ANNUAL REPORT

HONAT BANCORP, INC.

2021

HNB

LOCATIONS

Personal Banking • Business Banking • Wealth Management

Consolidated Financial Report

December 31, 2021
Honat Bancorp, Inc. and its Subsidiary,
The Honesdale National Bank
1836-2021

Table of Contents

MESSAGE FROM THE PRESIDENT

185 Years and Counting

The Honesdale National Bank proudly marked its 185th anniversary in 2021 and a memorable milestone it was. 2021 was to be the year of great expectations and even celebration; however, the unexpected events of the pandemic have continued to confront us. As a population, we have worked tirelessly to come to terms with the best way to deal with these challenges.

We commend the efforts of essential workers throughout the country and especially those in our local communities that have persevered to provide services. Likewise, our staff stepped up to do what was needed. Our Board of Directors has once again shown their dedication to doing the right thing through their focus on balancing the interests of the bank and our communities with the safety of our staff and customers. Times continue to change. We are very proud of our past. It is our foundation and reflective of the challenges we have successfully overcome, but most importantly, it is a source of inspiration to continue improving.

Transition and Transformation

You may call it a tradition of transition and transformation. In practice, our adaptiveness has enabled the support and resurgence of local businesses. A concerted focus on helping these business owners and others throughout our footprint "get back to business" showcased the power of our 185-year strong values. While overall loan growth was relatively flat on the surface, a high level of activity and variety of factors contributed to that metric. First and foremost, we take great pride in the benefits we help to create for the community by servicing local loan demand. Focused on fulfilling current and future needs of the area, our bankers wove themselves deeply into the threads of our communities to complete nearly 600 unique business calls in a short eight-week blitz while minding health and safety protocols.

These tactics, in conjunction with ongoing efforts, resulted in our best year for commercial loan production in the Bank's history, achieving growth of 15.2%. The importance of this achievement is compounded as it offset runoff from the Paycheck Protection Program (PPP). The team worked feverishly to support these customers to ensure their eligibility for forgiveness was upheld. These efforts are truly indicative of the values on which the Bank was built. They have enabled area businesses to continue to rebound and have forged new and promising relationships.

The commercial loan growth and home equity loan production also counter-balanced refinancing activity experienced by our mortgage portfolio as rates continued at historic lows. As adaptive as we are to the conditions and rate environments at hand, our asset quality remained solid and the rock upon which we build.

As businesses and consumers still reconciled with stimulus cash infusions and shifting economic and pandemic paradigms, HNB's deposit levels grew an incredible 19%. The increase in deposit levels was something that the Bank and our customers certainly aimed to put to work. We found many customers focusing their interests in managing and protecting their financial futures through the services of the HNB Financial Group.

The Trust Division achieved a record 20% in revenue growth. The variables at hand truly had a transformative impact on the mindset of our customers. These teams furthermore shared that mindset and channeled it to continue to improve our service offerings and internal structures to maximize returns for all.

Organizations in Motion Stay in Motion

Our existence today is a testament to our history of innovating to uphold the needs of our customers. Our occasional limitations on being able to engage with them in person continues to transition their and our focus on digital, self-service support options. As we continuously work to improve these offerings, we aim to provide the same, personable, and reliable support that HNB is known for. The *HNB & me* relationship is the value that defines our approach and fuels our progress. We remain very fortunate to have a team that holds this standard close to their heart.

The year was capped of course with one other transition – my return to the role of President and CEO with David Raven's retirement. The excellent job done by Dave and all our staff has resulted in our growth in assets and income to new all-time highs. In thanks to these strengths and steadfast abilities, this "transition" has been very smooth. Our commitments remain focused, our service level steady and our sights set on continuous improvement. We are proud of our past but look forward to our future. Will HNB continue to transform? Absolutely. That is something our extended HNB family can always count on. A mission unchanged, but our delivery always in motion. You, our shareholders, can also continue to count on our Board and staff's commitment to supporting the impact community banking practices such as ours have on the prosperity of our region.

Here's to many more anniversaries to come…

Thomas E. Sheridan Jr

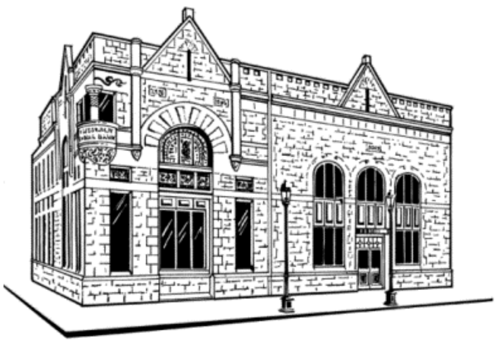
Thomas E. Sheridan, Jr. | President & CEO

FINANCIAL HIGHLIGHTS

	2021	2020	Net Change
	(In Thousands, Except per Share and Ratio Data)		
Assets, Liabilities & Equity			
Total Assets	$ 945,107	$ 811,908	$ 133,199
Loans, Net of Allowance	549,100	549,597	(497)
Total Deposits	815,183	687,520	127,663
Total Shareholder Equity	119,312	112,596	6,716
Income & Expense			
Interest Income	$ 28,985	$ 29,297	$ (312)
Interest Expense	1,304	2,825	(1,521)
Net Income	10,925	9,382	1,543
Per Share Data			
Book Value per Share	$ 82.21	$ 77.49	$ 4.72
Earnings per Share	$ 7.54	$ 6.41	$ 1.13
Cash Dividend per Share	$ 2.06	$ 1.86	$ 0.20
Market Value per Share	$ 128.00	$ 119.80	$ 8.20
Select Ratios			
Return on Average Assets	1.24%	1.23%	
Return on Average Equity	9.39%	8.70%	
Loans, Net to Deposits	67.36%	79.94%	
Allowance for Loan Losses to Total Loans	1.90%	1.82%	

COMPANY OVERVIEW AND TIMELINE

Company Overview



Honat Bancorp, Inc. (HONT: US OTC) is the parent company of its wholly owned subsidiary, The Honesdale National Bank. Headquartered in Honesdale, Pennsylvania, we strive to achieve unparalleled levels of financial performance through superior service in meeting our customers' personal banking, business banking and wealth management needs while acting in the best interest of our employees, our customers, our communities and our shareholders.

The Honesdale National Bank (HNB), established in 1836, holds the distinction of being the area's oldest, independent, community bank headquartered in Northeastern Pennsylvania, with twelve full-service offices across Wayne, Pike, Susquehanna, Lackawanna and Luzerne Counties. Financial Services and Trust solutions for our customers are also serviced through our HNB Financial Group headquartered in Honesdale and the HNB Mortgage Center headquartered in Wilkes-Barre, Pennsylvania.

Timeline

1836 Honesdale Bank opens at 1011 Main Street, Honesdale, PA on December 26.

1851 The Bank relocates to a new building at 10th & Main Streets, Honesdale, PA.

1864 National currency and banking system established and the Bank begins operations under The Honesdale National Bank (HNB).

1886 HNB celebrates its 50th anniversary.

1896 Main Street Office relocates to new building and present location at 733 Main Street, Honesdale, PA.

1914 HNB joins the Federal Reserve System.

1917 Alice Ward becomes the first female employee of HNB.

1929 During the Great Depression as other banks close or suspend operations, HNB continues to serve the community, even paying a dividend.

1934 HNB deposits insured by the new FDIC up to $2,500.

1936 HNB celebrates its 100th anniversary.

1957 *Bank Lobby Renovation:* The wooden teller cages of the past are removed and a new lobby floor with a customer service area installed.

1962 Erected as a public service, the time and temperature sign on the corner of 8th & Main Streets is installed in Honesdale. It has become a familiar landmark for visitors and residents alike.

1968 TV Auto Bank Drive-In Banking System opens on September 12. The system included closed circuit TV, voice communication and a pneumatic tube system linking the bank and Drive-Up lanes through a tunnel under Main Street – the first such service in the area.

1974 HNB opens an office at the Route 6 Plaza, just east of Honesdale, allowing customers to transact their business conveniently at either location. The facility also provided an employee meeting space and the inclusion of a new Board of Directors room.

1986 As HNB celebrates its 150th anniversary, the Bank expands into the adjacent building (formerly owned by the Honesdale Dime Bank), opening on September 22. In November and December, the area's first ATMs were installed at the Route 6 Plaza and adjacent to the Main Street Drive-Up banking lanes.

1995 HNB purchases United Security Mortgage Corporation in Wilkes-Barre, PA and opens it as HNB Mortgage on January 3.

1996 HNB purchases offices in Forest City and Montdale, PA from PNC Bank, opening them on June 17 as HNB Offices.

COMPANY OVERVIEW AND TIMELINE

1998 HNB purchases offices at Lake Wallenpaupack and in Lackawaxen, PA from LA Bank and opens them on December 14 as HNB Offices. HNB launches its first website.

2001 HNB opens a temporary office in the Citgo Plaza on Route 590 in Hamlin, PA and relocates to its current location at 559 Hamlin Highway on August 1.

2003 HNB was approved by the Commonwealth of PA for Educational Improvement Tax Credits to contribute to the growth and development of educational opportunities throughout our local area.

2005 HNB opens the Corporate Center at 724 Main Street in Honesdale, also serving as headquarters for Honat Bancorp, Inc.

2007 On June 1, HNB opens its newly-constructed Kingston Office at 786 Wyoming Avenue, Kingston, PA.

2011 HNB celebrates its 175th anniversary. HNB begins offering Mobile Banking services.

2012 HNB launches its Mobile Banking App. On November 13, HNB opens its Lakewood Office at 18 Como Road, Lakewood, PA.

2013 On December 11, HNB opens its Eynon Office at 202 Betty Street, Archbald, PA.

2015 HNB begins offering Mobile Wallet and Person-to-Person Payment services.

2018 On January 24, HNB opens its Clarks Summit Office at 651 Northern Boulevard, Clarks Summit, PA.

2019 On May 14, HNB opens a temporary Loan Production Office in Hallstead, PA and relocates to its newly-constructed, full-service office on December 18 at 313 Main Street. On July 5, HNB relocates its Lackawaxen Office to 100 LCPL Jacob Beisel Road, Lackawaxen, PA. During the summer, HNB completes a full exterior renovation to the Route 6 Office. The Honesdale National Bank Foundation is established with formal announcement in October.

2020 HNB maintains continuous access to banking services and provides extensive financial support to the customers and community as the Coronavirus (COVID-19) pandemic causes catastrophic global impact.

2021 HNB celebrates its 185th anniversary.

SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders
Honat Bancorp, Inc.
Honesdale, Pennsylvania

Opinion

We have audited the accompanying consolidated financial statements of Honat Bancorp, Inc. and subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2021and 2020; 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 consolidatedfinancial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally acceptedin the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

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

INDEPENDENT AUDITOR'S REPORT

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information Included in the Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the otherinformation and consider whether a material inconsistency exists between the other information and the financial statements, or whether the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report

S.R. Snodgrass, P.C.

Cranberry Township, Pennsylvania
February 25, 2022

CONSOLIDATED BALANCE SHEET

	December 31, 2021	December 31, 2020
	(In Thousands, Except Share Data)	
Assets		
Cash and Due from Banks	**$ 7,508**	$ 6,388
Interest-Bearing Deposits	**184,230**	65,496
Short-Term Investments	**885**	1,385
Total Cash and Cash Equivalents	**192,623**	73,269
Certificates of Deposit	**1,739**	3,239
Securities Available for Sale at Fair Value	**152,169**	134,484
Equity Securities at Fair Value	**475**	332
Mortgage Loans Held for Sale	**2,858**	2,732
Loans Receivable, Net of Allowance for Loan Losses 2021: $10,617; 2020: $10,214	**549,100**	549,597
Investment in Restricted Stock, at Cost	**666**	638
Premises and Equipment:		
Operating Lease Right-of-Use Asset	**561**	672
Other Premises and Equipment	**7,217**	7,625
Accrued Interest Receivable	**3,299**	3,613
Bank-Owned Life Insurance	**25,389**	26,188
Other Assets	**9,011**	9,519
Total Assets	**$ 945,107**	$ 811,908
Liabilities		
Deposits		
Non-Interest-Bearing	**$ 279,764**	$ 225,477
Interest-Bearing	**535,419**	462,043
Total Deposits	**815,183**	687,520
Operating Lease Liabilities	**571**	679
Accrued Interest Payable	**318**	465
Other Liabilities	**9,723**	10,648
Total Liabilities	**825,795**	699,312
Stockholders' Equity		
Common Stock, Par Value $.20 Per Share; Authorized 5,000,000 Shares Issued 1,800,000 Shares; Outstanding 2021 and 2020: 1,451,251 and 1,453,076 Shares	**360**	360
Surplus	**1,807**	1,015
Retained Earnings	**129,885**	121,953
Accumulated Other Comprehensive Income	**1,212**	2,234
Treasury Stock, at Cost, 2021 and 2020: 348,749 and 346,924 Shares	**(13,952)**	(12,966)
Total Stockholders' Equity	**119,312**	112,596
Total Liabilities and Stockholders' Equity	**$ 945,107**	$ 811,908

See Notes to Consolidated Financial Statements, pages 12-43

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31, 2021	2020
	(In Thousands, Except Share and Per Share Data)	
Interest Income		
Loans Receivable, Including Fees	$ 26,866	$ 26,713
Securities		
Taxable	667	1,000
Tax Exempt	1,250	1,423
Other	202	161
Total Interest Income	28,985	29,297
Interest Expense		
Deposits	1,275	2,771
Short-Term Debt and Other	29	54
Total Interest Expense	1,304	2,825
Net Interest Income	27,681	26,472
Provision for Loan Losses	600	1,575
Net Interest Income After Provision for Loan Losses	27,081	24,897
Other Income		
Customer Service Fees	2,325	2,113
Mortgage Banking	2,755	3,248
Income from Fiduciary Accounts	698	583
Gain (Loss) on Equity Securities	143	(90)
Bank-Owned Life Insurance Earnings	994	462
Other	493	447
Total Other Income	7,408	6,763
Other Expenses		
Salaries and Wages	8,695	8,668
Employee Benefits	3,980	4,231
Occupancy	1,240	1,243
Data Processing	1,049	919
Furniture and Equipment	621	568
Advertising and Promotion	593	446
Legal and Professional	374	383
Donations	1,188	361
State Tax	922	800
Federal Deposit Insurance	221	127
Other	2,573	2,700
Total Other Expenses	21,456	20,446
Income Before Federal Income Tax Expense	13,033	11,214
Federal Income Tax Expense	2,108	1,832
Net Income	$ 10,925	$ 9,382
Earnings Per Share	$ 7.54	$ 6.41
Average Shares Outstanding	1,448,877	1,462,533

See Notes to Consolidated Financial Statements, pages 12-43

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31, 2021	2020
	(In Thousands)	
Net Income	**$ 10,925**	$ 9,382
Other Comprehensive (Loss) Income		
Unrealized (Loss) Gain on Securities Available for Sale	**(1,294)**	1,477
Tax Effect	**272**	(312)
Total Other Comprehensive (Loss) Income	**(1,022)**	1,165
Comprehensive Income	**$ 9,903**	$ 10,547

See Notes to Consolidated Financial Statements, pages 12-43

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
		(In Thousands, Except Share and Per Share Data)				
Balance: December 31, 2019	$ 360	$ 1,015	$115,290	$ 1,069	$ (11,277)	$106,457
Net Income	-	-	9,382	-	-	9,382
Other Comprehensive Income	-	-	-	1,165	-	1,165
Purchase of Treasury Stock, 14,336 Shares	-	-	-	-	(1,689)	(1,689)
Dividends Declared ($1.86 Per Share)	-	-	(2,719)	-	-	(2,719)
Balance: December 31, 2020	$ 360	$ 1,015	$121,953	$ 2,234	$ (12,966)	$112,596
Net Income	**-**	**-**	**10,925**	**-**	**-**	**10,925**
Other Comprehensive Loss	**-**	**-**	**-**	**(1,022)**	**-**	**(1,022)**
Purchase of Treasury Stock, 10,825 Shares	**-**	**-**	**-**	**-**	**(1,346)**	**(1,346)**
Sale of Treasury Stock for ESOP, 9,000 Shares	**-**	**792**	**-**	**-**	**360**	**1,152**
Dividends Declared ($2.06 Per Share)	**-**	**-**	**(2,993)**	**-**	**-**	**(2,993)**
Balance: December 31, 2021	**$ 360**	**$ 1,807**	**$129,885**	**$ 1,212**	**$ (13,952)**	**$119,312**

See Notes to Consolidated Financial Statements, pages 12-43

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2021	2020
Cash Flows from Operating Activities	(In Thousands)	
Net Income		
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	$ 10,925	$ 9,382
Provision for Loan Losses		
Provision for Off Balance Sheet	600	1,575
Provision for Depreciation and Amortization	75	50
Net Amortization of Securities Premiums and Discounts	498	521
(Gain) Loss on Equity Securities	1,623	943
Amortization of Deferred Loan Fees	(143)	90
Amortization of Mortgage Servicing Rights, Net of Change in Valuation Allowance	(458)	(389)
Amortization of Equity Investment in Partnership	536	479
Deferred Income Taxes	504	733
Proceeds from Sale of Mortgage Loans	288	(415)
Net Gains on Sale of Loans	71,560	67,509
Loans Originated for Sale	(2,557)	(3,000)
Bank-Owned Life Insurance Earnings	(69,129)	(65,068)
Decrease (Increase) in Accrued Interest Receivable	(994)	(462)
Increase (Decrease) in Accrued Interest Payable	314	(1,339)
(Gain) Loss on Sale of Other Real Estate Owned	(147)	(1,159)
Other, Net	(57)	91
Net Cash Provided by Operating Activities	43	40
	13,481	9,581
Cash Flows from Investing Activities		
Purchase of Investment Securities Available for Sale		
Proceeds from Maturities or Principal Repayments	(60,635)	(76,055)
Purchase of Certificates of Deposit	38,450	56,331
Proceeds from Maturities of Certificates of Deposit	-	(2,489)
Net (Decrease) Increase in Loans	1,500	1,000
Purchase of Restricted Stock, at Cost	273	(35,950)
Redemption of Restricted Stock, at Cost	(567)	(1,415)
Purchase of Premises, Equipment, Software and Licensing	539	1,405
Purchase of Bank-Owned Life Insurance	(77)	(210)
Redemption of Bank-Owned Life Insurance	(15)	(5,015)
Purchase of Equity Investment in Partnership	1,365	-
Proceeds from the Sale of Foreclosed Assets	(26)	(877)
Net Cash Used for Investing Activities	590	282
	(18,603)	(62,993)
Cash Flows from Financing Activities		
Net Increase in Deposits		
Purchase of Treasury Stock	127,663	98,821
ESOP Purchase of shares from Treasury Stock	(1,346)	(1,689)
Dividends Paid	1,152	-
Net Cash Provided by Financing Activities	(2,993)	(2,719)
Net Increase in Cash and Cash Equivalents	124,476	94,413
Cash and Cash Equivalents: Beginning	119,354	41,001
Cash and Cash Equivalents: Ending	73,269	32,268
Supplementary Cash Flows Information	$ 192,623	$ 73,269
Interest Paid		
Income Taxes Paid	$ 1,451	$ 3,984
	$ 1,150	$ 1,375
Foreclosed Assets Acquired in Settlement of Loans		
Investment Securities Purchased Not Yet Settled	$ 82	$ 265
	$ -	$ 1,583

See Notes to Consolidated Financial Statements, pages 12-43

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Honat Bancorp, Inc. (the "Company"), a bank holding company, and its wholly owned subsidiary, The Honesdale National Bank (the "Bank"). All significant intercompany accounts and transactions have been eliminated.

Nature of Operations

The Bank operates under a national bank charter and provides full banking services, including trust services. As a national bank, the Bank is subject to regulation of the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation. The Bank holding company is subject to regulation of the Federal Reserve Bank. The areas served by the Bank are principally Lackawanna, Luzerne, Pike, Susquehanna, and Wayne Counties, in Pennsylvania.

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Balance Sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, determination of other-than-temporary impairment of securities, impairment of mortgage servicing rights, fair values of financial instruments and the valuation of deferred tax assets.

Significant Group Concentrations of Credit Risk

Most of the Company's activities are with customers located within Northeastern Pennsylvania. Notes 4, 5 and 6 discuss the types of securities that the Company invests in. Note 7 discusses the types of lending that the Company engages in. The Company does not have any significant concentrations in any one industry or customer. Although the Company has a diversified loan portfolio at December 31, 2021 and 2020, its debtors' ability to honor their contracts is influenced by the region's economy.

Presentation of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks, interest-bearing deposits and short-term investments, all of which have original maturities of 90 days or less.

Trust Assets

Assets of the trust department are not included in these financial statements because they are not assets of the Company. Revenues of the trust department are included in income from fiduciary accounts on the Consolidated Statements of Income.

Short-Term Investments

Short-term investments consist of Federal Funds Sold Investments.

Securities

Securities classified as available for sale are those securities that the Company intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movement in interest rates, changes in maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. Securities available for sale are carried at fair value. Unrealized gains or losses are reported as increases or decreases in other comprehensive income, net of the related deferred tax effect. The Company amortizes premiums and discounts to the call date, maturity date, or based on average life factoring in prepayment assumptions as applicable. Management determines the appropriate classification of securities at the time of purchase and reevaluates such designation as of each Consolidated Balance Sheet date.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Securities (Continued)

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 future cash flows expected to be collected is less than the security's amortized cost basis (the difference defined as the credit loss). The magnitude and duration of the decline and the reasons underlying the decline will be evaluated.

To determine whether the loss in value is other than temporary, 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 will be assessed. 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 non-credit 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.

Certificates of Deposit

The Company holds certificates of deposit issued by other FDIC insured financial institutions in increments of $250,000 with maturities of two years or less.

Equity Securities

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 Restricted Stock, at Cost

The Company holds restricted stock in the Federal Reserve Bank ("FRB"), the Federal Home Loan Bank ("FHLB") of Pittsburgh, and the Atlantic Community Bankers Bank ("ACBB") which is carried at cost. The Company holds $41,000 of FRB stock at December 31, 2021 and 2020. The Company holds $10,000 of ACBB stock at December 31, 2021 and 2020. The Company holds $615,000 and $587,000 of FHLB stock at December 31, 2021 and 2020, respectively.

The FHLB 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 as necessary. 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 to 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. Management evaluated the stock and concluded that the stock was not impaired for the periods presented herein.

Mortgage Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through charges to income.

Mortgage Servicing Rights

An asset is recognized for mortgage servicing rights acquired through purchase or origination. Amounts capitalized are reported in other assets on the Consolidated Balance Sheet and are amortized in proportion to, and over the period of, estimated net servicing income. If mortgage loans are sold with servicing retained, the total cost of the mortgage loans is allocated to the loans and servicing rights based on their relative fair values. The Company performs a periodic review for impairment in the fair value of mortgage servicing rights. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Any impairment is recognized through a valuation allowance, with a corresponding charge on the Consolidated Statements of Income, to the extent the fair value is less than the capitalized amount.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future until maturity or payoff are stated at their outstanding unpaid principal balances, net of any allowance for loan losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Company is generally amortizing these amounts over the contractual life of the related loans. The accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing.

A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current and has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

Allowance for Loan Losses

The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed to be uncollectable are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management's periodic evaluation of the adequacy of the allowance is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective, since it requires material estimates that may be susceptible to significant revision as more information becomes available. The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified as Doubtful, Substandard, or Other Assets Especially Mentioned (“OAEM”). For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value for that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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

Troubled Debt Restructurings

In situations when a borrower experiences financial difficulty related to economic or legal reasons, management may grant a concession for other than an insignificant period of time to the borrower that would not otherwise be considered. The related loan is classified as a troubled debt restructuring. Management strives to identify borrowers in financial difficulty early and works with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans. In addition to the allowance for the pooled portfolios, management has developed a separate allowance for loans that are identified as impaired through a troubled debt restructuring. These loans are excluded from pooled loss forecasts and a separate reserve is provided under the accounting guidance for loan impairment. Consumer loans whose terms have been modified in a troubled debt restructuring are also individually analyzed for estimated impairment.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transfers of Financial Assets

Transfers of financial assets, including loan and loan participation sales, are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Company; (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets; and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Premises and Equipment

Land is stated at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets, which range from three to fifteen years for furniture and equipment. Buildings are amortized over their estimated useful lives, which is over a 40-year period. Expenditures for maintenance and repairs are charged against income as incurred. Costs of major additions and improvements are capitalized.

Leases

The Company adopted Accounting Standards Update ASU 2016-02 Leases (*Topic 842*) which required lessees to recognize the assets and liabilities that arise from leases in the balance sheet. Company recognizes lessees of operating right-of-use assets but did not have any finance right-of-use assets in 2021 or 2020. The additional lease disclosures can be found in Note 8.

Foreclosed Assets

Foreclosed assets consist of property acquired through a foreclosure proceeding or acceptance of a deed in lieu of foreclosure and loans classified as in-substance foreclosure. A loan is classified as in-substance foreclosure when the Company has taken possession of the collateral, regardless of whether formal proceedings take place. Foreclosed assets initially are recorded at fair value, net of estimated selling costs, at the date of foreclosure, establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the assets are carried at the lower of cost or fair value minus estimated costs to sell. Revenues and expenses from operations and changes in the valuation allowance are included in other expenses. In addition, any gain or loss realized upon disposal is included in other income or expense. There were no foreclosed assets at December 31, 2021. There were $450,000 in foreclosed assets as of December 31, 2020 which are included in other assets on the Consolidated Balance Sheet. As of December 31, 2021, the Company had $953,000 in loans that were in the process of foreclosure although the Company did not have possession of the property.

Bank-Owned Life Insurance

The Company invests in bank-owned life insurance ("BOLI") as a source of funding for employee benefit expenses. BOLI involves the purchasing of life insurance by the Company on a chosen group of employees. The Company is the owner and beneficiary of the policies. This life insurance investment is carried at the cash surrender value of the underlying policies. Income from the increase in cash surrender value of the policies is included in other income on the Consolidated Statements of Income, net of expenses.

Split Dollar Life Insurance

The Company recognizes a liability related to the post-retirement benefits covered by an endorsement split dollar life insurance arrangement. The employer (who is also the policy holder) has a liability for the benefit it is providing to its employees. As such, the liability recognized during the employee's active service period is based on the future cost of insurance to be incurred during the employee's retirement. As of December 31, 2021, and 2020, the liability benefit balance is $717,000 and $698,000, respectively, and is included in other liabilities on the accompanying Consolidated Balance Sheet. The related benefit expense is recorded as a component of employee benefits expense on the Consolidated Statements of Income. The Company reported related benefits expense of $19,000 and $41,000, respectively for 2021 and 2020.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity Investment in Partnerships

Equity investment in partnerships represents the Company's limited partnership investment in low-income housing projects. The projects are owned by the partnerships, and the housing units developed qualify for federal low-income housing tax credits. The Company elects to participate in these investments to aid in offering affordable housing in our communities and to reach the objective of the Community Reinvestment Act.

The investments are accounted for under the proportional amortization method unless the requirements are not met, in which case the equity method is used. The investment's amortized balance is $3,553,000 and $4,031,000 at December 31, 2021 and 2020, respectively, and is included in other assets on the accompanying Consolidated Balance Sheet. The Company amortized $504,000 and $733,000 of this equity investment during 2021 and 2020, respectively. The Company recognized a credit to federal income tax expense of $117,000 during 2021 and $142,000 during 2020 due to federal low-income housing tax credits.

Treasury Stock

Purchases are accounted for under the cost method whereby the entire cost of the acquired stock is recorded as treasury stock. Gains and losses on the subsequent reissuance of shares are credited or charged to surplus in excess of par value using the average-cost method.

Advertising Costs

The Company follows the policy of charging the costs of advertising to expense as incurred.

Income Taxes

Deferred income taxes are provided on the liability method, whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Honat Bancorp, Inc. and its subsidiary file a consolidated federal income tax return.

Earnings per Share

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

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on securities available for sale, are reported as a separate component of the stockholders' equity section of the Consolidated Balance Sheet. Such items, along with net income, are the components of comprehensive income as presented on the Consolidated Statements of Comprehensive Income.

Off-Balance Sheet Financial Instruments

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

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on prior year net income and stockholders' equity.

NOTE 2: REVENUE RECOGNITION

The Company generates revenue associated with financial instruments including interest on loans and investments and certain other non-interest sources including investment security gains, loan servicing charges, gain on the sale of loans and bank-owned life insurance income. These forms of revenue are not subject to the scope of ASU 2014-09 Topic 606. Revenues previously described accounted for 90% of revenue generated in 2021 and 92% of revenue in 2020.

Non-interest income generated by the Company, which is subject to the guidelines established in Topic 606, includes the following:

- Customer service fees are generated from transactions or services such as an account analysis fee, monthly service fee, overdraft fee, transaction fee, merchant services fee or other deposit account related fee. Fees are charged when the service or transaction is completed or on an ongoing monthly basis as earned.

- Income from fiduciary accounts is comprised of the fees earned from managing and administering trusts and customers' investment portfolios. Fees are typically collected on a monthly basis as a percentage of the assets under management.

- Brokerage and insurance fees are comprised of commissions on the sale of investment products including stocks, bonds, mutual funds, annuities and life insurance products, which are realized at the time the underlying investment product is bought or sold.

- Other non-interest income or expenses include revenues generated from the gain or loss on the sale of other real estate owned and other assets. These gains or losses are realized at the time of sale or in response to some additional factor which triggers a reduction in the realized value of the underlying property such as a reduction in an appraised value. If the sale of a property is financed by the Bank, revenue is generally recognized when control of the property has been transferred to the buyer.

The following table represents those revenue streams identified that are the result of a contract with the customer or a service or transaction provided:

	December 31, 2021	December 31, 2020
	(In Thousands)	
Customer Service Fees		
ATM/Debit Card Fees	**$ 1,314**	$ 1,106
Overdraft Fees, Net	**459**	481
Merchant Services	**180**	158
Account Activity Service Fees	**239**	252
Other	**133**	116
Total Customer Service Fees	**2,325**	2,113
Income from Fiduciary Activities	**698**	583
Brokerage and Insurance Fees	**447**	410
Other	**101**	(61)
Total Revenue Subject to Topic 606	**$ 3,571**	$ 3,045

NOTE 3: MORTGAGE BANKING ACTIVITIES

The HNB Mortgage Center, a division of the Bank, originates mortgage loans for portfolio investment or for sale in the secondary market. Loans sold to FNMA are made without recourse. Loans sold to FHLB include a credit enhancement resulting in shared credit risk. The Mortgage Center also services loans for the benefit of others, consisting of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors, and foreclosure processing. Loan servicing income is recorded upon receipt and includes servicing fees from investors and certain charges collected from borrowers.

The total cost of mortgage loans originated for sale is allocated between the mortgage servicing rights and the mortgage loans based on their relative fair values. The mortgage servicing rights are capitalized as assets and amortized over the period of estimated net servicing income. Additionally, they are subject to an impairment analysis based on their fair value in future periods. The Bank recorded a decline in fair value of $81,000 and $54,000 during 2021 and 2020, respectively, resulting in a valuation reserve against the mortgage servicing rights of $187,000 and $106,000 at December 31, 2021 and 2020, respectively.

Activity in mortgage servicing rights for the years ended are as follows:

	December 31, 2021	December 31, 2020
	(In Thousands)	
Beginning Balance	**$ 1,171**	$ 1,069
Amounts Capitalized	**738**	581
Amortization	**(455)**	(425)
Increase in Valuation Allowance	**(81)**	(54)
Ending Balance	**$ 1,373**	$ 1,171

Mortgage servicing rights are included in other assets on the accompanying Consolidated Balance Sheet. Mortgage loans serviced for others totaled $237,950,000 and $218,334,000 at December 31, 2021 and 2020, respectively. In connection with loans serviced for others, the Bank held borrowers' escrow balances of $3,096,000 and $2,977,000 at December 31, 2021 and 2020, respectively.

NOTE 4: INVESTMENT IN CERTIFICATES OF DEPOSIT

The investment in certificates of deposit as of December 31, 2021 and 2020, by contractual maturity, is shown below:

	December 31, 2021	December 31, 2020
	(In Thousands)	
Due in One Year or Less	**$ 1,739**	$ 1,500
Due After One Year Through Two Years	**-**	1,739
Total	**$ 1,739**	$ 3,239

NOTE 5: SECURITIES

The amortized cost and fair value of the securities available for sale portfolio are summarized as follows:

December 31, 2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
Available for Sale				
U.S. Treasury Securities	$ 3,971	$ 12	$ (38)	$ 3,945
U.S. Government Agency Securities	15,287	1	(183)	15,105
States and Political Subdivisions	62,123	1,794	(58)	63,859
U.S. Government-Sponsored Agency Mortgage-Backed Securities	55,549	336	(308)	55,577
U.S. Government-Sponsored Agency Collateralized Mortgage Obligations	13,705	86	(108)	13,683
Total	$ 150,635	$ 2,229	$ (695)	$ 152,169

December 31, 2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
Available for Sale				
U.S. Treasury Securities	$ 996	$ 32	$ -	$ 1,028
U.S. Government Agency Securities	24,405	68	(11)	24,462
States and Political Subdivisions	53,920	2,092	(15)	55,997
U.S. Government-Sponsored Agency Mortgage-Backed Securities	36,116	646	(14)	36,748
U.S. Government-Sponsored Agency Collateralized Mortgage Obligations	16,218	37	(6)	16,249
Total	$ 131,655	$ 2,875	$ (46)	$ 134,484

The amortized cost and fair value of securities available for sale by contractual maturity are shown below, excluding mortgage-backed securities and collateralized mortgage obligations, which are shown gross. Expected maturities may differ from contractual maturities because the securities may be called or prepaid with or without any penalties.

	December 31, 2021 Amortized Cost	December 31, 2021 Fair Value
	(In Thousands)	
Due in One Year or Less	$ 5,790	$ 5,813
Due After One Year Through Five Years	17,789	17,570
Due After Five Years Through Ten Years	9,028	9,293
Due After Ten Years	48,774	50,233
	81,381	82,909
U.S. Government-Sponsored Agency Mortgage-Backed Securities	55,549	55,577
U.S. Government-Sponsored Agency Collateralized Mortgage Obligations	13,705	13,683
Total	$ 150,635	$ 152,169

There were no proceeds from sales received during the years ended December 31, 2021 and 2020.

NOTE 5: SECURITIES (CONTINUED)

The following tables show securities gross unrealized losses and fair value, aggregated by security category and length of time that individual securities have been in a continuous unrealized loss position:

December 31, 2021	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In Thousands)			
U.S. Treasury Securities	$ 2,934	$ (38)	$ -	$ -	$ 2,934	$ (38)
U.S. Government Agency Securities	8,795	(92)	3.909	(91)	12,704	(183)
States and Political Subdivisions	6,081	(58)	-	-	6,081	(58)
U.S. Government-Sponsored Agency Mortgage-Backed	36,920	(272)	2,507	(36)	39,427	(308)
U.S. Government-Sponsored Collateralized Mortgage	4,501	(66)	1,020	(42)	5,521	(108)
Total Temporarily Impaired Securities	$ 59,231	$ (526)	$ 7,436	$ (169)	$ 66,667	$ (695)

December 31, 2020	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In Thousands)			
U.S. Treasury Securities	$ -	$ -	$ -	$ -	$ -	$ -
U.S. Government Agency Securities	6,988	(11)	-	-	6,988	(11)
States and Political Subdivisions	1,697	(15)	-	-	1,697	(15)
U.S. Government-Sponsored Agency Mortgage-Backed	6,131	(14)	-	-	6,131	(14)
U.S. Government-Sponsored Collateralized Mortgage	5,503	(6)	-	-	5,503	(6)
Total Temporarily Impaired Securities	$ 20,319	$ (46)	$ -	$ -	$ 20,319	$ (46)

The Company reviews its position quarterly and has asserted at December 31, 2021 and 2020, the declines outlined in the above tables represent temporary declines and the Company does not intend to sell these securities nor is it more likely that the Company will be required to sell these securities before recovery of their cost basis, which may be at maturity. There were 64 positions that were temporarily impaired at December 31, 2021. The Company has concluded that the unrealized losses disclosed above 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 non-collection of principal and interest during the period.

Securities with a carrying value of $89,554,000 and $62,432,000 at December 31, 2021 and 2020, respectively, were pledged to secure deposits.

NOTE 6: EQUITY SECURITIES

The Company has separated the presentation of equity investments on the balance sheet and reflected changes in fair value in net income on a prospective basis.

The Company held equity securities at a fair value of $475,000 and $332,000 as of December 31, 2021 and 2020, respectively. The Company recognized a gain of $143,000 during 2021 and a loss of ($90,000) during 2020 on the income statement related to such equity investments due to the change in the fair value of securities. The Company did not sell any equity securities during 2021 or 2020.

NOTE 7: LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

The composition of loans receivable are as follows:

	December 31, 2021	December 31, 2020
	(In Thousands)	
Loans Receivable		
Commercial and Industrial	**$ 85,238**	$ 99,761
Commercial Real Estate	**298,882**	270,605
Consumer Real Estate		
Home Equity Lines of Credit	**44,621**	42,046
One-to-Four Family Residential – Secured by First Liens	**101,359**	115,236
One-to-Four Family Residential – Secured by Junior Liens	**6,946**	8,136
Total Consumer Real Estate	**152,926**	165,418
Consumer	**22,671**	24,027
Total Loans	**559,717**	559,811
Deduct		
Allowance for Loan Losses	**10,617**	10,214
Loans Receivable, Net	**$ 549,100**	$ 549,597

At December 31, 2021 and 2020, the amounts in the table above include net deferred loan origination fees of $1,318,000 and $1,209,000, respectively.

In 2020, the Company participated in the Paycheck Protection Program (PPP), administered by the U.S. Small Business Administration (SBA). PPP provides loans to small businesses that were financially impacted by economic conditions resulting from COVID-19. The proceeds provided cash flow assistance to small businesses that maintain their payroll (excluding healthcare and certain related expenses), mortgage interest, rent, leases, utilities and interest on existing debt during the COVID-19 pandemic. PPP loans are fully guaranteed by the SBA and may be eligible for forgiveness by the SBA to the extent that proceeds were used to cover eligible expenses including payroll expenses, interest expense, rent and utility expenses over a period of up to 24 weeks after the loan is funded as long as SBA guidelines are met, including employee retention and compensation levels. PPP loans that are awarded forgiveness by the SBA will be repaid by the SBA to the Bank. In 2021, the Bank participated in a second round of PPP loan issuance. PPP loans are included in the Commercial and Industrial loan category and the Company had outstanding balances of $9,401,000 and $23,420,000 as of December 31, 2021 and 2020, respectively.

In accordance with the SBA terms and conditions on these PPP loans, the Company received approximately $1,837,000 during 2021 and $1,565,000 during 2020 in fees associated with the processing of these loans. Upon funding of the loan, these fees were deferred and amortized over the life of the loan which is two or five years as an adjustment to yield in accordance with FASB ASC 310-20-25-2.

Allowance for Loan Losses

The Company is responsible for ensuring that controls are in place to determine the appropriate level of the Allowance for Loan Losses (ALL), based on a comprehensive, well-documented, and consistently applied analysis of its loan portfolio. Loan Review personnel perform the ALL analysis and present it to the Board of Directors for approval on a quarterly basis, or more frequently if warranted. ALL estimates require analysis and reviews of individual loans and groups of loans.

For loans that are individually evaluated and found to be impaired, the associated allowance should be based upon one of the three impairment measurement methods as described in Impaired Loans.

For all other loans the Company will estimate loan losses for groups of loans with similar risk characteristics. These estimates will be based upon historical loss data to segmented portions of the loan portfolio, adjusted for environmental factors.

The ALL will be maintained at a level considered adequate to provide for reasonably anticipated losses.

NOTE 7: LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Allowance for Loan Losses (Continued)

The following tables present changes in the ALL:

December 31, 2021	Commercial and Industrial	Commercial Real Estate	Consumer Real Estate (In Thousands)	Consumer	Total
Balance, Beginning of Year	**$ 1,318**	**$ 5,793**	**$ 2,693**	**$ 410**	**$ 10,214**
Provision for Loan Losses	**132**	**657**	**(317)**	**128**	**600**
Charge-Offs	**(68)**	**(67)**	**(67)**	**(71)**	**(273)**
Recoveries	**45**	**1**	**16**	**14**	**76**
Balance	**$ 1,427**	**$ 6,384**	**$ 2,325**	**$ 481**	**$ 10,617**

December 31, 2020	Commercial and Industrial	Commercial Real Estate	Consumer Real Estate (In Thousands)	Consumer	Total
Balance, Beginning of Year	$ 1,492	$ 4,411	$ 2,643	$ 387	$ 8,933
Provision for Loan Losses	(112)	1,523	112	52	1,575
Charge-Offs	(79)	(318)	(68)	(56)	(521)
Recoveries	17	177	6	27	227
Balance	$ 1,318	$ 5,793	$ 2,693	$ 410	$ 10,214

The changes in the ALL year over year are impacted by portfolio segment loan volume, trends in delinquency and charge-offs and qualitative risk factors applied by management. The portfolio segments management uses in their analysis of the ALL are commercial and industrial, commercial real estate, consumer real estate and consumer.

For the year ending December 31, 2021, the Company experienced an increase in commercial real estate loans of $28,277,000 resulting in an increase in the reserve allocation for this loan category. Consumer real estate loans declined by $12,492,000 which resulted in a decrease in the reserve allocation for this loan category. In addition, the Company increased the adjustment factor for national and local economic trends and conditions within the consumer loan category by .28% for indirect consumer loans and .42% for all other consumer loans. This increase is reflective of the potential negative impact on end-user consumers due to rising inflation.

For the year ending December 31, 2020, in response to the COVID-19 pandemic and the related negative financial implications nationwide, the Company increased the adjustment factor for national and local economic trends by .17% across all loan categories. The commercial real estate portfolio increased by $36,946,000. Given the 100% SBA guarantee granted to PPP loans, the Company did not assign any reserve for the PPP loans outstanding. Impaired commercial real estate loans increased by $2,792,000. The collateral of these impaired loans was evaluated and determined to be adequate to cover loan balances outstanding, therefore, no specific allowance reserve was required.

NOTE 7: LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Allowance for Loan Losses (Continued)

Analyzing Individual Loans
Loans fitting the definition of "impaired" will be individually analyzed to determine an adequate allowance. The following methodology is utilized to determine an adequate allowance on a loan-by-loan basis:

1. Determine a fair value of the collateral utilizing appraisals, valuation assumptions and other calculations deemed appropriate for the collateral involved.
2. Make any adjustment to the appraised value to determine a "reasonable sale price."
3. Deduct appropriate costs to sell, including applicable commissions or transfer tax, to determine a "net proceeds" amount.
4. Determine the final impairment by deducting the net proceeds from the recorded loan balance.
5. If a loan is determined to have "no impairment," then no allocation amount is recorded in the ALL.

Once a loan is analyzed for impairment, whether or not it results in an impairment allocation, it is excluded from the Homogenous Pool of Loans.

Analyzing Homogenous Pool of Loans
The loan portfolio is segmented into varying loan type categories (i.e., Commercial real estate, Consumer loans, etc.) allowing for a more in-depth analysis of higher-risk loan types. These segments may be adjusted based on changes in the portfolio or external factors affecting the overall risk of the loan portfolio.

The following methodology is utilized to determine an adequate allowance for each loan type segment:

1. Historical charge-offs are analyzed over a three-year period. A three-year weighted-average charge-off percentage is calculated and then adjusted for current conditions and environmental factors as follows:

   a. Levels of and trends in delinquencies and nonaccruals;
   b. Trends in volume and terms of loans;
   c. Effects of any changes in lending policies;
   d. Experience, ability and depth of management;
   e. National and local economic trends and conditions;
   f. Concentrations of credit;
   g. Changes in the quality of the Bank's loan review system and the degree of oversight by the Bank's Board of Directors; and
   h. The effect of external factors, such as competition and legal and regulatory requirements, on the level of estimated credit losses in the Bank's current portfolio.

2. This "Adjusted Loss Ratio" is then applied to the outstanding loan balances in the various loan categories, with any impaired loans being excluded.

3. Problem loans are analyzed within the loan-type category in which they exist. Separate historical analyses and environmental adjustments are applied to problem loans.

NOTE 7: LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Allowance for Loan Losses (Continued)

The Company's recorded investment in loans related to each balance in the ALL by portfolio segment and disaggregated on the basis of the Company's impairment methodology is as follows:

December 31, 2021	Commercial and Industrial	Commercial Real Estate	Consumer Real Estate (In Thousands)	Consumer	Total
Loans Individually Evaluated for Impairment	$ 748	$ 2,198	$ 1,365	$ -	$ 4,311
Loss Collectively Evaluated for Impairment	84,490	296,684	151,561	22,671	555,406
Total	$ 85,238	$ 298,882	$ 152,926	$ 22,671	$ 559,717
Allowance for Loans Individually Evaluated for Impairment	$ -	$ 55	$ -	$ -	$ 55
Allowance for Loans Collectively Evaluated for Impairment	1,427	6,329	2,325	481	10,562
Total	$ 1,427	$ 6,384	$ 2,325	$ 481	$ 10,617

December 31, 2020	Commercial and Industrial	Commercial Real Estate	Consumer Real Estate (In Thousands)	Consumer	Total
Loans Individually Evaluated for Impairment	$ 1,387	$ 4,867	$ 1,075	$ -	$ 7,329
Loss Collectively Evaluated for Impairment	98,374	265,738	164,343	24,027	552,482
Total	$ 99,761	$ 270,605	$ 165,418	$ 24,027	$ 559,811
Allowance for Loans Individually Evaluated for Impairment	$ 7	$ -	$ -	$ -	$ 7
Allowance for Loans Collectively Evaluated for Impairment	1,311	5,793	2,693	410	10,207
Total	$ 1,318	$ 5,793	$ 2,693	$ 410	$ 10,214

Loan Origination/Risk Management

The basic objectives of the lending activities of the Company are to profit from the investment of funds into good loans and to serve the credit needs of, and promote economic development within, the Company's market areas. The Board of Directors recognizes that certain risks are inherent in lending money and commits the Company to this activity with that in mind. The scope of the Company's lending activities is influenced by the belief that a sound financial (asset/liability) management function forms the basis for successful lending activities. Management divides the loan portfolio into classes to monitor risk, which are the same as the portfolio segments, with the exception of consumer real estate. Consumer real estate is divided into three classes, including home equity lines of credit, one-to-four family residential secured by first liens, and one-to-four family residential secured by junior liens.

Lending strategies and policies are influenced by competitive, economic and regulatory factors. A reporting system supplements the review process by providing management with reports related to loan production, loan quality, concentrations of credit, loan delinquencies, and nonperforming and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

Commercial and industrial loans are underwritten after evaluating and understanding the borrower's business operation. Underwriting standards are designed to promote relationship banking rather than transactional banking. Current and projected cash flows are examined to determine the ability of borrowers to repay their obligations as agreed. Commercial and industrial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. Most commercial and industrial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee.

NOTE 7: LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Loan Origination/Risk Management (Continued)

Commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts, and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. Management monitors and evaluates commercial real estate loans based on collateral type and risk grade criteria.

Consumer real estate loans, which include home equity term loans and lines of credit, are subject to underwriting standards that are influenced by regulatory requirements, loan-to-value percentages, debt-to-income ratios and overall credit worthiness of the borrower.

The Bank utilizes an automated underwriting data system on direct and indirect consumer loans. In an effort to monitor and manage consumer loan risk, policies and procedures are developed and modified in accordance with changes in the portfolio and economic climate.

Concentrations of Credit
Diversification within the loan portfolio is important to minimize the risks involved in lending. Management will be alert to the development of such concentrations and report them to the Board of Directors for evaluation of the risk involved and for determination of a proper course of action. The Bank is aware of concentrations of credit in the real estate sector in rental of residential buildings. Management has developed reports to monitor these and all components of the portfolio in an effort to minimize risk.

Nonaccrual and Past-Due Loans
Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on nonaccrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and maintained current for a period of at least six months.

Year-end nonaccrual loans, segregated by class of loans, are as follows:

	December 31, 2021	December 31, 2020
	(In Thousands)	
Nonaccrual Loans		
Commercial and Industrial	**$ 454**	$ 725
Commercial Real Estate	**139**	3,486
Consumer Real Estate		
One-to-Four Family Residential – Secured by First Liens	**1,074**	588
Total	**$ 1,667**	$ 4,799

NOTE 7: LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Loan Origination/Risk Management (Continued)

An age analysis of past-due loans, segregated by class of loans is as follows:

December 31, 2021	Loans 30-89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
			(In Thousands)			
Past-Due Loans						
Commercial and Industrial	$ -	$ 544	$ 544	$ 84,694	$ 85,238	$ 90
Commercial Real Estate	93	-	93	298,789	298,882	-
Consumer Real Estate						
Home Equity Lines of Credit	-	-	-	44,621	44,621	-
One-to-Four Family Residential – Secured by First Liens	845	890	1,735	99,624	101,359	-
One-to-Four Family Residential – Secured by Junior Liens	20	29	49	6,897	6,946	29
Consumer	133	-	133	22,538	22,671	-
Total	$ 1,091	$ 1,463	$ 2,554	$ 557,163	$ 559,717	$ 119

December 31, 2020	Loans 30-89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
			(In Thousands)			
Past-Due Loans						
Commercial and Industrial	$ 26	$ 459	$ 485	$ 99,276	$ 99,761	$ 68
Commercial Real Estate	94	153	247	270,358	270,605	23
Consumer Real Estate						
Home Equity Lines of Credit	70	-	70	41,976	42,046	-
One-to-Four Family Residential – Secured by First Liens	1,170	459	1,629	113,607	115,236	77
One-to-Four Family Residential – Secured by Junior Liens	-	-	-	8,136	8,136	-
Consumer	247	-	247	23,780	24,027	-
Total	$ 1,607	$ 1,071	$ 2,678	$ 557,133	$ 559,811	$ 168

Impaired Loans

On a quarterly basis, the Bank will maintain a list of loans identified as “Impaired Loans.” A commercial loan is considered impaired when, based on current information and events, it is probable the creditor will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan agreement. Loans modified and considered a troubled debt restructuring are also impaired loans regardless of loan type. Impaired loans do not apply to homogeneous groups of loans evaluated collectively, loans accounted for at fair value or lower of cost or fair value, leases, and debt securities. Management strives to identify borrowers in financial difficulty early and works with them to modify to more affordable terms before their loan reaches nonaccrual status. Concessions may include modified terms such as rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. Loans granted such concessions are considered impaired through a troubled debt restructuring. Individually reviewed loans that are determined impaired loans will have a specific reserve analysis on a case-by-case basis.

NOTE 7: LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Loan Origination/Risk Management (Continued)

Impaired Loans (Continued)

The methodology for determining and measuring impairment will be documented as follows: (a) if impairment is based on present value of expected cash flows, the amount and timing of cash flows, the effective interest rate used in discounting, and the basis for the determination of cash flows must be properly analyzed; (b) if based on the fair value of collateral, how fair value was determined, including valuation assumptions, costs to sell, appraisal quality, and experience and independence of the appraiser, must be clearly analyzed; (c) if based on observable market price, document amount, source, and date of the price. A valuation allowance is to be established at the time that a loan becomes impaired. The determined amount of impairment will be considered as a specific reserve in the ALL for each loan.

Year-end impaired loans are set forth in the following tables:

December 31, 2021	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment (In Thousands)	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired Loans							
Commercial and Industrial	**$ 961**	**$ 748**	**$ -**	**$ 748**	**$ -**	**$ 854**	**$ -**
Commercial Real Estate	**2,201**	**1,942**	**256**	**2,198**	**55**	**2,927**	**3**
Consumer Real Estate							
Home Equity Lines of Credit	**-**	**-**	**-**	**-**	**-**	**-**	**-**
One-to-Four Family Residential – Secured by First Liens	**1,424**	**1,365**	**-**	**1,365**	**-**	**991**	**13**
One-to-Four Family Residential – Secured by Junior Liens	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Impaired Loans	**$ 4,586**	**$ 4,055**	**$ 256**	**$ 4,311**	**$ 55**	**$ 4,772**	**$ 16**

As of December 31, 2021, the Bank recognized six additional loans as impaired. Three of these loans are secured by one-to-four family residential properties. One of these loans is pending foreclosure, one property is currently part of an estate liquidation and one loan is paying as agreed. The other three loans are secured by commercial real estate. Two of these loans were subject to a work-out agreement and all three loans are paying as agreed.

December 31, 2020	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment (In Thousands)	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired Loans							
Commercial and Industrial	$ 1,604	$ 1,212	$ 175	$ 1,387	$ 7	$ 1,047	$ 37
Commercial Real Estate	4,882	4,867	-	4,867	-	2,466	105
Consumer Real Estate							
Home Equity Lines of Credit	-	-	-	-	-	-	-
One-to-Four Family Residential – Secured by First Liens	1,074	1,030	-	1,030	-	1,138	15
One-to-Four Family Residential – Secured by Junior Liens	45	45	-	45	-	61	3
Total Impaired Loans	$ 7,605	$ 7,154	$ 175	$ 7,329	$ 7	$ 4,712	$ 160

NOTE 7: LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Loan Origination/Risk Management (Continued)

Credit Quality Indicators
The purpose of the internal loan review program is to identify and detect potential problem credits at an early stage to prevent possible losses to the Company. The internal loan review program performs reviews of various scopes of commercial and industrial and commercial real estate loans according to dollar amount or grade classification, as determined from time to time by Loan Review personnel or as directed by the Board of Directors. The loan grading classification will be similar in nature to that of the Office of the Comptroller of the Currency as follows:

Pass: These credits would have adequate sources of repayment without any identifiable risk of collection and conform to bank policy and are within compliance guidelines. The majority of bank credits will come under this category.

Watchlist: This classification is assigned to a loan that contains a weakness, but does not warrant a criticized or classified rating. The loan will be considered Pass; however, it will be monitored for repayment status. If an established period of consecutive on-time payments has been made (six months or more) the loan grade can be changed to Pass.

Other Assets Especially Mentioned ("OAEM"): Assets in this category are currently protected, but are potentially weak. Those assets constitute an undue and unwarranted credit risk but not to the point of justifying a classification of Substandard. The credit risk may be relatively minor yet constitute an unwarranted risk in light of the circumstances surrounding a specific asset. An OAEM classification should not be used as a compromise between Pass and Substandard.

Substandard: A Substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of Substandard assets, does not have to exist in individual assets classified Substandard.

Doubtful: An asset classified Doubtful has all the weaknesses inherent in one classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures; capital injection; perfecting liens on additional collateral; and refinancing plans.

Loss: Assets classified Loss are considered uncollectable and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not desirable to defer writing off this basically worthless asset even though partial recovery may occur in the future.

A meeting of the Asset Quality Committee is held quarterly to discuss any changes in ratings of loans and the appropriate administrative action to be taken for each account. If applicable, an estimate of loss to the Company will be discussed, as recommended by Loan Review personnel. The Asset Quality Committee consists of Loan Officers, Credit Administration, and Collection personnel.

Loan Review personnel reports to the Board of Directors with results and recommendations concerning the review process on a quarterly basis. In addition, the Company utilizes an outside consultant to perform an independent loan review from time to time as may be necessary in accordance with regulatory requirements.

NOTE 7: LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Loan Origination/Risk Management (Continued)

The following tables present the credit exposure risk grades and classified loans by class of loan:

December 31, 2021	Pass	Watchlist	OAEM	Substandard	Doubtful	Total
			(In Thousands)			
Commercial and Industrial	$ 83,366	$ 334	$ 492	$ 1,046	$ -	$ 85,238
Commercial Real Estate	278,058	12,624	3,126	5,074	-	298,882
Total	**$ 361,424**	**$ 12,958**	**$ 3,618**	**$ 6,120**	**$ -**	**$ 384,120**

December 31, 2020	Pass	Watchlist	OAEM	Substandard	Doubtful	Total
			(In Thousands)			
Commercial and Industrial	$ 96,528	$ 81	$ 1,594	$ 1,558	$ -	$ 99,761
Commercial Real Estate	242,672	16,448	1,029	10,456	-	270,605
Total	$ 339,200	$ 16,529	$ 2,623	$ 12,014	$ -	$ 370,366

The following tables present performing and nonperforming loans based solely on payment activity that has not been assigned an internal risk grade:

December 31, 2021	Performing	Nonperforming	Total
		(In Thousands)	
Consumer Real Estate			
Home Equity Line of Credit	$ 44,621	$ -	$ 44,621
One-to-Four Family Residential – Secured by First Liens	100,285	1,074	101,359
One-to-Four Family Residential – Secured by Junior Liens	6,917	29	6,946
Consumer	22,671	-	22,671
Total	**$ 174,494**	**$ 1,103**	**$ 175,597**

December 31, 2020	Performing	Nonperforming	Total
		(In Thousands)	
Consumer Real Estate			
Home Equity Line of Credit	$ 42,046	$ -	$ 42,046
One-to-Four Family Residential – Secured by First Liens	114,571	665	115,236
One-to-Four Family Residential – Secured by Junior Liens	8,136	-	8,136
Consumer	24,027	-	24,027
Total	$ 188,780	$ 665	$ 189,445

These consumer-performing and -nonperforming loans presented in the prior tables are not assigned a risk grade unless there is evidence of a problem. Payment activity is reviewed by management on a monthly basis to evaluate performance. Loans are considered to be nonperforming when they become 90 days past due or if management believes they may not collect all of the principal and interest.

NOTE 7: LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

COVID-19 Loan Forbearance Programs

Section 4013 of the CARES Act provides that banks may elect not to categorize a loan modification as a TDR if the loan modification is (1) related to 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) January 1, 2022.

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.

On April 7, 2020, federal bank regulatory agencies issued the Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised). This Statement allowed short-term loan modifications not otherwise eligible under Section 4013 that were made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief to not be recognized as 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.

As of December 31, 2021, one of the Company's borrowers remained in forbearance totaling $142,000. As of December 31, 2020, ten of the Company's borrowers remained in forbearance and/or deferment totaling $7,474,000. 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. In addition, 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 continues to be evaluated.

Troubled Debt Restructuring

Loan modifications completed in 2021 that were considered troubled debt restructuring are as follows:

December 31, 2021	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(In Thousands)	
Commercial Real Estate	3	$ 869	$ 883
Total	**3**	**$ 869**	**$ 883**

For two of the contracts modified above, the borrower sought payment relief for a three-month period. The additional contract specified resulted in the consolidation of debt into a new loan which include an additional draw to pay real estate taxes, legal fees outstanding and establish an escrow account. In addition, the borrower was granted an interest rate concession.

Loan modifications completed in 2020 that were considered troubled debt restructuring are as follows:

December 31, 2020	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(In Thousands)	
Commercial and Industrial	1	$ 137	$ 137
Commercial Real Estate	3	1,608	1,608
Consumer Real Estate			
One-to-Four Family Residential - Secured by First Liens	3	334	334
One-to-Four Family Residential - Secured by Junior Liens	2	53	53
Total	9	$ 2,132	$ 2,132

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7: LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Troubled Debt Restructuring (Continued)

For each of the nine contracts modified previously, the borrower sought payment relief in the form of full forbearance or interest only payments for a period of time due to the COVID-19 pandemic and the associated economic impact. Due to the nature of the payment history, the loans did not qualify as defined in Section 4013 of the CARES Act, and therefore, were recognized as a TDR by the Company as of December 31, 2020. The commercial and industrial contract is delinquent on payment and the process of repossession of equipment collateral has begun. Two of the consumer real estate contracts secured by a first lien and one of the consumer real estate contracts secured by a junior lien continued to experience payment difficulty during 2021 and are now pending foreclosure. The remaining five contracts are all paying as agreed following the modification.

NOTE 8: LEASE COMMITMENT

Due to the adoption of ASU 2016-02 Leases (Topic 842), the Company completed an analysis of all property and financing lease contracts. Several assumptions were made when applying this requirement to the Company's existing lease commitments, including the allocation of consideration in the contracts between lease and non-lease components, the lease term and the discount rate to calculate the present value of the lease payments. As of December 31, 2021, the Company is not contracted under any financing leases. The Company currently has five office locations operating under leases.

The Company elected to account for non-lease components such as common area maintenance charges, utilities, real estate taxes, and insurance, separate from the lease component. These variable non-lease components are reported under occupancy expense on the Consolidated Statements of Income as incurred. These variable non-lease components are not included in the present value calculation of the remaining lease payments and are not reflected in the right-of-use assets and lease liabilities reported on the Consolidated Balance Sheet. Total lease expense recorded was $126,000 and $123,000 during 2021 and 2020, respectively.

The Company's leases contain an option to renew the lease after the initial term. The renewal option is evaluated by the Company for reasonability given historical elections and the Company's overall strategic plan to determine its inclusion into the present value calculation. The discount rate utilized in calculating the present value of the lease payments for each lease with the Federal Home Loan Bank of Pittsburgh advance rate corresponding to the remaining maturity of the lease at the time the lease commitment was recognized as an asset.

The following table reflects the weighted average remaining lease term and discount rate for the leases outstanding:

	December 31, 2021
Weighted Average Remaining Term (Years)	**15**
Weighted Average Discount Rate	**2.68%**

NOTE 8: LEASE COMMITMENT (CONTINUED)

The following table presents the undiscounted cash flows due related to operating leases as of December 31, 2021, along with a reconciliation to the discounted amount recorded on the Consolidated Balance Sheets.

	December 31, 2021 (In Thousands)
Undiscounted Cash Flows Due	
2022	**$ 115**
2023	**33**
2024	**34**
2025	**36**
2026	**36**
2027 and Thereafter	**446**
Total	**700**
Impact of Present Value Discount	**(129)**
Total	**$ 571**

NOTE 9: PREMISES AND EQUIPMENT

The components of premises and equipment are as follows:

	December 31, 2021	2020
	(In Thousands)	
Premises and Equipment		
Land	**$ 2,249**	$ 2,249
Buildings and Building Improvements	**9,503**	9,774
Furniture and Equipment	**2,553**	2,343
Total	**14,305**	14,366
Accumulated Depreciation	**(7,088)**	(6,741)
Total	**$ 7,217**	$ 7,625

Depreciation expense was $426,000 and $456,000 for the years ended December 31, 2021 and 2020, respectively.

NOTE 10: DEPOSITS

The components of deposits are as follows:

	December 31, 2021	2020
	(In Thousands)	
Total Deposits		
Demand, Non-Interest-Bearing	**$ 279,764**	$ 225,477
Demand, Interest-Bearing	**228,925**	184,093
Savings	**151,755**	120,481
Time, $250,000 and Over	**27,216**	23,583
Time, Other	**127,523**	133,886
Total	**$ 815,183**	$ 687,520

NOTE 10: DEPOSITS (CONTINUED)

At December 31, 2021 the scheduled maturities of time deposits are as follows (in thousands):

2022	**$ 134,674**
2023	**8,156**
2024	**4,270**
2025	**2,237**
2026	**5,295**
Thereafter	**107**
Total	**$ 154,739**

NOTE 11: BORROWINGS

The Company had a maximum borrowing capacity with FHLB of $230,172,000 at December 31, 2021. FHLB borrowings and the letters of credit are collateralized by FHLB stock and qualifying pledged loans. Outstanding letters of credit with the FHLB used for pledging to secure public fund deposits totaled $7,000,000 and $11,000,000, respectively, as of December 31, 2021 and 2020. The Company had no long-term debt outstanding as of December 31, 2021 or December 31, 2020.

Short-Term Borrowings

The Company has a $109,792,000 cash management advance line of credit with FHLB. The Company had no outstanding balances on the line of credit as of December 31, 2021 or December 31, 2020.

The Company also has a short-term outstanding line of credit with ACBB of $500,000. The line of credit for $500,000 has a floating interest rate equivalent to the Wall Street Journal Prime rate which was 3.25% as of December 31, 2021. The Company had no outstanding balances on the line of credit as of December 31, 2021 or December 31, 2020.

NOTE 12: EMPLOYEE BENEFITS

The Company has an Employee Stock Ownership Plan with 401(k) provisions (the “Plan”). The Plan is for the benefit of all employees who meet the eligibility requirements set forth in the Plan. The amount of employer contributions to the Plan, including 401(k) matching contributions, is at the discretion of the Board of Directors. Company contributions charged to expense for the years ended December 31, 2021 and 2020, were $1,170,000 and $1,209,000, respectively.

At December 31, 2021 and 2020, 143,024 and 174,721 shares, respectively, of the Company's common stock were held in the Plan. In the event a terminated Plan participant desires to sell his or her shares of the Company's stock, or for certain employees who elect to diversify their account balances, the Company may be required to purchase the shares from the participant at their fair market value.

The Company has adopted various deferred compensation plans for certain directors and officers of the Company. Under the deferred compensation plan’s provisions, benefits will be payable upon retirement, death, or permanent disability of the participant. As of December 31, 2021 and 2020, $5,072,000 and $5,471,000, respectively, of deferred compensation expense has been accrued. The deferred compensation plan is funded by life insurance carried on the lives of the participants. The Company recognized deferred compensation expense in 2021 of $66,000 which included a credit resulting from a vesting adjustment. Deferred compensation expense in 2020 was $550,000. Benefits of $549,000 and $252,000 were disbursed in 2021 and 2020, respectively.

NOTE 13: INCOME TAXES

The components of income tax expense are as follows:

	December 31, 2021	December 31, 2020
	(In Thousands)	
Income Tax Expense		
Current	**$ 1,820**	$ 2,247
Deferred	**288**	(415)
Total	**$ 2,108**	$ 1,832

A reconciliation of the statutory income tax expense to the income tax expense included on the Consolidated Statements of Income computed at a tax rate of 21% is as follows:

	December 31, 2021 (In Thousands)		December 31, 2020 (In Thousands)	
	Amount	% of Pretax	Amount	% of Pretax
Federal Income Tax at Statutory Rate	**$ 2,737**	**21 %**	$ 2,355	21 %
Tax-Exempt Income	**(310)**	**(2)**	(343)	(3)
Interest Disallowance	**5**	**-**	9	-
Bank-Owned Life Insurance Income	**(182)**	**(1)**	(101)	(1)
Low-Income Housing Credit	**(120)**	**(1)**	(73)	-
Other, Net	**(22)**	**-**	(15)	-
Total	**$ 2,108**	**17 %**	$ 1,832	17 %

NOTE 13: INCOME TAXES (CONTINUED)

The components of income tax expense are as follows:

	December 31, 2021	December 31, 2020
	(In Thousands)	
Deferred Tax Assets		
Allowance for Loan Losses	**$ 2,283**	$ 2,182
Deferred Compensation	**1,065**	1,149
Investment in Low-Income Housing Partnerships	**448**	505
Nonaccrual Interest	**22**	55
Accrued Expense	**14**	74
Operating Lease Liability	**120**	143
Impairment Allowance	**218**	218
	4,170	4,326
Valuation Allowance	**(80)**	(80)
Total Deferred Tax Assets	**4,090**	4,246
Deferred Tax Liabilities		
Bank Premises and Equipment	**(218)**	(228)
Mortgage Servicing Rights	**(288)**	(246)
Unrealized Gain on Equity Securities	**(47)**	(17)
Unrealized Gain on Available-for-Sale Securities	**(322)**	(594)
Operating Lease	**(118)**	(141)
Prepaid Expenses and Loan Origination Costs	**(619)**	(528)
Total Deferred Tax Liabilities	**(1,612)**	(1,754)
Net Deferred Tax Assets	**$ 2,478**	$ 2,492

The ability to realize the benefits of deferred tax assets is dependent on a number of factors, including the generation of future taxable income, the ability to carryback to taxable income in previous years, the ability to offset capital losses with capital gains, the reversal of deferred tax liabilities, and certain tax planning strategies. A valuation allowance has been established to offset deferred tax assets that could result in future capital losses which management believe may not be realizable. The valuation allowance is $80,000 as of December 31, 2021 and 2020.

The Company uses 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 statement 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 shall be recognized in the first subsequent financial reporting period in which the threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. There is currently no liability for uncertain tax positions and no known unrecognized tax benefits. The Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes on the Consolidated Statements of Income. The Company's policy is to account for interest as a component of interest expense and penalties as a component of other expense. The Company's federal and Pennsylvania income tax returns for taxable years prior to 2018 have been closed for purposes of examination by the Internal Revenue Service and the Pennsylvania Department of Revenue. The Company's New Jersey income tax returns for taxable years prior to 2017 have been closed for purposes of examination.

NOTE 14: TRANSACTIONS WITH EXECUTIVE OFFICERS, DIRECTORS AND PRINCIPAL STOCKHOLDERS

The Company has had, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, principal stockholders, and their related interests on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others.

An analysis of the activity for loans to related parties is as follows:

	December 31,	
	2021	2020
	(In Thousands)	
Balance, Beginning	**$ 29,024**	$ 28,239
New Loans	**20,081**	18,354
Repayments	**(24,694)**	(17,569)
Balance, Ending	**$ 24,411**	$ 29,024

NOTE 15: FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheets.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

A summary of the Company's financial instrument commitments is as follows:

	December 31,	
	2021	2020
	(In Thousands)	
Loan Commitments		
Commitments to Grant Loans	**$ 35,069**	$ 26,309
Unfunded Commitments Under Lines of Credit	**156,653**	136,407
Outstanding Letters of Credit	**4,260**	4,458

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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory, and equipment.

Outstanding letters of credit written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. These standby letters of credit expire within the next 12 months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Company requires collateral supporting these letters of credit, as deemed necessary. The maximum undiscounted exposure related to these commitments at December 31, 2021 and 2020, was $4,260,000 and $4,458,000, respectively.

NOTE 16: FAIR VALUE MEASUREMENTS AND DISCLOSURES

Fair Value Measurements

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year-ends and have not been reevaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end. The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The recent fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

In accordance with this guidance, the Company groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level I
Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level I assets and liabilities generally include debt and equity securities that are traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level II
Valuation is based on inputs other than quoted prices included within Level I that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted policies for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level III
Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level III assets and liabilities include financial instruments, the value of which is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

NOTE 16: FAIR VALUE MEASUREMENTS AND DISCLOSURES (CONTINUED)

Fair Value Measurements (Continued)

The hierarchy requires the use of observable market data when available.

The fair value of investment securities available for sale is equal to the available quoted market price. If no quoted market price is available, fair value is estimated using the quoted market price for similar securities.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used are as follows:

December 31, 2021	Total	Level I	Level II	Level III
		(In Thousands)		
Investment Securities Available for Sale				
U.S. Treasury Securities	**$ 3,945**	**$ -**	**$ 3,945**	**$ -**
U.S. Government Agency Securities	**15,105**	**-**	**15,105**	**-**
States and Political Subdivisions	**63,859**	**-**	**63,859**	**-**
Other Debt Securities				
U.S. Government-Sponsored Mortgage-Backed Securities	**55,577**	**-**	**55,577**	**-**
U.S. Government-Sponsored Collateralized Mortgage Obligations	**13,683**	**-**	**13,683**	**-**
Equity Securities — Financial Institutions	**475**	**475**	**-**	**-**

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used are as follows:

December 31, 2020	Total	Level I	Level II	Level III
		(In Thousands)		
Investment Securities Available for Sale				
U.S. Treasury Securities	$ 1,028	$ -	$ 1,028	$ -
U.S. Government Agency Securities	24,462	-	24,462	-
States and Political Subdivisions	55,997	-	55,997	-
Other Debt Securities				
U.S. Government-Sponsored Mortgage-Backed Securities	36,748	-	36,748	-
U.S. Government-Sponsored Collateralized Mortgage Obligations	16,249	-	16,249	-
Equity Securities — Financial Institutions	332	332	-	-

NOTE 16: FAIR VALUE MEASUREMENTS AND DISCLOSURES (CONTINUED)

Fair Value Measurements (Continued)

Impaired Loans
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 ALL 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 following tables 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 following tables as it is not currently being carried at its fair value.

Other Real Estate Owned (OREO)
OREO is carried at the lower of cost or fair value, which is measured at the date of foreclosure. 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 following tables. 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 following tables 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 following tables as a 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.

Mortgage Servicing Rights
The fair value of mortgage servicing rights is based on a valuation model that calculates the present value of estimated net servicing income. The valuation incorporates assumptions that market participants would use in estimating future net servicing income. The Company is able to compare the valuation model inputs and results with widely available published industry data for reasonableness.

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy are as follows:

December 31, 2021	Total	Level I	Level II	Level III
		(In Thousands)		
Financial Assets				
Impaired Loans	**$ 186**	**$ -**	**$ -**	**$ 186**
Mortgage Servicing Rights	**1,634**	**-**	**-**	**1,634**

December 31, 2020	Total	Level I	Level II	Level III
		(In Thousands)		
Financial Assets				
Impaired Loans	$ 168	$ -	$ -	$ 168
Other Real Estate Owned	450	-	-	450
Mortgage Servicing Rights	1,290	-	-	1,290

NOTE 16: FAIR VALUE MEASUREMENTS AND DISCLOSURES (CONTINUED)

Fair Value Measurements (Continued)

The following tables present quantitative information about the Level III significant unobservable inputs for assets and liabilities measured at fair value on a nonrecurring basis:

December 31, 2021	Fair Value	Valuation Technique	Unobservable Input	Range	Weighted Average
			(In Thousands)		
Impaired Loans	**$ 186**	Appraisal of Collateral	Appraisal Adjustments	**30%**	**30%**
Mortgage Servicing Rights	**1,634**	Discounted Cash Flow	Discount Rates	**12% - 13%**	**12%**
			Prepayment Speeds	**191% - 348%**	**218%**

December 31, 2020	Fair Value	Valuation Technique	Unobservable Input	Range	Weighted Average
			(In Thousands)		
Impaired Loans	$ 168	Appraisal of Collateral	Appraisal Adjustments	25%	25%
Other Real Estate Owned	450	Appraisal of Collateral	Appraisal Adjustments	0% - 19%	8%
			Liquidation Expenses	7%	7%
Mortgage Servicing Rights	1,290	Discounted Cash Flow	Discount Rates	12% - 13%	12%
			Prepayment Speeds	220% - 372%	299%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16: FAIR VALUE MEASUREMENTS AND DISCLOSURES (CONTINUED)

Fair Value Measurements (Continued)

For certain financial instruments, the carrying amount is a reasonable estimate of the fair value. For short-term financial assets such as cash and cash equivalents, the relatively short duration between origination and the anticipated maturity indicates that the carrying amount is a reasonable estimate of fair value. Certificates of Deposits purchased have maturity dates less than two years and the carrying amount is a reasonable estimate of fair value. For investments in restricted stock, stock can only be redeemed at par value and therefore, the carrying amount is a reasonable estimate of fair value. For deposits including demand deposits and savings deposits in which no maturity is stated, the Company assumes the carrying value is a reasonable estimate of fair value.

The following tables present the estimated fair value of the Company's financial instruments not carried at fair value:

December 31, 2021	Carrying Amount	Fair Value	Level I (In Thousands)	Level II	Level III
Financial Assets					
Mortgage Loans Held for Sale	**$ 2,858**	**$ 2,920**	**$ 2,920**	**$ -**	**$ -**
Loans Receivable, Net	**549,100**	**563,522**	**-**	**-**	**563,522**
Financial Liabilities					
Time Deposits	**154,739**	**154,232**	**-**	**-**	**154,232**

December 31, 2020	Carrying Amount	Fair Value	Level I (In Thousands)	Level II	Level III
Financial Assets					
Mortgage Loans Held for Sale	$ 2,732	$ 2,863	$ 2,863	$ -	$ -
Loans Receivable, Net	549,597	567,402	-	-	567,402
Financial Liabilities					
Time Deposits	157,469	157,894	-	-	157,894

NOTE 17: REGULATORY MATTERS

The Bank is required under certain circumstances to maintain cash reserve balances in vault cash or with the Federal Reserve. Effective, March 26, 2020, the Federal Reserve reduced reserve requirements to zero for all depository institutions. The Bank is required to hold reserves to enable same day settlement with Visa and Mastercard. The total of those reserve balances was approximately $95,000 at December 31, 2021 and $53,000 at December 31, 2020.

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

In November 2019, federal bank regulatory agencies finalized a rule that simplifies capital requirements for community banks by allowing them to optionally adopt a simple leverage ratio to measure capital adequacy, which removes requirements for calculating and reporting risk-based capital ratios for a qualifying community bank that has less than $10 billion in total consolidation assets, limited amounts of off-balance-sheet exposures and trading assets and liabilities, and a leverage ratio greater than 9 percent. The Community Bank Leverage Ratio (CBLR) framework was effective on January 1, 2020. The Bank has elected to adopt the optional Community Bank Leverage Ratio framework in the first quarter of 2020.

NOTE 17: REGULATORY MATTERS (CONTINUED)

In April 2020, the federal banking regulatory agencies modified the original Community Bank Leverage Ratio framework and provided that, as of the second quarter 2020, a banking organization with a leverage ratio of 8 percent or greater and that meets the other existing qualifying criteria may elect to use the Community Bank Leverage Ratio framework. The modified rule also states that the Community Bank Leverage Ratio requirements will be greater than 8 percent for the second through fourth quarters of calendar year 2020, greater than 8.5 percent for calendar year 2021, and greater than 9 percent thereafter. The transition rule also maintains a two-quarter grace period for a qualifying community banking organization whose leverage ratio falls no more than 100 basis points below the applicable Community Bank Leverage Ratio Requirement.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total, Tier 1 capital (as defined in the regulations), common equity Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of December 31, 2021 and December 31, 2020, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2021	Actual		For Capital Adequacy Purposes (In Thousands)		To Be Capitalized Under Prompt Corrective Action Provisions	
Capital Ratios	Actual	Ratio	Actual	Ratio	Actual	Ratio
Tier 1 Capital (to Average Assets)	**$ 117,005**	**12.48%**	**$ 37,494**	**4.0%**	**$ 46,868**	**5.0%**

As of December 31, 2020	Actual		For Capital Adequacy Purposes (In Thousands)		To Be Capitalized Under Prompt Corrective Action Provisions	
Capital Ratios	Actual	Ratio	Actual	Ratio	Actual	Ratio
Tier 1 Capital (to Average Assets)	$ 109,303	13.56%	$ 32,238	4.0%	$ 40,298	5.0%

Banking regulations place certain restrictions on dividends paid by the Bank to the Company. A national bank is required to obtain the approval of the Office of the Comptroller of the Currency if the total of all dividends declared in any calendar year exceeds the Bank's net profits (as defined) for that year combined with its retained net profits for the preceding two calendars years. Under this formula, the Bank can declare dividends in 2022 of approximately $12,101,000 plus an additional amount equal to the Bank's net profits for 2021, up to the date of such dividend declaration. In addition, dividends paid by the Bank to the Company would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18: ACCUMULATED OTHER COMPREHENSIVE INCOME

The activity in accumulated other comprehensive income is as follows:

	Unrealized Gain on Securities Available for Sale [1]	
	December 31,	
	2021	2020
	(In Thousands)	
Beginning Balance	**$ 2,234**	$ 1,069
Other Comprehensive (Loss) Income Before Reclassifications	**(1,022)**	1,165
Amounts Reclassified from Accumulated Other Comprehensive Income	**-**	-
Period Change	**(1,022)**	1,165
Ending Balance	**$ 1,212**	$ 2,234

(1) *All amounts are net of tax. Related income tax expense or benefit is calculated using an income tax rate approximating 21%.*

NOTE 19: SUBSEQUENT EVENTS

Management has reviewed events occurring through February 25, 2022, the date the financial statements were issued, and no additional subsequent events occurred requiring accrual or disclosure.

HNB

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