2020

ANNUAL REPORT

MOVING FORWARD

1ST SUMMIT BANCORP

Pandemic, lockdown, masks, social distancing. We never expected these words to become part of our everyday life, yet here we are. 2020 presented unique challenges with respect to keeping the bank open, running, and profitable, but we did it. We did it by working together!

A YEAR LIKE NO OTHER

This was certainly a “locking hands” kind of year. Teamwork and ingenuity got us through. Yes, it was a unique year, but we have grown, innovated, and we are full of optimism for the future!

Financial Highlights

For The Year Ended December 31	2020	2019	2018	% Change Over Prior Year
Net Income	$ 8,230	$ 11,212	$ 10,750	-27%
Cash Dividends	3,535	3,358	3,162	+ 5%
Per Share				
Net Income	$ 7.50	$ 10.21	$ 9.79	-27%
Cash Dividends	3.22	3.06	2.88	+ 5%
Book Value	114.13	105.11	89.81	+ 9%
Market Value	132.50	129.00	123.00	+ 3%
Financial Position				
Assets	$1,257,438	$ 1,120,694	$1,073,275	+12%
Deposits	1,086,815	948,989	930,034	+15%
Net Loans	643,550	569,927	535,360	+13%
Investment Securities	558,030	500,071	488,684	+12%
Trust and Investment Assets	389,562	351,509	313,038	+11%
Shareholders' Equity	125,296	115,372	98,599	+ 9%
Allowance for Loan Losses	6,395	5,645	5,843	+13%
Selected Financial Ratios				
Return on Average Assets	0.69%	1.02%	1.01%	—
Return on Average Equity	6.87%	10.57%	11.52%	—
Equity Capital to Total Assets	9.96%	10.29%	9.19%	—
Tier 1 Capital to Total Assets	9.76%	10.53%	10.26%	—
Allowance for Loan Losses to Loans	0.98%	0.98%	1.08%	—
Non-performing Assets to Total Assets	0.21%	0.29%	0.33%	—

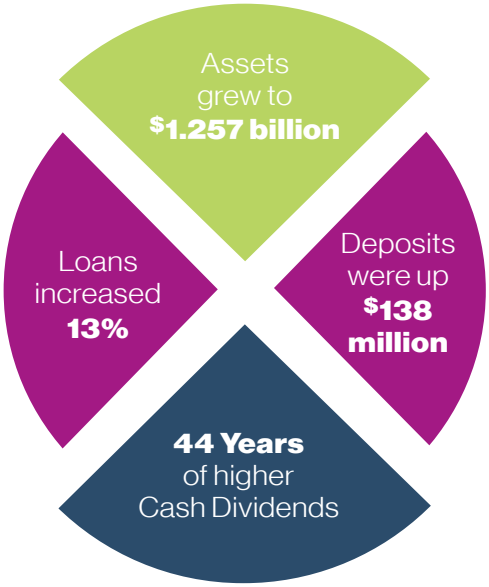
(In thousands, except per share data)

1ST SUMMIT BANCORP operates through the Company's subsidiaries 1ST SUMMIT BANK, 1ST SUMMIT Trust and Investment Services, and Cambria Thrift Consumer Discount Company. There are 23 offices located across six counties in Pennsylvania.

To Our Shareholders

What a year! No one anticipated that most of 2020 would be disrupted by a worldwide pandemic, including all of us at 1ST SUMMIT BANCORP. Our Professionals faced many challenges at work and at home because of COVID-19, but they responded very well.

Throughout this report, there are examples of remarkable efforts and results achieved to make sure all of our Stakeholders would survive, and even prosper, despite the many obstacles they faced from having their lives disrupted.



First and foremost, our Professionals worked tirelessly to keep everyone safe and secure while making sure our Customers would have access to their banking services. They did whatever was necessary to serve them in a timely manner.

1ST SUMMIT BANK was a leader in making PPP Loans to small and medium-sized businesses. We obtained many new customers as a result of our efforts. In addition, the Bank and Cambria Thrift helped customers with deferred payments, payment extensions, and refinancing options to help them through difficult economic conditions. This led to superior growth in loans and deposits. Loans grew by $74 million, or 13%, and deposits increased $138 million, or 15%.

We maintained a focus on financial performance despite the economy and the drastic moves the Federal Reserve made to stimulate economic activity. They reduced short-term interest rates, which negatively affected bank spreads as loan and investment yields were near or at all-time lows. Shareholder return was solid despite a difficult year. The company's earnings and strong capital position permitted the Board of Directors to increase the cash dividend by $.16 a share to $3.22, an increase of 5.2%. Total Shareholder return (dividend yield plus price appreciation), for the common stock was over 5%, and equity capital totaled more than $125 million, or 10% of assets, a healthy ratio.

The company has a stake in the *Communities* it serves. We responded by increasing our donations, support and service, focusing our attention on many non-profit entities and their causes, service organizations that aid vulnerable citizens, economic development agencies that help create jobs, and cultural and recreational institutions that improve the quality of life in our region. These efforts helped to lessen the disruption the pandemic caused during the year.

As already mentioned, our *Professionals* experienced a difficult year. However, all of the staff at the Bank and Cambria Thrift were retained and paid even if they had to quarantine or stay at home with small children. We also accommodated others by having them work offsite or remotely from home. This was important, as we truly value these Professionals.

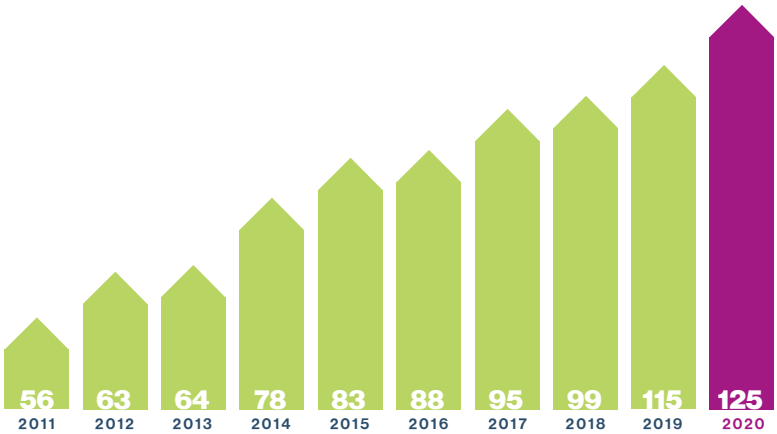
In July, as part of our ongoing management succession plan, J. Eric Renner, who had been the Chief Operating Officer since his arrival in 2019, became President and CEO of 1ST SUMMIT BANK and Director of the Bank. He has adapted well to our community bank brand and culture. Eric is also on the proxy ballot to become a Director of 1ST SUMMIT BANCORP at the annual Shareholders' meeting in April.

There were other notable accomplishments last year. Here are a few of the major ones:

- Cambria Thrift acquired the loans and two branch locations of Freedom Consumer Discount Co. The additional offices add to our service area and are located in Mount Pleasant and Somerset, giving Cambria Thrift seven locations. This acquisition added to our performance as earnings almost doubled at Cambria Thrift in 2020.

1ST SUMMIT BANK had many accomplishments as well.

- The Bank was chosen as one of the Best Places to Work in PA for the 20th consecutive year, the only company in the state.
- Selected as one of the Best Banks to Work For in the U.S., by *American Banker* magazine.
- Work was almost finished on the Bank's 17th office, in Murrysville, Westmoreland County, along the busy Route 22 corridor (open February 2021).
- Several operational and technology initiatives were completed to enhance customer offerings and to be more efficient.



INCREASING STOCKHOLDER EQUITY
in millions

J. Eric Renner was appointed President and Chief Executive Officer of 1ST SUMMIT BANK on July 1, 2020.

All in all, it was a challenging but productive year for your company. The following pages provide more detail about the financial and operational performance for 2020 and what lies ahead to keep the company MOVING FORWARD!

We appreciate your continued confidence in 1ST SUMMIT BANCORP *and look forward to your support in the years ahead.*

Joseph R. Kondisko
CHAIRMAN

Elmer C. Laslo
PRESIDENT AND CEO

Teamwork Drives Progress

Mobilizing the Workforce *Employees adapted quickly to new workspaces at home or in other buildings to keep everyone safe during the outbreak.*

When the pandemic hit and lockdowns and social distancing became reality in early 2020, we had a lot of work to do to keep the bank open and our customers and team members safe. It was true teamwork, dedication, and even some bravery that accomplished exactly that. Despite the challenges the pandemic presented, the 1ST SUMMIT team kept the bank running throughout the entire year, without any negative effects on our employees' jobs or customers' accessibility to their accounts and other banking needs.

While there were periods where our lobbies were open by appointment only, our community office teams actively served customers through our drive-ups, giving them a safe and efficient way to obtain personal service. Mobilizing our workforce behind the frontlines also wasn't easy, yet our team made it happen. The Bank, very quickly, built mobile and remote working capabilities, leveraging technology, creating safe, socially distant workspace environments and thoughtfully created numerous work-from-home accommodations. Through it all, our employees didn't miss a beat and adapted quickly to keep the bank operating and serving the needs of our customers. In fact, we all learned new and innovative ways to operate the bank and maintain close connectivity to customers.

Our Leadership Team *(left to right) – Polly Previte, Don Yeager, Karen Mento, Jeff Cramer, Eric Renner, Tim Smith, Carol Myers. These bank leaders guide our professionals and lend a helping hand to our customers and communities.*

In spite of the pandemic, our teams pulled off a major technology enhancement with the implementation of Teller Capture which has made once-and-done banking a reality. Now, when a transaction is completed, the items are scanned and processed right then, eliminating the daily cutoff times and additional work that was required to take place in the background later. This is just one of the many efficiencies our team has implemented in 2020, directly targeted at improving the customer experience.

Although there were many distractions brought on by the pandemic, we never forgot about our communities and non-profits and the difficulties they were experiencing. So many wonderful organizations were forced to cancel nearly all of their events and fund-raising endeavors creating significant financial challenges. 1ST SUMMIT was proud to be able to provide over $251,000 in donations and sponsorships to local non-profits. Additionally, the bank participated in the Paycheck Protection Program providing over $53 million in PPP financing to help local businesses manage through the difficult times.

Our employees are a vital part of our operations and recognition is one of the things that makes our bank the Best Place to Work. This year was no exception. Social distancing, however, made it impossible to hold our employee recognition events in person, so we went virtual! Individual departments gathered in socially-distanced venues to enjoy and have some fun with a Zoom presentation and meal hosted by our senior leadership team. Many employees and teams were recognized for their contributions and accomplishments over the past year.

One thing became clear throughout 2020, with teamwork and commitment, one can do great things. We are confident that 2021 will be even more amazing.

Personal Banking at the Drive-thru *Our team members, and their unique approach to service, kept our customers in touch with what true community banking is all about...even through the window.*

Virtual Recognition *This fun event included meals at every department, gifts and prizes for all employees, and some very fun Zoom award presentations all wrapped around a "Back to the Future" theme.*

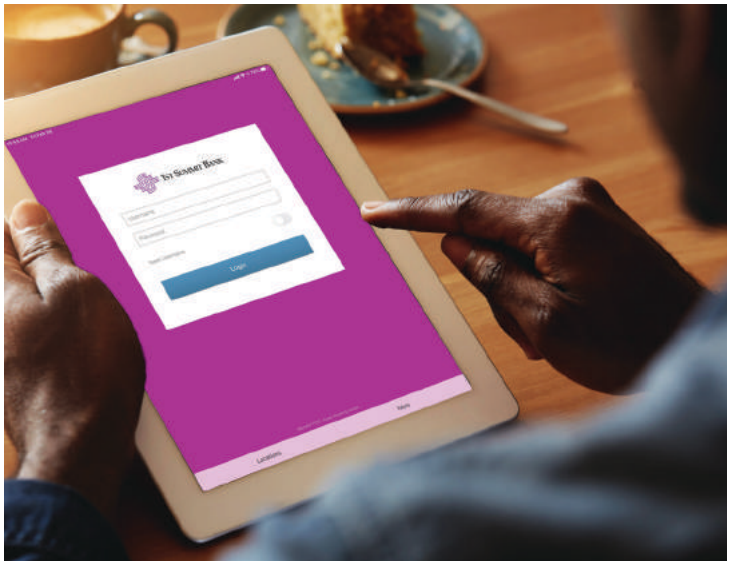
Opportunities & Optimism

As we continue to press forward through this pandemic, our Professionals are full of optimism for the future. Opportunities abound through the development of new connections and the expansion of long-term relationships in our markets.

1ST SUMMIT's Wealth Management team is expanding their ability to provide top-notch advice, legacy planning, and investment services to our customers by leveraging strong relationships with our Personal Banking Officers and Business Relationship Managers. These connections ensure that our clients receive a full breadth of solutions and services to accommodate their financial goals.

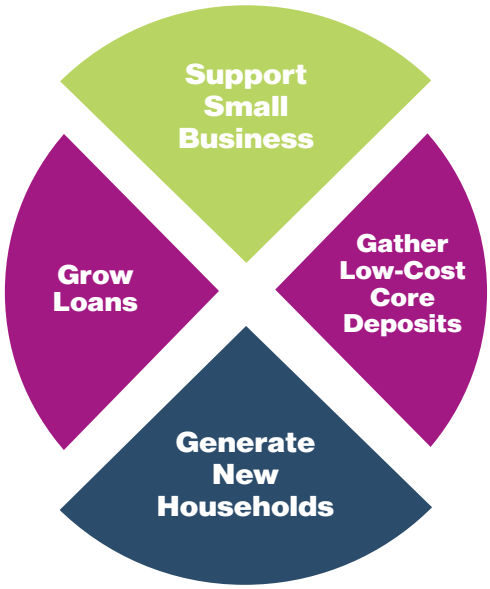
Trust, Investment & Retirement Solutions *Our Wealth Management team delivers legacy planning and investment services to our customers.*

Our digital services, including Online Banking, Mobile Deposit, Bill Pay, and ePayment Solutions allow our customers to easily manage their finances with an intuitive, consistent experience regardless of device. In addition to the array of innovative and accommodating financial solutions we provide our business customers, we also give them the tools they need to grow their business, including robust payments and automated reporting, all from a single sign-on.



Mobile Made Easy *Our digital solutions allow our customers to easily manage their finances with an intuitive, consistent experience regardless of device.*

Innovation, Efficiency and Growth are a few of the key themes in our 2021 Strategic Plan. These themes are designed to move the bank forward through the headwinds of uncertainty while ever improving financial performance and quality experiences for our customers. A strong focus on Business Relationship Management, Credit Quality, Digital customer interfaces, and expanding our market reach will move the bank forward in 2021!



Strategic Plan *Innovation, Efficiency, and Growth are the key themes in the Bank's 2021 Strategic Plan.*

In October 2020, we broke ground on our 17th community office in Murrysville, Pennsylvania. The Murrysville market presents some new and exciting opportunities through its rich business and residential communities which are expanding and growing. We are excited to bring our differentiated approach to banking to the businesses and consumers in this new market, as well as creating strong relationships with the many charitable and cultural organizations in the region. This culture, partnered with our extensive array of financial solutions for business and personal needs should effectively support the growth of the Murrysville community.

The Murrysville office represents our third in Westmoreland County. Unlike other banks who have been pulling back, we're expanding with our unique culture and approach to customer experience, an important commitment and component of our strategic direction.

1ST SUMMIT BANK has very good market share in Cambria County. Our presence in the markets of Altoona, Blair County, and Greensburg, Westmoreland County, are equally opportunistic and will be a significant focus of our ongoing growth strategy.

Ready to Serve Murrysville *As 2020 ended, we were putting the finishing touches on the Bank's 17th Office, located in Murrysville, PA, along the busy Route 22 corridor. The office opened for business in early February 2021.*

Board of Directors

Joseph R. Kondisko
Chairman
1ST SUMMIT BANCORP &
1ST SUMMIT BANK
K Management Group

Elmer C. Laslo
President & CEO
1ST SUMMIT BANCORP

J. Eric Renner*
President & CEO
1ST SUMMIT BANK

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W.C. McQuaide, Inc.

John W. McCall
McCall Motors, Inc.

Edward J. Sheehan, Jr.
Concurrent Technologies Corp.

Jacqueline M. Martella
Martella's Pharmacies,
Boswell Prescription/Boswell
Pharmacy Services, LLC

Robert P. Gardill, II
General American Resources

Michael E. Ondesko, Jr.
Dunlo Transfer Co., Inc.
Dunlo Realty, Inc.

Directors Emeriti

Barry M. Alberter
Dominic A. Bellvia
Robert P. Gardill

**Serves on 1ST SUMMIT BANK board only.*

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Executive Vice President

Jeffry D. Cramer
Executive Vice President

Carol A. Myers
Executive Vice President & Treasurer

Timothy W. Smith
Senior Vice President & Secretary

Donald F. Yeager
Senior Vice President

Polly A. Previte
Senior Vice President

Michael Seigh
Senior Vice President &
Assistant Treasurer

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Professor Emeritus
University of Pittsburgh at Johnstown

Anthony F. Pacifico
A & M Pacific Associates
Pacific Hospitality

Paul J. Calandra
Cresson Steel/Jennmar Corp.

Jeffrey R. Holtz
Holtz and Associates Real Estate, LLC

Marie E. Polinsky
Choices People Supporting
People, Inc. (retired)

Michael J. Bellvia
Pro Disposal, Inc.

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Allegheny Logistics Center

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The Learning Lamp &
Ignite Education Solutions

F. Nicholas Jacobs
SMR, LLC

Mark J. Duray
Citizens' Cemetery Association

Mark R. Tercek
LCT Energy

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Tri-County Motor Sales, Inc.

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Attorney at Law

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Indiana University of Pennsylvania

Eric E. Bononi, CPA, Esquire
Bononi and Company, P.C.

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Ligonier Creamery, LLC

Ronald M. Devine
CBIZ Insurance Services

Douglas R. McIlwain
McIlwain Charters

Steven L. Remaley, CPA
Roy & Associates, PC

1ST SUMMIT BANK Leadership Team

J. Eric Renner
President & Chief Executive Officer

Carol A. Myers
Executive Vice President,
Treasurer & Sr. Chief Financial Officer

Jeffry D. Cramer
Executive Vice President &
Chief Lending Officer

Timothy W. Smith
Sr. Vice President, Secretary &
Information Systems Officer

Karen M. Mento
Sr. Vice President &
Chief Administrative Officer

Donald F. Yeager
Sr. Vice President &
Retail Banking Group Head

Polly A. Previte
Sr. Vice President &
Operations Officer

1ST SUMMIT BANK
Operating Officers

J. Eric Renner
President &
Chief Executive Officer

Carol A. Myers
Executive Vice President,
Treasurer & Chief Financial Officer

Jeffry D. Cramer
Executive Vice President &
Chief Lending Officer

Timothy W. Smith
Sr. Vice President, Secretary &
Information Systems Officer

Karen M. Mento
Sr. Vice President &
Chief Administrative Officer

Donald F. Yeager
Sr. Vice President &
Retail Banking Group Head

Polly A. Previte
Sr. Vice President &
Operations Officer

Michael Seigh
Sr. Vice President of Finance

Michael J. Paulman
Sr. Vice President &
Commercial Loan Division Head

Domenic M. Cagliuso
Vice President & Sr. Trust & Investment
Services Department Head

Sean P. Lewis
Vice President & Sr. Corporate
Business Development Officer

Susan K. Stem
Vice President & Customer
Service Coordinator

Kenneth R. Szczur
Vice President & Sr. Business
Relationship Mgr.-Western Region

Jonathan E. Tapocik
Vice President & Sr. Business
Relationship Mgr.-Western Region

Kathy J. Berkebile
Vice President & Sr. Business
Relationship Mgr.-Southern Region

Thomas J. Fontana, Jr.
Vice President & Sr. Regional
Business Relationship Mgr.

Michael A. Matten
Vice President & Sr. Business
Relationship Mgr.-Northern Region

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Assistant to the President & CEO

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Vice President & General Auditor

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Sr. Marketing Director

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Assistant Vice President &
Consumer Lending Specialist

Leslie N. Morgenstern
Assistant Vice President &
Credit Administration Dept. Head

J. Ilene Boughner
Assistant Vice President,
Regional Lender & Sr. Personal
Banking Officer-Indiana

Richard F. Chimelewski
Assistant Vice President &
Wealth Management
Business Development Officer

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Assistant Vice President &
Sr. Loan Officer

Kelly L. Goncher
Assistant Vice President &
Regional Sr. Loan Officer

Rebecca L. Darr
Assistant Vice President &
Regional Sr. Loan Officer

Connie L. Weyandt
Assistant Vice President &
Sr. Bankwide Auditor

Kathleen L. Burkett
Assistant Vice President &
Management Information
Systems Officer

Stacy L. Martin
Assistant Vice President & Residential
Mortgage Loan Department Head

Jocelyn A. Sauter
Assistant Vice President &
Human Resources Officer

Jeannine M. Goncher
Assistant Vice President &
Sr. Administrative Asst.-Human Resources

Pamela H. Carroll
Assistant Vice President &
Sr. Executive Asst. to the President

Susan J. McQuillen
Assistant Vice President &
Deposit Operations Officer

Ramona Licastro
Assistant Vice President &
Credit Quality Officer

Lawrence Albertelli
Assistant Vice President &
Sr. Credit Administration Officer

Eleanore B. Bucchi
Assistant Vice President & Regional
Personal Banking Officer-
Westmoreland Co.

Christina L. Hines
Assistant Vice President & Regional
Personal Banking Officer-Ebensburg

Christine R. Serre
Assistant Vice President &
Sr. Personal Banking Officer-Sidman

Susan A. Martin
Assistant Vice President &
Sr. Personal Banking Officer-Westmont

Mary E. Woy
Assistant Vice President &
Sr. Personal Banking Officer-Somerset

Melissa A. Bartolomeo
Assistant Vice President &
Sr. Personal Banking Officer-Murrysville

Frederick M. Buck
Assistant Vice President &
Sr. Personal Banking Officer-Cresson

Tonya M. Kelly
Assistant Vice President &
Retail Banking Operations Officer

Jennifer L. Swinger
Assistant Vice President & Controller

Brian W. Britton
Assistant Vice President &
Sr. Electronic Banking Officer

Elliott T. Sumner
Assistant Vice President &
Sr. Network Engineer

Julie A. Mikolich
Assistant Secretary &
Personal Banking
Officer-Downtown Johnstown

Katherine E. Curcio
Assistant Secretary &
Personal Banking Officer-Parkhill

Heather A. Shearman
Assistant Secretary &
Personal Banking Officer-Portage

Melissa A. Dolansky
Assistant Secretary &
Personal Banking Officer-Altoona Walmart

Joseph P. Ivock
Assistant Treasurer &
Data Center Officer

Jason R. Miller
Assistant Secretary &
Customer Service Officer

Nathanael R. Shaffer
Assistant Secretary & Wealth
Management Business
Development Officer

Sarah A. Zajdel
Assistant Secretary & Community Office
Customer Service Officer

Jessica M. Marshall
Assistant Secretary &
Operational Risk and Compliance Officer

Emily D. Boyer
Assistant Secretary &
Richland Customer Service Officer

Annette M. Rose
Assistant Secretary &Trust Officer

Cambria Thrift
Consumer Discount Company

OFFICERS

Elmer C. Laslo
Chairman & Chief Executive Officer

Jeffry D. Cramer
President & Treasurer

Connie B. Hobbs
Executive Vice President &
Sr. General Mgr., Secretary & Assistant Treasurer

DIRECTORS

Elmer C. Laslo

Jeffry D. Cramer

Joseph R. Kondisko

Rex W. McQuaide, Esq.

John W. McCall

Edward J. Sheehan, Jr.

Michael E. Ondesko, Jr.

Robert P. Gardill, II

Jacqueline M. Martella

SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders
1ST SUMMIT BANCORP of Johnstown, Inc.
Johnstown, Pennsylvania

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of 1ST SUMMIT BANCORP of Johnstown, Inc. and subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2020 and 2019; the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended; and the related notes to the consolidated financial statements (collectively, the "financial statements").

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

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

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

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

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

Other Matter
We have also audited, in accordance with auditing standards generally accepted in the United States of America, the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013, and our report dated February 26, 2021, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

S.R. Snodgrass, P.C.

Cranberry Township, Pennsylvania
February 26, 2021

S.R. Snodgrass, P.C. • 2009 Mackenzie Way, Suite 340 • Cranberry Township, Pennsylvania 16066 • Phone: 724-934-0344 • Fax: 724-934-0345

CONSOLIDATED BALANCE SHEET

(in thousands, except share data)	December 31, 2020	2019
ASSETS		
Cash and due from banks	**$ 10,632**	$ 8,746
Interest-bearing deposits in banks	**1,582**	164
Cash and cash equivalents	**12,214**	8,910
Equity securities held at fair value	**8,346**	7,247
Investment securities available for sale held at fair value	**316,701**	280,092
Investment securities held to maturity (fair value of $238,477 and $214,625)	**232,983**	212,732
Loans	**649,945**	575,572
Less allowance for loan losses	**6,395**	5,645
Net loans	**643,550**	569,927
Operating lease right-of-use asset	**3,573**	3,020
Premises and equipment, net	**12,574**	11,738
Goodwill	**389**	389
Bank-owned life insurance	**14,521**	14,086
Accrued interest receivable	**5,054**	3,668
Federal Home Loan Bank stock	**1,269**	2,232
Other assets	**6,264**	6,653
TOTAL ASSETS	**$ 1,257,438**	$ 1,120,694
LIABILITIES		
Deposits:		
Noninterest-bearing checking	**$ 102,483**	$ 67,083
Interest-bearing checking	**261,863**	216,391
Money market	**141,882**	103,211
Savings	**155,315**	132,696
Time	**425,272**	429,608
Total deposits	**1,086,815**	948,989
Operating lease liabilities	**3,645**	3,069
Short-term borrowings	**—**	13,132
Other borrowed funds	**33,801**	33,101
Accrued interest payable and other liabilities	**7,881**	7,031
TOTAL LIABILITIES	**1,132,142**	1,005,322
STOCKHOLDERS' EQUITY		
Preferred stock, no par value; 300,000 shares authorized; none issued	**—**	—
Common stock, $5 par value; 4,800,000 shares authorized; 1,101,519 issued	**5,507**	5,507
Capital surplus	**5,791**	5,778
Retained earnings	**106,194**	101,499
Accumulated other comprehensive income	**8,241**	2,991
Treasury stock, at cost (3,714 shares and 3,551 shares)	**(437)**	(403)
TOTAL STOCKHOLDERS' EQUITY	**125,296**	115,372
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 1,257,438**	$ 1,120,694

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

(in thousands, except share data)	Year Ended December 31, 2020	2019
INTEREST AND DIVIDEND INCOME		
Interest and fees on loans	**$ 29,722**	$ 29,236
Interest and dividends on investment securities:		
Taxable	**6,842**	8,166
Exempt from federal income tax	**5,238**	5,186
Other interest	**122**	166
Total interest and dividend income	**41,924**	42,754
INTEREST EXPENSE		
Deposits	**9,841**	11,866
Short-term borrowings	**84**	340
Other borrowed funds	**1,146**	1,116
Total interest expense	**11,071**	13,322
NET INTEREST INCOME	**30,853**	29,432
PROVISION FOR LOAN LOSSES	**1,811**	618
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	**29,042**	28,814
OTHER INCOME		
Service charges on deposit accounts	**1,506**	2,064
Gain on sale of debt and equity investment securities, net	**367**	125
(Loss) gain on equity securities change in fair value, net	**(1,000)**	1,180
Wealth management income	**1,437**	1,230
Earnings on bank-owned life insurance	**261**	292
Bank card income	**1,596**	1,378
Other income	**333**	340
Total other income	**4,500**	6,609
OTHER EXPENSE		
Salaries and employee benefits	**14,208**	13,023
Occupancy expense	**1,884**	1,704
Equipment expense	**1,705**	1,503
Federal deposit insurance expense	**186**	142
Data processing expense	**956**	892
Shares tax expense	**1,121**	907
Donations expense	**252**	237
Other expense	**4,248**	4,264
Total other expense	**24,560**	22,672
INCOME BEFORE INCOME TAXES	**8,982**	12,751
Income tax expense	**752**	1,539
NET INCOME	**$ 8,230**	$ 11,212
EARNINGS PER SHARE	**$ 7.50**	$ 10.21
AVERAGE SHARES OUTSTANDING	**1,097,835**	1,097,669

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in thousands, except share data)	Year Ended December 31, 2020	2019
NET INCOME	**$ 8,230**	$ 11,212
COMPONENTS OF OTHER COMPREHENSIVE INCOME:		
Unrealized gain on available-for-sale securities	**6,804**	11,413
Tax effect	**(1,428)**	(2,398)
Reclassification adjustment for available-for-sale securities gains realized in income	**(159)**	(123)
Tax effect	**33**	26
TOTAL OTHER COMPREHENSIVE INCOME	**5,250**	8,918
TOTAL COMPREHENSIVE INCOME	**$ 13,480**	$ 20,130

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(in thousands, except share data)	Outstanding Shares	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2018	1,097,968	$ 5,507	$ 5,752	$ 93,645	$ (5,927)	$ (378)	$ 98,599
Net income				11,212			11,212
Other comprehensive income					8,918		8,918
Cash dividends ($3.06 per share)				(3,358)			(3,358)
Purchase of treasury stock	(1,000)					(125)	(125)
Sale of treasury stock	1,000		26			100	126
Balance, December 31, 2019	**1,097,968**	**5,507**	**5,778**	**101,499**	**2,991**	**(403)**	**115,372**
Net income				**8,230**			**8,230**
Other comprehensive income					**5,250**		**5,250**
Cash dividends ($3.22 per share)				**(3,535)**			**(3,535)**
Purchase of treasury stock	**(650)**					**(85)**	**(85)**
Sale of treasury stock	**487**		**13**			**51**	**64**
Balance, December 31, 2020	**1,097,805**	**$ 5,507**	**$ 5,791**	**$ 106,194**	**$ 8,241**	**$ (437)**	**$ 125,296**

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)	Year Ended December 31, 2020	2019
OPERATING ACTIVITIES		
Net income	**$ 8,230**	$ 11,212
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**1,811**	618
Depreciation and amortization	**3,387**	2,875
Gain on sale of debt and equity investment securities, net	**(367)**	(125)
Loss (gain) on equity securities change in fair value, net	**1,000**	(1,180)
Deferred income taxes	**(423)**	278
Earnings on bank-owned life insurance	**(261)**	(292)
Increase in accrued interest receivable	**(1,386)**	(93)
(Decrease) increase in accrued interest payable	**(401)**	230
Other, net	**437**	(77)
Net cash provided by operating activities	**12,027**	13,446
INVESTING ACTIVITIES		
Investment securities available for sale:		
Proceeds from sales	**9,327**	10,399
Proceeds from maturities and paydowns	**63,766**	32,927
Purchases	**(104,205)**	(53,394)
Investment securities held to maturity:		
Proceeds from sales	**4,755**	264
Proceeds from maturities and paydowns	**66,308**	31,568
Purchases	**(92,728)**	(21,501)
Equity securities held:		
Proceeds from sales	**—**	—
Purchases	**(2,099)**	(629)
Net increase in loans, excluding purchases	**(71,611)**	(15,660)
Purchases of loans	**(2,741)**	(19,854)
Purchases of premises and equipment	**(1,903)**	(3,129)
Proceeds from bank-owned life insurance	**—**	332
Purchases of bank-owned life insurance	**(176)**	(770)
Proceeds from sale of real estate owned	**476**	673
Redemption of Federal Home Loan Bank stock	**2,841**	7,061
Purchase of Federal Home Loan Bank stock	**(1,878)**	(7,557)
Net cash used for investing activities	**(129,868)**	(39,270)
FINANCING ACTIVITIES		
Net increase in deposits	**137,826**	18,955
Net change in short-term borrowings	**(13,132)**	3,131
Proceeds from other borrowed funds	**10,700**	13,682
Repayments of other borrowed funds	**(10,000)**	(9,000)
Lease liability payments	**(693)**	(589)
Dividends paid on common stock	**(3,535)**	(3,358)
Purchases of treasury stock	**(85)**	(125)
Proceeds from sales of treasury stock	**64**	126
Net cash provided by financing activities	**121,145**	22,822
Increase (decrease) in cash and cash equivalents	**3,304**	(3,002)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**8,910**	11,912
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 12,214**	$ 8,910

See accompanying notes to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Nature of Operations and Basis of Presentation

The consolidated financial statements include the accounts of 1ST SUMMIT BANCORP of Johnstown, Inc. (the "Company"), and its wholly owned subsidiaries, 1ST SUMMIT BANK (the "Bank") and Cambria Thrift Consumer Discount Company ("Cambria"). All significant intercompany transactions have been eliminated in consolidation. The investment in subsidiaries on the parent company financial statements is carried in the parent company's equity and equals the underlying net assets of the subsidiaries.

The Company is a Pennsylvania company organized to become the holding company of the Bank. The Bank is a state-chartered bank located in Pennsylvania. Cambria is a Pennsylvania-chartered consumer finance company. The Company's principal sources of revenue emanate from its portfolio of residential real estate, commercial mortgage, commercial, and consumer loans, its investment portfolio, as well as trust and a variety of deposit services to its customers through 16 Bank and 5 Cambria locations. The Company is supervised by the Board of Governors of the Federal Reserve System, while the Bank is subject to regulation and supervision by the Federal Deposit Insurance Corporation. Both the Bank and Cambria are regulated by the Pennsylvania Department of Banking.

The financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP"). In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the Consolidated Balance Sheet date and reported amounts of revenues and expenses for the period. Actual results could differ from those estimates.

Investment Securities

Debt securities are classified at the time of purchase, based on management's intention and ability, as securities held to maturity or securities available for sale. Debt securities acquired with the intent and ability to hold to maturity are stated at cost, adjusted for amortization of premium and accretion of discount, which are computed using the interest method and recognized as adjustments of interest income. Certain other debt securities have been classified as available for sale to serve principally as a source of liquidity. Unrealized holding gains and losses for available for sale securities are reported as a separate component of stockholders' equity, net of tax, until realized. Realized security gains and losses are computed using the specific identification method for debt securities. Interest and dividends on investment securities are recognized as income when earned.

Securities are evaluated on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in their value is other than temporary. For debt securities, management considers whether the present value of cash flows expected to be collected are less than the security's amortized cost basis (the difference defined as the credit loss), the magnitude and duration of the decline, the reasons underlying the decline and the Company's intent to sell the security or whether it is more likely than not that the Company would be required to sell the security before its anticipated recovery in market value, to determine whether the loss in value is other than temporary. Once a decline in value is determined to be other than temporary, if the investor does not intend to sell the security, and it is more likely than not that it will not be required to sell the security, before recovery of the security's amortized cost basis, the charge to earnings is limited to the amount of credit loss. Any remaining difference between fair value and amortized cost (the difference defined as the noncredit portion) is recognized in other comprehensive income, net of applicable taxes. Otherwise, the entire difference between fair value and amortized cost is charged to earnings.

Equity securities are held at fair value. Holding gains and losses are recorded in income. Dividends on equity securities are recognized as income when earned.

Investment in Federal Home Loan Bank ("FHLB") Stock

The Bank is a member of the FHLB of Pittsburgh and, as such, is required to maintain a minimum investment in stock of the FHLB that varies with the level of advances outstanding with the FHLB. The stock is bought from and sold to the FHLB based upon its $100 par value. The stock does not have a readily determinable fair value and, as such, is classified as restricted stock, carried at cost and evaluated for impairment. The stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the FHLB as compared with the capital stock amount and the length of time this situation has persisted, (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance, (c) the impact of legislative and regulatory changes on the customer base of the FHLB, and (d) the liquidity position of the FHLB. There was no impairment of the FHLB stock as of December 31, 2020 or 2019.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are reported at their outstanding principal amount, net of unearned income. Interest from installment loans is recognized in income based on the simple-interest method, actuarial method, or sum-of-the-month's-digits method depending on which entity originated the loans. All three methods result in approximate level rates of return over the terms of the loans. Interest on real estate mortgages and commercial loans is recognized as income when earned on the accrual method. Generally, the policy has been to stop accruing interest on loans when it is determined that a reasonable doubt exists as to the collectability of additional interest. Interest previously accrued, but deemed uncollectible, is deducted from current interest income. Payments received on nonaccrual loans are either applied to principal or reported as interest income according to management's judgment as to the collectability of principal. Loans are returned to accrual status when past due interest is collected and the collection of principal is probable.

Loan origination fees and certain direct loan origination costs are being deferred and the net amount amortized as an adjustment of the related loan's yield. Management is amortizing these amounts over the contractual life of the related loans.

Allowance for Loan Losses

The allowance for loan losses represents the amount which management estimates is adequate to provide for probable losses inherent in its loan portfolio, as of the Consolidated Balance Sheet date. The allowance method is used in providing for loan losses. Accordingly, all loan losses are charged to the allowance, and all recoveries are credited to it. The allowance for loan losses is established through a provision for loan losses charged to operations. The provision for loan losses is based on management's monthly evaluation of individual loans, economic factors, past loan loss experience, changes in the composition and volume of the portfolio, and other relevant factors. The estimates used in determining the adequacy of the allowance for loan losses, including the amounts and timing of future cash flows expected on impaired loans, are particularly susceptible to change in the near term.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Premises and Equipment
Land is carried at cost. 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 3 to 10 years for furniture, fixtures, and equipment and 25 to 40 years for building premises. Leasehold improvements are amortized over the shorter of their estimated useful lives or their respective lease terms, which range from 7 to 15 years. Expenditures for maintenance and repairs are charged against income as incurred. Costs of major additions and improvements are capitalized.

Goodwill
The Company accounts for goodwill using an annual impairment analysis of goodwill that includes a qualitative assessment in order to determine if the two-step process of measuring impairment is necessary on at least an annual basis. This approach could cause more volatility in the Company's reported net income because impairment losses, if any, could occur irregularly and in varying amounts. No impairment of goodwill was recognized in any of the periods presented.

Bank-Owned Life Insurance ("BOLI")
The Bank purchased life insurance policies on certain key employees and directors. BOLI is recorded at its cash surrender value or the amount that can be realized and is shown on the Consolidated Balance Sheet. Any increases in the cash surrender value are recorded as other income on the Consolidated Statement of Income.

Trust Department
Trust department assets (other than cash deposits) held by the Bank in fiduciary or agency capacities for its customers are not included in the accompanying Consolidated Balance Sheet since such items are not assets of the Bank.

Advertising Costs
Advertising costs are expensed as incurred. Total advertising costs included in other expense on the Consolidated Statement of Income were $386 thousand in 2020 and $350 thousand in 2019.

Income Taxes
The Company, the Bank, and Cambria file a consolidated federal income tax return. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. The federal corporate tax rate was 21% for 2020 and 2019.

Earnings Per Share
The Company currently maintains a simple capital structure; thus, there are no dilutive effects on earnings per share. Earnings per share is calculated by dividing net income by the weighted-average number of shares outstanding for the period.

Comprehensive Income
The Company is required to present comprehensive income in a full set of general-purpose financial statements for all periods presented. Other comprehensive income is comprised of unrealized holding gains (losses) on the available-for-sale securities portfolio and reclassification adjustment for realized gains recognized in income.

Statement of Cash Flows
For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks and interest-bearing deposits at banks with original maturities of 90 days or less. Cash payments for interest in 2020 and 2019 were $11.5 million and $13.1 million, respectively. Income tax payments totaled $1.1 million in 2020 and $1.4 million in 2019. Upon adoption of ASU 2016-02, ASU 2018-11 and ASU 2018-20 on January 1, 2019 we recognized a right-of-use asset of $3.5 million and related lease liabilities of $3.6 million which included a noncash transfer from prepaid expense of $22 thousand. In 2020, additional right-of-use assets of $1.2 million and related lease liabilities of $1.2 million were recognized. In 2020, there was a noncash transfer of repossessed assets of $4 thousand from loans to other assets and a noncash transfer of real estate of $271 thousand from loans to real estate owned. In 2019, there was a noncash transfer of repossessed assets of $64 thousand from loans to other assets and a noncash transfer of real estate of $496 thousand from loans to real estate owned.

Adoption of Accounting Standards
In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The standard requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. A short-term lease is defined as one in which (a) the lease term is 12 months or less and (b) there is not an option to purchase the underlying asset that the lessee is reasonably certain to exercise. For short-term leases, lessees may elect to recognize lease payments over the lease term on a straight-line basis. ASU 2016-02 was effective for the Company on January 1, 2019. In July 2018, the FASB issued ASU 2018-11, "*Leases (Topic 842) - Targeted Improvements*," which, among other things, provides an additional transition method that would allow entities to not apply the guidance in ASU 2016-02 in the comparative periods presented in the financial statements and instead recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. In December 2018, the FASB also issued ASU 2018-20, "*Leases (Topic 842) - Narrow-Scope Improvements for Lessors*," which provides for certain policy elections and changes lessor accounting for sales and similar taxes and certain lessor costs. Upon adoption of ASU 2016-02, ASU 2018-11 and ASU 2018-20 on January1, 2019 we recognized a right-of-use asset of $3,534 thousand and related lease liabilities of $3,556 thousand which included a noncash transfer from prepaid expense of $22 thousand. We elected to apply certain practical expedients provided under ASU 2016-02 whereby we did not reassess (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases and (iii) initial direct costs for any existing leases. We also elected not to apply the recognition requirements of ASU 2016-02 to any short-term leases (as defined by related accounting guidance). We account for lease and non-lease components separately because such amounts are readily determinable under our lease contracts. We expect to utilize the modified-retrospective transition approach prescribed by ASU 2018-11. Certain of the Company's leases contain options to renew the lease after the initial term. Management considers the Company's historical pattern of exercising renewal options on leases and the positive performance of the leased locations, when determining whether it is reasonably certain that the leases will be renewed. If management concludes that there is reasonable certainty about the renewal, it is included in the calculation of the remaining term of each applicable lease. The discount rate utilized in calculating the present value of the remaining lease payments for each lease was the Federal Home Loan Bank of Pittsburgh advance rate corresponding to the remaining maturity of the lease as of January 1, 2019. We have included additional disclosures in note 14.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Reclassification of Comparative Amounts

Certain comparative amounts for the prior year have been reclassified to conform to current-year classifications. Such reclassifications had no effect on net income or stockholders' equity.

2. REVENUE RECOGNITION

The Company recognized revenue from contracts with customers in accordance with ASC Topic 606. Topic 606 does not apply to revenue associated with interest income on financial instruments, including loans and securities. Additionally, certain noninterest income streams such as income from bank owned life insurance, and gain and losses on sales of debt and equity securities are out of scope of Topic 606. The Company has evaluated the nature of its contracts with customers and determined that further disaggregation beyond what is presented in the Consolidated Statement of Income was not necessary.

Service Charges on Deposit Accounts

Topic 606 is applicable to noninterest revenue streams such as service charges on deposit accounts which consists of monthly service fees, wire transfer fees, ATM fees, and other deposit account related fees. The Company's performance obligation for account analysis fees and monthly service fees is generally satisfied and the related revenue recognized, over the period in which the service is provided. Other deposit account related fees are largely transactional based, and therefore, revenue is recognized upon completion of transaction.

Wealth Management Income

Wealth management income is primarily comprised of fees earned from the management and administration of trusts and other customer assets along with commissions from the sale of mutual funds and annuities. The Company's performance obligation for management and administration is generally satisfied over time and the resulting fees are recognized monthly, based upon the month-end market value of the assets under management and the applicable fee rate. Payment is generally received a few days after month end through a direct charge to the customers' accounts. The Company's performance obligation for mutual fund and annuity sales is generally satisfied upon completion of the transaction.

Bank Card Income

Bank card income is primarily comprised of interchange fees earned whenever the Company's debit and credit cards are processed through card payment networks such as VISA®. The Company's performance obligation for these fees are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month.

Other Income

Other income within the scope of Topic 606 is primarily comprised of credit life insurance commissions and safe deposit box rents. Credit life insurance commissions are recognized over time using the monthly outstanding balance method which corresponds to the underlying insurance policy period, for which the Company is obligated to perform under contract with the insurance carrier. Safe deposit box rental fees are charged to the customer on an annual basis and recognized upon receipt of payment. The Company determined that since rentals and renewals occur fairly consistently over time, revenue is recognized on a basis consistent with the duration of the performance obligation.

3. INVESTMENT SECURITIES

The amortized cost and fair value of investment securities excluding equity securities as of December 31 are summarized as follows (in thousands):

	2020			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
AVAILABLE FOR SALE				
Obligations of states and political subdivisions	**$ 137,787**	**$ 6,870**	**$ —**	**$ 144,657**
Mortgage-backed securities in government-sponsored entities	**157,320**	**3,506**	**(56)**	**160,770**
Corporate bonds	**11,162**	**152**	**(40)**	**11,274**
Total debt securities	**$ 306,269**	**$ 10,528**	**$ (96)**	**$ 316,701**

	2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
AVAILABLE FOR SALE				
Obligations of states and political subdivisions	$ 122,960	$ 3,218	$ (125)	$ 126,053
Mortgage-backed securities in government-sponsored entities	147,291	1,263	(578)	147,976
Corporate bonds	6,054	33	(24)	6,063
Total debt securities	$ 276,305	$ 4,514	$ (727)	$ 280,092

	2020			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
HELD TO MATURITY				
U.S. government agency securities	**$ 13,022**	**$ 384**	**$ (5)**	**$ 13,401**
Obligations of states and political subdivisions	**52,024**	**1,890**	**—**	**53,914**
Mortgage-backed securities in government-sponsored entities	**167,937**	**3,398**	**(173)**	**171,162**
Total	**$ 232,983**	**$ 5,672**	**$ (178)**	**$ 238,477**

	2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
HELD TO MATURITY				
U.S. government agency securities	$ 13,044	$ 278	$ (25)	$ 13,297
Obligations of states and political subdivisions	63,589	999	(41)	64,547
Mortgage-backed securities in government-sponsored entities	136,099	1,278	(596)	136,781
Total	$ 212,732	$ 2,555	$ (662)	$ 214,625

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. INVESTMENT SECURITIES (Cont'd)

The following table shows the Company's gross unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position, at December 31 (in thousands):

	2020					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government agency securities	$ 995	$ (5)	$ —	$ —	$ 995	$ (5)
Mortgage-backed securities in government-sponsored entities	71,349	(229)	—	—	71,349	(229)
Corporate bonds	1,491	(9)	1,469	(31)	2,960	(40)
Total debt securities	$ 73,835	$ (243)	$ 1,469	$ (31)	$ 75,304	$ (274)

	2019					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government agency securities	$ 1,975	$ (25)	$ —	$ —	$ 1,975	$ (25)
Obligations of states and political subdivisions	14,820	(146)	1,278	(20)	16,098	(166)
Mortgage-backed securities in government-sponsored entities	38,177	(161)	89,338	(1,013)	127,515	(1,174)
Corporate bonds	1,977	(24)	—	—	1,977	(24)
Total debt securities	$ 56,949	$ (356)	$ 90,616	$ (1,033)	$ 147,565	$ (1,389)

The Company reviews its position quarterly and has asserted that at December 31, 2020, the declines outlined in the above table represent temporary declines and the Company does not intend to sell and does not believe it will be required to sell these securities before recovery of its cost basis, which may be at maturity. There were 44 positions that were temporarily impaired at December 31, 2020.

The Company conducts periodic reviews of its investments in debt securities to identify and evaluate each investment that has an unrealized loss. An unrealized loss exists when the current fair value of an individual security is less than its amortized cost basis. Unrealized losses that are determined to be temporary in nature are recorded, net of tax, in *Accumulated Other Comprehensive Income* ("AOCI") for available-for-sale securities, while such losses related to held-to-maturity securities are not recorded, as these investments are carried at their amortized cost.

Regardless of the classification of the securities as available for sale or held to maturity, the Company has assessed each unrealized loss position for credit impairment.

Factors considered in determining whether a loss is temporary include:

- the length of time and the extent to which fair value has been below cost;
- the severity of the impairment;
- the cause of the impairment and the financial condition and near-term prospects of the issuer;
- activity in the market of the issuer which may indicate adverse credit conditions;
- if the Company intends to sell the investment;
- if it's more likely than not the Company will be required to sell the investment before recovering its amortized cost basis; and
- if the Company does not expect to recover the investment's entire amortized cost basis (even if the Company does not intend to sell the security).

The Company's review for impairment generally entails:

- identification and evaluation of investments that have indications of possible impairment;
- analysis of individual investments that have fair values less than amortized cost, including consideration of the length of time the investment has been in an unrealized loss position and the expected recovery period;
- discussion of evidential matter, including an evaluation of factors or triggers that could cause individual investments to qualify as having other-than-temporary impairment and those that would not support other-than-temporary impairment; and
- documentation of the results of these analyses, as required under business policies.

For debt securities that are not deemed to be credit impaired, management performs additional analysis to assess whether it intends to sell or would more likely than not be required to sell the investment before the expected recovery of the amortized cost basis. Management has asserted that it has no intent to sell and that it believes it is more likely than not that it will not be required to sell the investment before recovery of its amortized cost basis.

The Company has concluded that the unrealized losses disclosed in the previous table are not other than temporary but are the result of interest rate changes, sector credit ratings changes, or Company-specific ratings changes that are not expected to result in the noncollection of principal and interest during the period.

For debt securities, a critical component of the evaluation for other-than-temporary impairment is the identification of credit impaired securities where management does not receive cash flows sufficient to recover the entire amortized cost basis of the security. Where management deems the security to be other-than-temporarily impaired based upon the above factors and the duration and extent to which the fair value has been less than cost, the inability to forecast a recovery in fair value, and other factors concerning the issuers in the pooled security, the decline is recorded in earnings.

The amortized cost and fair values of debt securities at December 31, 2020, by contractual maturity, are shown below (in thousands). The Company's mortgage-backed securities have contractual maturities ranging from 15 to 20 years. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	AVAILABLE-FOR-SALE		HELD-TO-MATURITY	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ —	$ —	$ 6,412	$ 6,521
Due after one year through five years	4,932	4,973	7,232	7,561
Due after five years through ten years	21,592	22,058	36,146	37,271
Due after ten years	279,745	289,670	183,193	187,124
Total	$ 306,269	$ 316,701	$ 232,983	$ 238,477

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. INVESTMENT SECURITIES (Cont'd)

Proceeds from sales of debt and equity investment securities during 2020 and 2019 were $14.1 million and $10.7 million, respectively. The Company sold $4.8 million and $264 thousand of held-to-maturity securities during 2020 and 2019, respectively. These securities were sold under ASC 320 safe harbor rules so as not to taint the remaining held-to-maturity securities. These securities had amortized down to below 15% of the original purchase par balance. Debt and equity securities gains and losses of the Company are summarized in the following table (in thousands):

	Year Ended December 31, 2020	2019
Gains on sales of held-to-maturity securities amortized down to below 15% of original purchase par balance	**$ 208**	$ 2
Gross gains realized on the sale of available-for-sale securities	**159**	126
Gross losses realized on the sale of available-for-sale securities	**—**	(3)
Gross gains realized on the sale of equity securities during the period	**—**	—
Total	**$ 367**	$ 125

Net losses on the change in fair value of equity securities were $1.0 million in 2020, and net gains on the change in fair value of equity securities were $1.2 million in 2019.

Investment securities with a carrying value of $246.9 million and $186.5 million at December 31, 2020 and 2019, respectively, were pledged to secure public deposits, borrowings, and for other purposes as required by law.

4. LOANS

Major classifications of loans are summarized as follows (in thousands):

	2020	2019
Consumer	**$ 37,115**	$ 35,373
Residential real estate	**305,442**	292,417
Construction	**30,972**	25,121
Commercial and industrial	**163,830**	116,366
Commercial real estate - nonowner occupied	**43,779**	32,591
Commercial real estate - all other	**68,807**	73,704
	649,945	575,572
Less allowance for loan losses	**6,395**	5,645
Net loans	**$ 643,550**	$ 569,927

Gross loan balances at December 31, 2020 and 2019, are net of unearned income including net deferred loan fees of $1,997 thousand and $820 thousand respectively. During 2020, the Company purchased $2.7 million in consumer loans at a discount which generated a purchase discount of $187 thousand. During 2019, the Company purchased $20.2 million in mortgage loans at a discount which generated a purchase discount of $306 thousand.

The Company had nonaccrual loans as follows (in thousands):

	2020	2019
Consumer	**$ 132**	$ 139
Residential real estate	**483**	516
Construction	**956**	—
Commercial and industrial	**—**	115
Commercial real estate - nonowner occupied	**—**	—
Commercial real estate - all other	**52**	337
Total nonaccrual loans	**$ 1,623**	$ 1,107

In the normal course of business, loans are extended to directors, executive officers, and their associates. A summary of loan activity for those directors, executive officers, and their associates with loan balances in excess of $60,000 for the year ended December 31, 2020, is as follows (in thousands):

2019	Additions	Repayments	2020
$ 18,358	$ 16,064	$ 13,532	$ 20,890

The Company's primary business activity is with customers located within its local trade area. Commercial, residential, personal, and agricultural loans are granted. The Company also selectively purchases and funds commercial and residential loans originated outside its trade area, provided such loans meet the Company's credit policy guidelines. Although the Company has a diversified loan portfolio at December 31, 2020 and 2019, the repayment of the loans outstanding to individuals and businesses is dependent upon the local economic conditions in its immediate trade area.

COVID-19 Loan Forbearance Programs

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

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

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

During 2020, over 1,316 of our customers had requested loan payment deferrals or payments of interest only on loans totaling $122.7 million. In accordance with Section 4013 of the CARES Act and the interagency guidance issued on April 7, 2020, these short-term deferrals are not considered troubled debt restructurings. As of December 31, 2020, the Company has 9 loans totaling $5.8 million that remain on a CARES Act modification.

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

Paycheck Protection Program

During 2020 the Company participated in the Paycheck Protection Program ("PPP"), administered directly by the U.S. SBA. The PPP provides loans to small businesses who were affected by economic conditions as a result of COVID-19 to provide cash-flow assistance to employers who maintain their payroll (including healthcare and certain related expenses), mortgage interest, rent, leases, utilities and interest on existing debt during the COVID-19 emergency. As of December 31, 2020, the Company had outstanding principal balances of $39.6 million. The PPP loans are fully guaranteed by the SBA and may be eligible for forgiveness by the SBA to the extent that the proceeds are used to cover eligible payroll costs, interest costs, rent, and utility costs over a period of up to 24 weeks after the loan is made as long as certain conditions are met regarding employee retention and compensation levels. PPP loans deemed eligible for forgiveness by the SBA will be repaid by the SBA to the Company. PPP loans are included in the Commercial and Industrial loan category.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. LOANS (Cont'd)

In accordance with the SBA terms and conditions on these PPP loans, the Company received approximately $2.2 million in fees associated with the processing of these loans. For the year ended December 31, 2020, the Company recognized $1.1 million in fees relating to PPP loans. Upon funding of the loan, these fees were deferred and will be amortized over the life of the loan as an adjustment to yield in accordance with FASB ASC 310-20-25-2.

5. COMMITMENTS

In the normal course of business, there are various outstanding commitments and contingent liabilities which are not reflected in the accompanying consolidated financial statements. These commitments comprised the following at December 31 (in thousands):

	2020	2019
Commercial loan commitments	**$ 79,996**	$ 44,048
One-to-four family commitments	**44,101**	39,952
Other commitments	**18,745**	17,622
Standby letters of credit and financial guarantees	**3,423**	4,664
Total	**$ 146,265**	$ 106,286

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. In the normal course of business, the Company makes various commitments which are not reflected in the accompanying financial statements. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Consolidated Balance Sheet. The Company's exposure to credit loss in the event of nonperformance by the other parties to the financial instruments is represented by the contractual amounts as disclosed. The Company minimizes its exposure to credit loss under these commitments by subjecting them to credit approval and review procedures and collateral requirements as deemed necessary. Commitments generally have fixed expiration dates within one year of their origination.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Performance letters of credit represent conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. These instruments are issued primarily to support bid- or performance-related contracts. The coverage period for these instruments is typically a one-year period with an annual renewal option subject to prior approval by management. Fees earned from the issuance of these letters are recognized over the coverage period. For secured letters of credit, the collateral is typically Bank deposit instruments or customer business assets.

6. ALLOWANCE FOR LOAN LOSSES

Management establishes the allowance for loan losses based upon its evaluation of the pertinent factors underlying the types and quality of loans in the portfolio. Commercial loans and commercial real estate loans are reviewed on a regular basis with larger loan relationships greater than $750 thousand being reviewed twice, annually. Commercial loans and commercial real estate loans which are 90 days or more past due are considered for impairment testing. These loans are analyzed to determine if they are "impaired," which means that it is probable that all amounts will not be collected according to the contractual terms of the loan agreement. All loans that are delinquent 90 days and are placed on nonaccrual status are classified on an individual basis. Residential loans 90 days past due which are still accruing interest are classified as Substandard as per the Company's asset classification policy. The remaining loans are evaluated and classified as groups of loans with similar risk characteristics. The Company allocates allowances based on the factors described below, which conform to the Company's asset classification policy. In reviewing risk within the Bank's loan portfolio, management has determined there to be several different risk categories or portfolio segments within the loan portfolio. The allowance for loan losses consists of the following portfolio segments: (i) the consumer loan portfolio; (ii) the residential real estate loan portfolio; (iii) the construction loan portfolio; (iv) the commercial and industrial loan portfolio; (v) the commercial real estate – nonowner occupied loan portfolio; (vi) the commercial real estate – all other loan portfolio; and (vii) the unallocated portion.

Factors considered in this process included general loan terms, collateral, and availability of historical data to support the analysis. Historical loss percentages for each risk category are calculated and used as the basis for calculating allowance allocations. Certain qualitative factors are then added to the historical allocation percentage to get the adjusted factor to be applied to nonclassified loans. The following qualitative factors are analyzed:

- Changes in lending policies and procedures
- Experience depth and ability of management
- Economic trends
- Trends in volume and terms
- Levels of and trends in delinquencies, nonaccruals, and losses
- Loan review and regulatory oversight
- Concentrations of credit

The Company also maintains an unallocated allowance to account for any factors or conditions that may cause a potential loss but are not specifically addressed in the process described above. The Company analyzes its loan portfolio each month to determine the appropriateness of its allowance for loan losses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. ALLOWANCE FOR LOAN LOSSES (Cont'd)

Changes in the allowance for loan losses for the years ended December 31 are as follows (in thousands):

	Consumer	Residential Real Estate	Construction	Commercial and Industrial	Commercial Real Estate - Nonowner Occupied	Commerical Real Estate - All Other	Unallocated	Total
Balance December 31, 2018	$ 512	$ 1,861	$ 267	$ 1,273	$ 904	$ 760	$ 266	$ 5,843
Add:								
Provision for loan losses	209	228	6	(192)	496	(215)	86	618
Recoveries	47	4	—	46	16	—	—	113
Less loans charged-off	273	63	—	60	533	—	—	929
Balance December 31, 2019	**495**	**2,030**	**273**	**1,067**	**883**	**545**	**352**	**5,645**
Add:								
Provision for loan losses	**366**	**17**	**281**	**239**	**473**	**250**	**185**	**1,811**
Recoveries	**80**	**15**	**—**	**25**	**26**	**—**	**—**	**146**
Less loans charged-off	**429**	**62**	**200**	**56**	**385**	**75**	**—**	**1,207**
Balance December 31, 2020	**$ 512**	**$ 2,000**	**$ 354**	**$ 1,275**	**$ 997**	**$ 720**	**$ 537**	**$ 6,395**

During 2020, the reserves for consumer loans increased slightly due to an increase in the qualitative factor for economic trends and an increase in the related loan balances. The reserves for residential real estate loans decreased during the year due to a decline in the historical loss factors in this sector. The reserves for construction loans increased due to an increase in the related loan balances in this sector and an increase in the historical loss factors in this sector. The reserves for commercial and industrial loans increased due to an increase in the historical loss factors in this sector and an increase in the qualitative factor for economic trends. PPP loans are included in the commercial and industrial loans but are not included in the calculation of the allowance as they are government guaranteed. The reserves for commercial real estate-nonowner occupied increased due to an increase in the qualitative factors for economic trends, trends in volume and terms, and levels of and trends in delinquencies, nonaccruals, and losses. Historical losses decreased in this sector offsetting some of the change. Commercial real estate-all other increased due to an increase in the historical loss factors in this sector and an increase in the qualitative factors for economic trends. During 2019, the reserves for consumer loans decreased slightly due to a decline in the historical loss factors for this portfolio. The reserves for residential real estate loans increased during the year as the related loan balances increased in this sector. The reserves for construction loans increased as the related loan balances in this sector increased. The reserves for commercial and industrial loans decreased due to a decline in the historical loss factors in this sector and a decline in the qualitative factor allocations for economic trends, loan review and regulatory oversight. The reserves for commercial real estate-nonowner occupied decreased during the year as the related loan balances in this sector decreased and the qualitative factor allocations for economic trends, trends in volume and terms, levels of and trends in delinquencies, nonaccruals, and losses, and loan review and regulatory oversight decreased. The allocation for levels of and trends in delinquencies and nonaccruals decreased due to a decline in delinquency trends and substandard balances in this sector. Commercial real estate-all other decreased as the related loan balances decreased in this sector and the qualitative factor allocations for economic trends and loan review and regulatory oversight decreased. The allocation for economic trends decreased in all commercial portfolios based on the stability in the state and national economies. The allocation for loan review and regulatory oversight decreased in all commercial portfolios due to the most recent regulatory examination.

Loans receivable and the related allowance for loan losses at December 31, 2020 and 2019, as well as the method the Company uses to evaluate these loans within their allowance for loan losses are summarized, by portfolio segment, as follows (in thousands):

	Consumer	Residential Real Estate	Construction	Commercial and Industrial	Commercial Real Estate - Nonowner Occupied	Commerical Real Estate - All Other	Unallocated	Total
December 31, 2020								
Allowance for loan losses:								
Ending balance: collectively evaluated for impairment	**$ 512**	**$ 2,000**	**$ 354**	**$ 1,275**	**$ 997**	**$ 720**	**$ 537**	**$ 6,395**
Ending balance: individually evaluated for impairment	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Ending balance	**$ 512**	**$ 2,000**	**$ 354**	**$ 1,275**	**$ 997**	**$ 720**	**$ 537**	**$ 6,395**
Loans:								
Ending balance: collectively evaluated for impairment	**$ 37,115**	**$ 305,442**	**$ 30,016**	**$ 163,830**	**$ 43,779**	**$ 67,758**		**$ 647,940**
Ending balance: individually evaluated for impairment	**—**	**—**	**956**	**—**	**—**	**1,049**		**2,005**
Ending balance	**$ 37,115**	**$ 305,442**	**$ 30,972**	**$ 163,830**	**$ 43,779**	**$ 68,807**		**$ 649,945**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. ALLOWANCE FOR LOAN LOSSES (Cont'd)

	Consumer	Residential Real Estate	Construction	Commercial and Industrial	Commercial Real Estate - Nonowner Occupied	Commerical Real Estate - All Other	Unallocated	Total
December 31, 2019								
Allowance for loan losses:								
Ending balance: collectively evaluated for impairment	$ 495	$ 2,030	$ 216	$ 1,067	$ 883	$ 545	$ 352	$ 5,588
Ending balance: individually evaluated for impairment	—	—	57	—	—	—	—	57
Ending balance	$ 495	$ 2,030	$ 273	$ 1,067	$ 883	$ 545	$ 352	$ 5,645
Loans:								
Ending balance: collectively evaluated for impairment	$ 35,373	$ 292,417	$ 23,915	$ 116,004	$ 32,591	$ 71,620		$ 571,920
Ending balance: individually evaluated for impairment	—	—	1,206	362	—	2,084		3,652
Ending balance	$ 35,373	$ 292,417	$ 25,121	$ 116,366	$ 32,591	$ 73,704		$ 575,572

Impaired loans are commercial and commercial real estate loans for which it is probable the Company will not be able to collect all amounts due according to the contractual terms of the loan agreement. Also, any loan modified in a trouble debt restructuring is also considered to be impaired. The Company individually evaluates such loans for impairment and does not aggregate loans by major risk classifications. The definition of "impaired loans" is not the same as the definition of "nonaccrual loans," although the two categories overlap. The Company may choose to place a loan on nonaccrual status due to payment delinquency or uncertain collectability while not classifying the loan as impaired, provided the loan is not a commercial or commercial real estate classification. Factors considered by management in determining impairment include payment status and collateral value. The amount of impairment for these types of loans is determined by the difference between the present value of the expected cash flows related to the loan using the original interest rate and its recorded value or, as a practical expedient in the case of collateralized loans, the difference between the fair value of the collateral and the recorded amount of the loans. When foreclosure is probable, impairment is measured based on the fair value of the collateral. Impaired loans are summarized as follows (in thousands):

	Impaired Loans with Specific Allowance		**Impaired Loans with No Specific Allowance**	**Total Impaired Loans**			
	Recorded Investment	**Related Allowance**	**Recorded Investment**	**Recorded Investment**	**Unpaid Principal Balance**	**Average Recorded Investment**	**Interest Income Recognized**
December 31, 2020							
Consumer	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential real estate	—	—	—	—	—	—	—
Construction	—	—	956	956	1,156	1,131	44
Commercial and industrial	—	—	—	—	—	251	13
Commercial real estate - nonowner occupied	—	—	—	—	—	176	—
Commercial real estate - all other	—	—	1,049	1,049	1,688	1,828	46
Total impaired loans	$ —	$ —	$ 2,005	$ 2,005	$ 2,844	$ 3,386	$ 103

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. ALLOWANCE FOR LOAN LOSSES (Cont'd)

	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance	Total Impaired Loans			
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance	Average Recorded Investment	Interest Income Recognized
December 31, 2019							
Consumer	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential real estate	—	—	—	—	—	—	—
Construction	839	57	367	1,206	1,206	1,260	84
Commercial and industrial	—	—	362	362	362	239	1
Commercial real estate - nonowner occupied	—	—	—	—	—	248	—
Commercial real estate - all other	—	—	2,084	2,084	2,841	1,877	53
Total impaired loans	$ 839	$ 57	$ 2,813	$ 3,652	$ 4,409	$ 3,624	$ 138

Mortgage loans secured by one-to-four family properties and all consumer loans are large groups of smaller-balance homogenous loans and are measured for impairment collectively. Loans that experience insignificant payment delays, which are defined as 89 days or less, generally are not classified as impaired. Management determines the significance of payment delays on a case-by-case basis, taking into consideration all circumstances concerning the loan, the creditworthiness and payment history of the borrower, the length of the payment delay, and the amount of shortfall in relation to the principal and interest owed. Current and past due loans are summarized as follows (in thousands):

December 31, 2020	**Current**	**30-89 Days Past Due**	**90 Days + Past Due**	**Total Past Due**	**Total Loans**	**90 Days + Past Due, Still Accruing**
Consumer	**$ 36,415**	**$ 433**	**$ 267**	**$ 700**	**$ 37,115**	**$ 135**
Residential real estate	**303,541**	**725**	**1,176**	**1,901**	**305,442**	**693**
Construction	**29,981**	**35**	**956**	**991**	**30,972**	**—**
Commercial and industrial	**163,821**	**9**	**—**	**9**	**163,830**	**—**
Commercial real estate - nonowner occupied	**43,779**	**—**	**—**	**—**	**43,779**	**—**
Commercial real estate - all other	**68,497**	**258**	**52**	**310**	**68,807**	**—**
Total	**$ 646,034**	**$ 1,460**	**$ 2,451**	**$ 3,911**	**$ 649,945**	**$ 828**

December 31, 2019	Current	30-89 Days Past Due	90 Days + Past Due	Total Past Due	Total Loans	90 Days + Past Due, Still Accruing
Consumer	$ 34,623	$ 441	$ 309	$ 750	$ 35,373	$ 170
Residential real estate	289,695	1,078	1,644	2,722	292,417	1,128
Construction	25,114	7	—	7	25,121	—
Commercial and industrial	116,132	119	115	234	116,366	—
Commercial real estate - nonowner occupied	32,591	—	—	—	32,591	—
Commercial real estate - all other	72,586	288	830	1,118	73,704	493
Total	$ 570,741	$ 1,933	$ 2,898	$ 4,831	$ 575,572	$ 1,791

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. ALLOWANCE FOR LOAN LOSSES (Cont'd)

Management adopted an eight-point internal risk rating system in 2020 to monitor the credit quality of the overall loan portfolio. The first four categories are considered not criticized, and are aggregated as "Pass" rated. The criticized rating categories utilized by management generally follow bank regulatory definitions. The Special Mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a Substandard classification. Balances in the Substandard category are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Balances in the Doubtful category have all the deficiencies inherent in the Substandard category, with the added characteristics that the deficiencies make collection in full, on the basis of currently existing facts, conditions, and values, highly questionable or improbable. Any portion of a loan deemed uncollectable is placed in the Loss category.

All consumer and residential real estate loans greater than 90 days past due are considered nonperforming. The nonperforming classification is based solely on delinquency levels. It is the policy of the Company that consumer loans are generally fully or partially charged down to the fair value of collateral securing the asset when the loan is 120 days past due for open-end loans, 90 days past due for unsecured open-end loans and 90 days past due for closed-end loans unless the loan is well secured and in the process of collection. The outstanding balance of any consumer or residential mortgage loan that exceeds 90 days past due is reviewed to determine collectability. If not all principal and interest is determined to be collectable the balance is transferred to nonaccrual status and subsequently evaluated to determine the fair value of the collateral less selling costs. A charge down is recorded for any deficiency determined from the collateral evaluation. Loan credit quality is summarized as follows (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2020					
Construction	**$ 29,880**	**$ 136**	**$ 956**	**$ —**	**$ 30,972**
Commercial and industrial	**162,760**	**28**	**1,042**	**—**	**163,830**
Commercial real estate - nonowner occupied	**41,091**	**1,759**	**929**	**—**	**43,779**
Commercial real estate - all other	**67,191**	**—**	**1,616**	**—**	**68,807**
Total	**$ 300,922**	**$ 1,923**	**$ 4,543**	**$ —**	**$ 307,388**

	Performing	Nonperforming	Total
December 31, 2020			
Consumer	**$ 36,848**	**$ 267**	**$ 37,115**
Residential real estate	**304,266**	**1,176**	**305,442**
	$ 341,114	**$ 1,443**	**$ 342,557**

	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2019					
Construction	$ 23,684	$ 232	$ 1,148	$ 57	$ 25,121
Commercial and industrial	113,921	1,694	751	—	116,366
Commercial real estate - nonowner occupied	31,530	77	984	—	32,591
Commercial real estate - all other	70,130	1,451	2,123	—	73,704
Total	$ 239,265	$ 3,454	$ 5,006	$ 57	$ 247,782

	Performing	Nonperforming	Total
December 31, 2019			
Consumer	$ 35,064	$ 309	$ 35,373
Residential real estate	290,773	1,644	292,417
	$ 325,837	$ 1,953	$ 327,790

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. ALLOWANCE FOR LOAN LOSSES (Cont'd)

Foreclosed Assets Held For Sale

Foreclosed assets acquired in settlement of loans are carried at fair value less estimated costs to sell and are included in other assets on the Consolidated Balance Sheet. As of December 31, 2020 and December 31, 2019, a total of $128 thousand and $336 thousand, respectively of foreclosed assets were included with other assets. As of December 31, 2020 and December 31, 2019, included within foreclosed assets is $13 thousand and $336 thousand, respectively of consumer residential mortgages that were foreclosed on or received via a deed in lieu transaction prior to the period end. As of December 31, 2020 and December 31, 2019, the Company had initiated formal foreclosure procedures on $253 thousand and $258 thousand of consumer residential mortgages, respectively, that have not yet been moved to foreclosed assets.

Troubled Debt Restructuring

Consistent with accounting and regulatory guidance, the Company recognizes a troubled debt restructuring ("TDR") when the Company, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that would not normally be considered. Regardless of the form of concession granted, the Company's objective in offering a TDR is to increase the probability of repayment of the borrower's loan. To be considered a TDR, the borrower must be experiencing financial difficulties and, the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that would not otherwise be considered.

The Company had zero loan modifications that were considered TDR's during the year ended December 31, 2020. The Company had two loan modifications that were considered TDR's during the year ended December 31, 2019. The pre- and post-modification balance of the loans were $260 thousand. The modifications were a reduction in the interest rate, an extension of the maturity date, and a reduction in the accrued interest due. These loans continue to perform in accordance with the modified terms.

7. PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows (in thousands):

	2020	2019
Land	$ 2,960	$ 2,902
Buildings	12,906	11,735
Furniture, fixtures, and equipment	10,777	10,188
Leasehold improvements	1,899	1,891
	28,542	26,716
Less accumulated depreciation and amortization	15,968	14,978
Total	$ 12,574	$ 11,738

Depreciation and amortization charged to operations was $1,067 thousand in 2020 and $908 thousand in 2019.

8. GOODWILL

For each of the years ended December 31, 2020 and 2019, goodwill has a net carrying amount of $389 thousand.

The gross carrying amount of goodwill is tested for impairment in the fourth quarter, after the annual forecasting process. Based on fair value of the reporting unit, estimated using a qualitative analysis, no goodwill impairment loss was recognized in 2020 or 2019.

9. TIME DEPOSITS

The scheduled maturities of time deposits are as follows (in thousands):

2021	$ 248,360
2022	122,808
2023	39,328
2024	11,769
2025	2,772
Thereafter	235
Total	$ 425,272

The aggregate of all time deposit accounts of $250 thousand or more amounted to $88.3 million and $72.5 million at December 31, 2020 and 2019, respectively.

10. SHORT-TERM BORROWINGS

The Company has entered into a borrowing agreement with a revolving line of credit agreement on September 13, 2013 whereby it can borrow up to $144 million from the FHLB. All borrowings from the FHLB are secured by a blanket lien on qualified collateral, defined principally as investment securities and mortgage loans which are owned by the Bank free and clear of any liens or encumbrances. At December 31, 2020 there was no outstanding balance with an average balance during the year of $3.7 million and an average rate of 1.90 percent. The maturity date on the revolving line of credit is May 28, 2021. This line was in place at December 31, 2019 with an outstanding balance of $13.1 million with an interest rate of 1.81 percent and an average balance during 2019 of $13.4 million.

During 2020, the Company used the Federal Reserve Discount Window for overnight borrowings. At December 31, 2020, there was no outstanding balance with an average balance during the year of $5.5 million with an average rate of 0.25 percent.

11. OTHER BORROWED FUNDS

Maturities of other borrowed funds at December 31, 2020, are as follows (in thousands):

Year Ending December 31,	Amount	Weighted-Average Rate
2021	$ 2,166	2.14 %
2022	3,200	2.35
2023	11,594	3.12
2024	10,655	2.95
2025	—	—
Thereafter	6,186	3.23
Total	$ 33,801	2.95 %

All borrowings from the FHLB are secured by a blanket lien on qualified collateral, defined principally as investment securities and mortgage loans which are owned by the Bank free and clear of any liens or encumbrances. The advances are collateralized by FHLB stock, obligations of U.S. government corporations and agencies, mortgage-backed securities, and first mortgage loans. During 2020, the Bank had a borrowing limit of approximately $293.6 million, with a variable rate of interest, based on the FHLB's cost of funds. During 2020, the Company prepaid three high cost advances from FHLB of $6.5 million with an average yield of 2.45% and paid a prepayment penalty of $205 thousand, which is included in other expense.

Subordinated capital debt consists of variable rate and fixed rate obligations with maturity dates ranging from May 23, 2021 through April 30, 2024. This is comprised of $2.0 million of notes issued by the Bank and $8.6 million of notes issued by Cambria. The Company fully and unconditionally guarantees these notes and they are subordinate in right of payments to the depositors and all claims of creditors. Interest on fixed rate notes is computed at 4.6 percent or 4.5 percent. Interest on variable notes is computed at 1.5 percent above the Federal Reserve discount rate, or 1 percent below the prime rate. Subordinated capital notes of $0.2 million, $0.2 million, $5.6 million, and $4.6 million mature in 2021, 2022, 2023, and 2024, respectively.

The Company formed a special purpose entity ("Entity 1") to issue $3 million of floating rate, obligated mandatorily redeemable securities and $93 thousand in common securities as part of a pooled offering with a maturity date of April 24, 2033. The rate is determined quarterly and floats based on the three-month LIBOR plus 3.25 percent. At December 31, 2020, the rate was 3.46 percent. The Entity 1 may redeem them, in whole or in part, at face value on a quarterly basis with proper notice. The Company borrowed the proceeds of the issuance from the Entity 1 in April 2003 in the form of a $3 million note payable, which is included in the liabilities section of the Company's Consolidated Balance Sheet.

The Company formed an additional special purpose entity ("Entity 2") to issue $3 million of floating rate, obligated mandatorily redeemable securities and $93 thousand in common securities as part of a pooled offering with a maturity date of April 6, 2034. The rate is determined quarterly and floats based on the three-month LIBOR plus 2.75 percent. At December 31, 2020, the rate was 2.99 percent. The Entity 2 may redeem them, in whole or in part, at face value on a quarterly basis with proper notice. The Company borrowed the proceeds of the issuance from the Entity 2 in March 2004 in the form of a $3 million note payable, which is included in the liabilities section of the Company's Consolidated Balance Sheet.

Under current accounting rules, the Company's minority interest in both Entity 1 and Entity 2 was recorded at the initial investment amount and is included in the other assets section of the Consolidated Balance Sheet. Neither Entity 1 nor Entity 2 is consolidated as part of the Company's consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. OTHER BORROWED FUNDS (Cont'd)

The following table sets forth information concerning other borrowed funds (in thousands):

Description	Maturity Range From	Maturity Range To	Weighted-Average Interest Rate	Stated Interest Rate Range From	Stated Interest Rate Range To	At December 31, 2020	At December 31, 2019
Fixed rate	08/13/21	02/27/24	1.83 %	1.35 %	2.21 %	**$ 17,000**	$ 17,000
Subordinated capital debt	05/23/21	04/30/24	4.58%	4.50 %	5.00 %	**10,615**	9,915
Long-term notes payable	04/24/33	04/06/34	3.23 %	2.99%	3.46 %	**6,186**	6,186
						$ 33,801	$ 33,101

12. DIRECTOR, OFFICER, AND EMPLOYEE BENEFITS

Savings Plan

The Company maintains a trusteed Section 401(k) plan with contributions matching those by eligible employees to a maximum of 25 percent of employee contributions annually, to a maximum of 5 percent of base salary. The Company may also make an elective contribution annually. All employees who work over 1,000 hours per year are eligible to participate in the plan. The Company's contribution to this plan was $241 thousand and $230 thousand in 2020 and 2019, respectively.

The plan assets include 91,553 shares of the Company's common stock that is valued at $12.1 million.

Deferred Compensation Plan

The Company has a deferred director's compensation plan whereby participating directors elected to forego directors' fees. To fund benefits under the deferred compensation plan, the Company established a rabbi trust. The Company guarantees a return equal to the average New York prime rate of interest to plan participants with a floor of 6 percent. Contributions to the plan were $150 thousand in 2020 and $133 thousand in 2019. Distributions from the plan were $169 thousand in 2020 and $167 thousand in 2019. The Company carried a liability of $2.8 million in 2020 and $2.6 million in 2019.

Performance Unit Plan

On January 24, 2017, the Board of Directors approved the 2017 Performance Unit Plan which is intended to serve as a successor program to the Company's 2012 Performance Unit Plan. The plan may award annual grants to executive management and directors equal in value to the appreciation on a share of stock between the date the performance unit becomes vested and the date of award. Payments to employees vested under the plan are made in cash. Since January 24, 2017, at the beginning of each succeeding year, a participant may elect to receive full payment in cash of allocated performance units as of the preceding year-end. During 2020, $169 thousand in expense was recognized under the plan while $166 thousand in expense was recognized during 2019. The Company carried a liability of $479 thousand in 2020 and $336 thousand in 2019.

13. INCOME TAXES

Federal income tax expense consists of the following (in thousands):

	2020	2019
Currently payable	**$ 1,175**	$ 1,261
Deferred	**(423)**	278
Total	**$ 752**	$ 1,539

The components of the net deferred tax assets at December 31 are as follows (in thousands):

	2020	2019
Deferred tax assets:		
Allowance for loan losses	**$ 1,346**	$ 1,189
Deferred directors' fees	**414**	380
Deferred performance plan	**100**	70
Other	**20**	23
Total	**1,880**	1,662
Deferred tax liabilities:		
Premises and equipment	**436**	178
Deferred loan origination costs, net	**(7)**	236
Investment discount accretion	**32**	43
Unrealized gain - merger	**16**	16
Unrealized gain - equity securities	**47**	257
Net unrealized loss on available for sale securities	**2,191**	795
Total	**2,715**	1,525
Net deferred tax (liabilities) assets	**$ (835)**	$ 137

No valuation allowance was established at December 31, 2020 and 2019, in view of the Company's ability to carryback taxes paid in previous years and certain tax strategies coupled with the anticipated future taxable income as evidenced by the Company's earnings potential.

The reconciliation of the statutory rate and the effective income tax rate is as follows (in thousands):

	2020 Amount	2020 % of Pretax Income	2019 Amount	2019 % of Pretax Income
Computed at statutory rate	**$ 1,886**	**21.0 %**	$ 2,678	21.0 %
Effect of tax-free interest income	**(1,207)**	**(13.4)**	(1,209)	(9.5)
BOLI earnings	**(55)**	**(0.6)**	(61)	(0.5)
Nondeductible interest to carry tax-exempt assets	**79**	**0.9**	99	0.8
Other	**49**	**0.5**	32	0.3
Income tax expense and effective rate	**$ 752**	**8.4 %**	$ 1,539	12.1 %

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. INCOME TAXES (Cont'd)

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

There is currently no liability for uncertain tax positions and no known unrecognized tax benefits. The Bank recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the Consolidated Statement of Income. The Bank's federal and PA shares tax returns for taxable years through 2016 have been closed for purposes of examination by the Internal Revenue Service and the Pennsylvania Department of Revenue.

14. LEASE COMMITMENTS

The Company utilizes leases for fourteen of its locations. As of December 31, 2020, right-of-use assets representing operating leases amounted to $3.6 million and have remaining lease terms of 1 to 10 years. As of December 31, 2020, the Company had no financing leases. As of December 31, 2019, right-of-use assets representing operating leases amounted to $3.0 million and have remaining lease terms of 1 to 10 years. As of December 31, 2019, the Company had no financing leases. Lease costs incurred were entirely operating lease costs which approximate rent payments being made. As of December 31, 2020, the weighted average term for operating leases is 7 years and the weighted average discount rate is 2.96%. As of December 31, 2019, the weighted average term for operating leases is 6 years and the weighted average discount rate is 3.11%. The following table displays the undiscounted cash flows due related to operating leases as of December 31, 2020, along with a reconciliation to the discounted amount recorded on the December 31, 2020 consolidated balance sheet (in thousands):

Undiscounted cash flows due within:	Operating Lease Payments
2021	$ 713
2022	689
2023	662
2024	607
2025	320
Thereafter	1,085
Total	$ 4,076
Impact of present value discount	(431)
Amount reported on balance sheet	$ 3,645

15. REGULATORY RESTRICTIONS

The Company's wholly owned subsidiary, the Bank, is subject to the Pennsylvania Banking Code which restricts the availability of surplus for dividend purposes. At December 31, 2020, surplus funds of $10.2 million were not available for dividends.

Included in "Cash and due from banks" are required federal reserves of $0 at December 31, 2020 and $1 million at December 31, 2019, for facilitating the implementation of monetary policy by the Federal Reserve System. The required reserves are computed by applying prescribed ratios to the classes of average deposit balances. These are held in the form of vault cash and a depository amount held with the Federal Reserve Bank.

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

16. REGULATORY CAPITAL REQUIREMENTS

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

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

The Company is subject to various capital requirements administered by the federal banking agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the company must meet specific capital guidelines that involve quantitative measures of the company's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgements by the regulators about components, risk weightings, and other factors. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements.

Quantitative measures established by regulation to ensure capital adequacy require the company to maintain minimum amounts and ratios (set forth in the table below) of Total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. For December 31, 2020 and December 31, 2019, the final Basel III rules require the Company to maintain minimum amounts of ratios of Common equity tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined). Additionally, under Basel III rules the decision was made to opt-out of including accumulated other comprehensive income in regulatory capital. As of December 31, 2020, and 2019, the FDIC categorized the Company and the Bank as well capitalized under the regulatory framework for prompt corrective action. To be classified as a well-capitalized financial institution, the Company must maintain minimum Total capital, Common equity tier 1 capital, Tier 1 capital, and Tier 1 leverage capital ratios as set forth in the table.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. REGULATORY CAPITAL REQUIREMENTS (Cont'd)

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

	2020					
	Actual		For Capital Adequacy Purposes		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)	$ 129,861	18.99 %	$ 54,711	8.00 %	$ 68,388	10.00 %
Common equity tier 1 capital (to risk-weighted assets)	$ 116,666	17.06 %	$ 30,775	4.50 %	$ 44,452	6.50 %
Tier 1 capital (to risk-weighted assets)	$ 122,666	17.94 %	$ 41,033	6.00 %	$ 54,711	8.00 %
Tier 1 capital (to average assets)	$ 122,666	10.34 %	$ 47,452	4.00 %	$ 59,315	5.00 %

	2019					
	Actual		For Capital Adequacy Purposes		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)	$ 124,837	20.25 %	$ 49,326	8.00 %	$ 61,658	10.00 %
Common equity tier 1 capital (to risk-weighted assets)	$ 111,992	18.16 %	$ 27,746	4.50 %	$ 40,078	6.50 %
Tier 1 capital (to risk-weighted assets)	$ 117,992	19.14 %	$ 36,995	6.00 %	$ 49,326	8.00 %
Tier 1 capital (to average assets)	$ 117,992	10.72 %	$ 44,038	4.00 %	$ 55,048	5.00 %

17. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for an asset or liability in an orderly transaction between market participants at the measurement date. The following three levels show the fair value hierarchy that prioritizes the use of inputs used in valuation methodologies.

Level I: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available. A contractually binding sales price also provides reliable evidence of fair value.

Level II: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; inputs to the valuation methodology include quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs to the valuation methodology that utilize model-based techniques for which all significant assumptions are observable in the market.

Level III: Inputs to the valuation methodology are unobservable and significant to the fair value measurement; inputs to the valuation methodology that utilize model-based techniques for which significant assumptions are not observable in the market; or inputs to the valuation methodology that require significant management judgment or estimation, some of which may be internally developed.

Management maximizes the use of observable inputs and minimizes the use of unobservable inputs when determining fair value measurements. Management reviews and updates the fair value hierarchy classifications of the Company's assets and liabilities on a quarterly basis.

The following tables present the assets reported on the Consolidated Balance Sheet at their fair value (in thousands) as of December 31, 2020 and 2019, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	December 31, 2020			
	Level I	Level II	Level III	Total
Assets:				
Investment securities available for sale, mutual fund and equity securities held				
Obligations of states and political subdivisions	$ —	$ 144,657	$ —	$ 144,657
Mortgage-backed securities in government-sponsored entities	—	160,770	—	160,770
Corporate bonds	—	11,274	—	11,274
Equity securities - mutual fund	501	—	—	501
Equity securities - financial institutions	7,845	—	—	7,845
Total	$ 8,346	$ 316,701	$ —	$ 325,047

	December 31, 2019			
	Level I	Level II	Level III	Total
Assets:				
Investment securities available for sale, mutual fund and equity securities held				
Obligations of states and political subdivisions	$ —	$ 126,053	$ —	$ 126,053
Mortgage-backed securities in government-sponsored entities	—	147,976	—	147,976
Corporate bonds	—	6,063	—	6,063
Equity securities - mutual fund	491	—	—	491
Equity securities - financial institutions	6,756	—	—	6,756
Total	$ 7,247	$ 280,092	$ —	$ 287,339

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. FAIR VALUE MEASUREMENTS (Cont'd)

Financial instruments are considered Level III when their values are determined using pricing models and discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. In addition to these unobservable inputs, the valuation models for Level III financial instruments typically also rely on a number of inputs that are readily observable either directly or indirectly. Level III financial instruments also include those for which the determination of fair value requires significant management judgment or estimation. The Company had no recurring Level III measurements during 2020 or 2019.

The following tables present the assets measured on a nonrecurring basis on the Consolidated Balance Sheet at their fair value as of December 31, 2020 and 2019, by level within the fair value hierarchy (in thousands):

	December 31, 2020			
	Level I	**Level II**	**Level III**	**Total**
Assets:				
Other real estate owned	**$ —**	**$ —**	**$ 13**	**$ 13**
Impaired loans	**—**	**—**	**639**	**639**
	$ —	**$ —**	**$ 652**	**$ 652**

	December 31, 2019			
	Level I	Level II	Level III	Total
Assets:				
Other real estate owned	$ —	$ —	$ 216	$ 216
Impaired loans	—	—	793	793
	$ —	$ —	$ 1,009	$ 1,009

Other real estate owned ("OREO") is carried at the lower of cost or fair value, which is measured at the foreclosure date. If the fair value of the collateral exceeds the carrying amount of the loan, no charge-off or adjustment is necessary, the loan is not considered to be carried at fair value, and is therefore not included in the table above. If the fair value of the collateral is less than the carrying amount of the loan, management will charge the loan down to its estimated realizable value. The fair value of OREO is based on the appraised value of the property, which is generally unadjusted by management and is based on comparable sales for similar properties in the same geographic region as the subject property, and is included in the above table as a Level II measurement. In some cases, management may adjust the appraised value due to the age of the appraisal, changes in market conditions, or observable deterioration of the property since the appraisal was completed. In these cases, the loans are categorized in the above table as level III measurement since these adjustments are considered to be unobservable inputs. Income and expenses from operations and further declines in the fair value of the collateral subsequent to foreclosure are included in net expenses from OREO.

The Company has measured impairment on impaired loans generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties. In some cases, management may adjust the appraised value due to the age of the appraisal, changes in market conditions, or observable deterioration of the property since the appraisal was completed. Additionally, management makes estimates about expected costs to sell the property which are also included in the net realizable value. If the fair value of the collateral dependent loan is less than the carrying amount of the loan a specific reserve for the loan is made in the allowance for loan losses or a charge-off is taken to reduce the loan to the fair value of the collateral (less estimated selling costs) and the loan is included in the table above as a level III measurement. If the fair value of the collateral exceeds the carrying amount of the loan, then the loan is not included in the table above as it is not currently being carried at its fair value. At December 31, 2020 and 2019, the fair values shown above exclude estimated selling costs of $8 thousand and $11 thousand, respectively.

The following tables present additional quantitative information about assets measured at fair value on a nonrecurring basis for which the Company uses Level III inputs to determine fair value (in thousands):

December 31, 2020	**Quantitative Information About Level III Fair Value Measurements**			
	Estimate	**Valuation Techniques**	**Unobservable Input**	**Average**
Assets:				
Other real estate owned	**$ 13**	Appraisal of collateral [1]	Appraisal adjustments [2]	73 %
			Liquidation expenses [2]	8 %
Impaired loans	**$ 639**	Fair value of collateral [1]	Appraisal adjustments [2]	25 %
			Liquidation expenses [2]	1 %

December 31, 2019	Quantitative Information About Level III Fair Value Measurements			
	Estimate	Valuation Techniques	Unobservable Input	Average
Assets:				
Other real estate owned	$ 216	Appraisal of collateral [1]	Appraisal adjustments [2]	42 %
			Liquidation expenses [2]	6 %
Impaired loans	$ 793	Fair value of collateral [1]	Appraisal adjustments [2]	25 %
			Liquidation expenses [2]	1 %

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level III inputs which are not identifiable.

(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range and weighted average of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. FAIR VALUE DISCLOSURE

The fair value of the Company's financial instruments not recorded at fair value on a recurring basis as of December 31 is as follows (in thousands):

	2020				
	Carrying Value	**Fair Value**	**Level I**	**Level II**	**Level III**
Financial assets:					
Investment securities held to maturity	**$ 232,983**	**$ 238,477**	**$ —**	**$ 238,477**	**$ —**
Net loans	**643,550**	**648,865**	**—**	**—**	**648,089**
Financial liabilities:					
Deposits	**$ 1,086,815**	**$ 1,090,949**	**$ 661,543**	**$ —**	**$ 429,406**
Other borrowed funds	**33,801**	**34,331**	**—**	**—**	**34,331**

	2019				
	Carrying Value	Fair Value	Level I	Level II	Level III
Financial assets:					
Investment securities held to maturity	$ 212,732	$ 214,625	$ —	$ 214,625	$ —
Net loans	569,927	567,860	—	—	567,860
Financial liabilities:					
Deposits	$ 948,989	$ 949,093	$ 519,381	$ —	$ 429,712
Other borrowed funds	33,101	33,170	—	—	33,170

For cash and due from banks, interest bearing deposits in banks, accrued interest receivable, FHLB stock, bank owned life insurance, short-term borrowings, and accrued interest payable, the carrying value is a reasonable estimate of fair value.

19. SUBSEQUENT EVENTS

Management has reviewed events occurring through February 26, 2021, the date the financial statements were issued and no other subsequent events occurred requiring accrual or disclosure.

20. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents the significant amounts reclassified out of accumulated other comprehensive income and the changes in accumulated other comprehensive income by component for the years ended December 31, 2020 and 2019 (in thousands):

	2020	2019	
	Net Unrealized Gains (Losses) on Investment Securities	Net Unrealized Gains (Losses) on Investment Securities	**Affected Line on the Consolidated Statement of Income**
Accumulated other comprehensive income (loss), beginning of year	**$ 2,991**	$ (5,927)	
Unrealized gain on available-for-sale securities	**6,804**	11,413	
Tax effect	**(1,428)**	(2,398)	
Net unrealized gain on available-for-sale securities	**5,376**	9,015	
Reclassification adjustment for available-for-sale gain realized in income	**(159)**	(123)	Gain on sale of debt and equity investments, net
Tax effect	**33**	26	Income tax expense
Reclassification adjustment for gain realized in income after tax	**(126)**	(97)	
Accumulated other comprehensive Income, end of year	**$ 8,241**	$ 2,991	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

21. PARENT COMPANY

Following are condensed financial statements for the parent company (in thousands):

CONDENSED BALANCE SHEET

	December 31, 2020	2019
ASSETS		
Cash in bank subsidiary	$ 595	$ 630
Investment securities available for sale held at fair value	2,724	3,105
Equity securities held at fair value	5,239	4,018
Investment in bank subsidiary	120,967	111,964
Investment in non-bank subsidiaries	1,846	1,734
Premises and equipment, net	504	485
Other assets	1,164	1,037
TOTAL ASSETS	$ 133,039	$ 122,973
LIABILITIES		
Long-term note payable	$ 6,186	$ 6,186
Other liabilities	1,557	1,415
TOTAL LIABILITIES	7,743	7,601
STOCKHOLDERS' EQUITY	125,296	115,372
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 133,039	$ 122,973

CONDENSED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

	Year Ended December 31, 2020	2019
INCOME		
Dividends from bank subsidiary	$ 5,037	$ 4,461
Dividends from non-bank subsidiary	49	35
Interest and dividends on investment securities	232	207
Partnership Income	5	3
(Loss) gain on equity securities change in fair value, net	(481)	848
TOTAL INCOME	4,842	5,554
EXPENSES		
Interest expense	244	340
Operating expenses	499	443
Income before income tax benefit	4,099	4,771
Income tax (benefit) expense	(224)	46
Income before equity in undistributed net income of subsidiaries	4,323	4,725
Equity in undistributed net income of subsidiaries	3,907	6,487
NET INCOME	$ 8,230	$ 11,212
COMPREHENSIVE INCOME	$ 13,480	$ 20,130

CONDENSED STATEMENT OF CASH FLOWS

	Year Ended December 31, 2020	2019
OPERATING ACTIVITIES		
Net income	$ 8,230	$ 11,212
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed net income of subsidiaries	(3,907)	(6,487)
Loss (gain) on equity securities change in fair value, net	481	(848)
Other, net	30	345
Net cash provided by operating activities	4,834	4,222
INVESTING ACTIVITIES		
Purchases of investment securities	(715)	(811)
Purchases of equity securities	(1,702)	(366)
Proceeds from maturities and paydowns	1,132	416
Purchases of premises and equipment	(28)	—
Net cash used for investing activities	(1,313)	(761)
FINANCING ACTIVITIES		
Dividends paid	(3,535)	(3,358)
Purchases of treasury stock	(85)	(125)
Proceeds from sales of treasury stock	64	126
Net cash used for financing activities	(3,556)	(3,357)
(Decrease) increase in cash	(35)	104
CASH AT BEGINNING OF YEAR	630	526
CASH AT END OF YEAR	$ 595	$ 630

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Management's discussion and analysis and related financial data are presented to assist in the understanding and evaluation of the financial condition and results of operations of 1ST SUMMIT BANCORP of Johnstown, Inc. (the "Company") and its main subsidiaries, 1ST SUMMIT BANK (the "Bank") and Cambria Thrift Consumer Discount Company ("Cambria") for the years ended December 31, 2020 and 2019. This section should be read in conjunction with the consolidated financial statements and related footnotes.

Sections of this financial review, as well as the notes to the consolidated financial statements, contain certain forward-looking statements which reflect management's beliefs and expectations based on information currently available and may contain the words "expect," "estimate," "anticipate," "should," "intend," "probability," "risk," "target," "objective," and similar expressions or variations on such expressions. These forward-looking statements are inherently subject to significant risks and uncertainties which could cause actual results to differ materially from those projected. Those risks and uncertainties include changes in interest rates, economic conditions, costs of opening new offices, and the ability to control costs and expenses. You should not place undue reliance on our forward-looking statements. Forward-looking statements speak only as of the date on which they were made. The Company undertakes no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances that arise after the date hereof.

RESULTS OF OPERATIONS - SUMMARY

Net income for the year was $8,230 thousand compared to $11,212 thousand for the year 2019. This represents a decrease of $2,982 thousand, or 26.6% below the prior year. Earnings per share for 2020 were $7.50, decreasing from $10.21 in 2019. The return on average assets for the year ended December 31, 2020, was 0.69% and 1.02% for the year ended December 31, 2019. The return on average equity for 2020, was 6.87%, and 10.57% for 2019.

The decrease in earnings was principally attributable to a tighter net interest margin, lower non-interest income, including securities gains and losses, and higher operating expenses. Net interest income totaled $30,853 thousand compared to $29,432 thousand in 2019. Net interest income increased as a result of $82.2 million more in average earning assets during 2020. The net interest margin, on a fully tax equivalent basis, for 2020 was 2.84% compared to 3.05% in 2019.

Other income for 2020, excluding gain on sale of debt and equity securities, net of $367 thousand and loss on equity securities change in fair value, net of $1,000 thousand was $5,133 thousand, a decrease of $171 thousand or 3.2% below 2019. This category of income decreased primarily due to lower service charges on deposit accounts and bank-owned life insurance income. While other income was down in total, wealth management income and bank card interchange income had increases of $207 thousand and $218 thousand, respectively. Gain on sale of debt and equity securities, net was $367 thousand compared to $125 thousand in 2019. Loss on equity securities change in fair value, net was $1,000 thousand compared to the gain of $1,180 thousand in 2019, a decrease of $2,180 thousand. This decrease was the result of the decreased value of our equity securities portfolio in 2020. Total other income represented 9.7% of total revenues in 2020 compared to 13.4% in 2019.

Other expenses totaled $24,560 thousand in 2020 compared to $22,672 thousand in 2019, an increase of $1,888 thousand or 8.3%. The higher expenses were principally due to higher salaries and benefits costs for additional hiring, higher occupancy, equipment, federal deposit insurance, data processing, and shares tax expense.

FINANCIAL CONDITION

Total Assets

Total assets at December 31, 2020 were $1.257 billion compared to $1.121 billion at December 31, 2019, an increase of $136.7 million or 12.2%. Net loans increased $73.6 million, while debt and equity securities increased by $57.9 million, cash and equivalents were up $3.3 million, and all other assets combined were up $1.9 million. This increase in assets was funded by deposit growth of $137.8 million, with a decrease in short-term debt of $13.1 million, an increase in other borrowed funds of $0.7 million, and an increase in stockholders' equity of $9.9 million.

Loans Receivable

The Company grants credit to commercial, consumer, and real estate customers with the view of serving the community's credit needs. Loan growth was broad based with commercial and industrial loans showing the greatest increase, as well as residential real estate, commercial real estate, construction, and consumer loans contributing to growth. Total loans receivable represented the most significant percentage of the Company's assets at 51.7% of total assets. This includes loans at both the Bank and Cambria. At December 31, 2020, total loans receivable were $649.9 million compared to $575.6 million at December 31, 2019, an increase of $74.3 million, or 12.9%.

Commercial loans consist principally of loans made to small and medium sized businesses within the Company's market and are usually secured by real estate and other assets of the borrower. Loans made under the Paycheck Protection Program ("PPP") totaled $39.6 million at December 31, 2020 and are included in this category. Commercial and commercial real estate loans combined, increased to $276.4 million at December 31, 2020, from $222.7 million in 2019, an increase of $53.7 million or 24.1%.

Residential real estate, which includes home equity lending, totaled $305.4 million at December 31, 2020 compared to $292.4 million at December 31, 2019. This increase of $13.0 million was net of payments and refinancing activity. In 2020, fixed rate mortgage products were preferred by customers and accounted for the majority of the lending activity.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Loans Receivable (Cont'd)

Construction loans, which include loans for real estate development along with residential construction, totaled $31.0 million at December 31, 2020 compared to $25.1 million at December 31, 2019, an increase of $5.9 million or 23.3%.

Consumer loans, which include loans to individuals for household, family, personal, and consumer autos increased to $37.1 million at December 31, 2020, up $1.7 million or 4.9%, from $35.4 million at December 31, 2019.

Non-Performing Assets and Allowance for Loan and Lease Losses

Non-performing assets consist of non-performing loans, (non-accrual and credits delinquent 90 days and over) real estate acquired through foreclosure, and non-performing investment securities. Commercial, real estate and consumer loans are generally placed on non-accrual status when interest is 90 days delinquent or when management ascertains that an obligor's financial condition renders collection of interest doubtful.

The Company's emphasis on asset quality as a key objective continued in 2020. Non-performing assets totaled $2.6 million, representing 0.21% of total assets at year-end 2020, compared to $3.2 million and 0.29% of assets at December 31, 2019.

Non-performing assets include loans of $2.5 million and foreclosed real estate of $0.1 million at December 31, 2020, compared to $2.9 million and $0.3 million, respectively, at December 31, 2019.

The allowance for loan and lease losses ("allowance") is a reserve to provide for possible loan portfolio losses. The allowance increased to $6.4 million, representing 0.98% of total loans at December 31, 2020 and totaled $5.6 million or 0.98% of total loans at December 31, 2019. The provision for loan losses ("provision") is an expense charged to earnings to fund the allowance. The provision of $1,811 thousand or 0.28% of loans during 2020 is higher as qualitative factors for economic trends were increased due to economic uncertainty relating to the pandemic. This compares with $618 thousand or 0.11% of loans during 2019. Net loan charge-offs in 2020 were $1,061 thousand or 0.17% of average loans compared to net loan charge-offs of $816 thousand or 0.15% of average loans in 2019.

Adequacy of the allowance for loan and lease losses is evaluated on a monthly basis. The evaluation includes, but is not restricted to, the composition of risks inherent in the loan portfolio, the analysis of impaired loans and a historical review of loans. The current allowance of $6.4 million at December 31, 2020 is deemed adequate and at 0.98% of loans, represents a favorable ratio. The reserve has increased 4.0% over the past five years.

The following table sets forth information relative to the Company's allowance for loan and lease losses on the indicated dates:

	(In thousands)				
Allowance for Loan and Lease Losses	**2020**	2019	2018	2017	2016
Allowance balance, January 1	**$ 5,645**	$ 5,843	$ 5,884	$ 6,328	$ 6,149
Charge-offs:					
Consumer	**(429)**	(273)	(288)	(459)	(393)
Residential real estate	**(62)**	(63)	(75)	(64)	(112)
Commercial and all other	**(716)**	(593)	(308)	(1,253)	(152)
Total charge-offs	**(1,207)**	(929)	(671)	(1,776)	(657)
Recoveries:					
Consumer	**80**	47	46	86	72
Residential real estate	**15**	4	—	12	3
Commercial and all other	**51**	62	139	3	10
Total recoveries	**146**	113	185	101	85
Provisions	**1,811**	618	445	1,231	751
Allowance balance, December 31	**$ 6,395**	$ 5,645	$ 5,843	$ 5,884	$ 6,328
Allowance for loan losses as a percent of total loans outstanding	**0.98%**	0.98%	1.08%	1.15%	1.27%
Net loans charged-off as a percent of average loans outstanding	**0.17%**	0.15%	0.09%	0.33%	0.12%

MANAGEMENT'S DISCUSSION AND ANALYSIS

Non-Performing Assets and Allowance for Loan and Lease Losses (Cont'd)

The following table sets forth information relative to non-accrual loans, non-performing loans and non-performing assets on the indicated dates:

	December 31, (In thousands)				
Non-Performing Assets	**2020**	2019	2018	2017	2016
Non-accrual loans:					
Consumer	**$ 132**	$ 139	$ 148	$ 185	$ 141
Residential real estate	**483**	516	720	73	218
Commercial and all other	**1,008**	452	966	851	69
Total non-accrual loans	**1,623**	1,107	1,834	1,109	428
Accruing loans which are contractually past due 90 days or more	**828**	1,791	1,213	1,070	1,848
Total non-performing loans	**2,451**	2,898	3,047	2,179	2,276
Foreclosed real estate	**128**	336	495	461	145
Non-performing investments	**—**	—	—	—	—
Total non-performing assets	**$2,579**	$3,234	$3,542	$2,640	$2,421
Non-performing loans to total loans	**0.38%**	0.50%	0.56%	0.43%	0.46%
Non-performing loans to total assets	**0.19%**	0.26%	0.28%	0.21%	0.23%
Non-performing assets to total assets	**0.21%**	0.29%	0.33%	0.25%	0.24%

Securities

The securities portfolio consists principally of issues of United States Government agencies, including mortgage-backed securities, municipal obligations, corporate debt, and equity securities of other financial institutions. The Company classifies its investments in three categories at the time of purchase as held to maturity ("HTM"), available for sale ("AFS"), and equity securities. The Company does not have a trading account. Securities classified as HTM are those in which the Company has the ability and intent to hold the security until contractual maturity. At December 31, 2020, the HTM portfolio totaled $233.0 million and consisted of longer-term municipal obligations, U.S. Government agencies, and mortgage-backed securities. Securities classified as AFS are eligible to be sold due to liquidity needs or interest rate risk management. These securities are adjusted to and carried at their fair value with any unrealized gains or losses, net of tax, recorded in the equity section of the consolidated balance sheet as accumulated other comprehensive income. At December 31, 2020, $316.7 million in securities were so classified and carried at their fair value, with unrealized gains, net of tax of $8.2 million, included in accumulated other comprehensive income in stockholders' equity. Equity securities are adjusted to and carried at their fair value with any changes in fair value recorded as gains or losses in income. At December 31, 2020, equity securities were $8.3 million.

At December 31, 2020, the average life of the portfolio was 3.5 years compared to 4.7 years at the prior year end. The decrease was principally due to the purchase of shorter-term amortizing securities, coupled with natural amortization in the portfolio. Total purchases for the year were $199.0 million, securities matured or called with cash flows of $130.1 million, and securities sales of $14.1 million. The purchases were funded principally by cash flow from the portfolio and deposit growth.

At December 31, 2020, the Company's securities portfolio (HTM, AFS, and equities) totaled $558.0 million with the mix as follows: U. S. Government agencies 2.3%, mortgage-backed securities 58.9%, municipal obligations 35.2%, corporate obligations, equity securities of other financial institutions, and mutual funds combined 3.5%. The portfolio contained no structured notes, step-up bonds, and no off-balance sheet derivatives were in use. The portfolio totaled $500.1 million at December 31, 2019.

Deposits

The Company provides a complete range of deposit products to its customers through the Bank's sixteen community offices. These products include interest-bearing and noninterest-bearing demand deposit accounts, statement savings, and money market accounts. Time deposits consist of certificates of deposit with terms of up to ten years and include individual retirement accounts.

Deposits, the main source of funding for the Company, grew $137.8 million or 14.5% to a year-end total of $1,087 million. In 2020, the interest-bearing checking deposit category showed the most significant growth. As of December 31, 2020, the Company's interest-bearing checking deposits increased $45.5 million, or 21.0% to $261.9 million. Money market deposits totaled $141.9 million, increasing $38.7 million from the prior year. In addition, noninterest-bearing checking deposits totaled $102.5 million, increasing $35.4 million from the prior year, while savings accounts totaled $155.3 million, increasing $22.6 million from the prior year. Time deposits totaled $425.3 million, decreasing $4.3 million from the prior year. Time deposits of $250,000 or more, which include public funds, were $88.3 million at December 31, 2020, compared with $72.5 million at year end 2019. These deposits are usually subject to competitive bids and the Company bases its bids on current interest rates, loan demand, and the relative cost of other funding sources.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Interest Rate Risk

Interest rate sensitivity and market risk of assets and liabilities are managed by the Asset and Liability Management Committee. The principal objective of the committee is to maximize net interest income within acceptable levels of risk which are established by policy. Interest rate risk is monitored and managed by using financial modeling techniques to measure the impact of changes in interest rates.

Net interest income, which is the primary source of the Company's earnings, is impacted by changes in interest rates. To manage the impact of interest rate changes, the balance sheet must be structured so that repricing opportunities exist for both assets and liabilities at approximately the same time intervals. An imbalance in repricing opportunities at a given point in time reflects interest rate sensitivity gaps measured as the difference between rate-sensitive assets and rate-sensitive liabilities. These are static gap measurements used as early indicators of potential interest rate risk exposures over specific intervals. At December 31, 2020, the rate sensitivity gaps for specific intervals were within the Company's policy thresholds.

The Company also uses net interest income simulation to assist in interest rate risk management. The process includes simulating various interest rate scenarios and their respective impact on net interest income. It is assumed that a change in rates is instantaneous and that all rates move in a parallel manner. Assumptions are also made concerning prepayment speeds on loans and securities. While management believes such assumptions to be reasonable, there can be no assurance that modeled results will approximate actual results. The following is a rate shock for a twelve-month period, assuming a static balance sheet as of December 31, 2020:

Parallel rate shock in basis points	-200	-100	+100	+200	+300
Net interest income change (in thousands):	$(1,197)	$(852)	$2,379	$3,487	$3,969
Percentage change from static	(4.4)%	(3.1)%	8.7%	12.7%	14.4%

At December 31, 2020, the level of net interest income at risk in all scenarios was within the Company's policy threshold.

The Company also projects future cash flows from assets and liabilities over a long-term horizon and then discounts these cash flows using instantaneous parallel shocks to interest rates. The aggregation of these discounted cash flows is the Economic Value of Equity ("EVE"). At December 31, 2020, the EVE at risk in all scenarios was within the Company's policy threshold.

Liquidity

Liquidity can be viewed as the ability to fund customers' borrowing needs and withdrawal requests while supporting asset growth. The Company's primary sources of liquidity include deposit generation and cash flow from asset maturities and securities repayments.

At December 31, 2020, the Company had cash and cash equivalents of $12.2 million in the form of cash, due from banks, and short-term interest-bearing deposits with other institutions. In addition, the Company had securities available for sale of $316.7 million which could be used for liquidity needs. Cash and securities available for sale totaled $328.9 million and represented 26.2% of total assets compared to 25.8% of total assets at December 31, 2019. The Company also monitors other liquidity measures, all of which were well within the Company's policy guidelines at December 31, 2020. The Company believes its liquidity position is adequate.

The Company maintains established lines of credit with the Federal Home Loan Bank ("FHLB") of Pittsburgh and other correspondent banks which support liquidity needs. The approximate borrowing capacity from the FHLB was $293.6 million. At December 31, 2020, the Company had $17.0 million in borrowings from the FHLB, which is $13.1 million lower than at December 31, 2019.

Off-Balance Sheet Arrangements

The Company's financial statements do not reflect various commitments that are made in the normal course of business which may involve some liquidity risk. These commitments consist primarily of unfunded loans, standby letters of credit, and financial guarantees made under the same standards as on-balance sheet instruments. Unused commitments at December 31, 2020 totaled $146.2 million and consisted of $142.8 million of unfunded loans and $3.4 million in standby letters of credit and financial guarantees. Since these instruments generally have fixed expiration dates within one year of their original origination, and because many of them will expire without being drawn upon, they do not present significant liquidity risk.

Management believes any amounts actually drawn upon can be funded in the normal course of operations. The Company has no investment in, or financial relationship with, any unconsolidated entities that are reasonably likely to have a material effect on liquidity or the availability of capital resources.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Contractual Obligations

The following table represents the aggregate on- and off-balance sheet contractual obligations to make future payments:

	December 31, 2020 (In thousands)				
	Less Than 1 Year	1-3 Years	4-5 Years	Over 5 Years	Total
Time deposits	$248,360	$162,136	$ 14,541	$ 235	$425,272
Short- and long-term debt	2,166	14,794	10,655	6,186	33,801
Operating leases	713	1,351	927	1,085	4,076
	$251,239	$178,281	$ 26,123	$ 7,506	$463,149

The Company is not aware of any known trends, demands, commitments, events, or uncertainties which would result in any material increase or decrease in liquidity.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income is the difference between income earned on loans and securities and interest paid on deposits and borrowings. For the year ended December 31, 2020, net interest income was $30,853 thousand, an increase of $1,421 thousand or 4.8% over 2019. The resulting interest spread, on a fully tax equivalent basis, for 2020 was 2.84% compared to 3.05% in 2019.

Interest income for the year ended December 31, 2020 totaled $41,924 thousand compared to $42,754 thousand in 2019. The decrease of $830 thousand was principally due to lower yields on earning assets partially offset by a significantly higher level of earning assets during the year. On average, loans represented 54.6% of earning assets, compared to 53.1% in 2019. Investment securities represented 45.2% of average earning assets in 2020, compared to 46.8% in 2019. Average federal funds sold and interest-bearing balances represented 0.3% in 2020 and 0.1% in 2019.

Interest income earned on loans totaled $29,722 thousand in 2020, with a yield of 4.80% on a fully tax equivalent basis, increasing from $29,236 thousand in 2019, with a yield of 5.23% on a fully tax equivalent basis. The decrease in yield was applicable to lower reinvestment rates on loans for the year with an average prime rate of 3.54% in 2020 and 5.28% in 2019. Loans averaged $622.1 million in 2020, compared to $561.9 million in 2019.

Securities averaged $514.8 million in 2020 with interest income of $12,080 thousand and a fully tax equivalent yield of 2.64%, compared to $495.5 million, $13,352 thousand and 3.00%, respectively, in 2019. The decrease in yield was principally due to lower long-term interest rates in 2020 with more investment income from tax-exempt municipal obligations. Principal cash flow from securities was reinvested in mortgage-backed securities, U.S. Government agency securities, and tax-exempt municipal obligations.

Interest expense for the year ended December 31, 2020, totaled $11,071 thousand decreasing from $13,322 thousand in 2019. The Company's cost of interest-bearing deposits decreased to 1.07% from 1.21% in 2019. The average cost of interest-bearing liabilities in 2020 was 1.14%, a decrease of 18 basis points from 1.32% in 2019.

Other Income

The following table shows other income by selected categories:

	Year Ended December 31, (In thousands)	
Other Income	2020	2019
Service charges and fees on deposit accounts	$ 1,506	$ 2,064
Fiduciary activities	798	701
Mutual funds and annuities	639	529
Bank-owned life insurance income	261	292
Debit/check card income	1,284	1,020
Credit card income	312	358
Other income	333	340
Subtotal	5,133	5,304
Gain on sale of debt and equity investment securities, net	367	125
Loss (gain) on equity securities change in fair value, net	(1,000)	1,180
Total	$ 4,500	$ 6,609

Other income totaled $4,500 thousand in 2020, a decrease of $2,109 thousand from $6,609 thousand in 2019. Other income is revenue derived from sources other than interest and dividends. Excluding net (loss) gain on equity securities change in fair value of $(1,000) thousand in 2020 and $1,180 thousand in 2019 and net gain on sale of debt and equity investment securities of $367 thousand in 2020 and $125 thousand in 2019, other income for the year was $5,133 thousand, compared to $5,304 thousand, a decrease of $171 thousand or 3.2%.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Other Income (Cont'd)

Service charge income and fees on deposit accounts were $1,506 thousand in 2020 and $2,064 thousand in 2019. Deposit accounts include Consumer "Club" and "NOW" accounts, No Frills checking, Regular checking, Prime Timers' checking, Business Regular checking and Business interest-bearing checking accounts. The decrease in income was a result of more fees being waived due to the pandemic along with fewer customers using our special overdraft privilege service.

Wealth management income of $1,437 thousand in 2020 was a 16.8% increase from $1,230 thousand in 2019. This includes trust department income, mutual fund fees and discount brokerage fees. Income from trust department activities was $798 thousand in 2020, compared to $701 thousand in 2019, with the increase principally due to more estate activity in 2020. Commissions on sales of annuities and mutual funds were $639 thousand on sales of $17.9 million in 2020, increasing from revenues of $529 thousand on sales of $12.8 million in 2019. Brokerage fees were not significant in 2020 or 2019.

Income on bank-owned life insurance was $261 thousand in 2020 and $292 thousand in 2019. The Bank implemented this program in the second quarter of 2004 where key officers are granted life insurance coverage, with the Bank and the officers' beneficiaries to receive insurance proceeds through these split dollar policies.

Debit card income was $1,284 thousand in 2020, an increase of $264 thousand, compared with $1,020 thousand in 2019. This revenue source was a result of customers transacting business with VISA® merchants.

Credit card fees decreased to $312 thousand from $358 thousand in 2019, a 12.8% decrease attributed to decreased merchant activity.

The balance of other income, $333 thousand, down from $340 thousand was comprised primarily of revenues received from title insurance, credit life/accident and health insurance, stop payments, safe deposit box rents, and secondary market activity.

The Company had (losses) gains on equity securities change in fair value, net of $(1,000) thousand in 2020 compared to $1,180 thousand in 2019. This revenue was from the change in the fair value of equity securities held. Gains on sales of debt and equity securities was $367 thousand in 2020, compared to $125 thousand in 2019. This revenue was from the sale of selected equity holdings of other financial institutions and selected bonds from the investment portfolio.

The Company had no impairment losses in 2020 or 2019. Securities are evaluated quarterly to determine if a decline in value is other than temporary. Once a decline in value is determined to be other than temporary, the amount of credit loss is charged to earnings. Any remaining difference between fair value and amortized cost is recognized in other comprehensive income.

Other Expense

The following table shows other expense by selected categories:

	Year Ended December 31, (In thousands)	
Other Expense	**2020**	2019
Salaries and employee benefits	**$14,208**	$ 13,023
Occupancy expense	**1,884**	1,704
Equipment expense	**1,705**	1,503
Federal depository insurance expense	**186**	142
Data processing expense	**956**	892
Pennsylvania shares tax expense	**1,121**	907
Donations expense	**252**	237
Other operating expense	**4,248**	4,264
Total	**$24,560**	$ 22,672

Other expense totaled $24,560 thousand in 2020, an increase of $1,888 thousand or 8.3% over $22,672 thousand in 2019. Salaries and employee benefit costs, which represented 57.9% of total other expense, were $14,208 thousand for 2020, an increase of $1,185 thousand or 9.1%. Occupancy expense increased $180 thousand or 10.6% in 2020. Equipment expense increased $202 thousand or 13.4% in 2020. Federal depository insurance expense increased 31.0% to $186 thousand in 2020. Data processing expense was up 7.2% to $956 thousand in 2020. Pennsylvania shares tax expense, a tax levied on the book value of shares of stock in banks and trust companies that conduct business in Pennsylvania, increased $214 thousand or 23.6% in 2020 to $1,121 thousand. Donations expense increased $15 thousand or 6.3% in 2020 to $252 thousand. Other operating expense was $4,248 thousand for 2020, a decrease of $16 thousand or 0.4%. This other operating expense category includes a wide array of operating expenses.

Income Taxes

Federal income tax expense in 2020 was $752 thousand with an effective tax rate of 8.4%, compared to expense of $1,539 thousand, with an effective tax rate of 12.1% in 2019. The decrease in the effective tax rate was primarily due to lower levels of taxable income and higher levels of tax-free income from municipal obligations and bank-owned life insurance.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Stockholders' Equity

Total stockholders' equity at December 31, 2020 was $125,296 thousand compared to $115,372 thousand at December 31, 2019. Excluding accumulated other comprehensive income, total stockholders' equity was $117,055 thousand in 2020 and $112,381 thousand in 2019, a 4.2% increase.

Book value of the common stock was $114.13 per share at December 31, 2020 compared to $105.11 per share at December 31, 2019. At year-end 2020, the market price was $132.50 per share, compared to $129.00 at December 31, 2019.

At December 31, 2020, the Company had a Total risk-based capital ratio of 18.99%, Common equity tier 1 risk-based capital ratio of 17.06%, Tier 1 risk-based capital ratio of 17.94%, and Tier 1 leverage capital ratio of 10.34%, compared to a Total risk-based capital ratio of 20.25%, Common equity tier 1 risk-based capital ratio of 18.16%, Tier 1 risk-based capital ratio of 19.14%, and Tier 1 leverage capital ratio of 10.72%, for 2019. The Bank was considered well capitalized under the regulatory framework for prompt corrective action. To be considered well capitalized, the Bank must maintain minimum Total risk-based capital, Common equity tier 1 risk-based capital, Tier 1 risk-based capital, and Tier 1 leverage ratios as set forth in the table below:

Ratios	Actual	To Be Considered Well Capitalized	Minimum Required
		At December 31, 2020	
Total capital to risk-weighted assets	**18.99%**	**10.00%**	**8.00%**
Common equity tier 1 capital to risk-weighted assets	**17.06%**	**6.50%**	**4.50%**
Tier 1 capital to risk-weighted assets	**17.94%**	**8.00%**	**6.00%**
Tier 1 leverage ratio	**10.34%**	**5.00%**	**4.00%**
		At December 31, 2019	
Total capital to risk-weighted assets	20.25%	10.00%	8.00%
Common equity tier 1 capital to risk-weighted assets	18.16%	6.50%	4.50%
Tier 1 capital to risk-weighted assets	19.14%	8.00%	6.00%
Tier 1 leverage ratio	10.72%	5.00%	4.00%

SUMMARY OF QUARTERLY FINANCIAL DATA

Unaudited quarterly results

(In thousands, except share data)	First	Second	Third	Fourth
2020				
CONDENSED INCOME STATEMENT				
Interest income	**$ 10,655**	**$ 10,360**	**$ 10,371**	**$ 10,538**
Interest expense	**3,209**	**2,858**	**2,842**	**2,162**
Net interest income	**7,446**	**7,502**	**7,529**	**8,376**
Provision for loan and lease losses	**227**	**400**	**417**	**767**
Net interest income after provision	**7,219**	**7,102**	**7,112**	**7,609**
Other income	**1,317**	**1,116**	**1,341**	**1,359**
Gain on sale of debt and equity securities, net	**14**	**112**	**241**	**—**
Gain (loss) on equity securities change in fair value, net	**(2,153)**	**194**	**(238)**	**1,197**
Noninterest expense	**5,999**	**5,902**	**6,156**	**6,503**
Income before income taxes	**398**	**2,622**	**2,300**	**3,662**
Applicable income taxes	**(196)**	**165**	**327**	**456**
Net income	**$ 594**	**$ 2,457**	**$ 1,973**	**$ 3,206**
PER COMMON SHARE				
Net income	**$ 0.54**	**$ 2.24**	**$ 1.80**	**$ 2.92**
Dividends paid	**$ 0.80**	**$ 0.80**	**$ 0.80**	**$ 0.82**
Market price	**$ 130.00**	**$ 130.00**	**$ 132.50**	**$ 132.50**

2019				
CONDENSED INCOME STATEMENT				
Interest income	$ 10,519	$ 10,756	$ 10,822	$ 10,657
Interest expense	3,177	3,378	3,449	3,318
Net interest income	7,342	7,378	7,373	7,339
Provision for loan and lease losses	82	126	187	223
Net interest income after provision	7,260	7,252	7,186	7,116
Other income	1,272	1,402	1,349	1,281
Gain on sale of debt and equity securities, net	43	—	82	—
Gain (loss) on equity securities change in fair value, net	180	205	11	784
Noninterest expense	5,564	5,737	5,585	5,786
Income before income taxes	3,191	3,122	3,043	3,395
Applicable income taxes	372	395	367	405
Net income	$ 2,819	$ 2,727	$ 2,676	$ 2,990
PER COMMON SHARE				
Net income	$ 2.57	$ 2.48	$ 2.44	$ 2.72
Dividends paid	$ 0.74	$ 0.75	$ 0.77	$ 0.80
Market price	$ 125.00	$ 125.00	$ 128.00	$ 129.00

SELECTED FINANCIAL DATA

(In thousands, except share data)

BALANCE SHEET	2020	2019	2018	2017	2016	2015
ASSETS						
Cash and cash equivalents	**$ 12,214**	$ 8,910	$ 11,912	$ 8,503	$ 20,821	$ 8,785
Investment securities	**558,030**	500,071	488,684	491,069	448,897	437,253
Loans	**649,945**	575,572	541,203	511,448	498,340	474,719
Allowance for loan losses	**6,395**	5,645	5,843	5,884	6,328	6,149
Net loans	**643,550**	569,927	535,360	505,564	492,012	468,570
Fixed assets	**12,574**	11,738	9,517	9,671	9,895	8,804
Other assets	**31,070**	30,048	27,802	26,206	25,294	25,224
TOTAL ASSETS	**$1,257,438**	$ 1,120,694	$ 1,073,275	$ 1,041,013	$ 996,919	$ 948,636
LIABILITIES AND STOCKHOLDERS' EQUITY						
Deposits	**$1,086,815**	$ 948,989	$ 930,034	$ 908,751	$ 867,066	$ 816,022
Borrowed funds	**33,801**	46,233	38,420	31,176	35,393	43,256
Other liabilities	**11,526**	10,100	6,222	5,992	6,130	5,891
Total stockholders' equity	**125,296**	115,372	98,599	95,094	88,330	83,467
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$1,257,438**	$ 1,120,694	$ 1,073,275	$ 1,041,013	$ 996,919	$ 948,636

STATEMENT OF INCOME	2020	2019	2018	2017	2016	2015
Total interest income	**$ 41,924**	$ 42,754	$ 39,822	$ 36,905	$ 35,198	$ 34,771
Total interest expense	**11,071**	13,322	10,601	8,530	8,200	8,107
Net interest income	**30,853**	29,432	29,221	28,375	26,998	26,664
Provision for loan losses	**1,811**	618	445	1,232	751	1,702
Net interest income after provision	**29,042**	28,814	28,776	27,143	26,247	24,962
Other income	**5,133**	5,304	5,032	5,113	4,799	4,551
Gain on sale of debt and equity securities, net	**367**	125	186	2,495	1,666	2,714
Gain (loss) on equity securities change in fair value, net	**(1,000)**	1,180	(534)	—	—	—
Noninterest expense	**24,560**	22,672	21,240	20,884	19,601	19,309
Income before income taxes	**8,982**	12,751	12,220	13,867	13,111	12,918
Income tax expense	**752**	1,539	1,470	3,975	2,975	3,008
NET INCOME	**$ 8,230**	$ 11,212	$ 10,750	$ 9,892	$ 10,136	$ 9,910
PER SHARE DATA						
Net income	**$ 7.50**	$ 10.21	$ 9.79	$ 9.01	$ 9.22	$ 9.02
Cash dividend	**$ 3.22**	$ 3.06	$ 2.88	$ 2.63	$ 2.39	$ 2.23
Book value	**$ 114.13**	$ 105.11	$ 89.81	$ 86.57	$ 80.36	$ 76.00
Market value	**$ 132.50**	$ 129.00	$ 123.00	$ 113.00	$ 104.00	$ 96.00
Average shares outstanding	**1,097,835**	1,097,669	1,097,888	1,098,418	1,099,177	1,098,277

Shareholder Information

Annual Meeting

The Annual Meeting of the Shareholders of 1ST SUMMIT BANCORP of Johnstown, Inc. will be held at 3:00 pm on Wednesday, April 21, 2021. It will again be a virtual meeting by telephone conference, the same as the 2020 Annual Meeting. To participate in the meeting, please reference the enclosed instruction letter. We encourage your attendance and look forward to sharing our continued success with you.

Stock Information

1ST SUMMIT BANCORP of Johnstown, Inc. common stock is traded on OTC Pink under the symbol "FSMK". If you are interested in buying or selling stock, we provide a free service to match buyers and sellers, on a bid basis, at no cost. Requests for information or assistance should be directed to Annette Rose at 814-262-4043 or by mail to Shareholder Relations, 1ST SUMMIT BANCORP, PO Box 5480, Johnstown, PA 15904.

DIvidend Calendar

1ST SUMMIT BANCORP issues a quarterly dividend payment, it will be paid on or about March 15, June 15, September 15, and December 15.

Transfer Agent

1ST SUMMIT BANK Trust Department
PO Box 5480, Johnstown, PA 15904 | 814-262-4043 or 814-262-4141

Acknowledgments

A special thanks to the following professionals who assisted in the production of this report: Carol Myers, Karen Mento, Lori Baumgardner, CambriArts Advertising.

Subsidiaries

1ST SUMMIT BANK
Member FDIC

Main Office

125 Donald Lane, PO Box 5480 , Johnstown, Pennsylvania 15904
814-262-4010 | 888-262-4010 | www.1stsummit.bank

17 Community Offices

Serving Cambria, Somerset, Indiana, Blair, and Westmoreland counties.

Cambria Thrift
Consumer Discount Company

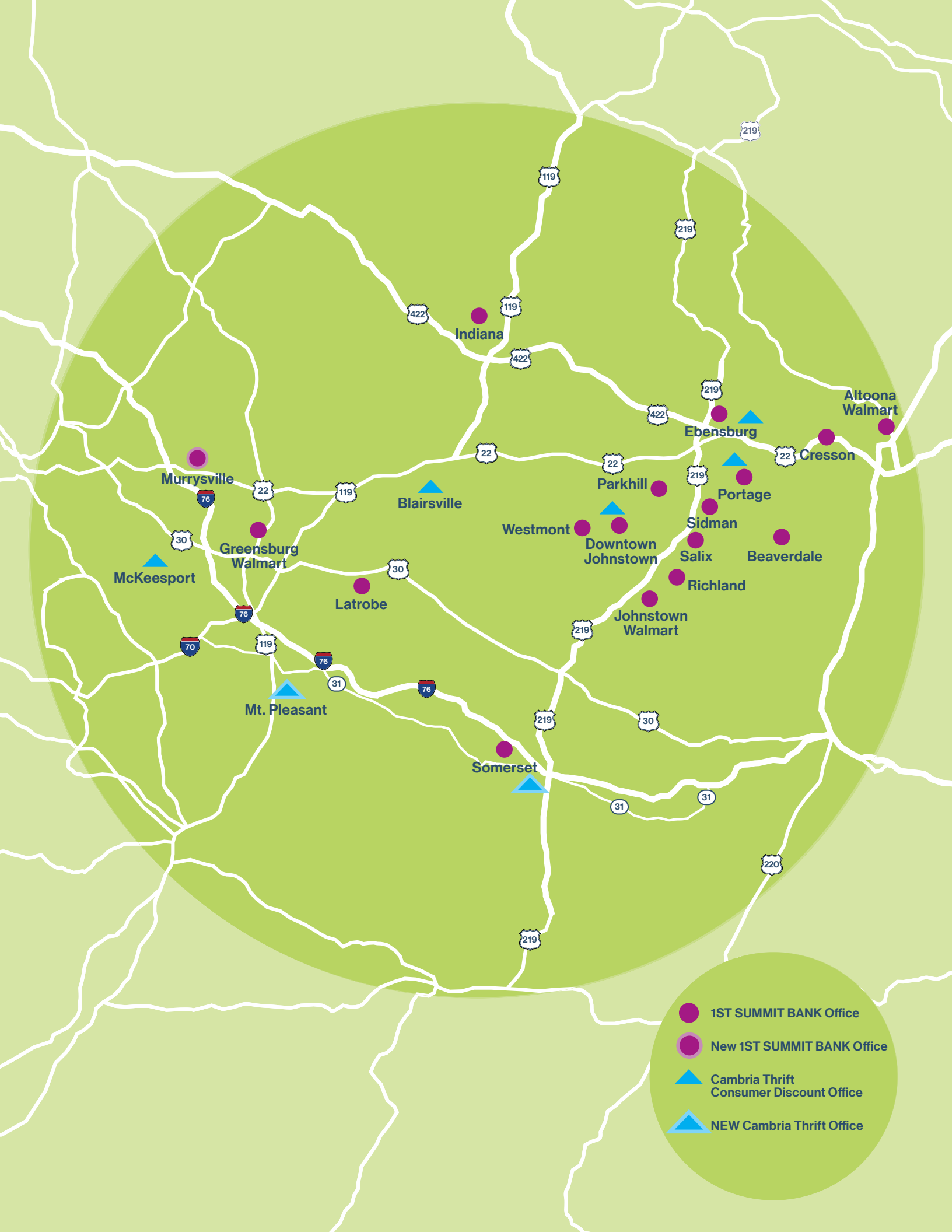
Main Office

123 West High Street, Ebensburg, Pennsylvania 15931
814-472-9300 | www.loansforallreasons.com

7 Community Offices

Serving Cambria, Indiana, Somerset, Allegheny, and Westmoreland counties.

Licensed by the PA Department of Banking #21976


Indiana
Murrysville
Greensburg Walmart
McKeesport
Blairsville
Latrobe
Mt. Pleasant
Somerset
Westmont
Downtown Johnstown
Parkhill
Ebensburg
Portage
Sidman
Salix
Richland
Johnstown Walmart
Beaverdale
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