GNB Financial Services, Inc. and Subsidiaries

Gratz, Pennsylvania

Consolidated Financial Statements

December 31, 2019

SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

GNB FINANCIAL SERVICES, INC. AND SUBSIDIARIES
AUDITED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

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CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders
GNB Financial Services, Inc.

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

S.R. Snodgrass, P.C.

Cranberry Township, Pennsylvania
March 6, 2020

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GNB FINANCIAL SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

(In Thousands, except share data)	December 31, 2019	December 31, 2018
ASSETS		
Cash and due from banks	$ 3,595	$ 5,721
Interest-bearing deposits with other institutions	17,265	6,162
Federal funds sold	6,848	776
Cash and cash equivalents	27,708	12,659
Certificates of deposit with other banks	18,794	15,056
Investment securities available for sale	84,916	67,714
Loans, net	237,785	235,178
Less: Allowance for loan losses	2,702	2,263
Net loans	235,083	232,915
Accrued interest receivable	1,254	1,169
Restricted investments in bank stock	1,292	1,406
Premises and equipment, net	3,563	3,447
Cash surrender value of life insurance	6,755	6,623
Goodwill	2,333	2,185
Intangible assets	242	185
Other real estate owned	-	304
Other assets	1,426	1,318
TOTAL ASSETS	$ 383,366	$ 344,981
LIABILITIES		
Noninterest-bearing deposits	$ 56,928	$ 46,994
Interest-bearing deposits	273,979	241,174
Total deposits	330,907	288,168
Short-term borrowings	-	9,000
FHLB advances - long-term	2,759	4,350
Accrued interest payable	347	318
Other liabilities	3,647	2,356
TOTAL LIABILITIES	337,660	304,192
STOCKHOLDERS’ EQUITY		
Common stock ($5 par value; 2,000,000 shares authorized; 782,321 shares issued and 779,000 and 777,543 shares outstanding, respectively)	3,912	3,912
Additional paid-in capital	17,749	17,747
Retained earnings	23,249	20,450
Accumulated other comprehensive income (loss)	984	(1,050)
Treasury stock (3,321 and 4,778 shares, respectively)	(188)	(270)
TOTAL STOCKHOLDERS’ EQUITY	45,706	40,789
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$ 383,366	$ 344,981

See accompanying notes to the consolidated financial statements.

GNB FINANCIAL SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME

(In Thousands, except share and per share data)	Year Ended December 31, 2019	2018
INTEREST AND DIVIDEND INCOME		
Loans, including fees	$ 12,405	$ 11,132
Investment securities:		
Taxable	828	651
Exempt from federal income tax	1,046	825
Certificates of deposit in other banks	339	388
Other interest and dividend income	311	187
Total interest and dividend income	14,929	13,183
INTEREST EXPENSE		
Deposits	2,843	2,028
Short-term borrowings	58	32
FHLB advances - long-term	106	71
Total interest expense	3,007	2,131
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	11,922	11,052
Provision for loan losses	416	314
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	11,506	10,738
NONINTEREST INCOME		
Service charges on deposit accounts	827	824
Earnings on cash surrender value of life insurance	132	134
Net realized gains (losses) on sales of investment securities	13	(157)
Other	73	143
Total noninterest income	1,045	944
NONINTEREST EXPENSE		
Compensation and employee benefits	4,014	3,725
Occupancy	452	593
Furniture and fixtures	155	134
Data processing	1,005	800
Professional fees	543	413
Shares tax	253	239
Amortization of intangible assets	57	64
Other	1,309	1,148
Total noninterest expense	7,788	7,116
Income before income tax expense	4,763	4,566
Income tax expense	757	764
NET INCOME	$ 4,006	$ 3,802
EARNINGS PER SHARE, BASIC AND DILUTED	$ 5.15	$ 4.89
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING, BASIC AND DILUTED	778,266	777,543

See accompanying notes to the consolidated financial statements.

GNB FINANCIAL SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(In Thousands)	Year Ended December 31, 2019	2018
Net income	$ 4,006	$ 3,802
Components of other comprehensive income (loss):		
Unrealized holding gain (loss) on available-for-sale securities	2,587	(990)
Tax effect	(542)	208
Reclassification adjustment for investment securities (gains) losses realized in net income	(13)	157
Tax effect	2	(34)
Total other comprehensive income (loss)	2,034	(659)
Total comprehensive income	$ 6,040	$ 3,143

See accompanying notes to the consolidated financial statements.

GNB FINANCIAL SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(In Thousands, except share and per share data)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, December 31, 2017	782,321	3,912	17,747	17,737	(391)	(270)	38,735
Net income				3,802			3,802
Other comprehensive loss					(659)		(659)
Dividends declared ($1.40 per share)				(1,089)			(1,089)
Balance, December 31, 2018	782,321	$ 3,912	$ 17,747	$ 20,450	$ (1,050)	$ (270)	$ 40,789
Net income				4,006			4,006
Other comprehensive income					2,034		2,034
Dividends declared ($1.55 per share)				(1,207)			(1,207)
Reissuance of treasury stock (1,457 shares)			2			82	84
Balance, December 31, 2019	782,321	$ 3,912	$ 17,749	$ 23,249	$ 984	$ (188)	$ 45,706

See accompanying notes to the consolidated financial statements.

GNB FINANCIAL SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

(In Thousands)	Year Ended December 31, 2019	2018
OPERATING ACTIVITIES		
Net income	$ 4,006	$ 3,802
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	416	314
Depreciation	318	279
Amortization of intangible assets	57	64
Originations of loans held for sale	(9,717)	(3,070)
Proceeds from sale of loans	9,835	3,107
Gains on sale of loans	(118)	(37)
Deferred income taxes	(101)	(85)
Net amortization of premiums and discounts	400	418
Earnings on cash surrender value of life insurance	(132)	(134)
Investment securities (gain) loss	(13)	157
Loss on sale of other real estate owned	53	-
Increase in prepaid expenses	(119)	(128)
Increase in accrued interest receivable	(86)	(118)
Increase in accrued interest payable	26	71
Other, net	781	296
Net cash provided by operating activities	5,606	4,936
INVESTING ACTIVITIES		
Investment securities available for sale:		
Proceeds from sales	10,770	9,007
Proceeds from calls and maturities	1,475	2,005
Proceeds from principal repayments	5,490	2,938
Purchases	(32,749)	(16,972)
Purchases of certificates of deposit with other banks	(5,229)	(993)
Proceeds from redemptions of certificates of deposit with other banks	1,492	5,327
Increase in loans, net	(2,393)	(19,353)
Purchase of restricted investments in bank stock	(350)	(1,710)
Redemptions of restricted investments in bank stock	464	1,310
Purchase of premises and equipment	(318)	(147)
Acquisition of branch, net of cash received	12,593	-
Proceeds from the sale of other real estate owned	251	-
Net cash used for investing activities	(8,504)	(18,588)
FINANCING ACTIVITIES		
Increase in deposits, net	29,661	9,330
Increase (decrease) in short-term borrowings, net	(9,000)	4,984
Repayment of FHLB advances - long-term	(1,591)	(2,341)
Proceeds from FHLB advances - long-term	-	5,000
Purchases of treasury stock	84	-
Cash dividends paid	(1,207)	(1,089)
Net cash provided by financing activities	17,947	15,884
Increase in cash and cash equivalents	15,049	2,233
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	12,659	10,426
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 27,708	$ 12,659

See accompanying notes to the consolidated financial statements.

GNB FINANCIAL SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(In Thousands)

SUPPLEMENTAL CASH FLOW DISCLOSURES	Year Ended December 31, 2019	2018
Cash paid during the period for:		
Interest	$ 2,981	$ 2,060
Income taxes	885	795
Noncash activity:		
Loans transferred to other real estate owned	$ -	$ 304
Investment securities held to maturity transferred to available for sale	-	25,998
Operating leases right of use asset and lease liability	430	-

ACQUISITION OF BRANCH	Year Ended December 31, 2019
Non-cash assets acquired:	$
Loans	111
Premises and equipment	115
Intangibles	114
Goodwill	148
	488
Liabilities assumed:	
Deposits	13,078
Accrued interest payable	3
	13,081
Net non-cash liabilities acquired	(12,593)
Cash and cash equivalents acquired	$ -

See accompanying notes to the consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting and reporting policies applied in the presentation of the accompanying consolidated financial statements follows:

Nature of Operations and Basis of Presentation

GNB Financial Services, Inc. (the "Company") is a bank holding company for its wholly owned subsidiaries, The Gratz Bank (the "Bank") and GNB Investment Corp. The Bank is a full-service state chartered commercial bank. The Bank is subject to regulation and supervision by the Federal Deposit Insurance Corporation (FDIC) and the Pennsylvania Department of Banking.

The Bank provides a variety of financial services to individual and commercial customers throughout Dauphin County, Pennsylvania, and other contiguous counties, through its main office located in Gratz, Pennsylvania, and its branch offices in Valley View, Herndon, Pottsville, and Minersville, Pennsylvania. On November 1, 2019, the Bank completed its acquisition of the Riverview Bank branch in Northumberland, Pennsylvania. The Bank's primary deposit products are interest and noninterest-bearing checking accounts, savings accounts, and certificates of deposit. Its primary lending products are residential real estate, consumer, agriculture, and commercial and commercial real estate loans.

GNB Investment Corp., a Delaware investment subsidiary of the Company, holds and manages an investment portfolio.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, the Bank, and the Company's wholly owned subsidiary, GNB Investment Corp. All significant intercompany amounts have been eliminated in the consolidation. GNB Financial Services, Inc. transacts no other material business.

Estimates

The preparation of consolidated financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, the valuation of deferred tax assets, the evaluation of securities for other-than-temporary impairment, and the fair value of financial instruments.

Presentation of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents includes cash and due from banks (including cash items in process of clearing) and interest-bearing deposits with other institutions, with an original maturity of 90 days or less, and federal funds sold. Generally, federal funds are sold for one-day periods.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Newly Adopted Accounting Standards

Adoption of ASU No. 2016-02, Leases:

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The standard requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize in the statement of position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. A short-term lease is one defined as one in which (a) the lease term is 12 months or less and (b) there is not an option to purchase the underlying asset that the lessee is reasonably certain to exercise. For short-term leases, lessees may elect to recognize lease payments over the lease term on a straight-line basis. 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 Company adopted ASU 2016-02 and its related amendments as of January 1, 2019, which resulted in the recognition of operating right-of-use assets totaling $430,000, as well as operating lease liabilities totaling $430,000. The Company elected to adopt the transition relief provisions from ASU 2018-11 and recorded the impact of adoption as of January 1, 2019, without restating any prior-year amounts or disclosures. The related policy elections made by the Company and the additional lease disclosures can be found in Note 13. There was no cumulative effect adjustment to the opening balance of retained earnings required

Investment Securities

Debt securities that management has the positive intent and ability to hold until maturity are classified as held to maturity. Held-to-maturity securities are stated at cost, adjusted for amortization of premium, and accretion of discount, computed on a level yield basis. Securities not classified as held to maturity or trading are classified as available for sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported net of tax in accumulated other comprehensive income (loss). Management determines the appropriate classification of debt securities at the time of purchase and reevaluates such designation as of each balance sheet date. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings.

The Company periodically evaluates its investments for other-than-temporary impairment. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses and a new cost basis is established. Factors considered in determining whether declines in fair value are other than temporary include the significance of the decline, the duration of the decline, current economic conditions, and whether management intends to sell the security; if it is more likely than not that management will be required to sell the security before recovery; or if management does not expect to recover the entire amortized cost basis. A decline that is considered to be other than temporary is recorded as a loss within noninterest income on the Consolidated Statement of Income.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans Receivable (Continued)

The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has significant doubts about further collectability of principal or interest, even though the loan may be 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 is generally 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, and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

Loan origination and commitment fees, as well as certain direct origination costs, are to be deferred and amortized as a yield adjustment over the lives of the related loans, using the interest method. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

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 for loan losses.

The allowance for loan losses is maintained at a level considered adequate to provide for probable losses inherent in the loan portfolio. Management's periodic evaluation of the adequacy of the allowance for loan losses 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 for loan losses consists of specific, general, and unallocated components. The specific component relates to loans that are classified as Doubtful, Substandard, or Special Mention. For such loans that are also classified as impaired, an allowance for loan losses is established when the present value of expected cash flows discounted at the loan's effective interest rate, the fair value of the collateral if the loan is collateral dependent less costs to sell, or observable market price of the impaired loan, is lower than its carrying value. The general component covers nonclassified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance for loan losses reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Company 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, commercial real estate, agriculture, and municipal loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the observable market price, or the fair value of the collateral if the loan is collateral dependent less costs to sell.

Allowance for Loan Losses (Continued)

When foreclosure is probable, impairment is measured based on the fair value of the collateral. Impaired loans, or portions thereof, are charged off when it is determined a realized loss has occurred, generally when foreclosure proceedings have begun, and the fair value of the collateral exceeds the recorded investment in the loan.

Large groups of smaller-balance homogenous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Loans Acquired

Loans acquired, including loans that have evidence of deterioration of credit quality since origination and for which it is probable, at acquisition, that the Company will be unable to collect all contractually required payments receivable, are initially recorded at fair value (as determined by the present value of expected future cash flows), with no valuation allowance. In determining the fair value of purchased loans, management considers a number of factors, including, among other things, the remaining life of the acquired loans, estimated repayments, estimated loss ratios, estimated value of the underlying collateral, estimated holding periods, and net present value of cash flows expected to be received. Purchased credit-impaired loans are accounted for, in accordance with guidance, for certain loans or debt securities acquired in a transfer when the loans have evidence of credit deterioration since origination and it is probable at the date of acquisition that the acquirer will not collect all contractually required principal and interest payments. For evidence of credit deterioration since origination, the Company considered loans on a loan-by-loan basis by primarily focusing on past due status, frequency of late payments, internal loan classification, as well as interviews with current loan officers and collection employees for other evidence that may be indicative of deterioration of credit quality. Once these loans were segregated, the Company evaluated each of these loans on a loan-by-loan basis to determine the probability of collecting all contractually required payments.

The difference between the undiscounted cash flows expected at acquisition and the investment in the loan, or the "accretable yield," is recognized as interest income on a level-yield method over the life of the loan. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the "non-accretable difference," are not recognized as a yield adjustment or as a loss accrual or a valuation allowance. Increases in expected cash flows subsequent to the initial investment are recognized prospectively through adjustment of the yield on the loan over its remaining estimated life. Decreases in expected cash flows are recognized immediately as impairment. Any valuation allowances on these impaired loans reflect only losses incurred after acquisition.

For purchased loans acquired that are not deemed impaired at acquisition, credit discounts representing the principal losses expected over the life of the loan are a component of the initial fair value. Subsequent to the purchase date, the methods utilized to estimate the required allowance for credit losses for these loans is similar to originated loans; however, the Company records a provision for loan losses only when the required allowance exceeds any remaining credit discounts. The remaining differences between the purchase price and the unpaid principal balance at the date of acquisition are recorded in interest income over the life of the loans.

Loan Charge-Off Policies

Consumer loans are generally charged down to the fair value of collateral securing the asset when the loan is 120 days past due. Loans secured by real estate are generally charged down to the fair value of real estate securing the asset when the loan is 180 days past due. All other loans are generally charged down to the net realizable value when the loan is 90 days past due.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Troubled Debt Restructurings

In situations where, for economic or legal reasons related to a borrower's financial difficulties, management may grant a concession for other than an insignificant period of time to the borrower that would not otherwise be considered, the related loan is classified as a troubled debt restructuring (TDR). Management strives to identify borrowers in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance, and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans.

Premises and Equipment

Land is carried at cost. Buildings and equipment are stated at cost, less accumulated depreciation. Depreciation is computed on both the straight-line and accelerated methods over the estimated useful lives of the related assets, which range from 3 to 15 years for furniture, fixtures, and equipment and 5 to 50 years for building and improvements. Expenditures for maintenance and repairs are charged against income as incurred. Costs of major additions and improvements are capitalized.

Restricted Investments in Bank Stock

Restricted investments in bank stock, which represent required investments in the common stock of correspondent banks, are carried at cost, and consist of common stock in the Federal Home Loan Bank (FHLB) of Pittsburgh and Atlantic Community Bancshares, Inc. (ACB).

Management evaluates the restricted stock for impairment. Management's determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amounts for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB.

Management believes no impairment charge is necessary relating to the FHLB and ACB restricted stock as of December 31, 2019 and 2018.

Goodwill

The Company accounts for goodwill using a two-step process for testing the impairment of goodwill on at least an annual basis. This approach could cause more volatility in the Company's reported net income because impairment losses, if any, could occur irregularly and in varying amounts. No impairment of goodwill was recognized in any of the periods presented.

Business Combinations

At the date of acquisition, the Company records the net assets of acquired companies on the Consolidated Balance Sheet at their estimated fair value, and goodwill is recognized for the excess of the estimated fair value over the purchase price of the acquired net assets. The results of operations for acquired companies are included in the Company's Consolidated Statement of Income beginning at the acquisition date. Expenses arising from acquisition activities are recorded in the Consolidated Statement of Income during the period incurred.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible Assets

Intangible assets include core deposit intangibles, which are a measure of the value of consumer demand and savings deposits acquired in business combinations accounted for as purchases. The core deposit intangibles are being amortized to expense over a 10-year life using the sum of the years' digits method. The recoverability of the carrying value of intangible assets is evaluated on an ongoing basis, and permanent declines in value, if any, are charged to expense. The Company had core deposit intangible assets totaling $242,000, which is net of accumulated amortization of $414,000 at December 31, 2019. At December 31, 2018, core deposit intangible assets totaled $185,000, which was net of accumulated amortization of $357,000.

Other Real Estate Owned

Other real estate owned is comprised of property acquired through a foreclosure proceeding or acceptance of a deed in lieu of foreclosure and loans classified as in-substance foreclosure. A loan is classified as in-substance foreclosure when the bank has taken possession of the collateral regardless of whether formal foreclosure proceedings take place. Other real estate owned is initially recorded at fair value, net of estimated selling costs, at the date of foreclosure, establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the assets are carried at the lower of cost or fair value minus estimated costs to sell. Revenues and expenses from operations and changes in the valuation allowance are included in other expenses.

Bank-Owned Life Insurance

The Company owns insurance on the lives of a certain group of employees and directors. The cash surrender value of these policies is included as an asset on the Consolidated Balance Sheet, and any increases in the cash surrender value are recorded as noninterest income on the Consolidated Statement of Income. In the event of the death of an insured individual under these policies, the Company would receive a death benefit, which would be recorded as noninterest income.

Employee Benefits

Salaries and employee benefit expenses include contributions to a 401(k) plan covering eligible employees of the Company and a deferred compensation plan for the benefit of members of the Board of Directors and certain officers.

Income Taxes

The Company accounts for income taxes using an asset and liability approach to financial accounting and reporting. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. As changes in tax law or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. When necessary, valuation allowances are established to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities. The Company files consolidated federal income tax returns with its subsidiaries.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Transfers of Financial Assets

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

Earnings Per Share

The Company currently maintains a simple capital structure; therefore, there are no dilutive effects on earnings per share. As such, earnings per share computations are based upon the weighted number of shares outstanding for each of the reported periods. Treasury shares are not deemed outstanding for earnings per share calculations.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs for the years ended December 31, 2019 and 2018, were $82,000 and $59,000, respectively.

Loans Held for Sale

The Company originates and sells fixed-rate residential mortgage loans that are classified as held for sale because it is management's intent to sell these residential mortgage loans to investors in the secondary market. After the sale, the Company retains the right to service these loans. The residential mortgage loans held for sale are carried at the lower of aggregate cost or fair value. Gains and losses on sales of loans held for sale are recognized on settlement dates and are determined by the difference between the sale proceeds and the carrying value of loans. All sales are made with limited recourse. There were no loans held for sale at December 31, 2019 and 2018. Loans serviced for others totaled $20,531,000 and $13,041,000, as of December 31, 2019 and 2018, respectively.

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. Such financial instruments are recorded in the Consolidated Balance Sheet when they are funded.

Reclassifications

Certain previously reported items have been reclassified to conform to the current year's classifications. The reclassifications have no effect on total assets, total liabilities, and stockholders' equity.

2. REVENUE RECOGNITION

On January 1, 2018, the Company adopted ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and all subsequent ASUs that modified Topic 606, using the modified retrospective method. The core principle of Topic 606 is that an entity recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. Topic 606 requires entities to exercise more judgment when considering the terms of a contract under Topic 605, *Revenue Recognition*. Topic 606 applies to all contracts with customers to provide goods or services in the ordinary course of business, except for contracts that are specifically excluded from its scope. Topic 606 does not apply to revenue associated with interest income on financial instruments, including loans and securities. Additionally, certain noninterest income streams, such as income from Bank-owned life insurance and gain and losses on sales of debt and equity securities and gains from the sale of loans, are out of scope of Topic 606.

Service Charges on Deposit Accounts

The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's balance.

Other Income

Other income within the scope of Topic 606 is primarily comprised of safe deposit box rents, rental income, and title fees. Safe deposit box rental fees are charged to the customer on an annual basis and recognized upon receipt of payment. The Company 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. Rental income is recognized on a monthly basis as the performance obligation is satisfied. Title fees are recognized upon completion of the transaction.

The following presents non-interest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the years ended December 31, 2019 and 2018.

(In Thousands)

Noninterest income	Year Ended December 31, 2019	2018
In-scope of Topic 606:		
Service charges on deposit accounts	$ 102	$ 98
ATM Fees	286	263
Overdraft fees	439	463
Safe deposit box rental	14	12
Other income	59	131
Noninterest Income (in-scope of Topic 606)	900	967
Out-of-scope of Topic 606:		
Earnings on cash surrender value of life insurance	132	134
Net realized gains (losses) on sale of investment securities	13	(157)
Noninterest Income (out-of-scope of Topic 606)	145	(23)
Total Noninterest Income	$ 1,045	$ 944

3. CERTIFICATES OF DEPOSIT WITH OTHER BANKS

The investment in interest-earning certificates of deposit with other banks as of December 31, 2019 and 2018, by contractual maturity, is as follows:

(In Thousands)	December 31, 2019	December 31, 2018
Due in one year or less	$ 2,490	$ 1,741
Due after one year through five years	15,308	11,822
Due after five years through ten years	996	1,493
	$ 18,794	$ 15,056

4. INVESTMENT SECURITIES

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

(In Thousands)	December 31, 2019 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale:				
U.S. government agency securities	$ 9,800	$ -	$ (50)	$ 9,750
Small Business Administration loan pools	9,688	33	(116)	9,605
Obligations of state and political subdivisions	43,458	1,322	(35)	44,745
Mortgage-backed securities in government-sponsored entities	20,725	155	(64)	20,816
Total available-for-sale securities	$ 83,671	$ 1,510	$ (265)	$ 84,916

(In Thousands)	December 31, 2018 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale:				
U.S. government agency securities	$ 10,430	$ -	$ (422)	$ 10,008
Small Business Administration loan pools	11,604	20	(231)	11,393
Corporate bonds	1,783	-	(78)	1,705
Obligations of state and political subdivisions	35,615	56	(494)	35,177
Mortgage-backed securities in government-sponsored entities	9,611	14	(194)	9,431
Total available-for-sale securities	$ 69,043	$ 90	$ (1,419)	$ 67,714

Effective March 31, 2018, the Company reclassified investments in obligations of state and political subdivisions classified as held to maturity, with a total amortized cost of $25,998,000 to available for sale. As a result, the total unrealized loss of $502,000 related to these securities was recorded in accumulated other comprehensive loss, net of tax.

4. INVESTMENT SECURITIES (Continued)

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

	December 31, 2019					
	Less Than Twelve Months		Twelve Months or Greater		Total	
(In Thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government agency securities	$ 6,759	$ (41)	$ 2,991	$ (9)	$ 9,750	$ (50)
Small Business Administration loan pools	2,450	(23)	4,683	(93)	7,133	(116)
Obligations of state and political subdivisions	3,317	(35)	-	-	3,317	(35)
Mortgage-backed securites in government-sponsored entities	8,092	(35)	2,381	(29)	10,473	(64)
Total	$ 20,618	$ (134)	$ 10,055	$ (131)	$ 30,673	$ (265)

	December 31, 2018					
	Less Than Twelve Months		Twelve Months or Greater		Total	
(In Thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government agency securities	$ -	$ -	$ 10,008	$ (422)	$ 10,008	$ (422)
Small Business Administration loan pools	4,306	(48)	5,971	(183)	10,277	(231)
Corporate bonds	495	(9)	1,210	(69)	1,705	(78)
Obligations of state and political subdivisions	13,428	(143)	10,416	(351)	23,843	(494)
Mortgage-backed securites in government-sponsored entities	3,538	(28)	3,813	(166)	7,351	(194)
Total	$ 21,767	$ (228)	$ 31,418	$ (1,191)	$ 53,184	$ (1,419)

The Company reviews its position quarterly and has asserted that as of December 31, 2019 and 2018, the declines outlined in the above tables represent temporary declines, and the Company does not intend to sell, and does not believe it will be required to sell, these securities before recovery of their cost basis, which may be at maturity. There were 54 positions that were temporarily impaired at December 31, 2019. The Company has concluded that the unrealized losses disclosed above are not other than temporary, but are the result of interest rate changes that are not expected to result in the noncollection of principal and interest during the period.

4. INVESTMENT SECURITIES (Continued)

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

	Available for Sale	
(In Thousands)	Amortized Cost	Fair Value
Due within one year	$ 1,064	$ 1,065
Due after one year through five years	35,135	35,162
Due after five years through ten years	16,354	16,561
Due after ten years	31,118	32,128
Total	$ 83,671	$ 84,916

During the year ended December 31, 2019, proceeds from the sale of securities were $10.8 million, resulting in gross gains of $56,000 and gross losses of $43,000. During the year ended December 31, 2018, proceeds from the sale of securities were $9.0 million, resulting in gross losses of $157,000.

The Company had pledged investment securities with a carrying value of $34.6 million and $37.3 million to secure public monies as of December 31, 2019 and 2018, respectively.

5. LOANS RECEIVABLE

Loans receivable consist of the following:

	December 31,	
(In Thousands)	2019	2018
Agriculture loans	$ 14,969	$ 15,630
Commercial loans	22,577	23,199
Commercial real estate loans	21,543	12,438
Residential real estate loans	170,316	171,987
Consumer loans	3,023	3,156
Municipal loans	5,586	8,995
	238,014	235,405
Less:		
Deferred fees	229	227
Allowance for loan losses	2,702	2,263
Total	$ 235,083	$ 232,915

5. LOANS RECEIVABLE (Continued)

Purchased loans acquired are recorded at fair value on their purchase date without a carryover of the related allowance for loan losses. Purchased credit-impaired loans are loans that have evidence of credit deterioration since origination and it is probable at the date of acquisition that the Company will not collect all contractually required principal and interest payments. There were no material increases or decreases in the expected cash flows of these loans between the acquisition dates and December 31, 2019 and 2018. The fair value of purchased credit-impaired loans on the acquisition date was determined primarily based on the fair value of loan collateral. The carrying value of purchased loans acquired with deteriorated credit quality was $52,000 and $128,000 at December 31, 2019 and 2018, respectively.

The Company's loan portfolio consists predominantly of one-to-four family first mortgage loans throughout Dauphin County, Pennsylvania, and other contiguous counties. These loans are typically secured by first lien positions on the respective real estate properties and are subject to the Bank's loan underwriting policies. In general, the Company's loan portfolio performance is dependent upon the local economic conditions.

In the normal course of business, loans are extended to officers, directors, and corporations in which they are beneficially interested as stockholders, officers, or directors. Other refers to loans outstanding for employees who became officers during the year. A summary of loan activity for those officers and directors for the year ended December 31, 2019 is as follows:

(In Thousands)	December 31, 2018	Additions	Amounts Collected	December 31, 2019
	$ 490	$ 3,946	$ (3,451)	$ 985

6. ALLOWANCE FOR LOAN LOSSES

The segments of the Company's loan portfolio are disaggregated to a level that allows management to monitor risk and performance. The loan segments used are consistent with the internal reports evaluated by the Company's management and Board of Directors to monitor risk and performance within various segments of its loan portfolio and, therefore, no further disaggregation is considered necessary. The Company's loan portfolio consists primarily of one-to-four family residential real estate loans and, to a lesser extent, agricultural loans, commercial real estate loans, commercial loans, consumer loans including home equity loans, and municipal loans.

The Company's primary lending activity is the origination of residential real estate loans to enable borrowers to purchase or refinance existing homes. The Company also originates agricultural loans to local farmers and agricultural businesses that are generally secured by farmland and equipment, as well as commercial loans extended to small to mid-sized commercial and industrial entities. The Company's commercial real estate loans consist of mortgage loans secured by income producing multi-family and nonresidential real estate, such as by apartment buildings, small office buildings, and owner-occupied properties. The consumer loan portfolio consists of lending in the form of home equity loans secured by financed property and personal consumer loans, which may be secured or unsecured, and the municipal loans portfolio consists of loans to qualified local municipalities, which are generally supported by the taxing authority of the borrowing municipality, and is frequently secured by collateral.

6. ALLOWANCE FOR LOAN LOSSES (Continued)

Management has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for loan losses the Company has segmented certain loans in the portfolio by product type. Loans are segmented into the following pools: agriculture loans, commercial real estate loans, commercial loans, residential real estate loans, consumer loans, and municipal loans. Historical loss percentages for each risk category are calculated and used as the basis for calculating allowance allocations. These historical loss percentages are calculated over a four-year period for all portfolio segments.

Certain qualitative factors are then added to the historical allocation percentage to get the adjusted factor to be applied to nonclassified loans. The following qualitative factors are analyzed for each portfolio segment:

- Levels of and trends in delinquencies
- Trends in volume and terms
- Changes in collateral
- Changes in management and lending staff
- Economic trends
- Concentrations of credit
- Changes in lending policies
- External factors
- Changes in underwriting process
- Trends in credit quality ratings

These qualitative factors are reviewed each quarter and adjusted based upon relevant changes within the portfolio.

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the Consolidated Balance Sheet date. The Company considers the allowance for loan losses adequate to cover loan losses inherent in the loan portfolio at December 31, 2019 and 2018.

6. ALLOWANCE FOR LOAN LOSSES (Continued)

The following tables present balances in the allowance for loan losses and recorded investment in loans by portfolio segment and based on impairment method as of and for the years ended December 31, 2019 and 2018:

	December 31, 2019							
(In Thousands)	Agriculture Loans	Commercial Loans	Commercial Real Estate Loans	Residential Real Estate Loans	Consumer Loans	Municipal Loans	Unallocated Loans	Total
Allowance for loan losses:								
Individually evaluated for impairment	$ -	$ 2	$ -	$ 7	$ -	$ -	$ -	$ 9
Collectively evaluated for impairment	152	310	255	1,700	43	13	220	2,693
Total	$ 152	$ 312	$ 255	$ 1,707	$ 43	$ 13	$ 220	$ 2,702
Loans:								
Individually evaluated for impairment	$ -	$ 5	$ -	$ 423	$ -	$ -		$ 428
Loans acquired with deteriorated credit quality	-	-	-	52	-	-		52
Collectively evaluated for impairment	14,969	22,572	21,543	169,841	3,023	5,586		237,534
Total	$ 14,969	$ 22,577	$ 21,543	$ 170,316	$ 3,023	$ 5,586		$ 238,014

	December 31, 2018							
(In Thousands)	Agriculture Loans	Commercial Loans	Commercial Real Estate Loans	Residential Real Estate Loans	Consumer Loans	Municipal Loans	Unallocated Loans	Total
Allowance for loan losses:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	149	310	182	1,522	48	9	43	2,263
Total	$ 149	$ 310	$ 182	$ 1,522	$ 48	$ 9	$ 43	$ 2,263
Loans:								
Individually evaluated for impairment	$ -	$ 7	$ -	$ 484	$ -	$ -		$ 491
Loans acquired with deteriorated credit quality	-	-	-	128	-	-		128
Collectively evaluated for impairment	15,630	23,192	12,438	171,375	3,156	8,995		234,786
Total	$ 15,630	$ 23,199	$ 12,438	$ 171,987	$ 3,156	$ 8,995		$ 235,405

6. ALLOWANCE FOR LOAN LOSSES (Continued)

The following tables present the activity in the allowance for loan losses by portfolio segment during the years ended December 31, 2019 and 2018, respectively.

	For the Year Ended December 31, 2019							
(In Thousands)	Agriculture Loans	Commercial Loans	Commercial Real Estate Loans	Residential Real Estate Loans	Consumer Loans	Municipal Loans	Unallocated Loans	Total
Beginning balance	$ 149	$ 310	$ 182	$ 1,523	$ 48	$ 8	$ 43	$ 2,263
Charge-offs	-	-	-	(27)	(25)	-	-	(52)
Recoveries	-	1	-	61	13	-	-	75
Provision (credit)	3	1	73	150	7	5	177	416
Ending balance	$ 152	$ 312	$ 255	$ 1,707	$ 43	$ 13	$ 220	$ 2,702

	For the Year Ended December 31, 2018							
(In Thousands)	Agriculture Loans	Commercial Loans	Commercial Real Estate Loans	Residential Real Estate Loans	Consumer Loans	Municipal Loans	Unallocated Loans	Total
Beginning balance	$ 163	$ 319	$ 44	$ 1,330	$ 34	$ 9	$ 149	$ 2,048
Charge-offs	-	(3)	-	(205)	(23)	-	-	(231)
Recoveries	-	-	-	119	13	-	-	132
Provision (credit)	(14)	(6)	138	279	24	(1)	(106)	314
Ending balance	$ 149	$ 310	$ 182	$ 1,523	$ 48	$ 8	$ 43	$ 2,263

The Company recorded provision expense for the residential and commercial real estate loan portfolios due to increased qualitative factors to compensate for growth within the portfolios. As the overall economic condition and underwriting practices of the Company remain strong, the remaining qualitative factors remained steady, related to the allowance for loan losses.

6. ALLOWANCE FOR LOAN LOSSES (Continued)

Credit Quality Information

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

The Company's internally assigned grades are as follows:

Pass – loans that are protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral. There are three sub-grades within the Pass category to further distinguish the loan.

Special Mention – loans where a potential weakness or risk exists, which could cause a more serious problem if not corrected.

Substandard – loans that have a well-defined weakness based on objective evidence and are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful – loans classified as Doubtful have all the weaknesses inherent in a Substandard asset. In addition, these weaknesses make collection or liquidation in full highly questionable and improbable, based on existing circumstances.

Loss – loans classified as a Loss are considered uncollectible or of such value that continuance as an asset is not warranted.

The following table presents the classes of the loan portfolio summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard, Doubtful, and Loss within the internal risk rating system as of December 31, 2019 and 2018:

(In Thousands) As of December 31, 2019	Pass	Special Mention	Substandard	Doubtful	Total
Agriculture loans	$ 14,969	$ -	$ -	$ -	$ 14,969
Commercial loans	22,409	-	168	-	22,577
Commercial real estate loans	21,543	-	-	-	21,543
Municipal loans	5,586	-	-	-	5,586
Total	$ 64,507	$ -	$ 168	$ -	$ 64,675

(In Thousands) As of December 31, 2018	Pass	Special Mention	Substandard	Doubtful	Total
Agriculture loans	$ 15,630	$ -	$ -	$ -	$ 15,630
Commercial loans	22,993	-	206	-	23,199
Commercial real estate loans	12,419	-	19	-	12,438
Municipal loans	8,995	-	-	-	8,995
Total	$ 60,037	$ -	$ 225	$ -	$ 60,262

6. ALLOWANCE FOR LOAN LOSSES (Continued)

Credit Quality Information (Continued)

For all other loans, the Company evaluates credit quality based on whether the loan is considered performing or nonperforming. The following tables present the balances of loans by classes of loan portfolio based on payment performance as of December 31, 2019 and 2018:

(In Thousands)	December 31, 2019 Residential Loans	Consumer Loans	Total
Performing	$ 169,572	$ 2,954	$ 172,526
Nonperforming	744	69	813
Total	$ 170,316	$ 3,023	$ 173,339

(In Thousands)	December 31, 2018 Residential Loans	Consumer Loans	Total
Performing	$ 171,111	$ 3,150	$ 174,261
Nonperforming	876	6	882
Total	$ 171,987	$ 3,156	$ 175,143

The following tables present an aging analysis of the recorded investment of past-due loans.

(In Thousands)	December 31, 2019 30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans	Total > 90 Days and Accruing
Agriculture loans	$ -	$ -	$ -	$ -	$ 14,969	$ 14,969	$ -
Commercial loans	40	61	-	101	22,476	22,577	-
Commercial real estate loans	-	-	-	-	21,543	21,543	-
Residential real estate loans	757	574	117	1,448	168,868	170,316	-
Consumer loans	118	29	69	216	2,807	3,023	67
Municipal loans	-	-	-	-	5,586	5,586	-
Total	$ 915	$ 664	$ 186	$ 1,765	$ 236,249	$ 238,014	$ 67

6. ALLOWANCE FOR LOAN LOSSES (Continued)

Credit Quality Information (Continued)

(In Thousands)	December 31, 2018 30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans	Total > 90 Days and Accruing
Agriculture loans	$ 187	$ 82	$ -	$ 269	$ 15,361	$ 15,630	$ -
Commercial loans	117	123	66	306	22,893	23,199	66
Commercial real estate loans	-	-	-	-	12,438	12,438	-
Residential real estate loans	675	502	601	1,778	170,209	171,987	-
Consumer loans	97	6	-	103	3,053	3,156	-
Municipal loans	-	-	-	-	8,995	8,995	-
Total	$ 1,076	$ 713	$ 667	$ 2,456	$ 232,949	$ 235,405	$ 66

Nonaccrual Loans

Loans are generally considered for nonaccrual status upon 90 days delinquency. When a loan is placed on nonaccrual status, previously accrued but unpaid interest is deducted from interest income.

The following table presents the loans on nonaccrual status as of December 31, 2019 and 2018. The balances are presented by class of loans.

(In Thousands)	December 31, 2019	2018
Agriculture loans	$ -	$ -
Commercial loans	70	57
Commercial real estate loans	12	19
Residential real estate loans	744	876
Consumer loans	2	6
Municipal loans	-	-
	$ 828	$ 958

Interest income on loans would have increased by approximately $20,000 and $43,000 during the years ended December 31, 2019 and 2018, respectively, if these loans had performed in accordance with their original terms.

6. ALLOWANCE FOR LOAN LOSSES (Continued)

Impaired Loans

The following tables present the recorded investment and unpaid principal balances for impaired loans and related allowance, if applicable. Also presented are the average recorded investments in the impaired loans and the related amount of interest recognized during the time within the period that the impaired loans were impaired.

	December 31, 2019				
(In Thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Recognized
With no related allowance recorded:					
Agriculture loans	$ -	$ -	$ -	$ -	$ -
Commercial loans	-	-	-	-	-
Commercial real estate loans	-	-	-	-	-
Residential real estate loans	356	402	-	410	21
Consumer loans	-	-	-	-	-
Municipal loans	-	-	-	-	-
With an allowance recorded:					
Agriculture loans	$ -	$ -	$ -	$ -	$ -
Commercial loans	5	9	2	6	1
Commercial real estate loans	-	-	-	-	-
Residential real estate loans	67	67	7	13	2
Consumer loans	-	-	-	-	-
Municipal loans	-	-	-	-	-
Total					
Agriculture loans	$ -	$ -	$ -	$ -	$ -
Commercial loans	5	9	2	6	1
Commercial real estate loans	-	-	-	-	-
Residential real estate loans	423	469	7	423	23
Consumer loans	-	-	-	-	-
Municipal loans	-	-	-	-	-

6. ALLOWANCE FOR LOAN LOSSES (Continued)

Impaired Loans (Continued)

	December 31, 2018				
(In Thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Recognized
With no related allowance recorded:					
Agriculture loans	$ -	$ -	$ -	$ 174	$ -
Commercial loans	7	11	-	10	1
Commercial real estate loans	-	-	-	-	-
Residential real estate loans	484	565	-	571	22
Consumer loans	-	-	-	-	-
Municipal loans	-	-	-	-	-
With an allowance recorded:					
Agriculture loans	$ -	$ -	$ -	$ -	$ -
Commercial loans	-	-	-	-	-
Commercial real estate loans	-	-	-	-	-
Residential real estate loans	-	-	-	-	-
Consumer loans	-	-	-	-	-
Municipal loans	-	-	-	-	-
Total					
Agriculture loans	$ -	$ -	$ -	$ 174	$ -
Commercial loans	7	11	-	10	1
Commercial real estate loans	-	-	-	-	-
Residential real estate loans	484	565	-	571	22
Consumer loans	-	-	-	-	-
Municipal loans	-	-	-	-	-

Loan Modifications and Troubled Debt Restructurings (TDRs)

A loan is considered to be a TDR loan when the Company grants a concession to the borrower because of the borrower's financial condition that it would not otherwise consider. Such concessions include the reduction of interest rates, forgiveness of principal or interest, or other modifications of interest rates that are less than the current market rate for new obligations with similar risk.

6. ALLOWANCE FOR LOAN LOSSES (Continued)

Loan Modifications and Troubled Debt Restructurings (TDRs) (Continued)

At December 31, 2019, the Company had two loans totaling $291,000 that were identified as TDRs. One of these loans was performing in accordance with its modified terms and one loan was on nonaccrual. At December 31, 2018, the Company had two loans totaling $298,000 that were identified as TDRs. One of these loans was performing in accordance with its modified terms and one loan was on nonaccrual. If a TDR is placed on non-accrual, it is not reverted back to accruing status until the borrower makes timely payments, as contracted for at least six months, and future collection under the revised terms is probable.

There were no new loan modifications in 2019 or 2018 that were considered TDRs.

7. GOODWILL AND INTANGIBLE ASSETS

Goodwill totaled $2.3 million at December 31, 2019. The Company recorded goodwill of $2.1 million due to the FNBM Financial Corporation acquisition during the year ended December 31, 2015. The Company recorded goodwill of $133,000 due to the Liberty Centre Bancorp, Inc. acquisition during the year ended December 31, 2014. On November 1, 2019, the Bank completed its acquisition of the Riverview Bank branch in Northumberland, Pennsylvania, which resulted in the Company recording goodwill of $148,000.

Core deposit intangible net carrying amounts were $242,000 and $185,000 at the years ended December 31, 2019 and 2018.

Core deposit intangible assets are amortized using the sum-of-the-years-digits method over their estimated lives of ten years. Amortization expense totaled $57,000 and $64,000 for the years ended December 31, 2019 and 2018, respectively. The estimated aggregate future amortization expense (in thousands) for core deposit intangible assets as of December 31, 2019, is as follows:

2020	$	64
2021		53
2022		41
2023		31
2024		22
2025 and thereafter		31
Total	$	242

8. PREMISES AND EQUIPMENT

Premises and equipment consist of the following:

(In Thousands)	December 31, 2019	December 31, 2018
Land	$ 821	$ 669
Buildings and improvements	4,125	4,010
Furniture, fixtures, and equipment	1,488	1,321
	6,434	6,000
Less accumulated depreciation	2,871	2,553
Total	$ 3,563	$ 3,447

Depreciation expense amounted to $318,000 and $279,000 for the years ended December 31, 2019 and 2018, respectively.

9. DEPOSITS

Deposit accounts are summarized as follows:

	December 31, 2019		December 31, 2018	
(In Thousands)	Amount	%	Amount	%
Demand, noninterest-bearing	$ 56,928	17.2 %	$ 46,994	16.3 %
Demand, interest-bearing	119,485	36.1	85,169	29.5
Savings	62,676	18.9	59,830	20.8
Time deposits, $100,000 and over	40,603	12.3	47,299	16.4
Time deposits, other	51,215	15.5	48,876	17.0
	$ 330,907	100.0 %	$ 288,168	100.0 %

9. DEPOSITS (Continued)

The scheduled maturities of time deposits are as follows:

(In Thousands)	December 31, 2019	2018
One year or less	$ 54,330	$ 44,997
More than one year to two years	22,183	29,139
More than two years to three years	4,805	12,113
More than three years to four years	4,742	3,605
More than four years to five years	4,255	4,180
More than five years	1,503	2,141
Total	$ 91,818	$ 96,175

Time deposits include those in denominations of $250,000 or more. Such deposits aggregated $16.8 million and $23.2 million at December 31, 2019 and 2018, respectively.

10. BORROWINGS

The outstanding balances and related information of short-term borrowings represent federal funds purchased and short-term advances with the FHLB are summarized as follows:

(In Thousands)	December 31, 2019	2018
Balance at year-end	$ -	9,000
Average balance outstanding	1,877	1,498
Maximum month-end balance	11,049	9,000
Weighted-average rate at year-end	- %	2.74 %
Weighted-average rate during the year	3.11 %	2.15 %

Average balances outstanding during the year represent daily average balances, and average interest rates represent interest expense divided by the related average balance.

The Company entered into a $5.0 million amortizing borrowing with the FHLB on July 24, 2018. The advance maintains an interest rate of 2.92 percent and matures on July 26, 2021. At December 31, 2019, the balance outstanding was $2.8 million.

The Company maintained a $6.0 million federal funds borrowing facility with Atlantic Community Bankers Bank during 2019, which will mature on June 30, 2020. Under the agreement, borrowings of up to $6.0 million are available on an unsecured basis for a period of 14 calendar days. Usage of the facility beyond 14 days may require the borrowing to be fully secured. At December 31, 2019 and 2019, there was no balance outstanding under the agreement.

All borrowings from the FHLB are secured by a blanket lien on qualified collateral, defined principally as investment securities and mortgage loans, which are owned by the Company, free and clear of any liens or encumbrances. In addition, the Company had a maximum borrowing capacity of $133.6 million with the FHLB at December 31, 2019.

10. BORROWINGS (Continued)

Contractual maturities and scheduled cash flows of Federal Home Loan Bank long-term advances, in thousands, consist of the following at December 31, 2019: (In Thousands)

2020	$	1,639
2021		1,120
	$	2,759

11. INCOME TAXES

The provision for income taxes consists of:

The tax effects of deductible and taxable temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities, respectively, are as follows:

(In Thousands)	For the Year Ended December 31, 2019	2018
Current tax expense	$ 858	$ 849
Deferred taxes	(101)	(85)
Total	$ 757	$ 764

(In Thousands)	December 31, 2019	2018
Deferred tax assets:		
Allowance for loan losses	$ 552	$ 456
Deferred compensation	235	210
Net unrealized loss on securities	-	279
Purchase accounting adjustments	41	46
Net operating loss	72	78
Other	12	8
Total net deferred tax assets	912	1,077
Deferred tax liabilities:		
Premises and equipment	93	76
Net unrealized gain on securities	261	-
Deferred loan fees	12	16
Total gross deferred tax liabilities	366	92
Net deferred tax assets	$ 546	$ 985

The Company also has a $343,000 net operating loss carryforward at December 31, 2019, that will begin to expire in 2027. The Company had no other valuation allowance against its deferred tax assets in view of the Company's ability to carry back taxes paid in previous years and certain tax strategies and anticipated future taxable income, as evidenced by the Company's earnings potential.

11. INCOME TAXES (Continued)

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

	For the Year Ended December 31,						
	2019			2018			
(In Thousands)		Amount	% of Pretax Income		Amount	% of Pretax Income	
Provision at statutory rate	$	1,000	21.0	%$	959	21.0	%
Tax-exempt income on investment securities		(253)	(5.3)		(228)	(5.0)	
Bank-owned life insurance		(28)	(0.6)		(28)	(0.6)	
Other		38	0.8		61.0	1.3	
Actual tax expense and effective rate	$	757	15.9	%$	764	16.7	%

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

There is currently no liability for uncertain tax positions and no known unrecognized tax benefits. The Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the Consolidated Statement of Income. With few exceptions, the Company is no longer subject to U.S. federal, state, or local income tax examinations by tax authorities for years before 2016.

12. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

In the normal course of business, management makes various commitments that are not reflected in the accompanying consolidated financial statements. These commitments represent financial instruments with off-balance-sheet risk. The contract or notional amounts of those instruments comprise the following:

	December 31,			
(In Thousands)		2019		2018
Commitments to extend credit	$	39,675	$	36,679
Letters of credit		1,004		1,112

12. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Commitments (Continued)

The same credit policies are used in making commitments and conditional obligations as for on-balance-sheet instruments. Generally, collateral is required to support financial instruments with credit risk. The terms are typically for a one-year period, with an annual renewal option subject to prior approval by management.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the loan agreement. These commitments consist primarily of available commercial and personal lines of credit, unfunded construction loans, and loans approved but not yet funded. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Consolidated Balance Sheet.

Standby letters of credit and financial guarantees represent conditional commitments issued to guarantee the performance of a customer to a third party. Fees earned from the issuance of these letters are recognized over the coverage period. For secured letters of credit, the collateral is typically real estate or Company deposit instruments.

Contingent Liabilities

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

13. LEASE COMMITMENTS AND CONTINGENCIES

Due to the adoption of ASU 2016-02, *Leases (Topic 842)*, the Company completed a comprehensive review and analysis of all its property contracts. As a result of this review, it was determined that the Company leases two office locations under operating leases. Several assumptions and judgments were made when applying the requirements of Topic 842 to the Company's existing lease commitments, including the allocation of consideration in the contracts between lease and nonlease components, determination of the lease term, and determination of the discount rate used in calculating the present value of the lease payments.

The Company has elected to account for the variable nonlease components, such as common area maintenance charges, utilities, real estate taxes, and insurance, separately from the lease component. Such variable nonlease components are reported in net occupancy expense on the Consolidated Statements of Income when paid. These variable nonlease components were excluded from the calculation of the present value of the remaining lease payments; therefore, they are not included in the right-of-use assets and lease liabilities reported on the Consolidated Balance Sheets.

Certain of the Company's leases contain options to renew the lease after the initial term. Management considers the Company's historical pattern of exercising renewal options on leases and the positive performance of the leased locations when determining whether it is reasonably certain that the leases will be renewed. If management concludes that there is reasonable certainty about the renewal option, it is included in the calculation of the remaining term of each applicable lease. The discount rate utilized in calculating the present value of the remaining lease payments for each lease was the Federal Home Loan Bank of Pittsburgh advance rate corresponding to the remaining maturity of the lease. The following table presents the weighted-average remaining lease term and discount rate for the leases outstanding at December 31, 2019.

13. **LEASE COMMITMENTS AND CONTINGENCIES (Continued)**

	Operating
Weighted-average remaining term (years)	7.1
Weighted-average discount rate	2.39%

The following table presents the undiscounted cash flows due related to operating leases as of December 31, 2019, along with a reconciliation to the discounted amount recorded on the Consolidated Balance Sheet:

Undiscounted cash flows due (In thousands):		Operating
2020	$	65
2021		65
2022		65
2023		65
2024		65
2025 and thereafter		138
Total undiscounted cash flows		463
Discount on cash flows		(33)
Total lease liabilities	$	430

Under Topic 842, the lessee can elect to not record on the Consolidated Balance Sheets a lease whose term is 12 months or less and does not include a purchase option that the lessee is reasonably certain to exercise. As of December 31, 2019, the Bank had no leases that had a term of 12 months or less.

Rental expense under operating leases totaled approximately $69,000 in 2019 and $72,000 in 2018.

14. **EMPLOYEE BENEFITS**

Retirement Plan

The Company maintains a defined contribution 401(k) retirement plan that covers eligible employees. Eligible employees can contribute up to 100 percent of their compensation. The Bank makes a 3 percent non-elective contribution to all eligible participants as of the end of the plan year based on W-2 income for the same period. During 2016, the Company amended the plan to include a discretionary contribution provision allowing for a 50 percent match of employee's contributions up to a maximum of 6 percent. The discretionary contribution approved by the Board of Directors was 6 percent for the years ended December 31, 2019 and 2018. Contributions to the plan for the years ended December 31, 2019 and 2018, amounted to $148,000 and $124,000, respectively.

Director-Deferred Compensation Plan

The Bank has a deferred compensation plan for the benefit of members of the Board of Directors and certain officers. The plan provides all directors and certain officers with the ability to defer receipt of some or all of their director fees and bonuses. The deferrals, along with accumulated earnings, are payable at retirement. The Bank has purchased life insurance policies on each director and officer that are actuarially designed to offset the annual expenses associated with the plan. The Bank is the sole owner and beneficiary of all policies. The Bank accrues the estimated annual costs of the deferred amounts that will be payable at retirement. At December 31, 2019 and 2018, the accumulated liability was $1.2 million for each period.

14. EMPLOYEE BENEFITS (Continued)

Director-Deferred Compensation Plan (Continued)

The components of net periodic pension cost for the director-deferred compensation plan that were recognized in noninterest expense on the Consolidated Statement of Income are as follows:

	For the Year Ended December 31,	
(In Thousands)	2019	2018
Components of net periodic pension cost:		
Service cost	$ 57	$ 53
Interest cost	48	48
Total net periodic pension cost	$ 105	$ 101

Supplemental Executive Retirement Plan

The Company maintains a supplemental executive retirement plan (SERP) for certain executives. At December 31, 2019 and 2018, the accumulated liability was $603,000 and $490,000, respectively. The expense for the years ended December 31, 2019 and 2018, was $119,000 and $114,000, respectively. Benefit payments amounted to $92,382 and $95,977 for the years ended December 31, 2019 and 2018, respectively.

15. REGULATORY RESTRICTIONS

Federal Reserve Cash Requirements

The Bank is required to maintain an average cash reserve balance in vault cash or with the Federal Reserve Bank. The required minimum balance was $5.3 million and $3.8 million at December 31, 2019 and 2018, respectively.

Loans

Federal law prevents the Company from borrowing from the Bank unless the loans are secured by specific collateral. Further, such secured loans are limited in amount to 10 percent of the Bank's common stock and capital surplus.

Dividends

The Pennsylvania Banking Code restricts the availability of capital surplus for dividend purposes. At both December 31, 2019 and 2018, the Bank had a capital surplus of $12.8 million, which was not available for distribution to the Company as dividends.

Capital Requirements

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

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

15. REGULATORY RESTRICTIONS (Continued)

Capital Requirements (Continued)

Effective January 1, 2015, the Company and the Bank became subject to the final rules issued by the Federal Reserve and the OCC and subsequently adopted by the FDIC, establishing a new comprehensive capital framework for banking organizations. The new capital framework substantially revised the risk-based capital requirements in comparison to the prior rules, which were in effect through December 31, 2014. The Basel III Capital Rules introduced a new capital measure, "Common Equity Tier 1"; increased the minimum requirements for Tier 1 capital ratio as well as the minimum to be considered well capitalized under prompt corrective action; and introduced the "capital conservation buffer," which will be phased in over a four-year period. Failure to meet 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 Company'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 U.S. GAAP, regulatory reporting requirements, and regulatory capital standards. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total, Tier 1 capital and common equity Tier 1 (as defined in the regulations) to risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of December 31, 2019, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2019 and 2018, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, Tier 1 leverage, and common equity Tier 1 ratios, as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual capital ratios are presented in the following table that shows the Bank met all regulatory capital requirements. The capital position of the Company does not differ significantly from the Bank's capital position.

15. REGULATORY RESTRICTIONS (Continued)

Capital Requirements (Continued)

	December 31,			
	2019		2018	
(In Thousands)	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)				
Actual	$ 33,557	14.14 %	$ 30,816	14.26 %
For capital adequacy purposes	18,987	8.00	17,287	8.00
To be well capitalized	23,734	10.00	21,609	10.00
Tier 1 capital (to risk-weighted assets)				
Actual	$ 30,827	12.99 %	$ 28,524	13.20 %
For capital adequacy purposes	14,240	6.00	12,965	6.00
To be well capitalized	18,987	8.00	17,287	8.00
Common equity (to risk-weighted assets)				
Actual	$ 30,827	12.99 %	$ 28,524	13.20 %
For capital adequacy purposes	10,680	4.50	9,724	4.50
To be well capitalized	15,427	6.50	14,046	6.50
Tier 1 capital (to average assets)				
Actual	$ 30,827	8.50 %	$ 28,524	8.63 %
For capital adequacy purposes	14,506	4.00	13,217	4.00
To be well capitalized	18,132	5.00	16,521	5.00

16. FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

	December 31, 2019			
(In Thousands)	Level I	Level II	Level III	Total
Assets:				
U.S. government agency securities	$ -	$ 9,750	$ -	$ 9,750
Small Business Administration loan pools	-	9,605	-	9,605
Obligations of state and political subdivisions	-	44,745	-	44,745
Mortgage-backed securites in government-sponsored entities	-	20,816	-	20,816
Total	-	84,916	-	84,916

	December 31, 2018			
(In Thousands)	Level I	Level II	Level III	Total
Assets:				
U.S. government agency securities	$ -	$ 10,008	$ -	$ 10,008
Small Business Administration loan pools	-	11,393	-	11,393
Corporate bonds	-	1,705	-	1,705
Obligations of state and political subdivisions	-	35,177	-	35,177
Mortgage-backed securites in government-sponsored entities	-	9,431	-	9,431
Total	-	67,714	-	67,714

16. **FAIR VALUE MEASUREMENTS (Continued)**

The following tables present the assets measured on a nonrecurring basis on the Consolidated Balance Sheet at their fair value as of December 31, 2019 and 2018, by level within the fair value hierarchy.

Impaired loans that are collateral dependent are written down to fair value through the establishment of specific reserves. Techniques used to value the collateral that secure the impaired loan include quoted market prices for identical assets classified as Level I inputs and observable inputs, employed by certified appraisers, for similar assets classified as Level II inputs. In cases where valuation techniques included inputs that are unobservable and are based on estimates and assumptions developed by management based on the best information available under each circumstance, the asset valuation is classified as Level III inputs.

Other real estate owned (OREO) is measured at fair value, less cost to sell at the date of foreclosure, 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.

	December 31, 2019			
(In Thousands)	Level I	Level II	Level III	Total
Impaired loans	$ -	$ -	$ 419	$ 419

	December 31, 2018			
(In Thousands)	Level I	Level II	Level III	Total
Impaired loans	$ -	$ -	$ 491	$ 491
Other real estate owned	-	-	304	304

The following tables provide information describing the valuation processes used to determine nonrecurring fair value measurements categorized within Level III of the fair value hierarchy:

	December 31, 2019			
	Quantitative Information About Level III Fair Value Measurements			
(In Thousands)	Fair Value	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Impaired loans	$ 419	Appraisal of collateral (1)	Appraisal adjustments (2)	0%– 35% (5.1%)
			Liquidation of collateral	0%–7% (6.0%)

	December 31, 2018			
	Quantitative Information About Level III Fair Value Measurements			
(In Thousands)	Fair Value	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Impaired loans	$ 491	Appraisal of collateral (1)	Appraisal adjustments (2)	7% (7%)
Other real estate owned	304	Appraisal of collateral (1)	Appraisal adjustments (2)	7% (7%)

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which include various Level III inputs that are not identifiable.
(2) Appraisals may be adjusted by management for qualitative factors, such as economic conditions, aging, and/or estimated liquidation expenses incurred when selling the collateral. The range and weighted average of appraisal adjustments and liquidation expenses are presented as a percentage of the appraisal.

16. **FAIR VALUE MEASUREMENTS (Continued)**

The estimated fair values of the Company's financial instruments that are not required to be measured or reported at fair value are as follows:

	December 31, 2019				
(In Thousands)	Carrying Value	Fair Value	Level I	Level II	Level III
Financial assets:					
Cash and cash equivalents	$ 27,708	$ 27,708	$ 27,708	$ -	$ -
Certificates of deposit with other banks	18,794	18,854	-	-	18,854
Net loans	235,083	234,302	-	-	234,302
Accrued interest receivable	1,254	1,254	1,254	-	-
Restricted investments in bank stock	1,292	1,292	1,292	-	-
Cash surrender value of life insurance	6,755	6,755	6,755	-	-
Financial liabilities:					
Deposits	$ 330,907	$ 331,416	$ 239,089	$ -	$ 92,327
FHLB advances - long-term	2,759	2,759	-	-	2,759
Accrued interest payable	347	347	347	-	-

	December 31, 2018				
(In Thousands)	Carrying Value	Fair Value	Level I	Level II	Level III
Financial assets:					
Cash and cash equivalents	$ 12,659	$ 12,659	$ 12,659	$ -	$ -
Certificates of deposit with other banks	15,056	14,759	-	-	14,759
Net loans	232,915	230,645	-	-	230,645
Accrued interest receivable	1,169	1,169	1,169	-	-
Restricted investments in bank stock	1,406	1,406	1,406	-	-
Cash surrender value of life insurance	6,623	6,623	6,623	-	-
Financial liabilities:					
Deposits	$ 288,168	$ 288,545	$ 191,993	$ -	$ 96,552
Short-term borrowings	9,000	9,000	9,000	-	-
FHLB advances - long-term	4,350	4,350	-	-	4,350
Accrued interest payable	318	318	318	-	-

Financial instruments are defined as cash, evidence of ownership interest in an entity, or a contract that creates an obligation or right to receive or deliver cash or another financial instrument from/to a second entity on potentially favorable or unfavorable terms.

16. FAIR VALUE MEASUREMENTS (Continued)

Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. If a quoted market price is available for a financial instrument, the estimated fair value would be calculated based upon the market price, per trading unit of the instrument.

If no readily available market exists, the fair value estimates for financial instruments should be based upon management's judgment regarding current economic conditions, interest rate risk, expected cash flows, future estimated losses, and other factors, as determined through various option pricing formulas or simulation modeling. As many of these assumptions result from judgments made by management based upon estimates that are inherently uncertain, the resulting estimated fair values may not be indicative of the amount realizable in the sale of a particular financial instrument. In addition, changes in assumptions on which the estimated fair values are based may have a significant impact on the resulting estimated fair values.

As certain assets, such as deferred tax assets and premises and equipment, are not considered financial instruments, the estimated fair value of financial instruments would not represent the full value of the Company.

17. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

(In Thousands)	Net Unrealized Gains (Losses) on Investment Securities (a)
Accumulated other comprehensive loss, January 1, 2019	$ (1,050)
Other comprehensive income before reclassification	2,045
Amount reclassified from accumulated other comprehensive income	(11)
Total other comprehensive income	2,034
Accumulated other comprehensive income, December 31, 2019	$ 984

(In Thousands)	Net Unrealized Gains (Losses) on Investment Securities (a)
Accumulated other comprehensive loss, January 1, 2018	$ (391)
Other comprehensive loss before reclassification	(782)
Amount reclassified from accumulated other comprehensive loss	123
Total other comprehensive loss	(659)
Accumulated other comprehensive loss, December 31, 2018	$ (1,050)

(a) All amounts are net of tax. Amounts in parentheses indicate debits.

17. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (Continued)

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

(In Thousands) Details about other comprehensive income (loss)	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) (a) 2019	 2018	Affected Line Item in Consolidated Statement of Income
Unrealized gains (losses) on investment securities available for sale	$ 13	$ (157)	Net realized gain (losses) on sales of investment securities
	(2)	34	Income tax expense
	$ 11	$ (123)	

(a) Amounts in parentheses indicate debits to net income.

18. ACQUISITION

In the second quarter of 2019, the Company announced the signing of a purchase and assumption agreement to acquire the full service branch in Northumberland county of Riverview Bank. The transaction closed on November 1, 2019, and the Company paid consideration of $262,000, which was based on the average deposit balances for the 30 days prior to the branch acquisition. The acquisition established the Company's presence in the Northumberland County, Pennsylvania, market.

The acquired assets and assumed liabilities were measured at estimated fair values. Management made significant estimates and exercised significant judgment in accounting for the acquisition. The Company also recorded an identifiable intangible asset representing the core deposit base of the branch, based on management's evaluation of the cost of such deposits relative to alternative funding sources.

The following table summarizes the purchase of the branch as of November 1, 2019:

(In Thousands)		
Purchase price consideration in cash		$ 262
Net liabilities acquired for cash		(12,855)
Total cash consideration		(12,593)
Net liabilities acquired for cash	$ (12,855)	
Adjustments to reflect assets acquired at fair value:		
Core deposit intangible	114	
Adjustments to reflect liabilities acquired at fair value:		
Time deposits	-	
Acquired net liabilities at fair value		(12,741)
Goodwill resulting from acquisition		$ 148

18. ACQUISITION (Continued)

The following condensed statement reflects the amounts recognized as of the acquisition date for each major class of asset acquired and liability assumed:

(In Thousands)				
Total purchase price			$	12,593
Net assets acquired:				
Loans	$	111		
Premises and equipment, net		115		
Intangibles		114		
Deposits		(13,078)		
Accrued interest payable		(3)		
				(12,741)
Goodwill resulting from the branch acquisition			$	148

The Company recorded goodwill and other intangibles associated with the purchase of the branch totaling $262,000. Goodwill is not amortized, but is periodically evaluated for impairment. The Company did not recognize any impairment from November 1, 2019 to December 31, 2019.

Identifiable intangibles are amortized to their estimated residual values over the expected useful lives. Such lives are also periodically reassessed to determine if any amortization period adjustments are required. For the period from November 1, 2019 to December 31, 2019, no such adjustments were recorded. The identifiable intangible assets consist of a core deposit intangible. See Note 7 for additional information on the identifiable intangible assets.

19. SUBSEQUENT EVENTS

Management has reviewed events occurring through March 6, 2020, the date the financial statements were issued, and no subsequent events have occurred requiring accrual or disclosure.