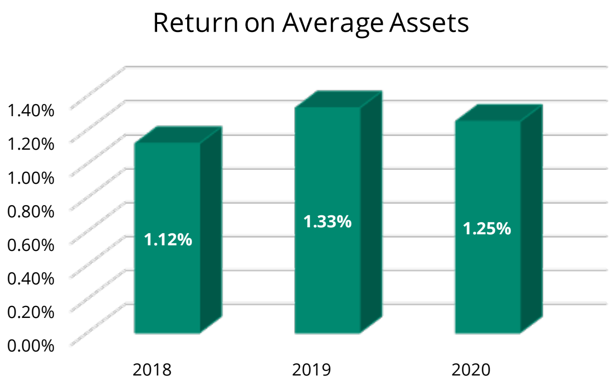
# Wayne Savings

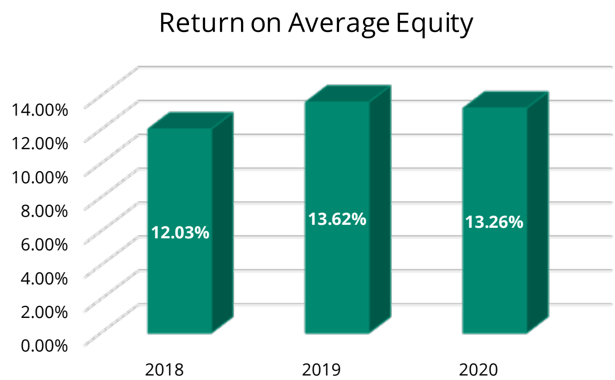
BANCSHARES, INC

# 2020 ANNUAL REPORT

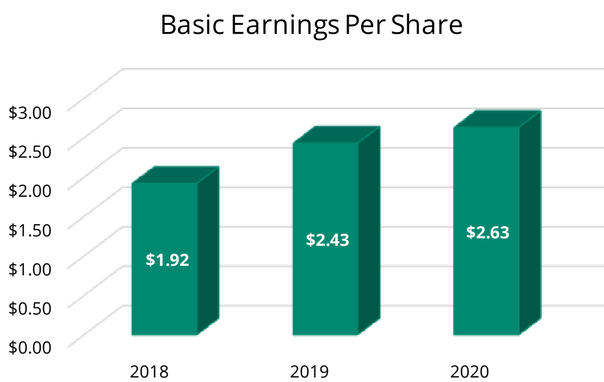
## 2020 HIGHLIGHTS

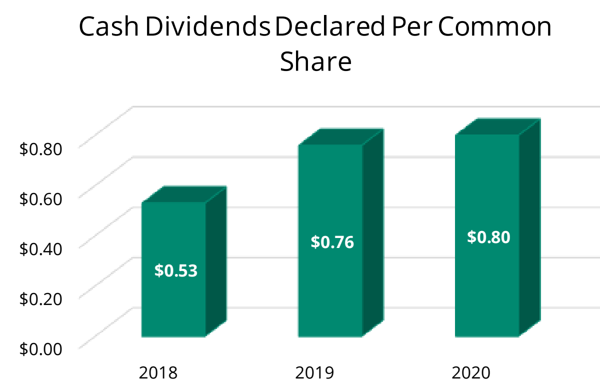
• *Maintained strong financial results during a period of unprecedented economic uncertainty.*




• *Continued to drive shareholder value through earnings growth and cash dividends.*




• *Exercised prudent capital management by adopting a new stock repurchase plan allowing 124,685 shares of common stock to be repurchased.*

• *Opened a branch in August to serve the Fredericksburg, Ohio community.*

• *Recognized as a best employer by Crain's Business Cleveland for benefiting the state's economy, workforce and businesses.*

**Wayne Savings Bancshares, Inc.**
**Annual Report**
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## SELECTED FINANCIAL DATA

The financial highlights below indicate 2020 has been another record year in which Wayne Savings has achieved performance figures of a high producing Community Bank. Below are some performance measures year to year detailing the progress the Company continues to make.

| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| | | | (In thousands) | | |
| **Selected Financial Condition Data:** | | | | | |
| Total assets | $ 591,591 | $ 492,586 | $ 472,887 | $ 439,797 | $ 454,791 |
| Loans receivable, net | 391,352 | 376,581 | 377,930 | 345,900 | 332,283 |
| Mortgage-backed securities (1) | 65,500 | 30,821 | 29,162 | 38,652 | 59,358 |
| Investment securities | 33,326 | 28,351 | 29,543 | 24,359 | 20,910 |
| Cash and cash equivalents (2) | 74,490 | 30,752 | 11,161 | 6,041 | 16,756 |
| Deposits | 484,588 | 407,572 | 387,449 | 372,465 | 383,733 |
| Stockholders' equity | 52,115 | 48,391 | 44,878 | 41,585 | 41,028 |

(1) Includes mortgage-backed securities and private-label collateralized mortgage obligations.
(2) Includes cash and due from banks, interest-bearing deposits in other financial institutions and federal funds sold.

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| **Selected Operating Data:** | | (In thousands, except per share amounts) | | | |
| Interest income | $ 20,356 | $ 20,058 | $ 17,983 | $ 16,428 | $ 15,551 |
| Interest expense | 3,154 | 3,626 | 2,399 | 1,980 | 2,070 |
| Net interest income | 17,202 | 16,432 | 15,584 | 14,448 | 13,481 |
| Provision for loan losses | 1,290 | 406 | 518 | 301 | 365 |
| Net interest income after provision for loan losses | 15,912 | 16,026 | 15,066 | 14,147 | 13,116 |
| Noninterest income | 3,034 | 2,590 | 2,237 | 2,145 | 1,996 |
| Noninterest expense | 10,720 | 10,703 | 11,056 | 11,957 | 12,158 |
| Income before income taxes | 8,226 | 7,913 | 6,247 | 4,335 | 2,954 |
| Federal income taxes | 1,536 | 1,462 | 1,099 | 1,226 | 708 |
| Net income | $ 6,690 | $ 6,451 | $ 5,148 | $ 3,109 | $ 2,246 |
| Basic earnings per share | $ 2.63 | $ 2.43 | $ 1.92 | $ 1.13 | $ 0.82 |
| Diluted earnings per share | $ 2.60 | $ 2.43 | $ 1.92 | $ 1.13 | $ 0.82 |
| Cash dividends declared per common share | $ 0.80 | $ 0.76 | $ 0.53 | $ 0.37 | $ 0.36 |

## SELECTED FINANCIAL DATA

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| **Key Operating Ratios and Other Data:** | | | | | |
| Return on average assets (net income divided by average total assets) | 1.25% | 1.33% | 1.12% | 0.69% | 0.51% |
| Return on average equity (net income divided by average equity) | 13.26% | 13.62% | 12.03% | 7.39% | 5.46% |
| Average equity to average assets | 9.44% | 9.76% | 9.33% | 9.39% | 9.26% |
| Equity to assets at year end | 8.81% | 9.82% | 9.49% | 9.46% | 9.02% |
| Interest rate spread (difference between average yield on interest-earning assets and average cost of interest-bearing liabilities) | 3.34% | 3.51% | 3.55% | 3.38% | 3.18% |
| Net interest margin (net interest income as a percentage of average interest-earning assets) | 3.38% | 3.56% | 3.58% | 3.41% | 3.21% |
| Noninterest expense to average assets (1) | 2.01% | 2.21% | 2.41% | 2.67% | 2.73% |
| Nonperforming and impaired loans to loans receivable, net | 1.03% | 1.24% | 1.14% | 0.85% | 1.16% |
| Nonperforming and impaired assets to total assets | 0.74% | 0.95% | 0.91% | 0.68% | 0.85% |
| Average interest-earning assets to average interest-bearing liabilities | 106.39% | 106.45% | 105.59% | 105.61% | 105.36% |
| Allowance for loan losses to nonperforming and impaired loans | 116.46% | 77.04% | 78.40% | 100.02% | 78.70% |
| Allowance for loan losses to nonperforming and impaired assets | 106.77% | 77.04% | 78.40% | 98.51% | 78.69% |
| Net interest income after provision for losses on loans, to noninterest expense (1) | 148.49% | 136.27% | 136.59% | 118.68% | 111.25% |
| Number of full-service offices | 11 | 11 | 11 | 11 | 11 |
| Dividend payout ratio | 30.65% | 31.28% | 27.61% | 32.74% | 43.90% |

(1) In calculating this ratio, noninterest expense does not include provisions for losses or gains on the sale of real estate acquired through foreclosure.

### Management's Discussion and Analysis of Financial Condition Changes December 31, 2020 from December 31, 2019

General

At December 31, 2020, total assets increased $99.0 million, or 20.1%, to $591.6 million from the $492.6 million at December 31, 2019, primarily due to increased cash and cash equivalents of $43.7 million, increased available-for-sale securities of $40.9 million and increased loans receivable, net of $14.8 million mainly from growth in commercial loans.

Loans

During the year ended December 31, 2020, the Bank disbursed $162.2 million of loans, received payments of $120.9 million and had total loans sold of $26.5 million. Under the CARES Act, we were able to partner with the Small Business Administration (SBA) to offer ongoing assistance to our customers experiencing hardships using the Paycheck Protection Program which was the main source of growth for 2020. In our local market, there continues to be strong competition from other financial institutions for quality loans.

Allowance for Loan Losses

At December 31, 2020, the allowance for loan losses totaled $4.7 million, or 1.19% of gross loan balances compared to $3.6 million, or 0.95% of gross loans at December 31, 2019. The Company incurred net charge-offs for the year of $191,000, mainly due to one commercial customer relationship which had both real estate and equipment sold for less than the loan balances. Management recorded a $1.3 million provision for losses on loans for the year ended December 31, 2020, an increase of $884,000 from the $406,000 recorded for the year ended December 31, 2019. The increased provision was mainly due to the COVID-19 uncertainty and the increased required reserve as a result of the economic factors used in the allowance for loan losses calculation.

Management systematically determines the risk of loss in the portfolio by evaluating delinquent and classified nonresidential, multi-family and commercial loans for potential impairment in carrying value. The Company then calculates a reserve using the historical loss experience of each individual loan type in the portfolio. Management then incorporates an additional risk factor based on the perception of the overall risk in the economy and engages a third-party loan review which provides an independent validation of the Bank's loan grading process.

Deposits

Deposits totaled $484.6 million at December 31, 2020, an increase of $77.0 million, or 18.9%, from December 31, 2019. Demand accounts increased $80.4 million, or 45.8%, savings and money market accounts increased $12.7 million, or 11.6%, and time deposits decreased $16.1 million, or 13.1%. The increase in demand accounts is due to the "Platinum" checking products which began during the fourth quarter of 2017 and basic business accounts as a result of the

**Management's Discussion and Analysis of Financial Condition Changes December 31, 2020 from December 31, 2019 - continued**

Paycheck Protection Program. In general, management attempts to benchmark retail certificate of deposit pricing to the cost of alternate sources of funds, including FHLB advances and brokered deposits of which the Bank had balances of $4.0 million. Exceptions are made to defend customer relationships with significant value to the Bank while allowing rate sensitive certificate of deposit customers with no relationship with the Bank to move to other alternatives.

Other Short-term borrowings
Other short-term borrowings increased $12.6 million, from $10.4 million at December 31, 2019, to $23.1 million at December 31, 2020. Most of this increase was the result of the successful enrollment of a new local customer relationship.

Advances
Advances from the FHLB increased $6.0 million, from $20.0 million at December 31, 2019, to $26.0 million at December 31, 2020. The Bank uses FHLB advances to manage the interest rate risk associated with the longer duration of loans as compared to securities at a lower cost than other funding alternatives, particularly retail term deposits.

Stockholders' Equity
At December 31, 2020, stockholders' equity totaled $52.1 million, an increase of $3.7 million compared to the balance at December 31, 2019. This increase is primarily due to net income of $6.7 million and an increase in income of $1.0 million, partially offset by dividends of $2.0 million, and treasury stock purchases of $2.1 million. The increase in accumulated other comprehensive income included a $937,000 increase in unrealized income on securities available-for-sale and an increase of $94,000 related to post-retirement benefits.

On November 25, 2020, the Company announced the adoption of a new share buy-back program authorizing the repurchase of an additional 5% or 124,685, shares of its common stock outstanding. As of December 31, 2020, the Company had a remaining 113,865 shares authorized to be repurchased under the repurchase program.

**Comparison of operating results for the years ended December 31, 2020 and December 31, 2019**

General
Net income totaled $6.7 million, or $2.63 basic earnings per common share, for the year ended December 31, 2020, compared to $6.5 million, or $2.43 basic earnings per common share, for the year ended December 31, 2019. The increase in net income was primarily due to increases in both net interest income and noninterest income partially offset by an increase in both provision for loan losses and an increase in provision for federal income taxes. The return on average equity and return on average assets for the twelve months ended December 31, 2020, were 13.26% and 1.25%, respectively, compared to 13.62% and 1.33%, respectively, for the twelve months ended December 31, 2019.

Interest Income
Interest income increased $298,000, and totaled $20.4 million for the year ended December 31, 2020, compared to the year ended December 31, 2019. This increase was due to a $47.7 million increase in the average balance of interest-earning assets, reduced by a 35 basis point (bp) decrease in the average yield on interest-earning assets from 4.35% for the year ended December 31, 2019, to 4.00% for the year ended December 31, 2020.

Interest income on loans increased $478,000 for the year ended December 31, 2020, compared to the year ended December 31, 2019. This increase is primarily due to a $6.3 million, or 1.6%, increase in the average balance of loans outstanding and a 5 bp increase in the weighted-average yield on loans to 4.75% for the year ended 2020, compared to 4.70% for the year ended 2019. The increase in the yield was due to the commercial loan balances increasing.

Interest income on securities remained constant during the year ended December 31, 2019 at $1.4 million. The average balances increased $8.2 million while the weighted-average yield decreased 31 bp to 2.17% for the year ended December 31, 2020, compared to 2.48% for the year ended December 31, 2019. The Company reinvested a portion of the excess cash created by the Paycheck Protection Program forgiveness into lower yielding securities causing the increase in average balances and the decrease in the weighted-average yield.

Interest income on interest-earning deposits declined by $185,000 for the year ended December 31, 2020 as the average

**Comparison of operating results for the years ended December 31, 2020 and December 31, 2019 – continued**

balances increased $33.2 million while the weighted-average yield decreased 189 bp to 0.42% at December 31, 2020, from 2.31% at December 31, 2019.

Interest Expense

Interest expense for the year ended December 31, 2020, totaled $3.2 million, a decrease of $472,000, or 13.0%, compared to interest expense for the year ended December 31, 2019. The increase in interest expense was substantially due to an increase in the average balance of interest-bearing liabilities of $45.1 million, partially offset with a decline in the weighted-average cost of funds to 0.66% for the year ended December 31, 2020, compared to 0.84% for the year ended December 31, 2019.

Interest expense on deposits totaled $2.6 million for the year ended December 31, 2020, a decrease of $438,000, compared to the year ended December 31, 2019. This decrease was primarily due to a 17 bp decrease in the weighted-average cost of deposits from 0.75% for the year ended December 31, 2019, to 0.58% for the year ended December 31, 2020, partially offset by an increase of $40.0 million increase in the average balance of deposits. The decrease in the weighted-average cost of deposits was primarily due to a $15.0 million decrease in higher average interest cost certificate of deposit balances partially offset by an increase of $53.0 million in demand deposits, of which most of the growth was interest checking products.

Interest expense on Federal Home Loan Bank advances totaled $492,000 for the year ended December 31, 2020, a decrease of $80,000, compared to the year ended December 31, 2019. This decrease was mainly due a 29 bp decrease in the average rate.

Net Interest Income

Net interest income totaled $17.2 million for the year ended December 31, 2020, an increase of $770,000, compared to the year ended December 31, 2019. The increase in net interest income was due mainly to both increased average loan balances of $6.3 million and increased loan rates of 5 bps coupled with decreased rates paid on interest-bearing liabilities of 18 bps, partially offset with decreased yields on both interest-earning deposit balances and securities, compared to the year ended December 31, 2019.

Provision for Losses on Loans

The Company recorded a provision for loan losses totaling $1.3 million for the year ended December 31, 2020, compared to $406,000 for the year ended December 31, 2019. This increase in the provision for loan losses is mainly due to the COVID-19 uncertainty and the increased required reserve as a result of the economic factors used in the allowance for loan losses calculation.

Noninterest Income

Noninterest income totaled $3.0 million for the year ended December 31, 2020, and increased by $444,000, or 17.1%, compared to the year-ended December 31, 2019. The increase was primarily due to a $734,000 increase in gain on sale of loans as market rates continued to decline during 2020, causing an increase in gain on sale of loans. The Bank sold loans of $26.5 million for the year ended December 31, 2020, compared to $17.9 million for the year ended December 31, 2019. The gain on sale of loans increase was partially offset with a decline in other operating income due to reduced deposit service charges, as depositors had inflated balances due to stimulus funds received, and reduced consumer investment income as branches were closed for part of 2020 due to COVID-19 pandemic.

Noninterest Expense

Noninterest expense totaled $10.7 million for both year's ended December 31, 2020 and 2019. The Company experienced higher Federal Deposit Insurance Premiums as the Federal Deposit Insurance Fund previously awarded credits which were depleted during the first quarter of 2020. The aforementioned increase was offset by less advertising and marketing as COVID-19 reduced the Company's promotional events and outreach activities. The Company's efficiency ratio improved from 56.3% for the year ended December 31, 2019, to 53.0% for the same period in 2020.

Federal Income Taxes

Provision for Federal income taxes was $1.5 million for both years ended December 31, 2019 and 2020.

# AVERAGE BALANCE SHEET

The following tables set forth certain information relating to the Company's average balance sheet and reflects the average yield on assets and average cost of liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods presented.

| | For the years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | | 2019 | | |
| | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate |
| | (Dollars in thousands) | | | | | |
| **Interest-earning assets:** | | | | | | |
| Loans receivable, net[1] | $ 394,821 | $ 18,752 | 4.75% | $ 388,571 | $ 18,274 | 4.70% |
| Securities[2] | 64,031 | 1,392 | 2.17% | 55,853 | 1,387 | 2.48% |
| Interest-earning deposits[3] | 50,381 | 212 | 0.42% | 17,155 | 397 | 2.31% |
| Total interest-earning assets | 509,233 | 20,356 | 4.00% | 461,579 | 20,058 | 4.35% |
| Noninterest-earning assets | 24,832 | | | 23,782 | | |
| Total assets | $ 534,065 | | | $ 485,361 | | |
| **Interest-bearing liabilities:** | | | | | | |
| Deposits | $ 439,496 | 2,560 | 0.58% | $ 399,466 | 2,998 | 0.75% |
| Other short-term borrowings | 14,206 | 102 | 0.72% | 8,800 | 56 | 0.64% |
| Borrowings | 24,948 | 492 | 1.97% | 25,334 | 572 | 2.26% |
| Total interest-bearing liabilities | 478,650 | 3,154 | 0.66% | 433,600 | 3,626 | 0.84% |
| Noninterest-bearing liabilities | 4,979 | | | 4,389 | | |
| Total liabilities | 483,629 | | | 437,989 | | |
| Stockholders' equity | 50,436 | | | 47,372 | | |
| Total liabilities and stockholders' equity | $ 534,065 | | | $ 485,361 | | |
| Net interest income | | $ 17,202 | | | $ 16,432 | |
| Interest rate spread[4] | | | 3.34% | | | 3.51% |
| Net yield on interest-earning assets[5] | | | 3.38% | | | 3.56% |
| Ratio of average interest-earning assets to average interest-bearing liabilities | | | 106.39% | | | 106.45% |

(1) Includes non-accrual loan balances.
(2) Includes mortgage-backed securities designated as available-for-sale.
(3) Includes federal funds sold and interest-bearing deposits in other financial institutions.
(4) Interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.
(5) Net yield on interest-earning assets represents net interest income as a percentage of average interest-earning assets.

BKD
CPAs & Advisors
200 E. Main Street, Suite 700 | Fort Wayne, IN 46802-1900
260.460.4000 | Fax 260.426.2235 | bkd.com

# Independent Auditor's Report

Stockholders and Board of Directors
Wayne Savings Bancshares, Inc.
Wooster, Ohio

We have audited the accompanying consolidated financial statements of Wayne Savings Bancshares, Inc. and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

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

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

***Opinion***

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

BKD, LLP

Fort Wayne, Indiana
March 17, 2021

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Empowering Business Globally

# WAYNE SAVINGS BANCSHARES, INC.
# CONSOLIDATED BALANCE SHEETS
## December 31, 2020 and 2019
## (In thousands, except share data)

| | 2020 | 2019 |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | $ 66,254 | $ 21,422 |
| Interest-bearing deposits | 8,236 | 9,330 |
| Cash and cash equivalents | 74,490 | 30,752 |
| | | |
| Available-for-sale securities | 89,764 | 48,848 |
| Held-to-maturity securities | 9,062 | 10,324 |
| Loans held for sale – at lower of cost or market | 861 | 734 |
| Loans, net of allowance for loan losses of $4,697 and $3,598 at December 31, 2020 and 2019, respectively | 391,352 | 376,581 |
| Premises and equipment, net | 5,467 | 5,318 |
| Federal Home Loan Bank stock | 4,226 | 4,226 |
| Accrued interest receivable | 1,588 | 1,385 |
| Bank-owned life insurance | 10,903 | 10,636 |
| Goodwill | 1,719 | 1,719 |
| Other assets | 2,159 | 2,063 |
| Total assets | $ 591,591 | $ 492,586 |
| | | |
| **Liabilities and Stockholders' Equity** | | |
| **Liabilities** | | |
| **Deposits** | | |
| Demand | $ 256,024 | $ 175,610 |
| Savings and money market | 122,019 | 109,356 |
| Time | 106,545 | 122,606 |
| Total deposits | 484,588 | 407,572 |
| Other short-term borrowings | 23,075 | 10,444 |
| Federal Home Loan Bank advances | 26,000 | 20,000 |
| Interest payable and other liabilities | 5,813 | 6,179 |
| Total liabilities | 539,476 | 444,195 |
| | | |
| **Commitments and Contingencies** | - | - |
| **Stockholders' Equity** | | |
| Preferred stock, 500,000 shares of $.10 par value authorized; no shares issued | - | - |
| Common stock, $.10 par value; authorized 5,000,000 Shares; 3,978,731 shares issued | 398 | 398 |
| Additional paid-in capital | 36,312 | 36,219 |
| Retained earnings | 37,281 | 32,600 |
| Shares acquired by ESOP | (24) | (82) |
| Accumulated other comprehensive income (loss) | 853 | (178) |
| Treasury stock, at cost: Common: 1,495,845 and 1,376,895 shares at December 31, 2020 and 2019, respectively | (22,705) | (20,566) |
| Total stockholders' equity | 52,115 | 48,391 |
| Total liabilities and stockholders' equity | $ 591,591 | $ 492,586 |

# WAYNE SAVINGS BANCSHARES, INC.
# CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
## Years Ended December 31, 2020 and 2019
## (In thousands, except per share data)

| | 2020 | 2019 |
|---|---|---|
| **Interest and Dividend Income** | | |
| Loans | $ 18,752 | $ 18,274 |
| Securities | 1,392 | 1,387 |
| Dividends on Federal Home Loan Bank stock and other | 212 | 397 |
| Total interest and dividend income | 20,356 | 20,058 |
| **Interest Expense** | | |
| Deposits | 2,560 | 2,998 |
| Other short-term borrowings | 102 | 56 |
| Federal Home Loan Bank advances | 492 | 572 |
| Total interest expense | 3,154 | 3,626 |
| **Net Interest Income** | 17,202 | 16,432 |
| **Provision for Loan Losses** | 1,290 | 406 |
| **Net Interest Income After Provision for Loan Losses** | 15,912 | 16,026 |
| **Noninterest Income** | | |
| Deposit service charges | 509 | 634 |
| Gain on loan sales | 1,407 | 673 |
| Earnings on bank-owned life insurance | 307 | 305 |
| Interchange fees | 583 | 583 |
| Other | 228 | 395 |
| Total noninterest income | 3,034 | 2,590 |
| **Noninterest Expense** | | |
| Salaries and employee benefits | 6,108 | 6,118 |
| Net occupancy and equipment expense | 1,775 | 1,849 |
| Federal deposit insurance premiums | 131 | 43 |
| Franchise taxes | 418 | 407 |
| Advertising and marketing | 141 | 250 |
| Legal | 92 | 59 |
| Professional fees | 224 | 186 |
| ATM network | 311 | 297 |
| Audit and accounting | 250 | 261 |
| Other | 1,270 | 1,233 |
| Total noninterest expense | 10,720 | 10,703 |
| **Income Before Federal Income Taxes** | 8,226 | 7,913 |
| **Provision for Federal Income Taxes** | 1,536 | 1,462 |
| **Net Income** | 6,690 | 6,451 |
| **Other Comprehensive Income:** | | |
| Unrealized gains on available-for-sale securities, net of taxes of $249 and $320 for 2020 and 2019 respectively | 937 | 1,203 |
| Change in split-dollar life insurance policy unrecognized net gain (loss) | 54 | (242) |
| Change in defined benefit plan settlement charge, net of taxes of $8 and $9 for 2020 and 2019 respectively | 32 | 36 |
| Change in defined benefit plan unrecognized net gain, net of taxes of $2 and ($7) for 2020 and 2019 respectively | 8 | (26) |
| Amortization of net (gain) loss included in net periodic pension cost, net of taxes of $12 for 2019 | - | 45 |
| **Other Comprehensive Income** | 1,031 | 1,016 |
| **Total Comprehensive Income** | $ 7,721 | $ 7,467 |
| **Basic Earnings Per Share** | $ 2.63 | $ 2.43 |
| **Diluted Earnings Per Share** | $ 2.60 | $ 2.43 |

*See Notes to Consolidated Financial Statements*

**WAYNE SAVINGS BANCSHARES, INC.**
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**
**Years Ended December 31, 2020 and 2019**
**(In thousands, except per share data)**

| | Common Stock | Additional Paid-in Capital | Retained Earnings | Shares Acquired by ESOP | Accumulated Other Comprehensive Loss | Treasury Stock | Total |
|---|---|---|---|---|---|---|---|
| **Balance, January 1, 2019, Adjusted** | $ 398 | $ 36,152 | $ 28,290 | $ (142) | $ (1,277) | $ (18,543) | $ 44,878 |
| Adoption of ASU 2017-08 | - | - | (139) | - | 83 | - | (56) |
| Net Income | - | - | 6,451 | - | | - | 6,451 |
| Other comprehensive loss | - | - | - | - | 1,016 | - | 1,016 |
| Purchase Treasury Shares at cost | - | - | - | - | - | (2,023) | (2,023) |
| Cash dividends - $0.76 per Share | - | - | (2,002) | - | - | - | (2,002) |
| ESOP shares earned | - | 67 | - | 60 | - | - | 127 |
| **Balance, December 31, 2019** | $ 398 | $ 36,219 | $ 32,600 | $ (82) | $ (178) | $ (20,566) | $ 48,391 |
| Net Income | - | - | 6,690 | - | | - | 6,690 |
| Other comprehensive income | - | - | - | - | 1,031 | - | 1,031 |
| Purchase Treasury Shares at cost | - | - | - | - | - | (2,139) | (2,139) |
| Cash dividends - $0.80 per Share | - | - | (2,009) | - | - | - | (2,009) |
| Expense under Stock Option Plan | - | 41 | - | - | - | - | 41 |
| ESOP shares earned | - | 52 | - | 58 | - | - | 110 |
| **Balance, December 31, 2020** | $ 398 | $ 36,312 | $ 37,281 | $ (24) | $ 853 | $ (22,705) | $ 52,115 |

*See Notes to Consolidated Financial Statements*

# WAYNE SAVINGS BANCSHARES, INC.
# CONSOLIDATED STATEMENTS OF CASH FLOWS
## Years Ended December 31, 2020 and 2019
## (In thousands)

| | 2020 | 2019 |
|---|---|---|
| **Operating Activities** | | |
| Net income | $ 6,690 | $ 6,451 |
| Items not requiring (providing) cash | | |
| Depreciation and amortization | 452 | 562 |
| Provision for loan losses | 1,290 | 406 |
| Amortization of premiums and discounts on securities | 811 | 744 |
| Amortization of mortgage servicing rights | 257 | 119 |
| Accretion of net deferred loan origination fees | (877) | (68) |
| Deferred income taxes | (291) | 21 |
| Net gains on sale of loans | (1,407) | (673) |
| Proceeds from sale of loans in the secondary market | 27,571 | 18,238 |
| Origination of loans for sale in the secondary market | (26,498) | (17,930) |
| Amortization expense of stock benefit plan-ESOP compensation expense | 110 | 127 |
| Expense under Stock Option Plan | 41 | - |
| Increase in value of bank-owned life insurance | (267) | (268) |
| Changes in | | |
| Accrued interest receivable | (203) | (27) |
| Other assets | 158 | (766) |
| Interest payable and other liabilities | (224) | 1,117 |
| Net cash provided by operating activities | 7,613 | 8,053 |
| **Investing Activities** | | |
| Purchases of available-for-sale securities | (52,855) | (9,150) |
| Proceeds from maturities and paydowns of available-for-sale securities | 12,383 | 8,865 |
| Proceeds from maturities and paydowns of held-to-maturity securities | 1,193 | 701 |
| Proceeds from sale of seasoned portfolio loans in the secondary market | - | 30,171 |
| Net change in loans | (15,447) | (29,315) |
| Purchase of premises and equipment | (601) | (474) |
| Net cash provided by (used in) investing activities | $ (55,327) | $ 798 |

**WAYNE SAVINGS BANCSHARES, INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**
**Years Ended December 31, 2020 and 2019**
**(In thousands)**

| | 2020 | 2019 |
|---|---|---|
| **Financing Activities** | | |
| Net change in deposits | $ 77,016 | $ 20,123 |
| Net change in other short-term borrowings | 12,631 | 3,272 |
| Proceeds from Federal Home Loan Bank advances | 6,000 | 20,000 |
| Repayments of Federal Home Loan Bank advances | - | (28,500) |
| Advances by borrowers for taxes and insurance | (17) | (219) |
| Dividends on common stock | (2,039) | (1,913) |
| Treasury stock purchases | (2,139) | (2,023) |
| Net cash provided by financing activities | 91,452 | 10,740 |
| **Increase in Cash and Cash Equivalents** | 43,738 | 19,591 |
| **Cash and Cash Equivalents, Beginning of period** | 30,752 | 11,161 |
| **Cash and Cash Equivalents, End of period** | $ 74,490 | $ 30,752 |
| **Supplemental Cash Flows Information** | | |
| Interest paid on deposits and borrowings | $ 3,318 | $ 3,419 |
| Federal income taxes paid | $ 1,775 | $ 1,475 |
| **Supplemental Disclosure of Non-Cash Investing and Financing Activities** | | |
| Recognition of mortgage servicing rights | $ 241 | $ 349 |
| Dividends payable | $ 497 | $ 520 |

## Note 1: Nature of Operations and Summary of Significant Accounting Policies

### *Nature of Operations*

The revenues, operating income and assets are almost exclusively derived from banking. Accordingly, all of the Company's banking operations are considered by management to be aggregated in one reportable operating segment. Customers are mainly located in Wayne, Holmes, Ashland, Medina and Stark Counties, and include a wide range of individuals, businesses and other organizations. The Company has historically conducted its business through its main office in Wooster, Ohio.

The Company's primary deposit products are checking, savings, money market and term certificate accounts. Wayne Savings Community Bank's primary lending products are residential mortgage, commercial and installment loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets and real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. Real estate loans are secured by both residential and commercial real estate. Net interest income is affected by the relative amount of interest-earning assets and interest-bearing liabilities and the interest received or paid on these balances. The level of interest rates paid or received by the Company can be significantly influenced by a number of environmental factors, such as governmental monetary policy, that are outside of management's control.

### *Principles of Consolidation*

The consolidated financial statements include the accounts of Wayne Savings Bancshares, Inc. ("Wayne" or the "Company") and its wholly owned subsidiary, Wayne Savings Community Bank (the "Bank"). All intercompany transactions and balances have been eliminated.

### *Use of Estimates*

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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, goodwill and pension and other retirement benefit plans. In connection with the determination of the allowance for loan losses management obtains independent appraisals for significant properties.

### *Cash Equivalents*

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. Noninterest-bearing transaction accounts are subject to the $250,000 limit on FDIC insurance per covered institution. From time to time, the Company's interest-bearing cash accounts may exceed the FDIC's insured limit of $250,000. Management considers the risk of loss to be very low.

### *Securities*

Certain 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 (loss). Purchase premiums and discounts are recognized in interest income using 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.

For debt securities with fair value below carrying value when the Company does not intend to sell a debt security, and it is more likely than not, the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income (loss). For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income (loss) for the noncredit portion of a previous other-than-temporary impairment is amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

***Loans***

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding principal balances adjusted for unearned income, charge-offs, the allowance for loan losses, any unamortized deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized as a level yield adjustment over the respective term of the loan. The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well secured and in process of collection. Past due status is determined based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current for a period of six months and future payments are reasonably assured.

***Allowance for Loan Losses***

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical charge-off experience and expected loss given default derived from the Company's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

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 for commercial and construction 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 homogenous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

***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 a valuation allowance by charges to noninterest income. Gains and losses on loan sales are recorded in noninterest income and direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of the loan.

***Premises and Equipment, Net***

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets. An accelerated method is used for tax purposes. Leasehold improvements are also stated at cost less accumulated depreciation and are depreciated using the straight-line method over the estimated useful lives of the assets or the term of the lease, whichever is shorter. Gains and losses on dispositions are included in current operations. No asset impairment was recognized during the years ended December 31, 2020 and 2019. During 2019, the Company adopted ASU 2016-02 "Leases (Topic 842)." The Company has three banking facilities in which it has lease contracts. The adoption of ASU 2016-02 increased leasehold improvements by $222,000 while offsetting this asset with a liability recorded in other liabilities in the consolidated balance sheet, and will be amortized as the lease terms approach maturity. At December 31, 2020 the leasehold asset was $144,000 and the offset was carried in other liabilities in the consolidated balance sheet.

***Federal Home Loan Bank Stock***

The Company is required as a condition of membership in the Federal Home Loan Bank of Cincinnati ("FHLB") to maintain an investment in FHLB common stock. The required investment in the common stock is based on a predetermined formula. The stock is redeemable at par and, therefore, its cost is equivalent to its redemption value. The stock is periodically evaluated for impairment. At December 31, 2020, the FHLB placed no restrictions on redemption of shares in excess of a member's required investment in the stock.

***Foreclosed Assets Held for Sale, Net***

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

***Bank-Owned Life Insurance***

The Bank has purchased life insurance policies on certain key executives. Bank-owned life insurance is recorded at its cash surrender value, or the amount that can be realized.

***Goodwill***

The composition of goodwill is as follows at December 31, 2020 and 2019:

| | 2020 | 2019 |
|---|---|---|
| | (In thousands) | |
| Goodwill | $ 1,719 | $ 1,719 |

Pursuant to FASB ASC 350, the Company is required to annually test goodwill for impairment. The Company performed its annual goodwill impairment test as of December 31, 2020, and the prior year at December 31, 2019. The Company's testing of goodwill in the current year indicated there was no impairment in the carrying value of this asset.

***Mortgage Servicing Rights***

Mortgage servicing assets are recognized separately when rights are acquired through sale of financial assets. Under the servicing assets and liabilities accounting guidance (ASC 860-50), servicing rights resulting from the sale or securitization of loans originated by the Company are initially measured at fair value at the date of transfer. The Company subsequently measures each class of servicing asset using the amortization method. Under the amortization method, servicing rights are amortized in proportion to and over the period of estimated net servicing income. The amortized assets are assessed for impairment based on fair value at each reporting date.

Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. These variables change from quarter to quarter as market conditions and projected interest rates change and may have an adverse impact on the value of the mortgage servicing rights and may result in a reduction to noninterest income.

Each class of separately recognized servicing assets subsequently measured using the amortization method are evaluated and measured for impairment. Impairment is determined by stratifying rights into tranches based on predominant characteristics, such as interest rate, loan type and investor type. Impairment, if necessary, is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the carrying amount of the servicing assets for that tranche. The valuation allowance is adjusted to reflect changes in the measurement of impairment after the initial measurement of impairment. Changes in valuation allowances are reported in the income statement. Fair value in excess of the carrying amount of servicing assets for that stratum is not recognized.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

***Treasury Stock***

Common stock shares repurchased are recorded at cost. Cost of shares retired or reissued is determined using the first-in, first-out method.

***Stock Options***

The Company has a stock-based employee compensation plan where compensation cost is recognized for the stock option awards issued to employees, based on the fair value of these awards at the grant date. A Black-Scholes model is utilized to estimate the fair value of the stock options. For the awards granted the compensation cost is recognized over the vesting schedule using the accelerated method, net of forfeitures. The Company will recognize forfeitures when they occur.

***Income Taxes***

The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, Income Taxes). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Uncertain tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment.

The Company recognizes interest and penalties, if any, on income taxes as a component of income tax expense. The Company files consolidated income tax returns with its subsidiary. With a few exceptions, the Company is no longer subject to tax authorities for years before 2017.

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### *Revenue From Contracts With Customers*

The Company records revenue from contracts with customers in accordance with Accounting Standards Codification Topic 606, Revenue from Contracts with Customers (Topic 606). Under Topic 606, the Company must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the Company satisfies a performance obligation.

The Company's primary sources of revenue are derived from interest and dividends earned on loans, investment securities and other financial instruments that are not within the scope of Topic 606. The Company has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the consolidated statements of income was not necessary. The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying Topic 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers

### *Earnings Per Share*

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during each period. Diluted earnings per share reflects additional potential common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. The Company has potential dilutive common shares issued or outstanding which relate to stock options and are determined using the treasury stock method.

Treasury stock shares and unearned ESOP shares are not deemed outstanding for earnings per share calculations.

### *Comprehensive Income*

Comprehensive income consists of net income and other comprehensive income (loss), net of applicable income taxes. Other comprehensive income (loss) includes unrealized appreciation (depreciation) on available-for-sale securities, changes in the funded status of the defined benefit pension plan and the split-dollar life insurance plan.

### *Advertising and Marketing*

Advertising and marketing costs are expensed as incurred. The Company’s advertising and marketing expense totaled $141,000 for the year ended December 31, 2020, and $250,000 for year ended December 31, 2019.

***Transfers of Financial Assets***

Transfers of financial assets are accounted for as sales, when the control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, 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 the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

***Impact of COVID-19 on the Company***

In March 2020, the COVID-19 coronavirus was identified as a global pandemic and began affecting the health of large populations around the world. As a result of the spread of COVID-19, economic uncertainties arose which can ultimately affect the financial position, results of operations and cash flows of the Company as well as the Company's customers. In response to economic concerns over COVID-19, in March 2020 the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was passed into law by Congress. The CARES Act included relief for individual Americans, health care workers, small businesses and certain industries hit hard by the COVID-19 pandemic. The 2021 Consolidated Appropriations Act, passed by Congress in December 2020, extended certain provisions of the CARES Act affecting the Company into 2021.

The CARES Act included several provisions designed to help financial institutions like the Company in working with their customers. Section 4013 of the CARES Act, as extended, allows a financial institution to elect to suspend generally accepted accounting principles and regulatory determinations with respect to qualifying loan modifications related to COVID-19 that would otherwise be categorized as a troubled debt restructuring (TDR) until January 1, 2022. The Company has taken advantage of this provision to extend certain payment modifications to loan customers in need. As of December 31, 2020, the Company has $6.3 million of outstanding loans that were modified during 2020 under the CARES Act guidance, that remain on modified terms. The Company modified $36.0 million of other loans under the CARES Act guidance during 2020 that have since returned to normal repayment status as of December 31, 2020.

The CARES Act also approved the Paycheck Protection Program (PPP), administered by the Small Business Administration (SBA) with funding provided by financial institutions. The 2021 Consolidated Appropriations Act approved a new round of PPP loans in 2021. The PPP provides loans to eligible businesses through financial institutions like the Company, with loans being eligible for forgiveness of some or all of the principal amount by the SBA if the borrower meets certain requirements. The SBA guarantees repayment of the loans to the Company if the borrower's loan is not forgiven and is then not repaid by the customer. The Company earns a 1% interest rate on PPP loans, plus a processing fee from the SBA for processing and originating a loan. The Company originated approximately $30.9 million in PPP loans during 2020, of which approximately $15.6 million are still outstanding at December 31, 2020.

***Subsequent Events***

Subsequent events have been evaluated through March 19, 2021, which is the date the financial statements were available to be issued. As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of the Company and in particular the collectability of the loan portfolio. The duration of these uncertainties and the ultimate financial effects cannot be reasonable estimated at this time.

## Note 2: Restriction on Cash and due from banks

The Company is required to maintain reserve funds in cash, and or, on deposit with the Federal Reserve Bank. There was no reserve required at December 31, 2020.

## Note 3: Securities

The amortized cost and fair values, together with gross unrealized gains and losses, of securities are as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **Available-for-sale securities** | | (In thousands) | | |
| December 31, 2020: | | | | |
| Mortgage-backed securities of government-sponsored entities | $ 65,002 | $ 663 | $ 282 | $ 65,383 |
| State and political subdivisions | 22,953 | 1,439 | 11 | 24,381 |
| Totals | $ 87,955 | $ 2,102 | $ 293 | $ 89,764 |

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **Available-for-sale securities** | | (In thousands) | | |
| December 31, 2019: | | | | |
| Mortgage-backed securities of government-sponsored entities | $ 30,644 | $ 103 | $ 204 | $ 30,543 |
| State and political subdivisions | 17,580 | 733 | 8 | 18,305 |
| Totals | $ 48,224 | $ 836 | $ 212 | $ 48,848 |

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **Held-to-maturity Securities:** | | (In thousands) | | |
| December 31, 2020: | | | | |
| Mortgage-backed securities of government-sponsored entities | $ 117 | $ - | $ - | $ 117 |
| State and political subdivisions | 8,945 | 528 | 1 | 9,472 |
| Totals | $ 9,062 | $ 528 | $ 1 | $ 9,589 |

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **Held-to-maturity Securities:** | | (In thousands) | | |
| December 31, 2019: | | | | |
| Mortgage-backed securities of government-sponsored entities | $ 278 | $ - | $ - | $ 278 |
| State and political subdivisions | 10,046 | 280 | 6 | 10,320 |
| Totals | $ 10,324 | $ 280 | $ 6 | $ 10,598 |

The amortized cost and fair value of available-for-sale securities and held-to-maturity securities at December 31, 2020, by contractual maturity, are shown below. 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.

| | Available-for-sale | | Held-to-maturity | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| | (In thousands) | | | |
| Within one year | $ - | $ - | $ 731 | $ 748 |
| One to five years | 1,841 | 1,875 | 2,398 | 2,499 |
| Five to ten years | 1,588 | 1,654 | 3,237 | 3,436 |
| After ten years | 19,524 | 20,852 | 2,579 | 2,789 |
| | 22,953 | 24,381 | 8,945 | 9,472 |
| Mortgage-backed securities of government-sponsored entities | 65,002 | 65,383 | 117 | 117 |
| Totals | $ 87,955 | $ 89,764 | $ 9,062 | $ 9,589 |

The carrying value of securities pledged as collateral, to secure public deposits, customer repurchase agreements and for other purposes, was $38.6 million and $35.1 million at December 31, 2020 and 2019, respectively.

In 2020 and 2019 there were no sales of securities.

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. The total fair value of these investments at December 31, 2020 and 2019 was $30.5 million and $25.8 million, which represented approximately 31% and 44%, respectively, of the Company's aggregate fair market value of the available-for-sale and held-to-maturity investment portfolios. These declines resulted primarily from changes in market interest rates.

Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary at December 31, 2020.

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

The unrealized losses on the Company's investments in mortgage-backed securities of government-sponsored entities and municipal securities were caused by changes in interest rates. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2020.

The following table shows the gross unrealized losses and fair value of the Company's available-for-sale and held-to-maturity investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2020 and 2019:

| | December 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 Months | | More than 12 Months | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (In thousands) | | | | | |
| Mortgage-backed securities of government-sponsored entities | $ 27,939 | $ 282 | $ - | $ - | $ 27,939 | $ 282 |
| State and political subdivisions | 2,318 | 11 | 283 | 1 | 2,601 | 12 |
| Total temporarily impaired securities | $ 30,257 | $ 293 | $ 283 | $ 1 | $ 30,540 | $ 294 |

| | December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 Months | | More than 12 Months | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (In thousands) | | | | | |
| Mortgage-backed securities of government-sponsored entities | $ 11,771 | $ 91 | $ 12,666 | $ 113 | $ 24,437 | $ 204 |
| State and political subdivisions | 572 | 6 | 744 | 8 | 1,316 | 14 |
| Total temporarily impaired Securities | $ 12,343 | $ 97 | $ 13,410 | $ 121 | $ 25,753 | $ 218 |

## Note 4: Loans and Allowance for Loan Losses

Categories of loans at December 31, include:

| | 2020 | 2019 |
|---|---|---|
| | (In thousands) | |
| One-to-four family residential | $ 167,221 | $ 174,405 |
| Multi-family residential | 11,447 | 14,326 |
| Construction | 7,372 | 4,219 |
| Nonresidential real estate and land | 173,787 | 164,134 |
| Commercial (1) | 44,769 | 28,139 |
| Consumer and other | 2,331 | 3,041 |
| | 406,927 | 388,264 |
| Less | | |
| Undisbursed portion of loans in process | 9,546 | 7,398 |
| Deferred loan origination fees | 1,332 | 687 |
| Allowance for loans losses | 4,697 | 3,598 |
| Total loans | $ 391,352 | $ 376,581 |

(1) Included in commercial loans are $15.6 million of Paycheck Protection Program (PPP) loans, administered by the Small Business Association (SBA). The PPP provides loans to eligible businesses through financial institutions, with loans being eligible for forgiveness of some, or all, of the principal amount by the SBA if the borrower meets certain requirements. These loans are guaranteed by the SBA, if the loan does not qualify for forgiveness and is not repaid by the customer. Therefore, there is no allowance for loan losses related to these loans.

### The risk characteristics of each portfolio segment are as follows:

#### Residential Real Estate Loans

For residential mortgage loans that are secured by one-to-four family residences and are generally owner occupied, the Company generally establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded. Home equity loans are typically secured by a subordinate interest in one-to-four family residences.

Repayment can also be impacted by changes in property values on residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

**All Other Mortgage Loans**
All other mortgage loans consist of residential construction loans, nonresidential real estate loans, land loans and multi-family real estate loans.

Residential construction loan proceeds are disbursed in increments as construction progresses and as inspections warrant. Construction loans are typically structured as permanent one-to-four family loans originated by the Company with a 6-month construction phase. Accordingly, upon completion of the construction phase, there is no change in interest rate or term to maturity of the original construction loan, nor is a new permanent loan originated. These loans are generally owner occupied and the Company generally establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded.

Nonresidential real estate loans are negotiated on a case-by-case basis. Loans secured by nonresidential real estate generally involve a greater degree of risk than one-to-four family residential mortgage loans and carry larger loan balances. This increased credit risk is a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the effects of general economic conditions on income-producing properties, and the increased difficulty of evaluating and monitoring these types of loans.

Furthermore, the repayment of loans secured by nonresidential real estate is typically dependent upon the successful operation of the related real estate project. If the cash flow from the project is reduced, the borrower's ability to repay the loan may be impaired.

The Company also originates a limited number of land loans secured by individual improved and unimproved lots for future residential construction. In addition, the Company originated loans to commercial customers with land held as the collateral.

Multi-family real estate loans generally involve a greater degree of credit risk than one-to-four family residential mortgage loans and carry larger loan balances. This increased credit risk is a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the effects of general economic conditions on income-producing properties, and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by multi-family real estate is typically dependent upon the successful operation of the related real estate property. If the cash flow from the project is reduced, the borrower's ability to repay the loan may be impaired.

**Commercial Business Loans**
Commercial business loans carry a higher degree of risk than one-to-four family residential loans. Such lending typically involves large loan balances concentrated in a single borrower or groups of related borrowers for rental or business properties. In addition, the payment experience on loans secured by income-producing properties is typically dependent on the success of the operation of the related project and thus is typically affected by adverse conditions in the real estate market and in the economy. The Company originates commercial loans generally in the $25,000 to $1,500,000 range with the majority of these loans being under $500,000. Commercial loans are generally underwritten based on the borrower's ability to pay and assets such as buildings, land and equipment are taken as additional loan collateral. Each loan is evaluated for a level of risk and assigned a rating from "1" (the highest quality rating) to "7" (the lowest quality rating).

**Consumer Loans**
Consumer loans entail greater credit risk than residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate rapidly, such as automobiles, mobile homes, boats, and recreational vehicles. In such cases, repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and the remaining deficiency often does not warrant further substantial collection efforts against the borrower. In particular, amounts realizable on the sale of repossessed automobiles may be significantly reduced based upon the condition of the automobiles and the lack of demand for used automobiles.

The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on the portfolio segment and impairment method as of December 31, 2020 and 2019:

| **December 31, 2020** | **One-to-four family residential** | **All other mortgage loans** | **Commercial business loans** | **Consumer loans** | **Total** |
|---|---|---|---|---|---|
| Allowance for loan losses: | | | (In thousands) | | |
| Beginning balance | $ 1,053 | $ 1,975 | $ 544 | $ 26 | $ 3,598 |
| Provision(credit) charged to expense | 483 | 558 | 238 | 11 | 1,290 |
| Losses charged off | (200) | - | - | (65) | (265) |
| Recoveries | 1 | 4 | 18 | 51 | 74 |
| Ending balance | $ 337 | $ 2,537 | $ 800 | $ 23 | $ 4,697 |
| Allowance Balances: | | | | | |
| Individually evaluated for impairment | $ 61 | $ - | $ 339 | $ - | $ 400 |
| Collectively evaluated for impairment | $ 1,276 | $ 2,537 | $ 461 | $ 23 | $ 4,297 |
| Loan Balances: | | | | | |
| Ending balance: | $ 167,221 | $ 192,606 | $ 44,769 | $ 2,331 | $ 406,927 |
| Individually evaluated for impairment | $ 1,195 | $ 594 | $ 1,133 | $ - | $ 2,922 |
| Collectively evaluated for impairment | $ 166,026 | $ 192,012 | $ 43,636 | $ 2,331 | $ 404,005 |

| **December 31, 2019** | **One-to-four family residential** | **All other mortgage loans** | **Commercial business loans** | **Consumer loans** | **Total** |
|---|---|---|---|---|---|
| Allowance for loan losses: | | | (In thousands) | | |
| Beginning balance | $ 957 | $ 1,916 | $ 501 | $ 9 | $ 3,383 |
| Provision (credit) charged to expense | 118 | 59 | 205 | 24 | 406 |
| Losses charged off | (22) | - | (162) | (7) | (191) |
| Recoveries | - | - | - | - | - |
| Ending balance | $ 1 ,053 | $ 1,975 | $ 544 | $ 26 | $ 3,598 |
| Allowance Balances: | | | | | |
| Individually evaluated for impairment | $ 122 | $ - | $ 38 | $ 1 | $ 161 |
| Collectively evaluated for impairment | $ 931 | $ 1,975 | $ 506 | $ 25 | $ 3,437 |
| Loan Balances: | | | | | |
| Ending balance: | $ 174,405 | $ 182,679 | $ 28,139 | $ 3,041 | $ 388,264 |
| Individually evaluated for impairment | $ 904 | $ 1,142 | $ 204 | $ 1 | $ 2,251 |
| Collectively evaluated for impairment | $ 173,681 | $ 182,679 | $ 27,935 | $ 3,040 | $ 387,335 |

The following tables present the credit risk profile of the Bank's loan portfolio based on rating category and payment activity as of December 31, 2020 and 2019:

| **December 31, 2020** | **One-to-four family residential** | **All other mortgage loans** | **Commercial business loans** | **Consumer loans** |
|---|---|---|---|---|
| Rating * | | (In thousands) | | |
| Pass (Risk 1-4) | $ 165,903 | $ 179,856 | $ 40,289 | $ 2,331 |
| Special Mention (Risk 5) | 622 | 10,919 | 3,113 | - |
| Substandard (Risk 6) | 696 | 1,831 | 1,367 | - |
| Total | $ 167,221 | $ 192,606 | $ 44,769 | $ 2,331 |

| **December 31, 2019** | **One-to-four family residential** | **All other mortgage loans** | **Commercial business loans** | **Consumer loans** |
|---|---|---|---|---|
| Rating * | | (In thousands) | | |
| Pass (Risk 1-4) | $ 172,002 | $ 178,920 | $ 27,174 | $ 3,041 |
| Special Mention (Risk 5) | 1,385 | 635 | 437 | - |
| Substandard (Risk 6) | 1,018 | 3,124 | 528 | - |
| Total | $ 174,405 | $ 182,679 | $ 28,139 | $ 3,041 |

* Ratings are generally assigned to consumer and residential mortgage loans on a "pass" or "fail" basis, where "fail" results in a substandard classification. Commercial loans, both secured by real estate or other assets or unsecured, are analyzed in accordance with an analytical matrix codified in the Bank's loan policy that produces a risk rating as described below.

Risk 1 loans are fully secured by cash or widely held marketable securities including an adequate margin. These loans present virtually no risk to the bank. Ongoing financial statements from the borrowers will not typically be required to be submitted.

Risk 2 loans are considered above average and include only the strongest borrowers. The borrower has sufficient cash reserves to help service their debts for typically at least 12-months. Their debt service coverage ratio will consistently be above 2.00x. The debts are sufficiently covered with collateral with Loan-to-Values well below the maximums advance rates as defined elsewhere in this policy. Business entity borrowers should have personal guarantees of the owner(s), who have significant assets and income to support the debt.

Risk 3 loans are considered average and represent the typical commercial borrower. This category will comprise the largest segment of the commercial portfolio. The borrowers have some cash reserves to help service their debts for a few months. Collateral is within underwriting standards and sufficient to cover the outstanding debt under normal circumstances; however, coverage may be insufficient in a forced liquidation situation. Business entity borrowers should have personal guarantees of the owner(s), even if they provide minimal financial support. Most smaller exposure borrowers will also be included in this category.

Risk 4 loans are considered below average with higher risk than the average borrower. These borrowers warrant slightly more attention than the normal borrower. The borrower may not have sufficient cash reserves to help service their debts. Collateral may be outside underwriting standards and insufficient to cover the outstanding debt under normal circumstances. Business entity borrowers may not have the personal guarantees of the owner(s). This category may also include a group of borrowers related to a specific industry, area, loan type, or other common factor that is deemed to represent more risk than average.

Risk 5 loans have a potential weakness or weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may, at some future date, result in deterioration of the payment prospects for the asset or in the institution's credit position. Special Mention assets are not adversely classified and do not expose the bank to sufficient risk to warrant adverse classification. Corrective action by management should be able to remedy the potential weaknesses and therefore the duration within this category should typically be short-term (less than one-year).

Risk 6 loans possess a well-defined weakness or weaknesses that jeopardize the liquidation of the amount owed. Loans may be inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. They are characterized by the distinct possibility that the bank may sustain some loss if the deficiencies are not corrected.

Risk 7 loans have most of the weaknesses inherent in the Substandard category with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions, and values highly questionable and improbable.

The following tables present the Bank's loan portfolio aging analysis as of December 31, 2020 and 2019:

| December 31, 2020 | 30-59 Days Past Due | 60-89 Days Past Due | Greater Than 90 Days | Total Past Due | Current | Total Loans Receivable |
|---|---|---|---|---|---|---|
| | | | (In thousands) | | | |
| One-to-four family residential loans | $ 533 | $ 38 | $ 587 | $ 1,158 | $ 166,063 | $ 167,221 |
| All other mortgage loans | 413 | 46 | 665 | 1,124 | 191,482 | 192,606 |
| Commercial business loans | 234 | 49 | 399 | 682 | 44,087 | 44,769 |
| Consumer loans | 23 | 2 | - | 25 | 2,306 | 2,331 |
| Total | $ 1,203 | $ 135 | $ 1,651 | $ 2,989 | $ 403,938 | $ 406,927 |

| December 31, 2019 | 30-59 Days Past Due | 60-89 Days Past Due | Greater Than 90 Days | Total Past Due | Current | Total Loans Receivable |
|---|---|---|---|---|---|---|
| | | | (In thousands) | | | |
| One-to-four family residential loans | $ 765 | $ 176 | $ 476 | $ 1,417 | $ 172,988 | $ 174,405 |
| All other mortgage loans | 177 | 68 | 1,617 | 1,862 | 180,817 | 182,679 |
| Commercial business loans | 91 | - | 20 | 111 | 28,028 | 28,139 |
| Consumer loans | - | 63 | - | 63 | 2,978 | 3,041 |
| Total | $ 1,033 | $ 307 | $ 2,113 | $ 3,453 | $ 384,811 | $ 388,264 |

There were $1.1 million of loans that were past due 90 days or greater that were still accruing at December 31, 2020, and $253,000 of loans that were past due 90 days or greater that were still accruing at December 31, 2019.

Non-accrual loans were comprised of the following at December 31, 2020 and 2019:

| Non-accrual loans | 2020 | 2019 |
|---|---|---|
| | (In thousands) | |
| One-to-four family residential loans | $ 491 | $ 732 |
| Nonresidential real estate loans | 896 | 1,617 |
| Commercial business loans | - | 72 |
| Consumer loans | - | - |
| Total | $ 1,387 | $ 2,421 |

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans, but also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

Included in certain loan categories in the impaired loans are troubled debt restructurings that were classified as impaired. At December 31, 2020 and 2019, the Company had $541,000 and $641,000, respectively, of residential mortgages; $699,000 and $768,000 of nonresidential mortgages; and $37,000 and $115,000, respectively, of commercial loans. Included in these amounts, the Company had troubled debt restructurings that were performing in accordance with their modified terms of $524,000 and $465,000 in residential mortgage loans, $616,000 and $175,000 in non-residential real estate loans for December 31, 2020 and 2019, respectively, and commercial loans of $35,000 were performing in accordance with their modified terms for 2019.

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The following tables present impaired loans as of and for the years ended December 31, 2020 and 2019:

| **December 31, 2020** | **Recorded Balance** | **Unpaid Principal Balance** | **Specific Allowance** | **Average Investment in Impaired Loans** | **Interest Income Recognized** |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Loans without a specific Valuation allowance | | | | | |
| One-to-four family residential loans | $ 778 | $ 1,058 | $ - | $ 857 | $ 31 |
| All other mortgage loans | 594 | 827 | - | 868 | 32 |
| Commercial business loans | - | - | - | - | - |
| Loans with a specific valuation allowance | | | | | |
| One-to-four family residential loans | 417 | 417 | 61 | 337 | 25 |
| All other mortgage loans | - | - | - | - | - |
| Commercial business loans | 1,133 | 1,133 | 339 | 651 | 70 |
| Total: | | | | | |
| One-to-four family residential loans | $ 1,195 | $ 1,475 | $ 61 | $ 1,194 | $ 56 |
| All other mortgage loans | 594 | 827 | - | 868 | 32 |
| Commercial business loans | 1,133 | 1,133 | 339 | 651 | 70 |
| | $ 2,922 | $ 3,435 | $ 400 | $ 2,713 | $ 158 |

| **December 31, 2019** | **Recorded Balance** | **Unpaid Principal Balance** | **Specific Allowance** | **Average Investment in Impaired Loans** | **Interest Income Recognized** |
|---|---|---|---|---|---|
| | | | **(In thousands)** | | |
| Loans without a specific Valuation allowance | | | | | |
| One-to-four family residential loans | **$ 645** | **$ 305** | **$ -** | **$ 194** | **$ 14** |
| All other mortgage loans | **1,142** | **1,374** | **-** | **1,204** | **44** |
| Consumer loans | **-** | **-** | **-** | **-** | **-** |
| Commercial business loans | **35** | **35** | **-** | **39** | **3** |
| Loans with a specific valuation allowance | | | | | |
| One-to-four family residential loans | **259** | **331** | **122** | **280** | **22** |
| All other mortgage loans | **-** | **-** | **-** | **-** | **-** |
| Consumer | **1** | **1** | **1** | **1** | **-** |
| Commercial business loans | **169** | **177** | **38** | **174** | **10** |
| Total: | | | | | |
| One-to-four family residential loans | **$ 904** | **$ 636** | **$ 122** | **$ 474** | **$ 36** |
| All other mortgage loans | **1,142** | **1,374** | **-** | **1,204** | **44** |
| Consumer loans | **1** | **1** | **1** | **1** | **-** |
| Commercial business loans | **204** | **212** | **38** | **213** | **13** |
| | **$ 2,251** | **$ 2,223** | **$ 161** | **$ 1,892** | **$ 93** |

The following tables present information regarding newly classified troubled debt restructurings by class for the years ended December 31, 2020 and 2019.

| Troubled Debt Restructurings | Number of loans | Pre-modification Unpaid Principal Balance | Post-modification Unpaid Principal Balance |
|---|---|---|---|
| | | (dollars in thousands) | |
| **December 31, 2020** | | | |
| All Other mortgage loans | 1 | $ 458 | $ 458 |
| Commercial business loans | 1 | 16 | 16 |
| Total | 2 | $ 474 | $ 474 |
| **December 31, 2019** | | | |
| One-to-four family residential loans | 1 | $ 42 | $ 42 |
| Total | 1 | $ 42 | $ 42 |

All the above TDR classifications occurred as concessions were granted to borrowers experiencing financial difficulties. These concessions may include a reduction in the stated rate, an interest rate that is below market interest rates for similar debt, an extension of the maturity date or delaying principal payments through interest only payments. Each TDR has been individually evaluated for impairment with the appropriate specific valuation allowance included in the allowance for loan losses calculation. There were no TDR classifications which defaulted during the year ended December 31, 2020, or the year ended December 31, 2019. The Company considers TDRs that become 90 days or more past due under modified terms as subsequently defaulted unless the TDR terms indicate annual repayments.

Banks foreclose on certain properties in the normal course of business when it is more probable than not that the loan balance will not be recovered through scheduled payments. Foreclosure is usually a last resort and begins after all other collection efforts have been exhausted. The following table presents the balance of those mortgage and commercial loans collateralized by real estate in the formal process of foreclosure at December 31, 2020 and December 31, 2019.

| | 2020 | 2019 |
|---|---|---|
| | Recorded Investment | |
| | (In thousands) | |
| One-to-four family residential loans | $ 105 | $ 218 |
| All other mortgage loans | 352 | 712 |
| Total assets in foreclosure process | $ 457 | $ 930 |

## Note 5: Premises and Equipment

Major classifications of premises and equipment, stated at cost, at December 31, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|---|---|---|
| | (In thousands) | |
| Land and improvements | $ 1,799 | $ 1,799 |
| Office buildings and improvements | 8,190 | 8,190 |
| Furniture, fixtures and equipment | 6,326 | 5.777 |
| Leasehold improvements | 566 | 513 |
| | 16,881 | 16,279 |
| Less accumulated depreciation | 11,414 | 10,961 |
| Total | $ 5,467 | $ 5,318 |

## Note 6: Loan Servicing

The Company has recognized servicing rights for residential mortgage loans sold with servicing retained. Residential mortgage loans serviced for others are subject to credit, prepayment and interest rate risks.

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balance of mortgage loans serviced for others was $99.3 million and $92.5 million at December 31, 2020 and 2019, respectively. Contractually specified servicing fees, late fees and ancillary fees of approximately $59,000 and $67,000 are included in loan servicing fees in the consolidated statements of income at December 31, 2020 and 2019, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing, were approximately $1.1 million and $1.4 million at December 31, 2020 and 2019, respectively.

Comparable market values and a valuation model that calculates the present value of future cash flows were used to estimate fair value. Servicing assets are included in other assets on the consolidated balance sheets.

Activity in the balance of servicing assets was as follows at December 31, 2020 and 2019:

| | 2020 | 2019 |
|---|---|---|
| | (In thousands) | |
| Carrying amount, beginning of period | $ 837 | $ 607 |
| Additions | | |
| Servicing obligations that result from transfers of financial assets | 241 | 349 |
| Subtractions | | |
| Impairments | 79 | 39 |
| Amortization | 178 | 80 |
| | $ 821 | $ 837 |

The fair value of servicing rights subsequently measured using the amortization method was as follows:

| | | |
|---|---|---|
| Fair value, beginning of period | $ 837 | $ 612 |
| Fair value, end of period | $ 821 | $ 837 |

## Note 7: Interest-Bearing Time Deposits

Interest-bearing time deposits in denominations of $250,000 or more were $15.7 million at December 31, 2020, and $11.7 million at December 31, 2019.

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

| Due during the year ending December 31, | (In thousands) |
|---|---|
| 2021 | $ 56,459 |
| 2022 | 25,049 |
| 2023 | 10,190 |
| 2024 | 6,218 |
| 2025 | 6,881 |
| Thereafter | 1,748 |
| | $ 106,545 |

## Note 8: Other Short-Term Borrowings

Short-term borrowings included the following at December 31, 2020 and 2019:

| | 2020 | 2019 |
|---|---|---|
| | (In thousands) | |
| Securitties sold under repurchase agreement | $ 23,075 | $ 10,444 |

Securities sold under agreements to repurchase consist of obligations of the Bank to other parties. The obligations are secured by available-for-sale securities and such collateral is held by the Bank. The maximum amount of outstanding agreements at any month end during the years ended December 31, 2020 and 2019 totaled $23.7 million and $12.8 million, respectively. The average daily balance totaled $14.2 million and $8.8 million for years ended December 31, 2020 and 2019, respectively. These short-term borrowings were collateralized by $28.5 million, and $12.8 million of Mortgage-backed securities of government-sponsored entities at December 31, 2020 and 2019 respectively. The agreements at December 31, 2020, mature daily.

Repurchase agreements are offered by the Bank to commercial business customers to provide them with an opportunity to earn a return on their excess cash balances. These repurchase agreements are considered secured borrowings and are reported in other short-term borrowings. On a daily basis the Bank transfers securities to these customers in exchange for their cash and subsequently agrees to repurchase those same securities the next business day. In the event the Bank is unable to repurchase the securities from the customer, the customer will then have a claim against those securities.

## Note 9: Federal Home Loan Bank Advances

At December 31, 2020 and 2019, advances from the Federal Home Loan Bank were as follows:

| Interest Rate Range | Maturing year ending December 31, | Amount |
|---|---|---|
| **2020** | | (In thousands) |
| 2.12% - 2.44% | 2021 | $ 12,000 |
| 2.10% - 2.43% | 2022 | 8,000 |
| 0.84% | 2024 | 3,000 |
| 0.90% | 2025 | 3,000 |
| | | $ 26,000 |

| Interest Rate Range | Maturing year ending December 31, | Amount |
|---|---|---|
| **2019** | | (In thousands) |
| 2.12% - 2.44% | 2021 | $ 12,000 |
| 2.10% - 2.43% | 2022 | 8,000 |
| | | $ 20,000 |

The Federal Home Loan Bank advances are secured by mortgage loans totaling $107.3 million at December 31, 2020.

Additionally, as a member of the Federal Home Loan Bank system at December 31, 2020, the Bank had the ability to obtain up to $57.3 million in additional borrowings. Borrowings from the FHLB are secured by a blanket pledge of the one-to-four family residential real estate loan portfolio. The Bank's borrowing capacity can be further increased by the pledge of additional collateral, including additional types of loans from the Bank's loan portfolio and unpledged investment securities.

At December 31, 2020, the Bank had a cash management line of credit with the Federal Reserve Bank in the amount of $7.1 million, none of which was drawn. The Bank had approximately $7.3 million of state and political subdivision bonds pledged as collateral for this line of credit.

## Note 10: Income Taxes

The provision for income taxes includes the following components at December 31, 2020 and 2019:

| | 2020 | 2019 |
|---|---|---|
| | (In thousands) | |
| Taxes currently payable | $ 1,827 | $ 1,441 |
| Deferred income taxes | (291) | 21 |
| Income tax expense | $ 1,536 | $ 1,462 |

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

| | 2020 | 2019 |
|---|---|---|
| | (In thousands) | |
| Computed at the statutory rate (21% for 2020 and 2019) | $ 1,727 | $ 1,662 |
| Increase (decrease) resulting from | | |
| Tax-exempt interest | (126) | (117) |
| Earnings on bank-owned life insurance | (21) | (61) |
| Other | (44) | (22) |
| Actual tax expense | $ 1,536 | $ 1,462 |

The tax effects of temporary differences related to deferred taxes shown in 2020 and 2019 are at the new tax rate of 21% as on the consolidated balance sheets as follows:

| | 2020 | 2019 |
|---|---|---|
| Deferred tax assets | (In thousands) | |
| Deferred loan origination fees | $ 280 | $ 144 |
| Allowance for loan losses | 986 | 755 |
| Pension adjustment | 93 | 104 |
| Reserve for uncollected interest | 150 | 161 |
| Benefit plan expenses | 97 | 95 |
| Unrealized losses on securities available-or-sale | 62 | 7 |
| Accrued other expenses | 35 | 38 |
| AMT credit carryover and low-income housing credit | 67 | 63 |
| Total deferred tax assets | 1,770 | 1,367 |
| Deferred tax liabilities | | |
| Prepaid pension | (74) | (90) |
| Federal Home Loan Bank stock dividends | (632) | (632) |
| Book/tax depreciation differences | (319) | (246) |
| Financed loan fees | (46) | (83) |
| Unrealized gains on securities available for sale | (441) | (131) |
| Prepaid Expenses | (46) | - |
| Mortgage servicing rights | (172) | (176) |
| Total deferred tax liabilities | (1,730) | (1,358) |
| Net deferred tax asset | $ 40 | $ 9 |

Prior to fiscal 1997, the Company was allowed a special bad debt deduction based on a percentage of earnings, generally limited to 8% of otherwise taxable income and subject to certain limitations based on aggregate loans and deposit account balances at the end of the year. This cumulative percentage of earnings bad debt deduction totaled approximately $2.7 million as of December 31, 2020. If the amounts that qualified as deductions for federal income taxes are later used for purposes other than bad debt losses, including distributions in liquidation, such distributions will be subject to federal income taxes at the then current corporate income tax rate. The amount of unrecognized deferred tax liability relating to the cumulative bad debt deduction was approximately $567,000 at December 31, 2020.

## Note 11: Accumulated Other Comprehensive Income (Loss)

| | 2020 | 2019 |
|---|---|---|
| | (In thousands) | |
| Gross unrealized gain on securities available-for-sale | $ 1,809 | $ 623 |
| Gross unrealized loss for unfunded status of split-dollar life insurance plan liability (tax free) | (225) | (279) |
| Gross unrealized gain (loss) for unfunded status of defined benefit plan liability | (445) | (495) |
| | 1,139 | (152) |
| Tax effect | (286) | (26) |
| Net-of-tax amount | $ 853 | $ (178) |

## Note 12: Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory–and possibly additional discretionary–actions by regulators that, if undertaken, could have a direct material effect on the Company's and 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 assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Bank's regulators could require adjustments to regulatory capital not reflected in these financial statements.

The Bank must give notice to the Federal Reserve Bank of Cleveland prior to declaring a dividend to the Company and is subject to existing regulatory guidance where, in general, a dividend is permissible without regulatory approval if the institution is considered to be "well capitalized" and the dividend does not exceed current year-to-date net income plus the change in retained earnings for the previous two calendar years. For dividends in excess of the above criteria, the Bank must make application to the Federal Reserve Bank of Cleveland and receive approval before declaring a dividend to the Company.

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

As of December 31, 2020, based on the computations for the call report the Bank is classified as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain capital ratios as set forth in the table below. There are no conditions or events since December 31, 2020, that management believes have changed the Bank's capital classification.

Effective January 1, 2015, new regulatory capital requirements commonly referred to as "Basel III" were implemented. Management opted out of the accumulated other comprehensive income treatment under the new requirements, and as such unrealized gains and losses from available-for-sale securities will continue to be excluded from Bank regulatory capital.

In addition to the minimum Common Equity Tier 1 "CET1", Tier 1 and total capital ratios, the Bank will be required to maintain a capital conservation buffer consisting of additional CET1 capital greater than 2.5% of risk-weighted assets above the required minimum levels in order to avoid limitations on paying dividends or paying discretionary bonuses based on percentages of eligible retained income that could be utilized for such actions. This new capital conservation buffer requirement is being phased in beginning in January 2016 at 0.625% of risk-weighted assets and increasing each year until fully implemented in January 2019. At December 31, 2020, the Bank had Total risk-based capital to risk-weighted assets of 14.2% compared to the requirement of 10.5% using the full capital conservation buffer requirement.

The Bank's actual capital amounts and ratios as of December 31, 2020 and 2019 are presented in the following table.

| | Actual | | For Capital Adequacy Purposes | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| **As of December 31, 2020** | | | | | | |
| Tier I Capital to average assets | $ 49,320 | 8.7% | $ 22,702 | 4.0% | $ 28,378 | 5.0% |
| Tier 1 Common equity capital to risk-weighted assets | 49,320 | 13.0% | 17,114 | 4.5% | 24,720 | 6.5% |
| Tier I Capital to risk-weighted assets | 49,320 | 13.0% | 22,819 | 6.0% | 30,425 | 8.0% |
| Total Risk-based capital to risk-weighted assets | 54,021 | 14.2% | 30,425 | 8.0% | 38,031 | 10.0% |
| **As of December 31, 2019** | | | | | | |
| Tier I Capital to average assets | $ 46,474 | 9.4% | $ 19,682 | 4.0% | $ 24,603 | 5.0% |
| Tier 1 Common equity capital to risk-weighted assets | 46,474 | 12.7% | 16,404 | 4.5% | 23,694 | 6.5% |
| Tier I Capital to risk-weighted assets | 46,474 | 12.7% | 21,872 | 6.0% | 29,162 | 8.0% |
| Total Risk-based capital to risk-weighted assets | 50,076 | 13.7% | 29,162 | 8.0% | 36,453 | 10.0% |

## Note 13: Related Party Transactions

At December 31, 2020 and 2019, the Bank had loans outstanding to executive officers, directors, and their affiliates (related parties). In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectability or present other unfavorable features. Such loans are summarized below.

Loans and deposits from Officers and Board Members held by the Bank at December 31, 2020, totaled $546,000 and $2.0 million, respectively, and for 2019 $601,000 and $774,000, respectively.

The Bank paid legal fees to a law firm of which a director of the Company is a member. The amounts paid totaled approximately $5,000 and $4,000 for the years ended December 31, 2020 and 2019, respectively.

## Note 14: Employee Benefit Plans

### *Pension and Other Post-Retirement Benefit Plans*

The Company has a frozen noncontributory defined benefit pension plan covering all employees who met the eligibility requirements prior to December 31, 2003. Compensation and service accruals were frozen at the same date. The Company's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Company may determine to be appropriate from time to time.

The Company expects to contribute approximately $22,000 to the plan during 2021.

The Company uses a December 31 measurement date for the plan. Information about the plan's funded status and pension cost follows:

| | 2020 | 2019 |
|---|---|---|
| | (In thousands) | |
| Change in benefit obligation | | |
| Beginning of year | $ 1,541 | $ 1,492 |
| Interest cost | 47 | 65 |
| Actuarial gain (loss) | 138 | 213 |
| Benefits paid | (51) | (52) |
| Settlements | (2) | (177) |
| End of year | 1,673 | 1,541 |
| Change in fair value of plan assets | | |
| Beginning of year | 1,382 | 1,326 |
| Actuarial return on plan assets | 229 | 259 |
| Employer contribution | 22 | 25 |
| Benefits paid | (51) | (51) |
| Settlements | (1) | (177) |
| End of year | 1,581 | 1,382 |
| Funded status at end of year | $ (92) | $ (159) |

Amounts recognized in accumulated other comprehensive income (loss) not yet recognized as components of net periodic benefit cost consist of the following at December 31, 2020 and 2019:

| | 2020 | 2019 |
|---|---|---|
| | (In thousands) | |
| Net loss | $ (445) | $ (495) |

The estimated net loss for the defined benefit pension plan that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next year is approximately $37,000.

The accumulated benefit obligation for the defined benefit pension plan was $1.7 million at December 31, 2020 and $1.5 million at December 31, 2019.

| | 2020 | 2019 |
|---|---|---|
| | (In thousands) | |
| Components of net periodic benefit cost | | |
| Interest cost | $ 47 | $ 65 |
| Expected return on plan assets | (82) | (78) |
| Amortization of net loss | 41 | 45 |
| Settlement charge | - | 57 |
| Net periodic benefit cost | $ 6 | $ 89 |

Plan assets are held by a bank-administered trust fund, which invests the plan assets in accordance with the provisions of the plan agreement. The plan agreement permits investment in mutual funds that may invest in common stocks, corporate bonds and debentures, U.S. Government securities, certain insurance contracts, real estate and other specified investments, based on certain target allocation percentages.

Asset allocation is primarily based on a strategy to provide stable earnings while still permitting the plan to recognize potentially higher returns through an investment in equity securities. The target asset allocation percentages for 2020 are as follows:

| | |
|---|---|
| SMID-Cap stocks | 55 - 75% |
| Fixed income investments | 25 - 45% |
| Cash | 0 - 20% |

Benefit payments expected to be paid from the plan as of December 31, 2020 are as follows:

| | (In thousands) |
|---|---|
| 2021 | $ 78 |
| 2022 | 77 |
| 2023 | 86 |
| 2024 | 89 |
| 2025 | 88 |
| Thereafter | 457 |
| | $ 875 |

At December 31, 2020 and 2019, the fair value of plan assets as a percentage of the total was invested in the following:

| | 2020 | 2019 |
|---|---|---|
| Equity Securities | 68% | 63% |
| Debt securities | 30% | 35% |
| Cash and cash equivalents | 2% | 2% |
| | 100% | 100% |

Significant assumptions include the following as of December 31, 2020 and 2019:

| | Pension Benefits | |
|---|---|---|
| | 2020 | 2019 |
| Weighted-average assumptions used to determine benefit obligation: | | |
| Discount rate | 2.50% | 3.13% |
| Rate of compensation increase (frozen) | N/A | N/A |
| Weighted-average assumptions used to determine benefit cost: | | |
| Discount rate | 3.13% | 4.45% |
| Expected return on plan assets | 6.00% | 6.00% |
| Rate of compensation increase (frozen) | N/A | N/A |

The Company has estimated the long-term rate of return on plan assets based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information.

The fair value of the Company's pension plan assets, and the related investment references, at December 31, 2020 and 2019 by asset category are as follows:

| **December 31, 2020** | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| **Asset Category** | **Total Fair Value** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| Mutual funds-Equity | | (In thousands) | | |
| Large Cap Value (a) | $ 99 | $ 99 | $ - | $ - |
| Large Cap Core (b) | 132 | 132 | - | - |
| Mid Cap Core (c) | 124 | 124 | - | - |
| Small-Cap Core (d) | 64 | 64 | - | - |
| International Growth (e) | 203 | 203 | - | - |
| International Value (f) | 98 | 98 | | |
| Large Cap Growth (g) | 201 | 201 | - | - |
| Small/Midcap Growth (h) | 64 | 64 | - | - |
| Mutual funds-Fixed Income | | | | |
| Fixed Income-Core Plus (i) | 349 | 349 | - | - |
| Intermediate Duration (j) | 120 | 120 | - | - |
| Common/Collective Trusts-Equity | | | | |
| Large Cap Value (k) | 100 | - | 100 | - |
| Cash | | | | |
| Money Market (l) | 27 | 27 | - | - |
| Total | $ 1,581 | $ 1,481 | $ 100 | $ - |

(a) This category consists of a mutual fund holding 100-160 stocks, designed to track and outperform the Russell 1000 Value Index.
(b) This category contains stocks of the S&P 500 Index. The stocks are maintained in approximately the same weightings as the index.
(c) This category contains stocks of the MSCI U.S. Mid Cap 450 index Index. The stocks are maintained in approximately the same weightings as the index.
(d) This category seeks to track the performance of the CRSP US Small Cap Index, a benchmark index that measures the investment return of small-capitalization stocks.
(e) This category consists of investments with long-term growth potential located primarily in Europe, the Pacific Basin, and other developed and emerging markets.
(f) This category invests primarily in medium to large well-established non-US companies. Under normal circumstances, at least 80% of total assets will be invested in equity securities, including common stocks, preferred stocks, and convertible securities.
(g) This category seeks to provide long-term capital appreciation through investments in common stocks of large-cap growth companies.
(h) This category seeks capital appreciation through investments in common stock of small-capitalization companies, defined as those with a total market value of no more than $2 billion at the time the fund first invests in them.
(i) This category currently includes equal investments in three mutual funds, two of which usually hold at least 80% of fund assets in investment grade fixed income securities, seeking to outperform the Barclays US Aggregate Bond Index while maintaining a similar duration to that index. The third fund targets investments of 50% or more in mortgage-backed securities guaranteed by the US government and its agencies.
(j) This category consists of a mutual fund which invests in a diversified portfolio of high-quality bonds and other fixed income securities, including U.S. Government obligations, mortgage-related and asset-backed securities, corporate and municipal bonds, CMOs, and other securities mostly rated A or better.
(k) This category contains large-cap stocks with above-average yield. The portfolio typically holds between 60 and 70 stocks.
(l) This category consists of a money market fund and is used for liquidity purposes.

| December 31, 2019 | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| Asset Category | Total Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| | | (In thousands) | | |
| Mutual funds-Equity | | | | |
| Large Cap Value (a) | $ 84 | $ 84 | $ - | $ - |
| Large Cap Core (b) | 120 | 120 | - | - |
| Mid Cap Core (c) | 99 | 99 | - | - |
| Small-Cap Core (d) | 40 | 40 | - | - |
| International Core (e) | 135 | 135 | - | - |
| International Core (f) | 67 | 67 | | |
| Large Cap Growth (g) | 186 | 186 | - | - |
| Small/Midcap Growth (h) | 53 | 53 | - | - |
| Mutual funds-Fixed Income | | | | |
| Fixed Income-Core Plus (i) | 357 | 357 | - | - |
| Intermediate Duration (j) | 121 | 121 | - | - |
| Common/Collective Trusts-Equity | | | | |
| Large Cap Value (k) | 91 | - | 91 | - |
| Cash | | | | |
| Money Market (l) | 29 | 29 | - | - |
| Total | $ 1,382 | $ 1,291 | $ 91 | $ - |

(a) This category consists of a mutual fund holding 100-160 stocks, designed to track and outperform the Russell 1000 Value Index
(b) This category contains stocks of the S&P 500 Index. The stocks are maintained in approximately the same weightings as the index
(c) This category contains stocks of the MSCI U.S. Mid Cap 450 index Index. The stocks are maintained in approximately the same weightings as the index.
(d) This category seeks to track the performance of the CRSP US Small Cap Index, a benchmark index that measures the investment return of small-capitalization stocks.
(e) This category consists of investments with long-term growth potential located primarily in Europe, the Pacific Basin, and other developed and emerging markets.
(f) This category invests primarily in medium to large well-established non-US companies. Under normal circumstances, at least 80% of total assets will be invested in equity securities, including common stocks, preferred stocks, and convertible securities.
(g) This category seeks to provide long-term capital appreciation through investments in common stocks of large-cap growth companies.
(h) This category seeks capital appreciation through investments in common stock of small-capitalization companies, defined as those with a total market value of no more than $2 billion at the time the fund first invests in them.
(i) This category currently includes equal investments in three mutual funds, two of which usually hold at least 80% of fund assets in investment grade fixed income securities, seeking to outperform the Barclays US Aggregate Bond Index while maintaining a similar duration to that index. The third fund targets investments of 50% or more in mortgage-backed securities guaranteed by the US government and its agencies.
(j) This category consists of a mutual fund which invests in a diversified portfolio of high-quality bonds and other fixed income securities, including U.S. Government obligations, mortgage-related and asset-backed securities, corporate and municipal bonds, CMOs, and other securities mostly rated A or better.
(k) This category contains large-cap stocks with above-average yield. The portfolio typically holds between 60 and 70 stocks.
(l) This category consists of a money market fund and is used for liquidity purposes.

Also, the Company provides post-retirement benefits to certain officers of the Company under split-dollar life insurance policies. The Company accounts for the policies in accordance with ASC 715-60, which requires companies to recognize a liability and related compensation costs for endorsement split-dollar life insurance policies that provide a benefit to an employee extending to post-retirement periods. The liability is recognized based on the substantive agreement with the employee.

The Company uses a December 31 measurement date for the plan. Information about the plan's funded status and pension cost follows:

| | 2020 | 2019 |
|---|---|---|
| | (In thousands) | |
| Change in benefit obligation | | |
| Beginning of year | $ 1,197 | $ 976 |
| Service cost | 4 | 4 |
| Interest cost | 32 | 37 |
| Loss /(Gain) | 118 | 216 |
| Benefits Paid | (40) | (36) |
| End of year | $ 1,311 | $ 1,197 |

Amounts recognized in accumulated other comprehensive income (loss) not yet recognized as components of net periodic benefit cost consist of:

| | 2020 | 2019 |
|---|---|---|
| | (In thousands) | |
| Prior service cost | $ 12 | $ 27 |
| Net loss(gain) | 225 | 253 |

The accumulated benefit obligation for the split-dollar benefit plan was $1.3 million and $1.2 million at December 31, 2020 and 2019, respectively.

The estimated net gain for the split-dollar plan that will be amortized from accumulated other comprehensive income into net periodic benefit recovery over the next fiscal year is approximately $110,000.

| | 2020 | 2019 |
|---|---|---|
| | (In thousands) | |
| Components of net periodic (benefit) cost | | |
| Service cost | $ 4 | $ 4 |
| Interest cost | 33 | 37 |
| (Gain)/Loss recognized | 145 | (39) |
| Benefits paid | (40) | (36) |
| Prior service cost | 14 | 14 |
| Net periodic cost (benefit) | $ 156 | $ (20) |

The retiree accrued liability expected to be reversed from the plan as of December 31, 2020 is as follows:

| | (In thousands) |
|---|---|
| 2021 | $ 44 |
| 2022 | 49 |
| 2023 | 54 |
| 2024 | 59 |
| 2025 | 66 |
| Thereafter | 457 |
| | $ 729 |

Significant assumptions for the split-dollar plan liability include the following as of December 31, 2020 and 2019:

| | 2020 | 2019 |
|---|---|---|
| Weighted-average assumptions used to determine benefit cost obligation: | | |
| Discount rate | 2.50% | 3.13% |
| Rate of compensation increase | 1.50% | 1.50% |
| Weighted-average assumptions used to determine benefit cost: | | |
| Discount rate | 2.50% | 3.13% |
| Rate of compensation increase | 1.50% | 1.50% |

The Company has an Employee Stock Ownership Plan ("ESOP") covering substantially all employees of the Company. The ESOP acquired 163,265 shares of Company common stock at $10.00 per share in 2003 with funds provided by a loan from the Company. Accordingly, $1.6 million of common stock acquired by the ESOP was shown as a reduction of stockholders' equity. Shares are released to participants proportionately as the loan is repaid. Dividends on allocated shares are recorded as dividends and charged to retained earnings. Dividends on unallocated shares, which will be distributed to participants, are treated as compensation expense. Compensation expense is recorded equal to the average fair market value of the stock during the year when contributions, which are determined annually by the Board of Directors of the Company, are made to the ESOP.

ESOP expense was approximately $116,000 and $138,000, which includes unallocated dividends of $7,000 and $11,000 for the years ended December 31, 2020 and 2019, respectively.

Share information for the ESOP is as follows at December 31, 2020 and 2019:

| | 2020 | 2019 |
|---|---|---|
| Allocated shares | 160,836 | 155,101 |
| Unearned shares | 2,429 | 8,164 |
| Total ESOP shares | 163,265 | 163,265 |
| Fair value of unearned shares at end of period | $ 52,345 | $ 191,854 |

At December 31, 2020, the fair value of the 160,836 allocated shares held by the ESOP was approximately $3.5 million.

In addition to the defined benefit plan and ESOP, the Company has a 401(k) plan covering substantially all employees. The Company's 401(k) matching percentage was 100% of the first 4% contributed by the employee and 50% of the employees' next 2% of contributions. Expense related to the 401(k) plan totaled approximately $160,000 and $156,000 for the years ended December 31, 2020 and 2019, respectively.

The Company's Share Option Plan (the Plan), which is stockholder approved, permits the grant of up to 130,092 share options to its employees. The Company believes that such awards better align the interests of its employees with those of its stockholders. Option awards are generally granted with an exercise price equal to the market price of the Company's stock at the date of grant; those option awards generally vest based on five years of continuous service and have ten-year contractual terms. The Company will use treasury stock to satisfy share option exercises and has a sufficient number of treasury shares to satisfy the expected share option exercises.

The fair value of each option award is estimated on the date of grant using a closed option valuation (Black-Scholes) model that uses assumptions noted in the table below. Expected volatilities and post vesting behaviors are based on estimates prepared by the Company. The expected term of options is also an estimate and represents the period of time that options granted are expected to be outstanding, which takes into account the options are not transferable. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

The fair value of options granted was determined using the following weighted-average assumptions of the grant date.

| | 2020 |
|---|---|
| Risk-free interest rate | 0.74% |
| Expected term (years) | 7.5 |
| Expected stock price volatility | 17.40% |
| Dividend Yield | 4.40% |

A summary of the activity in the stock option plan for 2020 follows:

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at beginning of year | - | $ - | - | $ - |
| Granted | 114,000 | 18.00 | 9.42 | 404,700 |
| Exercised | - | - | - | - |
| Forfeited or expired | - | - | - | - |
| Outstanding at end of year | 114,000 | $ 18.00 | 9.42 | $ 404,700 |

Information related to the stock option plan for 2020:

| | 2020 |
|---|---|
| Intrinsic value of options exercised | $ - |
| Cash received from option exercises | $ - |
| Tax benefit from option exercises | $ - |
| Weighted average fair value of options granted | $ 1.21 |

As of December 31,2020 there was $97,000 of total unrecognized compensation cost related to the nonvested stock options granted under the Plan. The cost is expected to be recognized over a weighted average period of 4.6 years.

## Note 15: Earnings Per Share

Earnings per share (EPS) were computed as follows:

| | Year Ended December 31, 2020 | | |
|---|---|---|---|
| | Net Income | Weighted-Average Shares | Per Share Amount |
| | (In thousands) | | |
| Net income | $ 6,690 | | |
| Basic earnings per share | | | |
| Income available to common stockholders | | 2,542,016 | $ 2.63 |
| Income available to common stockholders and assumed conversions | $ 6,690 | 2,542,016 | $ 2.63 |
| Net income | $ 6,690 | | |
| Dilutive earnings per share | | | |
| Income available to common stockholders | | 2,576,426 | $ 2.60 |
| Income available to common stockholders and assumed conversions | $ 6,690 | 2,576,426 | $ 2.60 |

| | Year Ended December 31, 2019 | | |
|---|---|---|---|
| | Net Income | Weighted-Average Shares | Per Share Amount |
| | (In thousands) | | |
| Net income | $ 6,451 | | |
| Basic earnings per share | | | |
| Income available to common stockholders | | 2,652,183 | $ 2.43 |
| Income available to common stockholders and assumed conversions | $ 6,451 | 2,652,183 | $ 2.43 |

There were no dilutive securities or stock options outstanding at December 31, 2019.

## Note 16: Disclosures about Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

**Level 1** Quoted prices in active markets for identical assets or liabilities

**Level 2** Observable inputs other than Level 1 prices, such as 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 assets or liabilities

**Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

***Recurring Measurements***

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the Company's consolidated balance sheets, as well as the general classification of such instruments pursuant to the valuation hierarchy.

***Available-for-sale Securities***

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

The following table presents the fair value measurements of assets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2020 and 2019:

| | Fair Value | Fair Value Measurement Using: Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| | (In thousands) | | | |
| **December 31, 2020** | | | | |
| Mortgage-backed securities of government-sponsored entities | $ 65,383 | $ - | $ 65,383 | $ - |
| State and political subdivisions | 24,381 | - | 24,381 | - |

| | Fair Value | Fair Value Measurement Using: Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| | (In thousands) | | | |
| **December 31, 2019** | | | | |
| Mortgage-backed securities of government-sponsored entities | $ 30,543 | $ - | $ 30,543 | $ - |
| State and political subdivisions | 18,305 | - | 18,305 | - |

### *Nonrecurring Measurements*

Certain assets may be required to be measured at fair value on a nonrecurring basis in periods subsequent to their initial recognition. These assets are not measured at fair value on an ongoing basis; however, they are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment.

### *Collateral-dependent Impaired Loans, Net of ALLL*

The estimated fair value of collateral-dependent impaired loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral-dependent impaired loans are classified within Level 3 of the fair value hierarchy.

The Company considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and subsequently as deemed necessary by the office of the Chief Financial Officer. Appraisals are reviewed for accuracy and consistency by the office of the Chief Financial Officer. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed by the office of the Chief Financial Officer by comparison to historical results.

The following table presents the fair value measurements of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2020 and 2019.

| | Fair Value | Fair Value Measurement Using: Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| | (In thousands) | | | |
| **December 31, 2020** | | | | |
| Collateral-dependent impaired loans | $ 93 | $ - | $ - | $ 93 |
| **December 31, 2019** | | | | |
| Collateral-dependent impaired loans | $ 930 | $ - | $ - | $ 930 |

***Unobservable (Level 3) Inputs***

The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements at December 31, 2020 and 2019, in thousands.

| | Fair Value | | Valuation Technique | Unobservable Inputs | Weighted Average |
|---|---|---|---|---|---|
| **December 31, 2020** | | | | | |
| Collateral-dependent impaired loans | $ | 93 | Market Tender offer | Marketability Discount | 29% |
| **December 31, 2019** | | | | | |
| Collateral-dependent impaired loans | $ | 930 | Market Tender offer /Comparable estimates | Marketability Discount | 11% |

There were no changes in the inputs or methodologies used to determine fair value at December 31, 2020 as compared to December 31, 2019.

The following table presents estimated fair values of the Company's financial instruments. The fair values of certain of these instruments were calculated by discounting expected cash flows, which involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

| | | | Fair Value Measurements Using | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying Amount | | Quoted Prices in Active Markets for Identical Assets (Level 1) | | Significant Other Observable Inputs (Level 2) | | Significant Unobservable Inputs (Level 3) | |
| | | | | (In thousands) | | | | |
| **December 31, 2020** | | | | | | | | |
| Financial assets | | | | | | | | |
| Cash and cash equivalents | $ | 74,490 | $ | 74,490 | $ | - | $ | - |
| Held-to-maturity Securities | | 9,062 | | - | | 9,589 | | - |
| Loans held for sale | | 861 | | | | | | 912 |
| Loans, net of allowance for loan losses | | 391,352 | | - | | - | | 388,699 |
| Federal Home Loan Bank stock | | 4,226 | | - | | 4,226 | | - |
| Interest receivable | | 1,588 | | - | | 1,588 | | - |
| Financial liabilities | | | | | | | | |
| Deposits | | 484,588 | | 378,043 | | 107,477 | | - |
| Other short-term borrowings | | 23,075 | | - | | 23,075 | | - |
| Federal Home Loan Bank advances | | 26,000 | | - | | 26,545 | | - |
| Advances from borrowers for taxes and insurance | | 1,067 | | - | | 1,067 | | - |
| Interest payable | | 68 | | - | | 68 | | - |

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| | **Carrying Amount** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| **December 31, 2019** | | (In thousands) | | |
| Financial assets | | | | |
| Cash and cash equivalents | $ 30,752 | $ 30,752 | $ - | $ - |
| Held-to-maturity Securities | 10,324 | - | 10,598 | - |
| Loans held for sale | 734 | | | 752 |
| Loans, net of allowance for loan losses | 376,581 | - | - | 374,425 |
| Federal Home Loan Bank stock | 4,226 | - | 4,226 | - |
| Interest Receivable | 1,385 | - | 1,385 | - |
| Financial Liabilities | | | | |
| Deposits | 407,572 | 284,966 | 122,265 | - |
| Other short-term borrowings | 10,444 | - | 10,444 | - |
| Federal Home Loan Bank advances | 20,000 | - | 20,144 | - |
| Advances from borrowers for taxes and insurance | 1,084 | - | 1,084 | - |
| Interest payable | 246 | - | 246 | - |

The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

***Cash and Cash Equivalents, Interest Receivable and Federal Home Loan Bank Stock***
The carrying amount approximates fair value.

***Loans Held for Sale***
The fair value of loans held for sale are based on quoted market prices, where available, or are determined by discounting estimated cash flows using interest rates approximating the Bank's current origination rates for similar loans and adjusted to reflect inherent market credit risk

***Held-to-Maturity Securities***
The fair value of held-to-maturity securities was estimated by using pricing models that contain market pricing and information, quoted prices of securities with similar characteristics or discounted cash flows that use credit-adjusted discount rates.

***Loans, Net of Allowance for Loan Losses***
The fair value of loans is estimated on an exit price basis incorporating discounts for credit, liquidity and marketability factors.

***Deposits***
Deposits include savings accounts, checking accounts and certain money market deposits. The carrying amount approximates fair value. The fair value of fixed-maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities.

***Interest Payable, Other Short-Term Borrowings and Advances from Borrowers for Taxes and Insurance***
The carrying amount approximates fair value.

***Federal Home Loan Bank Advances***

Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate the fair value of existing debt.

***Commitments to Originate Loans, Letters of Credit and Lines of Credit***

The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the 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 values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date. Fair values of commitments were not material at December 31, 2020 and 2019.

## Note 17: Commitments and Credit Risk

Total commercial and commercial real estate loans comprised 56% and 53%, respectively, of the loan portfolio for the years ended December 31, 2020 and December 31, 2019, with substantially all of these loans secured by commercial real estate and business assets mainly located in Ohio. Installment loans account for approximately 1% of the loan portfolio for both years ended December 31, 2020 and 2019. These loans are secured by consumer assets including automobiles, which account for 79% and 68%, respectively, of the installment loan portfolio. Residential one-to-four family real estate loans comprise 43% and 46% of the loan portfolio at December 31, 2020 and 2019, respectively, and primarily include first mortgage loans on residential properties and home equity lines of credit. Included in cash and due from banks as of the years ended December 31, 2020 and 2019, is $3.3 million and $2.8 million respectively of uninsured deposits in the form of branch cash on hand.

***Commitments to Originate Loans***

Commitments to originate loans 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 a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

At December 31, 2020 and 2019 the Company had outstanding commitments to originate fixed-rate loans aggregating approximately $700,000 and $3.2 million respectively. The commitments extended over varying periods of time with the majority being disbursed within a one-year period.

1-4 family residential construction loan commitments in process represent amounts that the Company plans to fund within a normal period of six months. 1-4 family residential construction loan commitments amounted to approximately $4.0 million and $2.3 million at December 31, 2020 and 2019, respectively.

The Company had undisbursed amounts of nonresidential real estate and land loans of $4.9 million at December 31, 2020. The Company had undisbursed amounts of nonresidential real estate and land loans of $4.3 million at December 31, 2019.

The Company had unused extensions of credit totaling $7.6 million and $7.8 million at December 31, 2020 and 2019, respectively, related to consumer loans.

***Standby Letters of Credit***

Standby letters of credit are irrevocable conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under non-financial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Fees for letters of credit are initially recorded by the Company as deferred revenue and are included in earnings at the termination of the respective agreements. Should the Company be obligated to perform under the standby letters of credit, the Company may seek recourse from the customer for reimbursement of amounts paid.

The Company had outstanding standby letters of credit totaling $417,000 and $378,000 at December 31, 2020 and 2019, respectively, with terms not exceeding eleven months. At both December 31, 2020 and 2019, the Company had no deferred revenue under standby letter of credit agreements.

***Lines of Credit***

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

At December 31, 2020, the Company had granted unused lines of credit to borrowers aggregating approximately $35.7 million and $30.5 million for commercial lines and open-end consumer lines, respectively. At December 31, 2019, the Company had granted unused lines of credit to borrowers aggregating approximately $33.4 million and $21.0 million for commercial lines and open-end consumer lines, respectively.

***Leases***

The Company currently leases three branch banking facilities under an operating lease. The Company renewed its first operating lease for a five year term with a five year renewal option. The Company's second operating lease commenced in fiscal 2001 for an original five year term with 3 five year renewal options and has currently renewed the third option to expire in April 2021. The Company's third operating lease commenced in fiscal 2020 for an original 3 year term with an additional 2 year renewal option.

| **Year ending** | (In thousands) |
|---|---|
| 2021 | $ 65 |
| 2022 | 55 |
| 2023 | 30 |
| 2024 | - |
| 2025 | - |
| Total | $ 150 |

The Company incurred rental expense under operating leases totaling approximately $82,000 and $73,000 for the ears ended December 31, 2020 and December 31, 2019, respectively.

## Note 18: Recent Accounting Developments

FASB ASU 2016-13, Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, was issued in June 2016. The main objective of this Update is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this Update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments in this Update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption of the amendments in this Update are allowed for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. An entity will apply the amendments in this Update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). A prospective transition approach is required for debt securities for which another-than-temporary impairment had been recognized before the effective date. The effect of a prospective transition approach is to maintain the same amortized cost basis before and after the effective date of this Update. The Company is studying the implications of this update, including following evolving regulatory and industry guidance, and gathering additional detailed historical data. The effect of this Update on the Company's financial statements is not known at this time.

FASB ASU 2017-04, Intangibles-Goodwill and Other (Topic 350) Simplifying the Test for Goodwill Impairment, was issued in January 2017. The amendments in this Update modify the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. The amendments in this Update should be adopted for the annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2020. Early adoption is permitted for interim or annual goodwill impairment performed on testing dates after January 1, 2017. The amendments in this Update did not have a material impact on the Company's consolidated financial statements.

FASB ASU 2017-08, Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20) Premium Amortization on Purchased Callable Debt Securities, was issued in March 2017. The amendments in this update shorten the amortization period for certain callable debt securities held at a premium. The amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity should apply the amendments in this Update on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Additionally, in the period of adoption, an entity should provide disclosures about a change in accounting principle. The Company adopted the update on January 1, 2019 and recorded a $139,000 adjustment to retained earnings and a related adjustment of $83,000 to accumulated comprehensive income as of the beginning of the year. Updates in this amendment did not have a material impact on the Company's consolidated financial statements.

FASB ASU 2019-05 The amendments in this Update address those stakeholders' concerns by providing an option to irrevocably elect the fair value option for certain financial assets previously measured at amortized cost basis. For those entities, the targeted transition relief will increase comparability of financial statement information by providing an option to align measurement methodologies for similar financial assets. The amendments in this Update are effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Early adoption of the amendments in this Update are allowed for fiscal years beginning after December 15, 2018. The effect of this Update on the Company's financial statements does not have a material effect on the financial statements.

FASB ASU 2019-12, Income Taxes was issued in 2019. The amendments in this Update simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. The amendments are effective for fiscal years beginning after December 15, 2021 and are not expected to have a material impact on our financial statements.

FASB ASU 2020-02, Financial Instruments-credit losses (Topic 326) and lease (Topic 842) This staff guidance enhances the prior FASB ASU 2016-13 with respect to developing a methodology and the support required for the implementation of credit losses measurement to be implemented after the reporting periods after December 15, 2022. Also this update amends FASB ASU 2016-02 Leases (Topic 842) to allow public business entities and certain other specified entities to early adopt. This is not expected to have a material impact on the Company's consolidated financial statements.

## Note 19: Condensed Financial Information (Parent Company Only)

Presented below is condensed financial information as to financial position, results of operations and cash flows of the Company at December 31, 2020 and 2019:

### Condensed Balance Sheets

| | 2020 | 2019 |
|---|---|---|
| | (In thousands) | |
| **Assets** | | |
| Cash and due from banks | $ 180 | $ 255 |
| Notes receivable from the Bank | 35 | 117 |
| Investment in the Bank | 51,891 | 48,015 |
| Prepaid expenses and other assets | 519 | 540 |
| Total assets | $ 52,625 | $ 48,927 |
| **Liabilities and Stockholders' Equity** | | |
| Accrued expenses and other liabilities | $ 510 | $ 536 |
| Stockholders' equity | | |
| Common stock and additional paid-in capital | 36,461 | 36,617 |
| Retained earnings | 37,530 | 32,600 |
| Shares acquired by ESOP | (24) | (82) |
| Treasury stock – at cost | (22,705) | (20,566) |
| Accumulated other comprehensive loss | 853 | (178) |
| Total stockholders' equity | 52,115 | 48,391 |
| Total liabilities and stockholders' equity | $ 52,625 | $ 48,927 |

### Condensed Statements of Income and Comprehensive Income

| | 2020 | 2019 |
|---|---|---|
| | (In thousands) | |
| **Operating Income** | | |
| Interest income | $ 7 | $ 12 |
| Dividends from the Bank | 4,134 | 4,054 |
| Total operating income | 4,141 | 4,066 |
| **Noninterest Expense** | 171 | 141 |
| **Earnings before Federal Income Tax Benefits and equity in undistributed income of the Bank** | 3,970 | 3,925 |
| **Federal Income Tax Benefits** | (34) | (27) |
| **Income before equity in undistributed income of the Bank** | 4,004 | 3,952 |
| **Equity in undistributed income of the Bank** | 2,686 | 2,499 |
| **Net Income** | $ 6,690 | $ 6,451 |
| **Total Comprehensive income** | $ 7,721 | $ 7,467 |

## Condensed Statements of Cash Flows

| | 2020 | 2019 |
|---|---|---|
| | (In thousands) | |
| **Operating Activities** | | |
| Net income | $ 6,690 | $ 6,451 |
| Items not requiring (providing) cash | | |
| Equity in undistributed net income of the Bank | (2,686) | (2,499) |
| Increase (decrease) in cash due to changes in: | | |
| Prepaid expenses and other assets | 21 | (100) |
| Accrued expenses and other liabilities | (4) | 4 |
| Net cash provided by operating activities | 4,021 | 3,856 |
| **Investing Activities** | | |
| Repayment of ESOP loan | 82 | 82 |
| Net cash provided by investing activities | 82 | 82 |
| **Financing Activities** | | |
| Payment of dividends on common stock | (2,039) | (1,913) |
| Purchase of treasury stock | (2,139) | (2,023) |
| Net cash used in financing activities | (4,178) | (3,936) |
| **Net Change in Cash and Cash Equivalents** | (75) | 2 |
| **Cash and Cash Equivalents at Beginning of Period** | 255 | 253 |
| **Cash and Cash Equivalents at End of Period** | $ 180 | $ 255 |

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## BOARD OF DIRECTORS


Mark Witmer
*Executive Chair*


Jonathan Ciccotelli
*Lead Director*


Debra A. Marthey
*Secretary & Treasurer*


Peggy J. Schmitz


David L. Lehman


Glenn W. Miller


Brian Hopkins


James R. VanSickle

## SENIOR OFFICERS

Mark Witmer
*Executive Chair*

James R. VanSickle
*President and Chief Executive Officer*

Joel D. Beckler
*Senior Vice President*
*Senior Loan Officer*

Myron L. Swartzentruber
*Senior Vice President*
*Chief Financial Officer and Treasurer*

Lee A. Fitzsimmons
*Vice President*
*Commercial Lender*

Matthew L. Hartzler
*Vice President*
*Chief Risk Officer and Senior Operations Officer*

Jennifer D. Winter
*Vice President*
*Manager of Human Resources and Training*

Amberly M. Wolf
*Vice President*
*Chief Retail Officer*

# Branch Locations

**Wooster**
151 North Market Street
1908 Cleveland Road
543 Riffel Road

**Ashland**
233 Claremont Avenue
1055 Sugarbush Drive

**Creston**
121 North Main Street

**Fredericksburg (Opened 2020)**
110 Crawford Street

**Lodi**
303 Highland Drive

**Millersburg**
90 North Clay Street

**North Canton**
1265 South Main Street

**Rittman**
237 North Main Street

Wayne Savings COMMUNITY BANK
Corporate offices: 151 North Market Street, Wooster, Ohio 44691
waynesavings.com • 800.414.1103



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