2021 ANNUAL REPORT

Mauch Chunk Trust Financial

To Our Stockholders:

Net income for the year ended December 31, 2021 was $4.89 million, an increase of $1.8 million over 2020's net income of $3.09 million. On a per share basis, net income was $1.46 this year versus $.93 last year.

Higher net income this year is attributable to an increase in net interest income and a decrease in the provision for loan losses, partially offset by lower other income and higher other expense and income tax.

On December 31, 2021, securities available-for-sale totaled $367 million, versus $267.2 million in 2020. This year over year change in the size of the securities portfolio is attributable to management's decision to increase net interest income by using higher deposit balances to purchase municipal and mortgage- backed securities.

Net loans receivable totaled $226 million at year end 2021, $4.6 million higher than 2020. The growth in loans receivable this year is attributable to increases in commercial real estate and mortgages partially offset by decreases in commercial, home equity and other consumer loans. The reduction in commercial loans is mainly attributable the repayment of loans granted under the Paycheck Protection Program (PPP) and purchased participation loans.

Total deposits were $491 million for December 31, 2021, an increase of $91 million compared to 2020. We attribute this year's unusually high deposit growth to existing customers receiving monies from the American Rescue Plan and a significant influx of new deposit customers as a result of other bank branch closures within MCT's footprint.

Higher deposit balances enabled management to reduce long-term debt. Long term debt totaled $60 million at the end of this year, $10.1 million less than 2020.

Total stockholders' equity, on December 31, 2021 was $49 million, $219 thousand lower than 2020. The change in equity this year is attributable to a decrease in accumulated other comprehensive income and a slight increase in treasury stock partially offset by an increase in retained earnings. The decrease in accumulated other comprehensive income is the result of an increase in the level of interest rates; the increase in treasury stock is attributable to MCTFC's shareholder repurchase plan.

The Board of Directors has extended the treasury stock repurchase program through December 31, 2022, providing for the repurchase by the Corporation of up to 150,000 shares (4.9%) of its outstanding common stock in the open market and in privately negotiated transactions, subject to market conditions and other requirements.

Please visit www.mct.bank/Investor-Relations or send an email to shareholderinfo@mct.bank for more details.

Based on the results of a survey of MCT employees conducted by an independent research firm, MCT was recognized as the Best Community Bank to Work For in 2021 in the $500 million to $749 million asset class by the Independent Community Bankers of America (ICBA), a national trade group.

Of all our accomplishments this year, this is our proudest!

It is altogether possible the survey company caught our staff on a good day, but we prefer to think this award is a positive reflection on the way we do business. We believe the best way to deliver great results for our shareholders is to deliver great results for our customers. To that end, we aspire to create a positive working environment that runs the gamut from complex compensation strategies to just remembering to say please and thank you.

There is a lot of attention being given lately to the phenomenon known as the Great Resignation. In December 2021 alone, 4.3 million American workers quit their jobs. Experts suggest the stress of the pandemic is causing workers to reassess their lives, their priorities, and their relationship with their employer. All industries have been impacted and the tight labor market has made finding and keeping good employees very challenging.

MCT has not been immune to staffing challenges. We have had difficulty recruiting for certain positions and had our share of turnover. Still, we are extremely fortunate to have a core of talented and dedicated employees, we appreciate them, and ICBA's "Best Community Bank to Work For" award indicates we must be doing something right.

As always, we thank you for your continued loyalty and support.

Sincerely,

Patrick H. Reilly
President/Chief Executive Officer

Charles E. Wildoner
Chairman of the Board

Independent Auditors' Report

To the Board of Directors of
Mauch Chunk Trust Financial Corp.

Opinion

We have audited the accompanying consolidated financial statements of Mauch Chunk Trust Financial Corp. and its subsidiary (the Company), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's, internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's, ability to continue as a going concern for a reasonable period of time.

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

Baker Tilly US, LLP

Allentown, Pennsylvania
March 11, 2022

Mauch Chunk Trust Financial Corp.

Consolidated Balance Sheets
December 31, 2021 and 2020
(Dollars in Thousands)

	2021	2020
Assets		
Cash and due from banks	$ 4,244	$ 15,557
Securities available-for-sale	367,000	267,245
Equity securities	153	153
Restricted investment in bank stocks	3,483	3,319
Loans receivable, net of allowance for loan losses 2021 $3,699; 2020 $3,323	226,029	221,436
Bank premises and equipment, net	8,630	9,207
Accrued interest receivable	2,621	2,396
Investment in life insurance	10,240	9,969
Prepaid expenses and other assets	1,455	1,061
Total assets	$ 623,855	$ 530,343
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Noninterest bearing	$ 80,894	$ 64,722
Interest bearing	410,138	335,294
Total deposits	491,032	400,016
Securities sold under agreements to repurchase	3,970	6,891
Other borrowed funds	16,082	150
Accrued interest payable	139	150
Net deferred tax liability	93	1,268
Other liabilities	3,688	2,695
Long-term debt	60,000	70,103
Total liabilities	575,004	481,273
Stockholders' Equity		
Common stock, no par value; authorized 15,000,000 shares; 2021 issued 3,392,336 shares; outstanding 3,344,493 shares; 2020 issued 3,392,336 shares; outstanding 3,346,718 shares;	8,497	8,497
Retained earnings	39,176	35,353
Accumulated other comprehensive income	1,795	5,809
Treasury stock, at cost 2021 47,843 shares; 2020 45,618 shares	(617)	(589)
Total stockholders' equity	48,851	49,070
Total liabilities and stockholders' equity	$ 623,855	$ 530,343

See notes to consolidated financial statements

Mauch Chunk Trust Financial Corp.

Consolidated Statements of Income
Years Ended December 31, 2021 and 2020
(Dollars in Thousands, Except Per Share Data)

	2021	2020
Interest Income		
Loans receivable, including fees	$ 9,168	$ 10,138
Securities:		
Taxable	6,723	5,338
Tax exempt	1,618	837
Other	8	6
Total interest income	17,517	16,319
Interest Expense		
Deposits	689	1,657
Borrowings	957	923
Total interest expense	1,646	2,580
Net interest income	15,871	13,739
Provision for Loan Losses	416	1,747
Net interest income after provision for loan losses	15,455	11,992
Other Income		
Service fees	1,583	1,399
Wealth management fees	955	712
Net realized gains on sales of securities	433	1,496
Net realized gains (losses) on sales of foreclosed assets	42	(15)
Income on life insurance policies	252	324
Mortgage banking activities	1	16
Other	314	271
Total other income	3,580	4,203
Other Expenses		
Salaries and wages	4,955	4,209
Employee benefits	1,586	1,691
Occupancy and equipment	1,724	1,644
Director's fees	329	299
Professional fees	524	568
FDIC insurance and assessments	216	127
Data processing	1,862	1,576
Advertising	224	152
Pennsylvania bank shares tax	338	263
Net realized loss on sale of loan portfolio	-	499
Other	1,630	1,586
Total other expenses	13,388	12,614
Income before income taxes	5,647	3,581
Income Tax Expense	754	487
Net income	$ 4,893	$ 3,094
Basic Earnings Per Share	$ 1.46	$ 0.93
Weighted Average Shares Outstanding	3,345,874	3,344,195

See notes to consolidated financial statements

Mauch Chunk Trust Financial Corp.

Consolidated Statements of Comprehensive Income
Years Ended December 31, 2021 and 2020
(Dollars in Thousands)

	2021	2020
Net Income	$ 4,893	$ 3,094
Other Comprehensive Income		
Unrealized holding (losses) gains on securities available-for-sale	(4,969)	9,687
Reclassification adjustment for gains on sales of securities available-for-sale realized in net income [a]	(433)	(1,496)
Net unrealized (losses) gains	(5,402)	8,191
Tax effect [b]	1,134	(1,720)
Net of tax amount, available-for-sale securities	(4,268)	6,471
Derivative adjustments	321	(66)
Tax effect [c]	(67)	14
Net of tax amount, derivative adjustments	254	(52)
Total other comprehensive (loss) income	(4,014)	6,419
Total comprehensive income	$ 879	$ 9,513

(a) Amounts are included in net realized gains on sales of securities on the Consolidated Statements of Income as a separate element within Other Income.

(b) The tax effect on unrealized holding gains (losses) on securities available-for-sale was $1,044 and $(2,034) for the years ended December 31, 2021 and 2020, respectively. The tax effect on gains on sales of securities available-for-sale was $90 and $314 for the years ended December 31, 2021 and 2020, respectively. Income tax amounts on unrealized holding gains (losses) on securities available-for-sale are included in the net deferred tax asset as described in Note 12. Income tax amounts on gains on sales of securities are included in Income Tax Expense on the Consolidated Statements of Income.

(c) Income tax amounts on derivative adjustments are included in the net deferred tax asset as described in Note 12.

See notes to consolidated financial statements

Mauch Chunk Trust Financial Corp.

Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2021 and 2020
(Dollars in Thousands, Except Share Data)

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, December 31, 2019	$ 8,497	$ 33,263	$ (610)	$ (443)	$ 40,707
Net income	-	3,094	-	-	3,094
Other comprehensive gain	-	-	6,419	-	6,419
Dividends on common stock ($0.30 per share)	-	(1,004)	-	-	(1,004)
Acquisition of treasury stock	-	-	-	(146)	(146)
Balance, December 31, 2020	8,497	35,353	5,809	(589)	49,070
Net income	-	4,893	-	-	4,893
Other comprehensive loss	-	-	(4,014)	-	(4,014)
Dividends on common stock ($0.32 per share)	-	(1,070)	-	-	(1,070)
Acquisition of treasury stock	-	-	-	(28)	(28)
Balance, December 31, 2021	$ 8,497	$ 39,176	$ 1,795	$ (617)	$ 48,851

See notes to consolidated financial statements

Mauch Chunk Trust Financial Corp.

Consolidated Statements of Cash Flows
Years Ended December 31, 2021 and 2020
(Dollars in Thousands)

	2021	2020
Cash Flows From Operating Activities		
Net income	$ 4,893	$ 3,094
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	416	1,747
Provision for depreciation	658	694
Amortization of purchased mortgage premium	219	96
Amortization of right of use asset	120	36
Net realized gains on sales of securities	(433)	(1,496)
Net realized loss on derivatives	45	23
Net realized loss on sale of loan portfolio	-	499
Net (gain) loss on sales of foreclosed assets	(42)	15
Net loss on disposal of bank premises and equipment	6	1
Net accretion of securities premiums and discounts	(109)	(13)
Net decrease in lease liability	(118)	(35)
Deferred income taxes	108	163
Earnings on investment in life insurance	(252)	(324)
(Increase) decrease in assets:		
Accrued interest receivable	(225)	(1,274)
Prepaid expenses and other assets	(88)	502
Increase (decrease) in liabilities:		
Accrued interest payable	(11)	56
Other liabilities	1,111	(11)
Net cash provided by operating activities	6,298	3,773
Cash Flows From Investing Activities		
Available-for-sale securities:		
Purchases	(138,061)	(200,245)
Proceeds from sales	5,797	86,356
Maturities and principal repayments	27,654	45,664
Net increase in loans	(5,513)	(15,541)
Net increase in restricted investment in bank stocks	(164)	(1,352)
Purchases of bank premises and equipment	(207)	(210)
Purchases of life insurance	-	(27)
Proceeds from sale of loans	-	11,489
Proceeds from sale of bank premises and equipment	-	2
Proceeds from sale of foreclosed assets	57	52
Net cash used in investing activities	(110,437)	(73,812)
Cash Flows From Financing Activities		
Increase in deposits, net	91,016	38,307
(Increase) decrease in securities sold under agreements to repurchase	(2,921)	3,718
Net proceeds from (repayments of) other borrowed funds	15,932	(17,492)
Proceeds from long-term debt	-	70,103
Repayment of long-term debt	(10,103)	(14,010)
Acquisition of treasury stock	(28)	(146)
Cash dividends	(1,070)	(1,004)
Net cash provided by financing activities	92,826	79,476
Net (decrease) increase in cash and cash equivalents	(11,313)	9,437
Cash and Cash Equivalents, Beginning of Year	15,557	6,120
Cash and Cash Equivalents, Ending of Year	$ 4,244	$ 15,557
Supplementary Cash Flows Information		
Interest paid	$ 1,655	$ 2,519
Income taxes paid	$ 750	$ 570
Supplementary Schedule of Noncash Investing Activities		
Foreclosed assets acquired in settlement of loans	$ -	$ 32
Recognition of operating lease right of use assets	$ -	$ 81
Recognition of operating lease liabilities	$ -	$ 81

See notes to consolidated financial statements

1. Summary of Significant Accounting Policies

Nature of Operations and Principles of Consolidation

The consolidated financial statements include the accounts of Mauch Chunk Trust Financial Corp., a bank holding company, and its subsidiary, Mauch Chunk Trust Company (collectively, the Company). All intercompany accounts and transactions have been eliminated in consolidation.

Mauch Chunk Trust Company (the Bank) operates under a state bank charter and provides full banking services, including trust services. As a state bank, the Bank is subject to regulation of the Pennsylvania Department of Banking and Securities and the Federal Deposit Insurance Corporation. The area served by the Bank is principally Carbon County, Pennsylvania. Mauch Chunk Trust Financial Corp. is subject to regulation by the Federal Reserve Bank.

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 consolidated 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 in the near term relate to the determination of the allowance for loan losses, the valuation of derivative financial instruments, the determination of other-than-temporary impairment on securities and the valuation of deferred tax assets.

Significant Concentrations of Credit Risk

Most of the Company's activities are with customers located within Carbon County, Pennsylvania. Note 3 discusses the types of securities that the Company invests in. Note 4 discusses the types of lending that the Company engages in. The Company does not have any significant concentrations in any one industry or customer. Although the Company has a diversified loan portfolio, its debtors' ability to honor their contracts is influenced by the regions' economy.

Cash and Cash Equivalents

For reporting of cash flows, cash and cash equivalents include cash on hand, amount due from banks and federal funds sold, all with maturities within ninety days. The Company maintains cash deposits in other depository institutions that occasionally exceed the amount of deposit insurance available. Management periodically assesses the financial condition of these institutions and believes that the risk of any possible credit loss is minimal. Generally, federal funds are purchased and sold for one day periods. There were no outstanding federal funds sold at December 31, 2021 and 2020.

Trust Assets

The Company provides trust services, including administration of trust and estates through its trust department. Assets held by the trust department in a fiduciary or agency capacity for its customers are not included in these consolidated financial statements because they are not assets of the Company. Trust income is recorded on a cash basis, which is not materially different from the accrual basis.

Securities

Securities classified as available-for-sale are those securities that the Company intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movement in interest rates, changes in maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Securities available-for-sale are carried at fair value. Unrealized gains or losses are reported as increases or decreases, net of the related deferred tax effect, in other comprehensive income (loss). Equity securities are carried at fair value with changes in fair value reported in income. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Declines in the fair value of securities below their cost that are deemed to be other than temporary impairments (OTTI) are reflected in earnings as realized losses. In estimating OTTI for debt and equity securities, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than amortized cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions and (4) whether the Company has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. In instances when a determination is made that an other-than-temporary impairment exists but the Company does not intend to sell the debt security and it is not more likely than not that it will be required to sell the debt security prior to anticipated recovery, the other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income.

The Company has not recognized any other-than-temporary impairment losses for the years ended December 31, 2021 and 2020.

Restricted Investment in Bank Stocks

Restricted investment in bank stock consists of Federal Home Loan Bank (FHLB) stock in the amount of $3,408,000 and $3,244,000 at December 31, 2021 and 2020, respectively, and Atlantic Community Bankers Bank stock in the amount of $75,000 at December 31, 2021 and 2020. Federal law requires a member institution of the FHLB to hold stock of its district FHLB according to a predetermined formula. The restricted stocks are carried at cost.

Management's determination of whether these investments are impaired is based on the Company's assessment of the ultimate recoverability of the Company's cost rather than by recognizing temporary declines in value. Management believes no impairment charge is necessary related to these restricted stocks as of December 31, 2021.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by aggregate outstanding commitments from investors or current investor yield requirements. Net unrealized losses are recognized through a valuation allowance by charges to income. The Company had no loans held for sale at December 31, 2021 and 2020.

Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Company is generally amortizing these amounts over the contractual life of the loan. Premiums and discounts on purchased loans are amortized as adjustments to interest income using the effective yield method.

The loans receivable portfolio is segmented into commercial and consumer loans. Commercial loans consist of the following classes: commercial and commercial real estate. Consumer loans consist of the following classes: residential real estate, home equity and other consumer.

For all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans, including impaired loans, generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

Loans receivable includes a portfolio of purchased mortgages. Premiums related to this portfolio are amortized over the average expected term of the loans within the portfolio.

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The allowance for loan losses is increased by the provision for loan losses and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Because all identified losses are immediately charged off, no portion of the allowance for loan losses is restricted to any individual loan or groups of loans and the entire allowance is available to absorb any and all loan losses.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance for loan losses consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, 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 pools of loans by loan class including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate, home equity and other consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These qualitative risk factors include:

1. Lending policies and procedures, including underwriting standards and collection, charge-off and recovery practices.

2. National, regional and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans.

3. Nature and volume of the portfolio and terms of loans.

4. Volume and severity of past due, classified and nonaccrual loans as well as other loan modifications.

5. Existence and effect of any concentrations of credit and changes in the level of such concentrations.

6. Effect of external factors, such as competition and legal and regulatory requirements.

A majority of the Company's loan assets are loans to business owners of many types. The Company makes commercial loans for real estate development and other business purposes required by the customer base.

The Company's credit policies determine advance rates against the different forms of collateral that can be pledged against commercial loans. Typically, the majority of loans will be limited to a percentage of their underlying collateral values such as real estate values, equipment, eligible accounts receivable and inventory. Individual loan advance rates may be higher or lower depending upon the financial strength of the borrower and/or term of the loan. The assets financed through commercial loans are used within the business for its ongoing operation. Repayment of these kinds of loans generally comes from the cash flow of the business or the ongoing conversions of assets. Commercial real estate loans include long-term loans financing commercial properties. Repayment of this kind of loan is dependent upon either the ongoing cash flow of the borrowing entity or the resale of or lease of the subject property. Commercial real estate loans typically require a loan to value ratio of not greater than 80 percent and vary in terms.

Residential mortgages and home equity loans are secured by the borrower's residential real estate in either a first or second lien position. Residential mortgages and home equity loans have varying loan rates depending on the financial condition of the borrower and the loan to value ratio. Residential mortgages have amortizations up to 30 years and home equity loans have maturities up to 15 years.

Other consumer loans include installment loans, car loans and overdraft lines of credit. The majority of these loans are unsecured.

An unallocated component of the allowance is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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

An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of the Company's impaired loans are measured based on the estimated fair value of the loan's collateral.

For commercial loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For commercial and industrial loans secured by nonreal estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's consolidated financial statements, inventory reports, accounts receivable agings or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

Loans whose terms are modified are classified as troubled debt restructurings if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate or an extension of a loan's stated maturity date. Nonaccrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as troubled debt restructurings are designated as impaired.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans criticized as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

In addition, Federal regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

Transfers of Financial Assets

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

Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets. Buildings are depreciated using useful lives ranging from 10 to 40 years. Furniture, fixtures and equipment are being depreciated using useful lives ranging from 3 to 10 years. Leasehold improvements are depreciated over the shorter of the useful life or lease term of the asset.

Investment in Life Insurance

The Company invests in bank-owned life insurance (BOLI) as a source of funding for employee benefit expenses. BOLI involves the purchasing of life insurance by the Company on a chosen group of employees and directors. The Company is the owner and beneficiary of the policies. This life insurance investment is carried at the cash surrender value of the underlying policies. These policies can be liquidated, if necessary, with tax costs. However, the Company intends to hold the policies and, accordingly, the Company has not provided for deferred income taxes on the earnings from the increase in the cash surrender value.

Foreclosed Assets

Foreclosed assets, which are included in prepaid expenses and other assets, are comprised of property acquired through a foreclosure proceeding or acceptance of a deed-in-lieu of foreclosure and loans classified as in-substance foreclosures. A loan is classified as in-substance foreclosure when the Company has taken possession of the collateral regardless of whether formal foreclosure proceedings take place. Foreclosed assets initially are recorded at fair value, net of estimated selling costs, at the date of foreclosure, establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the assets are carried at the lower of cost or fair value minus estimated costs to sell. Gains and losses on sales of foreclosed assets, are part of other income in the accompanying consolidated statements of income. Revenues and expenses from operations and changes in the valuation allowance are included in foreclosed assets expenses in the accompanying consolidated statements of income.

Advertising

The Company follows the policy of charging the costs of advertising to expense as incurred. Advertising expense for the years ended December 31, 2021 and 2020 was $224,000 and $152,000, respectively.

Income Taxes

Income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. Deferred income taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Mauch Chunk Trust Financial Corp. and its subsidiary file a consolidated federal income tax return.

Off-Balance Sheet Financial Instruments

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

Earnings Per Share

The Company has a simple capital structure. Basic earnings per share represent income available to common stockholders divided by the weighted average number of shares outstanding during the period.

Treasury Stock

Common stock shares repurchased are recorded as treasury stock at cost.

New Accounting Standards That Have Not Yet Been Adopted

In June 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326)* to replace the incurred loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loans receivable and held-to maturity debt securities. It also applies to off-balance sheet credit exposures including loan commitments, standby letters of credit, financial guarantees and other similar instruments. For the assets within the scope of CECL, a cumulative-effect adjustment will be recognized in retained earnings as of the beginning of the first reporting period in which the guidance is effective. This new standard will be effective for the Company for fiscal years beginning after December 15, 2022. The Company is currently evaluating the impact this new standard will have on the consolidated financial statements.

COVID-19

The Coronavirus Disease (COVID-19) pandemic was declared a national emergency by the President of the United States on March 22, 2020. State and local authorities have made emergency declarations and issued executive orders to limit the spread of the disease. The impact of COVID-19 has created an unprecedented environment for businesses and consumers alike.

The Company has and continues taking steps to protect the health and safety of its employees and to work with its customers experiencing economic consequences from the pandemic. The Company has serviced its clients through its drive through facilities, online banking, mobile services, ATM's or by appointment.

The Company implemented a loan payment deferral program on a case-by-case basis to assist borrowers that may be experiencing financial hardship due to COVID-19. The federal banking regulatory agencies issued, on March 22, 2020 and revised on April 7, 2020, a joint interagency statement titled *The Interagency Statement on Loan Modifications and Report for Financial Institutions Working with Customers Affected by the Coronavirus,* that encourages financial institutions to work with borrowers who request loan modifications or deferrals as a result of COVID-19. Under Section 4013 of the CARES Act, loans less than 30 days past due as of December 31, 2019 will be considered current for COVID-19 modifications. A financial institution may temporarily suspend any determination of a loan modified as a result of COVID-19 as being a troubled debt restructuring (TDR), including the requirement to determine impairment for accounting purposes. The FASB has confirmed that short-term modifications made on a good-faith basis in response to COVID-19 to loan customers who were current prior to any relief are not TDRs. During 2021, 6 loans for a total of $3,165,000 received modifications. During 2020, 257 loans for a total of $42,962,000 received modifications. At December 31, 2021, the Company had no loans deferred under the loan payment deferral program.

The CARES Act established the Paycheck Protection Program (PPP), an expansion of the Small Business Administration's 7(a) loan program. The Company originated 62 and 187 PPP loans for a total of $3,249,000, and $10,751,000, during 2021 and 2020, respectively. Commercial loans include 22 loans for $1,145,000 of PPP loans as of December 31, 2021.

The impact of the COVID-19 pandemic on the performance of the Company's loan portfolio is unknown at this time due to the uncertainties as to the ultimate duration of the COVID-19 pandemic and its potential effects on the local and national economies.

Subsequent Events

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2021 for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through March 11, 2022, the date these consolidated financial statements were available to be issued.

2. Revenue Recognition

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. The main types of revenue contracts included in noninterest income within the consolidated statements of income as follows:

Deposits Related Fees and Service Charges

Service charges and fees on deposits which are included as liabilities in the consolidated balance sheets consist of transaction-based fees, account maintenance fees and overdraft services fees for various retail and business checking customers. Transaction-based fees, which includes services such as automated teller machines (ATM) fees, Automated Clearing House (ACH) fees, stop payment charges and statement rendering fees are recognized at the time transaction is executed as that is the point in time the Company fulfills the customer's request. All deposit liabilities are considered to have one-day terms and therefore related fees are recognized as noninterest income at the time when the services are provided to the customer. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn directly from the customer's account balance.

Interchange Income

The Company earns interchange fees from credit/debit cardholder transactions conducted through the MasterCard payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized monthly, concurrently with the transaction processing services provided to the cardholder.

Gain/Losses on Sale of Foreclosed Assets

The Company records a gain or loss from the sale of foreclosed assets when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of the foreclosed asset to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the foreclosed assets are derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction prices and related gain (loss) on sale if a significant financing component is present.

Wealth/Asset/Trust Management Fees

The Company provides wealth management and trust services to individuals, corporations and retirement funds, as well as existing loan/deposit customers of the Company, located primarily within our geographic markets. The wealth management operations are conducted through Mauch Chunk Trust Company, the subsidiary of the Company and provides a broad range of personal and corporate fiduciary services, including the administration of decedent and trust estates. Assets held in a fiduciary capacity by Mauch Chunk Trust Company, are not assets of the Company and are therefore not included in the Company's consolidated financial statements. Wealth management and trust fees earned are included within noninterest income in the consolidated statements of income.

Wealth management fees are contractually agreed with each customer and earned over time as the Company provides the contracted monthly or quarterly services. Fees are generally based on a tiered scale based on average market value of the trust assets under management (AUM) at month-end. The services provided under such a contract are considered a single performance obligation because it embodies series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Fees that are transaction based, including trade execution services, are recognized at the point in time that the transaction is executed (i.e. trade date).

3. Securities

The amortized cost and approximate fair value of investment securities available-for-sale and equity securities as of December 31, 2021 and 2020 are summarized as follows:

	2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
State and political subdivisions	$ 202,355	$ 5,460	$ (1,824)	$ 205,991
Mortgage-backed securities, U.S. government sponsored enterprises (GSE's), residential	115,467	82	(2,775)	112,774
Corporate debt securities	47,145	1,155	(65)	48,235
Equity securities	153	-	-	153
	$ 365,120	$ 6,697	$ (4,664)	$ 367,153

	2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
State and political subdivisions	$ 176,939	$ 6,289	$ (214)	$ 183,014
Mortgage-backed securities, U.S. government sponsored enterprises (GSE's), residential	38,124	678	(59)	38,743
Corporate debt securities	44,747	786	(45)	45,488
Equity securities	153	-	-	153
	$ 259,963	$ 7,753	$ (318)	$ 267,398

The amortized cost and fair value of debt securities available-for-sale as of December 31, 2021, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the securities may be called or prepaid with or without any penalties.

	Available-for-Sale	
	Amortized Cost	Fair Value
	(In Thousands)	
Due in one year or less	$ 3,678	$ 3,703
Due after one year through five years	9,189	9,292
Due after five years through ten years	37,186	38,554
Due after ten years	199,447	202,677
	249,500	254,226
Mortgage-backed securities	115,467	112,774
	$ 364,967	$ 367,000

Gross gains of $433,000 and gross losses of $0 were realized on sales of securities in 2021.

Gross gains of $1,551,000 and gross losses of $55,000 were realized on sales of securities in 2020.

Securities with a carrying value of $126,654,000 and $110,547,000 at December 31, 2021 and 2020, respectively, were pledged to secure public deposits and for other purposes required or permitted by law. Securities with a carrying value of $37,224,000 and $36,827,000 at December 31, 2021 and 2020, respectively, were pledged to the Federal Home Loan Bank under its collateral requirements for advances made to the Company.

The following tables show our investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2021 and 2020:

	2021					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
Securities available, for sale:						
State and political subdivisions	$ 51,267	$ (1,075)	$ 13,838	$ (749)	$ 65,105	$ (1,824)
Mortgage-backed securities, GSE's	85,631	(1,684)	24,450	(1,091)	110,081	(2,775)
Corporate debt securities	6,987	(65)	-	-	6,987	(65)
	$ 143,885	$ (2,824)	$ 38,288	$ (1,840)	$ 182,173	$ (4,664)

	2020					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
Securities available, for sale:						
State and political subdivisions	$ 21,729	$ (209)	$ 670	$ (5)	$ 22,399	$ (214)
Mortgage-backed securities, GSE's	17,560	(59)	-	-	17,560	(59)
Corporate debt securities	5,592	(45)	-	-	5,592	(45)
	$ 44,881	$ (313)	$ 670	$ (5)	$ 45,551	$ (318)

The Company has 85 and 29 securities in an unrealized loss position at December 31, 2021 and 2020, respectively. The unrealized losses at December 31, 2021 and 2020 are due to interest rate fluctuations. None of the securities are below investment grade. None of the individual losses above are deemed significant. None of the issuers have defaulted on interest payments. The Company does not intend to sell these securities prior to their recovery and it is more likely than not that it will not have to sell the securities prior to recovery. Management concluded that these securities were not other-than-temporarily impaired at December 31, 2021 and 2020. Future deterioration in the credit quality of these debt securities could result in impairment charges in the future.

4. Loans Receivable and Allowance for Loan Losses

The composition of loans receivable at December 31, 2021 and 2020 are as follows:

	2021	2020
	(In Thousands)	
Commercial	$ 43,759	$ 46,094
Commercial real estate	97,695	91,971
Residential mortgage	69,598	67,638
Home equity	15,360	15,522
Consumer, other	2,773	3,012
	229,185	224,237
Unearned net loan origination fees	543	522
Allowance for loan losses	(3,699)	(3,323)
	(3,156)	(2,801)
Net loans	$ 226,029	$ 221,436

The following tables summarize the activity in the allowance for loan losses by loan class for the years ended December 31, 2021 and 2020, and information in regard to the allowance for loan losses and the recorded investment in loans receivable by loan class as of December 31, 2021 and 2020:

	December 31, 2021						
	Allowance for Loan Losses						
	Beginning Balance	Charge-ffs	Recoveries	Provisions	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
				(In Thousands)			
Commercial	$ 472	$ (26)	$ 12	$ 231	$ 689	$ 5	$ 684
Commercial real estate	1,087	-	-	97	1,184	8	1,176
Residential mortgage	748	-	-	84	832	-	832
Home equity	149	-	-	7	156	-	156
Consumer, other	67	(29)	3	6	47	-	47
Unallocated	800	-	-	(9)	791	-	791
	$ 3,323	$ (55)	$ 15	$ 416	$ 3,699	$ 13	$ 3,686

	December 31, 2021		
	Loans Receivable		
	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
		(In Thousands)	
Commercial	$ 43,759	$ 30	$ 43,729
Commercial real estate	97,695	4,987	92,708
Residential mortgage	69,598	528	69,070
Home equity	15,360	8	15,352
Consumer, other	2,773	-	2,773
	$ 229,185	$ 5,553	$ 223,632

	December 31, 2020						
	Allowance for Loan Losses						
	Beginning Balance	Charge-offs	Recoveries	Provisions	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
	(In Thousands)						
Commercial	$ 288	$ (144)	$ -	$ 328	$ 472	$ 18	$ 454
Commercial real estate	523	-	1	563	1,087	19	1,068
Residential mortgage	446	(24)	-	326	748	-	748
Home equity	100	-	-	49	149	-	149
Consumer, other	829	(1,045)	138	145	67	-	67
Unallocated	464	-	-	336	800	-	800
	$ 2,650	$ (1,213)	$ 139	$ 1,747	$ 3,323	$ 37	$ 3,286

	December 31, 2020		
	Loans Receivable		
	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
	(In Thousands)		
Commercial	$ 46,094	$ 276	$ 45,818
Commercial real estate	91,971	2,485	89,486
Residential mortgage	67,638	394	67,244
Home equity	15,522	23	15,499
Consumer, other	3,012	-	3,012
	$ 224,237	$ 3,178	$ 221,059

The following tables present the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Company's internal risk rating system as of December 31, 2021 and 2020:

	2021				
	Pass	Special Mention	Substandard	Doubtful	Total
	(In Thousands)				
Commercial	$ 41,799	$ 1,930	$ 30	$ -	$ 43,759
Commercial real estate	93,227	374	4,094	-	97,695
Residential mortgage	68,982	88	528	-	69,598
Home equity	15,352	-	8	-	15,360
Consumer, other	2,773	-	-	-	2,773
	$ 222,133	$ 2,392	$ 4,660	$ -	$ 229,185

	2020				
	Pass	Special Mention	Substandard	Doubtful	Total
	(In Thousands)				
Commercial	$ 45,818	$ -	$ 276	$ -	$ 46,094
Commercial real estate	86,331	4,077	1,563	-	91,971
Residential mortgage	67,332	-	306	-	67,638
Home equity	15,498	1	23	-	15,522
Consumer, other	3,011	1	-	-	3,012
	$ 217,990	$ 4,079	$ 2,168	$ -	$ 224,237

The following tables summarize information in regards to impaired loans by loan portfolio class as of December 31, 2021 and 2020:

2021 (In Thousands)	Recorded Investment (After Charge-offs)	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ 15	$ 41	$ -	$ 254	$ 9
Commercial real estate	4,848	4,848	-	5,508	245
Residential mortgage	528	565	-	801	34
Home equity	8	8	-	60	3
Consumer, other	-	-	-	-	-
With an allowance recorded:					
Commercial	15	15	5	16	1
Commercial real estate	139	139	8	142	12
Residential mortgage	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer, other	-	-	-	-	-
Total:					
Commercial	30	56	5	270	10
Commercial real estate	4,987	4,987	8	5,650	257
Residential mortgage	528	565	-	801	34
Home equity	8	8	-	60	3
Consumer, other	-	-	-	-	-
	$ 5,553	$ 5,615	$ 13	$ 6,781	$ 304

2020 (In Thousands)	Recorded Investment (After Charge-offs)	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ 243	$ 243	$ -	$ 248	$ 13
Commercial real estate	2,079	2,079	-	2,124	88
Residential mortgage	394	394	-	402	15
Home equity	23	23	-	24	2
Consumer, other	-	-	-	-	-
With an allowance recorded:					
Commercial	33	33	18	34	1
Commercial real estate	406	406	19	408	18
Residential mortgage	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer, other	-	-	-	-	-
Total:					
Commercial	276	276	18	282	14
Commercial real estate	2,485	2,485	19	2,532	106
Residential mortgage	394	394	-	402	15
Home equity	23	23	-	24	2
Consumer, other	-	-	-	-	-
	$ 3,178	$ 3,178	$ 37	$ 3,240	$ 137

The following table presents nonaccrual loans by classes of the loan portfolio as of December 31, 2021 and 2020.

	2021	2020
	(In Thousands)	
Commercial	$ -	$ -
Commercial real estate	106	80
Residential mortgage	439	46
Home equity	8	8
Consumer, other	-	-
	$ 553	$ 134

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by the past due status as of December 31, 2021 and 2020:

	2021						
	30-59 Days Past Due	60-89 Days Past Du	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivables	Loans Receivable > 90 Days and Accruing
				(In Thousands)			
Commercial	$ -	$ -	$ -	$ -	$ 43,759	$ 43,759	$ -
Commercial real estate	187	71	-	258	97,437	97,695	-
Residential mortgage	551	-	402	953	68,645	69,598	-
Home equity	118	-	-	118	15,242	15,360	-
Consumer, other	5	-	-	5	2,768	2,773	-
Total	$ 861	$ 71	$ 402	$ 1,334	$ 227,851	$ 229,185	$ -

	2020						
	30-59 Days Past Due	60-89 Days Past Du	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivables	Loans Receivable > 90 Days and Accruing
				(In Thousands)			
Commercial	$ 10	$ -	$ -	$ 10	$ 46,084	$ 46,094	$ -
Commercial real estate	1,114	100	64	1,278	90,693	91,971	-
Residential mortgage	224	181	-	405	67,233	67,638	-
Home equity	14	-	-	14	15,508	15,522	-
Consumer, other	5	-	-	5	3,007	3,012	-
Total	$ 1,367	$ 281	$ 64	$ 1,712	$ 222,525	$ 224,237	$ -

The Company may grant a concession or modification for economic or legal reasons related to a borrower's financial condition that it would not otherwise consider resulting in a modified loan which is then identified as a troubled debt restructuring (TDR). The Company may modify loans through rate reductions, extensions of maturity, interest only payments, or payment modifications to better match the timing of cash flows due under the modified terms with the cash flows from the borrowers' operations. Loan modifications are intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. TDRs are considered impaired loans for purposes of calculating the Company's allowance for loan losses.

The Company identifies loans for potential restructure primarily through direct communication with the borrower and evaluation of the borrower's consolidated financial statements, revenue projections, tax returns and credit reports. Even if the borrower is not presently in default, management will consider the likelihood that cash flow shortages, adverse economic conditions and negative trends may result in a payment default in the near future.

At December 31, 2021 and 2020, the Company has a recorded investment in TDRs of $1,002,000 and $1,210,000 respectively. The Company has allocated $0 of specific allowance for these loans at December 31, 2021 and 2020, and has committed to lend no additional amounts on such loans.

There were no troubled debt restructurings for the year ended December 31, 2021.

The following table reflects information regarding the Company's troubled debt restructurings for the year ended December 31, 2020. The below troubled debt restructurings included payment modifications.

	2020		
	Number of Contracts	Pre-Modification Outstanding Recorded Investments	Post-Modification Outstanding Recorded Investments
		(In Thousands)	
Troubled debt restructurings:			
Commercial	-	$ -	$ -
Commercial real estate	4	302	302
Residential mortgage	1	89	89
Home equity	-	-	-
Consumer, other	-	-	-
Total	5	$ 391	$ 391

The Company had no previously determined TDR loans that defaulted in 2021 or 2020.

5. Foreclosed Assets

Foreclosed asset activity was as follows for the years ended December 31, 2021 and 2020:

	2021	2020
	(In Thousands)	
Beginning balance	$ 15	$ 50
Loans transferred to foreclosed assets	-	32
Direct write-downs	-	(15)
Sales of foreclosed assets	(15)	(52)
	$ -	$ 15

At December 31, 2021 and 2020, the recorded investment of residential mortgage and consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceeds are in process was $0.

6. Bank Premises and Equipment

The components of bank premises and equipment at December 31, 2021 and 2020 are as follows:

	2021	2020
	(In Thousands)	
Land	$ 1,100	$ 1,100
Buildings and leasehold improvements	11,870	11,775
Furniture, fixtures and equipment	4,486	4,430
Right of use asset	570	690
Construction in progress	16	94
	18,042	18,089
Accumulated depreciation	(9,412)	(8,882)
	$ 8,630	$ 9,207

7. Deposits

The components of deposits at December 31, 2021 and 2020 are as follows:

	2021	2020
	(In Thousands)	
Demand, noninterest bearing	$ 80,894	$ 64,722
Demand, interest bearing	270,522	215,642
Savings	80,397	59,549
Time, $250,000 and over	12,538	13,258
Time, other	46,681	46,845
	$ 491,032	$ 400,016

Included in time deposits, at December 31, 2021 and 2020, are brokered deposits of $5,500,000 and $2,178,000, respectively.

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

2022	$ 45,813
2023	5,175
2024	2,708
2025	2,588
2026	2,935
	$ 59,219

8. Securities Sold Under Agreements to Repurchase

The Company enters into agreements under which it sells securities subject to an obligation to repurchase the same or similar securities. Under these arrangements, the Company may transfer legal control over the assets but still retain effective control through an agreement that both entitles and obligates the Company to repurchase the assets. As a result, these repurchase agreements are accounted for as collateralized financing arrangements (i.e., secured borrowings) and not as a sale and subsequent repurchase of securities. The obligation to repurchase the securities is reflected as a liability in the Company's consolidated balance sheets, while the securities underlying the repurchase agreements remain in the respective investment securities asset accounts. In other words, there is no offsetting or netting of the investment securities assets with the repurchase agreement liabilities. In addition, as the Company does not enter into reverse repurchase agreements, there is no such offsetting to be done with the repurchase agreements.

Securities sold under agreements to repurchase generally mature within a few days from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. Securities sold under these agreements are retained under the Company's control at its safekeeping agent. The Company may be required to provide additional collateral based on the fair value of the underlying securities. Information concerning securities sold under agreements to repurchase for the years ended December 31, 2021 and 2020 is summarized as follows:

	2021	2020
	(Dollars In Thousands)	
Balance outstanding at December 31	$ 3,970	$ 6,891
Weighted average interest rate at the end of the year	0.08 %	0.20 %
Average daily balance during the year	4,721	4,811
Weighted-average interest rate during the year	0.17 %	0.43 %
Maximum month-end balance during the year	$ 10,189	$ 7,295

9. Other Borrowed Funds and Long-Term Debt

Other borrowed funds consist of short-term borrowings with the Federal Home Loan Bank (FHLB), and Atlantic Community Bankers Bank (ACBB). The Company has a $81,000,000 line of credit arrangement with the FHLB. Short-term borrowings outstanding under this arrangement with the FHLB were $15,932,000 and $0 with a rate of 0.28 percent and 0.41 percent at December 31, 2021 and 2020, respectively. As of December 31, 2021 and 2020, outstanding balances owed to ACBB are $150,000 with a floating rate at Wall Street Journal Prime plus 0.50 percent or 3.75 percent at December 31, 2021, due in 2022.

Long-term debt of $60,000,000 and $70,103,000 at December 31, 2021 and 2020, respectively, consists of advances from the FHLB under various notes, with an average rate of 1.52 percent and 1.33 percent at December 31, 2021 and 2020, respectively.

Maturities of long-term debt at December 31, 2021 are as follows (in thousands):

2022	$ -
2023	4,000
2024	30,500
2025	25,500
	$ 60,000

The Company has a maximum borrowing capacity with the FHLB of approximately $165,000,000, of which $75,932,000 was outstanding at December 31, 2021. Advances from the FHLB are secured by qualifying assets of the Bank.

As of December 31, 2021 and 2020, the Company had $23,000,000 available but undrawn in a letter of credit with the FHLB to secure municipal deposits held with the Bank.

10. Employee Benefit Plans

Employee Stock Ownership Plan (ESOP)

The Company has an Employee Stock Ownership Plan (ESOP) which is a noncontributory plan established to acquire shares of the Company's common stock for the benefit of all employees of the Company. Contributions to the plan are determined by the Board of Directors. Contributions charged to expense amounted to $200,000 and $100,000 for the years ended December 31, 2021 and 2020. At December 31, 2021, 134,830 shares of the Company's common stock were held by the Employee Stock Ownership Plan Trust. In the event a terminated Plan participant desires to sell their shares of the stock, or for certain employees who elect to diversify their account balances, the Company may be required to purchase the shares from the participant at their fair market value.

401(k) Plan

The Company has a 401(k) Plan for eligible employees. The employees may contribute up to the maximum percentage of their compensation allowable by law to the Plan. The Company will make matching contributions up to 50 percent of the employee's contribution not to exceed 2 percent of eligible compensation. The Company will also make a safe-harbor contribution on the behalf of all participants in an amount equal to 3 percent of eligible compensation. The Company also may make discretionary contributions. Employees are immediately vested with respect to employee and Company contributions. The Company's contribution charged to expense was $162,000 and $158,000 for the years ended December 31, 2021 and 2020, respectively.

Executive Supplemental Income Plan

The Company has implemented a nonqualified Executive Supplemental Income (ESI) Plan for a certain group of officers. Under the provisions of the ESI Plan, the participating officers have executed agreements providing each officer a retirement annuity benefit, or their beneficiary a salary continuation benefit in the event of pre-retirement death. The Plan is informally funded by life insurance carried on the lives of these officers. The ESI benefit payable was $162,000 and $176,000 at December 31, 2021 and 2020, respectively, and is included in other liabilities in the accompanying consolidated balance sheets. For each of the years ended December 31, 2021 and 2020, $7,000, was charged to expense in connection with this Plan.

Deferred Compensation Plans

The Company has established several deferred compensation plans for participating Directors. Under these plans, the Company will make deferred income payments for a ten-year period generally beginning at age 65, or at death if earlier.

To informally fund benefits under the Plan, the Company is the owner and beneficiary of life insurance policies on the lives of the participating directors. Deferred compensation payable at December 31, 2021 and 2020 was $448,000 and $487,000, respectively, and is included in other liabilities in the accompanying consolidated balance sheets. For the years ended December 31, 2021 and 2020, $42,000 and $46,000, respectively, was charged to expense in connection with these plans.

11. Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities and changes in the defined benefit pension plan, are reported as a separate component of the equity section of the consolidated balance sheets, net of related income taxes, such items, along with net income, are components of accumulated comprehensive income.

The components of accumulated other comprehensive income and the related income tax effect are as follows as of December 31, 2021 and 2020:

	2021	2020
	(In Thousands)	
Unrealized holding gains on available-for-sale securities	$ 2,033	$ 7,435
Tax effect	(426)	(1,561)
Net of income taxes	1,607	5,874
Derivatives	237	(83)
Tax effect	(49)	18
Net of income taxes	188	(65)
Accumulated other comprehensive income	$ 1,795	$ 5,809

12. Federal Income Taxes

The components of income tax expense for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
	(In Thousands)	
Current	$ 646	$ 324
Deferred	108	163
	$ 754	$ 487

A reconciliation of the statutory income tax at a rate of 21 percent to the income tax expense included in the statements of income is as follows for the years ended December 31, 2021 and 2020:

	2021		2020	
	Amount	Percent of Pre-Tax Income	Amount	Percent of Pre-Tax Income
	(Dollars in Thousands)			
Federal income tax at statutory rate	$ 1,186	21 %	$ 753	21 %
Tax exempt interest	(378)	(7)	(219)	(6)
Bank-owned life insurance	(44)	(1)	(59)	(2)
Other	(10)	-	12	-
	$ 754	13 %	$ 487	13 %

Net deferred tax assets and liabilities consisted of the following components as of December 31, 2021 and 2020:

	2021	2020
	(In Thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 666	$ 579
Deferred compensation	128	138
Net unrealized loss on derivatives	-	18
Lease liability	121	146
Nonaccrual loan interest	2	4
Accrued expenses	3	2
	920	887
Deferred tax liabilities:		
Bank premises and equipment	194	232
Net unrealized gains on securities available-for-sale	426	1,561
Discount accretion	23	7
Prepaid expenses	65	76
Right of use asset	120	145
Loan origination costs	136	134
Net unrealized gain on derivatives	49	-
	1,013	2,155
Net deferred tax liability	$ (93)	$ (1,268)

The Company follows accounting guidance related to the accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax liabilities to maintain for uncertain tax positions. The Company had no material unrecognized tax benefits or accrued interest and penalties as of December 31, 2021 and 2020. The Company's policy is to account for interest as a component of interest expense and penalties as a component of other expense.

13. Transactions With Executive Officers, Directors and Principal Stockholders

The Company has had, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, principal stockholders, their immediate families and affiliated companies (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. These persons were indebted to the Company for loans totaling $427,000 and $448,000 at December 31, 2021 and 2020, respectively. During 2021 activity included, $35,000 of new loans, $230,000 of repayments and the inclusion of $174,000 of previously existing loans made to new executive officers and directors. These persons had deposits with the Company totaling $5,477,000 and $5,127,000 at December 31, 2021 and 2020, respectively.

14. Right of Use Asset and Lease Liabilities

The Company's three leases are all classified as operating leases with no short-term leases. Currently, all of the leases are for branch leases and two out of three contain renewal options. The recorded amounts for the branch leases are impacted by assumptions around renewals and/or extensions and the interest rate used to discount those future lease obligations. The Company has recorded amounts on its consolidated balance sheet as of December 31, 2021 and 2020 for the right of use asset of $570,000, and $690,000, respectively, recorded in bank premises and equipment, offset by lease liabilities of $577,000 and $695,000, respectively, recorded in other liabilities on the consolidated balance sheets. Operating cash flow paid for lease liabilities was $129,000. As of December 31, 2021, the operating leases overall had a weighted average lease term of 5.21 years. The weighted average discount rate for the operating leases was 2.39 percent.

A reconciliation of operating lease liabilities by minimum lease payments by year and in aggregate and discount amounts in aggregate, as of December 31, 2021, are as follows (in thousands):

2022	$ 129
2023	131
2024	109
2025	108
2026	90
Thereafter	50
Total undiscounted lease liabilities	617
Less discounted amount	(40)
Total lease liabilities	$ 577

15. Derivative Financial Instruments

The Company is exposed to certain risk arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity and credit risk primarily by managing the amount, sources and duration of its assets and liabilities and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's borrowings.

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate caps as part of its interest rate risk management strategy. Interest rate caps designated as cash flow hedges involve the receipt of variable amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up-front premium.

For derivatives designated and that qualify as cash flow hedges of interest rate risk, the gain or loss on the derivative is recorded in accumulated other comprehensive loss and subsequently reclassified into interest expense in the same period(s) during which the hedged transaction affects earnings. Gains and losses on the derivative representing hedge components excluded from the assessment of effectiveness are over the life of the hedge on a systematic and rational basis, as documented at hedge inception in accordance with the Company's accounting policy election. The earnings recognition of excluded components is presented in interest expense. Amounts reported in accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. The Company presents derivative position net on the balance sheet in other assets.

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the consolidated balance sheets as of December 31, 2021 and 2020:

	2021 (in thousands)			
	Asset Derivatives		Liability Derivatives	
	Notional Amount	Fair Value (1)	Notional Amount	Fair Value
Interest rate products	$ 10,000	$ 237	$ -	$ -

	2020 (in thousands)			
	Asset Derivatives		Liability Derivatives	
	Notional Amount	Fair Value (1)	Notional Amount	Fair Value
Interest rate products	$ 50,000	$ 15	$ 10,000	$ 7
Netting adjustment		(7)		(7)
Net derivative amounts		8		
Total	$ 50,000	$ 8	$ 10,000	$ -

(1) Included in other assets in the consolidated balance sheets.

The table below presents the effect of cash flow hedge accounting on accumulated other comprehensive income as of December 31, 2021 and 2020:

	2021		
	Amount of Gain or Loss Recognized in OCI (in thousands)		
	On Derivative	Included Component	Excluded Component
Derivatives in cash flow: Hedging relationships Interest rate products	$ 275	$ 290	$ (15)

	Amount of Loss Reclassified From Accumulated OCI (in thousands)		
	Into Income (2)	Into Income Included Component	Into Income Excluded Component
Derivatives in cash flow: Hedging Relationships Interest rate products	$ (45)	$ -	$ (45)

	2020		
	Amount of Loss Recognized in OCI (in thousands)		
	On Derivative	Included Component	Excluded Component
Derivatives in cash flow: Hedging relationships Interest rate products	$ (85)	$ (6)	$ (79)

	Amount of Loss Reclassified From Accumulated OCI (in thousands)		
	Into Income (3)	Into Income Included Component	Into Income Excluded Component
Derivatives in cash flow:			
Hedging Relationships			
Interest rate products	$ (23)	$ -	$ (23)

(2) Included in other income in the consolidated statements of income

(3) Included in interest expense in the consolidated statements of income

16. Financial Instruments With Off-Balance Sheet Risk

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

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

A summary of the Company's financial instrument commitments at December 31, 2021 and 2020 is as follows:

	2021	2020
	(In Thousands)	
Commitments to grant loans	$ 6,511	$ 4,681
Unfunded commitments under lines of credit	29,735	36,742
Outstanding letters of credit	1,174	1,140

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory and equipment.

Outstanding letters of credit written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next twelve months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Company requires collateral supporting these letters of credit as deemed necessary. The maximum undiscounted exposure related to these commitments at December 31, 2021 and 2020 was $1,174,000 and $1,140,000, respectively, and the approximate value of underlying collateral upon liquidation that would be expected to cover this maximum potential exposure was $1,174,000 and $1,140,000, respectively. The current amount of the liability as of December 31, 2021 and 2021 for guarantees under standby letters of credit issued is not material.

17. Regulatory Matters

The Company is required to maintain a cash reserve balance in vault cash or with the Federal Reserve Bank. The total of this reserve balance was approximately $0 at December 31, 2021 and 2020.

The Company and its Bank subsidiary are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2021, the Company and the Bank meet all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. As of December 31, 2021, and 2020, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

Actual and required capital amounts and ratios are presented below as of December 31, 2021 and 2020:

	2021					
	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollar Amounts in Thousands)			
Total capital (to risk-weighted assets)	$ 41,587	12.87 %	$ >25,860	>8.00 %	$ >32,326	>10.00 %
Common equity Tier 1 (CET1) capital (to risk-weighted assets)	41,587	12.87	>14,546	>4.50	>21,011	>6.50
Tier 1 (core) capital (to risk-weighted assets)	41,587	12.87	>19,395	>6.00	>25,860	>8.00
Tier 1 (core) capital (to average assets)	41,587	6.86	>24,240	>4.00	>30,300	>5.00

	2020					
	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollar Amounts in Thousands)			
Total capital (to risk-weighted assets)	$ 35,898	11.19 %	$ >25,661	>8.00 %	$ >32,076	>10.00 %
Common equity Tier 1 (CET1) capital (to risk-weighted assets)	35,898	11.19	>14,434	>4.50	>20,850	>6.50
Tier 1 (core) capital (to risk-weighted assets)	35,898	11.19	>19,246	>6.00	>25,661	>8.00
Tier 1 (core) capital (to average assets)	35,898	7.06	>20,339	>4.00	>25,423	>5.00

18. Fair Value Measurements and Fair Value of Financial Instruments

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices in active markets. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instruments.

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

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

Level 1 - Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2021 and 2020 are as follows:

	2021			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In Thousands)			
State and political subdivisions	$ 205,991	$ -	$ 205,991	$ -
Mortgage-backed securities, GSE's, residential	112,774	-	112,774	-
Corporate debt securities	48,235	-	48,235	-
Equity securities	153	-	153	-
Derivatives	237	-	237	-
	$ 367,390	$ -	$ 367,390	$ -

	2020			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In Thousands)			
State and political subdivisions	$ 183,014	$ -	$ 183,014	$ -
Mortgage-backed securities, GSE's, residential	38,743	-	38,743	-
Corporate debt securities	45,488	-	45,488	-
Equity securities	153	-	153	-
Derivatives	8	-	8	-
	$ 267,406	$ -	$ 267,406	$ -

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2021 and 2020 are as follows:

	2021			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In Thousands)			
Impaired loans	$ 141	$ -	$ -	$ 141

	2020			
	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
		(In Thousands)		
Impaired loans	$ 402	$ -	$ -	$ 402
Foreclosed assets	$ 15	$ -	$ -	$ 15

Quantitative information about Level 3 fair value measurements at December 31, 2021 and 2020 is included in the table below:

	2021				
	Quantitative Information About Level 3 Fair Value Measurements				
	Fair Value Estimate		**Valuation Techniques**	**Unobservable Inputs**	**Estimated Range**
			(In Thousands)		
Impaired loans	$	141	Appraisal of collateral	Appraisal adjustments	40-60%
				Liquidation expenses	7%

	2020				
	Quantitative Information About Level 3 Fair Value Measurements				
	Fair Value Estimate		**Valuation Techniques**	**Unobservable Inputs**	**Estimated Range**
			(In Thousands)		
Impaired loans	$	402	Appraisal of collateral	Appraisal adjustments	30-50%
				Liquidation expenses	7%
Foreclosed assets	$	15	Appraisal of collateral	Appraisal adjustments	0-50%
				Liquidation expenses	7%

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at December 31, 2021 and 2020:

Cash and Cash Equivalents (Carried at Cost)

The carrying amounts reported in the balance sheet for cash and short-term instruments approximate those assets' fair values.

Securities

The fair value of securities (carried at fair value) are determined by quoted prices in an inactive market or matrix pricing (Level 2). Matrix pricing is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices.

Loans Receivable (Carried at Cost)

The fair values of loans, including loans held for sale, are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

Impaired Loans (Generally Carried at Fair Value)

Impaired loans carried at fair value are those in which the Company has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value at December 31, 2021 consists of loan balances of $154,000, less a valuation allowance of $13,000 The fair value at December 31, 2020 consists of loan balances of $439,000, less a valuation allowance of $37,000.

Servicing Rights (Carried at Lower of Cost or Fair Value)

The fair value of mortgage servicing right is based on a valuation model that calculates the present value of estimated net servicing income. The valuation incorporation assumptions that market participants would use in estimating future net servicing income.

Restricted Investment in Bank Stocks (Carried at Cost)

The carrying amount of restricted investment in bank stocks approximates fair value and considers the limited marketability of such securities.

Accrued Interest Receivable and Payable (Carried at Cost)

The carrying amount of accrued interest receivable and accrued interest payable approximates its fair value.

Derivatives (Carried at Fair Value)

Derivative instruments are valued using market interest rates and market volatility as inputs to a modified Black-Scholes model.

Deposit Liabilities (Carried at Cost)

The fair values disclosed for demand deposits (e.g., interest and noninterest checking, passbook savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Other Borrowed Funds (Carried at Cost)

The carrying amounts of other borrowed funds approximate their fair values.

Long-Term Debt (Carried at Cost)

Fair values of FHLB advances are estimated using discounted cash flow analysis, based on quoted prices for new FHLB advances with similar credit risk characteristics, terms and remaining maturity. These prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party.

Off-Balance Sheet Financial Instruments

Fair values for the Company's off-balance sheet financial instruments (lending commitments and letters of credit) are based on fees currently charged in the market to enter into similar agreements, taking into account, the remaining terms of the agreements and the counterparties' credit standing. The fair value of these off-balance sheet financial instruments was not material at December 31, 2021 and 2020.

The estimated fair value of the Company's financial instruments at December 31, 2021 and 2020 were as follows:

	2021				
	Carrying Value	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)		
Financial assets:					
Cash and cash equivalents	$ 4,244	$ 4,244	$ 4,244	$ -	$ -
Securities available-for-sale	367,000	367,000	-	367,000	-
Equity securities	153	153	-	153	-
Restricted investment in bank stocks	3,483	3,483	-	3,483	-
Loans receivable, net	226,029	228,897	-	-	228,897
Accrued interest receivable	2,621	2,621	-	2,621	-
Derivatives	237	237	-	237	-
Financial liabilities:					
Deposits	$ 491,032	$ 482,604	$ -	$ -	$ 482,604
Other borrowed funds	16,082	16,082	-	16,082	-
Accrued interest payable	139	139	-	139	-
Long-term debt	60,000	61,238	-	61,238	-

	2020				
	Carrying Value	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)		
Financial assets:					
Cash and cash equivalents	$ 15,557	$ 15,557	$ 15,557	$ -	$ -
Securities available-for-sale	267,245	267,245	-	267,245	-
Equity securities	153	153	-	153	-
Restricted investment in bank stocks	3,319	3,319	-	3,319	-
Loans receivable, net	221,436	228,868	-	-	228,868
Accrued interest receivable	2,396	2,396	-	2,396	-
Derivatives	8	8	-	8	-
Financial liabilities:					
Deposits	$ 400,016	$ 482,715	$ -	$ -	$ 482,715
Other borrowed funds	150	150	-	150	-
Accrued interest payable	150	150	-	150	-
Long-term debt	70,103	72,765	-	72,765	-

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Directors of Mauch Chunk Trust Financial Corp.
Charles E. Wildoner, Chairman of Board
Patrick H. Reilly, President/Chief Executive Officer
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