JTNB Bancorp, Inc.

A Bank Holding Company for

JTNB

Jim Thorpe Neighborhood Bank

- Since 1855 -

2019 Annual Report

JTNB Bancorp, Inc.

Board of Directors and Principal Officers

Jane F. Engler
Chairman

Craig A. Zurn
President & CEO

Ronald J. Sheehan
Vice Chairman

John J. Cherb
Treasurer

William P. Gardiner
Secretary

Joseph F. Arieta
Director

Charles W. Getz
Director

Harry W. Hintz
Director

Joseph T. Svetik
Director

Jim Thorpe Neighborhood Bank

Executive Officers

Craig A. Zurn
President & CEO

Gregory C. Hartman
Executive Vice President & CFO

Richard T. Kuhn
Executive Vice President & COO

Officers

Jay T. Miller	Senior Vice President & Compliance Officer
Sarah A. Smith	Assistant Vice President & Deposit Operations/Electronic Banking Manager
Amy L. Behrens	Executive Assistant
Mary C. Marzen	Credit Administration Officer & Branch Manager
Lori A. Cinicola	Branch Manager & Lender

Transfer Agent & Registrar

Computershare
Meidinger Tower
462 South 4th Street, Suite 1600
Louisville, KY 40202
www.computershare.com

Annual Meeting of Shareholders

The Annual Meeting of Shareholders will be held on Wednesday, May 27, 2020 at 10:00 a.m. Eastern Time at 12 Broadway, Jim Thorpe, PA 18229
Virtual-Only Remote Communications Meeting via Telephone Conferencing for Shareholder Attendance

JTNB Bancorp, Inc.

12 Broadway
Jim Thorpe, PA 18229

April 2020

To our Shareholders:

On behalf of the Board of Directors, Officers, and Employees, I am pleased to have this opportunity to report to you on the progress and strength of your Community Bank. The accompanying statements present the financial status of the Jim Thorpe Neighborhood Bank and reflect our continued efforts and success in maintaining positive financial results and growth. We are proud to continue the tradition of being a strong, independent community bank that provides superior banking services to our communities.

I am proud of the effort given and the results achieved by our dedicated team. Managing a successful community bank is an ongoing process. Each year we set our goals to enhance shareholder value and meet the needs of our customers, employees, and communities. We believe 2019 was a good year for all.

Financial Snapshot

Net income for the year-ended December 31, 2019 was $ 1,203,000 or $ 1.27 per share. This is an increase over the prior year of $ 224,000 or 23%, and $ 0.24 per share. The increase in net income was due to loan interest income increasing and gains on securities sold.

Dividends paid for 2019 totaled $ 0.54 per share, an approximate 3.4% yield on your investment, delivering consistent ongoing returns to our shareholders. The dividend of $0.54 per share consisted of a regular dividend of $0.49 which was a $0.02 increase over 2018 and a **special dividend of $0.05** per share. JTNB's conservative and disciplined business philosophy enables us to continue our mission by providing a strong return for our shareholders without impairing capital.

Total assets on December 31, 2019, were $ 197.8 million, an increase of $ 7.6 million or 4.0% and deposits totaled $ 171.6 million, which increased by $ 4.1 million or 2.4%. The total asset and deposit increases were caused by the cyclical nature of public fund deposits.

Net loans outstanding totaled $ 94.6 million, an increase of $ 2.7 million or 2.9%. The net loan increase was due to increased commercial real estate lending.

Investments totaled $ 68.5 million, which decreased by $ 9.0 million or 11.6% over the prior year. The decrease in investments was due to increased net loans and increased cash. Cash and Cash Equivalents totaled $ 24.7 million, which increased by $ 14.4 million or 139.4% over the prior year. Borrowed funds remained the same as prior year at $ 5.0 million.

Non-accrual loans totaled $ 305,000 which represents 0.3% of the total loan portfolio. Our credit quality remains high.

The spread of the Coronavirus pandemic has caused economic uncertainties which are likely to negatively impact net interest income. Other financial impact could occur, however, the related financial impact and duration, and related government and regulator action, cannot be estimated at this time.

Jim Thorpe Neighborhood Bank continues to be "safe and sound" and is well capitalized, exceeding all regulatory requirements. Tier 1 capital to average assets was 9.6% and total capital to risk-weighted assets was 20.2% versus the 5.0% and 10.0%, respectively, required by regulators to be well capitalized.

Customer Expectation/Technology Investments

Our business is built around an unwavering focus on customer satisfaction. The future of banking success will be built around technology and the ability of community banks, in particular, to adapt this technology to customer expectation. JTNB has invested over $190,000 for the following projects in order to provide the latest technology services to our customers and employees.

- **Automated Teller Machines (ATM)** – Over the course of this year, we replaced the ATMs at five branches. These new machines will provide enhanced security and better technology features to better serve our customers.
- **New Personal Computers (PC)** – We replaced all workstations with the next generation of hardware and software technology.

Achievements & Community Commitment

Once again, **JTNB has earned a 5-Star Superior Rating** from BauerFinancial**,** the Nation's Premier Bank Rating Firm. To earn Bauer's Highest 5-Star Superior Rating, Jim Thorpe Neighborhood Bank must excel in areas of capital adequacy, profitability, loan quality, and more. This marks the **121st consecutive quarter**, as of December 2019, that Jim Thorpe Neighborhood Bank has earned Bauer's recommendation of 5-Stars or 4-Stars.

Giving back and doing right by our customers and communities is at the heart of what community banking is all about! It is one of the core values that we proudly wear on our sleeves.

As a true community bank, we take pride in reinvesting in the communities that we serve. We encourage and support our employees to participate through volunteerism and community involvement. Financial contributions were distributed to more than 200 organizations benefitting seniors, veterans, youth groups, as well as educational and healthcare systems to name a few. JTNB is recognized and respected for being a good corporate citizen and our staff takes great pride and passion in their services to the community.

Final Thoughts

The health and safety of our communities – our staff, customers, and shareholders are of the utmost importance to us during this Coronavirus pandemic. Please be assured that **JTNB is open** for business. While the way of doing business has been transformed, we continue to be fully staffed and we are ready to assist our customers in any matter necessary.

The annual meeting of JTNB Bancorp, Inc. is scheduled for Wednesday, May 27, 2020. While we typically hold our meeting on the second Wednesday of May, we decided to delay the date by two weeks in order to determine the best way to proceed given the impact of the Novel Coronavirus. Upon much discussion, your Board of Directors has decided to proceed with our meeting rather than postpone it as many of our peers have done. **However, due to the high probability of continued social distancing, the meeting will be a Virtual-Only Remote Communications Meeting where you are invited to attend via telephone conferencing.** Information pertaining to how you may attend can be found in the enclosed Notice and Proxy Statement.

The Board of Directors thanks you, our shareholders, for your continued support and understanding as we transform our way of doing business amid the coronavirus outbreak. After every storm comes a Rainbow of Hope. We care and we are here for YOU!

Very truly yours,

Craig A. Zurn

Craig A. Zurn
Chief Executive Officer

JTNB Bancorp, Inc. and Subsidiary

Consolidated Financial Statements

December 31, 2019 and 2018

bakertilly

JTNB Bancorp, Inc. and Subsidiary

Table of Contents
December 31, 2019 and 2018

Independent Auditors' Report

To the Board of Directors and Shareholders of
JTNB Bancorp, Inc.

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Baker Tilly Virchow Krause, LLP

Williamsport, Pennsylvania
March 23, 2020

JTNB Bancorp, Inc. and Subsidiary

Consolidated Balance Sheets
December 31, 2019 and 2018

	2019	2018
Assets		
Cash and due from banks	$ 3,219,310	$ 3,354,550
Interest-bearing deposits with banks	21,482,455	6,963,983
Cash and cash equivalents	24,701,765	10,318,533
Securities available-for-sale, at fair value	36,236,847	41,600,139
Mortgage-backed securities available-for-sale, at fair value	32,298,338	35,878,668
Loans, net	94,592,589	91,890,878
Restricted stock	620,965	656,865
Bank-owned life insurance	4,583,427	4,459,628
Accrued interest receivable	576,370	620,048
Foreclosed assets	-	40,000
Premises and equipment, net	1,867,070	1,838,023
Goodwill	861,746	861,746
Deferred income taxes, net	96,950	759,056
Other assets	1,402,158	1,318,311
Total assets	$ 197,838,225	$ 190,241,895
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Noninterest-bearing	$ 32,168,302	$ 30,412,784
Interest-bearing	139,454,272	137,047,339
Total deposits	171,622,574	167,460,123
Federal Home Loan Bank borrowings	5,000,000	5,000,000
Deferred compensation payable	197,968	259,541
Accrued interest payable	78,615	59,756
Other liabilities	661,550	231,236
Total liabilities	177,560,707	173,010,656
Shareholders' Equity		
Common stock, par value $0.334; 6,000,000 shares authorized; 951,557 shares issued in 2019 and 2018; 950,908 shares outstanding in 2019 and 948,165 in 2018	317,820	317,820
Additional paid-in capital	1,880,676	1,876,086
Retained earnings	17,927,114	17,270,839
Accumulated other comprehensive income (loss)	161,468	(2,183,545)
Treasury stock, at cost (649 shares in 2019 and 3,392 in 2018)	(9,560)	(49,961)
Total shareholders' equity	20,277,518	17,231,239
Total liabilities and shareholders' equity	$ 197,838,225	$ 190,241,895

See notes to consolidated financial statements

JTNB Bancorp, Inc. and Subsidiary

Consolidated Statements of Income

Years Ended December 31, 2019 and 2018

	2019	2018
Interest Income		
Loans	$ 4,298,068	$ 4,033,061
Taxable investments	1,588,951	1,736,454
Investments exempt from federal income taxes	332,559	350,569
Deposits with banks	206,861	93,916
Total interest income	6,426,439	6,214,000
Interest Expense		
NOW and money market accounts	140,705	89,379
Savings accounts	37,327	38,052
Time deposits	509,163	217,835
Borrowings	148,620	251,241
Total interest expense	835,815	596,507
Net interest income	5,590,624	5,617,493
Provision for Loan Losses	47,500	110,000
Net interest income after provision for loan losses	5,543,124	5,507,493
Noninterest Income		
Service charges on deposit accounts	251,505	250,112
Other service charges and fees	401,743	380,295
Income on bank-owned life insurance	123,800	121,982
Realized gain on sale of securities available-for-sale	163,285	-
Total noninterest income	940,333	752,389
Noninterest Expense		
Salaries and employee benefits	3,040,255	2,985,401
Occupancy expense	295,251	330,473
Furniture and equipment expense	164,199	165,030
Shares tax expense	150,484	149,839
Directors' fees and compensation expense	229,068	236,980
FDIC assessment	16,796	58,000
Data processing fees	212,391	195,866
Computer software maintenance	163,021	160,937
Other operating expenses	872,198	893,054
Total noninterest expense	5,143,663	5,175,580
Income before income tax expense	1,339,794	1,084,302
Income Tax Expense	137,064	105,740
Net income	$ 1,202,730	$ 978,562
Earnings Per Share	$ 1.27	$ 1.03
Weighted Average Shares Outstanding	950,523	949,276

See notes to consolidated financial statements

JTNB Bancorp, Inc. and Subsidiary

Consolidated Statements of Comprehensive Income
Years Ended December 31, 2019 and 2018

	2019	2018
Net Income	$ 1,202,730	$ 978,562
Other Comprehensive Income (Loss)		
Unrealized holding gains (losses) on securities available-for-sale, gross $3,131,656 in 2019 and $(934,201) in 2018, net of tax of $657,648 in 2019 and ($196,181) in 2018	2,474,008	(738,020)
Reclassification adjustment for gains on sales of securities available-for-sale, gross $163,285 in 2019 and $0 in 2018, net of tax of $34,290 in 2019 and $0 in 2018 [a] [b]	(128,995)	-
Total other comprehensive income (loss)	2,345,013	(738,020)
Total comprehensive income	$ 3,547,743	$ 240,542

[a] Gross gains on sales of securities available-for-sale are included in the Consolidated Statements of Income as a separate element within Noninterest Income.

[b] The tax effect on sales of securities available-for-sale are included in Income Tax Expense in the Consolidated Statements of Income.

JTNB Bancorp, Inc. and Subsidiary

Consolidated Statements of Shareholders' Equity
Years Ended December 31, 2019 and 2018

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, January 1, 2018	$ 317,820	$ 1,876,154	$ 16,735,189	$ (1,445,525)	$ (68,179)	$ 17,415,459
Net income	-	-	978,562	-	-	978,562
Other comprehensive loss	-	-	-	(738,020)	-	(738,020)
Purchase of treasury stock (1,645 shares)	-	-	-	-	(23,030)	(23,030)
Treasury stock issued through Dividend Reinvestment Plan (2,675 shares)	-	(68)	-	-	41,248	41,180
Dividends declared ($0.47 per share)	-	-	(442,912)	-	-	(442,912)
Balance, December 31, 2018	317,820	1,876,086	17,270,839	(2,183,545)	(49,961)	17,231,239
Net income	-	-	1,202,730	-	-	1,202,730
Other comprehensive income	-	-	-	2,345,013	-	2,345,013
Treasury stock issued through Dividend Reinvestment Plan (2,743 shares)	-	4,590	-	-	40,401	44,991
Dividends declared ($0.54 per share)	-	-	(546,455)	-	-	(546,455)
Balance, December 31, 2019	$ 317,820	$ 1,880,676	$ 17,927,114	$ 161,468	$ (9,560)	$ 20,277,518

See notes to consolidated financial statements

JTNB Bancorp, Inc. and Subsidiary

Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows From Operating Activities		
Net income	$ 1,202,730	$ 978,562
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	47,500	110,000
Depreciation	205,152	214,551
Net amortization of securities and loan fees	150,601	255,548
Deferred income tax expense	38,749	487,371
Loss on sale of real estate owned	8,585	6,101
Gain on sale of securities available-for-sale	(163,285)	-
Income on bank-owned life insurance	(123,799)	(121,982)
(Increase) decrease in:		
Accrued interest receivable	43,678	20,634
Other assets	(83,847)	(34,633)
Increase (decrease) in:		
Deferred compensation payable	(61,573)	(59,794)
Accrued interest payable	18,859	3,469
Other liabilities	329,717	(221,552)
Net cash provided by operating activities	1,613,067	1,638,275
Cash Flows From Investing Activities		
Purchases of securities available-for-sale	(4,541,952)	-
Proceeds from maturities, calls and principal repayments of securities available-for-sale	6,543,135	6,305,543
Proceeds from principal repayments of mortgage-backed securities available-for-sale	5,145,848	5,033,670
Proceeds from sale of securities available-for-sale	4,782,389	-
Proceeds from redemption of restricted stock	35,900	46,400
Net increase in loans	(2,814,405)	(7,359,611)
Purchases of premises and equipment	(234,199)	(71,144)
Proceeds from sale of real estate owned	91,865	47,899
Net cash provided by investing activities	9,008,581	4,002,757

JTNB Bancorp, Inc. and Subsidiary

Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows From Financing Activities		
Net increase (decrease) in deposits	$ 4,162,451	$ (3,636,241)
Dividends paid	(400,867)	(401,732)
Purchase of treasury stock	-	(23,030)
Net cash provided by (used in) financing activities	3,761,584	(4,061,003)
Net increase in cash and cash equivalents	14,383,232	1,580,029
Cash and Cash Equivalents, Beginning	10,318,533	8,738,504
Cash and Cash Equivalents, Ending	$ 24,701,765	$ 10,318,533
Supplementary Disclosure of Cash Flow Information		
Cash paid for:		
Interest on deposits, advances and other borrowings	$ 816,956	$ 593,038
Income taxes	$ -	$ 88,563
Supplementary Schedule of Noncash Investing Activities		
Transfer from loans to foreclosed assets held-for-sale	$ 60,450	$ -
Supplementary Schedule of Noncash Financing Activities		
Issuance of treasury stock	$ 44,991	$ 41,480

See notes to consolidated financial statements

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Principles of Consolidation

The accompanying consolidated financial statements include the accounts of JTNB Bancorp, Inc. (the Bancorp) and its wholly-owned subsidiary, Jim Thorpe Neighborhood Bank (the Bank), (collectively referred to as the Corporation). All material intercompany transactions have been eliminated in consolidation.

The Bank operates under a state bank charter and provides full banking services. The Bancorp is subject to regulation by the Federal Reserve Board and the Bank by the Pennsylvania Department of Banking and Securities. The Bank's primary business consists of taking deposits and granting loans to customers who generally do business in the area of Carbon County, Pennsylvania.

Concentrations of Credit Risk

Most of the Corporation's activities are with customers located primarily in Carbon and surrounding counties of Pennsylvania. Note 4 discusses the types of securities in which the Corporation invests. Note 5 discusses the types of lending in which the Corporation engages. The Corporation does not have any significant concentrations in any one industry or customer.

Use of Estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and income and expenses during the reporting period. Actual results could differ from those estimates.

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

Cash and Cash Equivalents

For purposes of reporting cash flows, the Corporation has defined cash and cash equivalents as those amounts due from depository institutions, interest-bearing deposits with other banks with original maturities of less than 90 days, and federal funds sold to be cash equivalents for purposes of the statements of cash flows.

Investment Securities

Securities are classified at the time of purchase, based on management's intention and ability to hold such securities to maturity, as securities held-to-maturity or securities available-for-sale. Debt securities acquired with the intent and ability to hold to maturity are classified as securities held-to-maturity and are stated at amortized cost. Debt securities not classified as held-to-maturity securities are classified as securities available-for-sale and are stated at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of shareholders' equity. Realized gains or losses on sales of securities are recognized using the specific identification method. Equity securities are carried at fair value with changes in fair value reported in income. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. Interest and dividends on securities are recognized as income when earned.

For debt securities, other-than-temporary impairment is considered to have occurred if (1) the Corporation intends to sell the security with a fair value less than its cost, (2) it is more-likely-than-not the Corporation will be required to sell the security before recovery of its amortized cost basis or (3) if the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. In determining the present value of expected cash flows, the Corporation discounts the expected cash flows at the effective interest rate implicit in the security at the date of acquisition. In estimating cash flows expected to be collected, the Corporation uses available information with respect to security prepayment speeds, default rates and severity.

For debt securities, credit-related other-than-temporary impairment is recognized in income while noncredit related other-than-temporary impairment on securities not expected to be sold is recognized in other comprehensive loss. Credit-related other-than-temporary impairment is measured as the difference between the present value of an impaired security's expected cash flows and its amortized cost basis. Noncredit-related other-than-temporary impairment is measured as the difference between the fair value of the security and its amortized cost less any credit-related losses recognized. For securities classified as held-to-maturity, the amount of other-than-temporary impairment recognized in other comprehensive loss for the noncredit portion of a previous other-than-temporary impairment should be amortized prospectively over the remaining life of the security on the basis of the credit-adjusted expected cash flow amounts of the securities.

Loans Receivable

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

The loans receivable portfolio is segmented into commercial and consumer loans. Commercial loans consist of the following classes: commercial and industrial, commercial real estate and municipal loans. Consumer loans consist of the following classes: residential mortgage loans, home equity loans and other consumer loans.

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

Commercial and Industrial Lending

The Corporation originates commercial and industrial loans primarily to businesses located in its primary market area and surrounding areas. These loans are used for various business purposes which include short-term loans and lines of credit to finance machinery and equipment purchases, inventory and accounts receivable. Generally, the maximum term for loans extended on machinery and equipment is based on the projected useful life of such machinery and equipment. Most business lines of credit are written on demand and may be renewed annually.

Commercial and industrial loans are generally secured with short term assets; however, in many cases; additional collateral such as real estate is provided as additional security for the loan. Loan-to-value maximum values at origination have been established by the Corporation and are specific to the type of collateral but do not exceed 80 percent. Collateral values may be determined using invoices, inventory reports, accounts receivable aging reports, collateral appraisals, etc.

In underwriting commercial and industrial loans, an analysis of the borrower's character, capacity to repay the loan, the adequacy of the borrower's capital and collateral as well as an evaluation of conditions affecting the borrower is performed. Analysis of the borrower's past, present and future cash flows is also an important aspect of the Corporation's analysis.

Commercial loans generally present a higher level of risk than other types of loans due primarily to the effect of general economic conditions and the type of collateral securing the loans.

Commercial Real Estate Lending

The Corporation engages in commercial real estate lending in its primary market area and surrounding areas. The Corporation's commercial loan portfolio is secured primarily by commercial retail space, office buildings and hotels. Generally, commercial real estate loans have terms that do not exceed 20 years, have loan-to-value ratios at origination of up to 80 percent of the appraised value of the property, and are, at origination, typically secured by the personal guarantees of the borrowers.

In underwriting these loans, the Corporation performs a thorough analysis of the financial condition of the borrower, the borrower's credit history and the reliability of the cash flow generated by the property securing the loan. Appraisals on properties securing commercial real estate loans originated by the Corporation are performed by independent appraisers.

Commercial real estate loans generally present a higher level of risk than other types of loans due primarily to the effect of general economic conditions.

Municipal Loans

The Corporation offers loans to school districts, townships and other political subdivisions. These loans are often at lower interest rates and are relatively low risk to the Corporation. The loans are typically collateralized by the revenue stream of municipalities. These loans are usually used to fund capital improvements and are short term. They also provide tax exempt income to the Corporation.

Residential Mortgage Lending

One-to-four family residential mortgage loan originations are generated by the Corporation's marketing efforts, its present customers, walk-in customers and referrals. These loans originate primarily within the Corporation's market area or with customers primarily from the market area.

The Corporation offers fixed-rate and adjustable-rate mortgage loans with terms up to a maximum of 30 years for both permanent structures and those under construction. The Corporation's one-to-four family residential mortgage originations are secured primarily by properties located in its primary market area and surrounding areas. The majority of the Corporation's residential mortgage loans originate with a loan-to-value of 80 percent or less. Loans in excess of 80 percent are required to have private mortgage insurance.

In underwriting one-to-four family residential real estate loans, the Corporation evaluates both the borrower's ability to make monthly payments and the value of the property securing the loan. Properties securing real estate loans made by the Corporation are appraised by independent appraisers. The Corporation generally requires borrowers to obtain an attorney's title opinion or title insurance, as well as fire and property insurance (including flood insurance, if necessary) in an amount not less than the amount of the loan. The Corporation has not engaged in subprime residential mortgage originations.

Home Equity Lines of Credit Lending

The Corporation originates home equity lines of credit primarily within the Corporation's market area or with customers primarily from the market area.

Home equity lines of credit are secured by the borrower's primary residence with a maximum loan-to-value of 89.99 percent, including the primary mortgage, and a maximum term of 10 years.

In underwriting home equity lines of credit, a thorough analysis of the borrower's willingness and financial ability to repay the loan as agreed is performed. The ability to repay is determined by the borrower's employment history, current financial conditions, and credit background. The analysis is based primarily on the customer's ability to repay and secondarily on the collateral or security.

Home equity lines of credit generally present a lower level of risk than other types of consumer loans because they are secured by the borrower's primary residence.

Consumer Lending

The Corporation offers a variety of secured and unsecured consumer loans, including vehicle and loans secured by savings deposits as well as other types of consumer loans.

Consumer loan terms vary according to the type and value of collateral and creditworthiness of the borrower. In underwriting consumer loans, a thorough analysis of the borrower's willingness and financial ability to repay the loan as agreed is performed. The ability to repay shall be determined by the borrower's employment history, current financial conditions, and credit background.

Consumer loans may entail greater credit risk than residential mortgage loans, particularly in the case of consumer loans which are unsecured or are secured by rapidly depreciable assets, such as automobiles or recreational equipment. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected.

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged-off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Nonresidential consumer loans are generally charged-off no later than 120 days past due on a contractual basis, earlier in the event of bankruptcy, or if there is an amount deemed uncollectible. Because all identified losses are immediately charged-off, no portion of the allowance for loan losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Corporation's past loan loss 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, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate, home equity and other consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These qualitative risk factors include:

1. Lending policies and procedures, including underwriting standards and collection, charge-off and recovery practices.
2. National, regional and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans.
3. Nature and volume of the portfolio and terms of loans.
4. Experience, ability and depth of lending management and staff.
5. Volume and severity of past due, classified and nonaccrual loans as well as other loan modifications.
6. Quality of the Corporation's loan review system, and the degree of oversight by the Corporation's Board of Directors.
7. Existence and effect of any concentrations of credit and changes in the level of such concentrations.
8. Effect of external factors, such as competition and legal and regulatory requirements.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and industrial loans and commercial real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

A specific allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of the Corporation's impaired loans are measured based on the estimated fair value of the loan's collateral.

For commercial loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For commercial and industrial loans secured by non real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable aging, equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual residential mortgage loans, home equity loans and other consumer loans for impairment disclosures, unless such loans are the subject of a troubled debt restructuring agreement.

Loans whose terms are modified are classified as troubled debt restructurings if the Corporation grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate or an extension of a loan's stated maturity date. Nonaccrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as troubled debt restructurings are designated as impaired.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings for all loans include regulatory classifications of special mention, substandard, doubtful and loss. Loans classified special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

In addition, Federal regulatory agencies, as an integral part of their examination process, periodically review the Corporation's allowance for loan losses and may require the Corporation to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

Restricted Stock

The Corporation is a member of the Federal Home Loan Bank System. As a member, the Corporation maintains a restricted investment in the capital stock of the Federal Home Loan Bank of Pittsburgh (FHLB) based on a predetermined formula.

The stock is carried at cost and evaluated for impairment based on the ultimate recoverability of the par value.

The Corporation periodically evaluates its FHLB investment for possible impairment based on, among other things, the capital adequacy of the FHLB and its overall financial condition. The Corporation believes its holdings in the stock are ultimately recoverable at par value at December 31, 2019 and 2018 and, therefore, determined that FHLB stock was not impaired. In addition, the Corporation has ample liquidity and does not require redemption of its FHLB stock in the foreseeable future.

Bank-Owned Life Insurance

The Corporation is the owner and beneficiary of bank-owned life insurance (BOLI) policies on certain employees. The earnings from the BOLI policies are recognized as a component of noninterest income. The BOLI policies are an asset that can be liquidated, if necessary, with tax costs associated. However, the Corporation intends to hold these policies and, accordingly, the Corporation has not provided for deferred income taxes on the earnings from the increase in cash surrender value.

Foreclosed Assets

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

Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation. Depreciation is principally computed on the straight-line method over the estimated useful lives of the related assets, which range from three to seven years for furniture and fixtures, and 27.5 to 39 years for building premises. Leasehold improvements are amortized over the shorter of their estimated useful lives or their respective lease terms, which range from seven to fifteen years. Expenditures for maintenance and repairs are charged to expense when incurred while costs of major additions and improvements are capitalized.

Goodwill

The Corporation accounts for goodwill in accordance with Accounting Standards Codification (ASC) Topic 350, *Intangibles - Goodwill and Other*. This guidance, among other things, requires a quantitative or two-step process for testing the impairment of goodwill for each reporting unit on at least an annual basis as of the same date each year. The Corporation performs an annual impairment analysis of goodwill. Based on the fair value of each reporting unit that has goodwill, estimated using the expected present value of future cash flows, no impairment of goodwill was recognized in 2019 and 2018.

Self-Insurance

As of January 1, 2018, the Corporation is party to an agreement with its health insurance provider to supply coverage to its employees under a self-insurance arrangement. Under this arrangement, the Corporation is billed monthly by the provider to pay claims. To limit exposure under this arrangement, the Corporation obtained stop-loss coverage with a specific annual deductible of $45,000 per covered participant and reimbursement of claims are unlimited per covered participant over a lifetime. The stop-loss coverage also provides reimbursement up to $1,000,000 if total claims in the aggregate for the Corporation exceed approximately $550,000 during a policy year.

Benefit Plans

The Corporation has a profit sharing plan which covers substantially all employees who have attained the age of twenty-one and have completed 1,000 hours of service within one calendar year. The amount of the contribution is determined annually by the Corporation's Board of Directors and is included in salaries and employee benefits in the consolidated statements of income. The expense was $95,257 in 2019 and $94,610 in 2018.

The Corporation also has a deferred compensation plan involving directors of the Corporation and the Bank. The plan requires defined annual payments from five to ten years beginning at age 65, retirement, or death. The annual benefit is based upon the amount deferred plus interest. Net activity for the plan resulted in income of $4,732 in 2019 and expense of $3,680 in 2018. Amounts are included in directors' fees and compensation expense in the consolidated statements of income. Life insurance, which is carried on the directors' lives, provides a death benefit to the Corporation for full recovery of the Corporation's expenses under this plan.

Income Taxes

Deferred income taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and net operating losses and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and net operating loss carryforwards and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more-likely-than-not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Corporation follows accounting guidance related to accounting for uncertainty in income taxes. Under the more-likely-than-not threshold guidelines, the Corporation believes no significant uncertain tax positions exist, either individually or in the aggregate, that would give rise to the non recognition of an existing tax benefit. The Corporation's policy is to account for interest and penalties as a component of income tax expense.

Advertising Costs

Advertising costs are expensed as incurred and were $82,687 in 2019 and $96,941 in 2018. Amounts are included within other operating expenses in the consolidated statements of income.

Earnings per Share

The Corporation currently maintains a simple capital structure; therefore, there are no dilutive effects on earnings per share. Earnings per share data are based on the weighted average shares of common stock outstanding during each year.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) is comprised of unrealized gains and losses on the available-for-sale debt securities portfolio and other-than-temporary impairment losses related to factors other than credit on debt securities, net of income taxes (if applicable).

Off-Balance Sheet Financial Instruments

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

Treasury Stock

Common stock shares repurchased are recorded as treasury stock at cost.

Recent Accounting Standard

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Unit (ASU) No. 2016-13, *Financial Instruments - Credit Losses (Topic 326)* to replace the incurred loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loans receivable and held-to maturity debt securities. It also applies to off-balance sheet credit exposures including loan commitments, standby letters of credit, financial guarantees, and other similar instruments. For the assets within the scope of CECL, a cumulative-effect adjustment will be recognized in retained earnings as of the beginning of the first reporting period in which the guidance is effective. This new standard will be effective for the Corporation beginning on January 1, 2023. The Corporation is currently evaluating the impact this new standard will have on the consolidated financial statements.

Subsequent Events

The Corporation evaluated subsequent events for recognition or disclosure through March 23, 2020, the date the consolidated financial statements were available to be issued. See Note 18.

2. Revenue Recognition

The Corporation generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying Topic 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers. The main types of revenue contracts included in noninterest income within the consolidated statements of income as follows:

Deposits Related Fees and Service Charges

Service charges and fees on deposit accounts consist of transaction-based fees, account maintenance fees, and overdraft services fees for various retail and business checking customers. Transaction-based fees, which includes services such as automated teller machines (ATM) fees, Automated Clearing House (ACH) fees, stop payment charges and statement rendering fees are recognized at the time the transaction is executed as that is the point in time the Corporation fulfills the customer's request. All deposit liabilities are considered to have one-day terms and therefore related fees are recognized as noninterest income at the time when the services are provided to the customer. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Corporation satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges and fees on deposits are withdrawn directly from the customer's account balance.

Interchange Income

The Corporation earns interchange fees from credit/debit cardholder transactions conducted through the MasterCard payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized monthly, concurrently with the transaction processing services provided to the cardholder. Such fees are included in other service charges and fees in the consolidated statements of income.

Gain/Losses on Sale of OREO

The Corporation records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Corporation finances the sale of OREO to the buyer, the Corporation assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO assets are derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Corporation adjusts the transaction price and related gain (loss) on sale if a significant financing component is present.

3. Restrictions on Cash and Due From Banks

Regulations of the Board of Governors of the Federal Reserve System impose uniform reserve requirements on all depository institutions with transaction accounts (checking accounts, NOW accounts, etc.). Reserves are maintained in the form of vault cash or a noninterest bearing balance held with the Federal Reserve Bank. The Corporation also, from time to time, maintains deposits with the Federal Reserve Bank and other banks for various services such as check clearing. The reserve requirement was $275,000 and $508,000 at December 31, 2019 and 2018, respectively.

4. Securities

The amortized cost and fair values of securities are as follows at December 31, 2019 and 2018:

	2019			
	Amortized Cost	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
Securities available-for-sale:				
U.S. government agency securities	$ 4,550,000	$ -	$ (10,864)	$ 4,539,136
Obligations of states and political subdivisions	31,214,988	520,264	(37,541)	31,697,711
Total	$ 35,764,988	$ 520,264	$ (48,405)	$ 36,236,847
Mortgage-backed securities available-for-sale:				
Government sponsored enterprises, residential	$ 32,565,806	$ 74,588	$ (342,056)	$ 32,298,338

	2018			
	Amortized Cost	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
Securities available-for-sale:				
U.S. government agency securities	$ 6,050,000	$ -	$ (208,560)	$ 5,841,440
Obligations of states and political subdivisions	36,379,206	41,286	(661,793)	35,758,699
Total	$ 42,429,206	$ 41,286	$ (870,353)	$ 41,600,139
Mortgage-backed securities available-for-sale:				
Government sponsored enterprises, residential	$ 37,813,580	$ 227	$ (1,935,139)	$ 35,878,668

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

	Securities Available-for-Sale	
	Amortized Cost	**Fair Value**
Due within 1 year	$ 1,521,925	$ 1,525,877
Due after 1 but within 5 years	13,636,814	13,692,486
Due after 5 but within 10 years	13,822,119	14,008,209
Due after 10 years	6,784,130	7,010,275
	$ 35,764,988	$ 36,236,847

	Mortgage-Backed Securities Available-for-Sale	
	Amortized Cost	Fair Value
Due within 1 year	$ -	$ -
Due after 1 but within 5 years	491,751	488,675
Due after 5 but within 10 years	3,254,936	3,268,809
Due after 10 years	28,819,119	28,540,854
	$ 32,565,806	$ 32,298,338

Securities with a carrying amount of $48,860,302 at December 31, 2019 and $47,925,958 at December 31, 2018, were pledged to secure public deposits and for other purposes required or permitted by law.

For the year ended December 31, 2019, proceeds from the sales of securities available-for-sale amounted to $4,782,389, gross realized gains were $163,285 and gross realized losses were $0. There were no sales of securities available-for-sale during 2018.

The following tables present gross unrealized losses and fair value of investments aggregated by investment category and length of time that individual securities have been in a continuous loss position at December 31, 2019 and 2018.

	2019					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities available-for-sale:						
U.S. government agency securities	$ 3,491,530	$ (8,470)	$ 1,047,606	$ (2,394)	$ 4,539,136	$ (10,864)
Obligations of states and political subdivisions	4,654,733	(30,308)	2,266,282	(7,233)	6,921,015	(37,541)
	8,146,263	(38,778)	3,313,888	(9,627)	11,460,151	(48,405)
Mortgage-backed-securities available-for-sale, government sponsored enterprises, residential	1,198,368	(1,394)	20,963,802	(340,662)	22,162,170	(342,056)
Total	$ 9,344,631	$ (40,172)	$ 24,277,690	$ (350,289)	$ 33,622,321	$ (390,461)

	2018					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities available-for-sale:						
U.S. government agency securities	$ -	$ -	$ 5,841,440	$ (208,560)	$ 5,841,440	$ (208,560)
Obligations of states and political subdivisions	9,580,785	(115,399)	18,310,336	(546,394)	27,891,121	(661,793)
	9,580,785	(115,399)	24,151,776	(754,954)	33,732,561	(870,353)
Mortgage-backed-securities available-for-sale, government sponsored enterprises, residential	567,755	(6,447)	35,299,498	(1,928,692)	35,867,253	(1,935,139)
Total	$ 10,148,540	$ (121,846)	$ 59,451,274	$ (2,683,646)	$ 69,599,814	$ (2,805,492)

U.S. Government Agency Securities

The Corporation had 2 securities in an unrealized loss position for less than 12 months at December 31, 2019 on U.S. government agency securities which were caused by interest rate increases. The Corporation had 1 investment in an unrealized loss position for more than 12 months at December 31, 2019 on U.S. government agency security that was caused by interest rate increases. The contractual terms of those investments do no permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Corporation does not intend to sell the investments and it is not more-likely-than-not that the Corporation will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Corporation does not consider those investments to be other-than-temporarily impaired at December 31, 2019.

Obligations of State and Political Subdivisions

The Corporation had 8 securities in an unrealized loss position for less than 12 months at December 31, 2019 on obligations of state and political subdivisions which were caused by interest rate increases. The Corporation had 4 securities in an unrealized loss position for more than 12 months, at December 31, 2019 on obligations of state and political subdivisions which were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Corporation does not intend to sell the investments and it is not more-likely-than-not that the Corporation will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Corporation does not consider those investments to be other-than-temporarily impaired at December 31, 2019.

Mortgage-Backed Securities

The Corporation had 1 security in an unrealized loss position for less than 12 months at December 31, 2019 on mortgage-backed securities, government sponsored enterprises, residential which was caused by interest rate increases. The Corporation had 16 securities in an unrealized loss position for more than 12 months at December 31, 2019 on mortgage-backed securities, government sponsored enterprises, residential which were caused by interest rate increases. The contractual cash flows of those investments are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost basis of the Corporation's investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Corporation does not intend to sell the investments and it is not more-likely-than-not that the Corporation will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Corporation does not consider those investments to be other-than-temporarily impaired at December 31, 2019.

5. Loans

The composition of the Corporation's loan portfolio at December 31, 2019 and 2018 is as follows:

	2019	2018
Commercial and industrial	$ 2,772,622	$ 2,694,371
Commercial real estate	36,376,249	30,616,371
Residential mortgage	46,165,097	48,441,208
Home equity	3,774,674	4,281,564
Municipal	4,855,971	5,521,134
Consumer, other	1,287,734	1,009,478
Total loans	95,232,347	92,564,126
Allowance for loan losses	(952,065)	(945,092)
Net deferred loan origination costs	312,307	271,844
Net loans	$ 94,592,589	$ 91,890,878

The Corporation grants commercial loans, residential mortgages, municipal, and consumer loans to customers located within Carbon and surrounding counties. Although the Corporation has a diversified portfolio, exposure to credit loss can be adversely impacted by downturns in local economic and employment conditions.

6. Allowance for Loan Losses

The following tables summarize the activity in the allowance for loan losses by loan class for the years ended December 31, 2019 and 2018, and information in regard to the allowance for loan losses and the recorded investment in loans receivable by loan class as of December 31, 2019 and 2018:

	2019						
	Allowance for Loan Losses						
	Beginning Balance	Charge-offs	Recoveries	Provisions	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial and industrial	$ 13,472	$ (9,194)	$ -	$ 12,635	$ 16,913	$ -	$ 16,913
Commercial real estate	289,013	-	-	54,695	343,708	-	343,708
Residential mortgage	436,261	(28,830)	3,038	14,731	425,200	-	425,200
Home equity	27,872	-	-	(1,049)	26,823	-	26,823
Consumer, other	11,407	(6,865)	1,324	8,172	14,038	-	14,038
Municipal	8,282	-	-	(998)	7,284	-	7,284
Unallocated	158,785	-	-	(40,686)	118,099	-	118,099
	$ 945,092	$ (44,889)	$ 4,362	$ 47,500	$ 952,065	$ -	$ 952,065

	2019		
	Loans Receivable		
	Ending Balance	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment
Commercial and industrial	$ 2,772,622	$ -	$ 2,772,622
Commercial real estate	36,376,249	305,232	36,071,017
Residential mortgage	46,165,097	125,232	46,039,865
Home equity	3,774,674	-	3,774,674
Municipal	4,855,971	-	4,855,971
Consumer, other	1,287,734	-	1,287,734
Total	$ 95,232,347	$ 430,464	$ 94,801,883

	2018						
	Allowance for Loan Losses						
	Beginning Balance	Charge-Offs	Recoveries	Provisions	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial and industrial	$ 11,591	$ -	$ -	$ 1,881	$ 13,472	$ -	$ 13,472
Commercial real estate	183,670	-	-	105,343	289,013	-	289,013
Residential mortgage	459,440	(587)	11,381	(33,973)	436,261	-	436,261
Home equity	49,535	-	-	(21,663)	27,872	-	27,872
Consumer, other	15,290	(7,577)	5,605	(1,911)	11,407	-	11,407
Municipal	12,621	-	-	(4,339)	8,282	-	8,282
Unallocated	94,123	-	-	64,662	158,785	-	158,785
Total	$ 826,270	$ (8,164)	$ 16,986	$ 110,000	$ 945,092	$ -	$ 945,092

	2018		
	Loans Receivable		
	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial and industrial	$ 2,694,371	$ -	$ 2,694,371
Commercial real estate	30,616,371	300,919	30,315,452
Residential mortgage	48,441,208	129,744	48,311,464
Home equity	4,281,564	-	4,281,564
Municipal	5,521,134	-	5,521,134
Consumer, other	1,009,478	-	1,009,478
Total	$ 92,564,126	$ 430,663	$ 92,133,463

The following tables present the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Corporation's internal risk rating system as of December 31, 2019 and 2018:

	2019				
	Pass	Special Mention	Sub-standard	Doubtful	Total
Commercial and industrial	$ 2,772,622	$ -	$ -	$ -	$ 2,772,622
Commercial real estate	36,071,017	-	305,232	-	36,376,249
Residential mortgage	46,165,097	-	-	-	46,165,097
Home equity	3,770,066	-	4,608	-	3,774,674
Municipal	4,855,971	-	-	-	4,855,971
Consumer, other	1,287,734	-	-	-	1,287,734
	$ 94,922,507	$ -	$ 309,840	$ -	$ 95,232,347

	2018				
	Pass	Special Mention	Sub-standard	Doubtful	Total
Commercial and industrial	$ 2,694,371	$ -	$ -	$ -	$ 2,694,371
Commercial real estate	30,315,452	-	300,919	-	30,616,371
Residential mortgage	48,322,670	-	118,538	-	48,441,208
Home equity	4,273,126	-	8,438	-	4,281,564
Municipal	5,521,134	-	-	-	5,521,134
Consumer, other	1,009,478	-	-	-	1,009,478
	$ 92,136,231	$ -	$ 427,895	$ -	$ 92,564,126

The following tables summarize information in regards to impaired loans by loan portfolio class as of December 31, 2019 and 2018:

	2019				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial and industrial	$ -	$ -	$ -	$ -	$ -
Commercial real estate	305,232	305,232	-	304,369	-
Residential mortgage	125,232	125,232	-	127,499	8,688
With an allowance recorded:					
Commercial and industrial	$ -	$ -	$ -	$ -	$ -
Commercial real estate	-	-	-	-	-
Residential mortgage	-	-	-	-	-
Total:					
Commercial and industrial	$ -	$ -	$ -	$ -	$ -
Commercial real estate	305,232	305,232	-	304,369	-
Residential mortgage	125,232	125,232	-	127,499	8,688

	2018				
	Recorded Investment	**Unpaid Principal Balance**	**Related Allowance**	**Average Recorded Investment**	**Interest Income Recognized**
With no related allowance recorded:					
Commercial and industrial	$ -	$ -	$ -	$ -	$ -
Commercial real estate	300,919	300,919	-	240,735	-
Residential mortgage	129,744	129,744	-	131,924	8,860
With an allowance recorded:					
Commercial and industrial	$ -	$ -	$ -	$ -	$ -
Commercial real estate	-	-	-	-	-
Residential mortgage	-	-	-	-	-
Total:					
Commercial and industrial	$ -	$ -	$ -	$ -	$ -
Commercial real estate	300,919	300,919	-	240,732	-
Residential mortgage	129,744	129,744	-	131,924	8,860

The following table presents nonaccrual loans by classes of the loan portfolio as of December 31, 2019 and 2018:

	2019	**2018**
Commercial and industrial	$ -	$ -
Commercial real estate	305,232	300,919
Residential mortgage	-	80,334
Home equity	-	-
Municipal	-	-
Consumer, other	-	-
	$ 305,232	$ 381,253

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by the past due status as of December 31, 2019 and 2018:

	2019						
	30-59 Days Past Due	**60-89 Days Past Due**	**Greater than 90 Days**	**Total Past Due**	**Current**	**Total Loans Receivable**	**Loans Receivable > 90 Days and Accruing**
Commercial and industrial	$ -	$ -	$ -	$ -	$ 2,772,622	$ 2,772,622	$ -
Commercial real estate	1,194,603	302,495	305,232	1,802,330	34,573,919	36,376,249	-
Residential mortgage	123,475	156,791	19,069	299,335	45,865,762	46,165,097	19,069
Home equity	-	-	-	-	3,774,674	3,774,674	-
Municipal	-	-	-	-	4,855,971	4,855,971	-
Consumer, other	-	-	-	-	1,287,734	1,287,734	-
Total	$ 1,318,078	$ 459,286	$ 324,301	$ 2,101,665	$ 93,130,682	$ 95,232,347	$ 19,069

	2018						
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Loans Receivable > 90 Days and Accruing
Commercial and industrial	$ -	$ -	$ -	$ -	$ 2,694,371	$ 2,694,371	$ -
Commercial real estate	131,594	246,069	300,919	678,582	29,937,789	30,616,371	-
Residential mortgage	185,561	-	215,355	400,916	48,040,292	48,441,208	135,021
Home equity	-	-	-	-	4,281,564	4,281,564	-
Municipal	-	-	-	-	5,521,134	5,521,134	-
Consumer, other	-	-	-	-	1,009,478	1,009,478	-
Total	$ 317,155	$ 246,069	$ 516,274	$ 1,079,498	$ 91,484,628	$ 92,564,126	$ 135,021

The Corporation may grant a concession or modification for economic or legal reasons related to a borrower's financial condition that it would not otherwise consider resulting in a modified loan which is then identified as a troubled debt restructuring (TDR). The Corporation may modify loans through rate reductions, extensions of maturity, interest only payments, or payment modifications to better match the timing of cash flows due under the modified terms with the cash flows from the borrowers' operations. Loan modifications are intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. TDRs are considered impaired loans for purposes of calculating the Corporation's allowance for loan losses.

The Corporation identifies loans for potential restructure primarily through direct communication with the borrower and evaluation of the borrower's financial statements, revenue projections, tax returns and credit reports. Even if the borrower is not presently in default, management will consider the likelihood that cash flow shortages, adverse economic conditions, and negative trends may result in a payment default in the near future.

As of December 31, 2019 and 2018, the Corporation has a recorded investment in TDRs of $125,232 and $129,744, respectively. The Corporation has not allocated a specific allowance for these loans at December 31, 2019 and 2018, and has not committed to lend any additional amounts on such loans.

The Corporation had no troubled debt restructurings in 2019 and 2018. There were no troubled debt restructuring loans which have subsequently defaulted in the last twelve months.

7. Foreclosed Assets

Foreclosed assets activity was as follows for the years ended December 31, 2019 and 2018:

	2019	2018
Beginning balance	$ 40,000	$ 94,000
Loan transferred to foreclosed assets	60,450	-
Write-downs on foreclosed assets	-	-
Sales of foreclosed assets	(100,450)	(54,000)
Ending balance	$ -	$ 40,000

At December 31, 2019 and 2018, the balance of foreclosed assets includes $0 and $40,000, respectively, of foreclosed residential real estate properties recorded as a result of obtaining physical possession of the property or deed in lieu of foreclosure. At December 31, 2019 and 2018, the recorded investment of residential mortgage and consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceeds are in process is $0 and $432,902, respectively.

Activity related to foreclosed real estate included in the Consolidated Statements of Income for the years ended December 31, 2019 and 2018 is as follows:

	2019	2018
Loss on sale of foreclosed real estate (included in other operating expenses)	$ 8,585	$ (6,101)
Operating expenses (included in other operating expenses)	$ 2,041	$ 2,064

8. Premises and Equipment

The following summarizes premises and equipment at December 31, 2019 and 2018:

	2019	2018
Land, buildings, and improvements	$ 4,197,720	$ 4,166,784
Furniture and fixtures	3,424,741	3,221,478
Total cost	7,622,461	7,388,262
Less accumulated depreciation	(5,755,391)	(5,550,239)
Net cost	$ 1,867,070	$ 1,838,023

9. Deposits

Interest-bearing deposits at December 31, 2019 and 2018 are as follows:

	2019	2018
NOW and money market accounts	$ 60,488,760	$ 71,649,422
Savings accounts	36,627,709	37,262,681
Time deposits	42,337,803	28,135,236
	$ 139,454,272	$ 137,047,339

Scheduled maturities of time deposits are as follows:

Years ending December 31:	
2020	$ 33,526,630
2021	4,104,063
2022	2,611,895
2023	714,933
2024	1,380,282
	$ 42,337,803

Time deposits that meet or exceed the FDIC insurance limit of $250,000 at December 31, 2019 and 2018 were $16,825,000 and $4,031,000, respectively.

10. Federal Home Loan Bank Borrowings

FHLB borrowings are collateralized by certain mortgages.

At December 31, 2019 and 2018, the Corporation had the following borrowings outstanding from the FHLB:

Loan Type	Maturity Date	Interest Rate at December 31, 2018	2019 Principal Outstanding	2018 Principal Outstanding
Fixed term	October 5, 2023	2.48 %	$ 5,000,000	$ 5,000,000

The Corporation has a line of credit of $22,942,975 from the FHLB, maturing June 3, 2020 with an interest rate of 1.81 percent at December 31, 2019. There were no outstanding balances as of December 31, 2019 and 2018.

11. Income Taxes

The components of the net deferred tax assets at December 31, 2019 and 2018 are as follows:

	2019	2018
Deferred compensation and other accrued expenses	$ 43,736	$ 56,666
Allowance for loan losses and foreclosed assets	199,934	198,470
Limited partnership interest	(427)	379
Affordable housing tax credit	-	24,988
Charitable contributions	2,807	15,177
Foreclosed asset write-downs	-	1,577
Unrealized (gain) loss on securities available-for-sale	(42,922)	580,435
Premises and equipment	36,951	25,504
	240,079	903,196
Valuation allowance	(2,807)	(15,177)
Total deferred tax assets, net of valuation allowance	237,272	888,019
Prepaid deduction	(7,614)	(8,319)
Goodwill	(132,708)	(120,644)
Total deferred tax liabilities	(140,322)	(128,963)
Net deferred tax assets	$ 96,950	$ 759,056

The Corporation has determined that a valuation allowance of $2,807 and $15,177 for the years ended December 31, 2019 and 2018, respectively, was required to offset a deferred tax asset related to charitable contribution carryforwards the Corporation has recognized. These charitable contribution carryforwards can be carried forward for five years. As of December 31, 2019, the Corporation has deemed that it is not more-likely-than-not that these charitable contribution carryforwards will be used within the carryforward period.

The income tax provision is summarized for the years ended December 31, 2019 and 2018 as follows:

	2019	2018
Current	$ 98,315	$ (381,631)
Deferred	38,749	487,371
Total income tax expense	$ 137,064	$ 105,740

A reconciliation of the statutory income tax at a rate of 21 percent to the income tax expense included in the consolidated statements of income is as follows for the years ended December 31, 2019 and 2018:

	2019	2018
Computed income tax expense	$ 281,358	$ 227,703
Increase (decrease) resulting from:		
Tax-free income	(93,727)	(105,371)
Nondeductible interest expense	2,762	2,571
BOLI income	(25,998)	(25,616)
Valuation allowance	-	(12,235)
Other, net	(27,331)	18,688
Actual income tax expense	$ 137,064	$ 105,740
Effective tax rate	9.81 %	9.16 %

As of December 31, 2019 and 2018, there were no unrecognized tax benefits. There were no interest or penalties accrued at December 31, 2019 and 2018.

12. Related Party Transactions

Some of the Corporation's directors, principal officers, principal shareholders, and their related interests had transactions with the Corporation in the ordinary course of business during 2019 and 2018. All loans and commitments to loans in such transactions were made on substantially the same terms including collateral and interest rates, as those prevailing at the time for comparable transactions. In the opinion of management, these transactions do not involve more than normal risk of collectability or present other unfavorable features. It is anticipated that further such extensions of credit will be made in the future.

A summary of loan activity for those executive officers, directors, principal shareholders and their related interests for the year ended December 31, 2019 and 2018 is shown below:

	2019	2018
Balance, January 1	$ 289,000	$ 308,000
New loans	-	-
Repayments	(64,000)	(19,000)
Balance, December 31	$ 225,000	$ 289,000

At December 31, 2019 and 2018, deposits from related parties totaled $1,524,827 and $1,329,649, respectively.

13. Contingencies and Commitments

There are no material legal proceedings to which the Corporation is a party, except proceedings, which arise in the normal course of business and, in the opinion of management, will not have any material effect on the consolidated financial position of the Corporation.

14. Dividend Restrictions

Dividends can be paid by the Bancorp from its assets, which are mainly provided by dividends received from the Bank. The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. The Pennsylvania Banking Code provides that cash dividends may be declared and paid only out of accumulated net earnings as defined. Cash dividends must be approved by the Federal Reserve Bank if the total of all cash dividends declared by the Bank in any calendar year, including the proposed cash dividend, exceeds the total of the Bank's net profit for that year plus its retained net profits from the preceding two years. Under this formula, the Bank can declare dividends to the Bancorp at December 31, 2019 equal to $1,517,315. In addition, dividends paid by the Bank to the Bancorp would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements. Dividends issued through the Dividend Reinvestment Plan totaled $44,991 in 2019 and $41,180 in 2019.

15. Capital Requirements

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. The final rules implementing BASEL Committee on Banking Supervisor's Capital Guidance for U.S. banks (BASEL III rules) became effective for the Bank on January 1, 2015, with full compliance with all of the requirements being phased in over a multi-year schedule and fully phased in by January 1, 2019. Under the BASEL III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in from 0.0 percent for 2015 to 2.50 percent by 2019. The capital conservation buffer for 2019 is 2.50 percent. 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 consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of 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 weighting and other factors. Prompt corrective actions are not applicable to bank holding companies.

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

The Federal Reserve Bank has established capital guidelines for bank holding companies. These guidelines allow small bank holding companies, as defined, an exemption from regulatory capital requirements. The Bancorp meets the eligibility criteria and is exempt from regulatory capital requirements.

As of December 31, 2019, the most recent notification from regulatory agencies 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, common equity Tier 1, Tier 1 risk-based, Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since that notification that management believes have changed those categories.

	December 31, 2019					
	Actual		For Capital Adequacy Purposes		To be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)	$ 20,209,043	20.16 %	$ 8,019,920	≥ 8.0 %	$ 10,024,900	≥ 10.0 %
Common equity Tier 1 (to risk-weighted assets)	$ 19,246,978	19.20 %	$ 4,511,205	≥ 4.5 %	$ 6,516,185	≥ 6.5 %
Tier 1 capital (to risk-weighted assets)	$ 19,246,978	19.20 %	$ 6,014,940	≥ 6.0 %	$ 8,019,920	≥ 8.0 %
Tier 1 capital (to average-assets)	$ 19,246,978	9.61 %	$ 8,011,640	≥ 4.0 %	$ 10,014,550	≥ 5.0 %

	December 31, 2018					
	Actual		For Capital Adequacy Purposes		To be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)	$ 19,504,785	19.62 %	$ 7,954,880	≥ 8.0 %	$ 9,943,600	≥10.0 %
Common equity Tier 1 (to risk-weighted assets)	$ 18,549,693	18.65 %	$ 4,474,620	≥ 4.5 %	$ 6,463,340	≥ 6.5 %
Tier 1 capital (to risk-weighted assets)	$ 18,549,693	18.65 %	$ 5,966,160	≥ 6.0 %	$ 7,954,880	≥ 8.0 %
Tier 1 capital (to average-assets)	$ 18,549,693	9.46 %	$ 7,844,240	> 4.0 %	$ 9,805,300	≥ 5.0 %

16. Fair Value of Financial Instruments

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

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

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

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

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

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

The following table presents the assets and liabilities reported on the consolidated balance sheets at their fair value as of December 31, 2019 and 2018, by level within the fair value hierarchy.

Financial assets measured at fair value on a recurring basis are summarized below at December 31, 2019 and 2018:

	2019			
	Total	**Level 1**	**Level 2**	**Level 3**
Securities available-for-sale:				
U.S. government agency securities	$ 4,539,136	$ -	$ 4,539,136	$ -
Obligations of states and political subdivisions	31,697,711	-	31,697,711	-
Total securities available-for-sale	36,236,847	-	36,236,847	-
Mortgage-backed securities available-for-sale	32,298,338	-	32,298,338	-
	$ 68,535,185	$ -	$ 68,535,185	$ -

	2018			
	Total	**Level 1**	**Level 2**	**Level 3**
Securities available-for-sale:				
U.S. government agency securities	$ 5,841,440	$ -	$ 5,841,440	$ -
Obligations of states and political subdivisions	35,758,699	-	35,758,699	-
Total securities available-for-sale	41,600,139	-	41,600,139	-
Mortgage-backed securities available-for-sale	35,878,668	-	35,878,668	-
	$ 77,478,807	$ -	$ 77,478,807	$ -

Under certain circumstances we make adjustments to fair value for our assets although they are not measured at fair value on an ongoing basis. The following table presents the financial instruments carried on the consolidated balance sheets by caption and by level in the fair value hierarchy at December 31, 2018, for which a nonrecurring change in fair value has been recorded:

	2018			
	Total	**Level 1**	**Level 2**	**Level 3**
Foreclosed assets	$ 40,000	$ -	$ -	$ 40,000

Quantitative information about Level 3 fair value measurements at December 31, 2018 is included in the table below:

	2018			
	Fair Value Estimate	**Valuation Techniques**	**Unobservable Inputs**	**Estimated Range**
Foreclosed assets	$ 40,000	Appraisal of collateral	Appraisal adjustments	0%
			Liquidation expenses	7-10%

The estimated fair values of the Corporation's financial instruments at December 31, 2019 and 2018 are as follows (in thousands):

	2019				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and due from banks	$ 3,219	$ 3,219	$ 3,219	$ -	$ -
Interest-bearing deposits with banks	21,482	21,482	21,482	-	-
Investment securities	68,535	68,535	-	68,535	-
Loans, net	94,593	97,095	-	-	97,095
Restricted stock	621	621	-	621	-
Accrued interest receivable	576	576	-	576	-
Financial liabilities:					
Deposits	171,623	172,397	-	172,397	-
Federal home loan bank borrowings	5,000	5,098	-	5,098	-
Accrued interest payable	79	79	-	79	-

	2018				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and due from banks	$ 3,355	$ 3,355	$ 3,355	$ -	$ -
Interest-bearing deposits with banks	6,694	6,964	6,964	-	-
Investment securities	77,479	77,479	-	77,479	-
Loans, net	91,891	91,804	-	-	91,804
Restricted stock	657	657	-	657	-
Accrued interest receivable	620	620	-	620	-
Financial liabilities:					
Deposits	167,460	167,697	-	167,697	-
Federal home loan bank borrowings	5,000	4,853	-	4,853	-
Accrued interest payable	60	60	-	60	-

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

As certain assets and liabilities such as foreclosed assets, deferred tax assets, premises and equipment, and many other operational elements of the Corporation are not considered financial instruments, the estimated fair value of financial instruments would not represent the full value of the Corporation.

The Corporation employed simulation modeling in determining the estimated fair value of financial instruments for which quoted market prices were not available, based upon the following assumptions:

Cash and Due From Banks, Interest-bearing Deposits With Banks, Restricted Stock, Accrued Interest Receivable and Demand, Savings and Money Market Deposits, Accrued Interest Payable (Carried at Cost)

The fair value for these instruments approximates the current carrying value.

Investment Securities (Carried at Fair Value)

The fair value of investment securities is equal to the available quoted market price. If quoted market prices are not available, fair values were estimated using pricing models and discounted cash flows that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealers quotes and credit spreads. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include government sponsored enterprise obligations, corporate bonds and other securities. Mortgage-backed securities are included in Level 2 if observable inputs are available. In certain cases where there is limited activity or less transparency around inputs to the valuation, we classify those securities in Level 3.

Loans (Carried at Cost)

For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair value of fixed rate loans is estimated by discounting the future cash flows using a simulation model that estimates future cash flows and constructs discount rates that consider reinvestment opportunities, operating expenses, noninterest income, credit quality and prepayment risk.

Impaired Loans (Generally Carried at Fair Value)

Impaired loans are those loans in which the Corporation has measured impairment generally based on the fair value of the loan's collateral. Fair value consists of the loan balance less its valuation allowance and is generally determined based on independent third-party appraisals of the collateral or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values based upon the lowest level of input that is significant to the fair value measurements.

Deposits (Carried at Cost)

Fair values for time deposits are estimated using a discounted cash flow calculation that applies contractual cost currently being offered in the existing portfolio to current market rates being offered for deposits of similar remaining maturities.

FHLB Borrowings (Carried at Cost)

The fair value of fixed rate advances are estimated using discounted cash flows, based on current incremental borrowing rates for similar types of borrowing arrangements.

Commitments to Extend Credit and Standby Letters of Credit (Disclosed at Cost)

These financial instruments are generally not subject to sale, and estimated fair values are not readily available. The carrying value, represented by the net deferred fee arising from the unrecognized commitments or letters of credit and the fair value, determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk, are not considered material for disclosure. The contractual amounts of unfunded commitments and letters of credit are presented in Note 17.

17. Financial Instruments With Off-Balance-Sheet Risk

The Corporation is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of these instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments.

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit written is represented by the contract or notional amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. The following table identifies the contract or notional amount of those instruments at December 31, 2019 and 2018:

	2019	2018
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 12,996,000	$ 14,559,000
Standby letters of credit	$ 10,000	$ 67,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. 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 drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation of the counterpart. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties.

Standby letters of credit written are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

18. Subsequent Event

Subsequent to year-end, because of the spread of the COVID-19 pandemic, economic uncertainties have arisen, which are likely to negatively impact net interest income. Other financial impact could occur, however, the related financial impact and duration, and related government and regulator action, cannot be estimated at this time.

Team JTNB - Experience is the Difference

JTNB Board of Directors

Joseph F. Arieta, Director – 25 Years

John J. Cherb, Treasurer/Director – 39 Years

Jane F. Engler, Chairman/Director – 32 Years

William P. Gardiner, Secretary/Director – 43 Years

Charles W. Getz, Director – 32 Years

Harry W. Hintz, Director – 47^{+} Years

Ronald J. Sheehan, Vice Chairman/Director – 13 Years

Joseph T. Svetik, Director – 45^{+} Years

JTNB Management Team

Craig A. Zurn, CEO/President – 37 Years

Gregory C. Hartman, EVP/CFO – 27 Years

Richard T. Kuhn, EVP/COO – 27 Years

Jay T. Miller, SVP/Compliance Officer – 41 Years

Sarah A. Smith, AVP/Deposit Operations-Electronic Banking Manager – 40 Years

Amy Behrens, Executive Assistant – 33 Years

Mary C. Marzen, Credit Administration Officer/Branch Manager – 32 Years

Lori A. Cinicola, Branch Manager/Lender – 32 Years

In the end, all business operations can be reduced to three words:
people, product and profits.
Unless you've got a good team, you can't do much with the other two.

~ Lee Iacocca