

2020

ANNUAL  
REPORT

DURING UNCERTAINTY • PROVIDED CERTAINTY



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# PEOPLES TRUST *Company*

The bank with a *heart*

Balance Sheets

Statements of Income

Statements of Comprehensive Income

Statements of Changes in Shareholders' Equity

Statements of Cash Flows

Notes to Financial Statements

STAY SAFE.  
STAY HEALTHY.

# 2020

.....  
A N N U A L  
R E P O R T



*Banking with a heart  
happens where local  
deposits help local  
families own local homes.*

**PEOPLES TRUST**  
*Company*  
The bank with a *heart*

**2020**

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2020

BRANCH  
LOCATIONS



**Main Office**  
25 Kingman Street  
St. Albans, VT



**Enosburg Falls**  
140 Main Street  
Enosburg Falls, VT



**Franklin Park West**  
1 Franklin Park West  
St. Albans, VT

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# 2020

.....  
B R A N C H  
L O C A T I O N S



## Georgia

1127 Ethan Allen Highway  
Georgia, VT



## Swanton

123 First Street  
Swanton, VT

## Customer Service

Local:

(802) 524-2196

Toll Free:

(800) 479-2196

Telephone Banking:

(802) 524-5054

(800) 203-9575

**PEOPLES TRUST**  
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*In fond remembrance of:*  
**Donald G. Poirier**  
*Director*  
**1936-2021**

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*Mr. Poirier held many positions within Peoples Trust Company, however his most memorable would be loan officer. His desk was in the lobby, he greeted everyone enthusiastically. Revered throughout the community as the go to person for advice and solutions, simply saying "go see Don". He will be greatly missed by so very many.*

March 1, 2020

Dear Peoples Trust Company Shareholder,

I hope this letter finds you safe and healthy. It seems unfitting to try to convey all of the events of this past year, both in terms of the grandeur of those events, and the degree to which your bank responded, in this short cover page. Regardless, I'm happy to provide you with the Peoples Trust Company 2020 Audited Financial Report. Once again, I believe you will be pleased with the financial results contained herein, and how your bank operated during this challenging year. With increasing clarity after the initial COVID 19 surge, we find our marketplace faring relatively well, despite the continued uncertainty caused by the pandemic. There are pockets of businesses and industries that performed better than anticipated, and those - particularly in the hospitality industry - that remain challenged. We are cautiously optimistic in regard to how Vermont moves forward and rebounds with widespread distribution of COVID 19 vaccinations throughout 2021. The community needs a strong partner during these unprecedented times, and we do not take our responsibility to provide that support lightly.

Here are a few of the financial highlights of the year ending December 31, 2020 compared to year ending December 31, 2019. Please find more detail in the accompanying pages of this report:

- **Net income increased by \$33,293, or less than 1.0% to \$2,194,844.**
- **Total assets increased by \$69,810,259 or 26.1%, to \$337,578,103.**
- **Net Loans in the owned loan portfolio decreased by \$4,865,233, or -2.7% to \$177,908,901.**
- **Net Loans in the serviced portfolio increased by \$13,662,496, or 11.5% to \$132,748,880.**
- **Book value per share increased by 7.7% to \$63.72 per share as of December 31, 2020.**

Our optimism for the future is fueled by the ingenuity and creativity of our customer base and our community. The ability of local businesses to provide their services through different channels due to pandemic restrictions has been one of the reasons our area may have fared better than other parts of the region and country. We too have experienced changing customer habits and altered delivery challenges during the pandemic, due primarily to the closure of our branch lobbies. While in-branch transactions dropped significantly, they were offset by an increased usage of online, mobile and debit card transactions. This prompted an increased investment in our digital offerings as we strive to provide even greater value and depth of those products. While it can be challenging in such uncertain times, we must continue to look toward the future.

During 2020, Peoples Trust Company took action to ensure the bank's financial footing remained strong during and after the onset of the COVID 19 pandemic. This includes reserving \$600,000 of earnings to further fund the loan loss reserve for the general economic uncertainty that still exists. We also closed the underperforming Essex branch location and wrote down the value of that asset to align closer to market value. Despite these reductions to earnings that have better positioned us for the future, net income increased from 2019. Earnings per share, increased from \$3.64 to \$3.81 due in part to our commitment to continue to buyback and retire PTC shares, and provide for strong share liquidity. While your bank enjoyed another strong year financially, the ultra-low interest rate environment we are currently in, along with the commitment from the Federal Open Market Committee to remain at these low levels, is stressing the bank's net interest margin. Income from the sale of loans on the secondary market, along with income from participation in programs such as the Paycheck Protection Program (PPP) have assisted in supplementing the decrease in interest income and have kept overall earnings near record levels. The interest rate environment, along with any further need to reserve for loan losses due to the ongoing impact of COVID 19, could affect future earnings.

I must call attention to the dedication and quality of our employees at the bank. I will remember this past year for the actions, perseverance and resilience of our staff. From the onset of the pandemic, many staff members worked throughout the night, weekends, and holidays to ensure the needs of our community members were addressed during these most uncertain times. Some of these employees navigated working from home, managing record loan volume and their own personal health and safety, while also providing educational support and supervision for their children on a daily basis. Adversity typically brings out the best, or worst in individuals, and it brought out the very best of an already strong team. We owe them all a great deal of gratitude.

Our New Year began on a sad note, as the bank lost one of its true champions on January 24th, 2021, with the passing of the Secretary of the Board of Directors, Donald G. Poirier. Donald was passionate about the Peoples Trust Company and he spent the majority of his lifetime serving the Bank with a Heart as an employee or in the capacity of Board member. He retired in 2001 after 39 consecutive years (over 40 altogether) as the Senior Executive Vice President of the Bank. He was immediately added to the Board of Directors, a testament not only to his banking knowledge and experience, but to his willingness to continue to give selflessly of his time to support the bank he loved. There are countless stories of Franklin County residents who got help starting their first business or who got their first loan from Donald Poirier. He knew everyone that entered the lobby. He greeted each one and took the time to make sure they all felt special. Always caring, compassionate and genuine in his approach, he will be remembered fondly by all.

I want to invite you all to attend the 134th Annual Shareholder Meeting on Tuesday, April 20th at 10:00am. The meeting will be held virtually; log on instructions are attached in your proxy materials. In addition to reviewing the past year's financial performance, we will be honoring Donald G. Poirier and our late Chairman Robert A. Cioffi, who passed away on July 22, 2020. I hope that you will be able to join us.

On behalf of the Board of Directors, the dedicated staff and myself, I want to thank you for your continued support and investment in the Peoples Trust Company.



Sincerely,  
Thomas J. Gallagher, President/CEO  
Peoples Trust Company







PEISCH

CPAs & Advisors Since 1920

**PEOPLES TRUST COMPANY OF ST. ALBANS**

**FINANCIAL REPORT**

**DECEMBER 31, 2020**



## INDEPENDENT AUDITOR'S REPORT

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To the Board of Directors  
Peoples Trust Company of St. Albans  
St. Albans, Vermont

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

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

#### A.M. PEISCH & COMPANY, LLP

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Suite 302  
Colchester, VT 05446  
(802) 654-7255

P.O. Box 460  
Rutland, VT 05702  
(802) 773-2721

30 Congress Street  
Suite 201  
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(802) 527-0505

1020 Memorial Drive  
St. Johnsbury, VT 05819  
(802) 748-5654

24 Airport Road  
Suite 402  
West Lebanon, NH 03784  
(603) 306-0100

## INDEPENDENT AUDITOR'S REPORT *continued*

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### Opinion

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

*A. M. Peisoch & Company LLP*

Rutland, Vermont  
February 8, 2021  
VT Reg. No. 92-0000102

# PEOPLES TRUST Company

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## BALANCE SHEETS

December 31, 2020 & 2019

ASSETS	2020	2019
Cash and cash equivalents	\$ 6,733,300	\$ 4,887,225
Interest bearing deposits with banks	77,112,072	9,301,610
Certificates of deposit	3,740,000	3,740,000
Securities available-for-sale	55,878,642	52,496,034
Federal Home Loan Bank stock, at cost	223,700	220,700
Loans held for sale	2,854,900	517,291
Loans receivable, net	177,908,901	182,774,134
Premises and equipment, net	6,313,901	6,671,675
Accrued interest receivable	946,455	1,033,514
Bank owned life insurance	4,089,891	4,001,452
Other assets	1,776,251	2,124,119
Total assets	<u>\$ 337,578,013</u>	<u>\$ 267,767,754</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Demand deposits	\$ 121,735,494	\$ 77,516,843
Savings, NOW, and money market deposits	125,786,363	103,174,842
Time deposits \$250,000 and over	8,902,276	7,897,942
Other time deposits	39,964,356	40,465,932
Total deposits	296,388,489	229,055,559
Repurchase agreements	3,210,809	3,182,657
Accrued interest payable and other liabilities	1,456,510	997,499
Total liabilities	<u>301,055,808</u>	<u>233,235,715</u>
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Common stock - \$0.50 par value; 2,000,000 shares authorized; 573,142 and 583,638 shares issued and outstanding in 2020 and 2019, respectively	286,571	291,819
Additional paid-in capital	8,381,685	8,381,685
Retained earnings	26,502,598	25,438,373
Accumulated other comprehensive income	1,351,351	420,162
Total shareholders' equity	<u>36,522,205</u>	<u>34,532,039</u>
Total liabilities and shareholders' equity	<u>\$ 337,578,013</u>	<u>\$ 267,767,754</u>

See notes to financial statements.

**STATEMENTS OF INCOME**  
Years Ended December 31, 2020 & 2019

	2020	2019
Interest income:		
Interest and fees on loans	\$ 9,343,953	\$ 9,538,587
Interest and dividends on investment securities:		
U.S. government and federal agencies	351,134	410,464
CD's with banks	98,039	97,771
Other investments	747,283	747,378
Interest on federal funds sold and other interest bearing deposits	76,886	284,899
	<u>10,617,295</u>	<u>11,079,099</u>
Total interest income		
Interest expense:		
Interest on deposits	906,377	761,761
Interest on repurchase agreements	7,311	8,982
	<u>913,688</u>	<u>770,743</u>
Total interest expense		
Net interest income	9,703,607	10,308,356
Less provision for loan losses	600,000	-
	<u>9,103,607</u>	<u>10,308,356</u>
Net interest income after provision for loans losses		
Other income:		
Service charges on deposit accounts	574,426	791,346
Other service charges and fees	368,785	340,514
Interchange fees	900,951	840,644
Gain on sale of loans	2,169,336	349,889
Loss on sale of securities, net	(52)	-
Other income	302,893	376,449
	<u>4,316,339</u>	<u>2,698,842</u>
Total other income		
Other expenses:		
Salaries and employee benefits	6,408,496	6,335,966
Occupancy and equipment expense	1,133,052	1,108,955
Software maintenance	649,589	549,160
Loss on sale of fixed assets	11,061	10,935
Interchange expense	433,475	414,443
State franchise tax	272,170	263,680
Impairment loss	239,000	-
Other expense	2,038,216	2,086,714
	<u>11,185,059</u>	<u>10,769,853</u>
Total other expenses		
Income before income taxes	2,234,887	2,237,345
Income tax expense	40,043	75,794
	<u>\$ 2,194,844</u>	<u>\$ 2,161,551</u>
Net income		
Earnings per common share	<u>\$ 3.81</u>	<u>\$ 3.64</u>

See notes to financial statements.

# PEOPLES TRUST Company

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## STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31, 2020 & 2019

	2020	2019
Net income	\$ 2,194,844	\$ 2,161,551
Other comprehensive income:		
Unrealized gain on securities:		
Unrealized holding gains arising during period	1,178,668	983,953
Tax effect	<u>(247,520)</u>	<u>(206,630)</u>
	931,148	777,323
Less: reclassification adjustment for losses included in income	52	-
Tax effect	<u>(11)</u>	<u>-</u>
	<u>41</u>	<u>-</u>
Other comprehensive income, net of tax:	931,189	777,323
Comprehensive income	<u>\$ 3,126,033</u>	<u>\$ 2,938,874</u>

See notes to financial statements.

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

Years Ended December 31, 2020 & 2019

	<b>Common Stock</b>	<b>Additional Paid-In Capital</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Total Shareholders' Equity</b>
Balance, January 1, 2019	\$ 298,954	\$ 8,381,685	\$ 24,559,726	\$ (357,161)	\$ 32,883,204
Net income	-	-	2,161,551	-	2,161,551
Other comprehensive income	-	-	-	777,323	777,323
Stock buyback	(7,135)	-	(777,715)	-	(784,850)
Cash dividends paid	-	-	(505,189)	-	(505,189)
Balance, December 31, 2019	291,819	8,381,685	25,438,373	420,162	34,532,039
Net income	-	-	2,194,844	-	2,194,844
Other comprehensive income	-	-	-	931,189	931,189
Stock buyback	(5,248)	-	(583,319)	-	(588,567)
Cash dividends paid	-	-	(547,300)	-	(547,300)
Balance, December 31, 2020	<u>\$ 286,571</u>	<u>\$ 8,381,685</u>	<u>\$ 26,502,598</u>	<u>\$ 1,351,351</u>	<u>\$ 36,522,205</u>

See notes to financial statements.

# PEOPLES TRUST Company

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## STATEMENTS OF CASH FLOWS

Years Ended December 31, 2020 & 2019

CASH FLOWS FROM OPERATING ACTIVITIES	2020	2019
Net income	\$ 2,194,844	\$ 2,161,551
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	464,249	460,614
Provision for loan losses	600,000	-
Net change in deferred taxes	(168,095)	(35,842)
Decrease in taxes receivable	93,905	61,636
Increase in taxes payable	112,907	-
Gain on sale of loans	(2,169,336)	(349,889)
Loss on sale of fixed assets	11,061	10,935
Loss on sale of securities, net	52	-
Impairment expense	239,000	-
Amortization, net	556,266	469,854
Increase in loans held for sale	(2,337,609)	(354,613)
Decrease in deferred loan fees	301,472	14,912
Decrease (increase) in accrued interest receivable	87,059	(11,631)
Increase in bank owned life insurance	(88,439)	(90,092)
Decrease (increase) in other assets	422,058	(935,693)
Increase in accrued expenses and other liabilities	98,573	187,863
Net cash provided by operating activities	<u>417,967</u>	<u>1,589,605</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in interest bearing deposits with banks	(67,810,462)	(289,959)
Proceeds from sales, maturities, and paydowns of securities available-for-sale	15,626,261	11,054,844
Purchase of securities available-for-sale	(18,386,467)	(14,893,429)
Proceeds from maturities of securities held-to-maturity	-	827,567
Net change in Federal Home Loan Bank stock	(3,000)	171,600
Loan originations, net of repayments	6,099,732	4,024,803
Recoveries of loans charged off	33,365	84,034
Purchase of premises and equipment	(356,536)	(254,064)
Net cash (used) provided by investing activities	<u>(64,797,107)</u>	<u>725,396</u>

See notes to financial statements.



**STATEMENTS OF CASH FLOWS** *continued*  
Years Ended December 31, 2020 & 2019

<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>2020</b>	<b>2019</b>
Net increase in demand, savings, NOW and money market	\$ 66,830,172	\$ 1,054,622
Net increase (decrease) in time deposits	502,758	(627,800)
Net increase (decrease) in repurchase agreements	28,152	(1,551,441)
Repurchase of stock	(588,567)	(784,850)
Dividends paid	<u>(547,300)</u>	<u>(505,189)</u>
Net cash provided (used) by financing activities	<u>66,225,215</u>	<u>(2,414,658)</u>
Net increase (decrease) in cash and cash equivalents	1,846,075	(99,657)
Cash and cash equivalents		
Beginning	<u>4,887,225</u>	<u>4,986,882</u>
Ending	<u>\$ 6,733,300</u>	<u>\$ 4,887,225</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash payments for:		
Interest	<u>\$ 910,243</u>	<u>\$ 763,824</u>
Income taxes	<u>\$ 1,325</u>	<u>\$ 50,000</u>
<b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Total change in unrealized gain on securities available-for-sale	<u>\$ 1,178,720</u>	<u>\$ 983,953</u>

See notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

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### **Note 1. Significant Accounting Policies**

The accounting policies of Peoples Trust Company of St. Albans (the Bank) are in conformity with U. S. generally accepted accounting principles and general practices within the banking industry. The following is a description of the more significant policies.

#### **Nature of operations**

The Bank provides a variety of financial services to individuals, municipalities, commercial, and non-profit customers through its branches in northwestern Vermont, which is primarily a small business and agricultural area. The Bank's primary deposit products are checking and savings accounts and certificates of deposit. Its primary lending products are commercial, real estate, agricultural, and consumer loans.

#### **Concentration of risk**

The Bank's operations are affected by various risk factors, including interest-rate risk, credit risk, and risk from geographic concentration of lending activities. Management attempts to manage interest rate risk through various asset/liability management techniques designed to match maturities of assets and liabilities. Loan policies and administration are designed to provide assurance that loans will only be granted to credit-worthy borrowers, although credit losses are expected to occur because of subjective factors and factors beyond the control of the Bank. In addition, the Bank is a community bank and, as such, is mandated by the Community Reinvestment Act and other regulations to conduct most of its lending activities within the geographic area where it is located. Although the Bank has a diversified loan portfolio and economic conditions are stable, a substantial portion of its loan portfolio is secured by real estate and most of its lending activities are conducted in northern Vermont. As a result, the Bank and its borrowers may be especially vulnerable to the consequences of changes in the local economy and real estate market conditions. Note 3 discusses the types of investments the Bank invests in, and Note 5 discusses the type of lending the Bank engages in.

#### **Use of estimates**

In preparing financial statements in conformity with U. S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and 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, accumulated depreciation based on estimated useful lives of assets, the valuation of foreclosed real estate, and deferred tax assets.

#### **Presentation of cash flows**

For purposes of presentation in the statements of cash flows, cash and cash equivalents include cash on hand and amounts due from banks (including cash items in process of clearing).

## NOTES TO FINANCIAL STATEMENTS *continued*

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### **Note 1. Significant Accounting Policies (Continued)**

#### **Investment securities**

Debt securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and recorded at amortized cost. Securities not classified as held-to-maturity are classified as available-for-sale and recorded at fair value with unrealized gains and losses excluded from earnings and reported in other comprehensive income net of tax. Purchase premiums and discounts are recognized in interest income using methods approximating the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary, result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

#### **Federal Home Loan Bank stock**

As a member of the Federal Home Loan Bank, the Bank is required to invest in \$100 par value stock of the Federal Home Loan Bank. The stock is nonmarketable and is carried at cost. When redeemed, the Bank will receive from the Federal Home Loan Bank an amount equal to the par value of the stock.

#### **Loans**

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal adjusted for any charge-offs, the allowance for loan losses and unearned fees. Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Sales are made primarily without recourse. Net unrealized losses are recognized through a valuation allowance by charges to income.

Loan interest income is accrued daily on the outstanding balances. Accrual of interest is discontinued when a loan is specifically determined to be impaired or when the loan is delinquent 90 days and management believes that, after considering collection efforts and other factors, the borrower's financial condition is such that collection of interest is doubtful. Any unpaid interest previously accrued on those loans is reversed from income. Interest income generally is not recognized on specific impaired loans unless the likelihood of further loss is remote. Interest payments received on such loans are generally applied as a reduction of the loan principal balance. Interest income on other nonaccrual loans is recognized only to the extent of interest payments received. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Loans are charged off when collection of principal is considered doubtful. Past due status is determined on a contractual basis.

## NOTES TO FINANCIAL STATEMENTS *continued*

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### **Note 1. Significant Accounting Policies (Continued)**

Loan origination and commitment fees and certain direct loan origination costs are deferred and amortized as an adjustment of the related loan's yield using methods that approximate the interest method. The Bank is generally amortizing these amounts over the contractual life.

#### **Allowance for loan losses**

The allowance for loan losses is maintained at a level that, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, credit concentrations, and trends in historical loss experience, specific impaired loans, and economic conditions. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. Although management uses available information to recognize losses on loans, because of uncertainties associated with local economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that a material change could occur in the allowance for loan losses in the near term. However, the amount of the change that is reasonably possible cannot be estimated. The allowance is increased by a provision for loan losses, which is charged to expense, and reduced by charge-offs, net of recoveries. Subsequent recoveries, if any, are credited to the allowance.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Impaired loans may also include loans which have been restructured. A troubled debt restructuring occurs when the Bank grants a concession to a borrower, for legal or economic reasons, that is experiencing financial difficulties. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Impairment is measured on a loan-by-loan basis, primarily for commercial loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, 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 Bank does not generally identify individual consumer and residential loans for impairment disclosures, unless those loans are subject to restructuring agreements or are part of a larger impaired customer relationship.

#### **Bank premises and equipment**

Bank premises and equipment are stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line and accelerated methods over the estimated useful lives of the related assets. The cost of assets sold or otherwise disposed of and the related allowance for depreciation is eliminated from the accounts and the resulting gains or losses are reflected in the income statement. Maintenance and repairs are charged to current expense as incurred and the cost of major renewals and betterments are capitalized.

**NOTES TO FINANCIAL STATEMENTS** *continued*

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**Note 1. Significant Accounting Policies (Continued)****Other real estate owned**

Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at the lower of the Bank's carrying amount or fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, these assets are carried at the lower of their new cost basis or fair value less cost to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its costs or fair value less cost to sell.

**Mortgage servicing**

The Bank recognizes, as separate assets, rights to service mortgage loans for others however those servicing rights are acquired. When the Bank acquires mortgage servicing rights through either the purchase or origination of mortgage loans (originated mortgage servicing rights) and sells or securitizes those loans with servicing rights retained, it allocates the total cost of the mortgage loans to the mortgage servicing rights and the loans (without the mortgage servicing rights) based on their relative fair values. To determine the fair value of the servicing rights created, the Bank uses the market prices under comparable servicing sale contracts. The cost of mortgage servicing rights is amortized in proportion to, and over the period of, estimated net servicing revenues. Impairment of mortgage servicing rights is assessed based on the fair value of those rights. Fair values are estimated using discounted cash flows based on a current market interest rate.

**Pension plan**

Pension costs relating to the Bank's defined contribution plan are charged to employee benefits expense and are funded as accrued.

**Advertising costs**

The Bank expenses advertising costs as incurred.

**Income taxes**

The Bank recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are established for the temporary differences between the accounting basis and the tax basis of the Bank's assets and liabilities at enacted tax rates expected to be in effect when the amounts related to such temporary differences are realized or settled. Adjustments to the Bank's deferred tax assets are recognized as deferred income tax expense or benefit based on management's judgments relating to the realizability of such assets. Historic rehabilitation, low income housing, and new markets tax credits are recognized as a reduction of income tax expense in the years they are earned.

## NOTES TO FINANCIAL STATEMENTS *continued*

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### **Note 1. Significant Accounting Policies (Continued)**

Generally accepted accounting standards prescribe a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Management reviews the inventory of tax positions taken at each reporting period to assess the more-likely-than-not recognition threshold. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold are derecognized in the first subsequent financial reporting period in which that threshold is no longer met.

#### **Fair value measurements**

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

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

- Level 1 – Valuation is based on quoted prices in active markets for identical assets or liabilities that the Bank has the ability to access at the measurement date. Level one assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities;
- Level 2 – Valuation is based on inputs other than quoted prices included within level one that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices 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 3 – 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 three assets and liabilities include financial instruments whose value 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.

#### **Off-balance-sheet financial instruments**

In the ordinary course of business, the Bank is party to off-balance-sheet financial instruments consisting of commitments to extend credit, unused lines of credit, commercial letters of credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they become payable.

**NOTES TO FINANCIAL STATEMENTS** *continued*

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**Note 1. Significant Accounting Policies (Continued)****Earnings per common share**

Earnings per common share are computed based on the weighted average number of shares of common stock outstanding during the period, retroactively adjusted for stock splits. The weighted average shares outstanding were 576,200 and 593,792 for the years ended December 31, 2020 and 2019, respectively.

**Transfer and servicing of financial assets**

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

**Comprehensive income**

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income or in a separate statement. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities are reported net of the tax effect in the statement of comprehensive income.

**Accounting Pronouncements**

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses*. The standard requires financial assets to be measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that will be deducted from the amortized cost basis of the financial assets to present the net carrying value at the amount expected to be collected on the financial statements. The income statement will reflect the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. The measurement of expected credit losses is to be based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. In addition, credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses. The amount of this allowance for credit losses will be limited to the amount by which the fair value is below amortized cost. The standard is effective for reporting periods beginning after December 15, 2022, including interim periods within those fiscal years. The impact of this standard on the financial statements is yet to be determined.

**NOTES TO FINANCIAL STATEMENTS** *continued*

**Note 2. Restrictions on Cash and Due from Banks**

The Bank is required to maintain reserve and clearing balances in cash with Atlantic Community Bankers Bank. The totals of the reserve balances were approximately \$250,000 and \$783,000 at December 31, 2020 and 2019, respectively.

The nature of the Bank's business requires that it maintain amounts due from banks, which, at times, may exceed federally insured limits. No losses have been experienced on these accounts.

**Note 3. Investment Securities**

Securities available-for-sale (AFS) consists of the following:

AFS	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>December 31, 2020</b>				
U.S. Government and Federal Agencies	\$ 33,814,383	\$ 1,181,867	\$ 5,643	\$ 34,990,607
State and municipal securities	<u>20,353,689</u>	<u>553,005</u>	<u>18,659</u>	<u>20,888,035</u>
	<u>\$ 54,168,072</u>	<u>\$ 1,734,872</u>	<u>\$ 24,302</u>	<u>\$ 55,878,642</u>
<b>December 31, 2019</b>				
U.S. Government and Federal Agencies	\$ 33,738,670	\$ 477,737	\$ 95,326	\$ 34,121,081
State and municipal securities	<u>18,225,513</u>	<u>173,003</u>	<u>23,563</u>	<u>18,374,953</u>
	<u>\$ 51,964,183</u>	<u>\$ 650,740</u>	<u>\$ 118,889</u>	<u>\$ 52,496,034</u>

Included in the caption "Securities AFS: U. S. Government and Federal Agencies" are mortgage-backed securities as follows:

	Amortized Cost	Fair Value
December 31, 2020	<u>\$ 20,088,754</u>	<u>\$ 20,662,361</u>
December 31, 2019	<u>\$ 17,945,874</u>	<u>\$ 18,043,723</u>

Proceeds from the sale of securities available-for-sale were \$1,330,000 and \$-0- in 2020 and 2019, respectively.

Gross realized gains and gross realized losses on sales of investments available-for-sale were \$-0- and \$52 in 2020 and \$-0- in 2019.



**NOTES TO FINANCIAL STATEMENTS** *continued*

**Note 3. Investment Securities** (continued)

The scheduled maturities of securities-available for sale and securities held-to-maturity at December 31, 2020 were as follows:

	Available-for-Sale Securities	
	Amortized Cost	Fair Value
Due within one year	\$ 5,204,185	\$ 5,249,734
Due from one to five years	8,380,250	8,880,813
Due from five to ten years	3,015,153	3,101,928
Due in greater than ten years	17,479,730	17,983,806
Mortgage-backed securities	20,088,754	20,662,361
	<u>\$ 54,168,072</u>	<u>\$ 55,878,642</u>

Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Assets, principally securities, with amortized cost of \$8,233,019 and \$9,761,827 and with fair values of \$8,692,166 and \$9,985,372 at December 31, 2020 and 2019, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

Information pertaining to securities with gross unrealized losses at December 31, 2020 and 2019, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	<u>Less Than 12 Months</u>		<u>12 Months or Greater</u>		<u>Total</u>	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b>December 31, 2020</b>						
U.S. Government and Federal Agencies	\$ 2,506,156	\$ (5,643)	\$ -	\$ -	\$ 2,506,156	\$ (5,643)
State and municipal governments	3,200,294	(18,659)	-	-	3,200,294	(18,659)
Total	<u>\$ 5,706,450</u>	<u>\$ (24,302)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,706,450</u>	<u>\$ (24,302)</u>

**NOTES TO FINANCIAL STATEMENTS** *continued*

**Note 3. Investment Securities (continued)**

	<u>Less Than 12 Months</u>		<u>12 Months or Greater</u>		<u>Total</u>	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b>December 31, 2019</b>						
U.S. Government and Federal Agencies	\$ 3,200,481	\$ (53,168)	\$ 4,060,989	\$ (42,158)	\$ 7,261,470	\$ (95,326)
State and municipal governments	3,832,691	(23,563)	-	-	3,832,691	(23,563)
<b>Total</b>	<u>\$ 7,033,172</u>	<u>\$ (76,731)</u>	<u>\$ 4,060,989</u>	<u>\$ (42,158)</u>	<u>\$ 11,094,161</u>	<u>\$ (118,889)</u>

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2020, the two debt securities and six municipal bonds with unrealized losses have depreciated less than 1% from the Bank's amortized cost basis. These securities are guaranteed by the U. S. or State and municipal governments or other Federal Agencies. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the Federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

**Note 4. Loan Servicing**

Mortgage loans serviced for others are not included in the accompanying statements of financial condition. The unpaid principal balances of mortgage loans serviced for others were \$132,748,880 and \$119,086,384 at December 31, 2020 and 2019, respectively. The carrying amounts of mortgage service rights which approximate their fair value were \$660,043 and \$464,801 at December 31, 2020 and 2019, respectively. Mortgage service rights of \$348,381 and \$161,126 were capitalized in 2020 and 2019, respectively. Amortization of mortgage services rights was \$153,139 and \$133,889 in 2020 and 2019, respectively.

**NOTES TO FINANCIAL STATEMENTS** *continued*

**Note 5. Loans**

The composition of net loans at December 31 is as follows:

	2020	2019
Residential real estate	\$ 49,954,515	\$ 58,804,893
Commercial real estate	81,151,742	81,999,233
Commercial	18,170,341	8,300,888
Agricultural real estate	17,736,264	20,580,320
Agricultural	1,251,377	1,414,711
Consumer	6,247,625	5,382,474
Municipal	6,521,700	8,553,376
Gross loans	<u>181,033,564</u>	<u>185,035,895</u>
Net deferred loan costs	(315,161)	(13,689)
Allowance for loan losses	<u>(2,809,502)</u>	<u>(2,248,072)</u>
Net loans	<u><u>\$ 177,908,901</u></u>	<u><u>\$ 182,774,134</u></u>

A summary of current, past due, and nonaccrual loans as of December 31, 2020 and 2019 were as follows:

December 31, 2020	Current	30-89 days	Over 90 days and accruing	Nonaccrual	Total
Residential real estate	\$ 49,257,308	\$ 255,629	\$ -	\$ 441,578	\$ 49,954,515
Commercial real estate	79,907,247	30,116	-	1,214,379	81,151,742
Commercial	18,170,341	-	-	-	18,170,341
Agricultural real estate	17,616,055	-	-	120,209	17,736,264
Agricultural	1,251,377	-	-	-	1,251,377
Consumer	6,230,389	6,223	-	11,013	6,247,625
Municipal	6,521,700	-	-	-	6,521,700
Total	<u>\$ 178,954,417</u>	<u>\$ 291,968</u>	<u>\$ -</u>	<u>\$ 1,787,179</u>	<u>\$ 181,033,564</u>

**NOTES TO FINANCIAL STATEMENTS** *continued*

**Note 5. Loans (continued)**

December 31, 2019	Over 90 days			Nonaccrual	Total
	Current	30-89 days	and accruing		
Residential real estate	\$ 57,511,827	\$ 598,671	\$ -	\$ 694,395	\$ 58,804,893
Commercial real estate	79,110,204	423,082	-	2,465,947	81,999,233
Commercial	8,018,931	257,449	-	24,508	8,300,888
Agricultural real estate	20,453,884	-	-	126,436	20,580,320
Agricultural	1,414,711	-	-	-	1,414,711
Consumer	5,379,596	2,758	-	120	5,382,474
Municipal	8,553,376	-	-	-	8,553,376
Total	\$ 180,442,529	\$ 1,281,960	\$ -	\$ 3,311,406	\$ 185,035,895

**Note 6. Allowance for Loan Losses and Credit Quality**

Changes in the Allowance for loan losses for the years ended December 31, 2020 and 2019 were as follows:

	Residential	Commercial	Commercial	Agricultural	Agricultural,	Unallocated	Total
	Real Estate	Real Estate		Real Estate	and Consumer		
<b>Balance December 31, 2019</b>	\$ 186,276	\$ 1,290,641	\$ 160,641	\$ 240,881	\$ 260,203	\$ 109,430	\$ 2,248,072
Provision for loan losses	336,600	(418,010)	153,668	92,005	300,895	134,842	600,000
Recoveries of amounts charged off	3,000	12,930	-	815	16,620	-	33,365
	525,876	885,561	314,309	333,701	577,718	244,272	2,881,437
Amounts charged off	(29,146)	(7,027)	-	-	(35,762)	-	(71,935)
<b>Balance December 31, 2020</b>	\$ 496,730	\$ 878,534	\$ 314,309	\$ 333,701	\$ 541,956	\$ 244,272	\$ 2,809,502
<b>Balance December 31, 2018</b>	\$ 193,068	\$ 1,409,033	\$ 139,739	\$ 237,275	\$ 298,646	\$ -	\$ 2,277,761
Provision for loan losses	(16,707)	(64,937)	20,469	(1,664)	(46,591)	109,430	-
Recoveries of amounts charged off	15,000	3,830	433	5,270	59,502	-	84,035
	191,361	1,347,926	160,641	240,881	311,557	109,430	2,361,796
Amounts charged off	(5,085)	(57,285)	-	-	(51,354)	-	(113,724)
<b>Balance December 31, 2019</b>	\$ 186,276	\$ 1,290,641	\$ 160,641	\$ 240,881	\$ 260,203	\$ 109,430	\$ 2,248,072

Despite the above allocation, the Allowance for loan losses is general in nature and is available to absorb loss from any loan type.

**NOTES TO FINANCIAL STATEMENTS** *continued*

**Note 6. Allowance for Loan Losses and Credit Quality (Continued)**

At December 31, 2020 and 2019, the allocation of the Allowance for loan losses summarized on the basis of the Bank's impairment methodology was as follows:

	Residential Real Estate	Commercial Real Estate	Commercial	Agricultural Real Estate	Agricultural, Consumer and Municipal	Unallocated	Total
<b>December 31, 2020</b>							
Individually evaluated for impairment	\$ 7,427	\$ 29,794	\$ -	\$ 41,842	\$ -	\$ -	\$ 79,063
Collectively evaluated for impairment	489,303	848,740	314,309	291,859	541,956	244,272	2,730,439
Allocated	<u>\$ 496,730</u>	<u>\$ 878,534</u>	<u>\$ 314,309</u>	<u>\$ 333,701</u>	<u>\$ 541,956</u>	<u>\$ 244,272</u>	<u>\$ 2,809,502</u>
<b>December 31, 2019</b>							
Individually evaluated for impairment	\$ 13,736	\$ 9,741	\$ -	\$ 52,288	\$ 311	\$ -	\$ 76,076
Collectively evaluated for impairment	172,540	1,280,900	160,641	188,593	259,892	109,430	2,171,996
Allocated	<u>\$ 186,276</u>	<u>\$ 1,290,641</u>	<u>\$ 160,641</u>	<u>\$ 240,881</u>	<u>\$ 260,203</u>	<u>\$ 109,430</u>	<u>\$ 2,248,072</u>

The recorded investment in loans summarized on the basis of the Bank's impairment methodology as of December 31, 2020 and 2019 were as follows:

	Residential Real Estate	Commercial Real Estate	Commercial	Agricultural Real Estate	Agricultural	Consumer and Municipal	Total
<b>December 31, 2020</b>							
Individually evaluated for impairment	\$ 982,725	\$ 1,722,839	\$ 18,574	\$ 1,094,377	\$ 299,570	\$ -	\$ 4,118,085
Collectively evaluated for impairment	48,971,790	79,428,903	18,151,767	16,641,887	951,807	12,769,325	176,915,479
Allocated	<u>\$ 49,954,515</u>	<u>\$ 81,151,742</u>	<u>\$ 18,170,341</u>	<u>\$ 17,736,264</u>	<u>\$ 1,251,377</u>	<u>\$ 12,769,325</u>	<u>\$ 181,033,564</u>
<b>December 31, 2019</b>							
Individually evaluated for impairment	\$ 928,089	\$ 3,122,949	\$ 24,508	\$ 545,059	\$ 128,290	\$ -	\$ 4,748,895
Collectively evaluated for impairment	57,876,804	78,876,284	8,276,380	20,035,261	1,286,421	13,935,850	180,287,000
Allocated	<u>\$ 58,804,893</u>	<u>\$ 81,999,233</u>	<u>\$ 8,300,888</u>	<u>\$ 20,580,320</u>	<u>\$ 1,414,711</u>	<u>\$ 13,935,850</u>	<u>\$ 185,035,895</u>

The following table summarizes the loan ratings applied to the Bank's loan types as of December 31, 2020 and 2019:

	Residential Real Estate	Commercial Real Estate	Commercial	Agricultural Real Estate	Agricultural	Consumer and Municipal	Total
<b>December 31, 2020</b>							
Satisfactory	\$ 48,254,899	\$ 76,022,189	\$ 17,896,861	\$ 13,533,170	\$ 905,297	\$ 12,767,625	\$ 169,380,041
Watch	1,030,426	3,598,204	272,030	2,829,105	46,510	993	7,777,268
OAEM	-	-	-	-	-	-	-
Substandard	669,190	1,531,349	1,450	1,373,989	299,570	707	3,876,255
Doubtful	-	-	-	-	-	-	-
Total	<u>\$ 49,954,515</u>	<u>\$ 81,151,742</u>	<u>\$ 18,170,341</u>	<u>\$ 17,736,264</u>	<u>\$ 1,251,377</u>	<u>\$ 12,769,325</u>	<u>\$ 181,033,564</u>

**NOTES TO FINANCIAL STATEMENTS** *continued*

**Note 6. Allowance for Loan Losses and Credit Quality (Continued)**

December 31, 2019	Residential Real Estate	Commercial Real Estate	Commercial	Agricultural Real Estate	Agricultural	Consumer and Municipal	Total
Satisfactory	\$ 56,685,523	\$ 75,377,402	\$ 7,843,177	\$ 13,594,857	\$ 1,054,784	\$ 13,931,914	\$ 168,487,657
Watch	1,322,234	3,447,542	356,472	6,160,973	231,637	3,229	11,522,087
OAEM	-	-	-	-	-	-	-
Substandard	797,136	3,174,289	101,239	824,490	128,290	707	5,026,151
Doubtful	-	-	-	-	-	-	-
Total	<u>\$ 58,804,893</u>	<u>\$ 81,999,233</u>	<u>\$ 8,300,888</u>	<u>\$ 20,580,320</u>	<u>\$ 1,414,711</u>	<u>\$ 13,935,850</u>	<u>\$ 185,035,895</u>

The following is an overview of the Bank’s loan rating system:

**1-3 Rating – Satisfactory**

Risk-rating grades “1” through “3” comprise those loans ranging from lower than average credit risk which indicates borrowers with high liquidity, excellent financial condition, strong management, favorable industry trends or loans secured by highly liquid assets through marginal credit risk, which while credit worthy, exhibit some characteristics which require special attention by the account officer.

**4 Rating – Watch**

These loans are characterized by adequate collateral but recent declining financial, reporting or management trends such as marginal cash flow, marginal profitability, etc.

**5 Rating – Other Assets Especially Mentioned (OAEM)**

Special mention assets have potential weaknesses that deserve management’s close attention and monitoring until resolved. OAEMs are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification currently but might warrant adverse classification if correction of the weakness does not take place in the short term.

**6 Rating – Substandard**

Loans rated substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged. Assets 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 deficiencies are not corrected.

**7 Rating - Doubtful**

An asset classified doubtful has all the weaknesses inherent in one classified substandard, with the added characteristic that weaknesses make collection or liquidation in full, on the basis of existing facts, conditions and values, highly questionable and improbable.

**NOTES TO FINANCIAL STATEMENTS** *continued*

**Note 6. Allowance for Loan Losses and Credit Quality (Continued)**

The following table provides information with respect to impaired loans as of and for the year ended December 31, 2020 and 2019, respectively:

	December 31, 2020			Year Ended December 31, 2020	
	Recorded Investment	Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Received
With an allowance recorded:					
Residential real estate	\$ 223,693	\$ 235,338	\$ 7,427		
Commercial real estate	1,317,871	1,341,768	29,794		
Commercial	-	-	-		
Agricultural real estate	620,743	620,743	41,842		
Agricultural	-	-	-		
	<u>2,162,307</u>	<u>2,197,849</u>	<u>79,063</u>		
With no allowance recorded:					
Residential real estate	759,032	1,118,727	-		
Commercial real estate	404,968	1,113,843	-		
Commercial	18,574	95,376	-		
Agricultural real estate	473,634	473,634	-		
Agricultural	299,570	299,570	-		
	<u>1,955,778</u>	<u>3,101,150</u>	<u>-</u>		
Total:					
Residential real estate	982,725	1,354,065	7,427	\$ 986,782	\$ 21,071
Commercial real estate	1,722,839	2,455,611	29,794	2,565,834	44,890
Commercial	18,574	95,376	-	20,213	2,915
Agricultural real estate	1,094,377	1,094,377	41,842	806,772	56,053
Agricultural	299,570	299,570	-	213,577	13,275
Total	<u>\$ 4,118,085</u>	<u>\$ 5,298,999</u>	<u>\$ 79,063</u>	<u>\$ 4,593,178</u>	<u>\$ 138,204</u>

**NOTES TO FINANCIAL STATEMENTS** *continued*

**Note 6. Allowance for Loan Losses and Credit Quality (Continued)**

	December 31, 2019			Year Ended December 31, 2019	
	Recorded Investment	Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Received
With an allowance recorded:					
Residential real estate	\$ 235,867	\$ 240,449	\$ 13,736		
Commercial real estate	2,212,931	2,216,242	9,741		
Commercial	-	-	-		
Agricultural real estate	525,059	525,059	52,288		
Agricultural	128,290	128,290	311		
	<u>3,102,147</u>	<u>3,110,040</u>	<u>76,076</u>		
With no allowance recorded:					
Residential real estate	692,222	1,030,901	-		
Commercial real estate	910,018	1,763,019	-		
Commercial	24,508	101,239	-		
Agricultural real estate	20,000	20,000	-		
Agricultural	-	-	-		
	<u>1,646,748</u>	<u>2,915,159</u>	<u>-</u>		
Total:					
Residential real estate	928,089	1,271,350	13,736	\$ 975,180	\$ 19,576
Commercial real estate	3,122,949	3,979,261	9,741	2,394,051	36,075
Commercial	24,508	101,239	-	28,732	-
Agricultural real estate	545,059	545,059	52,288	565,998	39,376
Agricultural	128,290	128,290	311	96,886	-
Total	<u>\$ 4,748,895</u>	<u>\$ 6,025,199</u>	<u>\$ 76,076</u>	<u>\$ 4,060,847</u>	<u>\$ 95,027</u>

The following table provides information with respect to troubled debt restructurings (TDR) as of and for the year ended December 31, 2020 and 2019, respectively:

	Residential Real Estate	Commercial Real Estate	Commercial	Agricultural Real Estate	Total
Balance, December 31, 2019	\$ 582,294	\$ 444,480	\$ 24,508	\$ 525,059	\$ 1,576,341
Additions	-	-	-	-	-
Charge-off's	-	-	-	-	-
Paydowns	(41,059)	(68,107)	(5,934)	(70,276)	(185,376)
Balance, December 31, 2020	<u>\$ 541,235</u>	<u>\$ 376,373</u>	<u>\$ 18,574</u>	<u>\$ 454,783</u>	<u>\$ 1,390,965</u>



**NOTES TO FINANCIAL STATEMENTS** *continued*

**Note 6. Allowance for Loan Losses and Credit Quality (Continued)**

	<b>Residential Real Estate</b>	<b>Commercial Real Estate</b>	<b>Commercial</b>	<b>Agricultural Real Estate</b>	<b>Total</b>
Balance, December 31, 2018	\$ 632,772	\$ 631,115	\$ 45,409	\$ 585,911	\$ 1,895,207
Additions	-	-	-	-	-
Charge-off's	-	-	-	-	-
Paydowns	(50,478)	(186,635)	(20,901)	(60,852)	(318,866)
Balance, December 31, 2019	\$ 582,294	\$ 444,480	\$ 24,508	\$ 525,059	\$ 1,576,341

There were no new troubled debt restructurings during 2020 or 2019.

At December 31, 2020 and 2019, the Bank was not committed to lend any additional funds to borrowers whose loans were nonperforming, impaired or restructured.

**Note 7. Bank Premises and Equipment**

The major classes of bank premises and equipment and the total accumulated depreciation at December 31 are as follows:

	<b>2020</b>	<b>2019</b>
Land and land improvements	\$ 2,179,659	\$ 2,179,659
Building and improvements	7,076,169	7,241,169
Furniture and equipment	4,137,846	4,058,447
	<u>13,393,674</u>	<u>13,479,275</u>
Less accumulated depreciation	<u>7,079,773</u>	<u>6,807,600</u>
	<u>\$ 6,313,901</u>	<u>\$ 6,671,675</u>

Depreciation included in occupancy and equipment expense amounted to \$464,249 and \$460,614 for the years ended December 31, 2020 and 2019, respectively.

The Bank's Essex branch location was closed in September 2020 based on bona fide business considerations including operational profitability, the ability to generate deposits and the location of the property. Subsequent to the branch closure, management determined an impairment existed in regard to the building and land which had a net book value of approximately \$793,000 at December 31, 2020. Fair market value was calculated based on tax assessed value of \$509,000 adjusted for common level of appraisal of 91.86 resulting in an estimated fair market value of \$554,000. Management compared the estimated fair market value to recent offers received on the property adjusted for commission and other carrying costs and determined the estimate to be reasonable. An impairment expense of \$239,000 was recorded at December 31, 2020 to writedown the net book value to the estimated fair market value of the property. The impairment expense is separately stated under the other expense section on the Statement of Income.

**NOTES TO FINANCIAL STATEMENTS** *continued*

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**Note 8. Other Real Estate Owned**

At December 31, 2020 and 2019, the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure procedures are in process is \$45,824 and \$174,149, respectively.

**Note 9. Deposits**

The following is a maturity distribution of time deposits at December 31, 2020:

Maturing in 2021	\$ 24,183,610
Maturing in 2022	11,071,901
Maturing in 2023	7,223,813
Maturing in 2024	2,653,636
Maturing in 2025 and thereafter	<u>3,733,672</u>
	<u>\$ 48,866,632</u>

U.S. government and federal agency securities with a cost of \$4,717,971 and \$4,738,893 and a fair value of \$4,945,066 and \$4,865,817 were pledged to collateralize certain municipal deposits at December 31, 2020 and 2019, respectively.

**Note 10. Repurchase Agreements**

Securities sold under agreements to repurchase amounted to \$3,210,809 and \$3,182,657 as of December 31, 2020 and 2019, respectively. These agreements are collateralized by U.S. government and federal agency securities with a amortized cost of \$3,515,048 and \$5,022,934 and a fair value of \$3,747,100 and \$5,119,555 at December 31, 2020 and 2019, respectively. The securities underlying these agreements are held in safekeeping by the Bank.

The average daily balance of these repurchase agreements approximated \$2,927,630 and \$3,965,585 during 2020 and 2019, respectively. The maximum borrowings outstanding on these agreements at any month-end reporting period of the Bank were \$3,250,000 and \$5,128,800 in 2020 and 2019, respectively. The weighted average rate for repurchase agreements was 0.25% at December 31, 2020 and 2019, respectively.

**Note 11. Borrowed Funds**

The Bank maintains an unsecured \$3,000,000 federal funds line of credit with Atlantic Community Bankers Bank which was unused at December 31, 2020 and 2019.

**NOTES TO FINANCIAL STATEMENTS** *continued*

**Note 12. Income Taxes**

Income tax expense included in the Statements of Income for the years ended December 31 were as follows:

	2020	2019
Currently payable	\$ 208,138	\$ 111,634
Deferred	<u>(168,095)</u>	<u>(35,840)</u>
	<u>\$ 40,043</u>	<u>\$ 75,794</u>

Total income tax expense differed from the amounts computed by applying the U. S. Federal income tax rate of 21% for 2020 and 2019 to income before income taxes as a result of the following at December 31:

	2020	2019
Computed expected tax expense	\$ 469,326	\$ 469,843
Disallowed interest expense	3,255	2,969
Municipal income	(141,724)	(129,671)
Boli income	(18,572)	(18,919)
Tax credits	(275,897)	(287,677)
Other, net	<u>3,655</u>	<u>39,249</u>
	<u>\$ 40,043</u>	<u>\$ 75,794</u>

The deferred income tax provision consisted of the following items at December 31:

	2020	2019
Nonaccrual loan interest	\$ (13,603)	\$ (81,627)
Depreciation	(2,383)	(1,143)
Bad debts	(126,000)	-
Deferred directors fees	(36,941)	(32,196)
Mortgage servicing rights	41,001	5,720
Limited partnerships	20,021	8,406
Branch impairment	(50,190)	-
Other	<u>-</u>	<u>65,000</u>
	<u>\$ (168,095)</u>	<u>\$ (35,840)</u>

**NOTES TO FINANCIAL STATEMENTS** *continued*

**Note 12. Income Taxes (Continued)**

The significant components of the net deferred tax asset consisted of the following items at December 31:

	2020	2019
Components of deferred tax assets:		
Bad debts	\$ 369,277	\$ 243,277
Off balance sheet accrual	6,154	6,154
Nonaccrual loan interest	244,001	230,398
Limited partnerships	-	11,495
Branch impairment	50,190	-
Deferred directors fees	111,958	75,017
	<u>781,580</u>	<u>566,341</u>
Total deferred tax asset		
Valuation allowance	-	-
	<u>781,580</u>	<u>566,341</u>
Total deferred tax asset, net of valuation allowance		
Components of deferred tax liability:		
Depreciation	(61,716)	(64,099)
Mortgage servicing rights	(138,609)	(97,608)
Limited partnerships	(8,526)	-
Unrealized gain on securities available-for-sale	(359,220)	(111,689)
Other	(110,000)	(110,000)
	<u>(678,071)</u>	<u>(383,396)</u>
Total deferred tax liability		
Net deferred tax asset	<u>\$ 103,509</u>	<u>\$ 182,945</u>

Net deferred tax asset is included in the caption “other assets” on the balance sheets at December 31, 2020 and 2019, respectively. The deferred tax asset valuation allowance did not change during 2020 and 2019.

Deferred tax assets are recognized subject to management's judgment that realization is more likely than not as GAAP allows for the recognition and measurement of deductible temporary differences to the extent that it is more likely than not that the deferred tax asset will be realized. Based on the temporary taxable items, historical taxable income and estimates of future taxable income, the Bank believes that it is more likely than not that the deferred tax assets at December 31, 2020 will be realized.

Based on management's evaluation, management has concluded that there were no significant uncertain tax positions requiring recognition in the Bank's financial statements at December 31, 2020. Although the Bank is not currently the subject of tax examination by the Internal Revenue Service (IRS), the Bank's tax years ended December 31, 2017 through 2020 are open to examination by the IRS under the applicable statute of limitations.

**NOTES TO FINANCIAL STATEMENTS** *continued*

**Note 12. Income Taxes (Continued)**

The Bank may from time-to-time be assessed interest and/or penalties by federal or state tax jurisdictions, although any such assessments historically have been minimal and immaterial to the Bank's financial results. In the event that the Bank receives an assessment for interest and/or penalties, it will be classified in the financial statements as "Other expense".

**Note 13. Pension Plan**

The Bank maintains a contributory 401(k) pension plan covering all employees who meet certain age and service requirements. Contributions to the plan are voluntary by the eligible participants up to certain limits. Employee contributions are matched dollar for dollar for every dollar contributed up to six percent of the participant's salary. Contributions to the plan by the Bank for the years ended December 31, 2020 and 2019 amounted to \$251,523 and \$241,159, respectively.

**Note 14. Commitments and Contingencies**

In the normal course of business, the Bank is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the Bank's financial statements.

**Note 15. Financial Instruments with Off-Balance-Sheet Risk**

The Bank 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 and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby letters of credit, interest rate caps and floors written on adjustable rate loans, and commitments to sell loans. Such instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, standby letters of credit, and commercial letters of credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. For interest rate caps and floors written on adjustable rate loans, the contract or notional amounts do not represent exposure to credit loss. The Bank controls the credit risk of their interest rate cap agreements through credit approvals, limits, and monitoring procedures. The Bank generally requires collateral or other security to support financial instruments with credit risk.

	Contract or Notional Amount	
	2020	2019
Financial instruments whose contract amount represent credit risk:		
Commitments to extend credit and available lines of credit	<u>\$ 42,539,000</u>	<u>\$ 37,213,000</u>
Stand by letters of credit and commercial letters of credit	<u>\$ 981,000</u>	<u>\$ 800,000</u>

## NOTES TO FINANCIAL STATEMENTS *continued*

### Note 15. Financial Instruments with Off-Balance-Sheet Risk (Continued)

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. At December 31, 2020, the Bank had binding loan commitments at fixed rates totaling \$8,668,749 that are included in commitments to extend credit.

The Bank evaluates each customer's credit worthiness 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 of the customer. Collateral held varies but may include real estate, accounts receivable, inventory, property, plant, and equipment, and income-producing commercial properties.

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

The Bank enters into a variety of interest rate contracts, including interest rate caps and floors written on adjustable rate loans in managing its interest rate exposure. Interest rate caps and floors on loans written by the Bank enable customers to transfer, modify or reduce their interest rate risk.

### Note 16. Transactions with Related Parties

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, principal officers, their immediate families and affiliated companies in which they are principal shareholders (commonly referred to as related parties), all which have been, in the opinion of management, on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others.

Aggregate loan transactions with related parties as of December 31 were as follows:

	2020	2019
Balance, beginning	\$ 5,781,250	\$ 6,473,806
New loans	225,000	15,934
Repayments	(901,982)	(708,490)
Other	(27,526)	-
Balance, ending	<u>\$ 5,076,742</u>	<u>\$ 5,781,250</u>

Deposit accounts with related parties approximated \$3,213,256 and \$4,223,258 at December 31, 2020 and 2019, respectively.

The Bank utilizes an appraisal company owned by a director for loan appraisal services. Appraisal fees are reimbursed to the Bank from the respective borrowers.

## NOTES TO FINANCIAL STATEMENTS *continued*

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### **Note 16. Transactions with Related Parties (Continued)**

The Bank has instituted a split dollar deferred compensation plan for certain officers. The vehicle is funded through Bank Owned Life Insurance (BOLI). The BOLI had a balance of \$4,089,891 and \$4,001,452 as of December 31, 2020 and 2019, respectively. The accrued deferred compensation had a balance of \$133,295 and \$119,492 as of December 31, 2020 and 2019, respectively.

Amounts due officers and directors under non-qualified deferred compensation agreements were \$533,133 and \$357,226 at December 31, 2020 and 2019, respectively.

### **Note 17. Disclosures about Fair Value of Financial Instruments**

#### **Fair Value Measurement**

The following methods and assumptions were used by the Bank in estimating its fair value disclosures for financial instruments, and for assets measured on recurring basis and non-recurring basis:

**Cash and due from banks:** The carrying amounts reported in the balance sheet for cash and due from banks, including certificates of deposit, approximate those assets' fair values.

**Investment securities:** Fair values for investment securities are based on quoted market prices, where available (level one valuation). If quoted market prices are not available, fair values are calculated based on a formula which uses matrices which interpolate prices according to observable inputs for similar items such as sector, credit spread, rating, maturity, and option premium (level two valuations).

**Federal Home Loan Bank stock:** The carrying amount of this stock approximates its fair value.

**Loans and loans held for sale:** For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values of other loans (for example, fixed rate commercial real estate and rental property mortgage loans and commercial and industrial loans) are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics. Collateral values are estimated using Level 2 inputs based on appraisals of similar properties obtained from a third-party valuation service. Fair values for impaired loans are estimated using Level 3 inputs based on appraisals of similar properties obtained from a third-party valuation service discounted by management based on historical losses for similar collateral and discounted cash flow analysis.

**Other real estate owned:** Other real estate owned is reported at the fair value of the underlying collateral. Collateral values are estimated using Level 3 inputs based on appraisals of similar properties obtained from a third-party valuation service discounted by management based on updated information.

## NOTES TO FINANCIAL STATEMENTS *continued*

### Note 17. Disclosures about Fair Value of Financial Instruments (Continued)

**Deposits:** The fair values disclosed for demand deposits (for example, checking and savings accounts) are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated contractual maturities on such time deposits (Level 2).

**Repurchase agreements and borrowed funds:** For repurchase agreements and borrowed funds (including Federal funds purchased) that reprice frequently, fair values are based on carrying amounts. The fair values for other borrowings are estimated using a discounted cash flow calculation that applies interest rates currently being offered on such debt to a schedule of aggregated contractual maturities on such debt (Level 2).

**Accrued interest:** The carrying amount of accrued interest receivable and payable approximates fair value.

**Other liabilities:** Commitments to extend credit were evaluated and fair value was estimated using the fees currently charged to enter into similar agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair market value for off balance sheet financial instruments was immaterial at December 31, 2020 and 2019.

The estimated fair values of the Company's financial instruments at December 31 are as follows:

	2020	
	Carrying Amount	Estimated Value
Financial assets:		
Cash and cash equivalents	\$ 6,733,300	\$ 6,733,300
Interest bearing deposits with banks	77,112,072	77,112,072
Certificates of deposit	3,740,000	3,740,000
Securities available-for-sale	55,878,642	55,878,642
FHLB stock	223,700	223,700
Loans receivable and loans held-for-sale, net (Level 2)	176,724,779	179,867,585
Impaired loans (Level 3)	4,039,022	4,039,022
Accrued interest receivable	946,455	946,455
Financial liabilities:		
Deposits (Level 2)	296,388,489	297,285,603
Repurchase agreements (Level 2)	3,210,809	3,210,809
Accrued interest payable	29,211	29,211



**NOTES TO FINANCIAL STATEMENTS** *continued*

**Note 17. Disclosures about Fair Value of Financial Instruments (Continued)**

	2019	
	Carrying Amount	Estimated Value
Financial assets:		
Cash and cash equivalents	\$ 4,887,225	\$ 4,887,225
Interest bearing deposits with banks	9,301,610	9,301,610
Certificates of deposit	3,740,000	3,740,000
Securities available-for-sale	52,496,034	52,496,034
FHLB Stock	220,700	220,700
Loans receivable and loans held-for-sale, net (Level 2)	178,618,606	175,070,384
Impaired loans (Level 3)	4,672,819	4,672,819
Accrued interest receivable	1,033,514	1,033,514
Financial liabilities:		
Deposits (Level 2)	229,055,559	229,997,045
Repurchase agreements (Level 2)	3,182,657	3,182,657
Accrued interest payable	25,766	25,766

The carrying amounts in the preceding table are included in the balance sheets under the applicable captions.

Fair values of assets and liabilities measured on a recurring basis at December 31, 2020 and 2019 are as follows:

	Fair Value	Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2020				
Loans held for sale	\$ 2,854,900	\$ -	\$ 2,854,900	\$ -
Investments - AFS				
U.S. Government and Federal Agencies	34,990,607	-	34,990,607	-
State and municipal securities	20,888,035	-	20,888,035	-
	<u>\$ 58,733,542</u>	<u>\$ -</u>	<u>\$ 58,733,542</u>	<u>\$ -</u>

**NOTES TO FINANCIAL STATEMENTS** *continued*

**Note 17. Disclosures about Fair Value of Financial Instruments (Continued)**

	Fair Value	Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2019				
Loans held for sale	\$ 517,291	\$ -	\$ 517,291	\$ -
Investments - AFS				
U.S. Government and Federal Agencies	34,121,081	-	34,121,081	-
State and municipal securities	18,374,953	-	18,374,953	-
	<u>\$ 53,013,325</u>	<u>\$ -</u>	<u>\$ 53,013,325</u>	<u>\$ -</u>

Fair values of assets and liabilities measured on a non-recurring basis at December 31, 2020 and 2019 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2020				
Impaired loans	\$ 4,039,022	\$ -	\$ -	\$ 4,039,022
	<u>\$ 4,039,022</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,039,022</u>
December 31, 2019				
Impaired loans	\$ 4,672,819	\$ -	\$ -	\$ 4,672,819
	<u>\$ 4,672,819</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,672,819</u>

There were \$2,162,307 of impaired loans with a related allowance as of December 31, 2020. The residential real estate loans were evaluated using discounts of appraisals ranging from 13% to 40% along with discounted cash flow analysis. The commercial real estate and agricultural real estate loans were evaluated using discounts of appraisals and asset valuations ranging from 15% to 55% along with discounted cash flow analysis.

There were no transfers between levels for both recurring and non-recurring assets for the years ended December 31, 2020 and 2019.

**NOTES TO FINANCIAL STATEMENTS** *continued*

**Note 18. Regulatory Capital Matters**

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available for sale securities is excluded in computing regulatory capital. Management believes as of December 31, 2020, the Bank met all capital adequacy requirements to which they are subject.

Prompt correction action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2020 and 2019, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual capital amounts (000's omitted) and ratios are also presented in the table.

	<u>Actual</u>		<u>Minimums For Capital Adequacy Purposes</u>		<u>Minimums To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<b>As of December 31, 2020</b>						
Total capital						
(to risk weighted assets)	\$ 37,509	20.11%	\$ 14,924	8.00%	\$ 18,655	10.00%
Tier I (core) capital						
(to risk weighted assets)	\$ 35,171	18.85%	\$ 11,193	6.00%	\$ 14,924	8.00%
Common Tier 1 (CET1)						
(to risk weighted assets)	\$ 35,171	18.85%	\$ 8,395	4.50%	\$ 12,126	6.50%
Tier I (core) capital						
(to average assets)	\$ 35,171	10.32%	\$ 13,636	4.00%	\$ 17,045	5.00%
<b>As of December 31, 2019</b>						
Total capital						
(to risk weighted assets)	\$ 36,389	19.65%	\$ 14,813	8.00%	\$ 18,516	10.00%
Tier I (core) capital						
(to risk weighted assets)	\$ 34,112	18.42%	\$ 11,110	6.00%	\$ 14,813	8.00%
Common Tier 1 (CET1)						
(to risk weighted assets)	\$ 34,112	18.42%	\$ 8,332	4.50%	\$ 12,036	6.50%
Tier I (core) capital						
(to average assets)	\$ 34,112	12.26%	\$ 11,133	4.00%	\$ 13,917	5.00%

## **NOTES TO FINANCIAL STATEMENTS** *continued*

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### **Note 19. Subsequent Events**

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. As a result, economic uncertainties have arisen which may negatively impact net income. Other financial impacts could occur, though such potential impacts are unknown at this time.

The Company has evaluated subsequent events through February 8, 2021, the date which the financial statements were available to be issued.

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**BOARD OF  
DIRECTORS  
EXECUTIVE/  
OTHER  
OFFICERS**

**Board of Directors** .....

**Frank J. Cioffi**, *Member of Board of Directors of Peoples Trust Company of St. Albans since 2009*  
Chairman of the Board, GBIC (Greater Burlington Industrial Corp.)

**John T. Gallagher**, *Member of Board of Directors of Peoples Trust Company of St. Albans since 1991*  
Owner and President, Gallagher Inc.

**Mark E. Lareau**, *Member of Board of Directors of Peoples Trust Company of St. Albans since 2001*  
Owner, Lareau Appraisal Service

**Linda M. LeBlanc**, *Member of Board of Directors of Peoples Trust Company of St. Albans since 2005*  
Retired Senior Executive Officer/Chief Operations Officer of Peoples Trust Company of St. Albans

**Leon J. Berthiaume**, *Member of Board of Directors of Peoples Trust Company of St. Albans since 2008*  
Senior Advisor for Dairy Farmers of America

**Thomas J. Gallagher**, *Member of Board of Directors of Peoples Trust Company of St. Albans since 2011*  
President/CEO of Peoples Trust Company of St. Albans

**John P. Casavant**, *Member of Board of Directors of Peoples Trust Company 2016*  
Part owner and Vice President at NFP, Inc.  
(formerly Hackett, Valine and McDonald)

**David J. Handy**, *Member of Board of Directors of Peoples Trust Company 2016*  
Co-owner of Handy Buick, Cadillac, GMC, Inc.

**Gordon A. Winters**, *Member of Board of Directors of Peoples Trust Company 2016*  
Owner, ACE Hardware stores in Milton, Jericho, St. Albans, Burlington VT and Champlain, NY

**Executive Officers** .....

**Thomas J. Gallagher** *President/CEO*

**Aaron A. Reynolds** *Senior Executive Vice President/CFO*

**Other Officers** .....

**Michael J. Elmore** *Senior Vice President, CIO*

**Angela M. Poirier** *Senior Vice President, CLS*

**Barbara J. Toof** *Senior Vice President, CRBO*

**Carol C. Spillane** *Senior Vice President*

**Lloyd W. Larrow** *Senior Vice President*

**Stacey M. Cauller** *Senior Vice President*

**Anne E. Gosselin** *Senior Vice President*

**Danielle E. Manahan** *Senior Vice President*

**Janice L. LaRocque** *Senior Vice President, BSA*

**Lyle D. Poirier** *Vice President*

**Kerry M. Deschamps** *Vice President*

**Jay C. Cummings** *Vice President*

**Rachael A. Brown** *Vice President*

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# 2020

ANNUAL  
REPORT

WORKING THE FRONT LINES TO SERVE THE COMMUNITY.



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