bank is a Pennsylvania-chartered commercial bank that is regulated by the Pennsylvania Department of Banking and Securities and the Federal Deposit Insurance Corporation and was incorporated on March 14, 2002 and commenced operations on October 28, 2002.

The Bank operates as a traditional community bank serving the Central Pennsylvania market with an emphasis on commercial and consumer banking. In June 2014, the Bank began trading its common stock on the OTC Markets under the trading symbol YRKB.

Subsequent Events

The Bank has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2019 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through February 20, 2020, the date these financial statements were available to be issued.

Reclassifications

For comparative purposes, the prior years’ financial statements may be reclassified to conform to report classifications of the current year. These reclassifications, if any, had no impact on net income or shareholders’ equity.

Estimates

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

Significant Group Concentrations of Credit Risk

Most of the Bank’s activities are with businesses and individuals located in Central Pennsylvania. Note 2 discusses the types of securities in the Bank’s investment portfolio. Note 3 discusses the types of loans the Bank makes to its customers. The Bank does not have any significant concentrations to any one industry or customer.

Presentation of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold, and short-term investments purchased with an original maturity date of three months or less. Generally, federal funds are purchased or sold for one-day periods.

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 Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Loans Held-for-Sale

Loans held-for-sale consist of residential mortgages. All residential mortgages held-for-sale are sold with servicing released.

Fair Value Option

Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") Subtopic 825-10 permits entities to measure many financial instruments and certain other items at fair value and requires certain disclosures for items for which the fair value option is applied.

The Bank records mortgage loans held-for-sale at fair value. The Bank measures mortgage loans held-for-sale at fair value to more accurately reflect the performance of its entire mortgage banking activities in its financial statements. Derivative financial instruments related to these activities are also recorded at fair value, as detailed in Note 8, "Derivative Financial Instruments." The Bank determines fair value for its mortgage loans held-for-sale based on the price that secondary market investors would pay for loans with similar characteristics, including interest rate and term, as of the date fair value is measured. Changes in fair value during the period are recorded as components of gain on sale of loans on the statements of income. Interest income earned on mortgage loans held-for-sale is classified within interest income on the statements of income.

The following table presents a summary of the Bank's fair value elections and their impact on the Bank's financial statements as of and for the years ended December 31, 2019 and 2018 (in thousands):

December 31, 2019	Cost	Fair Value	Balance Sheets Classification	Fair Value Adjustment Gain	Statements of Income Classifications
Mortgage loans held-for-sale	$ **23,600**	$ **24,342**	Loans held-for-sale	$ **742**	Gain on sale of loans
December 31, 2018					
Mortgage loans held-for-sale	$ 15,982	$ 16,617	Loans held-for-sale	$ 635	Gain on sale of loans

Securities

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

Securities classified as available-for-sale are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss). Premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of securities below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (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) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value, and (4) whether it is likely the Bank intends to sell or will have to sell the security prior to recovery. Realized gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Loans Receivable

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

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

Allowance for Loan Losses

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

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

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired and is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and certain loans classified as substandard that are not designated as impaired and is based on historical loss experience adjusted for qualitative factors reflecting current conditions. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. The allowance is subject to change based on the outcome of financial examinations by bank regulators.

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

In the normal course of business, the Bank modifies loan terms for various reasons. A modified loan is considered a troubled debt restructuring ("TDR") if the Bank, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the debtor that it would not otherwise consider. In evaluating whether a modification constitutes a TDR, the Bank concludes that the borrower is experiencing financial difficulty and the modification constitutes a concession.

When the Bank restructures a loan to a troubled borrower, the loan terms (i.e., interest rate, payment, amortization period and/or maturity date) are modified in such a way to enable the borrower to cover the modified payments based on current cash flow adequacy. If a borrower's hardship is thought to be temporary, then modified terms are only offered for that time period. Where possible, the Bank obtains additional collateral and/or secondary payment sources at the time of the restructure in order to put the Bank in the best possible position if the borrower is not able to meet the modified terms. To date, the Bank has not forgiven any principal as a restructuring concession.

All loans designated as TDRs are considered impaired loans and may be in either accruing or non-accruing status. The Bank's policy for recognizing interest income on impaired loans does not differ from its overall policy for interest recognition.

If a loan was considered to be impaired prior to modification as a TDR, then there is no impact on the allowance for loan losses as a result of the modification, because the loan was already being evaluated individually for impairment. If a loan was not impaired prior to modification as a TDR, then there could be an impact on the allowance for loan losses, either positive or negative, as a result of the modification because of the movement of the loan from the pools of loans being evaluated collectively for impairment to being evaluated individually for impairment.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed on the straight-line method over the estimated useful lives and amortization of leasehold improvements is computed on the straight-line method over the shorter of the assets' estimated useful lives or lease term of the related assets, as follows:

	Years
Buildings and leasehold improvements	10 - 30
Furniture, fixture and equipment	3 - 7
Software	3 - 5

Investment in Restricted Bank Stocks

Investment in restricted bank stocks, which represent required investments in the common stock of correspondent banks, is carried at cost and consists of the common stock of the Federal Home Loan Bank of Pittsburgh ("FHLB") of $1,755,000 and $2,390,000 as of December 31, 2019 and 2018, respectively, and Atlantic Community Bancshares, Inc. of $40,000 as of December 31, 2019 and 2018.

Foreclosed Real Estate

Assets acquired through, or in lieu of, loan foreclosure are held-for-sale and are initially recorded at fair value at the date of foreclosure less costs to sell, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the fair value are included in net expenses from foreclosed real estate.

Bank Owned Life Insurance

The Bank invests in bank owned life insurance ("BOLI") as a source of funding for employee benefit expenses. BOLI involves the purchasing of life insurance by the Bank on a chosen group of employees. The Bank is the owner and beneficiary of the policies. This life insurance investment is carried at the cash surrender value of the underlying policies and reported in other assets on the balance sheet. Income from the increase in the cash surrender value of the policies is included with noninterest income on the statements of income.

Derivative Financial Instruments

In connection with its mortgage banking activities, the Bank enters into commitments to originate certain fixed-rate and adjustable-rate residential mortgage loans for customers, also referred to as interest rate locks. In addition, the Bank enters into forward commitments to sell individual mortgage loans at a fixed price at a future date to third-party investors to hedge the effect of changes in interest rates on the value of interest rate locks. Both the interest rate locks and the forward commitments are accounted for as derivatives and carried at fair value, determined as the amount that would be necessary to settle each derivative financial instrument at the reporting date. Gross derivative assets and liabilities are recorded within other assets and other liabilities on the balance sheet, with changes in fair value during the period recorded within gain on sale of loans on the statements of income.

Advertising Costs

The Bank follows the policy of charging the costs of advertising to expense as incurred. Advertising costs totaled $179,000 and $162,000 for the years ended December 31, 2019 and 2018, respectively.

Per Share Data

Basic earnings per share is calculated as net income divided by the weighted average number of shares outstanding. Diluted earnings per share is calculated as net income available to shareholders divided by the weighted average number of shares outstanding plus shares that would have been outstanding if dilutive potential shares had been issued, as well as any adjustments to income that would result from the assumed issuance. Potential shares that may be issued by the Bank relate solely to outstanding stock options and are determined using the treasury stock method. All share and per share amounts are adjusted for stock dividends that are declared prior to the issuance of the financial statements.

The computation of earnings per share for the years ended December 31, 2019 and 2018 is provided in the table below (in thousands, except per share data):

	2019	2018
Net income	**$ 5,217**	$ 4,728
Weighted average shares outstanding (basic)	**3,120**	3,099
Effect of dilutive stock options	**15**	20
Weighted average shares outstanding (diluted)	**3,135**	3,119
Basic earnings per share	**$ 1.67**	$ 1.53
Diluted earnings per share	**$ 1.66**	$ 1.52
Anti-dilutive stock options excluded from the computation of earnings per share	**7**	2

Stock-Based Compensation

The Bank follows the provisions of FASB ASC 718-10 to account for its stock compensation plans. This guidance requires an entity to recognize the expense of employee services received in share-based payment transactions and measure the expense based on the grant date fair value of the award. The expense is recognized over the period during which an employee is required to provide service in exchange for the award.

Income Taxes

Income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Bank determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Bank accounts for income taxes in accordance with income tax accounting guidance in FASB ASC 740, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions.

Uncertain tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the term sustained upon examination also includes resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. At December 31, 2019 and 2018, the Bank did not have any uncertain tax positions.

The Bank recognizes interest and penalties on income taxes as a component of income tax expense. There were no interest and penalties in 2019 and 2018. With limited exception, tax years prior to 2016 are no longer subject to examination by tax authorities.

Off-Balance Sheet Financial Instruments

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

Comprehensive Income

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

Recently Adopted Accounting Policies

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The standard requires lessees to establish a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Additionally, in July 2018, the FASB issued ASU 2018-11, Leases (Topic 842) - Targeted Improvements, which among other things, provides an additional transition method that would allow entities to not apply the guidance in ASU 2016-02 in the comparative periods presented in the financial statements and instead recognize a cumulative-effect adjustment to the opening balance of Retained Earnings in the period of adoption. The Bank adopted the new standard effective January 1, 2019, which resulted in an increase in assets to recognize the present value of the lease obligations (right-of-use assets) with a corresponding increase in liabilities. The Bank elected to adopt the modified retrospective transition relief provision from ASU 2018-11 and recorded the impact of adoption as of January 1, 2019, without restating any prior-year amounts or disclosures. There was no cumulative effect adjustment to the opening balance of retained earnings required and the adoption did not have an overall material impact on the Bank's consolidated financial statements of income. See Note 7, "Leases" for more information.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies generally will be required to use more judgement and make more estimates than under current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligations. Subsequent to the issuance of ASU 2014-09, the FASB issued several targeted updates to clarify specific implementation issues. For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. Since the guidance does not apply to revenue associated with financial instruments including loans and securities that are accounted for under other GAAP, the new guidelines did not have an impact on revenue most closely associated with financial instruments, including interest income and expense. The Bank completed its overall assessment of revenue streams and review of related contracts potentially affected by the ASU, including deposit related fees, interchange fees, and referral fees for merchant services, credit cards, and asset management. Based on this assessment, the Bank concluded that ASU 2014-09 did not change the method in which the Bank currently recognizes revenue for these revenue streams. The Bank also completed its evaluation of certain costs related to these revenue streams to determine whether such costs should be presented as expense or contra-revenue (i.e., gross vs, net). Based on its evaluation, the Bank determined that there were no changes needed to the classification of costs. The Bank adopted ASU 2014-09 and its related amendments on its required effective date of January 1, 2018 utilizing the modified retrospective approach. Since there was no net impact upon adoption of the new guidance, a cumulative effect adjustment to opening retained earnings was not deemed necessary. See Note 19, "Revenue Recognition" for more information.

In January 2016, the FASB issued ASU No. 2016-01, *"Financial Instruments – Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities."* ASU 2016-01 is intended to improve the recognition and measurement of financial instruments by requiring equity investments to be measured at fair value with changes in fair value recognized in net income; requiring public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements; eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured and amortized at cost on the balance sheet; and requiring a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. ASU 2016-01 is effective for annual periods and interim periods within those annual periods, beginning after December 15, 2017. The amendments should be applied by means of a cumulative effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption. In February 2018, the FASB issued ASU No. 2018-03 which includes technical corrections and improvements to clarify the guidance in ASU No. 2016-01. The Bank adopted ASU 2016-01 on January 1, 2018 and it did not have a material effect on its accounting for fair value disclosures and other disclosure requirements.

2. Securities Available-for-Sale

A summary of amortized cost and fair values of securities available-for-sale as of December 31, 2019 and 2018 is as follows (in thousands):

December 31, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. agency securities	$ 12,247	$ 6	$ (3)	$ 12,250
State and municipal securities	18,617	550	-	19,167
Mortgage-backed securities	30,864	521	(10)	31,375
Collateralized mortgage obligations	15,970	95	(40)	16,025
	$ 77,698	$ 1,172	$ (53)	$ 78,817

December 31, 2018		Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
U.S. agency securities	$	3,250	$	4	$	(22)	$	3,232
State and municipal securities		18,607		56		(158)		18,505
Mortgage-backed securities		26,049		97		(408)		25,738
Collateralized mortgage obligations		10,632		7		(196)		10,443
	$	58,538	$	164	$	(784)	$	57,918

All state and municipal securities undergo an initial and ongoing credit analysis. The analysis includes the review of various financial and demographic information. All municipal securities have a minimum evaluation rating of investment grade. All mortgage-backed securities and collateralized mortgage obligations are issued by government-sponsored enterprises ("GSE") or by the Government National Mortgage Association ("GNMA"). GSE securities carry an implied U.S. Government guarantee and the GSE guarantees the timely payment of principal and interest. GNMA carries the full faith and credit guarantee of the U.S. Government.

There were no gross gains realized on the sale or call of securities in 2019. Gross gains totaling $18,000 were realized on the sale or call of securities in 2018. Gross losses were $5,000 in 2019 and $118,000 in 2018.

The amortized cost and fair value of securities as of December 31, 2019, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the securities may be called or prepaid with or without any penalty (in thousands):

		Amortized Cost		Market Fair Value
Due in one year or less	$	**10,348**	$	**10,345**
Due after one year through five years		**4,999**		**5,011**
Due after five years through ten years		**6,817**		**6,974**
Due after ten years		**8,700**		**9,087**
Mortgage-backed securities		**30,864**		**31,375**
Collateralized mortgage obligations		**15,970**		**16,025**
	$	**77,698**	**$**	**78,817**

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

December 31, 2019	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. agency securities	**$ 9,994**	**$ (3)**	**$ -**	**$ -**	**$ 9,994**	**$ (3)**
State and municipal securities	**390**	**-**	**-**	**-**	**390**	**-**
Mortgage-backed securities	**3,488**	**(1)**	**1,810**	**(9)**	**5,298**	**(10)**
Collateralized mortgage obligations	**3,911**	**(40)**	**121**	**-**	**4,032**	**(40)**
	$ 17,783	**$ (44)**	**$ 1,931**	**$ (9)**	**$ 19,714**	**$ (53)**

December 31, 2018	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. agency securities	$ -	$ -	$ 978	$ (22)	$ 978	$ (22)
State and municipal securities	7,071	(32)	7,052	(126)	14,123	(158)
Mortgage-backed securities	7,572	(45)	13,396	(363)	20,968	(408)
Collateralized mortgage obligations	3,125	(19)	5,433	(177)	8,558	(196)
	$ 17,768	$ (96)	$ 26,859	$ (688)	$ 44,627	$ (784)

The unrealized losses at December 31, 2019 relate principally to changes in interest rates and prepayment assumptions subsequent to the acquisition of specific securities. In management's opinion, credit risk for these securities is minimal. As management has the intent and ability to hold debt securities until recovery and does not believe it will have to sell the securities prior to recovery, no declines are deemed to be other-than-temporary. At December 31, 2019, the Bank had 5 securities in an unrealized loss position for 12 months or more and 8 securities in an unrealized loss position less than 12 months, none of which exceeded 1.50% of the security's carrying amount.

Securities in the amount of $14,001,000 and $11,237,000 were pledged as collateral on deposits as of December 31, 2019 and 2018, respectively.

3. Loans Receivable

The Bank's loan portfolio is segmented to an appropriate level of disaggregation to allow management to monitor the performance of the borrowers and measure credit risk. Segments are based on the underlying collateral types. For disclosure purposes, the Bank does not differentiate between segments and classes. Loans secured by real estate may be made for commercial or consumer purposes.

The loans receivable portfolio is segmented into the following:

Commercial loans may be secured or unsecured. Collateral often includes accounts receivable, inventory and equipment. Repayment is dependent on the successful operation of the borrower's business and is often susceptible to higher risk during an economic downturn. Commercial loans generally have greater credit risk compared to residential real estate and consumer loans, as they typically involve larger loan balances concentrated with single borrowers or groups of related borrowers.

Consumer loans may be secured or unsecured. Collateral may include autos, cash or marketable securities. Such loans generally have smaller balances and are dependent on the credit worthiness of the borrower and their personal financial stability.

Construction and land development loans generally carry greater credit risk as payment expectations are dependent upon the successful and timely completion of the construction, sales of the subject property and the operation of the related business. As a result, such loans may be subject to a greater extent to adverse conditions in the real estate market and in the general economy.

Loans secured by farmland and 1-4 family residential properties have risks depending on the underlying purpose. Loans for consumer purposes are dependent on the credit worthiness of the individual borrower. Loans for a commercial purpose may be dependent on the borrower's ability to generate a sufficient level of occupancy to produce sufficient rental income or may be dependent on the successful operation of the borrower's business.

Commercial real estate loans secured by nonfarm nonresidential real estate can be owner or non-owner occupied. Commercial real estate loans generally have greater credit risk as they typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. Multi-family and non-owner occupied share similar risk characteristics as repayment is based on occupancy levels and cash flows. Owner-occupied nonfarm, nonresidential real estate is dependent on the successful operation of the borrower's business.

The composition of net loans receivable consists of the following as of December 31, 2019 and 2018 (in thousands):

	2019	2018
Commercial	**$ 73,806**	$ 70,277
Construction and land development	**31,469**	26,061
Farmland	**1,330**	1,841
Residential real estate	**133,672**	127,286
Commercial real estate	**168,895**	153,092
Consumer	**259**	361
Total loans	**409,431**	378,918
Allowance for loan losses	**(3,886)**	(3,735)
Net Loans	**$ 405,545**	$ 375,183

The above amounts are recorded net of unamortized deferred fees of $365,000 at December 31, 2019 and $301,000 at December 31, 2018.

The Bank monitors ongoing risk for loans with a commercial purpose using a nine point internal grading system. The first five rating categories, representing the lowest risk to the Bank, are combined and given a Pass rating. The Special Mention category includes loans that have potential weaknesses that may, if not monitored or corrected, weaken the asset or inadequately protect the Bank's position at some future date. These assets pose elevated risk, but their weakness does not justify a more severe, or criticized rating.

Management generally follows regulatory definitions in assigning criticized ratings to loans, including substandard, doubtful or loss. Substandard loans are classified as they have a well-defined weakness, or weaknesses that jeopardize liquidation of the debt. These loans are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Substandard loans include loans that management has determined not to be impaired, as well as loans considered to be impaired. A doubtful loan has the same weaknesses as a substandard loan, however, collection or liquidation of principal in full is questionable and improbable. A doubtful loan is considered to be impaired; loss is present, but may not be determined until specific factors occur. Loss assets are considered uncollectible, as the underlying borrowers are often in bankruptcy, have suspended debt repayments, or ceased business operations. Once a loan is classified as Loss, there is little prospect of collecting the loan's principal or interest and it is generally written off.

Loans with a consumer purpose, which also includes certain commercial loans, construction and land development loans, and residential loans, are not-rated and are monitored based on the length of time a loan is past due. Not-rated loans are categorized as either Performing or Non-performing. Non-performing loans would be those in non-accrual status, which generally occurs when a loan is maintained on a cash basis due to deterioration in the financial condition of the borrower, full payment of principal or interest is not expected or principal or interest has been in default for a period of 90 days or more.

The Bank's Senior Credit Committee, which meets weekly, monitors loan quality on an ongoing basis. The Credit Review Committee meets quarterly and reviews the ratings of all criticized loans. In addition, an independent third-party performs a semi-annual loan review. The review focuses on a sample of business purpose loans and all previously criticized loans over a certain dollar threshold.

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The following tables summarize the Bank's disaggregated loan portfolio based on its internal risk rating system and not-rated loans as either Performing or Non-performing. All dollar amounts are as of December 31, 2019 and 2018 (in thousands):

December 31, 2019	Commercial	Construction and Land Development	Farmland	Residential Real Estate	Commercial Real Estate	Consumer	Total
Pass	**$ 71,064**	**$ 12,564**	**$ 1,330**	**$ 46,273**	**$ 164,386**	**$ -**	**$ 295,617**
Special mention	**235**	**-**	**-**	**805**	**28**	**-**	**1,068**
Substandard	**2,013**	**-**	**-**	**633**	**4,368**	**-**	**7,014**
Doubtful	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Not-rated	**494**	**18,905**	**-**	**85,961**	**113**	**259**	**105,732**
	$ 73,806	**$ 31,469**	**$ 1,330**	**$ 133,672**	**$ 168,895**	**$ 259**	**$ 409,431**
Non-rated loans:							
Performing	**$ 494**	**$ 18,905**	**$ -**	**$ 85,365**	**$ 113**	**$ 259**	**$ 105,136**
Non-performing	**-**	**-**	**-**	**596**	**-**	**-**	**596**
	$ 494	**$ 18,905**	**$ -**	**$ 85,961**	**$ 113**	**$ 259**	**$ 105,732**

December 31, 2018	Commercial	Construction and Land Development	Farmland	Residential Real Estate	Commercial Real Estate	Consumer	Total
Pass	$ 67,838	$ 8,553	$ 1,841	$ 41,575	$ 147,836	$ -	$ 267,643
Special mention	165	-	-	2,470	407	-	3,042
Substandard	1,839	-	-	-	4,730	-	6,569
Doubtful	-	-	-	-	-	-	-
Not-rated	435	17,508	-	83,241	119	361	101,664
	$ 70,277	$ 26,061	$ 1,841	$ 127,286	$ 153,092	$ 361	$ 378,918
Non-rated loans:							
Performing	$ 435	$ 17,508	$ -	$ 82,811	$ 119	$ 361	$ 101,234
Non-performing	-	-	-	430	-	-	430
	$ 435	$ 17,508	$ -	$ 83,241	$ 119	$ 361	$ 101,664

Management further monitors the performance and credit quality of the loan portfolio by analyzing the length of time a recorded payment is past due, by aggregating loans based on their delinquencies.

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The following tables present the segments of the loan portfolio summarized by aging categories of performing loans and nonaccrual loans as of December 31, 2019 and 2018 (in thousands):

December 31, 2019	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days (Still Accruing)	Non-Accrual	Total
Commercial	$ 73,584	$ -	$ -	$ -	$ 222	$ 73,806
Construction and land development	31,469	-	-	-	-	31,469
Farmland	1,330	-	-	-	-	1,330
Residential real estate	133,025	-	51	-	596	133,672
Commercial real estate	168,537	-	-	-	358	168,895
Consumer	254	5	-	-	-	259
	$ 408,199	$ 5	$ 51	$ -	$ 1,176	$ 409,431

December 31, 2018	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days (Still Accruing)	Non-Accrual	Total
Commercial	$ 69,838	$ 24	$ -	$ -	$ 415	$ 70,277
Construction and land development	26,061	-	-	-	-	26,061
Farmland	1,841	-	-	-	-	1,841
Residential real estate	126,295	67	494	-	430	127,286
Commercial real estate	151,985	-	81	-	1,026	153,092
Consumer	361	-	-	-	-	361
	$ 376,381	$ 91	$ 575	$ -	$ 1,871	$ 378,918

The Bank maintains the allowance for loan losses at a level believed adequate by management to absorb losses inherent in the portfolio. It is established and maintained through a provision for loan losses charged to earnings. Quarterly, management assesses the adequacy of the allowance for loan losses utilizing a defined methodology, which considers specific credit evaluation of impaired loans, past loan loss historical experience, and qualitative factors.

For each loan segment, general allowances are provided for loans that are collectively evaluated for impairment, which is based on quantitative factors, principally historical loss trends for the respective segment, adjusted for qualitative factors. The historical loss factor is based on the average charge-offs for the last four calendar years of the Bank and a peer group of Pennsylvania banks of relative equal size.

In addition to the quantitative analysis, additional reserves are allocated on loans collectively evaluated for impairment based on additional qualitative factors. The qualitative factors used by management to adjust the historical loss factor to the total loss allocation may range from 0-75 basis points depending on the factor. Factors include local unemployment, national gross domestic product, real estate collateral trends, changes in lending policies, percentage of classified loans, portfolio growth and composition, recent past due loan ratios and lending staff experience.

Loans with principal or interest payments 90 or more days past due are considered for potential charge-off. Commercial purpose loans are individually reviewed and a charge-off recognized when it is unlikely that the loan balance will be collected in full. Consumer purpose loans secured by real estate are individually reviewed. An appropriate loss will be recognized when it is determined that the value of the real estate collateral is not sufficient to pay the loan in full.

Activity in the allowance for loan losses for the years ended December 31, 2019 and 2018 is as follows (in thousands):

December 31, 2019	Commercial	Construction and Land Development	Farmland	Residential Real Estate	Commercial Real Estate	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning balance	$ 559	$ 233	$ 14	$ 839	$ 1,284	$ 3	$ 803	$ 3,735
Charge-offs	(122)	-	-	(22)	-	(6)	-	(150)
Recoveries	1	-	-	-	-	-	-	1
Provision	80	53	3	5	39	6	114	300
Ending balance	$ 518	$ 286	$ 17	$ 822	$ 1,323	$ 3	$ 917	$ 3,886
Ending balance: Individually evaluated for impairment	$ 4	$ -	$ -	$ 45	$ 6	$ -	$ -	$ 55
Collectively evaluated for impairment	$ 514	$ 286	$ 17	$ 777	$ 1,317	$ 3	$ 917	$ 3,831
Loan receivables: Ending balance	$ 73,806	$ 31,469	$ 1,330	$ 133,672	$ 168,895	$ 259	$ -	$ 409,431
Ending balance: Individually evaluated for impairment	$ 486	$ -	$ -	$ 1,822	$ 459	$ -	$ -	$ 2,767
Collectively evaluated for impairment	$ 73,320	$ 31,469	$ 1,330	$ 131,850	$ 168,436	$ 259	$ -	$ 406,664

December 31, 2018	Commercial	Construction and Land Development	Farmland	Residential Real Estate	Commercial Real Estate	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning balance	$ 577	$ 367	$ 19	$ 742	$ 1,021	$ 6	$ 819	$ 3,551
Charge-offs	(8)	-	(42)	-	-	-	-	(50)
Recoveries	-	14	-	-	-	-	-	14
Provision	(10)	(148)	37	97	263	(3)	(16)	220
Ending balance	$ 559	$ 233	$ 14	$ 839	$ 1,284	$ 3	$ 803	$ 3,735
Ending balance: Individually evaluated for impairment	$ 2	$ -	$ -	$ 29	$ 7	$ -	$ -	$ 38
Collectively evaluated for impairment	$ 557	$ 233	$ 14	$ 810	$ 1,278	$ 3	$ 803	$ 3,697
Loan receivables: Ending balance	$ 70,277	$ 26,061	$ 1,841	$ 127,286	$ 153,092	$ 361	$ -	$ 378,918
Ending balance: Individually evaluated for impairment	$ 667	$ -	$ -	$ 2,459	$ 1,329	$ -	$ -	$ 4,455
Collectively evaluated for impairment	$ 69,610	$ 26,061	$ 1,841	$ 124,827	$ 151,763	$ 361	$ -	$ 374,463

The following summarizes the information in regards to impaired loans by loan portfolio segment as of December 31, 2019 and 2018 (in thousands):

	2019			2018		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Commercial	**$ 438**	**$ 864**	**$ -**	$ 463	$ 847	$ -
Construction and land development	**-**	**-**	**-**	-	-	-
Farmland	**-**	**-**	**-**	-	-	-
Residential real estate	**1,467**	**1,467**	**-**	2,134	2,134	-
Commercial real estate	**358**	**358**	**-**	1,223	1,223	-
Consumer	**-**	**-**	**-**	-	-	-
With an allowance recorded:						
Commercial	**$ 48**	**$ 48**	**$ 4**	$ 204	$ 204	$ 2
Construction and land development	**-**	**-**	**-**	-	-	-
Farmland	**-**	**-**	**-**	-	-	-
Residential real estate	**355**	**355**	**45**	325	325	29
Commercial real estate	**101**	**101**	**6**	106	106	7
Consumer	**-**	**-**	**-**	-	-	-
Total:						
Commercial	**$ 486**	**$ 912**	**$ 4**	$ 667	$ 1,051	$ 2
Construction and land development	**-**	**-**	**-**	-	-	-
Farmland	**-**	**-**	**-**	-	-	-
Residential real estate	**1,822**	**1,822**	**45**	2,459	2,459	29
Commercial real estate	**459**	**459**	**6**	1,329	1,329	7
Consumer	**-**	**-**	**-**	-	-	-
	$ 2,767	**$ 3,193**	**$ 55**	$ 4,455	$ 4,839	$ 38

No additional funds are committed to be advanced in connection with impaired loans.

Residential real estate mortgages totaling $256,000 and $161,000 were in the process of foreclosure as of December 31, 2019 and 2018, respectively. Residential real estate mortgages totaling $105,000 were in foreclosed real estate at December 31, 2018. There were no Residential real estate mortgages in foreclosed real estate at December 31, 2019.

The following summarizes the average recorded investment of impaired loans and related interest income recognized by loan portfolio segment for the years ended December 31, 2019 and 2018 (in thousands):

	2019		2018	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial	**$ 512**	**$ 25**	$ 552	$ 6
Construction and land development	**-**	**-**	577	54
Farmland	**-**	**-**	565	-
Residential real estate	**1,770**	**106**	1,693	108
Commercial real estate	**437**	**35**	1,140	64
Consumer	**-**	**-**	-	-
With an allowance recorded:				
Commercial	**$ 15**	**$ -**	$ 206	$ 13
Construction and land development	**-**	**-**	-	-
Farmland	**-**	**-**	-	-
Residential real estate	**268**	**-**	165	-
Commercial real estate	**104**	**-**	110	6
Consumer	**-**	**-**	-	-
Total:				
Commercial	**$ 527**	**$ 25**	$ 758	$ 19
Construction and land development	**-**	**-**	577	54
Farmland	**-**	**-**	565	-
Residential real estate	**2,038**	**106**	1,858	108
Commercial real estate	**541**	**35**	1,250	70
Consumer	**-**	**-**	-	-
	$ 3,106	**$ 166**	$ 5,008	$ 251

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The following summarizes troubled debt restructurings, including the type of modifications, during the year ended December 31, 2019 and 2018 (in thousands):

December 31, 2019	Number of Loans	Rate	Term	Payment	Combination	Total	Pre-Modification Balance	Post-Modification Balance
Commercial	1	$ -	$ -	$ -	$ 48	$ 48	$ 50	$ 50
Construction and land development	-	-	-	-	-	-	-	-
Farmland	-	-	-	-	-	-	-	-
Residential real estate	4	-	-	-	421	421	693	699
Commercial real estate	1	-	-	-	135	135	146	146
Consumer	-	-	-	-	-	-	-	-
	6	$ -	$ -	$ -	$ 604	$ 604	$ 889	$ 895

December 31, 2018	Number of Loans	Rate	Term	Payment	Combination	Total	Pre-Modification Balance	Post-Modification Balance
Commercial	1	$ -	$ -	$ -	$ 28	$ 28	$ 31	$ 31
Construction and land development	-	-	-	-	-	-	-	-
Farmland	-	-	-	-	-	-	-	-
Residential real estate	1	-	-	-	1,529	1,529	1,915	1,915
Commercial real estate	-	-	-	-	-	-	-	-
Consumer	-	-	-	-	-	-	-	-
	2	$ -	$ -	$ -	$ 1,557	$ 1,557	$ 1,946	$ 1,946

During 2019 and 2018, there were no loans modified as a troubled debt restructuring that defaulted within 12 months of modification.

4. Property and Equipment

The components of property and equipment consist of the following as of December 31, 2019 and 2018 (in thousands):

	2019	2018
Land	$ 985	$ 985
Building and leasehold improvements	8,271	8,259
Furniture, fixtures and equipment	3,466	3,207
Software	1,405	1,328
Construction in process	2	121
	14,129	13,900
Accumulated depreciation	(6,330)	(5,563)
	$ 7,799	$ 8,337

5. Deposits

The components of deposits consist of the following as of December 31, 2019 and 2018 (in thousands):

	2019	2018
Demand, non-interest bearing	$ 68,250	$ 59,802
Demand, interest bearing	70,641	66,800
Savings and money market	185,179	147,082
Time, $250 and over	22,574	12,278
Time, other	112,699	109,217
	$ 459,343	$ 395,179

As of December 31, 2019, the scheduled maturities of time deposits are as follows (in thousands):

Year ending December 31,	
2020	$ 64,277
2021	50,100
2022	10,077
2023	5,749
2024	5,056
Thereafter	14
	$ 135,273

6. Borrowings

The Bank has a $7,000,000 unsecured federal funds line of credit with Atlantic Community Bankers Bank. There were no federal funds purchased outstanding at December 31, 2019 and 2018.

Other available credit consists of access to the Federal Reserve Discount Window. The Bank had $2,973,000 and $2,866,000 of availability at December 31, 2019 and 2018, respectively. There were no borrowings outstanding at the Discount Window at December 31, 2019 and 2018.

The Bank has an agreement with the Federal Home Loan Bank of Pittsburgh (“FHLB”) which allows for borrowings up to a percentage of qualifying assets. All FHLB advances are collateralized by a security agreement covering qualifying loans. In addition, all FHLB advances are secured by the FHLB capital stock owned by the Bank having a par value of $1,755,000 at December 31, 2019 and $2,390,000 at December 31, 2018. The Bank can borrow a maximum of $225,106,000 from the FHLB of which $14,208,000 was outstanding at December 31, 2019.

Short-term borrowings, with original maturities of three months or less, and weighted average interest rates at December 31, 2019 and 2018 are as follows (dollars in thousands):

	2019		2018	
	Amount	Rate	Amount	Rate
Federal Home Loan Bank (FHLB) advances	**$ 1,620**	**2.00 %**	$ 9,670	2.69 %

A summary of long-term debt as of December 31 is as follows (dollars in thousands):

	2019		2018	
	Amount	Rate	Amount	Rate
FHLB fixed-rate advances maturing:				
2019	**$ -**	**-**	$ 8,750	1.76
2020	**5,000**	**1.71**	5,000	1.71
2021	**5,125**	**1.99**	3,125	1.98
2022	**3,042**	**2.45**	3,042	2.45
2023	**1,041**	**3.29**	1,041	3.29
	$ 14,208	**2.08 %**	$ 20,958	1.96 %

On March 27, 2015, the Bank issued a $5.0 million subordinated debenture, which matures on March 27, 2025 and carries a fixed rate of 6.25% and an effective rate of approximately 6.65% as a result of issuance costs. Interest is paid quarterly in March, June, September and December.

The subordinated debenture is callable at the Bank's option beginning in March 2020, which is five years from the date of issuance. These debentures do not have to be redeemed in full and do not have required principal payments. Any amount that has not been redeemed will be paid in full at maturity. On February 12, 2020, the Bank received regulatory approval to redeem the subordinated debenture in full in March 2020. The subordinated debenture qualifies as a component of Tier 2 risk-based capital for regulatory purposes.

As of December 31, 2019 and 2018, $5.0 million was outstanding under the subordinated debenture.

7. Leases

On January 1, 2019, the Bank adopted ASU 2016-02 "Leases" (Topic 842) and all subsequent ASUs that modified Topic 842. For the Bank, Topic 842 affected the accounting treatment for operating lease agreements in which the Bank is the lessee.

Substantially all of the leases in which the Bank is the lessee are comprised of real estate property. All of the leases are classified as operating leases, and therefore, were previously not recognized on the Bank's Balance Sheet. With the adoption of Topic 842, operating lease agreements are required to be recognized on the Balance Sheet as a right-of-use ("ROU") asset and a corresponding lease liability. The Bank has elected not to include short term leases (i.e., leases with initial terms of twelve months or less) on the Balance Sheet.

As of the January 1, 2019 adoption date, the Bank leases have remaining lease terms of 4 to 13 years. All of the leases include options to extend. If the Bank concludes that it is reasonably certain that a renewal option will be exercised and the related payments are disclosed in the lease agreement, the renewal period is included in the lease term, and the related payments are reflected in the ROU asset and lease liability.

The payment structure of the operating leases is fixed rental payments with lease payments increasing on pre-determined dates at either a predetermined amount or change in the consumer price index.

Topic 842 requires the use of a discount rate that is implicit in the lease whenever the rate is readily determinable. As this rate is rarely determinable, the Bank utilizes its incremental borrowing rate at lease inception, on an amortizing and collateralized basis, over a similar term. For operating leases in existence prior to January 1, 2019, the rate for the remaining lease term as of January 1, 2019 was used.

All of the leases are net leases and, therefore, do not contain nonlease components. The Bank either pays directly or reimburses the lessor for property and casualty insurance cost and the property taxes assessed on the property, as well as a portion of the common area maintenance associated with the property which are categorized as non-components as outlined in the applicable guidance.

The rental expense of operating leases which is included in occupancy and equipment on the Statements of Income was $510,000 and $393,000 in 2019 and 2018, respectively.

Below is a summary of the operating lease right-of-use assets and related lease liabilities, as well as the weighted average lease term (in years) and weighted average discount rate as of December 31, 2019.

	Operating Leases
Right-of-use asset	2,943
Lease liability	2,977
Weighted average remaining lease term (in years)	8.05
Weighted average discount rate	3.11 %

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Future minimum payments for operating leases with initial terms of one year or more as of December 31, 2019 and 2018 are as follows:

Year ending December 31, 2019		
2020	$	419
2021		426
2022		437
2023		450
2024		430
Thereafter		1,230
Total lease payments		3,392
Less imputed interest		(415)
Total	$	2,977

Year ending December 31, 2018		
2019	$	435
2020		419
2021		426
2022		420
2023		246
Thereafter		809
Total	$	2,755

On January 24, 2020, the Bank entered into a ten year lease agreement for a branch under a non-cancelable operating lease. The commencement date of the lease is the earlier of 180 days after the possession date or the date the Bank opens the new branch for business. The lease includes provisions for three five year renewal terms.

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8. Derivative Financial Instruments

The following table presents a summary of the notional amounts and fair values of derivative financial instruments as of December 31, 2019 and 2018 (dollars in thousands):

	2019		2018	
	Asset (Liability) Fair Value	Notional Amount	Asset (Liability) Fair Value	Notional Amount
Interest rate lock commitments:				
Assets	$ 963	$ 37,251	$ 950	$ 37,345
Liabilities	-	-	-	-
Net interest rate lock commitments asset	963		950	
Forward commitments:				
Assets	17	8,367	1	1,292
Liabilities	(113)	35,860	(274)	25,903
Net forward commitments liability	(96)		(273)	
Interest rate derivatives held for trading				
Assets	32	7,446	-	-
Liabilities	(32)	7,446	-	-
Net interest rate derivatives held for trading	-		-	
Net Derivative Instruments Asset	$ 867		$ 677	

Asset related derivatives are included in other assets on the balance sheets. Liability related derivatives are included in other liabilities on the balance sheets.

The following table presents a summary of the fair value gains and losses on derivative financial instruments for the year ended December 31, 2019 and 2018 (in thousands):

	Fair Value (Losses) Gains		
	2019	2018	Statements of Income Classification
Interest rate locks with customers	$ 13	$ (63)	Gains on sale of loans
Forward commitments	177	(247)	Gains on sale of loans

9. Shareholders' Equity

On June 21, 2019, the Bank paid a 10% common stock dividend to shareholders of record on June 7, 2019. All share and per share amounts are adjusted for the stock dividend.

10. Federal Income Taxes

The components of income tax expense for the years ended December 31, 2019 and 2018 are as follows (in thousands):

	2019	2018
Federal:		
Current	**$ 1,260**	$ 986
Deferred	**(79)**	105
	$ 1,181	$ 1,091

A reconciliation of the statutory income tax at a rate of 21% to the income tax expense included in the statements of income is as follows for 2019 and 2018, respectively:

	2019	2018
Federal income tax at statutory rate	**21.0 %**	21.0 %
Tax exempt income, net of disallowed interest expense	**(1.8)**	(1.8)
Bank owned life insurance	**(0.8)**	(0.7)
Other	**0.1**	0.2
Effective Income Tax Rate	**18.5 %**	18.7 %

The provision for income taxes differs from that computed by applying statutory rates to income before income taxes primarily due to the effects of tax-exempt income, non-deductible expenses and incentive stock options.

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The components of the net deferred tax (liability) asset, included in other liabilities and other assets on the balance sheets, consist of the following as of December 31, 2019 and 2018, respectively (in thousands):

	2019	2018
Deferred tax assets:		
Allowance for loan losses	**$ 768**	$ 707
Stock-based compensation	**67**	41
Accrued bonus	**59**	39
Salary continuation plan, unfunded	**77**	77
Unrealized holding losses on available-for-sale securities	**-**	130
Operating leases	**625**	-
Other	**49**	58
Total deferred tax assets	**1,645**	1,052
Deferred tax liabilities:		
Depreciation	**(201)**	(241)
Derivative and fair value adjustment	**(337)**	(276)
Loan origination costs	**(178)**	(148)
Unrealized holding gains on available-for-sale securities	**(235)**	-
Operating leases right-of-use	**(618)**	-
Prepaid expenses	**(175)**	(200)
Total deferred tax liabilities	**(1,744)**	(865)
Net Deferred Tax (Liability) Asset	**$ (99)**	$ 187

11. Transactions with Executive Officers, Directors and Affiliated Companies

The Bank has had, and is expected to have in the future, banking transactions with its executive officers, directors, their immediate families and affiliated companies (commonly referred to as related parties). As of December 31, 2019 and 2018, related party loans totaled $11,085,000 and $11,958,000, respectively. During 2019, loan advances and repayments totaled $4,319,000 and $1,230,000, respectively. Related party loans of $3,962,000 reported at December 31, 2018 were for directors who retired in 2019 and are no longer classified as related party loans as of December 31, 2019.

As of December 31, 2019 and 2018, deposits from related parties totaled $7,738,000 and $7,814,000, respectively.

The Bank leases its Saint Charles Way office from a related party under a five-year renewable lease. During 2019 and 2018, $190,000 and $184,000, respectively, was paid to the related party for rent, taxes and maintenance charges.

In 2017, the Bank entered into an agreement with a related party to provide services for professional programming, fit-out expansion and renovation design for two existing locations (Traditions Center and Saint Charles Way). Total payments to this related party in 2018 were $16,000. No payments were made during 2019 under this Contract.

The Bank contracted with a related party to renovate a leased building for the branch located in the City of York, Pennsylvania. In 2018, $506,000 was paid to the related party. No payments were made during 2019 under this contract.

The Bank has an agreement with a related party to provide property management services for the bank administrative and branch locations. The Bank paid $36,000 in 2019 and 2018 to the related party.

The Bank has an event sponsorship with a related party and also purchases event tickets to serve as business development opportunities. During 2019 and 2018, $56,000 and $40,000, respectively was paid to the related party.

12. Financial Instruments with Off-Balance Sheet Risk

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

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The amount of collateral obtained, if deemed necessary, is based on our credit evaluation of the counter-party. Collateral held varies but may include cash, accounts receivable, inventory, equipment and real estate.

The following financial instruments were outstanding whose contract amounts represent credit risk as of December 31, 2019 and 2018 (in thousands):

	2019	2018
Commitments to grant loans	**$ 13,261**	$ 5,564
Unfunded commitments under lines of credit	**136,154**	119,778
Letters of credit	**4,868**	5,072
	$ 154,283	$ 130,414

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

Outstanding letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next twelve months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank requires collateral supporting these letters of credit as deemed necessary. Management believes that the proceeds through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The amount of the liability as of December 31, 2019 and 2018 for guarantees under standby letters of credit is not material.

13. Employee Benefit Plan

The Bank provides a retirement plan which includes a defined contribution 401K retirement plan and a profit sharing plan that covers eligible employees. The Bank's matching contribution for the 401K plan is 100% of each participant's elective contribution up to 4% of employee compensation. The Bank may, in its sole discretion, make an additional profit sharing contribution to the 401K retirement plan. Contributions will be allocated in an amount designated by the Bank based on annual financial performance. The expense of this plan included in salaries and employee benefits was $425,000 and $281,000 in 2019 and 2018, respectively.

14. Stock-Based Compensation Plans

On June 21, 2012 the Board of Directors adopted the 2012 Non-Employee Directors Stock Incentive Plan ("2012 Directors Plan"). The 2012 Directors Plan provides for non-qualified stock options, stock appreciation rights, restricted stock and deferred stock units up to 50,000 shares. Each Non-Employee Director who first becomes a member of the Board after the effective date of the 2012 Directors Plan shall receive an automatic grant of a stock option to purchase 1,000 shares of stock. The initial plan set forth attendance requirements and annual grant amounts which have been amended by the Board of Directors in 2014, 2015, and 2016. The 2015 amendment eliminated the attendance requirement. The 2016 amendment no longer requires plan amendments when modifying annual compensation. A Non-Employee Director Compensation Program was established and put under the auspices of the Compensation Committee. Compensation is paid in restricted stock or cash at the discretion of the individual director. The current annual compensation for all Non-Employee Directors is as follows:

- Board Member - $12,000 annual retainer and $750 per board meeting attended;
- Committee Chair - $6,000 annual retainer for Loan Committee, $5,000 annual retainer for Audit Committee and $3,000 annual retainer for all other committees;
- Non-Chair Committee Members - $5,000 annual retainer for Loan Committee members and $2,000 annual retainer for all other committee members;
- Chairman of the Board - $55,000 annual retainer, with no additional compensation for committee membership; and
- Deputy Chair - $3,000 annual retainer.

In addition, each non-Employee Director, except for the Chairman of the Board, shall receive an annual $3,000 equity award payable in arrears.

Under the 2016 Stock Incentive Plan, employees are eligible to receive options to purchase shares of common stock at the fair value on the date the option is granted. Each grant vests over a three-year period and will expire no later than ten years from the date of the grant.

The 2016 Stock Incentive Plan also provides for stock-based incentives in the form of stock appreciation rights, restricted stock, restricted stock units and deferred stock awards up to 137,500 shares.

The weighted average grant-date calculated value of options granted in 2019 and 2018 was $4.13 and $4.77, respectively. The calculated value of the options awarded under the option plans is estimated on the date of grant using the Black-Scholes valuation model, which is dependent upon certain assumptions as presented below:

December 31,	**2019**	2018
Expected life (in years)	**7.00**	7.00
Risk-free interest rate	**2.27 %**	3.04 %
Expected volatility	**16.12 %**	16.95 %
Expected dividend yield	**- %**	- %

The expected life of the options was estimated using the average vesting period of the options granted and represents the period of time that options granted are expected to be outstanding. The risk-free interest rate is the U.S. Treasury rate commensurate with the expected life of the options on the grant date. Volatility of the Bank's stock price in 2019 and 2018 was based on historical volatility of the NASDAQ Bank Index.

Information regarding the Bank's stock option plans for the year ended December 31, 2019 is as follows (dollars in thousands, except exercise prices):

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Options outstanding, January 1, 2019	**41,509**	**$ 10.57**	**4.2 years**	**$ 268**
Options granted	**5,125**	**17.18**		
Options exercised	**(7,150)**	**10.31**		
Options forfeited	**(2,695)**	**10.37**		
Options Outstanding, December 31, 2019	**36,789**	**$ 11.55**	**4.7 years**	**$ 311**
Options Exercisable, December 31, 2019	**29,464**	**$ 10.13**	**3.6 years**	**$ 291**

Information regarding the Bank's stock option plans for the year ended December 31, 2018 is as follows (dollars in thousands, except exercise prices):

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Options outstanding, January 1, 2018	58,818	$ 10.39	3.6 years	$ 365
Options granted	2,200	17.50		
Options exercised	(12,815)	10.93		
Options forfeited	(6,694)	10.60		
Options Outstanding, December 31, 2018	41,509	$ 10.57	4.2 years	$ 268
Options Exercisable, December 31, 2018	35,459	$ 10.12	3.6 years	$ 244

Information pertaining to options outstanding at and for the year ended December 31, 2019 is as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$7.80 - $9.74	**330**	**4.7 years**	**$ 9.55**	**330**	**$ 9.55**
$9.75 - $11.69	**29,134**	**3.6 years**	**10.13**	**29,134**	**10.13**
$15.60 - $17.54	**7,325**	**9.2 years**	**17.28**	**-**	**-**
Outstanding at End of Year	**36,789**	**4.7 years**	**$ 11.55**	**29,464**	**$ 10.13**

	Shares	Weighted Average Grant Date Calculated Value
Nonvested options, January 1, 2019	**6,050**	**$ 3.50**
Granted	**5,125**	**4.13**
Vested	**(3,300)**	**2.78**
Forfeited/expired	**(550)**	**2.71**
Nonvested options, December 31, 2019	**7,325**	**$ 4.32**

Information pertaining to options outstanding at and for the year ended December 31, 2018 is as follows:

	Options Outstanding				Options Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life		Weighted Average Exercise Price	Number Exercisable		Weighted Average Exercise Price
$7.80 - $9.74	330	5.7 years	$	9.55	330	$	9.55
$9.75 - $11.69	38,979	3.9 years		10.18	35,129		10.12
$15.60 - $17.54	2,200	9.8 years		17.50	-		-
Outstanding at End of Year	41,509	4.2 years	$	10.57	35,459	$	10.12

	Shares		Weighted Average Grant Date Calculated Value
Nonvested options, January 1, 2018	7,700	$	2.87
Granted	2,200		4.77
Vested	(3,685)		2.97
Forfeited/expired	(165)		2.78
Nonvested options, December 31, 2018	**6,050**	**$**	**3.50**

Stock-based compensation expense related to stock options for the years ended December 31, 2019 and 2018 totaled $12,000 and $5,000, respectively. The unamortized stock option expense was $18,000 and $10,000 at December 31, 2019 and 2018, respectively. Stock-based compensation awards are generally amortized over a period of 3 years from the date they are granted.

The following table provides information about nonvested restricted stock for the year ended December 31, 2019:

	Shares		Weighted Average Grant Date Calculated Value
Outstanding at January 1, 2019	**12,377**	**$**	**13.03**
Granted	**4,782**		**17.76**
Vested	**(10,449)**		**14.05**
Forfeited	**-**		**-**
Outstanding at December 31, 2019	**6,710**	**$**	**14.82**

The following table provides information about nonvested restricted stock for the year ended December 31, 2018:

	Shares	Weighted Average Grant Date Calculated Value
Outstanding at January 1, 2018	16,119	$ 12.35
Granted	3,239	18.25
Vested	(6,981)	13.89
Forfeited	-	-
Outstanding at December 31, 2018	12,377	$ 13.03

Stock-based compensation expense related to restricted stock for the years ended December 31, 2019 and 2018 totaled $109,000 and $108,000, respectively. Restricted stock grants are amortized over 3 years. The unamortized compensation cost related to restricted stock at December 31, 2019 was $4,000.

The Bank issued restricted stock units for the first time in 2018. The following table provides information about non-vested restricted stock units for the year ended December 31, 2019:

	Shares	Weighted Average Grant Date Calculated Value
Outstanding at January 1, 2019	**5,849**	**$ 18.64**
Granted	**8,325**	**17.15**
Vested	**-**	**-**
Forfeited	**-**	**-**
Outstanding at December 31, 2019	**14,174**	**$ 17.77**

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The following table provides information about non-vested restricted stock units for the year ended December 31, 2018:

	Shares	Weighted Average Grant Date Calculated Value
Outstanding at January 1, 2018	-	$ -
Granted	5,849	18.64
Vested	-	-
Forfeited	-	-
Outstanding at December 31, 2018	5,849	$ 18.64

Stock-based compensation expense related to restricted stock units for the years ended December 31, 2019 and 2018 totaled $94,000 and $60,000, respectively. Restricted stock unit grants are amortized over 3 years. The unamortized compensation cost related to restricted stock units at December 31, 2019 was $97,000.

15. Employment Agreements

The Bank entered into a three-year employment agreement on December 30, 2016 with Eugene J. Draganosky as President and Chief Executive Officer, which includes minimum annual salary commitments and change of control provisions. The agreement contains rolling-term options to renew for additional one-year periods. On January 1, 2018, Mr. Draganosky's agreement was amended to include an automobile allowance. Additionally, the Bank has entered into change of control agreements with its five other executive officers. Upon resignation after a change in the control of the Bank, as defined in the agreement, the individuals will receive monetary compensation in the amount set forth in the agreements, subject to the Emergency Economic Stabilization Act of 2008.

16. Salary Continuation Plan

The Bank has salary continuation agreements with its former Chief Executive Officer and its Chief Operating Officer and Chief Financial Officer. This is an unfunded plan that provides for target retirement benefits beginning at age 65. The agreements also provide for benefits in the event of early retirement, disability, death during active service or change in control of the Bank. At December 31, 2019 and 2018, the Bank's total accrued liability under these agreements was $366,000 and $365,000, respectively. Total expense related to this plan as provided for in these agreements amounted to $31,000 and $30,000 for the years ended December 31, 2019 and 2018, respectively.

17. Regulatory Matters

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

In July 2013, the Federal Reserve Board approved final rules (the "U.S. Basel III Capital Rules") establishing a new comprehensive capital framework for U.S. banking organizations and implementing the Basel Committee on Banking Supervision's December 2010 framework for strengthening international capital standards. The U.S. Basel III Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions.

The new minimum regulatory capital requirements established by the U.S. Basel III Capital Rules became effective for the Bank on January 1, 2015, and were fully phased in on January 1, 2019.

The U.S. Basel III Capital Rules requires the Bank to:

- Meet a new minimum Common Equity Tier 1 capital ratio of 4.50% of risk-weighted assets and a Tier 1 capital ratio of 6.00% of risk-weighted assets;

- Continue to require the current minimum total capital ratio of 8.00% of risk-weighted assets and the minimum Tier 1 leverage capital ratio of 4.00% of average assets; and

- Comply with a revised definition of capital to improve the ability of regulatory capital instruments to absorb losses. Certain non-qualifying capital instruments, including cumulative preferred stock and trust preferred securities, are being phased out as a component of Tier 1 capital for institutions of the Bank's size.

The capital conservation buffer will be phased in over four years beginning on January 1, 2016, with a maximum buffer of 0.625% of risk weighted assets for 2016, 1.25% for 2017, 1.875% for 2018, and 2.5% for 2019 and thereafter. Failure to maintain the required capital conservation buffer will result in limitations on capital distributions and on discretionary bonuses to executive officers.

The U.S. Basel III Capital Rules use a standardized approach for risk weightings that expands the risk-weightings for assets and off balance sheet exposures from the previous 0%, 20%, 50% and 100% categories to a much larger and more risk-sensitive number of categories, depending on the nature of the assets and off-balance sheet exposures and resulting in higher risk weights for a variety of asset categories.

As of December 31, 2019, the Bank met the applicable minimum requirements of the U.S. Basel III Capital Rules, and each of the Bank's capital ratios exceeded the amounts required to be considered "well capitalized" as defined in the regulations. As of December 31, 2019, the Bank's capital levels also met the fully-phased in minimum capital requirements.

A comparison of the Bank's actual capital amounts to the regulatory requirements as of December 31 is presented below (dollars in thousands):

December 31, 2019	Actual			For Capital Adequacy Purposes			Minimum Capital Adequacy with Capital Buffer			To Be Well Capitalized Under Prompt Corrective Action Provisions	
		Amount	Ratio		Amount	Ratio		Amount	Ratio		Amount	Ratio
Total capital (to risk-weighted assets)	$	**64,954**	**15.59%**	$	**33,325**	**≥8.00%**	$	**43,739**	**≥10.50%**	$	**41,656**	**≥10.00%**
Tier 1 capital (to risk-weighted assets)	$	**56,058**	**13.46%**	$	**24,994**	**≥6.00%**	$	**35,408**	**≥ 8.50%**	$	**33,325**	**≥ 8.00%**
Common equity tier 1 capital (to risk weighted assets)	$	**56,058**	**13.46%**	$	**18,745**	**≥4.50%**	$	**29,159**	**≥ 7.00%**	$	**27,077**	**≥ 6.50%**
Tier 1 capital (to average assets)	$	**56,058**	**10.44%**	$	**21,484**	**≥4.00%**		**N/A**	**N/A**	$	**26,855**	**≥ 5.00%**

December 31, 2018	Actual			For Capital Adequacy Purposes			Minimum Capital Adequacy with Capital Buffer			To Be Well Capitalized Under Prompt Corrective Action Provisions	
		Amount	Ratio		Amount	Ratio		Amount	Ratio		Amount	Ratio
Total capital (to risk-weighted assets)	$	59,315	15.51%	$	30,598	≥8.00%	$	37,770	≥9.875%	$	38,248	≥10.00%
Tier 1 capital (to risk-weighted assets)	$	50,570	13.22%	$	22,949	≥6.00%	$	30,120	≥7.875%	$	30,598	≥ 8.00%
Common equity tier 1 capital (to risk weighted assets)	$	50,570	13.22%	$	17,212	≥4.50%	$	24,383	≥6.375%	$	24,861	≥ 6.50%
Tier 1 capital (to average assets)	$	50,570	10.66%	$	11,860	≥4.00%		N/A	N/A	$	23,719	≥ 5.00%

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

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. The reserve balance amounted to $3,021,000 and $2,157,000 at December 31, 2019 and 2018, respectively.

18. Fair Value of Financial Instruments

Management uses its best judgment in estimating the fair value of the Bank's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Bank could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective reporting dates 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 each year-end.

FASB ASC 820-10 defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. FASB ASC 820-10 applies to other accounting pronouncements that require or permit fair value measurements.

FASB ASC 820-10 defines fair value as the price that would be received to sell the asset or transfer the liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions.

FASB ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are as follows:

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

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

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

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

For financial assets and liabilities measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used are as follows (in thousands):

December 31, 2019	Level 1	Level 2	Level 3	Total
U.S. agency securities	$ -	$ **12,250**	$ -	$ **12,250**
State and municipal securities	-	**19,167**	-	**19,167**
Mortgage-backed securities	-	**31,375**	-	**31,375**
Collateralized mortgage obligations	-	**16,025**	-	**16,025**
Loans held-for-sale	-	**24,342**	-	**24,342**
Asset derivatives	-	**1,012**	-	**1,012**
	$ -	$ **104,171**	$ -	$ **104,171**
Liability derivatives	$ -	$ **145**	$ -	$ **145**

December 31, 2018	Level 1	Level 2	Level 3	Total
U.S. agency securities	$ -	$ 3,232	$ -	$ 3,232
State and municipal securities	-	18,505	-	18,505
Mortgage-backed securities	-	25,738	-	25,738
Collateralized mortgage obligations	-	10,443	-	10,443
Loans held-for-sale	-	16,617	-	16,617
Asset derivatives	-	951	-	951
	$ -	$ 75,486	$ -	$ 75,486
Liability derivatives	$ -	$ 274	$ -	$ 274

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used are as follows (in thousands):

December 31, 2019	Level 1	Level 2	Level 3	Total
Impaired loans	**$ -**	**$ -**	**$ 671**	**$ 671**

December 31, 2018	Level 1	Level 2	Level 3	Total
Impaired loans	$ -	$ -	$ 863	$ 863

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which the Bank has utilized Level 3 inputs to determine the fair value (in thousands):

December 31, 2019	Fair Value Estimate	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired loans	**$ 671**	**Appraisal of collateral** [(1)]	**Appraisal adjustments** [(2)]	**-30% to -41% (-37%)**

December 31, 2018	Fair Value Estimate	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired loans	$ 863	Appraisal of collateral [(1)]	Appraisal adjustments [(2)]	-23% to -39% (-35%)

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally includes various Level 3 inputs which are not identifiable.

(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

The following information should not be interpreted as an estimate of the fair value of the entire Bank since a fair value calculation is only provided for a limited portion of the Bank's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Bank's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of certain of the Bank's assets and liabilities at December 31, 2019 and 2018:

Securities Available-for-Sale (Carried at Fair Value)

Fair values for securities available-for-sale were based upon a market approach. Securities that are debenture bonds and pass through mortgage-backed investments that are not quoted on an exchange, but are traded in active markets, were obtained through third-party data service providers who use matrix pricing on similar securities. The Bank compares evaluations provided by more than one service provider to judge the adequacy of the estimated fair value.

Loans Held-for-Sale (Carried at Fair Value)

The fair value of loans held-for-sale is determined, when possible, using quoted secondary-market prices. If no such quotes prices exist, the fair value of a loan is determined using quoted prices for a similar loan or loans, adjusted for the specific attributes of that loan.

Impaired Loans (Carried at Fair Value)

Impaired loans are accounted for under FASB AC 310-10-35, in which the Bank has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value of impaired loans with an impairment allowance were $671,000 and $863,000, net of valuation allowances, of $55,000 and $38,000 as of December 31, 2019 and 2018, respectively.

Derivative Financial Instruments (Carried at Fair Value)

Derivative financial instruments include interest rate locks and forward commitments to sell mortgage loans. Fair values are based on the underlying mortgage loans and the probability of commitments being exercised.

December 31, 2019	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	$ 8,006	$ 8,006	$ 8,006	$ -	$ -
Securities available-for-sale	78,817	78,817	-	78,817	-
Loans held-for-sale	24,342	24,342	-	24,342	-
Loans receivable, net	405,545	406,284	-		406,284
Restricted investment in bank stocks	1,795	1,795	-	1,795	-
Accrued interest receivable	1,327	1,327	-	1,327	-
Asset derivatives	1,012	1,012	-	1,012	-
Financial liabilities:					
Demand and savings deposits	324,070	324,070	-	324,070	-
Time deposits	135,273	136,400	-	136,400	-
Accrued interest payable	471	471	-	471	-
Short-term borrowings	1,620	1,620	-	1,620	-
Long-term borrowings	19,208	19,316	-	19,316	-
Liability derivatives	145	145	-	145	-
Off-balance sheet financial instruments:					
Commitments to extend credit and letters of credit	-	-	-	-	-

December 31, 2018	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	$ 8,323	$ 8,323	$ 8,323	$ -	$ -
Securities available-for-sale	57,918	57,918	-	57,918	-
Loans held-for-sale	16,617	16,617	-	16,617	-
Loans receivable, net	375,183	369,197	-	-	369,197
Restricted investment in bank stocks	2,430	2,430	-	2,430	-
Accrued interest receivable	1,336	1,336	-	1,336	-
Asset derivatives	951	951	-	951	-
Financial liabilities:					
Demand and savings deposits	273,684	273,684	-	273,684	-
Time deposits	121,495	120,880	-	120,880	-
Accrued interest payable	432	432	-	432	-
Short-term borrowings	9,670	9,670	-	9,670	-
Long-term borrowings	25,958	25,591	-	25,591	-
Liability derivatives	274	274	-	274	-
Off-balance sheet financial instruments:					
Commitments to extend credit and letters of credit	-	-	-	-	-

19. Revenue Recognition

On January 1, 2018, the Bank adopted ASU No. 2014-09 "*Revenue from Contracts with Customers*" *(Topic 606)* and all subsequent ASU's that modified Topic 606. As stated in Note 1, "Summary of Significant Accounting Policies," the implementation of the new standard did not have an impact on the measurement or recognition of revenue; as such, a cumulative effect adjustment to opening retained earnings was not deemed necessary. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts were not adjusted and continue to be reported in accordance with the Bank's historic accounting under Topic 605.

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain noninterest income streams such as gains on third party mortgage sales, derivatives, and bank owned life insurance are not in scope of the new guidance. Topic 606 is applicable to noninterest revenue streams such as deposit related fees, interchange fees, and referral fees for merchant services, credit cards, and asset management. However, the recognition of these revenue streams did not change upon adoption of Topic 606. Substantially all of the Bank's revenue is generated from contracts with customers. Noninterest revenue streams in-scope of Topic 606 are discussed below.

Service Charges on Deposits

Service charges on deposits consist of cash management fees (i.e., net fees earned on analyzed business and public checking accounts), monthly service fees, overdraft and insufficient fund fees, and other deposit account related fees. The Bank's performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Overdraft and insufficient fund fees and other deposit account related fees are largely transactional based, and therefore, the Bank's performance obligation is satisfied and related revenue recognized, at a point in time. Payment for service charges on deposits is primarily received immediately or in the following month through a direct charge to customers' accounts.

Electronic Banking Income

Electronic banking income is primarily comprised of debit card income, ATM fees, merchant card processor referrals, and other service charges. Debit card income is primarily comprised of interchange fees earned whenever the Bank's debit cards are processed through card payment networks such as Mastercard. The interchange fees are presented net of any associated costs. ATM fees are primarily generated when a Bank cardholder uses a non-Bank ATM or a non-Bank cardholder uses a Bank ATM. The Bank's performance obligation for debit card interchange income is largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month.

Asset Management Referral Fees

Asset management referral fees is primarily comprised of fees received on referring customers to an asset management company. The Bank receives a percentage of the monthly or quarterly fees collected by the third-party asset management company from referred accounts. The Bank's performance obligation is generally satisfied upon the account opening at the asset management company and then monthly or quarterly thereafter for the shared portion of fees collected by the third-party asset management company.

Other

Other noninterest income consists of various fees, safe deposit box rental fees, and other miscellaneous revenue streams. The fees are primarily transactional and the Bank's performance obligation is satisfied and the related revenue recognized at a point in time. Payment for these fees is primarily received immediately or in the following month. Safe deposit box rental fees are charged to the customer on an annual basis and recognized upon receipt of payment. The Bank determined that since rentals and renewals occur fairly consistently over time, revenue is recognized on a basis consistent with the duration of the performance obligation.

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the twelve months ended December 2019 and 2018.

(dollars in thousands)		**2019**		2018
Noninterest Income				
In scope of Topic 606:				
Service charges on deposits	$	**376**	$	317
Electronic banking income		**608**		546
Asset management referral fees		**195**		160
Other		**256**		214
Noninterest Income (in-scope of Topic 606)		**1,435**		1,237
Noninterest Income (out-of-scope of Topic 606)		**4,856**		4,065
Total Noninterest Income	$	**6,291**	$	5,302

Contract Balances

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

Contract Acquisition Costs

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