Peoples Ltd. and Subsidiaries

Consolidated Financial Statements

December 31, 2020 and 2019

Peoples Ltd. and Subsidiaries

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Independent Auditors' Report

To the Board of Directors of
Peoples Ltd. and Subsidiaries

We have audited the accompanying consolidated financial statements of Peoples Ltd. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

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 auditors' 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 Peoples Ltd. and Subsidiaries as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly US, LLP

Wilkes-Barre, Pennsylvania
March 31, 2021

Peoples Ltd. and Subsidiaries

Consolidated Balance Sheets
December 31, 2020 and 2019
(In Thousands, Except Share Amounts)

	2020	2019
Assets		
Cash and due from banks	$ 56,269	$ 27,310
Available-for-sale securities	91,098	108,287
Held-for-maturity securities	2,650	-
Loans, net	261,212	246,324
Loans held-for-sale	13,541	2,160
Cash surrender value, life insurance	7,770	7,542
Bank premises and equipment	5,258	4,834
Accrued interest receivable	1,048	981
Restricted equity securities	2,335	1,767
Deferred income taxes	239	349
Other assets	2,035	1,963
Total	$ 443,455	$ 401,517
Liabilities and Shareholders' Equity		
Liabilities		
Demand deposits:		
Noninterest-bearing	$ 96,239	$ 70,645
Interest-bearing	123,216	111,584
Total	219,455	182,229
Savings deposits	66,684	57,338
Time deposits	90,292	104,926
Total deposits	376,431	344,493
Borrowed funds	21,000	16,000
Accrued interest payable	90	133
Other liabilities	2,762	2,612
Total liabilities	400,283	363,238
Shareholders' Equity		
Common stock, $.50 par value, authorized 5,000,000 shares at December 31, 2020 and 2,000,000 at December 31, 2019 2020 - 715,155 shares issued, 700,500 outstanding 2019 - 681,964 shares issued, 667,309 outstanding	358	341
Surplus	18,865	16,857
Retained earnings	23,034	21,344
Treasury stock, at cost	(512)	(512)
Accumulated other comprehensive income	1,427	249
Total shareholders' equity	43,172	38,279
Total	$ 443,455	$ 401,517

See notes to consolidated financial statements

Peoples Ltd. and Subsidiaries

Consolidated Statements of Income
Years Ended December 31, 2020 and 2019
(in Thousands, Except Per Share Amounts)

	2020	2019
Interest Income		
Interest and fees on loans	$ 13,383	$ 12,479
Interest and dividends on investments:		
Taxable interest and dividends	1,837	2,742
Nontaxable interest	426	474
Total interest income	15,646	15,695
Interest Expense		
Interest on deposits	1,897	2,858
Interest on borrowed funds	405	389
Total interest expense	2,302	3,247
Net Interest Income	13,344	12,448
Provision for Loan Losses	1,255	420
Net Interest Income after Provision for Loan Losses	12,089	12,028
Noninterest Income		
Service charges	1,418	1,290
Gain on sale of loans	2,056	856
Commissions	106	106
Increase in cash surrender value, life insurance	228	107
Gain on sale of foreclosed assets	17	13
Unrealized (losses) gains on equity securities	(33)	37
Other income	748	413
Total noninterest income	4,540	2,822
Noninterest Expenses		
Salaries and employee benefits	5,729	5,181
Occupancy and equipment	1,073	1,089
Data processing	585	620
Debit/credit card processing	426	169
Pennsylvania shares tax	355	278
Professional fees	389	243
FDIC insurance	159	107
Other expenses	1,547	1,562
Total noninterest expenses	10,263	9,249
Income Before Provision for Income Taxes	6,366	5,601
Provision for Income Taxes	1,166	953
Net Income	$ 5,200	$ 4,648
Earnings Per Share	$ 7.42	$ 6.63

See notes to consolidated financial statements

Peoples Ltd. and Subsidiaries

Consolidated Statements of Comprehensive Income
Years Ended December 31, 2020 and 2019
(in Thousands)

	2020	2019
Net Income	$ 5,200	$ 4,648
Other Comprehensive Income		
Unrealized gain on available-for-sale securities	1,492	2,671
Tax effect	(314)	(560)
Total other comprehensive income	1,178	2,111
Total Comprehensive Income	$ 6,378	$ 6,759

See notes to consolidated financial statements

Peoples Ltd. and Subsidiaries

Consolidated Statements of Changes in Shareholders' Equity
Years Ended December 31, 2020 and 2019
(in Thousands, Except Share Amounts)

	Common Stock		Treasury Stock				Accumulated Other Comprehensive	
	Shares	Amount	Shares	Amount	Surplus	Retained Earnings	Income (Loss)	Total
Balance, January 1, 2019	650,356	$ 325	14,655	$ (512)	$ 14,344	$ 20,612	$ (1,862)	$ 32,907
Net income	-	-	-	-	-	4,648	-	4,648
Other comprehensive income	-	-	-	-	-	-	2,111	2,111
Cash dividend ($2.16 per share)	-	-	-	-	-	(1,373)	-	(1,373)
5% stock dividend	31,608	16	-	-	2,513	(2,543)	-	(14)
Balance, December 31, 2019	681,964	341	14,655	(512)	16,857	21,344	249	38,279
Net income	-	-	-	-	-	5,200	-	5,200
Other comprehensive income	-	-	-	-	-	-	1,178	1,178
Cash dividend ($2.21 per share)	-	-	-	-	-	(1,475)	-	(1,475)
5% stock dividend	33,191	17	-	-	2,008	(2,035)	-	(10)
Balance, December 31, 2020	715,155	$ 358	14,655	$ (512)	$ 18,865	$ 23,034	$ 1,427	$ 43,172

See notes to consolidated financial statements

Peoples Ltd. and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019
(in Thousands)

	2020	2019
Operating Activities		
Net income	$ 5,200	$ 4,648
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Provision for loan losses	1,255	420
Depreciation	415	407
Amortization and accretion, net	(101)	(145)
Gain on sale of loans	(2,056)	(856)
Loans originated for sale	(69,019)	(26,428)
Proceeds from sale of loans originated for sale	59,694	25,648
Writedown on foreclosed assets	20	50
Gain on sale of foreclosed assets	(17)	(13)
Unrealized loss (gain) on equity securities	33	(37)
Loss on sale of equipment	-	14
Deferred income taxes	(204)	(64)
Increase in cash surrender value, life insurance	(228)	(107)
Amortization of right-of-use asset	163	178
Change in:		
Accrued interest receivable	(67)	(52)
Other assets	(137)	47
Accrued interest payable	(43)	7
Operating lease liability	(185)	(178)
Other liabilities	335	28
Net cash (used in) provided by operating activities	(4,942)	3,567
Investing Activities		
Proceeds from calls and maturities of available-for-sale securities	59,342	21,355
Purchase of available-for-sale securities	(40,593)	(28,658)
Purchase of held-to-maturity securities	(2,650)	-
Proceeds from redemption of restricted equity securities	411	384
Purchase of restricted equity securities	(979)	(610)
Net increase in loans	(16,343)	(15,543)
Life insurance premiums paid	-	(5,000)
Purchase of bank premises and equipment	(839)	(381)
Proceeds from sale of equipment	-	13
Proceeds from the sale of foreclosed assets	99	119
Net cash used in investing activities	(1,552)	(28,321)
Financing Activities		
Net increase in deposits	31,938	26,917
Proceeds from borrowed funds	8,000	13,000
Repayment of borrowed funds	(3,000)	(16,000)
Dividends paid	(1,485)	(1,387)
Net cash provided by financing activities	35,453	22,530
Increase (Decrease) in Cash and Due from Banks	28,959	(2,224)
Cash and Due From Banks, Beginning	27,310	29,534
Cash and Due From Banks, Ending	$ 56,269	$ 27,310

See notes to consolidated financial statements

1. Nature of Operations and Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Peoples Ltd. and its wholly-owned subsidiaries, PS Bank (Bank) and DEPPLL Corp. (collectively, Company). All significant intercompany balances and transactions have been eliminated in consolidation.

Nature of Operations

The Company provides a full range of basic financial services to individuals, small businesses and corporate customers through offices in Bradford, Lackawanna, Sullivan and Wyoming counties of Pennsylvania. The area is a rural and suburban market with an economic base made up of light manufacturing, retail and agricultural businesses. The Company's primary deposit products are demand deposits and interest bearing time and savings accounts. It offers a full array of loan products to meet the needs of retail and commercial customers.

The Bank is subject to regulation by the Pennsylvania Department of Banking and Securities and the Federal Deposit Insurance Corporation. Peoples Ltd. is subject to regulation by the Federal Reserve Bank of Philadelphia.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and the valuation of investment securities.

In connection with the determination of the allowance for loan losses, management generally obtains independent appraisals for significant properties. While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

The Company's investment securities are comprised of a variety of financial instruments. The fair values of these securities are subject to various risks including changes in the interest rate environment and general economic conditions. Due to the increased level of these risks and their potential impact on the fair values of the securities, it is possible that the amounts reported in the accompanying consolidated financial statements could materially change in the near term.

Significant Group Concentrations of Credit Risk

The Company grants loans to customers primarily located in Bradford, Lackawanna, Sullivan and Wyoming counties of Pennsylvania. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on the economic sector in which the Company operates. The Company does not have any significant concentrations from one industry or customer.

Investments

Debt securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost. Debt securities not classified as held-to-maturity are classified as available-for-sale and reported at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Equity securities are reported at fair value, with unrealized gains and losses included in net income.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of available-for-sale debt securities below their costs that are deemed to be credit-related are reflected in earnings as realized losses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Restricted Equity Securities

Restricted equity securities are carried at cost. The Company, as a member of the Pittsburgh branch of the Federal Home Loan Bank system (FHLB), is required to maintain an investment in capital stock of the FHLB. The carrying value of this stock was $2,325 at December 31, 2020 and $1,757 at December 31, 2019. Based on redemption provisions of the FHLB, the stock has no quoted market value. The Company is also required to maintain an investment in the Atlantic Community Bankers Bank. The carrying value of this stock was $10 at December 31, 2020 and 2019.

Management considers whether these investments are impaired based on the ultimate recoverability of the cost basis rather than by recognizing temporary declines in value. Management believes no impairment has occurred related to these investments at December 31, 2020 and 2019.

Loans Held-for-Sale

Loans held-for-sale consist of one-four family residential mortgages originated and intended for sale in the secondary market. The loans are carried in the aggregate at the lower of cost or fair value, based upon current delivery prices in the secondary market. Gains or losses are included in net income and are determined using the specific identification method.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for unearned income, the allowance for loan losses, and any unamortized deferred fees or costs on originated loans.

The loan receivable portfolio is segmented into commercial, residential, municipal and consumer loans. Commercial loans include commercial and industrial and commercial real estate loans. Residential loans include 1-4 family mortgage loans and home equity loans. Consumer loans consist of personal installment loans and municipal loans consist of loans to local municipalities and authorities. The segments of the Company's loan portfolio are disaggregated to a level that allows management to monitor risk and performance. Common risk characteristics include loan type, collateral type and geographic location.

For all classes of loans receivable except certain residential loans, 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. For residential loans that are well secured and in the process of collection, the accrual of interest is discontinued after one year of past due payments. When a loan is placed on nonaccrual status, unpaid interest is reversed against interest income. Interest received on nonaccrual loans, including impaired loans, is either applied to principal or recognized as interest income, depending on 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.

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. 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.

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 Company'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, a specific allowance is established when the collateral value, observable market price, or discounted cash flows of the impaired loan is lower than the carrying value of that loan. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment records, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis. The Company does not separately evaluate individual residential and consumer loans for impairment, unless such loans are part of a larger relationship that is impaired, or are classified as a troubled debt restructuring.

The estimated fair values of substantially all of the Company's impaired loans are measured based on the estimated fair value of the loan's collateral.

For 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, when necessary, 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 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 agings or equipment appraisals, invoices or online pricing sources. Indications of value from these sources are generally discounted, as appropriate, based on the age of the financial information or the quality of the assets.

The general component covers pools of loans by loan class including loans not considered impaired, as well as smaller balance homogeneous loans, such as residential 1-4 family, home equity and consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates, adjusted for qualitative risk 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. Existence and effect of any concentrations of credit and changes in the level of such concentrations.

7. Oversight, including the impact of banking laws and regulations as well as the overall regulatory environment.

8. External factors which may have either a direct or indirect impact on the quality of the loan portfolio.

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.

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 residential, municipal and consumer loans. Credit quality risk ratings include classifications of pass, special mention, substandard, doubtful and loss. Loans criticized as 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 immediately charged to the allowance for loan losses. Loans not classified are rated pass. To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Company has a structured loan rating process encompassing both internal and external oversight. Generally, residential and consumer loans are included in the pass category unless on nonaccrual status at which time they are classified as substandard, or they are associated with a closely related criticized commercial credit. The Company's commercial loan officers are responsible for the timely and accurate risk rating of the commercial loans in their portfolio at origination and on an ongoing basis. The Company utilizes an external loan review consultant to conduct a loan review of its portfolio each year. The external consultant generally reviews all commercial loan relationships exceeding a specified threshold.

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.

Loans whose terms are modified are classified as troubled debt restructurings (TDR) if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a TDR generally involve a temporary reduction in interest rate or an extension of a loan's stated maturity date. Nonaccrual TDRs 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 TDRs are generally designated as impaired.

In addition, federal and state regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company 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.

The Company made no significant changes to its accounting policies or methodologies for the allowance for loan losses in 2020 or 2019.

Revenue Recognition

The Company earns income from various sources, including loans, investment securities, bank-owned life insurance, deposit accounts and sales of assets.

Interest income on loans is accrued on the unpaid principal balance and recorded daily. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method. Other loan fees, including late charges, are recognized as they occur.

Interest income on debt securities is recognized on the accrual basis. Purchase premiums and discounts are recognized using the interest method over the term of the securities. Dividends on equity securities are recorded when declared.

Service charges on deposits include maintenance and analysis fees, overdraft fees and automated teller machine (ATM) fees. Revenue is recognized when the Company's performance obligation is completed which is generally monthly for account services or when a transaction has been completed. Payment for service charges on deposit accounts is received immediately or in the following month through a direct charge to customers' accounts.

Commissions are received from third parties based on the sale of the third party's investment and insurance products to the Company's customers. The Company's performance obligation is complete when the sale occurs.

Other income includes other fees and revenue which are generally transactional in nature and are recorded as they occur.

Gains or losses on sales of assets are generally recognized when the asset has been legally transferred to the buyer and the Company has no continuing involvement with the asset. The Company does not generally finance the sale.

Cash Surrender Value, Life Insurance

The Company is the owner and beneficiary of life insurance policies on certain employees and directors. The life insurance investment is carried at the cash surrender value of the underlying owned policies. The increase in the cash surrender value is recognized as a component of noninterest income. The policies can be liquidated, if necessary, with tax costs associated. However, the Company intends to hold these policies and, accordingly, the Company has not provided for deferred income taxes on the earnings from the increase in cash surrender value.

Bank Premises and Equipment

Bank premises (including leasehold improvements) and equipment are carried at cost, less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated lives of the assets for owned assets or the lesser of the lease term or the estimated lives of the assets for leasehold improvements.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed 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 expenses.

Foreclosed assets totaled $240 and $142 at December 31, 2020 and 2019, respectively, and are included in other assets. Foreclosed assets include $40 and $72 of residential real estate at December 31, 2020 and 2019, respectively. Residential real estate in process of foreclosure was $263 and $291 at December 31, 2020 and 2019, respectively.

Income Taxes

Income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities. Enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

Earnings Per Share

Earnings per share is based on the weighted average number of shares of common stock outstanding. 2019 earnings per share is adjusted for the effect of the 2020 stock dividend. The Company's basic and diluted earnings per share are the same since there are no dilutive shares of potential common stock outstanding.

Transfers of Financial Assets

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

Advertising Costs

Advertising costs are expensed as incurred and totaled $127 in 2020 and $150 in 2019.

Treasury Stock

Treasury stock is recorded at cost. The subsequent disposition or sale of the treasury stock is recorded using the average cost method.

Statements of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and amounts due from banks. Interest paid totaled $2,345 in 2020 and $3,240 in 2019. The Company paid $1,100 of income tax payments in 2020 and $1,000 in 2019. Amounts transferred from loans to foreclosed assets were $200 in 2020 and $68 in 2019. Right-of-use assets and operating lease liabilities recognized in 2020 and 2019 were $-0- and $1,073, respectively.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income consists solely of the net unrealized gains on available-for-sale securities, net of deferred income taxes. Accumulated other comprehensive income consists of net unrealized gains of $1,806 less deferred income taxes of $379 at December 31, 2020 and $314 less deferred income taxes of $65 at December 31, 2019.

Reclassifications

Certain 2019 amounts have been reclassified to conform to the 2020 reporting format.

Subsequent Events

Subsequent events were evaluated for recognition or disclosure through March 31, 2021, the date the consolidated financial statements were available to be issued.

Future Accounting Standards

In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-13, *Measurement of Credit Losses on Financial Instruments.* ASU No. 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount. The Company must adopt this guidance in 2023. The Company is in the process of evaluating the potential impact of adopting this ASU.

(In Thousands)

2. Investments

The amortized cost and fair value of investment securities at December 31 are summarized as follows:

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. government sponsored enterprises (GSE)	$ 5,999	$ -	$ 4	$ 5,995
State and municipal obligations	23,313	664	1	23,976
Mortgage-backed securities, GSE, residential	59,900	1,158	11	61,047
Total debt securities	89,212	1,822	16	91,018
Equity securities	68	12	-	80
Total	$ 89,280	$ 1,834	$ 16	$ 91,098
Held-to-maturity, Corporate bonds	$ 2,650	$ 7	$ -	$ 2,657

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. government sponsored enterprises (GSE)	$ 18,472	$ 1	$ 61	$ 18,412
State and municipal obligations	25,497	324	8	25,813
Mortgage-backed securities, GSE, residential	63,892	415	358	63,949
Total debt securities	107,861	740	427	108,174
Equity securities	68	45	-	113
Total	$ 107,929	$ 785	$ 427	$ 108,287

Investments with a fair value of $45,692,000 at December 31, 2020 and $47,592,000 at December 31, 2019 are pledged as collateral to secure public deposits and for other purposes as required by law.

The amortized cost and fair value of debt securities at December 31, 2020 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or repayment penalties:

(In Thousands)

	Available-for Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 2,565	$ 2,577
Due after one year through five years	22,516	23,012
Due after five years through ten years	4,231	4,382
Subtotal	29,312	29,971
Mortgage-backed securities, GSE, residential	59,900	61,047
Total	$ 89,212	$ 91,018

	Held-to-Maturity	
	Amortized Cost	Fair Value
Due after five years through ten years	$ 2,650	$ 2,657

The following table presents 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:

	December 31, 2020					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. GSE	$ 5,995	$ 4	$ -	$ -	$ 5,995	$ 4
State and municipal obligations	-	-	556	1	556	1
Mortgage-backed securities, GSE, residential	6,556	11	-	-	6,556	11
Total debt securities	$ 12,551	$ 15	$ 556	$ 1	$ 13,107	$ 16

	December 31, 2019					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. GSE	$ 2,974	$ 25	$ 13,437	$ 36	$ 16,411	$ 61
State and municipal obligations	70	1	4,809	7	4,879	8
Mortgage-backed securities, GSE, residential	5,329	12	25,314	346	30,643	358
Total debt securities	$ 8,373	$ 38	$ 43,560	$ 389	$ 51,933	$ 427

The Company had 11 debt securities in unrealized loss positions at December 31, 2020. The unrealized losses are considered to result from changes in interest rates and not from downgrades in the creditworthiness of the issuers. In analyzing an issuer's financial condition, management considers whether the securities are general obligation or revenue bonds, whether they are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. The Company does not intend to sell these securities nor is it more likely than not that it will be required to sell these securities prior to recovery. No declines are deemed to be other-than-temporary.

(In Thousands)

3. Loans and Allowance for Loan Losses

Loans at December 31 are summarized as follows:

	2020	2019
Mortgage loans on real estate:		
Residential 1-4 family	$ 74,814	$ 80,517
Commercial real estate	102,176	88,475
Home equity	27,722	28,477
Total mortgage loans on real estate	204,712	197,469
Commercial and industrial	52,968	39,605
Municipal	4,750	9,645
Consumer	2,588	2,384
Total loans	265,018	249,103
Allowance for loan losses	(3,806)	(2,779)
Loans, net	$ 261,212	$ 246,324

In 2020, the Company elected to participate in the Payroll Protection Program (PPP) administered by the Small Business Administration (SBA). This program was enacted as part of the Coronavirus, Relief, and Economic Security Act (CARES Act) in March 2020 to provide emergency economic relief to businesses impacted by the COVID-19 pandemic. These loans are fully guaranteed by the SBA and are eligible for forgiveness up to 100% of the loan and accrued interest balance if the borrowers meet specified requirements. The Company originated 427 loans totaling $23,491 under the PPP. These loans have terms from 2-5 years depending on date of origination, with interest at 1%. No payments are generally required until the SBA remits the loan forgiveness amount to the Company. At December 31, 2020, $11,797 of PPP loans remain outstanding and are included in commercial and industrial loans.

The SBA paid a fee to the Company to originate each PPP loan based on the amount of the loan. Such fees, net of deferred loan origination costs, totaled $1,005 through December 31, 2020. The net fee is being recognized in interest income, as an adjustment of yield, over the life of the related loan. However, upon receipt of a loan’s SBA forgiveness payment, any remaining fee for the loan is fully recognized into income. The Company recognized $601 of net PPP fee income in 2020. The remaining balance is generally expected to be recognized in 2021.

A second round of PPP loans was authorized in late December 2020 and funds became available in January 2021. The Company is a participating lender for the second round. As of February 28, 2021, the Company originated 219 loans totaling $11,704 under the second round of PPP. These loans have terms of 5 years, with interest at 1%. Other terms are similar to the first round loans noted above. Fees paid by the SBA in connection with the origination of these loans, net of loan costs, was $702 and income recognition will follow that described above for first loan loans.

(In Thousands)

Changes in the allowance for loan losses in 2020 are as follows:

	Residential 1-4 Family	Commercial Real Estate	Home Equity	Commercial and Industrial	Municipal	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning balance, January 1, 2020	$ 620	$ 1,215	$ 161	$ 368	$ 27	$ 62	$ 326	$ 2,779
Charge-offs	-	(220)	(2)	-	-	(51)	-	(273)
Recoveries	-	-	-	-	-	45	-	45
Provision	157	725	68	226	(5)	(16)	100	1,255
Ending balance, December 31, 2020	$ 777	$ 1,720	$ 227	$ 594	$ 22	$ 40	$ 426	$ 3,806
Ending balance individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance collectively evaluated for impairment	$ 777	$ 1,720	$ 227	$ 594	$ 22	$ 40	$ 426	$ 3,806
Loans receivable at December 31, 2020:								
Total balance	$ 74,814	$ 102,176	$ 27,722	$ 52,968	$ 4,750	$ 2,588	$ -	$ 265,018
Ending balance individually evaluated for impairment	$ 51	$ 330	$ 142	$ 954	$ -	$ -	$ -	$ 1,477
Ending balance collectively evaluated for impairment	$ 74,763	$ 101,846	$ 27,580	$ 52,014	$ 4,750	$ 2,588	$ -	$ 263,541

(In Thousands)

Changes in the allowance for loan losses in 2019 are as follows:

	Residential 1-4 Family	Commercial Real Estate	Home Equity	Commercial and Industrial	Municipal	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning balance, January 1, 2019	$ 579	$ 1,111	$ 143	$ 333	$ 20	$ 20	$ 298	$ 2,504
Charge-offs	(2)	(147)	-	-	-	(32)	-	(181)
Recoveries	-	-	-	-	-	36	-	36
Provision	43	251	18	35	7	38	28	420
Ending balance, December 31, 2019	$ 620	$ 1,215	$ 161	$ 368	$ 27	$ 62	$ 326	$ 2,779
Ending balance individually evaluated for impairment	$ 25	$ 55	$ -	$ -	$ -	$ -	$ -	$ 80
Ending balance collectively evaluated for impairment	$ 595	$ 1,160	$ 161	$ 368	$ 27	$ 62	$ 326	$ 2,699
Loans receivable at December 31, 2019:								
Total balance	$ 80,517	$ 88,475	$ 28,477	$ 39,605	$ 9,645	$ 2,384	$ -	$ 249,103
Ending balance individually evaluated for impairment	$ 411	$ 1,907	$ 79	$ -	$ -	$ -	$ -	$ 2,397
Ending balance collectively evaluated for impairment	$ 80,106	$ 86,568	$ 28,398	$ 39,605	$ 9,645	$ 2,384	$ -	$ 246,706

(In Thousands)

The following table summarizes information on impaired loans at December 31:

	December 31, 2020				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential 1-4 family	$ 51	$ 55	$ -	$ 55	$ 3
Commercial real estate	330	686	-	695	-
Home equity	142	159	-	159	13
Commercial and industrial	954	954	-	1,036	39
With an allowance recorded:					
Residential 1-4 family	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Home equity	-	-	-	-	-
Commercial and industrial	-	-	-	-	-
Total:					
Residential 1-4 family	51	55	-	55	3
Commercial real estate	330	686	-	695	-
Home equity	142	159	-	159	13
Commercial and industrial	954	954	-	1,036	39

	December 31, 2019				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential 1-4 family	$ 337	$ 351	$ -	$ 352	$ 17
Commercial real estate	1,539	1,569	-	1,652	108
Home equity	79	86	-	86	-
With an allowance recorded:					
Residential 1-4 family	74	150	25	150	2
Commercial real estate	368	705	55	713	-
Home equity	-	-	-	-	-
Total:					
Residential 1-4 family	411	501	25	502	19
Commercial real estate	1,907	2,274	55	2,365	108
Home equity	79	86	-	86	-

(In Thousands)

The following table presents information on nonaccrual loans at December 31:

	2020	2019
Residential 1-4 family	$ 173	$ 502
Commercial real estate	330	453
Home equity	27	28
Commercial and industrial	40	-
Total	$ 570	$ 983

The following table presents information on loans by internal risk rating at December 31, 2020:

	Residential 1-4 Family	Commercial Real Estate	Home Equity	Commercial and Industrial	Municipal	Consumer	Total
Pass	$ 74,696	$ 100,537	$ 27,580	$ 51,737	$ 4,750	$ 2,588	$ 261,888
Special mention	-	1,256	-	238	-	-	1,494
Substandard	118	383	142	993	-	-	1,636
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total	$ 74,814	$ 102,176	$ 27,722	$ 52,968	$ 4,750	$ 2,588	$ 265,018

The following table presents information on loans by internal risk rating at December 31, 2019:

	Residential 1-4 Family	Commercial Real Estate	Home Equity	Commercial and Industrial	Municipal	Consumer	Total
Pass	$ 80,008	$ 86,647	$ 28,396	$ 39,584	$ 9,645	$ 2,384	$ 246,664
Special mention	-	-	-	-	-	-	-
Substandard	509	1,828	81	21	-	-	2,439
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total	$ 80,517	$ 88,475	$ 28,477	$ 39,605	$ 9,645	$ 2,384	$ 249,103

The following table presents information on loans by past due status at December 31, 2020:

	30-59 Days Past Due	60-89 Day Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment ≥ 90 Days and Accruing
Residential 1-4 family	$ 462	$ 136	$ 313	$ 911	$ 73,903	$ 74,814	$ 140
Commercial real estate	36	-	330	366	101,810	102,176	-
Home equity	79	-	101	180	27,542	27,722	75
Commercial and industrial	10	34	40	84	52,884	52,968	-
Municipal	-	-	-	-	4,750	4,750	-
Consumer	9	1	-	10	2,578	2,588	-
Total	$ 596	$ 171	$ 784	$ 1,551	$ 263,467	$ 265,018	$ 215

(In Thousands)

The following table presents information on loans by past due status at December 31, 2019:

	30-59 Days Past Due	60-89 Day Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment ≥ 90 Days and Accruing
Residential 1-4 family	$ 402	$ -	$ 666	$ 1,068	$ 79,449	$ 80,517	$ 164
Commercial real estate	-	-	453	453	88,022	88,475	-
Home equity	6	49	103	158	28,319	28,477	75
Commercial and industrial	-	45	-	45	39,560	39,605	-
Municipal	-	-	-	-	9,645	9,645	-
Consumer	-	43	-	43	2,341	2,384	-
Total	$ 408	$ 137	$ 1,222	$ 1,767	$ 247,336	$ 249,103	$ 239

The Company 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 Company 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 generally considered impaired loans for purposes of calculating the Company's allowance for loan losses. The Company 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.

In 2020, one commercial and industrial loan was modified by a permanent reduction in the recorded investment and is considered a TDR. The balance prior to modification was $85 and after modification was $40.

There were no TDRs made in 2019. No TDRs defaulted in 2020 or 2019.

In 2020, the Company instituted a payment deferral program to assist borrowers experiencing financial hardship due to COVID-19 related challenges. This program was established in response to federal banking agencies guidance encouraging banks to work with borrowers that may be unable to meet their contractual obligations due to the effects of COVID-19. This guidance stated that short-term modifications (up to six months) made on a good faith basis in response to COVID-19 to borrowers who were current at the time of modification are not considered TDRs. In addition, section 4013 of the CARES provided that loan modifications related to COVID-19 on a loan that was current at December 31, 2019 are not considered TDRs. Through December 31, 2020, the Company modified $40,800 of loans to allow for payment deferrals. These deferrals included principal, and principal and interest deferrals, generally for three to six months. Additional modifications were made as necessary. At December 31, 2020, $4,638 of loans remain on payment deferral.

(In Thousands)

4. Bank Premises and Equipment

Bank premises and equipment at December 31 is summarized as follows:

	2020	2019
Land	$ 1,360	$ 1,360
Bank premises	5,948	5,923
Equipment, furniture and fixtures	5,892	5,714
Construction in process	620	-
Total	13,820	12,997
Less accumulated depreciation	8,562	8,163
Net	$ 5,258	$ 4,834

5. Deposits

The aggregate amount of certificates of deposit with a minimum denomination of $250 was $22,386 and $23,539 at December 31, 2020 and 2019, respectively.

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

Years ending December 31:	
2021	$ 71,628
2022	10,117
2023	4,339
2024	1,901
2025	2,307
Total	$ 90,292

6. Borrowed Funds

The Company has a maximum borrowing capacity with the FHLB of $138,798, including a $68,063 line of credit. The Company had no borrowings under the line at December 31, 2020 and 2019. The Company has used $375,000 in 2020 and 2019 of its borrowing capacity to issue irrevocable letters of credit to collateralize public deposits. Advances are secured by qualifying assets of the Company, which include FHLB stock, certain U.S. government sponsored enterprise securities, and first mortgage loans.

The Company has a $7,000 unsecured federal funds borrowing agreement with Atlantic Community Bankers Bank. There were no borrowings at December 31, 2020 and 2019.

Borrowed funds from FHLB consisted of the following at December 31:

	2020	2019
Fixed rate advances:		
Due in 2020	$ -	$ 3,000
Due in 2021	8,000	8,000
Due in 2022	5,000	5,000
Due in 2023	8,000	-
Total	$ 21,000	$ 16,000

The weighted average interest rate was 1.61% in 2020 and 2.09% in 2019.

(In Thousands)

7. Income Taxes

The provision for income taxes consists of the following:

	2020	2019
Current	$ 1,370	$ 1,017
Deferred	(204)	(64)
Total	$ 1,166	$ 953

A reconciliation between the effective income tax expense and the amount computed using the federal statutory rate of 21% in 2020 and 2019 is as follows:

	2020	2019
Federal income tax expense at statutory rate	$ 1,340	$ 1,168
Effect of:		
Tax-exempt income	(194)	(185)
Other items	20	(30)
Total	$ 1,166	$ 953

The following temporary differences gave rise to the net deferred tax asset at December 31:

	2020	2019
Deferred tax assets (liabilities):		
Allowance for loan losses	$ 688	$ 444
Deferred compensation	70	51
Other	(74)	11
Unrealized gains on available-for-sale debt securities, AOCI	(379)	(65)
Unrealized gains on equity securities	(3)	(10)
Depreciation	(63)	(82)
Net deferred tax asset	$ 239	$ 349

A valuation allowance has not been established as the Company believes that the deferred tax assets are more likely than not realizable. The Company had no unrecognized tax benefits at December 31, 2020 and 2019. There were no interest and penalties recognized in 2020 and 2019.

8. Retirement Plan

The Company sponsors a defined contribution retirement plan. Retirement plan expense was $277 in 2020 and $267 in 2019.

9. Financial Instruments With Off-Balance-Sheet Risk

The Company is a party to credit related 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. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments. Unless noted otherwise, the Company does not require collateral or other security to support financial instruments with off-balance-sheet credit risk.

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 Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Company upon extension of credit, is based on management's credit evaluation.

Unfunded commitments under commercial lines-of-credit and revolving credit lines are commitments for possible future extensions of credit to existing customers. These commitments may or may not be collateralized and usually contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed.

Standby letters of credit written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments if deemed necessary.

To reduce credit risk related to the use of credit-related financial instruments, the Company might deem it necessary to obtain collateral. The amount and nature of the collateral obtained is based on the Company's credit evaluation of the customer. Collateral held varies but may include cash, securities, accounts receivable, inventory, property, plant and equipment and real estate. The Company has not incurred any losses on its commitments in either 2020 or 2019.

Financial instruments whose contract amount represents credit risk were as follows:

	2020	2019
Commitments to extend credit	$ 32,874	$ 32,840
Standby letters of credit	4,518	4,804

10. Leases

The Company leases three branches under the terms of agreements classified as operating leases. The Company has recognized a ROU asset of $678 and $841 at December 31, 2020 and 2019, respectively, for its operating leases which is included in other assets and an operating lease liability of $810 and $995 at December 31, 2020 and 2019, respectively.

Expected future lease payments at December 31, 2020 under these operating leases are as follows (in thousands):

Years ending December 31:		
2021	$	218
2022		147
2023		134
2024		134
2025		134
Thereafter		112
Total lease payments		879
Present value discount		69
Operating lease liability, included in other liabilities	$	810

None of the leases include options to renew past the current lease term. The discount rate used in determining the operating lease liability was the FHLB fixed advance rate which corresponded with the lease term upon recognition. At December 31, 2020 and 2019, the weighted average discount rate was 3% and the weighted average remaining lease term was 5 and 6 years, respectively. There were no new operating or finance leases entered into during 2020 and 2019.

Operating lease expense was $191 in 2020 and 2019. Short-term lease expense was $52 in 2020 and $67 in 2019. Cash paid for operating leases was $212 in 2020 and $208 in 2019.

11. Related-Party Transactions

The Company has granted loans to principal officers, directors, significant shareholders (greater than 10 %) and their affiliates. The following table summarizes the activity in these loans (in thousands):

	2019		2018	
Balance, beginning	$	4,028	$	4,147
New loans		2,363		700
Repayment		(1046)		(819)
Balance, ending	$	5,345	$	4,028

Related party deposits were $5,007 in 2020 and $3,302 at December 31, 2019.

(In Thousands)

12. Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the 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 its assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the following table) of total capital, Tier 1 capital (as defined in the regulations) and common equity Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. A capital conservation buffer of 2.50%, comprised of common equity Tier I capital, is also established above the regulatory minimum capital requirements and must be maintained to avoid limitations on capital distributions.

In 2020, the Bank adopted the new community bank leverage ratio framework. This framework simplifies the regulatory capital requirements by requiring the Bank meet only the Tier 1 capital to average assets (leverage) ratio. The Bank must only maintain a leverage ratio greater than the 9% required minimum to be considered well capitalized under this framework. The Bank can opt out of the new framework and return to the risk-weighting framework at any time. In April 2020, the federal banking agencies temporarily reduced the minimum requirement to 8% for 2020, increasing to 8.50% for 2021, and returning to 9% for 2022 and thereafter.

Management believes, as of December 31, 2020, that the Bank meets all capital adequacy requirements to which they are subject. As of December 31, 2020, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum ratios as set forth in the following tables. There are no conditions or events since that notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios are as follows:

	December 31, 2020					
	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 (core) capital (to average assets)	$ 41,635	10.0 %	$	%	$ 33,378	8.0 %

	December 31, 2019					
	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)	$ 40,668	15.2 %	$ ≥21,417	≥8.0 %	$ ≥26,772	≥10.0 %
Common equity Tier 1 (CET1) capital (to risk-weighted assets)	37,889	14.2	≥12,047	≥4.5	≥17,402	≥ 6.5
Tier 1 capital (to risk-weighted assets)	37,889	14.2	≥16,063	≥6.0	≥21,417	≥ 8.0
Tier 1 capital (to average assets)	37,889	9.3	≥16,228	≥4.0	≥20,285	≥ 5.0

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. Peoples Ltd. meets the eligibility criteria and is exempt from regulatory capital requirements.

Federal and state banking regulations place certain restrictions on dividends paid by the Bank to Peoples Ltd. The amount of total dividends is generally limited to the retained earnings of the Bank. However, dividend payments would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements as discussed above.

13. Fair Value Disclosures

Fair value is defined as an exit price representing the amount that would be received to sell an asset or settle a liability in an orderly transaction between market participants. A three-level hierarchy exists for fair value measurements based upon the inputs to the valuation of an asset or liability.

Level 1 - Valuation is based on quoted prices in active markets for identical assets or liabilities;

Level 2 - Valuation is determined from quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument;

Level 3 - Valuation is derived from model-based and other techniques in which at least one significant input is unobservable and which may be based on the Company's own estimates about the assumptions that a market participant would use to value the asset or liability.

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis by level within the fair value hierarchy (in thousands):

	December 31, 2020			
	Total	**Level 1**	**Level 2**	**Level 3**
U.S. GSE	$ 5,995	$ -	$ 5,995	$ -
State and municipal obligations	23,976	-	23,976	-
Mortgage-backed securities, GSE, residential	61,047	-	61,047	-
Total debt securities	91,018	-	91,018	-
Equity securities	80	80	-	-
Total	$ 91,098	$ 80	$ 91,018	$ -

(In Thousands)

	December 31, 2019			
	Total	Level 1	Level 2	Level 3
U.S. GSE	$ 18,412	$ -	$ 18,412	$ -
State and municipal obligations	25,813	-	25,813	-
Mortgage-backed securities, GSE, residential	63,949	-	63,949	-
Total debt securities	108,174	-	108,174	-
Equity securities	113	113	-	-
Total	$ 108,287	$ 113	$ 108,174	$ -

The classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Other securities are measured at fair value using quoted market prices in an active market for identical assets and are classified as Level 1 in the hierarchy. All debt securities are measured at fair value using matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices and are classified as Level 2 in the hierarchy.

The following table presents the Company's financial instruments subject to fair value adjustments on a nonrecurring basis by level within the fair value hierarchy:

	December 31, 2020			
	Total	Level 1	Level 2	Level 3
Impaired loans, net	$ -	$ -	$ -	$ -
Foreclosed assets	40	-	-	40

	December 31, 2019			
	Total	Level 1	Level 2	Level 3
Impaired loans, net	$ 362	$ -	$ -	$ 362
Foreclosed assets	130	-	-	130

Impaired loans that are collateral dependent are written down to fair value through partial charge-offs or the establishment of specific reserves. Such collateral is primarily real estate whose value is based on appraisals performed by certified appraisers. These values are generally adjusted based on management's knowledge of changes in market conditions or other factors and include estimated liquidation expenses which are generally 10% of the collateral value. Management's assumptions of the collateral value include consideration of location and occupancy as well as condition of the property or asset. At December 31, 2019, management adjustments to the collateral value for these factors ranged from 10% to 15%, with a weighted average of 12%. Since the adjustments may be significant, are based on management's estimates and are generally unobservable, they have been classified as Level 3.

(In Thousands)

Assets taken in foreclosure of defaulted loans are measured at the lower of cost or fair value less costs to sell of 10%. The fair value of the real property is generally determined using appraisals or other indications of value based on recent comparable sales of similar properties or assumptions generally observable in the marketplace, and the related nonrecurring fair value measurement adjustments have generally been classified as Level 3.

In addition to the disclosures of financial instruments recorded at fair value, U.S. GAAP requires the disclosure of the estimated fair value of all the Company's financial instruments. The majority of the Company's assets and liabilities are considered financial instruments. However, many of these instruments lack an available market. In addition, the Company's general practice and intent is to hold its financial instruments to maturity. The Company has considered the fair value measurement criteria as required under the accounting standard relating to fair value measurement as noted above. Fair value estimates have been determined based on the methodologies management considers most appropriate for each financial instrument. The following are the carrying amounts and estimated fair values of the Company's financial instruments as of December 31:

	2020				
	Carrying Amount	**Estimated Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial assets:					
Cash and due from banks	$ 56,269	$ 56,269	$ 56,269	$ -	$ -
Available-for-sale securities	91,098	91,098	80	91,018	-
Held-to-maturity securities	2,650	2,657	-	2,657	-
Loans, net	261,212	271,975	-	-	271,975
Loans held-for-sale	13,541	14,218	-	14,218	-
Accrued interest receivable	1,048	1,048	-	1,048	-
Restricted equity securities	2,335	2,335	-	2,335	-
Financial liabilities:					
Deposits	376,431	376,931	-	376,931	-
Borrowed funds	21,000	21,202	-	21,202	-
Accrued interest payable	90	90	-	90	-

	2019				
	Carrying Amount	**Estimated Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial assets:					
Cash and due from banks	$ 27,310	$ 27,310	$ 27,310	$ -	$ -
Available-for-sale securities	108,287	108,287	113	108,174	-
Loans, net	246,324	253,750	-	-	253,750
Loans held-for-sale	2,160	2,225	-	2,225	
Accrued interest receivable	981	981	-	981	-
Restricted equity securities	1,767	1,767	-	1,767	-
Financial liabilities:					
Deposits	344,493	345,068	-	345,068	-
Borrowed funds	16,000	16,039	-	16,039	-
Accrued interest payable	133	133	-	133	-