GNB FINANCIAL SERVICES, INC. AND SUBSIDIARIES

GRATZ, PENNSYLVANIA

AUDIT REPORT

DECEMBER 31, 2020

GNB FINANCIAL SERVICES, INC. AND SUBSIDIARIES
AUDITED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020

HACKER, JOHNSON & SMITH PA

Fort Lauderdale
Orlando
Tampa

Certified Public Accountants

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors
GNB Financial Services, Inc.
Gratz, Pennsylvania:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of GNB Financial Services, Inc. (the "Company"), as of December 31, 2020 and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the year ended December 31, 2020 and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company at December 31, 2020, and the consolidated results of its income and its cash flows for the year ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America. The consolidated financial statements of the Company as of and for the year ended December 31, 2019, were audited by other auditors whose report dated March 6, 2020, expressed an unmodified opinion on those statements.

Basis for Opinion

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

We conducted our audit in accordance with the standards of the PCAOB and 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, whether due to error or fraud.

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

Hacker, Johnson & Smith PA

HACKER, JOHNSON & SMITH PA
We have served as the Company's auditor since 2021.
Tampa, Florida May 7, 2021

500 North Westshore Boulevard, Post Office Box 20368, Tampa, Florida 33622-0368, (813) 286-2424
A Registered Public Accounting Firm

GNB FINANCIAL SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In Thousands, except share data)	December 31, 2020	December 31, 2019
ASSETS		
Cash and due from banks	$ 5,709	$ 3,595
Interest-bearing deposits with other institutions	24,107	17,265
Federal funds sold	3,346	6,848
Cash and cash equivalents	33,162	27,708
Certificates of deposit with other banks	17,051	18,794
Debt securities available for sale	125,447	84,916
Loans held for sale	1,015	-
Loans, net	236,584	237,785
Less: Allowance for loan losses	2,789	2,702
Net loans	233,795	235,083
Accrued interest receivable	1,675	1,254
Restricted investments in bank stock, at cost	2,268	1,292
Premises and equipment, net	3,428	3,563
Cash surrender value of life insurance	8,941	6,755
Goodwill	2,333	2,333
Intangible assets	452	242
Other assets	963	1,426
TOTAL ASSETS	$ 430,530	$ 383,366
LIABILITIES		
Noninterest-bearing deposits	$ 66,573	$ 56,928
Interest-bearing deposits	308,551	273,979
Total deposits	375,124	330,907
FHLB advance - long-term	1,120	2,759
Accrued interest payable	233	347
Other liabilities	3,379	3,647
TOTAL LIABILITIES	379,856	337,660
Commitments and Contingencies (Notes 1, 12, 18, 19)		
STOCKHOLDERS' EQUITY		
Common stock ($5 par value; 2,000,000 shares authorized; 782,321 shares issued and 779,000 shares outstanding)	3,912	3,912
Additional paid-in capital	17,749	17,749
Retained earnings	26,009	23,249
Accumulated other comprehensive income	3,192	984
Treasury stock (3,321 shares)	(188)	(188)
TOTAL STOCKHOLDERS' EQUITY	50,674	45,706
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 430,530	$ 383,366

See accompanying notes to the consolidated financial statements.

GNB FINANCIAL SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In Thousands, except per share data)	Year Ended December 31, 2020	2019
INTEREST AND DIVIDEND INCOME		
Loans, including fees	$ 11,494	$ 12,287
Investment securities:		
Taxable	1,015	828
Exempt from federal income tax	1,221	1,046
Certificates of deposit in other banks	394	339
Other interest and dividend income	167	311
Total interest and dividend income	14,291	14,811
INTEREST EXPENSE		
Deposits	2,658	2,843
Short-term borrowings	-	58
FHLB advances - long-term	59	106
Total interest expense	2,717	3,007
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	11,574	11,804
Provision for loan losses	184	416
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	11,390	11,388
NONINTEREST INCOME		
Service charges on deposit accounts	743	827
Earnings on cash surrender value of life insurance	186	132
Net realized gains on sales of debt securities, available for sale	110	13
Gain on sale of secondary market mortgage loans	358	118
Capitalized Mortgage Servicing Rights	275	-
Other	82	73
Total noninterest income	1,754	1,163
NONINTEREST EXPENSE		
Compensation and employee benefits	4,544	4,014
Occupancy	447	452
Furniture and fixtures	88	155
Data processing	1,188	1,005
Professional fees	538	543
Shares tax	294	253
Amortization of intangible assets	65	57
Other	1,142	1,309
Total noninterest expense	8,306	7,788
Income before income tax expense	4,838	4,763
Income tax expense	645	757
NET INCOME	$ 4,193	$ 4,006
EARNINGS PER SHARE, BASIC AND DILUTED	$ 5.38	$ 5.15
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING, BASIC AND DILUTED	779,000	778,266

See accompanying notes to the consolidated financial statements.

GNB FINANCIAL SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)	Year Ended December 31, 2020	2019
Net income	$ 4,193	$ 4,006
Components of other comprehensive income:		
Unrealized holding gain arising during the year on debt securities, available for sale	2,904	2,587
Tax effect	(609)	(542)
Reclassification adjustment for debt securities gains realized in net income	(110)	(13)
Tax effect	23	2
Total other comprehensive income	2,208	2,034
Total comprehensive income	$ 6,401	$ 6,040

See accompanying notes to the consolidated financial statements.

GNB FINANCIAL SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In Thousands, except 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, 2018	782,321	3,912	17,747	20,450	(1,050)	(270)	40,789
Net income	-	-	-	4,006	-	-	4,006
Other comprehensive income, net of taxes	-	-	-	-	2,034	-	2,034
Dividends paid ($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
Net income	-	-	-	4,193	-	-	4,193
Other comprehensive income, net of taxes	-	-	-	-	2,208	-	2,208
Dividends paid ($1.84 per share)	-	-	-	(1,433)	-	-	(1,433)
Balance, December 31, 2020	782,321	$ 3,912	$ 17,749	$ 26,009	$ 3,192	$ (188)	$ 50,674

See accompanying notes to the consolidated financial statements.

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

(In Thousands)	Year Ended December 31, 2020	2019
OPERATING ACTIVITIES		
Net income	$ 4,193	$ 4,006
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	184	416
Depreciation	244	318
Amortization of intangible assets	65	57
Originations of loans held for sale	(31,441)	(9,717)
Proceeds from sale of loans	30,784	9,835
Gains on sale of loans	(358)	(118)
Capitalized mortgage servicing rights	(275)	-
Deferred income taxes	(18)	(101)
Net amortization of premiums and discounts	954	400
Earnings on cash surrender value of life insurance	(186)	(132)
Gain on sale of debt securities, available for sale	(110)	(13)
Loss on sale of other real estate owned	-	53
Increase in other assets	(105)	(119)
Increase in accrued interest receivable	(421)	(86)
(Decrease) increase in accrued interest payable	(114)	26
(Decrease) increase in other liabilities	(268)	781
Net cash provided by operating activities	3,128	5,606
INVESTING ACTIVITIES		
Debt securities available for sale:		
Proceeds from sales	5,706	10,770
Proceeds from calls and maturities	12,250	1,475
Proceeds from principal repayments	14,593	5,490
Purchases	(71,130)	(32,749)
Purchases of certificates of deposit with other banks	(996)	(5,229)
Proceeds from redemptions of certificates of deposit with other banks	2,739	1,492
Decrease (increase) in loans, net	1,104	(2,393)
Purchase of restricted investments in bank stock	(1,129)	(350)
Redemptions of restricted investments in bank stock	153	464
Purchase of bank-owned life insurance	(2,000)	-
Purchase of premises and equipment	(109)	(318)
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	(38,819)	(8,504)
FINANCING ACTIVITIES		
Increase in deposits, net	44,217	29,661
Decrease in short-term borrowings, net	-	(9,000)
Repayment of FHLB advances - long-term	(1,639)	(1,591)
Reissuance of treasury stock	-	84
Cash dividends paid	(1,433)	(1,207)
Net cash provided by financing activities	41,145	17,947
Increase in cash and cash equivalents	5,454	15,049
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	27,708	12,659
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 33,162	$ 27,708

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

(In Thousands)

SUPPLEMENTAL CASH FLOW DISCLOSURES	Year Ended December 31,	
	2020	2019
Cash paid during the year for:		
Interest	$ 2,831	$ 2,981
Income taxes	$ 745	$ 885
Noncash activities:		
Operating leases right of use asset and lease liability	$ -	$ 430
Accumulated other comprehensive income, net change in unrealized gain on debt securities available for sale, net of taxes	$ 2,208	$ 2,034

ACQUISITION OF BRANCH

	Year Ended December 31,	
	2020	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 "Holding Company") is a bank holding company for its wholly owned subsidiaries, The Gratz Bank (the "Bank") and GNB Investment Corp ("GNBI"); (collectively, the "Company"). The primary business activity of the Holding Company is the operation of the Bank. 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 Trevorton, 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.

GNBI, a Delaware investment subsidiary of the Company, holds and manages an investment portfolio.

On December 10, 2020, the Company announced the execution of a definitive agreement to combine with LINKBANCORP, Inc. (OTC Pink: LNKB) in a stock and cash transaction, creating a leading Pennsylvania community bank with combined assets in excess of $800 million and a network of nine offices throughout South Central Pennsylvania. The parties expect to complete the transaction in mid-2021, after satisfaction of customary closing conditions, including required regulatory and shareholder approvals. See note 18 for further details of this transaction.

Principles of Consolidation

The consolidated financial statements include the accounts of the Holding Company, the Bank, and GNBI. All significant intercompany amounts have been eliminated in the consolidation.

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 debt securities for other-than-temporary impairment, and the fair value of financial instruments.

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

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.

Debt Securities

Debt securities that management has the positive intent and ability to hold until maturity are classified as held to maturity. Held-to-maturity debt securities are stated at cost, adjusted for amortization of premium, and accretion of discount, computed on a level yield basis. Debt 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 income and reported net of tax in accumulated other comprehensive income. Management determines the appropriate classification of debt securities at the time of purchase and reevaluates such designation as of each consolidated balance sheet date. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the debt securities. Realized gains or losses, determined on the basis of the cost of the specific debt securities sold, are included in income.

The Company periodically evaluates its debt securities for other-than-temporary impairment. Declines in the fair value of held-to-maturity and available-for-sale debt securities below their cost that are deemed to be other than temporary are reflected in income 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 Statements of Income.

Loans

Loans 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 (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 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 recorded investment in the loan exceeds the fair value of the collateral.

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 considered troubled debt restructurings.

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 improvements, and furniture, fixtures, and equipment are stated at cost, less accumulated depreciation. Depreciation is computed on both the straight-line and accelerated methods over the shorter of the lease term or 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").

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 years presented.

Business Combinations

At the date of acquisition, the Company records the net assets of acquired companies on the Consolidated Balance Sheets 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 Statements of Income beginning at the acquisition date. Expenses arising from acquisition activities are recorded in the Consolidated Statements 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 $177,000, which is net of accumulated amortization of $479,000 at December 31, 2020. At December 31, 2019, core deposit intangible assets totaled $242,000, which is net of accumulated amortization of $414,000.

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 Sheets, and any increases in the cash surrender value are recorded as noninterest income on the Consolidated Statements 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 consolidated 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 year plus or minus the change during the year 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. Other comprehensive income includes unrealized gains and losses on debt securities available for sale.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs for the years ended December 31, 2020 and 2019, were $37,000 and $82,000, 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. Loans held for sale were $1,015,000 as of December 31, 2020. There were no loans held for sale at December 31, 2019. Loans serviced for others totaled $45,356,000 and $20,531,000, as of December 31, 2020 and 2019, respectively.

Mortgage servicing rights

Mortgage servicing rights ("MSRs") represent the right to service loans for third-party investors. MSRs are recognized as a separate asset for the right to service mortgage loans for others, regardless of how those servicing rights are acquired. MSRs are recognized upon the sale of mortgage loans to a third-party investor with the servicing rights retained by the Company. Servicing loans for others generally consists of collecting mortgage payments from borrowers, maintaining escrow accounts, remitting payments to third-party investors and, when necessary, processing foreclosures. Serviced loans are not included in the Consolidated Balance Sheets. Loan servicing income includes servicing fees received from the third-party investors. Originated MSRs are recorded in other assets on the Consolidated Balance Sheets at allocated fair value at the time of the sale of the loans to the third-party investor.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Off-Balance-Sheet Financial Instruments

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

Recent Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, Financial Instruments-Credit Losses (Topic 326). The ASU requires the Company to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. The Company will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. The ASU requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. Additionally, the ASU amends the accounting for credit losses on debt securities available for sale and purchased financial assets with credit deterioration. The ASU will take effect for fiscal years, and for interim periods within those fiscal years beginning after December 15, 2022 (as amended). Early adoption is permitted. The Company is in the process of determining the effect of the ASU on its consolidated financial statements.

Reclassifications

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

2. REVENUE RECOGNITION

The company accounts for its applicable revenue in accordance with Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*. 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 judgment when considering the terms of a contract. 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 debt securities. Additionally, certain noninterest income streams, such as income from Bank-owned life insurance, gain and losses on sales of debt securities, gains from the sale of loans, and capitalized mortgage servicing rights are out of scope of Topic 606. The Company has evaluated the nature of its contracts with customers and determined that further disaggregation beyond what is presented in the Consolidated Statements of Income was not necessary.

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.

3. CERTIFICATES OF DEPOSIT WITH OTHER BANKS

The investment in interest-earning certificates of deposit with other banks as of December 31, 2020 and 2019, by contractual maturity, is as follows:

(In Thousands)	December 31, 2020	December 31, 2019
Due in one year or less	$ 4,472	$ 2,490
Due after one year through five years	11,583	15,308
Due after five years through ten years	996	996
	$ 17,051	$ 18,794

4. DEBT SECURITIES

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

(In Thousands)	December 31, 2020 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Small Business Administration loan pools	$ 7,835	$ 198	$ (39)	$ 7,994
Obligations of state and political subdivisions	49,167	2,895	(3)	52,059
Mortgage-backed securities in government-sponsored entities	64,406	1,068	(80)	65,394
Total available-for-sale securities	$ 121,408	$ 4,161	$ (122)	$ 125,447

(In Thousands)	December 31, 2019 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
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

4. DEBT 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 debt securities have been in a continuous unrealized loss position.

	December 31, 2020					
	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
Small Business Administration loan pools	$ 2,059	$ (9)	$ 1,539	$ (30)	$ 3,598	$ (39)
Obligations of state and political subdivisions	557	(3)	-	-	557	(3)
Mortgage-backed securites in government-sponsored entities	12,245	(80)	-	-	12,245	(80)
Total	$ 14,861	$ (92)	$ 1,539	$ (30)	$ 16,400	$ (122)

	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)

The Company reviews its position quarterly and has asserted that as of December 31, 2020 and 2019, 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 debt securities before recovery of their cost basis, which may be at maturity. There were nineteen and fifty-four debt securities with unrealized losses at December 31, 2020 and 2019, respectively. 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 year.

4. DEBT SECURITIES (Continued)

The amortized cost and fair value of debt securities at December 31, 2020, 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	$ 2,003	$ 2,011
Due after one year through five years	71,448	72,591
Due after five years through ten years	15,946	16,625
Due after ten years	32,011	34,220
Total	$ 121,408	$ 125,447

The following summarizes sales of debt securities (in thousands):

	December 31, 2020	2019
Proceeds	$5,706	$10,770
Gross gains	$221	$56
Gross losses	(111)	(43)
Net gain	$110	$13

The Company had pledged debt securities with a carrying value of $52.1 million and $34.6 million to secure public monies as of December 31, 2020 and 2019, respectively.

5. LOANS

Loans consist of the following:

	December 31, 2020	2019
(In Thousands)		
Agriculture loans	$ 11,246	$ 14,969
Commercial loans	21,534	22,577
Commercial real estate loans	27,261	21,543
Residential real estate loans	167,536	170,316
Consumer loans	2,514	3,023
Municipal loans	6,749	5,586
	236,840	238,014
Less:		
Deferred fees, net	256	229
Allowance for loan losses	2,789	2,702
Total	$ 233,795	$ 235,083

5. LOANS (Continued)

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 Company'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. A summary of loan activity for those officers and directors for the years ended December 31, 2020 and 2019 is as follows (in thousands):

	December 31,	
	2020	2019
Beginning	$ 985	$ 490
Originations	510	3,946
Repayments	(1,170)	(3,451)
Ending	$325	$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 loans, commercial real estate loans, consumer 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 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 range of two to five years 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, 2020 and 2019.

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, 2020 and 2019:

	December 31, 2020							
(In Thousands)	Agriculture Loans	Commercial Loans	Commercial Real Estate Loans	Residential Real Estate Loans	Consumer Loans	Municipal Loans	Unallocated	Total
Allowance for loan losses:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	120	290	314	1,702	35	18	310	2,789
Total	$ 120	$ 290	$ 314	$ 1,702	$ 35	$ 18	$ 310	$ 2,789
Loans:								
Individually evaluated for impairment	$ -	$ 2	$ -	$ 295	$ -	$ -		$ 297
Collectively evaluated for impairment	11,246	21,532	27,261	167,241	2,514	6,749		236,543
Total	$ 11,246	$ 21,534	$ 27,261	$ 167,536	$ 2,514	$ 6,749		$ 236,840

	December 31, 2019							
(In Thousands)	Agriculture Loans	Commercial Loans	Commercial Real Estate Loans	Residential Real Estate Loans	Consumer Loans	Municipal Loans	Unallocated	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

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, 2020 and 2019, respectively.

(In Thousands)	Agriculture Loans	Commercial Loans	Commercial Real Estate Loans	Residential Real Estate Loans	Consumer Loans	Municipal Loans	Unallocated Loans	Total
	For the Year Ended December 31, 2020							
Beginning balance	$ 152	$ 312	$ 255	$ 1,707	$ 43	$ 13	$ 220	$ 2,702
Charge-offs	-	-	-	(99)	(12)	-	-	(111)
Recoveries	-	-	-	7	7	-	-	14
(Credit) Provision	(32)	(22)	59	87	(3)	5	90	184
Ending balance	$ 120	$ 290	$ 314	$ 1,702	$ 35	$ 18	$ 310	$ 2,789

(In Thousands)	Agriculture Loans	Commercial Loans	Commercial Real Estate Loans	Residential Real Estate Loans	Consumer Loans	Municipal Loans	Unallocated Loans	Total
	For the Year Ended December 31, 2019							
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

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

Credit Quality Information

The following tables represent credit exposures by internally assigned grades as of December 31, 2020 and 2019. 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 loan credit quality:

(In Thousands) As of December 31, 2020	Pass	Special Mention	Substandard	Doubtful	Total
Agriculture loans	$ 11,246	$ -	$ -	$ -	$ 11,246
Commercial loans	21,259	-	275	-	21,534
Commercial real estate loans	27,261	-	-	-	27,261
Municipal loans	6,749	-	-	-	6,749
Total	$ 66,515	$ -	$ 275	$ -	$ 66,790

(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

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

<u>Credit Quality Information</u> (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:

	December 31, 2020		
(In Thousands)	Residential Loans	Consumer Loans	Total
Performing	$ 166,968	$ 2,514	$ 169,482
Nonperforming	568	-	568
Total	$ 167,536	$ 2,514	$ 170,050

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

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

	December 31, 2020						
(In Thousands)	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	$ 171	$ -	$ -	$ 171	$ 11,075	$ 11,246	$ -
Commercial loans	66	-	6	72	21,462	21,534	-
Commercial real estate loans	1,297	-	-	1,297	25,964	27,261	-
Residential real estate loans	1,248	831	338	2,417	165,119	167,536	147
Consumer loans	69	26	-	95	2,419	2,514	-
Municipal loans	-	-	-	-	6,749	6,749	-
Total	$ 2,851	$ 857	$ 344	$ 4,052	$ 232,788	$ 236,840	$ 147

6. ALLOWANCE FOR LOAN LOSSES (Continued)

Credit Quality Information **(Continued)**

(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

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, 2020 and 2019. The balances are presented by class of loans.

(In Thousands)	December 31, 2020	2019
Agriculture loans	$ -	$ -
Commercial loans	48	70
Commercial real estate loans	-	12
Residential real estate loans	421	744
Consumer loans	-	2
Municipal loans	-	-
	$ 469	$ 828

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, 2020				
(In Thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Recognized
With no related allowance recorded:					
Agriculture loans	$ -	$ -	$ -	$ -	$ -
Commercial loans	2	7	-	3	1
Commercial real estate loans	-	-	-	-	-
Residential real estate loans	295	332	-	345	11
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	$ -	$ -	$ -	$ -	$ -
Commercial loans	2	7	-	3	1
Commercial real estate loans	-	-	-	-	-
Residential real estate loans	295	332	-	345	11
Consumer loans	-	-	-	-	-
Municipal loans	-	-	-	-	-

6. ALLOWANCE FOR LOAN LOSSES (Continued)

Impaired Loans (Continued)

	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	-	-	-	-	-

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.

There were no new loan modifications in 2020 or 2019 that were considered TDRs.

6. ALLOWANCE FOR LOAN LOSSES (Continued)

COVID-19 Loan Forbearance Programs

Section 4013 of the CARES Act provides that banks may elect not to categorize a loan modification as a TDR if the loan modification is (1) related to the novel coronavirus pandemic ("COVID-19"); (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020, and the earlier of (A) 60 days after the date on which the national emergency concerning the COVID–19 outbreak declared by the President on March 13, 2020, under the National Emergencies Act terminates, or (B) December 31, 2021 (revised).

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

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

At December 31, 2020, we had twelve loans that remained on payment deferrals or payments of interest only, totaling $5.4 million. In accordance with Section 4013 of the CARES Act and the interagency guidance issued on April 7, 2020, these short-term deferrals are not considered TDRs.

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

7. GOODWILL AND INTANGIBLE ASSETS

Goodwill totaled $2.3 million at December 31, 2020 and 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 $177,000 and $242,000 at the years ended December 31, 2020 and 2019, respectively.

7. GOODWILL AND INTANGIBLE ASSETS (Continued)

Core deposit intangible assets are amortized using the sum-of-the-years-digits method over their estimated lives of ten years. Amortization expense totaled $65,000 and $57,000 for the years ended December 31, 2020 and 2019, respectively. The estimated aggregate future amortization expense (in thousands) for core deposit intangible assets as of December 31, 2020, is as follows:

2021	$	53
2022		41
2023		31
2024		22
2025		11
2026 and thereafter		19
Total	$	177

8. PREMISES AND EQUIPMENT

Premises and equipment consist of the following:

(In Thousands)	December 31, 2020	2019
Land	$ 821	$ 821
Buildings and improvements	4,146	4,125
Furniture, fixtures, and equipment	1,576	1,488
	6,543	6,434
Less accumulated depreciation	3,115	2,871
Total	$ 3,428	$ 3,563

Depreciation expense amounted to $244,000 and $318,000 for the years ended December 31, 2020 and 2019, respectively.

9. DEPOSITS

Deposit accounts are summarized as follows:

	December 31, 2020		2019	
(In Thousands)	Amount	%	Amount	%
Demand, noninterest-bearing	$ 66,573	17.8 %	$ 56,928	17.2 %
Demand, interest-bearing	158,708	42.3	119,485	36.1
Savings	69,188	18.4	62,676	18.9
Time deposits, $100,000 and over	33,853	9.0	40,603	12.3
Time deposits, other	46,802	12.5	51,215	15.5
	$ 375,124	100.0 %	$ 330,907	100.0 %

9. DEPOSITS (Continued)

The scheduled maturities of time deposits are as follows:

(In Thousands)	December 31, 2020	December 31, 2019
One year or less	$ 46,325	$ 54,330
More than one year to two years	12,414	22,183
More than two years to three years	9,904	4,805
More than three years to four years	3,980	4,742
More than four years to five years	7,542	4,255
More than five years	490	1,503
Total	$ 80,655	$ 91,818

Time deposits include those in denominations of $250,000 or more. Such deposits aggregated $14.9 million and $16.8 million at December 31, 2020 and 2019, respectively.

10. BORROWINGS

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, 2020 and 2019, the balance outstanding was $1.1 million and $2.8 million, respectively.

The Company maintained a $6.0 million federal funds borrowing facility with Atlantic Community Bankers Bank during 2020, which will mature on June 30, 2021. 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, 2020 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 debt 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 $134.0 million with the FHLB at December 31, 2020.

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:

	For the Year Ended December 31,	
(In Thousands)	2020	2019
Current tax expense	$ 663	$ 858
Deferred taxes	(18)	(101)
Total	$ 645	$ 757

	December 31,	
	2020	2019
(In Thousands)		
Deferred tax assets:		
Allowance for loan losses	$ 571	$ 552
Deferred compensation	266	235
Purchase accounting adjustments	59	41
Net operating loss	67	72
Other	23	12
Total net deferred tax assets	986	912
Deferred tax liabilities:		
Premises and equipment	(95)	(93)
Net unrealized gain on debt securities	(847)	(261)
Mortgage servicing rights	(58)	-
Deferred loan fees	(8)	(12)
Total gross deferred tax liabilities	(1,008)	(366)
Net deferred tax (liability) asset	$ (22)	$ 546

The Company also has a $317,000 net operating loss carryforward at December 31, 2020, that will begin to expire in 2028. 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,			
	2020		2019	
(In Thousands)	Amount	% of Pretax Income	Amount	% of Pretax Income
Provision at statutory rate	$ 1,016	21.0 %	$ 1,000	21.0 %
Tax-exempt income on debt securities	(299)	(6.2)	(253)	(5.3)
Bank-owned life insurance	(39)	(0.8)	(28)	(0.6)
Other	(33)	(0.7)	38	0.8
Actual tax expense and effective rate	$ 645	13.3 %	$ 757	15.9 %

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 consolidated 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 Statements 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 2017.

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:

(In Thousands)	2020	2019
Commitments to extend credit	$ 46,133	$ 39,675
Standby letters of credit	1,081	1,004

12. COMMITMENTS AND CONTINGENT LIABILITIES (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

Various legal claims arise from time to time in the normal course of business. Management believes the liability, if any, arising from such claims will not have a material effect on the Company's financial position.

13. LEASE COMMITMENTS

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.

The Company's right-of-use asset is included in other assets on the Consolidated Balance Sheets and approximated $370,000 and $430,000 at December 31, 2020 and 2019, respectively. The Company's lease liability is included in other liabilities on the Consolidated Balance Sheets and approximated $370,000 and $430,000 at December 31, 2020 and 2019, respectively. The right-of-use assets encompasses the leases of both the Pottsville Office of The Gratz Bank at 2244 W. Market Street in Pottsville, PA, with an annual lease cost of $38,000 in 2020, and a loan production office at 1524 W. College Avenue in State College, PA, with a total annual lease cost of $27,000 in 2020.

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 operating leases outstanding at December 31, 2020:

13. LEASE COMMITMENTS (Continued)

	Operating Leases
Weighted-average remaining term (years)	6.1
Weighted-average discount rate	2.39%

The following table presents the undiscounted cash flows due related to operating leases as of December 31, 2020, along with a reconciliation to the discounted amount recorded on the Consolidated Balance Sheet:

Undiscounted cash flows due (In thousands):		Operating Leases
2021	$	65
2022		65
2023		65
2024		65
2025		65
2026 and thereafter		74
Total undiscounted cash flows		399
Discount on cash flows		(29)
Total operating lease liabilities	$	370

Rental expense under operating leases totaled approximately $65,000 and $69,000 during the years ended December 31, 2020 and 2019, respectively.

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, 2020 and 2019. Contributions to the plan for the years ended December 31, 2020 and 2019, amounted to $154,000 and $148,000, respectively.

Director-Deferred Compensation Plan

The Company 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 deferred compensation and the supplemental executive retirement plan ("SERP"). 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, 2020 and 2019, the accumulated liability was approximately $1.21 million and $1.22 million, respectively.

14. EMPLOYEE BENEFITS (Continued)

Director-Deferred Compensation Plan (Continued)

The components of director deferred compensation cost that were recognized in noninterest expense on the Consolidated Statements of Income are as follows:

(In Thousands)	For the Year Ended December 31, 2020		For the Year Ended December 31, 2019
Components of deferred compensation cost:			
Deferrals	$ 86		$ 57
Interest cost	42		48
Total deferred compensation cost	$ 128		$ 105

Supplemental Executive Retirement Plan

The Company maintains a SERP for certain executives. At December 31, 2020 and 2019, the accumulated liability was $743,000 and $603,000, respectively, and is included in other liabilities on the accompanying Consolidated Balance Sheets. The expense for the years ended December 31, 2020 and 2019, was $140,000 and $119,000, respectively. Benefit payments amounted to $112,000 and $92,000 for the years ended December 31, 2020 and 2019, 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 ("FRB"). At December 31, 2020, the Bank did not have a reserve requirement as the Federal Reserve Board reduced reserve requirement ratios to zero percent for all depository institutions. At December 31, 2019, the Bank was required by law or regulation to maintain cash reserves of $5.3 million with the FRB.

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, 2020 and 2019, 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 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 or the Bank’s consolidated 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, 2020, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2020 and 2019, 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.

15. REGULATORY RESTRICTIONS (Continued)

Capital Requirements (Continued)

	December 31,			
	2020		2019	
(In Thousands)	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)				
Actual	$ 36,484	14.33 %	$ 33,557	14.14 %
For capital adequacy purposes	20,367	8.00	18,987	8.00
To be well capitalized	25,459	10.00	23,734	10.00
Tier 1 capital (to risk-weighted assets)				
Actual	$ 33,666	13.22 %	$ 30,827	12.99 %
For capital adequacy purposes	15,275	6.00	14,240	6.00
To be well capitalized	20,367	8.00	18,987	8.00
Common equity (to risk-weighted assets)				
Actual	$ 33,666	13.22 %	$ 30,827	12.99 %
For capital adequacy purposes	11,456	4.50	10,680	4.50
To be well capitalized	16,548	6.50	15,427	6.50
Tier 1 capital (to average assets)				
Actual	$ 33,666	7.90 %	$ 30,827	8.50 %
For capital adequacy purposes	17,054	4.00	14,506	4.00
To be well capitalized	21,317	5.00	18,132	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, 2020 and 2019, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements.

	December 31, 2020			
(In Thousands)	Level I	Level II	Level III	Total
Assets:				
Small Business Administration loan pools	$ -	$ 7,994	$ -	$ 7,994
Obligations of state and political subdivisions	-	52,059	-	52,059
Mortgage-backed securites in government-sponsored entities	-	65,394	-	65,394
Total	-	125,447	-	125,447

	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

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, 2020 and 2019, by level within the fair value hierarchy.

Impaired loans that are collateral dependent are written down to fair value through the establishment of specific reserves. Techniques used to value the collateral that secure the impaired 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. There were no impaired loans measured at their fair value on a nonrecurring basis as of December 31, 2020.

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

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%)

(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 and related carrying amounts of the Company's financial instruments that are not required to be measured or reported at fair value are as follows:

(In Thousands)	Level	December 31, 2020 Carrying Value	December 31, 2020 Fair Value	December 31, 2019 Carrying Value	December 31, 2019 Fair Value
Financial assets:					
Cash and cash equivalents	I	$ 33,162	$ 33,162	$ 27,708	$ 27,708
Certificates of deposit with other banks	III	17,051	17,051	18,794	18,794
Loans held for sale	III	1,015	1,015	-	-
Net loans	III	233,795	236,030	235,083	234,302
Accrued interest receivable	I	1,675	1,675	1,254	1,254
Restricted investments in bank stock	I	2,268	2,268	1,292	1,292
Cash surrender value of life insurance	I	8,941	8,941	6,755	6,755
Financial liabilities:					
Deposits	I and III	$ 375,124	$ 374,792	$ 330,907	$ 331,416
FHLB advances - long-term	III	1,120	1,116	2,759	2,759
Accrued interest payable	I	233	233	347	347

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

The following tables present the changes in accumulated other comprehensive income by component, net of tax, for the years ended December 31, 2020 and 2019:

(In Thousands)		Net Unrealized Gains on Debt Securities (a)
Accumulated other comprehensive income, January 1, 2020	$	984
Other comprehensive income before reclassification		2,295
Amount reclassified from accumulated other comprehensive income		(87)
Total other comprehensive income		2,208
Accumulated other comprehensive income, December 31, 2020	$	3,192

(In Thousands)		Net Unrealized Gains (Losses) on Debt 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

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

17. ACCUMULATED OTHER COMPREHENSIVE INCOME (Continued)

The following table presents significant amounts reclassified out of accumulated other comprehensive income for the years ended December 31, 2020 and 2019:

(In Thousands) Details about other comprehensive income	Amount Reclassified from Accumulated Other Comprehensive Income (a) 2020	 2019	Affected Line Item in Consolidated Statement of Income
Unrealized gains on debt securities available for sale	$ 110	$ 13	Net realized gain on sales of debt securities
	(23)	(2)	Income tax expense
	$ 87	$ 11	

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

18. PENDING MERGER

On December 10, 2020, the Company announced the execution of a definitive agreement to combine with LINKBANCORP, Inc. (OTC Pink: LNKB) in a stock and cash transaction, creating a leading Pennsylvania community bank with combined assets in excess of $800 million and a network of nine offices throughout South Central Pennsylvania. The parties expect to complete the transaction in mid-2021, after satisfaction of customary closing conditions, including required regulatory and shareholder approvals.

Under the terms of the agreement, which has been unanimously approved by the boards of directors of both companies, the Company will merge with and into LINKBANCORP, with LINKBANCORP surviving the merger. Shareholders of the Company will have the opportunity to elect to receive $87.68 per share in cash or 7.3064 shares of LINKBANCORP common stock for each share they own, representing a total valuation of approximately $62.6 million based on the trading price of LINKBANCORP as of December 7, 2020. The agreement provides for proration procedures intended to ensure that, in the aggregate, at least 80 percent of the Company's common shares outstanding will be exchanged for LINKBANCORP common stock. The transaction is expected to be a tax-free exchange to the extent shareholders of the Company receive stock in exchange for their shares. LINKBANCORP shareholders will own approximately 52% and the Company's shareholders will own approximately 48% of the combined company.

19. RISKS AND UNCERTAINTIES

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

20. SUBSEQUENT EVENTS

Management has reviewed events occurring through May 7, 2021, the date the consolidated financial statements were issued, and no subsequent events have occurred requiring accrual or additional disclosure.