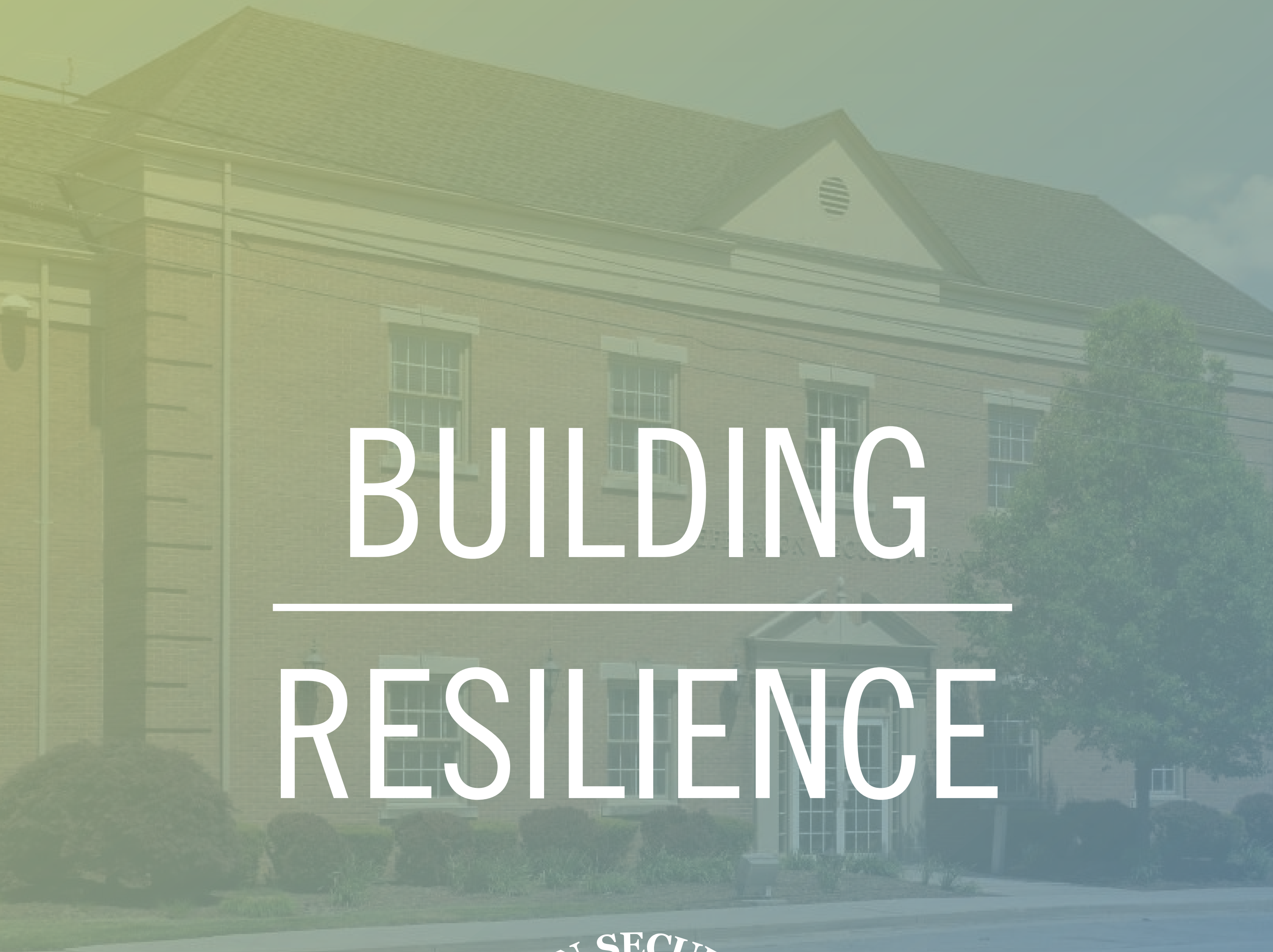


BUILDING
RESILIENCE

JEFFERSON SECURITY BANK
JSB
BUILDING COMMUNITY

2020 ANNUAL REPORT

2020 ANNUAL REPORT

BUILDING STRONGER COMMUNITIES

We are a community bank that partners with our customers to enhance their lives and enrich our communities through local decision-making.

THE YEAR 2020 is one that all of us will remember for generations to come. Reflecting over this last year along with the rich heritage of Jefferson Security Bank generates a strong sense of pride. The unforeseen actions and reactions to the pandemic impacted every aspect of each of our lives, but through it all, the strength, compassion, hard work and resilience of our team allowed us to deliver financial support and encouragement when it mattered most. I am grateful to our employees for their tireless commitment and for the leadership of our Board of Directors during these challenging times. Some have referred to 2020 as the year that everything changed; and while we redirected many of our efforts, 2020 was a year to reinforce our fundamental mission as a community bank that partners with our customers to enhance their lives and enrich our communities through local decision-making.

As a shareholder, we value your investment and know that your continued support allows JSB to accomplish our mission. With this focus, we delivered record earnings for the third consecutive year. This demonstrates our ongoing commitment to build value for our shareholders and led to the acknowledgement in 2020 by American Banker when Jefferson Security Bank was named a "Top 200 Community Bank" for the first time. This designation is awarded to community banks who obtain the highest level of return on average equity over a three year period. Being awarded a top honor based on financial performance is extremely meaningful and solidifies our commitment to the future performance of JSB.

For the year ended 2020, net income increased to $2.9 million, an increase of 2.8% when compared to $2.8 million for the year ended 2019. I am pleased with our financial performance given the historically low interest rate environment and our decision to build the allowance for loan losses to be better positioned for economic uncertainties. For 2020, the provision for loan losses expense totaled $800,000, resulting in an increase to the allowance for loan losses of 36.6%. Additionally, interest income remained stable while interest expense decreased 22.4% to $1.8 million from $2.3 million through active management of deposit and funding costs, when comparing the years ended 2020 and 2019, respectively. During the same period, noninterest income increased by 9.5% primarily as a result of realized gains on the investment portfolio. When comparing the years ended 2020 with 2019, noninterest expense remained stable as increases in other expenses were offset with a 7.6% decline in salaries and employee benefits resulting primarily from staffing changes.

Our financial performance resulted in an increase in book value per share of 13.1% to $111.02 per share from $98.16 per share and an increase in basic and diluted earnings per share to $10.30 per share from $10.02 per share when comparing the years ended 2020 and 2019, respectively. For the year ended 2020, our management team's efforts to improve efficiencies through streamlining processes while increasing productivity led to an improvement in our efficiency ratio to 65.9% for the year ended 2020 from 69.0% for the year ended 2019.

> “JSB HAS MADE A REAL DIFFERENCE IN THE LIVES OF OUR CUSTOMERS, OUR SMALL BUSINESSES AND OUR NEIGHBORS . . .”

In 2020, balance sheet growth continued, reaching the highest level in the history of JSB. When comparing the years ended 2020 and 2019, respectively, gross loans grew 10.6% to $242.6 million, total deposits grew 22.4% to $346.4 million and total assets grew 17.4% to $380.7 million. Approximately 60% of the loan growth was attributed to the Paycheck Protection Program (PPP), a new program created through government stimulus packages to provide financial support to small businesses. Many of these loans were funded at a time when local small businesses were struggling to make payroll. I am extremely proud of our management team and lenders whose efforts were focused on ensuring that proper support was given to the small businesses in our community during a time of uncertainty and confusion resulting from the lack of guidance and continuous changes to the PPP rules. The Bank’s liquidity level improved through the growth in deposits which is attributed to stimulus payments and enhanced unemployment benefits provided to individuals throughout the pandemic along with a shift in consumer spending.

The Bank’s capital ratios improved for the year ended 2020 when compared to 2019, except for the Tier 1 leverage ratio which declined as a result of significant asset growth outpacing the increase in capital. More specifically, the Tier 1 leverage ratio declined from 9.51% to 8.68% when comparing the years ended 2019 and 2020, respectively, even as total Tier 1 capital increased by 7.8%. The Bank remains well-capitalized, and our management team will continue to focus on efficient capital management and disciplined risk management, while executing on our strategies to build sustained earnings and shareholder value.

This year marks my fifth year as the President and CEO of Jefferson Security Bank. During this time, net income has increased each year producing an increase in earnings per share to $10.30 per share for the year ended 2020 from $3.87 per share for the year ended 2015. Book value per share improved to $111.02 per share for the year ended 2020 from $73.07 for the year ended 2015. Producing solid financial performance ensures that JSB will continue to be here to support the people in our communities as we have for over 150 years, even when unexpected circumstances arise. Our support extends beyond meeting the financial needs of our customers into directly supporting our community through donations and service to local nonprofits and others in need. The continued interest and involvement in JSB from you and your families is important. The pandemic prevented us from holding our annual gathering during our shareholders meeting in 2020 and some limitations continue into 2021. We look forward to holding a gathering in the future once we can safely come together. Until then, I welcome the opportunity to connect with each of you and encourage you to come by the Bank or give me a call. JSB has made a real difference in the lives of our customers, our small businesses and our neighbors in our communities during this pandemic and we will continue to do so.

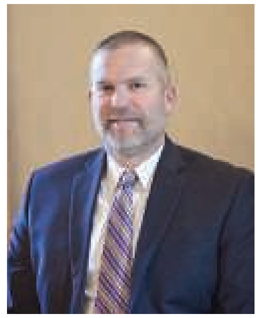
Cindy A. Kitner

Cindy A. Kitner, CPA
President and CEO

BOARD OF DIRECTORS

Cindy A. Kitner, CPA
President and CEO

Frederick K. Parsons
Chair



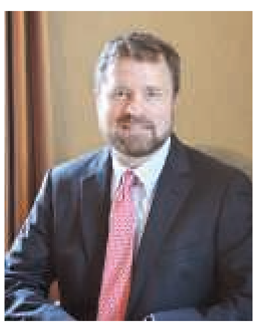
Eric J. Lewis, CPA
Vice Chair

Monica W. Lingenfelter
Corporate Secretary

Christian E. Asam

Dennis L. Barron

Brant M. Lowe



R. Andrew McMillan, Jr.

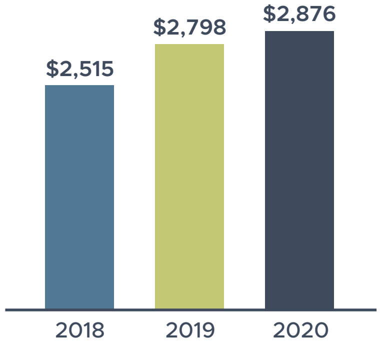
Suellen D. Myers

EXECUTIVE VICE PRESIDENTS

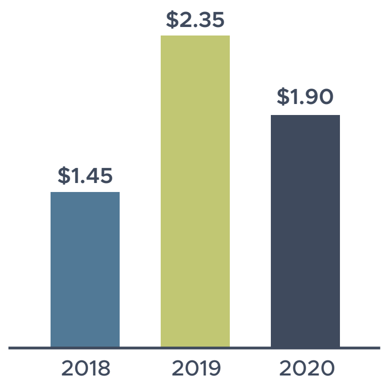
Jenna L. Kesecker, CPA
Executive Vice President and Chief Financial Officer

Karl J. "Jeff" Keller
Executive Vice President of Lending

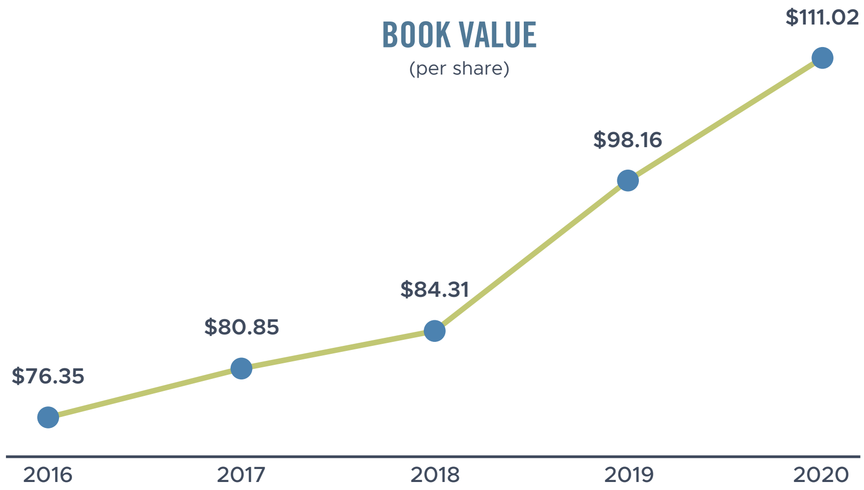
NET INCOME
(in thousands)



CASH DIVIDENDS
(per share)



BOOK VALUE
(per share)

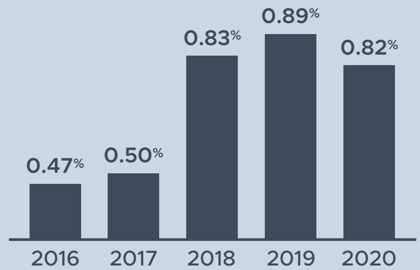


GROWTH RATIOS
(compared to 2019)

10.40%	17.36%	22.41%	13.10%
Loans (net)	**Assets**	**Deposits**	**Capital**

SELECT RATIOS
(2016–2020)

0.82%



Return on Average Assets

9.67%

Return on Average Equity

65.92%

Efficiency Ratio

COMMUNITY SUPPORT HIGHLIGHTS

Employee jeans days raised over

$3,000

for 24 charities

5

BINS

collected for

TOYS FOR TOTS

FOOD DRIVE

1,100

POUNDS

DONATED TO CCAP LOAVES & FISHES

Over

40

HOLIDAY GIFTS DONATED

to children at The Bethany House

AWARDED $2,000 IN SCHOLARSHIPS TO HIGH SCHOOL SENIORS

DONATED

$5,000

to Shepherdstown Volunteer Fire Department

COVID-19 SUPPORT

DONATIONS

$4,500

PPP LOANS

327 SMALL BUSINESSES HELPED AND 2,166 LOCAL JOBS IMPACTED

2020 TOP 200 COMMUNITY BANKS BY AMERICAN BANKER

Jefferson Security Bank is proud to announce that it was named one of American Banker magazine's Top 200 Community Banks for 2020, designating it as one of the highest performing community banks in the nation.

The annual ranking for community banks was released in the May 2020 issue of American Banker magazine. The ranking is based on a three year average of each bank's return on average equity from 2017 to 2019. During this time, the Bank improved its return on average equity by 72%, from 6.31% in 2017 to 10.84% in 2019, representing a significant increase in efficiency and profit generation.

> **"Since her appointment in March 2016, President and CEO Kitner has strategically led with a focus on customer satisfaction and improving operations at the Bank. We are proud of our leadership team and the changes implemented to generate improved financial performance resulting in record earnings."**
>
> —**FRED PARSONS,** CHAIR OF THE BOARD

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Jefferson Security Bank and its subsidiary (the Bank), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Jefferson Security Bank and its subsidiary as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
March 22, 2021

JEFFERSON SECURITY BANK AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2020 and 2019

	2020	2019
ASSETS		
Cash and due from financial institutions	$ 4,335,234	$ 3,697,973
Interest bearing deposits with depository institutions	8,225,805	55,856
Cash and cash equivalents	12,561,039	3,753,829
Securities available for sale, at fair value	110,265,761	83,772,447
Securities held to maturity (fair value of $1,846,857 - 2020; $3,072,343 - 2019)	1,732,550	2,973,592
Restricted securities, at cost	269,800	675,400
Loans, net of allowance for loan losses of $2,781,292 - 2020; $2,036,051 - 2019	239,866,545	217,274,015
Accrued interest receivable	1,095,915	932,518
Premises and equipment, net	5,490,213	5,635,890
Bank owned life insurance	7,114,559	6,931,554
Other real estate owned	345,526	278,100
Other assets	1,968,084	2,174,481
Total assets	$ 380,709,992	$ 324,401,826
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Interest bearing	$ 243,095,307	$ 207,325,329
Noninterest bearing	103,301,055	75,648,827
Total deposits	346,396,362	282,974,156
Securities sold under an agreement to repurchase	338,628	1,842,945
Accrued interest payable	73,619	116,789
Federal funds purchased	- -	11,000
Federal Home Loan Bank advances	- -	9,773,400
Other accrued expenses and other liabilities	2,900,154	2,272,895
Total liabilities	349,708,763	296,991,185
Shareholders' Equity		
Common stock, $10 par value; 300,000 shares authorized; issued and outstanding, 279,246 shares at December 31, 2020 and 2019	2,792,460	2,792,460
Additional paid-in capital	2,792,460	2,792,460
Retained earnings	26,948,282	24,603,092
Accumulated other comprehensive (loss), net	(1,531,973)	(2,777,371)
Total shareholders' equity	31,001,229	27,410,641
Total liabilities and shareholders' equity	$ 380,709,992	$ 324,401,826

See accompanying notes to consolidated financial statements

JEFFERSON SECURITY BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2020 and 2019

	2020	2019
Interest and dividend income		
Loans, including fees	$ 10,541,742	$ 10,172,810
Securities:		
Taxable	1,399,989	1,742,642
Nontaxable	408,950	360,731
Dividends and other interest	37,172	87,497
Total interest and dividend income	12,387,853	12,363,680
Interest expense		
Deposits	1,756,164	1,974,930
Borrowings	26,054	320,664
Total interest expense	1,782,218	2,295,594
Net interest income	10,605,635	10,068,086
Provision for loan losses	800,000	143,000
Net interest income after provision for loan losses	9,805,635	9,925,086
Noninterest income		
Service charges on deposit accounts	503,321	676,854
Other service charges, commissions and ATM fees	1,086,136	951,143
Realized gain on securities, net	217,738	4,564
Income from bank owned life insurance	183,005	168,721
Other	107,195	114,079
Total noninterest income	2,097,395	1,915,361
Noninterest expense		
Salaries and employee benefits	4,217,040	4,563,069
Occupancy	1,271,445	1,238,746
Advertising and marketing	138,129	226,184
ATM and debit card expense	412,796	352,893
Data processing	844,187	747,915
Postage and stationery supplies	167,175	194,204
Professional services	298,783	255,081
FDIC and state assessments	153,750	86,323
Other real estate owned expense (income), net	4,355	(2,359)
Director fees	127,600	128,300
Other	689,265	566,120
Total noninterest expense	8,324,525	8,356,476
Income before income tax expense	3,578,505	3,483,971
Income tax expense	702,748	686,299
Net income	$ 2,875,757	$ 2,797,672
Basic and diluted earnings per common share	$ 10.30	$ 10.02

See accompanying notes to consolidated financial statements

JEFFERSON SECURITY BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2020 and 2019

	2020	2019
Net income	$ 2,875,757	$ 2,797,672
Other comprehensive income, net of tax:		
Unrealized holding gains on securities available for sale arising during period	1,715,497	1,762,354
Reclassification adjustment for securities (gains) losses included in net income	(142,193)	12,466
Change in pension benefits	(305,853)	129,191
Reclassification adjustment for change in pension benefits included in net income	95,717	64,724
Change in supplemental executive retirement benefits	(174,914)	(281,082)
Reclassification adjustment for change in supplemental executive retirement benefits included in net income	57,144	39,064
Total other comprehensive income	1,245,398	1,726,717
Comprehensive income	$ 4,121,155	$ 4,524,389

See accompanying notes to consolidated financial statements

JEFFERSON SECURITY BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2020 and 2019

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)	Total Shareholders' Equity
Balance at December 31, 2018	$ 2,792,460	$ 2,792,460	$ 22,461,648	$ (4,504,088)	$ 23,542,480
Net income	- -	- -	2,797,672	- -	2,797,672
Other comprehensive income	- -	- -	- -	1,726,717	1,726,717
Cash dividends - $2.35 per share	- -	- -	(656,228)	- -	(656,228)
Balance at December 31, 2019	$ 2,792,460	$ 2,792,460	$ 24,603,092	$ (2,777,371)	$ 27,410,641
Net income	- -	- -	2,875,757	- -	2,875,757
Other comprehensive income	- -	- -	- -	1,245,398	1,245,398
Cash dividends - $1.90 per share	- -	- -	(530,567)	- -	(530,567)
Balance at December 31, 2020	$ 2,792,460	$ 2,792,460	$ 26,948,282	$ (1,531,973)	$ 31,001,229

See accompanying notes to consolidated financial statements

JEFFERSON SECURITY BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Net income	$ 2,875,757	$ 2,797,672
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	513,206	495,610
Provision for loan losses	800,000	143,000
Deferred income tax (benefit) expense	(370,265)	10,226
Net amortization of securities	662,160	447,825
Net (gain) loss on sale of securities available for sale	(189,356)	16,969
Net gain on call of securities available for sale	(235)	(347)
Net gain on call of securities held to maturity	(28,147)	(21,186)
Net gain on sale of other real estate owned	(8,466)	(3,781)
Net loss on disposition of fixed assets	4,237	- -
Income from bank owned life insurance	(183,005)	(168,721)
Net change in:		
Accrued interest receivable	(163,397)	(65,492)
Accrued interest payable	(43,170)	53,740
Other assets	52,227	107,407
Other accrued expenses and other liabilities	299,353	404,712
Net cash provided by operating activities	4,220,899	4,217,634
Cash flows from investing activities		
Net increase in loans	(23,451,490)	(18,111,896)
Purchase of securities available for sale	(59,325,699)	(24,618,052)
Proceeds from sale of securities available for sale	13,709,925	15,613,505
Proceeds from calls, maturities and principal paydowns of securities available for sale	20,745,901	13,510,027
Proceeds from calls, maturities and principal paydowns of securities held to maturity	1,270,918	884,688
Purchase of bank owned life insurance	- -	(546,443)
Net decrease in Federal Home Loan Bank stock	405,600	404,000
Premises and equipment expenditures, net	(371,766)	(399,529)
Net cash used in investing activities	(47,016,611)	(13,263,700)
Cash flows from financing activities		
Net increase in interest bearing deposits	35,769,978	15,294,906
Net increase in noninterest bearing deposits	27,652,228	5,429,008
Net decrease in securities sold under an agreement to repurchase	(1,504,317)	(511,443)
Net decrease in federal funds purchased	(11,000)	(14,000)
Net decrease in Federal Home Loan Bank advances	(9,773,400)	(10,872,200)
Dividends paid	(530,567)	(656,228)
Net cash provided by financing activities	51,602,922	8,670,043
Net change in cash and cash equivalents	8,807,210	(376,023)
Cash and cash equivalents at beginning of year	3,753,829	4,129,852
Cash and cash equivalents at end of year	$ 12,561,039	$ 3,753,829

See accompanying notes to consolidated financial statements

JEFFERSON SECURITY BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2020 and 2019
(Continued)

	2020	2019
Supplemental disclosures:		
Interest paid	$ 1,825,388	$ 2,241,854
Income taxes paid	856,916	124,389
Change in unrealized holding gains on available for sale securities	2,097,739	2,366,426
Transfers from loans to other real estate owned	345,526	342,100
Loans provided for sales of other real estate owned	286,566	67,781
Change in pension benefits	(280,181)	258,554
Change in supplemental executive retirement benefits	(157,027)	(322,691)

See accompanying notes to consolidated financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Jefferson Security Bank and subsidiary conform to accounting principles generally accepted in the United States of America and to general practice within the banking industry. The following describes the significant accounting and reporting policies which are employed in the preparation of the consolidated financial statements.

Basis of Presentation: The consolidated financial statements include the accounts of Jefferson Security Bank and its wholly-owned limited liability company, JSB Financial, LLC. JSB Financial, LLC is an inactive subsidiary previously used for offering financial services; therefore, no elimination entries were needed for consolidation.

Nature of Operations, Business Segments: Jefferson Security Bank (the Bank) is headquartered in Shepherdstown, West Virginia. The principal markets for the Bank's financial services are the eastern panhandle region of West Virginia in Jefferson and Berkeley Counties and in adjacent Washington County, Maryland including the areas immediately surrounding these communities.

The Bank provides a full range of banking services to individuals, agricultural businesses, commercial businesses, local government entities and non-profit organizations through its main office and four full-service retail banking offices and one drive-thru banking office located throughout its market area. It maintains a diversified loan portfolio, including loans to individuals for home mortgages, automobiles and personal expenditures, and loans to business enterprises for current operations and expansion.

The Bank offers a variety of deposit products, including checking, savings, money market, individual retirement accounts and certificates of deposit. While the Bank’s management monitors the revenue stream of various products and services, operations are managed and financial performance is evaluated on a Bank wide basis. Accordingly, all of the Bank’s operations are considered by management to be aggregated into one operating segment.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the consolidated financial statements and the disclosures provided, and future results could differ. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the determination of the pension and supplemental executive retirement plan benefits and obligations.

Cash and Cash Equivalents: For purposes of the consolidated balance sheets and the consolidated statements of cash flows, cash and cash equivalents includes cash on hand, cash items, amounts due from financial institutions with original maturities less than 90 days, interest bearing deposits with depository institutions with maturities within 90 days and federal funds sold. Amounts due from financial institutions may, at times, exceed federally insured limits and are carried at cost.

Debt Securities: Certain debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity, which are accounted for at cost and adjusted for amortization of premiums and accretion of discounts. Trading securities are recorded at fair value with changes in fair value included in earnings. Securities not classified as held to maturity or trading, including debt securities with readily determinable fair values, are classified as available for sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

The Bank follows relevant accounting guidance related to recognition and presentation of other than temporary impairment. This accounting guidance specifies that (*a*) if a company does not have the intent to sell the debt security prior to recovery and (*b*) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other than temporarily impaired unless there is a credit loss. When the Bank does not intend to sell the security, and it is more likely than not the Bank will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other than temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Securities: The Bank, as a member of the Federal Home Loan Bank (FHLB) of Pittsburgh, is required to maintain an investment in capital stock of the FHLB. Based on redemption provisions of the FHLB, the stock has no quoted market value and is carried at cost. The redemption of FHLB stock is subject to certain limitations and conditions. At its discretion, the FHLB may declare dividends on the stock. Management reviews for impairment based on the ultimate recoverability of the cost basis in the FHLB stock.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until payoff or maturity are reported at the principal balance outstanding less the allowance for loan losses and any deferred fees or costs. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using either the interest method or straight-line method.

Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the estimated loan term. Interest income is not recorded when full loan repayment is in doubt, typically when the loan is impaired or payments are past due over 90 days, unless the loan is both well secured and in the process of collection. All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

When a loan is not fully collateralized and is in the process of collection, the Bank may charge off the account balance or some portion thereof as a loss. Generally, a delinquency over 120 days past due will be charged off unless the loan is well secured and an acceptable collection plan is in place with the exception of personal residential property which may be charged off at 150 days. All charge offs are approved by the Loan Committee and reported to the Board of Directors.

Risk characteristics associated with specific segments of the loan portfolio are detailed below:

Commercial loans not secured by real estate carry risks associated with the successful operation of a business, and the repayments of these loans depend on the profitability and cash flows of the business. Borrowers may be subject to changes in industry conditions including decreasing demand and increasing material and production costs that cannot be immediately recaptured. Interest rate increases could have an adverse impact on the profitability of the business. Additional risk relates to the value of collateral where depreciation occurs and the valuation is less precise. As of December 31, 2020, the commercial portfolio increased as a result of the Bank's participation in the Paycheck Protection Program (PPP) administered by the Small Business Administration (SBA). The Bank believes the majority of these loans will ultimately be forgiven and repaid by the SBA in accordance with the terms of the program. Loans funded through this program are fully guaranteed by the U.S. government which significantly reduces the risk of default. As a result, no reserves have been applied to the balance of PPP loans as part of the allowance for loan losses.

Commercial loans secured by real estate carry risks associated with the profitability of the business and the ability to generate positive cash flows sufficient to service debts. Real estate security diminishes risks only to the extent that a market exists for the collateral. Real estate secured construction loans carry risks that a project will not be completed as scheduled and budgeted and that the value of the collateral may, at any point, be less than the principal amount of the loan. Additional risks may occur if the general contractor, who may not be a loan customer, is unable to finish the project as planned due to financial pressures unrelated to the project.

Residential real estate loans carry risks associated with the continued credit worthiness of the borrower and changes in the value of collateral. These loans are subject to adverse employment conditions in the local economy leading to an increase in default rates. Residential real estate loans are mainly comprised of adjustable rate mortgages. In the event of incremental rate increases, the borrowers' ability to maintain payments may be impacted.

Consumer loans carry risks associated with the continued credit worthiness of the borrower and the value of the underlying collateral. In addition, these loans may be unsecured. Consumer loans are more likely to be immediately affected adversely by unemployment, divorce, illness or personal bankruptcy. Consumer loans are further segmented into credit cards and all other consumer loans.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses: The allowance for loan losses is an estimate of probable incurred losses inherent in the loan portfolio. The allowance for loan losses is increased by the provision for loan losses and decreased by charged off loans less recoveries. Management's evaluation of the adequacy of the allowance for loan losses is based on a quarterly evaluation of the loan portfolio. Management estimates the allowance balance required using historical experience, the nature and volume of the portfolio, information about specific borrower situations, estimated collateral values, economic conditions and other factors. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that in management's judgment, should be charged off. Loan losses are charged against the allowance when management believes the loan to be uncollectible. Subsequent recoveries, if any, are credited to the allowance for loan losses.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal and 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 history, and the amount of the shortfall in relation to the principal and interest owed. The recorded investment in impaired loans is defined as the unpaid principal balance less any partial charge offs and/or net of any interest payments made by the borrower during the nonaccrual period.

For purposes of computing the specific loss component of the allowance, impairment is evaluated in total for smaller balance loans of similar nature such as consumer loans using historical experience and on an individual loan basis for other loans. For impaired loans individually evaluated, specific allocations are based on the present value of expected future cash flows from the loan discounted at the loan's original effective rate or the fair value of collateral less estimated costs to sell if the loan is collateral dependent.

The general component covers non-classified loans and is based on historical loss experience adjusted for nine qualitative factors. The historical loss experience is calculated based on losses in the portfolio over the previous five years. For the qualitative factors, the first factor is comprised of delinquent loans, accruing substandard loans, nonaccrual loans and net charge offs. The factor is applied to each loan segment. The second factor is assigned by management based on economic and industry conditions that impact the underlying collateral value. The assigned factor values are then applied to the loan segment balances. The other seven factors are based on economic and business conditions, lending policy and procedures, the experience of management and lending staff, quality of the loan review system, the composition of the loan portfolio, concentrations of credit and external factors such as competition, legal issues and regulatory requirements. These factors are subjective and the Bank's management provides input on these factors to determine the factor value to be equally applied to each loan segment.

Troubled Debt Restructurings: In situations where, for economic or legal reasons related to a borrower's financial condition, management may grant a concession to the borrower that it would not otherwise consider, 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 their loan 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 previously for impaired loans. TDRs are individually evaluated for impairment.

In response to the coronavirus (COVID-19) pandemic and its economic impact on or customers, the Bank has implemented a short-term modification program that complies with the Coronavirus Aid, Relief, and Economic Security (CARES) Act to provide temporary payment relief to those borrowers directly impacted by COVID-19 who were no more than 30 days past due as of December 31, 2019. This program allows for deferral of loan principal and interest payments from the period beginning March 1, 2020 until the earlier of January 1, 2022 or the date that is 60 days after the date on which the national emergency concerning the COVID-19 outbreak terminates. The bank regulatory agencies

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

likewise issued guidance encouraging financial institutions to work prudently with borrowers who are, or may be, unable to meet their contractual payment obligations because of the effects of COVID-19. That guidance, with concurrence of the Financial Accounting Standards Board, and provisions of the CARES Act allow modifications made on a good faith basis in response to COVID-19 to borrowers who were generally current with their payments prior to any relief, to not be treated as troubled debt restructurings nor be reported as past due. Modifications may include payment deferrals (including maturity extensions), fee waivers and covenant waivers.

Other Real Estate Owned: Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value, less estimated selling costs, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in noninterest expense.

Concentrations of Credit Risk: Most of the Bank's activities are with customers located within Berkeley and Jefferson counties of West Virginia and in areas of Washington County, Maryland. Note 4, Notes to Consolidated Financial Statements, details the types of lending in which the Bank engages. The Bank does not have any significant concentrations in any one industry or customer.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method with useful lives ranging from 5 to 40 years for buildings and improvements, and 3 to 35 years for furniture and equipment. Maintenance, repairs and minor alterations are charged to current operations as expenditures are incurred. Major improvements are capitalized.

Employee Benefits: As of December 31, 2013, the Bank froze the defined benefit pension plan. A 401(k) benefit plan is available to employees age 21 and over who have worked at least one year with 1,000 hours of service. The plan allows employee contributions, with matching contributions, to be allocated based on a percentage of the employee salary deferral. The Bank contributed a percentage of each eligible employees' salary to their 401(k) plan account during 2020 and 2019 and intends to continue this practice. The Bank provides a supplemental executive retirement plan to members of senior management.

Income Taxes: When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits, if any, are classified as additional income taxes in the consolidated statements of income. As of December 31, 2020 and 2019, there was no liability for unrecognized tax benefits.

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized holding gains and losses on securities available for sale and pension and postretirement benefits.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Values of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions (exit price notion). Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Bank Owned Life Insurance: The Bank has purchased life insurance policies on certain key employees. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value.

Stock Repurchase Plan: In June 2019, the Federal Deposit Insurance Corporation (FDIC) approved the open market repurchase of up to 15,000 shares of the issued and outstanding shares of Jefferson Security Bank's common stock. No shares were repurchased under this approval. In June 2020, the FDIC approved the repurchase of up to 15,000 shares under similar terms. The approval will expire in 12 months unless a request for an extension is approved. The timing and quantity of purchases under this stock repurchase program will be at the discretion of the Board of Directors, and the program may be discontinued, or suspended and reinitiated, at any time. In February 2021, under the current approval, the Board of Directors approved the repurchase of 3,500 shares of common stock as part of a publicly announced plan. All shares are expected to be repurchased as approved.

Dividend Restriction: Bank regulatory agencies restrict, without prior approval, the total dividend payments of a bank in any calendar year to the bank's retained net income of that year to date, as defined, combined with its retained net income of the preceding two years, less any required transfers to surplus. At December 31, 2020, retained net income, which was free of such restriction, amounted to approximately $6,592,745.

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation. Such reclassifications had no material effect on prior year net income or shareholders' equity.

Financial Instruments with Off-Balance Sheet Risk: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and standby letters of credit issued to meet customer needs. The face amount for these items represents the exposure to loss before considering customer collateral or repayment ability. Such financial instruments are recorded when they are funded.

Advertising Costs: The Bank follows the policy of charging the costs of advertising to expense as incurred. Total advertising expense incurred for 2020 and 2019 was $16,721 and $33,449, respectively.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank – put presumptively beyond reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

COVID-19 and Possible Impacts on Significant Estimates: The coronavirus (COVID-19) pandemic significantly disrupted local, national and global economies and adversely impacted a broad range of industries. The Bank implemented various plans, strategies and protective measures and policies to ensure the safety of employees, customers and communities and to maintain continuity of operations and delivery of essential financial services.

The direct and indirect effect of the pandemic resulted in a significant reduction in economic activity. In response, governmental authorities implemented legislative and regulatory actions including the Coronavirus Aid, Relief, and Economic Security (CARES) Act that was signed into law on March 27, 2020. The CARES Act authorized relief to businesses and consumers that were affected by COVID-19. The funding opportunities for small business was provided through the Paycheck Protection Program (PPP) and included nearly $350 billion designed to aid small and medium sized business through federally guaranteed loans administered by the Small Business Administration ("SBA"). Following the exhaustion of all available funds under the PPP, the Paycheck Protection Program Flexibility Act of 2020 was signed on

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

June 5, 2020 and amended PPP lending to give borrowers more flexibility in how and when loan funds are spent while retaining the possibility of full forgiveness. The deadline to apply for a PPP loan was extended from June 30, 2020 to August 8, 2020 with new legislation signed into law on July 4, 2020.

Loans covered by the PPP may qualify for loan forgiveness for amounts spent on eligible payroll costs and other nonpayroll costs. On October 8, 2020, the SBA released a streamlined loan forgiveness application for PPP loans of $50,000. The remaining loan balance after forgiveness of any amounts is still fully guaranteed by the SBA. In accordance with the CARES Act, the Bank funded 327 PPP loans totaling approximately $15.4 million during 2020. As of December 31, 2020, the Bank had a total gross balance of PPP loans outstanding of $14.3 million.

The Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act was passed as part of the Consolidated Appropriations Act (CAA) and signed into law on December 27, 2020. The CAA provides additional COVID-19 stimulus relief and includes $284 billion in funding for additional PPP lending through the SBA. The program offers new PPP loans to small businesses and nonprofits that did not receive a PPP loan in 2020, and also provides a second draw forgivable PPP loan targeted at the hardest-hit businesses that have already spent their initial PPP proceeds and who can demonstrate at least a 25% reduction in gross receipts between comparable quarters in 2019 and 2020.

In addition to participating in PPP lending, the Bank also implemented payment relief options to support its customers including the deferral of loan principal and interest payments. Following the onset of the pandemic, the balance of loans on payment deferral or extension reached 11.8% of the total loan portfolio, excluding PPP loans. As of December 31, 2020, the Bank had 3.6% of the loan portfolio, excluding PPP loans, on deferral or extension. Management continues to focus on assessing the risks in the loan portfolio and working with customers to mitigate this risk where possible.

The economic slowdown caused by COVID-19 impacted local communities and affected loan demand and consumption of financial services, generally, reducing interest income, noninterest income, noninterest expense, and the demand for other profitable financial services provided by the Bank. The Bank is unable to fully assess or predict the extent of the effects of COVID-19 on the Bank's operations as the ultimate impact will depend on factors that are currently unknown and/or beyond the Bank's control.

If the global response to contain COVID-19 escalates further or is unsuccessful, the Bank could experience a material adverse effect on its significant estimates, particularly the allowance for loan losses. Further economic decline may affect its borrower's ability to repay in future periods triggering increases in the Bank's required allowance for loan losses and related expense. It is possible that the Bank's asset quality measure could worsen at a future measurement period if effects of the COVID-19 pandemic are prolonged.

Recent Accounting Pronouncements

<u>Accounting Standards Recently Adopted</u>

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820) - Changes to the Disclosure Requirements for Fair Value Measurement." ASU 2018-13 modifies the disclosure requirements on fair value measurements by requiring that Level 3 fair value disclosures include the range and weighted average of significant unobservable inputs used to develop those fair value measurements. For certain unobservable inputs, an entity may disclose other quantitative information in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements. Certain disclosure requirements in Topic 820 were also removed or modified. ASU 2018-13 was effective for the Bank on January 1, 2020 and did not have a material impact on the its consolidated financial statements.

In March 2020 (revised in April 2020), various regulatory agencies, including the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation, ("the agencies") issued an interagency statement on loan modifications and reporting for financial institutions working with customers affected by the Coronavirus (COVID-19). The interagency statement was effective immediately and impacted accounting for loan modifications. Under Accounting Standards Codification (ASC) 310-40, "Receivables – Troubled Debt Restructurings by Creditors," a restructuring of debt constitutes a troubled debt restructuring (TDR) if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. The agencies confirmed with the staff of the FASB that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief, are not to be considered 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. Borrowers considered current are those that are less than 30 days past due on their contractual payments at the time a modification program is implemented. In August 2020, a joint statement on additional loan modifications was issued. Among other things, the Interagency Statement addresses accounting and regulatory reporting considerations for loan modifications, including those accounted for under Section 4013 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The CARES Act was signed into law on March 27, 2020 to help support individuals and businesses through loans, grants, tax changes and other types of relief. The most significant impacts of the Act related to accounting for loan modifications and establishment of the Paycheck Protection Program (PPP). On December 21, 2020, the Consolidated Appropriations Act of 2021 (CAA) was passed. The CAA extends or modifies many of the relief programs first created by the CARES Act, including the PPP and treatment of certain loan modifications related to the COVID-19 pandemic. The Bank continues to assess the impact of the CARES Act and other statues, regulation and supervisory guidance related to the COVID-19 pandemic.

Accounting Developments Pending Adoption

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The amendments in this ASU, among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. 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. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The FASB has issued multiple updates to ASU 2016-13 as codified in Topic 326, including ASU's 2019-04, 2019-05, 2019-10, 2019-11, 2020-02, and 2020-03. These ASU's have provided for various minor technical corrections and improvements to the codification as well as other transition matters. Smaller reporting companies who file with the U.S. Securities and Exchange Commission (SEC) and all other entities who do not file with the SEC are required to apply the guidance for fiscal years, and interim periods within those years, beginning after December 15, 2022. The Bank is currently assessing the impact that ASU 2016-13 will have on its consolidated financial statements. The Bank has a committee to address information requirements, evaluate methodologies, research forecasts and ensure readiness and compliance with the standard. The Bank is utilizing a model provider for the CECL allowance model and will run multiple concurrent models prior to the effective date for adoption.

In August 2018, the FASB issued ASU 2018-14, "Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans." These amendments modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. Certain disclosure requirements have been deleted while the following disclosure requirements have been added: the weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates and an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. The amendments also clarify the disclosure requirements in paragraph 715-20-50-3, which state that the following information for defined benefit pension plans should be disclosed: the projected benefit obligation (PBO) and fair value of plan assets for plans with PBOs in excess of plan assets and the accumulated benefit obligation (ABO) and fair value of plan assets for plans with ABOs in excess of plan assets. The amendments are effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The Bank does not expect the adoption of ASU 2018-14 to have a material impact on its consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740) – Simplifying the Accounting for Income Taxes." The ASU is expected to reduce cost and complexity related to the accounting for income taxes by removing specific exceptions to general principles in Topic 740 (eliminating the need for an organization to analyze whether certain exceptions apply in a given period) and improving financial statement preparers' application of certain income tax-related guidance. This ASU is part of the FASB's simplification initiative to make narrow-scope simplifications and improvements to accounting standards through a series of short-term projects. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted. The Bank is currently assessing the impact that ASU 2019-12 will have on its consolidated financial statements.

NOTE 2 – EARNINGS PER SHARE

Basic and diluted earnings per common share are calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share include the dilutive effects of additional potential common shares, if present. No such items exist as of December 31, 2020 and 2019. Therefore, diluted earnings per share equals basic earnings per share for both years. Basic and diluted earnings per share are calculated based on weighted average common shares outstanding of 279,246 for 2020 and 2019. Basic and diluted earnings per common share was $10.30 and $10.02 for the years ended December 31, 2020 and 2019, respectively.

NOTE 3 – SECURITIES

The primary purposes of the securities portfolio are to generate income, supply collateral for public funds on deposit and meet liquidity needs of the Bank through readily saleable financial instruments. The portfolio is made up of fixed rate bonds, whose prices move inversely with interest rates, as well as variable rate bonds, whose prices correspond directly with interest rates. At the end of any accounting period, the securities portfolio may have both unrealized gains and losses. The Bank monitors the portfolio which is subject to liquidity needs, market rate changes and credit risk changes to determine if adjustments are needed.

The amortized cost and fair value of securities, with unrealized gains and losses, for the available for sale portfolio is shown in the following table.

Available for Sale	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
December 31, 2020				
U.S. Government and agency	$ 64,801,244	$ 1,677,387	$ (84,255)	$ 66,394,376
State and municipal	42,778,366	1,122,178	(29,159)	43,871,385
	$ 107,579,610	$ 2,799,565	$ (113,414)	$ 110,265,761
December 31, 2019				
U.S. Government and agency	$ 67,768,274	$ 637,400	$ (245,457)	$ 68,160,217
State and municipal	15,415,761	217,392	(20,923)	15,612,230
	$ 83,184,035	$ 854,792	$ (266,380)	$ 83,772,447

NOTE 3 – SECURITIES (Continued)

The amortized cost and fair value of securities, with unrealized gains and losses, for the held to maturity portfolio is shown in the following table.

Held to Maturity	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2020				
U.S. Government and agency	$ 662,324	$ 32,745	$ - -	$ 695,069
State and municipal	1,070,226	81,562	- -	1,151,788
	$ 1,732,550	$ 114,307	$ - -	$ 1,846,857
December 31, 2019				
U.S. Government and agency	$ 1,036,293	$ 27,560	$ - -	$ 1,063,853
State and municipal	1,937,299	71,191	- -	2,008,490
	$ 2,973,592	$ 98,751	$ - -	$ 3,072,343

At December 31, 2020 and 2019, securities were pledged to secure public deposits and for other purposes required or permitted by law. These securities had a fair value of $56,425,458 and $51,034,531, and an amortized cost of $54,566,573 and $50,479,823, at December 31, 2020 and 2019, respectively. The fair value of securities pledged to secure securities sold under an agreement to repurchase was $2,252,009 and $2,484,993, and the amortized cost of these securities was $2,143,733 and $2,472,588 at December 31, 2020 and 2019, respectively.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2020 follows:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in less than one year	$ 1,000,814	$ 1,014,110	$ - -	$ - -
Due from one to five years	2,583,760	2,643,686	- -	- -
Due from five to ten years	8,803,877	9,122,979	1,070,226	1,151,788
Due after ten years	95,191,159	97,484,986	662,324	695,069
	$ 107,579,610	$ 110,265,761	$ 1,732,550	$ 1,846,857

For the years ended December 31, 2020 and 2019, proceeds from sales and calls of securities available for sale were $14,854,925 and $16,058,505, respectively. Gross realized gains on sales and calls on available for sale securities amounted to $201,567 and $25,654, while gross realized losses amounted to $11,976 and $42,276 for the years ended December 31, 2020 and 2019, respectively. The tax provision applicable to these net realized gains and losses was $47,398 and ($4,156) in 2020 and 2019, respectively.

For the years ended December 31 2020 and 2019, there were no proceeds from the sale of securities held to maturity, and proceeds from the call of securities held to maturity were $890,000 and $600,000, respectively. Gross realized gains on the calls of held to maturity securities amounted to $28,147 and $21,186, respectively, with no gross realized losses for the years ended December 31, 2020 and 2019. The tax provision applicable to the gross realized gains was $7,037 and $5,297 in 2020 and 2019, respectively.

An impairment is considered "other than temporary" if any of the following conditions are met: the Bank intends to sell the security, it is more likely than not that the Bank will be required to sell the security before the recovery of its cost basis, or the Bank does not expect to recover the security's entire cost basis, even if the Bank does not intend to sell. On at least a quarterly basis, the Bank reviews available for sale and held to maturity securities for other than temporary impairment based on the severity and duration to which the cost basis exceeds the market value, changes related to credit quality factors of the issuer including economic and financial conditions, the present value of cash flows expected to be collected on the securities and the Bank's ability and intent to hold the security until maturity.

NOTE 3 – SECURITIES (Continued)

The Bank does not have any securities that are considered "other than temporarily impaired" at December 31, 2020 and 2019. Based on market prices at the respective dates, the Bank had sixteen securities at December 31, 2020 and sixty securities at December 31, 2019 with unrealized losses. These unrealized losses were caused by interest rate fluctuations and not due to credit deterioration of the issuers. The following tables detail securities with unrealized losses at December 31, 2020 and 2019.

	Duration of Unrealized Losses at December 31, 2020					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government and agency	$ 5,074,684	$ (76,338)	$ 1,934,399	$ (7,917)	$ 7,009,083	$ (84,255)
State and municipal	4,070,452	(29,159)	- -	- -	4,070,452	(29,159)
	$ 9,145,136	$ (105,497)	$ 1,934,399	$ (7,917)	$ 11,079,535	$ (113,414)

	Duration of Unrealized Losses at December 31, 2019					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government and agency	$ 24,008,286	$ (139,453)	$ 12,095,921	$ (106,004)	$ 36,104,207	$ (245,457)
State and municipal	3,187,360	(11,819)	634,113	(9,104)	3,821,473	(20,923)
	$ 27,195,646	$ (151,272)	$ 12,730,034	$ (115,108)	$ 39,925,680	$ (266,380)

NOTE 4 – LOANS

Loans are shown on the consolidated balance sheets net of the allowance for loan losses and deferred loan fees and costs. Interest is computed by methods that result in level rates of return on principal. Loans are charged off when, in the opinion of management, they are deemed to be uncollectible after taking into consideration such factors as the current financial condition of the customer and the underlying collateral and guarantees.

The following table presents a summary of the balances of loans at December 31, 2020 and 2019.

	2020	2019
Loans secured by real estate:		
Commercial real estate:		
Construction	$ 9,237,593	$ 10,422,553
Owner occupied	14,304,962	16,983,936
Non-owner occupied	37,779,307	35,020,930
Residential real estate:		
Construction	13,633,837	11,303,068
Home equity	11,608,796	12,994,959
Other	133,205,844	122,725,158
Total loans secured by real estate	219,770,339	209,450,604
Commercial	20,052,503	6,440,291
Consumer:		
Credit cards	341,729	356,174
Revolving credit plans	223,003	220,501
Other	3,310,341	3,462,372
	243,697,915	219,929,942
Net deferred loan fees and costs	(1,050,078)	(619,876)
Allowance for loan losses	(2,781,292)	(2,036,051)
Loans, net	$ 239,866,545	$ 217,274,015

Overdrafts totaling $201,990 and $60,645 at December 31, 2020 and 2019, respectively, were reclassified from deposits to loans.

NOTE 5 – ALLOWANCE FOR LOAN LOSSES

Management's evaluation of the adequacy of the allowance for loan losses is based on many factors including historical experience, 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, and current economic conditions.

An analysis of the allowance for loan losses follows for the years ended December 31, 2020 and 2019:

	2020	2019
Beginning balance	$ 2,036,051	$ 1,987,970
Loans charged off	(91,325)	(256,110)
Recoveries	36,566	161,191
Provision for loan losses	800,000	143,000
Ending balance	$ 2,781,292	$ 2,036,051

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (Continued)

	Commercial Real Estate	Residential Real Estate	Commercial	Consumer	Total
December 31, 2020					
Allowance for loan losses:					
Beginning balance	$ 542,338	$ 1,403,605	$ 54,735	$ 35,373	$ 2,036,051
Loans charged off	- -	(63,578)	(1,097)	(26,650)	(91,325)
Recoveries	7,599	13,309	- -	15,658	36,566
Provision for loan losses	152,938	457,123	172,492	17,447	800,000
Ending balance	$ 702,875	$ 1,810,459	$ 226,130	$ 41,828	$ 2,781,292
Ending balance: individually evaluated for impairment	$ 41,000	$ 100,000	$ 9,626	$ - -	$ 150,626
Ending balance: collectively evaluated for impairment	$ 661,875	$ 1,710,459	$ 216,504	$ 41,828	$ 2,630,666
Loans:					
Ending balance	$ 61,321,862	$ 158,448,477	$ 20,052,503	$ 3,875,073	$ 243,697,915
Ending balance: individually evaluated for impairment	$ 6,896,644	$ 872,686	$ 9,626	$ 7,357	$ 7,786,313
Ending balance: collectively evaluated for impairment	$ 54,425,218	$ 157,575,791	$ 20,042,877	$ 3,867,716	$ 235,911,602

	Commercial Real Estate	Residential Real Estate	Commercial	Consumer	Total
December 31, 2019					
Allowance for loan losses:					
Beginning balance	$ 583,399	$ 1,325,529	$ 46,375	$ 32,667	$ 1,987,970
Loans charged off	- -	(219,859)	- -	(36,251)	(256,110)
Recoveries	122,579	5,577	- -	33,035	161,191
Provision for (recovery of) loan losses	(163,640)	292,358	8,360	5,922	143,000
Ending balance	$ 542,338	$ 1,403,605	$ 54,735	$ 35,373	$ 2,036,051
Ending balance: individually evaluated for impairment	$ 12,000	$ 155,000	$ - -	$ 1,000	$ 168,000
Ending balance: collectively evaluated for impairment	$ 530,338	$ 1,248,605	$ 54,735	$ 34,373	$ 1,868,051
Loans:					
Ending balance	$ 62,427,419	$ 147,023,185	$ 6,440,291	$ 4,039,047	$ 219,929,942
Ending balance: individually evaluated for impairment	$ 6,279,788	$ 921,059	$ - -	$ 11,394	$ 7,212,241
Ending balance: collectively evaluated for impairment	$ 56,147,631	$ 146,102,126	$ 6,440,291	$ 4,027,653	$ 212,717,701

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (Continued)

For the impaired loans in the tables below, the recorded investment represents the outstanding principal balance for each loan. The unpaid principal balance represents the outstanding principal balance plus any amount that has been charged off and/or any payments that have been applied towards principal on nonaccrual loans.

Impaired loans at December 31, 2020 were as follows:

December 31, 2020	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial real estate:					
Construction	$ 2,290,245	$ 2,290,245	$ - -	$ 1,658,556	$ 123,802
Owner occupied	630,919	630,919	- -	697,117	35,739
Non-owner occupied	2,375,594	2,690,679	- -	2,395,702	- -
Residential real estate:					
Construction	- -	- -	- -	- -	- -
Home equity	- -	- -	- -	- -	- -
Other	90,927	107,603	- -	97,428	1,732
Commercial	- -	- -	- -	- -	- -
Consumer:					
Credit cards	- -	- -	- -	- -	- -
Revolving credit plans	- -	- -	- -	- -	- -
Other	7,357	7,357	- -	9,287	588
With an allowance recorded:					
Commercial real estate:					
Construction	- -	- -	- -	- -	- -
Owner occupied	- -	- -	- -	- -	- -
Non-owner occupied	1,599,886	1,599,886	41,000	1,800,571	13,577
Residential real estate:					
Construction	- -	- -	- -	- -	- -
Home equity	- -	- -	- -	- -	- -
Other	781,759	831,239	100,000	799,332	29,710
Commercial	9,626	9,626	9,626	9,744	661
Consumer:					
Credit cards	- -	- -	- -	- -	- -
Revolving credit plans	- -	- -	- -	- -	- -
Other	- -	- -	- -	- -	- -
Total	$ 7,786,313	$ 8,167,554	$ 150,626	$ 7,467,737	$ 205,809

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (Continued)

Impaired loans at December 31, 2019 were as follows:

December 31, 2019	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial real estate:					
Construction	$ 756,688	$ 756,688	$ - -	$ 611,145	$ 49,316
Owner occupied	692,220	692,220	- -	402,061	44,449
Non-owner occupied	4,018,138	4,275,222	- -	4,110,659	39,884
Residential real estate:					
Construction	- -	- -	- -	- -	- -
Home equity	- -	- -	- -	- -	- -
Other	162,914	176,442	- -	167,261	5,305
Commercial	- -	- -	- -	- -	- -
Consumer:					
Credit cards	- -	- -	- -	- -	- -
Revolving credit plans	- -	- -	- -	- -	- -
Other	- -	- -	- -	- -	- -
With an allowance recorded:					
Commercial real estate:					
Construction	- -	- -	- -	- -	- -
Owner occupied	- -	- -	- -	- -	- -
Non-owner occupied	812,742	906,468	12,000	841,892	- -
Residential real estate:					
Construction	- -	- -	- -	- -	- -
Home equity	- -	- -	- -	- -	- -
Other	758,145	788,207	155,000	799,332	29,710
Commercial	- -	- -	- -	- -	- -
Consumer:					
Credit cards	- -	- -	- -	- -	- -
Revolving credit plans	- -	- -	- -	- -	- -
Other	11,394	12,584	1,000	13,506	774
Total	$ 7,212,241	$ 7,607,831	$ 168,000	$ 6,945,856	$ 169,438

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (Continued)

The following tables present the aging of past due loans including nonaccrual loans as of December 31, 2020 and 2019 by class of loans:

December 31, 2020	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Commercial real estate:							
Construction	$ - -	$ - -	$ - -	$ - -	$ 9,237,593	$ 9,237,593	$ - -
Owner occupied	263,743	- -	106,917	370,660	13,934,302	14,304,962	106,917
Non-owner occupied	- -	- -	- -	- -	37,779,307	37,779,307	- -
Residential real estate:							
Construction	- -	- -	- -	- -	13,633,837	13,633,837	- -
Home equity	- -	- -	- -	- -	11,608,796	11,608,796	- -
Other	13,798	272,412	387,186	673,396	132,532,448	133,205,844	387,186
Commercial	- -	- -	- -	- -	20,052,503	20,052,503	- -
Consumer:							
Credit cards	- -	- -	- -	- -	341,729	341,729	- -
Revolving credit plans	- -	- -	- -	- -	223,003	223,003	- -
Other	- -	- -	- -	- -	3,310,341	3,310,341	- -
Total	$ 277,541	$ 272,412	$ 494,103	$ 1,044,056	$ 242,653,859	$ 243,697,915	$ 494,103

December 31, 2019	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Commercial real estate:							
Construction	$ - -	$ - -	$ - -	$ - -	$ 10,422,553	$ 10,422,553	$ - -
Owner occupied	680,856	677,142	- -	1,357,998	15,625,938	16,983,936	- -
Non-owner occupied	- -	- -	- -	- -	35,020,930	35,020,930	- -
Residential real estate:							
Construction	- -	- -	- -	- -	11,303,068	11,303,068	- -
Home equity	- -	- -	15,077	15,077	12,979,882	12,994,959	15,077
Other	28,316	9,111	- -	37,427	122,687,731	122,725,158	- -
Commercial	- -	- -	- -	- -	6,440,291	6,440,291	- -
Consumer:							
Credit cards	- -	- -	- -	- -	356,174	356,174	- -
Revolving credit plans	- -	- -	- -	- -	220,501	220,501	- -
Other	16,110	- -	- -	16,110	3,446,262	3,462,372	- -
Total	$ 725,282	$ 686,253	$ 15,077	$ 1,426,612	$ 218,503,330	$ 219,929,942	$ 15,077

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (Continued)

The following table displays the types of loans that comprised nonaccruals at December 31, 2020 and 2019:

	2020	2019
Commercial real estate:		
Construction	$ - -	$ - -
Owner occupied	263,743	289,414
Non-owner occupied	2,375,594	3,230,995
Residential real estate:		
Construction	- -	- -
Home equity	- -	- -
Other	66,686	70,636
Commercial	- -	- -
Consumer:		
Credit cards	- -	- -
Revolving credit plans	- -	- -
Other	- -	- -
Total	$ 2,706,023	$ 3,591,045

Credit Quality Indicators

The Bank monitors credit quality indicators including risk ratings on loans to determine trends in credit quality of the loan portfolio. Every loan is assessed and assigned a risk rating by the loan officer prior to approval of the credit and monitored on an ongoing basis. The loan review policy dictates which portions of the loan portfolio will be periodically reassessed, which includes a review of the accuracy of the assigned risk ratings.

Loans are rated on a scale from pass to doubtful. The grade considers and reflects the credit worthiness, documentation and credit file completeness as well as legal and policy compliance. Each grade is described below.

Pass: Loans graded as pass are strong borrowers. The Bank will likely not incur a loss on loans graded as pass. Any inadequacies evident in financial performance and/or management sufficiency are offset by other features such as adequate collateral, good guarantors with liquid assets and/or cash flow capacity to repay the debt. Generally, loans classified as pass meet the terms of repayment but may be susceptible to deterioration if adverse factors are encountered.

Special Mention: Loans are graded as special mention when the borrower's character, credit, capacity or collateral is questionable. These weaknesses may, if not checked or corrected, weaken the asset or inadequately protect the Bank's credit position at some future date. Circumstances warrant more than normal monitoring, as these borrowers reflect the risks described in the following categories. These loans should be placed on the Bank's watchlist, and are considered adversely classified. These credits are considered bankable assets with no apparent loss of principal or interest envisioned but may require a higher level of management attention. Assets are currently protected but potentially weak. Potential weaknesses include declining trends in operating earnings and cash flows and/or reliance on the secondary source of repayment. Credits subject to economic, industry, or management factors having an adverse impact upon the credit's prospects for timely payment may also be classified as special mention.

Substandard: Loans graded as substandard are inadequately protected by the net worth and/or cash flow capacity of the borrower or of the collateral pledged. Loans graded as substandard have a borrower whose character has become suspect. The source of repayment is considered conditional, problematic or marginal. Substandard loans would include unsecured or partially secured loans to financially weak borrowers with a strong guarantor or endorser who did not benefit from the loan and without a curtailment in over one year. Some of the loans are workout loans with potential loss consideration. The credit risk in this situation relates to the possibility of some loss of principal and/or interest if the deficiencies are not corrected.

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (Continued)

Doubtful: Loans graded as doubtful are inadequately protected by the net worth of the borrower or by the collateral pledged and repayment in full is improbable on the basis of existing facts, values and conditions. These loans may include those over two months past due that are not adequately secured or are in the process of collection. The probability of some loss is high, but because of certain important and reasonably specific pending factors, which may work to the advantage and strengthening of the facility, its classification as an estimated loss is deferred until a more exact status may be determined.

Loss: Loans graded as loss are considered uncollectible and continuance as an acceptable asset is not warranted. A loan classified as a loss is generally charged off.

The following tables display loans by credit quality indicators at December 31, 2020 and 2019:

December 31, 2020	Pass	Special Mention	Substandard	Doubtful	Total
Commercial real estate:					
Construction	$ 7,074,508	$ 1,417,872	$ 745,213	$ - -	$ 9,237,593
Owner occupied	12,722,887	687,416	894,659	- -	14,304,962
Non-owner occupied	31,048,523	2,810,159	3,920,625	- -	37,779,307
Residential real estate:					
Construction	13,633,837	- -	- -	- -	13,633,837
Home equity	11,241,139	367,657	- -	- -	11,608,796
Other	129,451,374	2,908,502	845,968	- -	133,205,844
Commercial	20,017,105	25,772	9,626	- -	20,052,503
Consumer:					
Credit cards	341,729	- -	- -	- -	341,729
Revolving credit plans	223,003	- -	- -	- -	223,003
Other	3,293,636	16,705	- -	- -	3,310,341
Total	$ 229,047,741	$ 8,234,083	$ 6,416,091	$ - -	$ 243,697,915

December 31, 2019	Pass	Special Mention	Substandard	Doubtful	Total
Commercial real estate:					
Construction	$ 7,993,612	$ 1,672,253	$ 756,688	$ - -	$ 10,422,553
Owner occupied	14,556,865	1,445,438	981,633	- -	16,983,936
Non-owner occupied	29,728,152	2,061,783	3,230,995	- -	35,020,930
Residential real estate:					
Construction	10,943,664	359,404	- -	- -	11,303,068
Home equity	12,409,744	570,138	15,077	- -	12,994,959
Other	118,920,483	2,961,845	842,830	- -	122,725,158
Commercial	6,409,803	30,488	- -	- -	6,440,291
Consumer:					
Credit cards	356,174	- -	- -	- -	356,174
Revolving credit plans	220,501	- -	- -	- -	220,501
Other	3,439,732	22,640	- -	- -	3,462,372
Total	$ 204,978,730	$ 9,123,989	$ 5,827,223	$ - -	$ 219,929,942

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (Continued)

Loans are classified as troubled debt restructurings (TDR) when, for economic or legal reasons related to the borrower's financial position, management grants a concession to the borrower that would not have otherwise been considered. At December 31, 2020 and 2019, the Bank had a total of $5,088,670 and $4,661,177, respectively, in loans classified as troubled debt restructurings.

Troubled debt restructurings are considered subsequently defaulted once the loan is past due greater than 90 days and/or the foreclosure or repossession of collateral with a subsequent charge off of the loan. During the year ended December 31, 2020 and 2019, the Bank had no loans that subsequently defaulted during the period within twelve months of modification.

The table below details the additions to troubled debt restructurings during the year ended December 31, 2020.

December 31, 2020	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial real estate:			
Construction	2	$ 496,891	$ 496,891
Total	2	$ 496,891	$ 496,891

The loans were classified as troubled debt restructurings because the loans had modified payments with extended terms and below market rates based on the credit worthiness of the borrower. The loans were individually evaluated for impairment for the allowance for loan losses with no specific reserve allocation.

There were no additions to troubled debt restructurings during the year ended December 31, 2019.

NOTE 6 – OTHER REAL ESTATE OWNED

The table below reflects changes in other real estate owned (OREO) for the years ended December 31, 2020 and 2019.

	2020	2019
Balance, beginning of year	$ 278,100	$ - -
Properties acquired at foreclosure	345,526	342,100
Sale of foreclosed properties	(286,566)	(67,781)
Gain on disposition	8,466	3,781
Valuation adjustments	- -	- -
Balance, end of year	$ 345,526	$ 278,100

At December 31, 2020 and 2019, the balance in OREO consists of a residential real estate property acquired in foreclosure. Net expense applicable to OREO, other than valuation adjustments, was $12,821 and $1,422 for the years ended December 31, 2020 and 2019, respectively. The Bank did not have any consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process as of December 31, 2020.

NOTE 7 – PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation of premises and equipment for December 31, 2020 and 2019 follows:

	2020	2019
Land	$ 1,580,761	$ 1,580,761
Buildings and improvements	8,637,447	8,624,607
Furniture and equipment	3,984,673	4,190,932
Total cost	14,202,881	14,396,300
Less accumulated depreciation	(8,712,668)	(8,760,410)
Premises and equipment, net	$ 5,490,213	$ 5,635,890

Depreciation expense for the years ended December 31, 2020 and 2019 totaled $513,206 and $495,610, respectively.

NOTE 8 – DEPOSITS

The Bank makes every effort to obtain deposits to fund loan growth or the growth of the securities portfolio. The Bank had two deposit relationships that, collectively, represented 19.92% and 20.09% of total deposits at December 31, 2020 and 2019, respectively.

The aggregate amount of time deposit accounts in denominations of $250,000 or more at December 31, 2020 and 2019 was $6,256,249 and $5,404,498, respectively. There were no brokered deposits as of December 31, 2020 and 2019.

At December 31, 2020, the scheduled maturities of time deposits were as follows:

2021	$ 23,261,541
2022	13,040,459
2023	4,171,255
2024	1,656,229
2025	2,334,820
	$ 44,464,304

NOTE 9 – BORROWINGS

Securities Sold Under an Agreement to Repurchase

Securities sold under an agreement to repurchase, which are classified as secured borrowings, generally mature within one to four days from the transaction date. Securities sold under an agreement to repurchase are reflected as the amount of cash received in connection with the transaction. The Bank may be required to provide additional collateral based on the fair value of the underlying securities. Pledged securities related to securities sold under an agreement to repurchase are discussed in Note 3, Notes to Consolidated Financial Statements. Securities sold under an agreement to repurchase amounted to $338,628 and $1,842,945 at December 31, 2020 and 2019, respectively.

Federal Home Loan Bank Advances

The Bank is a member of the Federal Home Loan Bank of Pittsburgh (FHLB) which allows for participation in FHLB borrowing programs. At December 31, 2020, the Bank had a maximum borrowing capacity with the FHLB of $104,722,250 which is unrestricted and does not require the Bank to pledge securities or make other commitments. Under the terms of the agreement, advances from the FHLB are collateralized by one-to-four family mortgage loans totaling approximately $133,635,000 and $129,000,000 at December 31, 2020 and 2019, respectively, and Federal Home Loan Bank stock with a book value of $189,300 and $594,500, respectively. This borrowing capacity has no scheduled maturity date. There were no outstanding advances from FHLB at December 31, 2020. The Bank had outstanding overnight advances from FHLB of $9,773,400 at a rate of 1.80% at December 31, 2019.

Available Lines of Credit

At December 31, 2020, the Bank had lines of credit available with various financial institutions totaling $12,000,000 for the purchase of federal funds. The Bank had no outstanding borrowings against these lines at December 31, 2020 and $11,000 in outstanding borrowings at December 31, 2019. The Bank has an agreement with the Federal Reserve Bank to borrow from the discount window, which is classified as a short term borrowing. In order to borrow funds under this agreement, the Bank must pledge securities to the Federal Reserve Bank. As of December 31, 2020 and 2019, the Bank had no borrowings from the discount window.

NOTE 10 – EMPLOYEE BENEFIT PLANS

Pension Plan

As of December 31, 2013, the defined benefit pension plan was frozen. The pension plan's funded status as of December 31, 2020 and 2019 follows. The amounts shown below are recognized in the Bank's consolidated balance sheets as of December 31, 2020 and 2019.

	2020	2019
Change in benefit obligation:		
Beginning benefit obligation	$ 10,148,119	$ 9,345,174
Interest cost	328,138	371,072
Actuarial loss	739,114	905,616
Benefits paid	(499,390)	(473,743)
Ending benefit obligation	$ 10,715,981	$ 10,148,119
Change in plan assets, at fair value:		
Beginning plan assets	$ 11,153,026	$ 9,874,453
Actual return on plan assets	919,281	1,752,316
Employer contribution	- -	- -
Benefits paid	(499,390)	(473,743)
Ending plan assets	$ 11,572,917	$ 11,153,026
Funded status	$ 856,936	$ 1,004,907
Accrued benefit asset recognized on the consolidated balance sheets at December 31	$ 856,936	$ 1,004,907
Amounts recognized in accumulated other comprehensive loss:		
Net loss	$ 3,823,076	$ 3,542,895
Deferred tax asset	(955,769)	(885,724)
Net amount recognized	$ 2,867,307	$ 2,657,171

The accumulated benefit obligation for the defined benefit plan was $10,715,981 and $10,148,119 at December 31, 2020 and 2019, respectively.

At December 31, 2020 and 2019, the assumptions used to determine the benefit obligation are as follows:

	2020	2019
Discount rate	2.65%	3.32%
Expected rate of return on plan assets	4.99%	5.62%

NOTE 10 – EMPLOYEE BENEFIT PLANS (Continued)

The components of net periodic benefit (income) cost, other amounts recognized in other comprehensive income and the assumptions used to determine net periodic pension benefit cost are as follows:

	2020	2019
Components of net periodic benefit cost:		
Interest cost	$ 328,138	$ 371,072
Expected return on plan assets	(587,971)	(674,445)
Net amortization and deferral	127,623	86,229
Net periodic benefit income	(132,210)	(217,144)
Other changes in plan assets and benefit obligations recognized in other comprehensive income:		
Net actuarial loss (gain) at December 31	407,804	(172,255)
Amortization of net loss	(127,623)	(86,299)
Total recognized in other comprehensive income	280,181	(258,554)
Total recognized in net periodic benefit cost and other comprehensive income	$ 147,971	$ (475,698)
Discount rate	3.32%	4.08%
Expected rate of return on plan assets	5.62%	6.53%

The estimated net actuarial loss for the defined benefit pension plan that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year is $144,372.

Determination of Expected Long-term Rate of Return

The expected long-term rate of return for the plan's total assets is based on the expected return of each of the below categories, weighted based on the median of the target allocation for each class.

The Bank's pension plan weighted average asset allocations at December 31, 2020 and 2019 are as follows:

	Percentage of Plan Assets at December 31,	
Asset Category	**2020**	**2019**
Equity Securities	61%	64%
Debt Securities	35%	26%
Cash	4%	10%
Total	100%	100%

NOTE 10 – EMPLOYEE BENEFIT PLANS (Continued)

The following tables present the balance of plan assets measured at fair value on a recurring basis as of December 31, 2020 and 2019:

		Fair Value Measurements at Report Date Using		
Description	Balance as of December 31, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	$ 444,964	$ 444,964	$ - -	$ - -
Equity Securities				
U.S. Large cap	3,538,857	3,538,857	- -	- -
U.S. Mid cap	1,709,173	1,709,173	- -	- -
U.S. Small cap	794,910	794,910	- -	- -
International	1,030,139	1,030,139	- -	- -
Fixed Income Securities				
Core fixed income	3,797,629	- -	3,797,629	- -
International	257,245	- -	257,245	- -
Total	$ 11,572,917	$ 7,518,043	$ 4,054,874	$ - -

		Fair Value Measurements at Report Date Using		
Description	Balance as of December 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	$ 1,143,652	$ 1,143,652	$ - -	$ - -
Equity Securities				
U.S. Large cap	4,131,081	4,131,081	- -	- -
U.S. Mid cap	1,426,422	1,426,422	- -	- -
U.S. Small cap	647,848	647,848	- -	- -
International	931,022	931,022	- -	- -
Fixed Income Securities				
Core fixed income	2,812,445	- -	2,812,445	- -
International	60,556	- -	60,556	- -
Total	$ 11,153,026	$ 8,280,025	$ 2,873,001	$ - -

NOTE 10 – EMPLOYEE BENEFIT PLANS (Continued)

Investment Policy and Strategy

The policy, as established by the Pension Committee, is to invest assets in a diversified portfolio per target allocations. The assets will be reallocated periodically to meet the target allocations of 60% equity securities and 40% debt securities. The investment policy will be reviewed periodically, under the advisement of a registered investment advisor.

The overall investment objective is to provide for long-term growth of capital through participation in the equity markets with a moderate level of income. The investment time horizon is estimated at five to ten years. The investment return objective is to achieve a return greater than a blended mix of stated indices tailored to the same asset mix of the plan assets by 0.5% after fees over a rolling five-year moving average basis.

Allowable assets include cash equivalents, taxable bonds, U.S. equity securities, international equity securities, institutional mutual funds and guaranteed investment contracts (GICs).

In order to achieve a prudent level of portfolio diversification, the securities of any one company should not exceed more than 10% of the total plan assets, and no more than 25% of total plan assets should be invested in any one industry (other than securities of the U.S. Government or Agencies). Additionally, no more than 20% of the plan assets shall be invested in foreign securities (both equity and fixed).

The Bank does not expect to make any contributions to the plan in 2021.

Estimated future benefit payments are as follows:

2021	$ 527,000
2022	536,000
2023	549,000
2024	548,000
2025	546,000
2026 to 2030	2,745,000

NOTE 10 – EMPLOYEE BENEFIT PLANS (Continued)

Supplemental Executive Retirement Plan

In 2014, the Bank provided a supplemental executive retirement plan for senior management. The plan's funded status as of December 31, 2020 and 2019 follows. The amounts shown below are recognized in the Bank's consolidated balance sheets as of December 31, 2020 and 2019.

	2020	2019
Change in benefit obligation:		
Beginning benefit obligation	$ 1,443,726	$ 962,468
Service cost	105,932	74,011
Interest cost	52,753	45,227
Actuarial loss	233,219	374,776
Benefits paid	(12,756)	(12,756)
Ending benefit obligation	$ 1,822,874	$ 1,443,726
Change in plan assets, at fair value:		
Beginning plan assets	$ - -	$ - -
Employer contributions	12,756	12,756
Actual benefits paid	(12,756)	(12,756)
Ending plan assets	$ - -	$ - -
Funded status	$ (1,822,874)	$ (1,443,726)
Accrued benefit liability recognized on the consolidated balance sheet at December 31	$ (1,822,874)	$ (1,443,726)
Amounts recognized in accumulated other comprehensive loss:		
Net loss	$ 627,100	$ 417,988
Prior service cost	278,606	330,691
Deferred tax asset	(226,427)	(187,170)
Net amount recognized	$ 679,279	$ 561,509

The accumulated benefit obligation for the supplemental executive retirement plan was $1,822,874 and $1,443,726 at December 31, 2020 and 2019, respectively.

At December 31, 2020 and 2019, the assumptions used to determine the benefit obligation are as follows:

	2020	2019
Discount rate	3.20%	3.67%
Rate of compensation increase	3.00%	3.00%

NOTE 10 – EMPLOYEE BENEFIT PLANS (Continued)

The components of net periodic benefit cost, other amounts recognized in other comprehensive income and the assumptions used to determine net periodic benefit cost are as follows:

	2020	2019
Components of net periodic benefit cost:		
Service cost	$ 105,932	$ 74,011
Interest cost	52,753	45,227
Amortization of prior service cost	52,085	52,085
Amortization of net loss	24,107	- -
Net periodic benefit cost	234,877	171,323
Other changes in plan assets and benefit obligations recognized in other comprehensive income:		
Net actuarial loss at December 31	233,219	374,776
Amortization of prior service cost	(52,085)	(52,085)
Amortization of gain	(24,107)	- -
Total recognized in other comprehensive income	157,027	322,691
Total recognized in net periodic benefit cost and other comprehensive income	$ 391,904	$ 494,014
Discount rate	3.67%	4.73%
Rate of compensation increase	3.00%	3.00%

There is no estimated net actuarial loss for the supplemental executive retirement to be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year.

The Bank will make a contribution to the plan of $12,756 in 2021.

Estimated future benefit payments are as follows:

2021	$ 12,756
2022	14,850
2023	15,190
2024	15,043
2025	15,113
2026 to 2030	257,364

401(k) Plan

The Bank has a 401(k) Plan whereby employees age 21 and over who have worked at least one year with 1,000 hours of service may participate in the Plan. The Bank makes matching contributions equal to 25 percent of the first five percent of an employee's compensation contributed to the Plan. Matching contributions vest to the employee over a five-year period based on a tiered schedule. Starting on January 1, 2014, the Bank contributed a percentage of each eligible employees' salary to their 401(k) Plan account in addition to matching contributions. For the years ended December 31, 2020 and 2019, the matching contribution expense attributable to the Plan amounted to $25,730 and $22,749, respectively.

NOTE 11 – INCOME TAXES

The Bank files income tax returns in the U.S. federal jurisdiction and the states of West Virginia and Maryland. With few exceptions, the Bank is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years prior to 2017.

Allocation of federal and state income taxes between current and deferred portions is as follows for the years ended December 31, 2020 and 2019:

	2020	2019
Federal		
Current	$ 919,695	$ 569,659
Deferred	(311,022)	30,181
	608,673	599,840
State		
Current	153,318	106,414
Deferred	(59,243)	(19,955)
	94,075	86,459
Income tax expense	$ 702,748	$ 686,299

Effective tax rates differ from the statutory federal income tax rate due to the following:

	2020	2019
Federal statutory rate	21.0%	21.0%
Increase (decrease) resulting from:		
Tax-exempt income	(3.4)	(3.2)
State taxes, net of federal income tax effect	0.6	0.5
Nondeductible expenses and other, net	1.4	1.4
	19.6%	19.7%

The components of the net deferred tax asset, included in other assets for December 31, 2020 and 2019, are as follows:

	2020	2019
Deferred tax assets:		
Allowance for loan losses	$ 494,250	$ 294,250
Deferred loan fees	262,520	154,969
Nonaccrual loan income	387,914	364,124
Supplemental executive retirement benefits, net	547,986	457,922
Home equity expenses	1,707	2,834
	1,694,377	1,274,099
Deferred tax liabilities:		
Fixed assets, net	(79,936)	(99,005)
Pension benefits, net	(214,234)	(251,226)
Net unrealized gain on available for sale securities	(671,537)	(147,102)
Accretion on investment securities	(6,500)	(9,728)
	(972,207)	(507,061)
Net deferred tax asset	$ 722,170	$ 767,038

NOTE 12 – RELATED PARTY TRANSACTIONS

The Bank had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, executive officers, their immediate families and affiliated companies in which they are principal shareholders (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. Loans to these parties totaled $5,071,569 and $4,573,584 at December 31, 2020 and 2019, respectively. During 2020, total principal additions were $802,636 and total principal payments were $304,651. Deposits from related parties held by the Bank at December 31, 2020 and 2019 amounted to $5,501,662 and $4,661,243, respectively.

NOTE 13 – COMMITMENTS, OFF-BALANCE SHEET RISK AND CONTINGENCIES

There are various contingent liabilities that are not reflected in the consolidated financial statements, including claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material effect on the financial condition or results of operations of the Bank.

Some financial instruments are used in the normal course of business to meet the financing needs of customers and to reduce exposure to interest rate changes. These financial instruments include commitments to extend credit and standby letters of credit, which involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated financial statements.

Exposure to credit loss, if the other party does not perform, is represented by the contractual amount of these commitments to extend credit and standby letters of credit. The same credit policies are used for commitments and conditional obligations as are used for loans.

A summary of the notional or contractual amounts of financial instruments with off-balance sheet risk at year end follows:

	December 31,	
	2020	**2019**
Commitments to extend credit	$ 5,846,000	$ 5,084,000
Unfunded commitments	41,731,000	32,167,000
Standby letters of credit	27,000	52,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the commitment. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being used, the total commitments do not necessarily represent future cash requirements.

Unfunded commitments under commercial lines-of-credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are collateralized as deemed necessary and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Bank is committed.

Standby letters of credit are conditional lending commitments issued by the Bank to guarantee the performance of a customer to a third party. Letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

The Bank generally holds collateral supporting these commitments. The amount of collateral obtained, if deemed necessary, is based upon management's credit evaluation of the customer. The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. There was no reserve balance requirement at December 31, 2020. The reserve balances amounted to $1,194,000 at December 31, 2019.

NOTE 14 – FAIR VALUE MEASUREMENTS

The Bank follows Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. ASC 820 clarifies that fair value of certain assets and liabilities is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market and in an orderly transaction between market participants on the measurement date.

ASC 820 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Bank's market assumptions. The three levels of the fair value hierarchy under ASC 820 based on these two types of inputs are as follows:

Level 1 – Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2 – Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.

Level 3 – Valuation is based on prices, inputs and model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

In accordance with ASC 820, the following describes the valuation techniques used by the Bank to measure certain assets recorded at fair value on a recurring basis in the consolidated financial statements.

Securities Available for Sale: Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Using a market approach valuation methodology, third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that consider observable market data (Level 2).

The following table presents the balance of assets measured at fair value on a recurring basis as of December 31, 2020:

		Fair Value Measurements at Reporting Date Using		
Description	**Balance as of December 31, 2020**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Securities Available for Sale				
U.S. Government and agency	$ 66,394,376	$ - -	$ 66,394,376	$ - -
State and municipal	43,871,385	- -	43,871,385	- -
	$ 110,265,761	$ - -	$ 110,265,761	$ - -

NOTE 14 – FAIR VALUE MEASUREMENTS (Continued)

The following table presents the balance of assets measured at fair value on a recurring basis as of December 31, 2019:

		Fair Value Measurements at Reporting Date Using		
Description	**Balance as of December 31, 2019**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Securities Available for Sale				
U.S. Government and agency	$ 68,160,217	$ --	$ 68,160,217	$ --
State and municipal	15,612,230	--	15,612,230	--
	$ 83,772,447	$ --	$ 83,772,447	$ --

Certain assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.

The following describes the valuation techniques used by the Bank to measure certain assets recorded at fair value on a nonrecurring basis in the consolidated financial statements.

Impaired Loans: Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreements will not be collected. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan, the fair value of the collateral or present value of expected future cash flows discounted at the loan's effective interest rate. Collateral may be in the form of real estate or business assets including equipment, inventory and accounts receivable. The vast majority of the Bank's collateral is real estate. The value of real estate collateral is determined utilizing a market valuation approach based on an appraisal, of one year or less, conducted by an independent, licensed appraiser using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the property is more than one year old and not solely based on observable market comparables or management determines the fair value of the collateral is further impaired below the appraised value, then a Level 3 valuation is considered to measure the fair value. The value of business equipment is based upon an outside appraisal, of one year or less, if deemed significant, or the net book value on the applicable business's financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3). Impaired loans allocated to the allowance for loan losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Consolidated Statements of Income.

Other Real Estate Owned: Loans are transferred to other real estate owned when the collateral securing them is foreclosed upon. The measurement of loss associated with other real estate owned is based on the fair value of the collateral compared to the unpaid loan balance and anticipated costs to sell the property and initial losses are charged against the allowance for loan losses at the time of the transfer. Subsequent to transfer, fair values are determined in a similar manner to impaired loans secured by real estate previously discussed. Any additional fair value adjustments to other real estate owned are recorded in the period incurred and expensed against current earnings through a valuation allowance for other real estate owned.

NOTE 14 – FAIR VALUE MEASUREMENTS (Continued)

The following tables present the balances of assets measured at fair value on a nonrecurring basis as of December 31, 2020 and 2019:

Description	Balance as of December 31, 2020	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired Loans, net	$ 2,240,644	$ - -	$ 1,558,886	$ 681,758
Other Real Estate Owned, net	$ 345,526	$ - -	$ - -	$ 345,526

Description	Balance as of December 31, 2019	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired Loans, net	$ 1,414,281	$ - -	$ - -	$ 1,414,281
Other Real Estate Ownerd, net	$ 278,100	$ - -	$ - -	$ 278,100

The following tables present quantitative information about Level 3 Fair Value Measurements for December 31, 2020 and 2019 (dollars in thousands):

Assets	Fair Value as of December 31, 2020	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired Loans, net	$ 378	Discount appraised value	Selling cost	6% (6%)
	304	Present value of future cash flows	Discount rate	6 - 7% (7%)
Other Real Estate Owned, net	$ 346	Discount appraised value	Selling cost	10% (10%)
			Discount for lack of marketability	13% (13%)

Assets	Fair Value as of December 31, 2019	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired Loans, net	$ 1,144	Discount appraised value	Selling cost	6% - 7% (6%)
	270	Present value of future cash flows	Discount rate	6% - 18% (7%)
Other Real Estate Owned, net	$ 278	Discount appraised value	Selling cost	10% (10%)
			Discount for lack of marketability	9% (9%)

NOTE 14 – FAIR VALUE MEASUREMENTS (Continued)

The following methods and assumptions were used to estimate fair values for other financial instruments:

Loans: Fair values of loans are estimated on an exit price basis incorporating discounts for credit, liquidity and marketability factors. The carrying amount was considered to estimate fair value for certain variable rate loans that reprice frequently. Fair values of fixed rate loans and variable rate loans with infrequent repricing or repricing limits, were estimated using discounted cash flow analyses, using market interest rates being offered at that time for loans with similar terms to borrowers of similar creditworthiness, which included adjustments for liquidity concerns or underlying collateral values, where applicable.

While these estimates of fair value are based on management's judgment of the most appropriate factors, there is no assurance that if the Bank had disposed of such items at December 31, 2020 and 2019, the estimated fair values would have been achieved. Market values may differ depending on various circumstances not taken into consideration in this methodology. The estimated fair values at December 31, 2020 and 2019 should not necessarily be considered to apply at subsequent dates.

The carrying amounts and estimated fair values of the Bank's financial instruments are presented in the following tables. Fair values for December 31, 2020 and 2019 were estimated using an exit price notion in accordance with ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities."

	December 31, 2020		Fair Value Measurements at Reporting Date Using		
(dollars in thousands)	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and due from financial institutions	$ 4,335	$ 4,335	$ 4,335	$ - -	$ - -
Interest bearing deposits with depository institutions	8,226	8,226	8,226	- -	- -
Securities available for sale	110,266	110,266	- -	110,266	- -
Securities held to maturity	1,733	1,847	- -	1,847	- -
Restricted securities	270	270	- -	270	- -
Loans, net	239,867	239,423	- -	- -	239,423
Accrued interest receivable	1,096	1,096	- -	1,096	- -
Bank owned life insurance	7,115	7,115	- -	7,115	- -
Financial liabilities:					
Deposits	$ 346,396	$ 347,031	$ - -	$ 301,932	$ 45,099
Securities sold under an agreement to repurchase	339	339	- -	339	- -
Accrued interest payable	74	74	- -	74	- -

NOTE 14 – FAIR VALUE MEASUREMENTS (Continued)

(dollars in thousands)	December 31, 2019 Carrying Amount	Estimated Fair Value	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and due from financial institutions	$ 3,698	$ 3,698	$ 3,698	$ - -	$ - -
Interest bearing deposits with depository institutions	56	56	56	- -	- -
Securities available for sale	83,772	83,772	- -	83,772	- -
Securities held to maturity	2,974	3,072	- -	3,072	- -
Restricted securities	675	675	- -	675	- -
Loans, net	217,274	216,522	- -	- -	216,522
Accrued interest receivable	933	933	- -	933	- -
Bank owned life insurance	6,932	6,932	- -	6,932	- -
Financial liabilities:					
Deposits	$ 282,974	$ 283,458	$ - -	$ 235,606	$ 47,852
Securities sold under an agreement to repurchase	1,843	1,843	- -	1,843	- -
Accrued interest payable	117	117	- -	117	- -
Federal funds purchased	11	11	11	- -	- -
Federal Home Loan Bank advances	9,773	9,773	9,773	- -	- -

Interest Rate Risk

The Bank assumes interest rate risk, the risk that general interest rate levels will change, as a result of its normal operations. As a result, the fair values of the Bank's financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to the Bank. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Bank's overall interest rate risk.

NOTE 15 – REVENUE RECOGNITION

On January 1, 2018, the Bank adopted ASU 2014-09 "Revenue from Contracts with Customers" (Topic 606) and all subsequent ASUs that modified ASC Topic 606. The standard does not apply to revenue associated with financial instruments, net interest income, gains and losses from securities and income from bank owned life insurance (BOLI). With the exception of gains or losses on sales of foreclosed properties, all of the revenue from contracts with customers in the scope of ASC Topic 606 is recognized within Noninterest Income in the Consolidated Statements of Income. Impacts from certain recurring revenue streams related to noninterest revenue streams such as service charges on deposit accounts, other service charges and fees and credit and debit card fees did not change significantly upon adoption of ASC Topic 606.

NOTE 15 – REVENUE RECOGNITION (Continued)

A description of the Bank's significant sources of revenue accounted for under ASC Topic 606 follows:

Service fees on deposit accounts

Revenue from service fees on deposit accounts is comprised of transaction-based fees, account maintenance and processing fees and overdraft service fees. Transaction-based fees and overdraft service fees are earned based on specific transactions or activity within a customer's deposit account. These fees are recognized at the time the related transaction or activity occurs and the Bank's performance obligation is complete. Revenue for account maintenance and processing fees is recognized monthly upon completion of the Bank's performance obligation. Service fees on deposit accounts are paid through a direct charge to the customer's account.

Other service charges, commission and ATM fees

Revenue from other service charges, commission and fees is primarily comprised of interchange revenue and ATM fees, safe deposit box rental fees and collection and research fees. Interchange fees are earned when the Bank's debit and credit cardholders conduct transactions through card payment networks. Interchange fees are recognized daily, concurrent with the transaction processing services provided to the cardholder. ATM fees are earned when a non-Bank cardholder uses the Bank's ATM or when a customer uses a non-Bank ATM. These fees are recognized daily as the ATM transactions are settled. Safe deposit box rental fees are charged to the customer on an annual basis and recognized on a monthly basis through the contract period of twelve months. This revenue is recognized on a basis consistent with the duration of the performance obligation. Collection and research fees are transactional based, and therefore, the Bank's performance obligation is satisfied and the related revenue recognized upon completion of the transaction.

Other noninterest income

Other noninterest income consists primarily of check ordering charges. Check ordering charges are transactional based, and therefore, the Bank's performance obligation is satisfied and the related revenue recognized upon completion of the transaction.

The following presents noninterest income, segregated by revenue streams within the scope of ASC Topic 606 and those which are within the scope of other ASC Topics:

	December 31, 2020	December 31, 2019
Noninterest Income		
Service charges on deposit accounts	$ 503,321	$ 676,854
Other service charges, commission and ATM fees	1,086,136	951,143
Other	59,230	63,964
Net revenue from contracts with customers	1,648,687	1,691,961
Noninterest income within the scope of other ASC topics	448,708	223,400
Total noninterest income	$ 2,097,395	$ 1,915,361

NOTE 16 – REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. 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 Bank's consolidated financial statements. Pursuant to capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective on January 1, 2015, with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. As part of the new requirements, the Common Equity Tier I Capital ratio is calculated and utilized in the assessment of capital for all institutions.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios as presented in the table below of Total capital, Tier 1 capital and Common Equity Tier 1 capital (as defined in the regulations) to risk weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2020 and 2019, that the Bank met all capital adequacy requirements to which it is subject.

Under the Basel III rules, the capital conservation buffer of 0.625% was effective January 1, 2016. The buffer was fully phased-in through equal installments of 0.625% each year until reaching 2.5% in January 2019. The purpose of the capital conservation buffer is to absorb losses during periods of economic stress and requires increased capital levels for the purpose of capital distributions and other payments. Failure to maintain the buffer will result in restrictions on the Bank's ability to make capital distributions and pay discretionary bonuses to executive officers. The Bank's capital conservation buffer was 8.72% and 8.25% as of December 31, 2020 and 2019, respectively.

As of December 31, 2020, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based, Common Equity Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since the notification that management believes would impact the Bank's well-capitalized status. The Bank's capital amounts (dollars in thousands) and ratios as of December 31, 2020 and 2019 are presented in the following table.

	Actual		Minimum For Capital Adequacy Purposes		Minimum For Capital Adequacy with Capital Conservation Buffer		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
2020								
Total capital (to risk weighted assets)	$ 35,164	16.72%	$ 16,827	8.00%	$ 22,085	10.50%	$ 21,034	10.00%
Tier 1 capital (to risk weighted assets)	$ 32,533	15.47%	$ 12,620	6.00%	$ 17,878	8.50%	$ 16,827	8.00%
Common equity tier 1 (to risk weighted assets)	$ 32,533	15.47%	$ 9,465	4.50%	$ 14,723	7.00%	$ 13,672	6.50%
Tier 1 capital (to average assets)	$ 32,533	8.68%	$ 14,990	4.00%	N/A	N/A	$ 18,737	5.00%
2019								
Total capital (to risk weighted assets)	$ 32,224	16.25%	$ 15,860	8.00%	$ 20,817	10.50%	$ 19,826	10.00%
Tier 1 capital (to risk weighted assets)	$ 30,188	15.23%	$ 11,895	6.00%	$ 16,852	8.50%	$ 15,860	8.00%
Common equity tier 1 (to risk weighted assets)	$ 30,188	15.23%	$ 8,922	4.50%	$ 13,878	7.00%	$ 12,887	6.50%
Tier 1 capital (to average assets)	$ 30,188	9.51%	$ 12,704	4.00%	N/A	N/A	$ 15,880	5.00%

NOTE 17 – ACCUMULATED OTHER COMPREHENSIVE LOSS

Changes in each component of accumulated other comprehensive loss were as follows:

	Net Unrealized Gains (Losses) on Securities	Adjustments Related to Pension Benefits	Adjustments Related to Supplemental Executive Retirement Benefits	Accumulated Other Comprehensive (Loss)
Balance at December 31, 2018	$ (1,333,510)	$ (2,851,087)	$ (319,491)	$ (4,504,088)
Unrealized holding gains on available for sale securities, net of tax $587,450	1,762,354	- -	- -	1,762,354
Reclassification adjustment, net of tax $4,156	12,466	- -	- -	12,466
Change in pension benefits, net of tax $43,064	- -	129,191	- -	129,191
Reclassification adjustment, net of tax $21,575	- -	64,724	- -	64,724
Change in supplemental executive retirement benefits, net of tax ($93,694)	- -	- -	(281,082)	(281,082)
Reclassification adjustment, net of tax $13,021	- -	- -	39,064	39,064
Balance at December 31, 2019	$ 441,310	$ (2,657,172)	$ (561,509)	$ (2,777,371)
Unrealized holding gains on available for sale securities, net of tax $571,833	1,715,497	- -	- -	1,715,497
Reclassification adjustment, net of tax ($47,398)	(142,193)	- -	- -	(142,193)
Change in pension benefits, net of tax ($101,951)	- -	(305,853)	- -	(305,853)
Reclassification adjustment, net of tax $31,906	- -	95,717	- -	95,717
Change in supplemental executive retirement benefits, net of tax ($58,305)	- -	- -	(174,914)	(174,914)
Reclassification adjustment, net of tax $19,048	- -	- -	57,144	57,144
Balance at December 31, 2020	$ 2,014,614	$ (2,867,308)	$ (679,279)	$ (1,531,973)

NOTE 17 – ACCUMULATED OTHER COMPREHENSIVE LOSS (Continued)

Reclassification out of accumulated other comprehensive loss for December 2020 and 2019 is as follows:

Details about Accumulated Other Comprehensive Loss Components		Amount Reclassified from Accumulated Other Comprehensive Loss	Affected Line Item in the Statement Where Net Income is Presented
December 31, 2020			
Amortization of defined benefit pension items			
Net actuarial loss	$	(127,623)	Other expense
Amortization of supplemental executive retirement benefit items			
Prior service cost		(52,085)	Salaries and employee benefits
Net actuarial loss		(24,107)	Other expense
Reclassification adjustment for gains on available for sale securities		189,591	Realized gain on securities, net
		3,556	Income tax expense
	$	(10,668)	Net of tax
December 31, 2019			
Amortization of defined benefit pension items			
Net actuarial loss	$	(86,299)	Other expense
Amortization of supplemental executive retirement benefit items			
Prior service cost		(52,085)	Salaries and employee benefits
Reclassification adjustment for losses on available for sale securities		(16,622)	Realized gain on securities, net
		38,752	Income tax expense
	$	(116,254)	Net of tax

NOTE 18 – CONCENTRATION RISK

The Bank maintains its cash accounts in several correspondent banks. As of December 31, 2020, cash balances in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC) were $33,848. Most of the Bank's activities are with customers located within its local market areas. As of December 31, 2020, the Bank had two deposit relationships totaling $69,009,228 with each relationship holding more than 5% of total deposits. Significant changes in these accounts are monitored on an ongoing basis. As of December 31, 2020, real estate loans represented 90.2% of the loan portfolio. A detailed schedule is provided in Note 4, Notes to Consolidated Financial Statements. The Bank does not have any significant concentrations to any one customer.

NOTE 19 – SUBSEQUENT EVENTS

The Bank evaluated subsequent events that have occurred after the balance sheet date, but before the consolidated financial statements are issued. There are two types of subsequent events (1) recognized, or those that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, and (2) nonrecognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date.

Subsequent events have been considered through March 22, 2021, the date the financial statements were available to be issued. Based on the evaluation, the Bank did not identify any recognized or nonrecognized subsequent events that would have required adjustment to or disclosure in the consolidated financial statements.

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