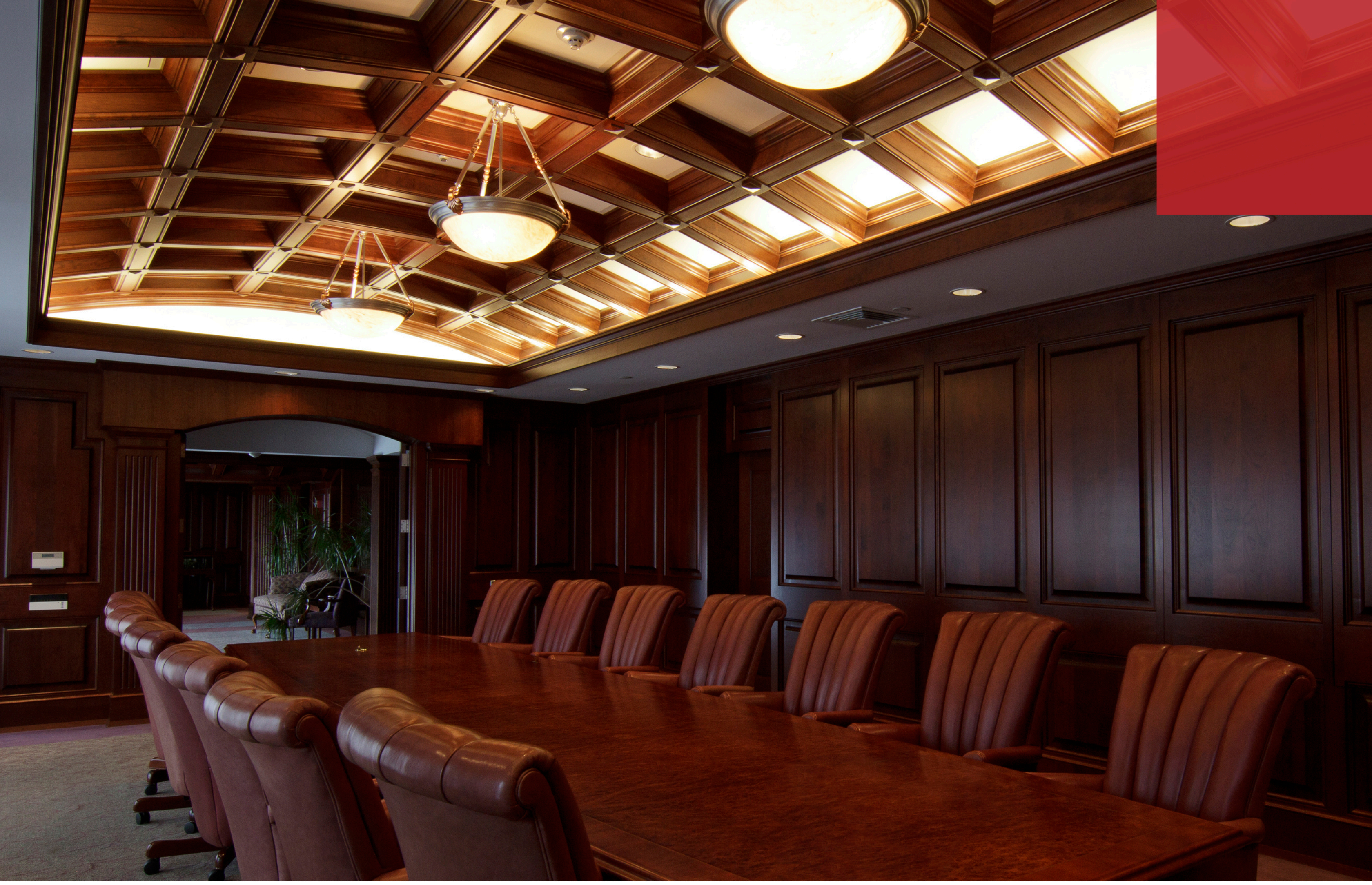

Annual Report 2019

AmericanBank
Incorporated

Consolidated Financial Highlights

(Dollars in Thousands, except per share data)	2019	2018	Percentage Change
AT YEAR END			
Assets	$ 641,552	$ 621,903	3.2%
Loans receivable, net	517,435	494,033	4.7%
Deposits	477,127	468,659	1.8%
Stockholders' Equity	60,661	55,232	9.8%
FOR THE YEAR			
Net Interest Income	$ 18,360	$ 17,644	4.1%
Net Income	7,881	6,846	15.1%
PER SHARE DATA			
Earnings – Basic	$ 1.41	$ 1.22	15.6%
Earnings – Diluted	1.24	1.08	14.8%
Book Value	10.83	9.82	10.3%
FINANCIAL RATIOS			
Return on average assets	1.24%	1.12%	
Return on average equity	13.44%	12.76%	
Average stockholders' equity to average assets	9.26%	8.78%	
Net interest margin	3.07%	3.04%	
Net interest spread	2.97%	2.96%	
Non-interest expense to average assets	1.52%	1.60%	
Efficiency ratio	48.98%	52.50%	
Non-accruing loans/Total loans	0.06%	0.09%	
Allowance for loan losses/Non-performing loans	1,994.13%	1,516.16%	

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March 27, 2020

Dear Fellow Shareholder:

Every day, when I walk through our building, I am fortunate to witness what makes your Company so unique and distinct. Without fail, I see our dedicated team members working with customers, taking the time to make sure their questions are answered. Even if a team member doesn't interact with customers directly, they are working diligently so that processes and systems are running efficiently, ensuring that the needs of the Bank and our customers are being met. Our team members are the heart and soul of the Bank and the key to our continuing success in 2019.

I am pleased to report that 2019 was another year of significant growth by your Company. We had record earnings in 2019 and below are some of the highlights from the past year that I would like to share with you.

For the year ended December 31, 2019, American Bank Incorporated reported:

- Net income of $7,881,000, a 15.1% increase from net income of $6,846,000 at December 31, 2018. The increase in net income for the year ended December 31, 2019 was primarily due to an increase in net interest income resulting from the overall increase in the loan portfolio and a decrease in the provision for loan losses due to the strong quality of our loan portfolio.
- Net interest income increased $716,000, or 4.1%, to $18.3 million, as compared to $17.6 million for the year ended December 31, 2018. The increase in net interest income was a result of an increase in average earning assets of $16.6 million and an increase of 3 basis points in the net interest margin to 3.07% for the year ended December 31, 2019 from 3.04% for the prior year.
- Total assets grew $19.6 million to $641.5 million compared to $621.9 million at December 31, 2018.
- Return on assets increased to 1.24% from 1.12% for the same period in 2018.
- Return on equity for the 2019 year was 13.44% compared to 12.76% for the same period in 2018.
- Net loans outstanding increased by $23.4 million, or 4.7%, to $517.4 million from $494.0 million at December 31, 2018. As has been the case for many years, we maintained our emphasis on serving the needs of small and medium sized businesses and, as a result, we experienced an increase in our commercial loan portfolio, which contributed to the overall growth in net loans. Not only does our entire lending team remain focused on loan growth, they also maintain our commitment to loan quality, which remained strong with only two non-accruing loans at year-end.
- Total deposits grew $8.4 million to $477.1 million at December 31, 2019.

It is important to note that the record earnings in 2019 were the result of the continued growth of our balance sheet.

In February 2020, our Board of Directors declared a dividend of $0.12 per share of common stock payable on April 1, 2020. This year marks the 15th year of paying dividends quarterly to our shareholders. We value you as owners and continually strive to enhance your investment in American Bank.

Before I conclude, I feel that I would be remiss if I did not address your Company's response to the Coronavirus COVID-19 pandemic impacting every aspect of our lives right now. American Bank was proactive in our response to this fast-moving, ever-changing situation, constantly adjusting our operations and enacting our business continuity plans to avoid any potential interruption to our customers. We also provided constant communication to our team members, taking the necessary steps to ensure their health and well-being by making recommendations as it relates to their upcoming travel plans and reimbursing them for travel costs that could not be recovered as well as allowing team members to work remotely, if possible. The safety of our team members and customers is of the utmost importance and we will continue to take the necessary steps to successfully run your Company while serving the needs of our customers and the community.

I would like to extend my sincere appreciation to our Board of Directors, whose guidance was integral in making 2019 another successful year. Under the leadership of our Board of Directors and management team, we have a team that is prepared to exceed our customers' expectations, pursue continued growth for the Company and maximize shareholder value.

As always, I thank you, our shareholders, for your continued commitment to American Bank.

We look forward to serving you in the future.

Mark W. Jaindl
Chairman of the Board
President and CEO

SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OTHER DATA

The following information is derived from the audited financial statements of American Bank Incorporated (the "Company"). For additional information about the formation of American Bank Incorporated and its acquisition of all the outstanding shares of American Bank, reference is made to the Consolidated Financial Statements of American Bank Incorporated and related notes included elsewhere herein.

	At December 31,				
	2019	2018	2017	2016	2015
			(In Thousands)		
Selected Financial Condition Data:					
Total assets	$ 641,552	$ 621,903	$ 580,843	$ 557,136	$ 549,639
Loans receivable, net	517,435	494,033	458,733	439,525	394,013
Equity securities	629	512	-	-	-
Investment securities available-for-sale	60,014	61,544	62,042	65,352	63,975
Investment securities held-to-maturity	205	205	1,005	1,005	1,005
Deposits	477,127	468,659	425,881	408,087	403,197
Short-term borrowings	25,892	30,331	26,261	21,784	22,337
Long-term borrowings	65,000	55,000	65,000	65,000	65,000
Junior subordinated debentures	10,111	10,111	10,218	10,265	10,297
Stockholders' equity	60,661	55,232	51,322	46,649	46,793

	For the year ended December 31,				
	2019	2018	2017	2016	2015
	(Dollars in thousands, except per share data)				
Selected Operating Data:					
Total interest income	$ 26,010	$ 23,991	$ 22,119	$ 20,198	$ 18,940
Total interest expense	7,650	6,347	5,295	5,132	5,242
Net interest income	18,360	17,644	16,824	15,066	13,698
Provision for loan losses	205	491	265	946	459
Net interest income after provision for loan losses	18,155	17,153	16,559	14,120	13,239
Service fees	124	113	113	131	113
Net gains on sales of mortgage loans	88	40	113	170	122
Net gains on equity securities	151	-	-	-	-
Net gains on sales and calls of investment securities	-	-	1,308	3	131
Earnings on bank-owned life insurance	384	377	381	394	336
Other non-interest income	647	529	301	266	266
Total non-interest income	1,394	1,059	2,216	964	968
Total non-interest expense	9,610	9,755	9,187	8,585	8,356
Income before income tax expense	9,939	8,457	9,588	6,499	5,851
Income tax expense	2,058	1,611	4,028	2,055	1,816
Net income	$ 7,881	$ 6,846	$ 5,560	$ 4,444	$ 4,035
Dividends paid per share	$ 0.46	$ 0.39	$ 0.36	$ 0.36	$ 0.28
Earnings per share - basic	$ 1.41	$ 1.22	$ 0.99	$ 0.78	$ 0.71
Earnings per share - diluted	$ 1.24	$ 1.08	$ 0.87	$ 0.70	$ 0.65
Performance Ratios:					
Return on assets (ratio of net income to average assets)	1.24%	1.12%	0.99%	0.80%	0.76%
Return on equity (ratio of net income to average equity)	13.44%	12.76%	10.74%	9.13%	8.71%
Average interest rate spread	2.97%	2.96%	3.05%	2.76%	2.63%
Net interest margin (ratio of net interest income divided by average earning assets)	3.07%	3.04%	3.13%	2.84%	2.71%
Ratio of operating expense to average assets	1.52%	1.60%	1.63%	1.54%	1.57%
Ratio of average interest-earning assets to average interest-bearing liabilities	107.50%	107.20%	108.40%	107.60%	107.60%
Asset Quality Ratios:					
Non-accruing loans to total loans at end of year	0.06%	0.09%	0.00%	0.00%	0.00%
Allowance for loan losses to non-performing loans	1,994.13%	1,516.16%	n/a	0.00%	n/a
Allowance for loan losses to total gross loans	1.30%	1.32%	1.34%	1.37%	1.39%
Capital Ratios:					
Stockholders' equity to total assets at end of year	9.46%	8.88%	8.84%	8.91%	8.51%
Average stockholders' equity to average assets	9.26%	8.78%	9.20%	8.74%	8.72%

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward Looking Statements

This document contains certain “forward-looking statements” which may be identified by the use of words such as “believe,” “expect,” “anticipate,” “should,” “planned,” “estimated” and “potential.” Examples of forward-looking statements include, but are not limited to, estimates with respect to our financial condition, results of operations and business that are subject to various factors which could cause actual results to differ materially from these estimates and most other statements that are not historical in nature. These factors include, but are not limited to, general and local economic conditions, changes in interest rates, deposit flows, demand for mortgage and other loans, real estate values, and competition; changes in accounting principles, policies or guidelines; changes in legislation or regulation; and other economic, competitive, governmental, regulatory and technological factors affecting our operations, product pricing and services.

Overview

American Bank Incorporated is a bank holding company whose assets consist primarily of its investment in American Bank, its wholly owned subsidiary. The principal business activity of American Bank Incorporated is overseeing and directing the business of American Bank. American Capital Trust I is a financing subsidiary of American Bank Incorporated, and the purpose of the trust was to issue shares of convertible preferred securities to the public.

American Bank is a full-service, Pennsylvania state-chartered bank. We currently operate from a single office located in Allentown, Pennsylvania, and a loan production office in Blue Bell, Pennsylvania. Our principal business is attracting deposits from the general public and using those deposits, together with borrowings and other funds, to originate loans and to purchase investment securities. We offer a comprehensive menu of deposit and loan products for consumer, business, institutional and governmental customers, including interest-bearing checking and money market accounts, savings accounts, certificates of deposit and individual retirement accounts. We also engage in mortgage banking activities, which include the origination, purchase and, in certain instances, subsequent sale of residential mortgage loans.

AmericanBank Online is the registered trademark of American Bank and the brand name for online banking services provided by American Bank. Through *AmericanBank Online* (available at AMBK.com), American Bank delivers convenience through innovative technology, absent the restrictions of time and geography, by offering a broad menu of real-time banking services accessible through online or mobile banking.

Our shareholders can also visit *AmericanBank.bank* for more information about our products and services. *AmericanBank.bank* is a new financially-focused and security driven top level domain name for respected financial institutions. American Bank is one of the first banks in the nation to take advantage of the ‘.bank’ domain extension.

American Bank Incorporated’s results of operations depend primarily on net interest income. Net interest income is the difference between the interest income we earn on our interest-earning assets, consisting primarily of loans, investment securities and interest-bearing deposits with other financial institutions, and the interest we pay on our interest-bearing liabilities, consisting primarily of interest-bearing checking accounts, money market accounts, savings accounts, time deposits and borrowed funds. Our results of operations are also affected by our provision for loan losses, non-interest income and non-interest expense. Non-interest income consists primarily of earnings on bank-owned life insurance, service charges on deposit accounts, net gains on sales of residential mortgage loans, and net gains on equity securities. Non-interest expense consists primarily of expenses for salaries and employee benefits, occupancy, equipment, data processing, professional fees, deposit and other insurance, and marketing and business development costs. Our results of operations may also be affected significantly by general and local economic and competitive conditions, particularly those with respect to changes in market interest rates, governmental policies and actions of regulatory authorities.

For the year ended December 31, 2019, we recorded net income of $7.9 million, compared to net income of $6.8 million for the year ended December 31, 2018. Net interest income increased $716,000, or 4.1%, to $18.3 million for the year ended December 31, 2019 from $17.6 million for the year ended December 31, 2018. Non-interest income increased $335,000 to $1.4 million for the year ended December 31, 2019 compared to $1.0 million for the year ended December 31, 2018, while non-interest expense decreased $145,000, or 1.5%, to $9.6 million for the year ended December 31, 2019.

Critical Accounting Policies

Disclosure of our significant accounting policies is included in Note 2 to the consolidated financial statements. Certain of these policies are particularly sensitive, requiring significant estimates and assumptions to be made by management. Management has discussed the development of such estimates and the related disclosure in this section of our Annual Report with the Audit Committee of the Board of Directors. The following accounting policies are identified by management as being critical to the results of operations:

Allowance for Loan Losses. The allowance for loan losses is the estimated amount considered necessary to absorb credit losses inherent in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses, which is charged against income. In determining the allowance for loan losses, management makes significant estimates and has identified this policy as one of the most critical for us.

Management performs a monthly evaluation of the adequacy of the allowance for loan losses. Consideration is given to a variety of factors in establishing this estimate including, but not limited to, current economic conditions, delinquency statistics, geographic and industry concentrations, the adequacy of the underlying collateral, the financial strength of the borrower, results of internal loan reviews, the present value of future cash flows and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant change.

The allowance for loan losses consists of specific and general components and at times, it may include an unallocated component. Specific allocations are made for loans that are determined to be impaired. Impairment is measured by determining the present value of expected future cash flows or, for collateral dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. The general allocation is determined by segregating the remaining loans by type of loan, risk weighting (if applicable) and payment history. We also analyze historical loss experience, delinquency trends, general economic conditions, geographic and industry concentrations. This analysis establishes factors that are applied to the loan groups to determine the amount of the general reserve. Actual loan losses may be significantly more than the reserves we have established, which could have a material negative effect on our financial results.

Other-Than-Temporary Impairment of Investment Securities. Management evaluates the individual securities in the investment portfolio for other-than-temporary impairment on at least a quarterly basis. The evaluation considers the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, the current interest rate cycle and the expected direction of interest rates in the near term horizon, and the intent and ability of the Company to retain its investment in the issue for a period of time sufficient to allow for any anticipated recovery in fair value.

Investment securities, excluding equity securities, that are determined to be other-than-temporarily impaired are recorded at the then current fair value and the loss that is associated with a decline in credit quality is recorded in current income. The other-than-temporary decline in value that is associated with interest rates is recorded in other comprehensive income. Subsequent recoveries in fair value of the credit component are not recorded in the carrying value of the investment and gain is not recognized until the investment security is sold.

The Company did not recognize any other-than-temporary impairment charges for the years ended December 31, 2019 and 2018.

In management's opinion, the unrealized losses in the investment portfolio at December 31, 2019 and 2018 reflect changes in interest rates subsequent to the acquisition of specific securities. Management believes that the unrealized losses represent temporary impairment of the securities.

Deferred Tax Assets. The Company uses an estimate of future earnings to support its position that the benefit of its deferred tax assets will be realized. If future income should prove non-existent or less than the amount of the deferred tax assets within the tax years to which they may be applied, the asset may not be realized, and net income will be reduced. Management also evaluates deferred tax assets to determine if it more likely than not that the deferred tax benefit will be utilized in future periods. If not, a valuation allowance is recorded. Deferred tax assets are described further in Note 17 – Income Taxes of the consolidated financial statements.

Interest Sensitivity

We monitor and manage the pricing and maturity of our assets and liabilities in order to manage the potential adverse impact that changes in interest rates could have on our net interest income. One monitoring technique employed by us is the measurement of our interest sensitivity "gap," which is the positive or negative dollar difference between assets and liabilities whose interest rates may be re-priced or that mature within a given period of time. We also employ financial modeling techniques to assess the impact that varying interest rates and balance sheet mix assumptions may have on net interest income.

We attempt to manage interest rate sensitivity by, among other actions, re-pricing assets or liabilities, selling investment securities classified as available-for-sale, replacing an asset or liability at maturity, or adjusting the interest rate during the life of an asset or liability. Managing the amount of assets and liabilities re-pricing or maturing in the same time interval helps to control the risk and minimize the impact on net interest income of rising or falling interest rates. We evaluate interest rate sensitivity and formulate guidelines regarding asset generation and re-pricing, funding sources and pricing and off-balance sheet commitments in order to manage interest rate risk within our policy requirements.

The following table illustrates our gap position at December 31, 2019. Except as stated below, the amount of assets and liabilities shown which re-price or mature during a particular period were determined in accordance with the earlier of term to re-pricing or the contractual maturity of the asset or liability. Savings deposits and interest-bearing checking accounts do not have contractual maturities and are assumed to run off, or decay, at 25%, 20%, 15%, 15%, 15% and 10% during the time-frames shown on the following table.

December 31, 2019
Maturities and Re-pricings

	Within 1 Year	Over 1 Year Through 2 Years	Over 2 Years Through 3 Years	Over 3 Years Through 5 Years	Over 5 Years Through 10 Years	Over 10 Years	Total
				(Dollars in Thousands)			
Interest-earning assets:							
Interest-bearing deposits	$ 22,520	$ -	$ -	$ -	$ -	$ -	$ 22,520
Loans receivable	153,202	81,645	65,372	154,685	51,575	17,522	524,001
Loans held for sale	716	-	-	-	-	-	716
Equity securities	330	-	-	-	-	-	330
Mortgage-backed securities	14,196	-	1,770	-	1,458	-	17,424
Investment securities	29,200	13,146	-	25	-	5	42,376
Bank-owned life insurance	17,279	-	-	-	-	-	17,279
Restricted investment in bank stock	4,084	-	-	-	-	-	4,084
Total interest-earning assets	$ 241,527	$ 94,791	$ 67,142	$ 154,710	$ 53,033	$ 17,527	$ 628,730
Interest-bearing liabilities:							
Demand deposits	$ 34,780	$ 27,824	$ 20,868	$ 20,868	$ 20,868	$ 13,912	$ 139,120
Savings deposits	30,173	24,139	18,104	18,104	18,104	12,069	120,693
Time deposits	90,112	14,359	16,461	47,919	-	-	168,851
Borrowings	25,892	-	10,000	30,000	25,000	-	90,892
Junior subordinated debentures	-	-	-	-	-	10,111	10,111
Total interest-bearing liabilities	$ 180,957	$ 66,322	$ 65,433	$ 116,891	$ 63,972	$ 36,092	$ 529,667
Interest sensitivity gap	$ 60,570	$ 28,469	$ 1,709	$ 37,819	$ (10,939)	$ (18,565)	$ 99,063
Cumulative interest sensitivity gap	$ 60,570	$ 89,039	$ 90,748	$ 128,567	$ 117,628	$ 99,063	$ 99,063
Ratio of gap to total interest-earning assets	9.6%	4.5%	0.3%	6.0%	(1.7)%	(3.0)%	15.7%
Ratio of cumulative gap to total interest-earning assets	9.6%	14.1%	14.4%	20.4%	18.7%	15.7%	15.7%

American Bank Incorporated generally would benefit from increasing market rates of interest when it has an asset-sensitive gap and from decreasing market rates of interest when it is liability-sensitive. As of December 31, 2019, we were asset-sensitive over a time horizon of up to 12 months by $60.6 million. Management's goal is to originate loans and purchase securities with relatively short interest rate lives and to fund those assets with liabilities that have similar or longer interest rate lives. This strategy will allow us to remain neutral or only be modestly negatively impacted from increasing interest rates. Declining interest rates would have a negative impact on our net interest income stream.

A gap analysis is not a precise indicator of a financial institution's interest sensitivity position. Such an analysis presents only a static view of the timing of maturities and re-pricing opportunities without taking into consideration that changes in interest rates do not affect all assets and liabilities equally. For example, rates paid on a substantial portion of core deposits may change contractually within a relatively short time frame, but those rates are viewed by management as significantly less interest-sensitive than market-based rates such as those paid on non-core deposits. Net interest income is also affected by other significant factors, including changes in the volume and mix of interest-earning assets and interest-bearing liabilities.

We have not engaged in off-balance sheet hedges or other transactions that may be deemed "speculative," as that term is defined by various regulatory agencies, for the purpose of managing interest rate risk.

Average Balance Sheets

The following table presents for the years indicated the total dollar amount of interest income from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates. No tax-equivalent adjustments have been made. All average balances are daily average balances. Loans that are classified as non-accrual are included in the average balances in the table. Income from non-accrual loans is recognized when collected and is included in interest income on the following page.

	For the Years Ended December 31,								
	2019			2018			2017		
	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate
					(Dollars in Thousands)				
Interest-earning assets:									
Interest-bearing deposits	$ 27,802	$ 597	2.15%	$ 35,138	$ 661	1.88%	$ 22,825	$ 256	1.12%
Loans receivable, net	504,960	23,666	4.69	476,688	21,620	4.54	439,457	19,305	4.39
Equity securities	345	1	0.29	350	1	0.29	-	-	-
Mortgage-backed securities	19,130	567	2.96	20,097	531	2.64	21,026	419	1.99
Investment securities	41,292	901	2.18	44,628	912	2.04	49,314	1,934	3.92
Restricted inv. in bank stock	3,999	278	6.95	3,960	266	6.72	4,043	205	5.07
Total interest-earning assets	597,528	26,010	4.35	580,861	23,991	4.13	536,665	22,119	4.12
Interest-bearing liabilities:									
Demand deposits	168,520	404	0.24	171,804	335	0.19	176,129	263	0.15
Savings deposits	117,039	994	0.85	114,784	580	0.51	102,959	397	0.39
Time deposits	174,594	3,716	2.13	156,759	2,927	1.87	119,966	1,863	1.55
Borrowings	85,689	1,946	2.27	88,519	1,911	2.16	85,813	2,175	2.53
Junior subordinated debentures	10,111	590	5.84	10,176	594	5.84	10,243	597	5.83
Total interest-bearing liabilities	555,953	7,650	1.38	542,042	6,347	1.17	495,110	5,295	1.07
Net interest income		$ 18,360			$ 17,644			$ 16,824	
Net interest rate spread			2.97%			2.96%			3.05%
Net earning assets	$ 41,575			$ 38,819			$ 41,555		
Net yield on average interest-earning assets			3.07%			3.04%			3.13%
Ratio of interest-earning assets to interest-bearing liabilities	107.5%			107.2%			108.4%		

Rate/Volume Analysis

The following table presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. It distinguishes between the changes related to outstanding balances and those due to changes in interest rates. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (a) changes in volume (*i.e.*, changes in volume multiplied by old rate) and (b) changes in rate (*i.e.*, changes in rate multiplied by old volume). For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately to the change due to volume and the change due to rate.

	For the Years Ended December 31, 2019 v. 2018			For the Years Ended December 31, 2018 v. 2017		
	Increase/Decrease Due to		Total Increase/ Decrease	Increase/Decrease Due to		Total Increase/ Decrease
	Volume	Rate		Volume	Rate	
	(In Thousands)					
Interest-earning assets:						
Interest-bearing deposits	$ (138)	$ 74	$ (64)	$ 138	$ 267	$ 405
Loans receivable, net	1,284	762	2,046	1,634	681	2,315
Mortgage-backed securities	(25)	61	36	(18)	130	112
Investment securities	(68)	57	(11)	(170)	(851)	(1,021)
Restricted inv. in bank stock	3	9	12	(4)	65	61
Total interest-earning assets	1,056	963	2,019	1,580	292	1,872
Interest-bearing liabilities:						
Demand deposits	(6)	74	68	(6)	78	72
Savings deposits	12	403	415	46	137	183
Time deposits	334	455	789	570	494	1,064
Borrowings	(61)	96	35	68	(332)	(264)
Junior subordinated debentures	(4)	-	(4)	(4)	1	(3)
Total interest-bearing liabilities	275	1,028	1,303	674	378	1,052
Net interest income	$ 781	$ (65)	$ 716	$ 906	$ (86)	$ 820

Comparison of Operating Results for the Years Ended December 31, 2019 and 2018

Net Income

For the year ended December 31, 2019, we reported net income of $7.9 million, or $1.24 per diluted share for a return on average assets of 1.24% and a return on average equity of 13.44%. For the year ended December 31, 2018, we reported net income of $6.8 million, or $1.08 per diluted share for a return on average assets of 1.12% and a return on average equity of 12.76%. The increase in net income for the year ended December 31, 2019 was primarily the result of an increase in net interest income and a decrease in provision for loan loss.

Net Interest Income

Net interest income, which is the sum of interest and certain loan origination fees generated by interest-earning assets minus interest paid on deposits and other funding sources, is the principal source of our earnings. Net interest income increased $716,000, or 4.1%, to $18.3 million for the year ended December 31, 2019, as compared to $17.6 million for the year ended December 31, 2018. Average interest-earning assets increased to $597.5 million for the year ended December 31, 2019, an increase of $16.6 million, or 2.9%, as compared to the average of $580.9 million for the year ended December 31, 2018. Average interest-bearing liabilities increased to $555.9 million for the year ended December 31, 2019, an increase of $13.9 million, or 2.6%, compared to the average of $542.0 million for the year ended December 31, 2018.

The yield on average interest-earning assets was 4.35% for the year ended December 31, 2019, an increase of 22 basis points from the yield of 4.13% for the year ended December 31, 2018. The cost of funds was 1.38% for the year ended December 31, 2019, an increase of 21 basis points from the cost of funds of 1.17% for the year ended December 31, 2018. The increase in the cost of funds was primarily due to higher interest rates paid on deposit products offered to customers.

Net interest margin (net interest income as a percentage of average interest-earning assets) increased 3 basis points to 3.07% for the year ended December 31, 2019, as compared to 3.04% for the year ended December 31, 2018.

Provision for Loan Losses

Management records a provision for loan losses in amounts that result in an allowance for loan losses that management believes is sufficient to absorb losses inherent in the loan portfolio. Management's evaluation includes such factors as past loan loss experience, economic conditions, delinquency statistics and re-evaluation of the credit quality of the loans in the portfolio. During the year ended December 31, 2019, the provision for loan losses amounted to $205,000, a decrease of $286,000, or 58.2%, from the $491,000 provision for the year ended December 31, 2018. The decrease in the provision was primarily attributable to fewer loans charged-off and charged-down during the year. During the year 2019, we charged-off $10,000 of loans, recorded $0 in charge-downs, and recorded $0 in recoveries of previously charged-off loans. During the year 2018, we charged-off $92,000 of loans, recorded $51,000 in charge-downs and recorded $43,000 in recoveries. While the credit quality of our loan portfolio has remained very strong, as evidenced by our level of past-due, non-accruing and charged-off loans, management recognizes the possibility for deterioration in credit quality. At December 31, 2019, the allowance for loan losses as a percentage of total gross loans was 1.30% compared to 1.32% at December 31, 2018. Management considers the allowance for loan losses at December 31, 2019 to be adequate for the inherent risks of loss in the loan portfolio at that date.

Non-Interest Income

Total non-interest income for the year ended December 31, 2019 was $1.4 million, an increase of $335,000 from the $1.0 million for the year ended December 31, 2018. Service fees on deposit accounts remained relatively the same for 2019 and 2018. Net gains on sales of residential mortgage loans increased $48,000 to $88,000 during 2019, the result of the Bank originating $8.9 million in loans to be sold on the secondary market compared to $3.6 million in 2018. Net gains on equity securities were $151,000 for the year ended December 31, 2019 compared to $0 for the year ended December 31, 2018. Earnings on bank-owned life insurance was $384,000 at December 31, 2019, an increase of $7,000 compared to 2018 due to an additional $1.1 million purchase during 2019. Other income is comprised primarily of income from automated teller machine fees, safe deposit box rental fees, wire transfer fees, sales of checks and checkbooks, rental income and miscellaneous fee income on loans. Other income increased $118,000 to $647,000 for the year ended December 31, 2019 from $529,000 for the year ended December 31, 2018, which was primarily due to the amount of rental income received from the Bank's tenant in 2019 compared to 2018.

Non-Interest Expense

Non-interest expense for the year ended December 31, 2019 decreased $145,000, or 1.5%, to $9.6 million as compared to $9.8 million for the year ended December 31, 2018. Salaries and employee benefits for the year ended December 31, 2019 totaled $5.3 million, an increase of $267,000, or 5.3%, as compared to salaries and employee benefits for the year ended December 31, 2018. The increase was primarily the result of merit pay increases and increased stock option expense incurred during 2019 relating to the adoption of the 2018 Stock Option Plan. Occupancy expense decreased $142,000 or 15.9% to $749,000 primarily due to decreased rent expense associated with the building and land purchase in 2018 offset by maintenance and depreciation on the building. Equipment and data processing expense increased $34,000 to $920,000 for the year ended December 31, 2019 compared to 2018. Marketing and business development costs decreased $194,000 during 2019. Hosted services increased $177,000 or 134.1% to $309,000 primarily due to costs relating to an upgrade to the Bank's mobile deposit platform expected to occur during the first quarter of 2020. Professional fees decreased $75,000 or 18.2% to $338,000. Pennsylvania bank shares tax expense increased $31,000, and federal deposit insurance expense decreased $137,000 due to the FDIC's Small Bank Assessment Credits awarded in the third and fourth quarter of 2019. Other expense decreased $106,000 or 9.2% to $1.0 million.

Income Tax Expense

Income tax expense for the year ended December 31, 2019 amounted to $2.1 million, an increase of $447,000 from the income tax expense of $1.6 million recorded for the year ended December 31, 2018. Income before income taxes expense was $1.5 million higher for the year ended December 31, 2019 than the prior year, which contributed to the increase in income tax expense. The effective income tax rate for the year ended December 31, 2019 was 20.7%, compared to 19.0% for the year ended December 31, 2018.

Comparison of Financial Condition at December 31, 2019 and 2018

Overview

Total assets increased to $641.5 million at December 31, 2019 from $621.9 million at December 31, 2018, an increase of $19.6 million, or 3.2%. Cash and cash equivalents decreased $4.5 million, to $25.4 million at December 31, 2019 compared to $29.9 million at December 31, 2018. Investment securities available-for-sale decreased $1.5 million or 2.4% to $60.0 million at December 31, 2019 compared to $61.5 million at December 31, 2018. Loans receivable, net, increased $23.4 million, or 4.7%, to $517.4 million at December 31, 2019, compared to $494.0 million at December 31, 2018. Deposits increased $8.4 million or 1.8% to $477.1 million at December 31, 2019 from $468.7 million at December 31, 2018. Short-term borrowings decreased $4.4 million or 14.5% to $25.9 million at December 31, 2019, while long-term borrowings increased $10.0 million to $65.0 million.

Equity Securities

Equity securities increased $117,000 or 22.9% to $629,000 at December 31, 2019 compared to $512,000 at December 31, 2018. Proceeds from the sale of equity securities totaled $34,000 and $0 for the years ended December 31, 2019 and 2018. Gross realized gains on the sales of equity securities totaled $14,000 and $0 for the years ended December 31, 2019 and 2018. Unrealized appreciation in fair value recorded in earnings during 2019 was $137,000.

Investment Securities

Total investment securities decreased $1.5 million or 2.4%, to $60.2 million at December 31, 2019 compared to $61.7 million at December 31, 2018. Investment securities available-for-sale decreased $1.5 million or 2.4% to $60.0 million at December 31, 2019 compared to $61.5 million at December 31, 2018. Investment securities classified as held-to-maturity remained flat at $205,000 for the years ended December 31, 2019 and 2018.

There were no sales of investment securities available-for-sale or held-to-maturity for the years ended December 31, 2019 and 2018.

For the year ended December 31, 2019 and 2018, management determined that there were no investment securities that were other-than-temporarily impaired.

In management's opinion, the unrealized losses in the investment portfolio reflect changes in interest rates subsequent to the acquisition of the related securities. The Company has the ability to hold these securities until maturity or market price recovery. Management believes that the unrealized losses represent temporary impairment of these securities.

Loans

Loans receivable, net of allowance for loan losses and deferred origination fees and costs, were $517.4 million at December 31, 2019, an increase of $23.4 million, or 4.7%, compared to the December 31, 2018 balance of $494.0 million. Loans receivable represented 80.7% of total assets at December 31, 2019, compared to 79.4% of total assets at December 31, 2018.

Commercial, Industrial and Other loans (not secured by real estate) decreased $4.1 million, or 7.4%, to $51.3 million at December 31, 2019, from $55.4 million at December 31, 2018. Commercial mortgage loans increased $27.7 million, or 7.6%, to $393.7 million at December 31, 2019, compared to $366.0 million at December 31, 2018. Commercial construction loans decreased $1.7 million, or 3.7%, to $44.2 million at December 31, 2019, compared to $45.9 million at December 31, 2018. The overall growth in commercial loans results from our continued efforts to expand our share of the commercial loan market for small and medium sized businesses in the Lehigh Valley. Our success in generating loans reflects the improving economy of the Lehigh Valley during the year 2019.

In 2019, the Company originated $117.5 million in commercial, commercial mortgage and commercial construction loans, but experienced $54.9 million in payoffs. The Company experienced a large number of payoffs primarily due to numerous borrowers selling their investment real estate due to the strong sellers' market and the borrowers' ability to reinvest those funds into other real estate assets through 1031 transactions.

Residential mortgage loans totaled $23.5 million at December 31, 2019, an increase of $2.0 million, or 9.3%, compared to $21.5 million at December 31, 2018. The increase was primarily the result of the Bank retaining $6.3 million loans in its portfolio as opposed to selling these loans on the secondary market. The current interest rate environment provides borrowers with an economic advantage to use fixed-rate loans at levels we are not comfortable holding on our balance sheet. As a result, we sell the majority of the fixed-rate residential mortgage loans that we originate because we do not wish to absorb the interest rate risk associated with these assets' long lives. We originated $8.9 million of fixed-rate residential mortgage loans with terms of 15 to 30 years during 2019 and sold or have contracts to sell all of these loans to the secondary market.

Consumer loans decreased $269,000, or 2.6%, to $11.2 million at December 31, 2019, from $11.5 million at December 31, 2018.

Allowance for Loan Losses

We have established a systematic methodology for the determination of the provision for loan losses. The methodology is set forth in a formal policy and takes into consideration the need for an overall general valuation allowance as well as specific allowances that are tied to individual loans.

In originating loans, we recognize that losses will occur and that the risk of loss will vary with, among other things, the type of loan being made, the creditworthiness of the borrower over the term of the loan, general economic conditions and, in the case of a secured loan, the quality of the collateral for the loan. The general valuation allowance is maintained to cover losses inherent in the loan portfolio. Management's periodic evaluation of the adequacy of the allowance is based on 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 and current economic conditions, as such factors may be applicable. Specific valuation allowances are established to absorb losses on loans for which full collectability cannot be reasonably assured.

Our evaluation of the adequacy of the allowance for loan losses includes a review of all loans on a quarterly basis. For residential mortgage loans and consumer loans, the primary factors used to determine the adequacy of the allowance are delinquency, collateral value, general economic conditions and, where applicable, individual borrower information that is known to us. For commercial loans, commercial construction loans and commercial mortgage loans, the review includes financial performance of the borrower, payment history, collateral value, general economic conditions and more specific economic conditions affecting specific industries or business activities of the borrowers within the portfolio segments.

The allowance consists of specific and general components and at times, it may include an unallocated component. The specific component relates to impaired loans, which consists of commercial, commercial mortgage, commercial construction, and residential mortgage loans for which it is probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan agreement. The amount of the general portion of the allowance for loan losses is determined by applying loss factors to the outstanding loans in the portfolio. The amount of the factor applied to the loans is dependent upon the type of loan and management's assessment of the relative risk associated with that loan type. The factors may change from time to time if conditions or events warrant such change.

Management maintains an allowance for loan losses that it considers adequate based on the evaluation process that it performs on a quarterly basis. As part of this process, management considers it appropriate to maintain a portion of the allowance that is based on credit quality trends, loan volume, current economic trends and other uncertainties. This portion of the allowance for loan losses is recorded as a component of the general portion.

At December 31, 2019 and December 31, 2018, we had an allowance for loan losses of $6.8 million and $6.6 million, respectively. Management believes that the allowance for loan losses at December 31, 2019 was sufficient to absorb losses inherent in the portfolio at that date. Although management believes that it uses the best information available to make such determinations, future adjustments to the allowance for loan losses may be necessary and the results of operations could be significantly and adversely affected if circumstances differ substantially from the assumptions we used in making the determinations. Furthermore, while we believe we have established our existing allowance for loan losses in accordance with U. S. generally accepted accounting principles ("GAAP"), there can be no assurance that the Pennsylvania Department of Banking or the Board of Governors of the Federal Reserve System, in reviewing our loan portfolio, will not request us to increase our allowance for loan losses. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that the existing allowance for loan losses is adequate or that material increases will not be necessary should the quality of any loans deteriorate as a result of the factors discussed above. Any material increase in the allowance for loan losses may adversely affect the Company's financial condition and results of operations.

Deposits

Total deposits increased $8.4 million, or 1.8%, to $477.1 million at December 31, 2019 from the December 31, 2018 balance of $468.7 million. Non-interest bearing demand deposits increased $3.8 million, or 8.5%, to $48.5 million, at December 31, 2019, compared to $44.7 million at December 31, 2018. Interest-bearing checking accounts decreased $6.4 million, or 4.4%, to $139.1 million, at December 31, 2019, compared to $145.5 million at December 31, 2018. Savings deposits, including money market accounts, increased $11.8 million, or 10.8%, to $120.7 million at December 31, 2019, from the balance of $108.9 million at December 31, 2018. Total certificates of deposit decreased $752,000, or 0.4%, to $168.8 million, at December 31, 2019 from the December 31, 2018 balance of $169.6 million.

Borrowings

Short-term borrowings include Federal Home Loan Bank ("FHLB") advances, which generally represent overnight or less than 30-day borrowings, the Federal Discount Window, and securities sold under agreements to repurchase.

The Bank has the ability to borrow overnight funds from the FHLB under an open repurchase agreement, and these overnight funds renew daily at a rate determined by the FHLB. These borrowings are secured by the master borrowing agreement between the Bank and the FHLB. The Bank also had borrowing capacity with the Federal Discount Window of $1,515,000 and $1,501,000 at December 31, 2019 and 2018, respectively. The Bank did not have an outstanding balance of FHLB overnight borrowings or the Federal Discount Window during 2019 or 2018.

The Bank enters into agreements with customers as part of cash management services where the Bank sells securities to the customer overnight with the agreement to repurchase them at par. Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature within one day of the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The securities underlying the agreements are under the Bank's control and the fair values of the underlying securities are monitored on a daily basis.

Securities sold under agreements to repurchase totaled $25.9 million at December 31, 2019, a decrease of $4.4 million, or 14.5%, from $30.3 million at December 31, 2018.

Long-term borrowings are comprised of advances from the FHLB and a revolving line of credit with another financial institution.

Long-term borrowings with the FHLB consisted of $65.0 million at December 31, 2019 and $55.0 million at December 31, 2018. On March 26, 2019, the Bank secured an additional $10.0 million fixed rate advance with a maturity date of March 26, 2024 and an interest rate of 2.49%. The $65.0 million outstanding at December 31, 2019 consists of fixed maturity advances with maturity dates ranging from November 30, 2022 to February 7, 2028. Interest rates on these advances range from 2.36% to 3.65%, with a weighted-average rate of 2.90%.

American Bank is subject to maximum borrowing limitations with the FHLB based, in part, on the amount of qualifying assets American Bank holds in the form of residential mortgage loans and U.S. Government agency securities, including mortgage-backed securities. As of December 31, 2019, American Bank's maximum borrowing capacity was $274.3 million of which $208.9 million was available, and the Bank was in compliance with FHLB's requirements.

On September 14, 2018, the Company secured a $10.0 million revolving line of credit with a maturity date of September 14, 2023 with another financial institution. The interest rate on this line of credit equals the U.S. Prime Rate as published by The Wall Street Journal minus 100 basis points or 1%, floating daily. The Company is subject to certain affirmative and negative covenants as stated in the loan agreement, including maintaining capital ratios which meet or exceed regulatory capital requirements. At December 31, 2019, the Company was in compliance with these covenants and had yet to borrow on the line of credit.

Junior Subordinated Debentures

On April 26, 2002, American Bank Incorporated issued a $10.5 million principal amount of 6.0% junior subordinated debentures due March 31, 2032 to American Capital Trust I (the "Trust"). American Bank Incorporated owns all of the common equity of the Trust. The debentures are the sole asset of the Trust. The Trust issued $10.2 million of 6.0% cumulative convertible trust-preferred securities to investors. The trust-preferred securities are currently callable by American Bank Incorporated. The trust-preferred securities must be redeemed at the maturity of the debentures on March 31, 2032. Holders of the trust-preferred securities may elect to convert the preferred securities into common stock of American Bank Incorporated at any time, at a conversion ratio of one share of common stock for each preferred security. Preferred securities are convertible into 1,159,312 shares of common stock at December 31, 2019. American Bank Incorporated's obligations under the debentures and related documents, taken together, constitute a full and unconditional guarantee by American Bank Incorporated of the Trust's obligations under the preferred securities.

The debentures qualify as Tier 1, or core capital of American Bank Incorporated, subject to a 25% of capital limitation under risk-based capital guidelines developed by the Federal Reserve Board. The portion that exceeds the 25% of capital limitation qualifies as Tier 2, or supplementary capital of American Bank Incorporated. At December 31, 2019, all $10.1 million of debentures outstanding qualified as Tier 1 capital of American Bank Incorporated. The Federal Reserve Board ("FRB") has indicated that the preferred securities will continue to qualify as Tier I capital, subject to the above noted limitations, until further notice. Should the FRB determine that the preferred securities no longer qualify as Tier I capital, American Bank Incorporated has the right to call the entire issue.

The Company did not repurchase or retire any trust-preferred shares during 2019.

Stockholders' Equity

Stockholders' equity at December 31, 2019 was $60.6 million, an increase of $5.4 million, or 9.8%, from the December 31, 2018 balance of $55.2 million. The increase was primarily the result of $7.9 million in earnings and the payment of $2.6 million of dividends on common stock.

Capital Resources and Liquidity

Our liquidity management objectives are to ensure the availability of sufficient cash flows to meet all financial commitments and to capitalize on opportunities for expansion. Liquidity management addresses the ability to meet deposit account withdrawals on demand or at contractual maturity, to repay borrowings as they mature, and to fund new loans and investments as opportunities arise. Our primary sources of internally generated funds are principal and interest payments on loans receivable, cash flows generated from operations and cash flows generated by investments. External sources of funds include increases in deposits and advances from the FHLB.

We monitor our liquidity position on an ongoing basis and report regularly to the Board of Directors the level of liquidity as compared to minimum levels established by Board policy. As of December 31, 2019, our level of liquidity was in excess of the minimum established by Board policy.

American Bank Incorporated and American Bank are subject to various regulatory capital adequacy requirements promulgated by the Pennsylvania Department of Banking and The Board of Governors of the Federal Reserve System. Failure to meet minimum capital requirements can result in certain mandatory and, possibly, additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our financial condition and results of operations. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, American Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices.

Quantitative measures established by regulation to ensure capital adequacy require American Bank Incorporated and American Bank to maintain minimum amounts and ratios of Total and Tier 1 capital to risk-weighted assets, Tier 1 capital to average assets and Common Equity Tier 1 capital to risk-weighted assets. As of December 31, 2019, American Bank Incorporated and American Bank exceeded all applicable capital adequacy requirements.

At December 31, 2019, American Bank's actual and required minimum capital ratios were as follows:

	Actual		Required for Capital Adequacy Purposes		Required to be Considered "Well Capitalized"	
	Amount	Percent	Amount	Percent	Amount	Percent
			(Dollars in Thousands)			
As of December 31, 2019:						
Total capital (to risk-weighted assets)	$ 75,540	13.24%	$ 45,660	8.00%	$ 57,075	10.00%
Tier I capital (to risk-weighted assets)	68,648	12.03	34,245	6.00	45,660	8.00
Tier I capital (to average assets)	68,648	10.75	25,546	4.00	31,933	5.00
Common Equity Tier I capital (to risk-weighted assets)	68,648	12.03	25,684	4.50	37,099	6.50

At December 31, 2019, American Bank Incorporated's actual and required minimum capital ratios were as follows:

	Actual		Required for Capital Adequacy Purposes	
	Amount	Percent	Amount	Percent
		(Dollars in Thousands)		
As of December 31, 2019:				
Total capital (to risk-weighted assets)	$ 77,076	13.48%	$ 45,739	8.00%
Tier I capital (to risk-weighted assets)	70,184	12.28	34,304	6.00
Tier I capital (to average assets)	70,184	10.97	25,591	4.00
Common Equity Tier I capital (to risk-weighted assets)	60,330	10.55	25,728	4.50

Commitments and Off-Balance Sheet Obligations

American Bank Incorporated's consolidated financial statements do not reflect various commitments that are made in the normal course of business, which may involve some liquidity risk. These commitments consist mainly of unfunded loans and letters of credit made under the same standards as on-balance sheet instruments. Unused commitments at December 31, 2019 totaled $109.5 million. This consisted of $13.9 million in commitments to fund commercial business, commercial real estate, residential real estate and commercial and residential construction loans, $79.3 million under lines of credit, including $12.9 million in home equity lines of credit, and $16.3 million in standby letters of credit. Because these commitments have a fixed maturity date and because many of them will expire without being drawn upon, they do not generally present any significant liquidity risk to American Bank Incorporated.

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

Contractual Obligations and Capital Resources

The following table represents American Bank Incorporated's aggregate on- and off-balance sheet contractual obligations to make future payments as of December 31, 2019.

	Due by December 31, 2020	Due after December 31, 2020 through December 31, 2022	Due after December 31, 2022 through December 31, 2024	Due after December 31, 2024	Total
			(In Thousands)		
Time deposits	$ 90,112	$ 30,820	$ 47,919	$ -	$ 168,851
Short-term borrowings	25,892	-	-	-	25,892
Long-term borrowings	-	10,000	30,000	25,000	65,000
Junior subordinated debentures	-	-	-	10,111	10,111
Finance leases	3	6	-	-	9
Operating leases	53	96	4	-	153
Total	$ 116,060	$ 40,922	$ 77,923	$ 35,111	$ 270,016

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

The greater the capital resources, the more likely we will be able to meet our cash obligations and unforeseen expenses. Stockholders' equity at December 31, 2019 totaled $60.6 million and was in excess of our required regulatory capital levels.

Asset Quality

Non-Current Loans and Delinquencies

When a borrower fails to make a required payment on a loan, we attempt to cure the deficiency by contacting the borrower and seeking the payment. Late notices are mailed no more than 16 days after the payment is due. In most cases, deficiencies are cured promptly. If a delinquency continues, additional contact is made through written notice and direct contact from an assigned account officer. American Bank will remain in continual contact with the borrower and, if needed, will attempt to work out a payment schedule acceptable to us and the borrower. While we generally prefer to work with borrowers to resolve such problems, we will institute foreclosure or other proceedings, as necessary, to minimize any potential loss.

The accrual of interest is discontinued when the contractual payment of principal or interest has become 120 days past due, unless the credit is well secured and in the process of collection, or when management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. When a loan is placed on non-accrual 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 non-accrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current and has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The Board of Directors is informed monthly of the status of all loans delinquent more than 15 days.

During the year ended December 31, 2019, we charged off one loan totaling $10,000, and received no recoveries on previously charged-off loans. At December 31, 2019, we had six loans with unpaid balances of $1,159,000 that were delinquent 30 days or more, including two non-accruing loans of $341,000.

During the year ended December 31, 2018, we charged down one loan totaling $51,000, charged off one loan totaling $92,000, and received $43,000 in recoveries on previously charged-off loans. At December 31, 2018, we had three loans with unpaid balances of $489,000 that were delinquent 30 days or more, including one non-accruing loan of $436,000.

Restructured Loans

Under GAAP, American Bank is required to classify certain loan modifications or restructurings as troubled debt restructurings ("TDRs"). In general, the modification or restructuring of a debt constitutes a TDR if American Bank, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that we would not otherwise consider. Debt restructurings or loan modifications for a borrower do not necessarily always constitute TDRs and TDRs do not necessarily result in non-accrual loans. During 2019, there were no loans restructured that were classified as TDRs. At December 31, 2019, those loans classified as TDRs totaled $1,151,000, which included two non-accrual loans not performing according to restructured terms.

Asset Classification

The Pennsylvania Department of Banking and Board of Governors of the Federal Reserve System have adopted various regulations regarding problem assets of banking institutions. The regulations require that each insured institution review and classify its assets on a regular basis. In addition, in connection with examinations of insured institutions, regulatory examiners have authority to identify problem assets and, if appropriate, require them to be classified. There are three classifications for problem assets: "Substandard," "Doubtful" and "Loss." "Substandard" assets have a well-defined weakness based on objective evidence and are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. "Doubtful" assets have the weaknesses of "Substandard" assets with the additional characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable based on existing circumstances. An asset classified as "Loss" is considered uncollectible or of such value that continuance as an asset is not warranted. If an asset or portion thereof is classified as "Loss," we must establish a specific allowance for loss for the amount of the portion of the asset classified as "Loss." All or a portion of general loan loss allowances established to cover possible losses related to assets classified "Substandard" or "Doubtful" can be included in determining our regulatory capital, while specific valuation allowances for loan losses generally do not qualify as regulatory capital. Assets that do not currently expose us to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are designated as "Special Mention" and monitored by us.

At December 31, 2019, the aggregate amount of our assets classified as "Special Mention" and "Substandard" were $5,138,000 and $1,133,000, respectively, which consisted entirely of loans. No assets were classified as "Doubtful" or "Loss."

Impact of Inflation and Changing Prices

The consolidated financial statements and related notes of American Bank Incorporated have been prepared in accordance with GAAP. GAAP generally requires the measurement of financial position and operating results in terms of historical dollars without consideration for changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on performance than the effects of inflation.

COMMON STOCK AND RELATED MATTERS

We began paying a cash dividend to stockholders in March 2004. We initially paid dividends annually on our common stock. We began paying dividends quarterly during 2006. Payment of dividends on American Bank Incorporated's common stock is subject to determination and declaration by the Board of Directors and depends upon a number of factors, including capital requirements, regulatory limitations on the payment of dividends, American Bank Incorporated's results of operations and financial condition, tax considerations and general economic conditions. No assurance can be given that cash dividends will continue to be declared and paid or, if declared, what the amount of dividends will be.

Our shares of common stock are listed for trading on the OTC Pink under the symbol "AMBK." As of March 18, 2020, we had five registered market makers, 205 stockholders of record (excluding the number of persons or entities holding stock in street name through various brokerage firms), and 5,585,141 shares outstanding.

The following tables set forth market price and dividend information for the common stock for the last two fiscal years.

Year Ended December 31, 2019	High	Low	Cash Dividends Declared
Fourth Quarter	$ 12.70	$ 11.75	$ 0.12
Third Quarter	12.70	11.93	0.12
Second Quarter	12.15	11.75	0.12
First Quarter	12.50	11.50	0.12

Year Ended December 31, 2018	High	Low	Cash Dividends Declared
Fourth Quarter	$ 12.50	$ 10.67	$ 0.10
Third Quarter	12.50	11.90	0.10
Second Quarter	12.25	11.78	0.10
First Quarter	12.50	11.50	0.10

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
American Bank Incorporated
Allentown, Pennsylvania

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of American Bank Incorporated and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and 2018; 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Bank Incorporated and subsidiaries as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

S.R. Snodgrass, P.C.

Cranberry Township, Pennsylvania
March 24, 2020

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CONSOLIDATED BALANCE SHEETS

	December 31, 2019	December 31, 2018
	(In Thousands, Except Share and Per Share Data)	
ASSETS		
Cash and due from banks	$ 2,886	$ 3,390
Interest-bearing deposits with other banks	22,520	26,471
Total cash and cash equivalents	25,406	29,861
Equity securities	629	512
Investment securities available-for-sale, at fair value	60,014	61,544
Investment securities held-to-maturity	205	205
Loans held for sale	716	-
Loans receivable, net of allowance for loan losses (2019 – $6,800; 2018 – $6,605)	517,435	494,033
Restricted investment in bank stock	4,084	3,661
Bank-owned life insurance	17,279	15,820
Premises and equipment, net	11,895	12,288
Accrued interest receivable	1,668	1,675
Other assets	2,221	2,304
Total Assets	$ 641,552	$ 621,903
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Non-interest bearing	$ 48,463	$ 44,654
Interest-bearing	428,664	424,005
Total deposits	477,127	468,659
Short-term borrowings	25,892	30,331
Long-term borrowings	65,000	55,000
Junior subordinated debentures	10,111	10,111
Accrued interest payable	356	299
Other liabilities	2,405	2,271
Total Liabilities	580,891	566,671
STOCKHOLDERS' EQUITY		
Common stock, par value $0.10 per share; authorized 15,000,000 shares in 2019 and 2018; issued 7,632,555 in 2019 and 2018; outstanding 5,599,295 in 2019 and 5,624,660 in 2018	763	763
Paid-in capital	35,686	35,496
Treasury stock, at cost, 2,033,260 shares in 2019 and 2,007,895 shares in 2018	(17,798)	(17,496)
Allocated but unvested shares in SERP, at cost, 28,109 shares in 2019 and 31,044 shares in 2018	(249)	(270)
Retained earnings	41,929	36,616
Accumulated other comprehensive income	330	123
Total Stockholders' Equity	60,661	55,232
Total Liabilities and Stockholders' Equity	$ 641,552	$ 621,903

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,	
	2019	2018
	(In Thousands, Except Per Share Data)	
INTEREST INCOME		
Loans receivable, including fees	$ 23,666	$ 21,620
Investment securities	1,469	1,444
Restricted investment in bank stock	278	266
Interest-bearing deposits with other banks	597	661
Total interest income	26,010	23,991
INTEREST EXPENSE		
Deposits	5,114	3,842
Short-term borrowings	96	43
Long-term borrowings	1,850	1,868
Junior subordinated debentures	590	594
Total interest expense	7,650	6,347
Net interest income	18,360	17,644
PROVISION FOR LOAN LOSSES	205	491
Net interest income after provision for loan losses	18,155	17,153
NON-INTEREST INCOME		
Service fees	124	113
Net gains on sales of residential mortgage loans	88	40
Net gains on equity securities	151	-
Earnings on bank-owned life insurance	384	377
Other	647	529
Total non-interest income	1,394	1,059
NON-INTEREST EXPENSE		
Salaries and employee benefits	5,347	5,080
Occupancy, net	749	891
Equipment and data processing	920	886
Marketing and business development	241	435
Hosted services	309	132
Professional services	338	413
Pennsylvania bank shares tax	581	550
Federal deposit insurance	78	215
Other	1,047	1,153
Total non-interest expense	9,610	9,755
Income before income tax expense	9,939	8,457
INCOME TAX EXPENSE	2,058	1,611
Net income	$ 7,881	$ 6,846
PER SHARE DATA		
Net earnings per common share:		
Basic	$ 1.41	$ 1.22
Diluted	$ 1.24	$ 1.08
Dividends paid per share	$ 0.46	$ 0.39

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,	
	2019	2018
	(In Thousands)	
Net income	$ 7,881	$ 6,846
Other comprehensive income (loss):		
Unrealized holding gains (losses) on available-for-sale investment securities	423	(159)
Tax effect	(89)	33
Other comprehensive income (loss), net of tax	334	(126)
Comprehensive income	$ 8,215	$ 6,720

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2019 and 2018

(In Thousands, Except Share and Per Share Data)

	Shares of Common Stock Outstanding	Common Stock	Paid-In Capital	Treasury, ESOP, and SERP Shares	Retained Earnings	Accumulated Other Comprehensive Income	Total
BALANCE – DECEMBER 31, 2017	5,668,165	$ 763	$ 35,473	$ (17,230)	$ 32,108	$ 208	$ 51,322
Net income	-	-	-	-	6,846	-	6,846
Other comprehensive loss	-	-	-	-	-	(126)	(126)
Compensation exp on stock options	-	-	44	-	-	-	44
Exercise of stock options	1,500	-	(21)	13	-	-	(8)
Purchase of shares into Treasury	(45,005)	-	-	(554)	-	-	(554)
Retirement of trust-preferred shares	-	-	-	-	(10)	-	(10)
Repurchase of trust-preferred shares	-	-	-	-	(25)	-	(25)
Sale of SERP shares	-	-	-	5	-	-	5
Adoption of ASU 2018-02	-	-	-	-	(41)	41	-
Dividends declared – $0.40 per share	-	-	-	-	(2,262)	-	(2,262)
BALANCE – DECEMBER 31, 2018	5,624,660	763	35,496	(17,766)	36,616	123	55,232
Net income	-	-	-	-	7,881	-	7,881
Other comprehensive income	-	-	-	-	-	334	334
Compensation exp on stock options	-	-	190	-	-	-	190
Purchase of shares into Treasury	(25,365)	-	-	(317)	-	-	(317)
Sale of SERP shares	-	-	-	36	-	-	36
Adoption of ASU 2016-01	-	-	-	-	127	(127)	-
Dividends declared – $0.48 per share	-	-	-	-	(2,695)	-	(2,695)
BALANCE – DECEMBER 31, 2019	5,599,295	$ 763	$ 35,686	$ (18,047)	$ 41,929	$ 330	$ 60,661

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2019	2018
	(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 7,881	$ 6,846
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	205	491
Provision for depreciation	451	311
Proceeds from sales of residential mortgage loans	8,307	3,737
Net gains on sales of residential mortgage loans	(88)	(40)
Loans originated for sale	(8,935)	(3,622)
Net amortization of deferred loan costs	50	69
Net (accretion) amortization of investment securities premiums and discounts	(18)	87
Net gains on equity securities	(137)	-
Gain on sale of equity securities	(14)	-
Compensation expense on stock options	190	44
Earnings on bank-owned life insurance	(384)	(377)
Decrease in deferred taxes	127	1
Decrease in other assets and accrued interest receivable	68	944
(Decrease) increase in other liabilities and accrued interest payable	(115)	337
Net cash provided by operating activities	7,588	8,828
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in available-for-sale investment securities:		
Purchases	(20,731)	(16,042)
Maturities, calls and principal repayments	22,702	15,582
Proceeds from calls of held-to-maturity investment securities	-	1,000
Proceeds from sale of equity securities	34	-
Purchase of bank-owned life insurance	(1,075)	-
Net increase in loans receivable	(23,657)	(35,860)
Purchases of restricted investment in bank stock	(840)	(11)
Redemption of restricted investment in bank stock	417	401
Purchases of premises and equipment	(58)	(10,332)
Net cash used in investing activities	(23,208)	(45,262)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand and savings deposits	9,220	752
Net (decrease) increase in time deposits	(752)	42,026
Net (decrease) increase in short-term borrowings	(4,439)	4,070
Retirement of trust-preferred securities	-	(10)
Repurchase of trust-preferred securities	-	(25)
Proceeds from long-term borrowings	10,000	10,000
Repayments of long-term borrowings	-	(20,000)
Repayment of junior subordinated debentures	-	(107)
Exercise of stock options	-	(8)
Purchase of shares into Treasury	(317)	(554)
Sale of SERP shares	36	5
Dividends paid	(2,583)	(2,205)
Net cash provided by financing activities	11,165	33,944
Net decrease in cash and cash equivalents	(4,455)	(2,490)
CASH AND CASH EQUIVALENTS – BEGINNING	29,861	32,351
CASH AND CASH EQUIVALENTS – ENDING	$ 25,406	$ 29,861

See notes to consolidated financial statements.

NOTE 1 – NATURE OF OPERATIONS AND BASIS OF PRESENTATION

American Bank Incorporated (the "Company") was formed to become the holding company of American Bank (the "Bank"), a wholly owned subsidiary. American Capital Trust I is a financing subsidiary of American Bank Incorporated, and the purpose of the trust was to issue shares of convertible preferred securities to the public. The consolidated financial statements include the accounts of American Bank Incorporated, American Bank and American Capital Trust I. All significant intercompany accounts and transactions have been eliminated. The Company is subject to regulation and supervision by the Federal Reserve Bank.

The Bank was incorporated under the laws of the Commonwealth of Pennsylvania and is a Pennsylvania state-chartered bank. The Bank provides a full range of banking services. The Bank is subject to regulation of the Pennsylvania Department of Banking and the Federal Reserve Bank.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Use of Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Balance Sheets 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, assessment of other-than-temporary impairment of investment securities, valuation of deferred tax assets and liabilities, and the fair value of financial instruments.

Significant Concentrations of Credit Risk

The Bank maintains its principal office in Allentown, Pennsylvania and a loan production office in Blue Bell, Pennsylvania. The Bank's local service area includes Lehigh and Northampton counties, along with portions of Carbon, Berks, Bucks and Montgomery counties in Pennsylvania. Applications can be received online for consumer and residential mortgage loans. Note 4 – Equity Securities and Note 5 – Investment Securities discuss the types of securities in which the Company invests. Note 6 – Loans Receivable discusses the types of lending in which the Company engages. Excluding real estate loans, the Company does not have any significant concentrations to any one industry or customer except for $29 million in loans to the Healthcare and Social Assistance Industry. Although the Company has a diversified loan portfolio, its debtors' ability to honor their contracts is influenced by their local economy.

Segment Reporting

The Company's subsidiary, American Bank, operates as an independent community banking provider, and offers traditional banking services to individuals, business, government, and public and institutional customers. The Company offers a full array of commercial and financial products, including the taking of time, savings and demand deposits, and the making of commercial, residential mortgage and consumer loans. Management does not separately allocate expenses, including the cost of funding loan demand between the commercial, residential mortgage and consumer banking operations. Accordingly, all significant operating decisions are based upon analysis of the Company as one operating segment.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For purposes of reporting consolidated cash flows, cash and cash equivalents include cash on hand, amounts due from banks, and interest-bearing deposits with other banks with original maturities of 90 days or less.

Equity Securities

Equity securities consist of common stocks of public companies that the Company has the positive intent and ability to hold for an indeterminable amount of time. Such securities are reported at fair value. All increases and decreases in equity securities' value is recorded in non-interest income in the Consolidated Statements of Income.

Investment Securities

Management determines the appropriate classification of its investment in debt securities ("investment securities") as either "available-for-sale" or "held-to-maturity" at the time of purchase and reevaluates such designation as of each Consolidated Balance Sheet date. Investment securities are accounted for on a trade date basis.

Investment securities classified as available-for-sale are those investment securities that the Company intends to hold for an indefinite period of time but not necessarily to maturity. Investment securities available-for-sale are carried at fair value. Unrealized gains or losses, net of the related deferred tax effect, are included in accumulated other comprehensive income in the Consolidated Balance Sheets and Consolidated Statements of Changes in Stockholders' Equity. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings in net gains on sales of investment securities on the Consolidated Statements of Income. Premiums and discounts are recognized in interest income using the interest method over the terms of the investment securities.

Investment securities classified as held-to-maturity are those investment securities the Company has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs, or changes in general economic conditions. These investment securities are carried at cost adjusted for the amortization of premiums and accretion of discounts, computed by the interest method over the terms of the investment securities.

Investment securities are periodically reviewed for other-than-temporary impairment based upon a number of factors, including, but not limited to, the length of time and extent to which the market value has been less than cost, the financial condition of the underlying issuer, the ability of the issuer to meet contractual obligations, the likelihood of the security's ability to recover any decline in its market value, and whether or not the Company intends to sell the security or whether it is more likely than not that the Company would be required to sell the security before its anticipated recovery in market value. A decline in value that is considered to be other than temporary is recorded as a loss within non-interest income in the Consolidated Statements of Income.

Restricted Investment in Bank Stock

The Company owns restricted stock investments in the Federal Home Loan Bank of Pittsburgh ("FHLB"), the Federal Reserve Bank of Philadelphia ("FRB"), and the Atlantic Community Bancshares, Inc. ("ACB"). These restricted stocks are reflected on the Consolidated Balance Sheets at cost. At December 31, 2019, the Bank held $2,908,000 in stock at FHLB, $1,151,000 in stock at FRB, and $25,000 in stock at ACB. At December 31, 2018, the Bank held $2,485,000 in stock at FHLB, $1,151,000 in stock at FRB, and $25,000 in stock at ACB.

Under the Bank's membership agreement with the FHLB, required stock purchases are based on a percentage of outstanding borrowings and a percentage of unused borrowing capacity and may also include a percentage of assets sold to the FHLB. The stock is bought from and sold to the FHLB based upon its $100 par value.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Investment in Bank Stock (Continued)

These restricted stocks do not have a readily determinable fair value and as such are classified as restricted investment in bank stock, are carried at cost and evaluated for impairment as necessary. The restricted stocks' value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and the length of time this situation has persisted; (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance; (c) the impact of legislative and regulatory changes on the customer base of the FHLB; and (d) the liquidity position of the FHLB. Management evaluated the restricted stocks and concluded that the restricted stocks were not impaired for the periods presented herein.

Loans Held for Sale

Residential mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by a charge against income. Gains and losses on sales of residential mortgage loans are included in non-interest income on the Consolidated Statements of Income. Servicing rights are not retained on residential mortgage loans sold.

Loans Receivable

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are stated at their outstanding unpaid principal balances, net of any deferred fees or costs on originated loans. 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.

The loans receivable portfolio is segmented into commercial, industrial and other ("commercial"), commercial mortgage, commercial construction, residential mortgage and consumer portfolios. Additionally, management monitors credit quality and determines the adequacy of the allowance for loan losses using these segments.

Commercial, Industrial and Other Lending

The Company originates commercial and industrial loans primarily to businesses located in its primary market area and surrounding areas. These loans are used for various business purposes, which include term loans and lines of credit to finance machinery and equipment, inventory, accounts receivable and working capital. Generally, the maximum term for loans extended on machinery and equipment is based on the projected useful life of such machinery and equipment. Most business lines of credit are written on demand and reviewed annually.

Commercial and industrial loans are generally secured with short-term assets; however, in many cases, additional collateral such as real estate is provided as additional security for the loan. Loan-to-value maximum thresholds have been established by the Company and are specific to the type of collateral. Collateral values may be determined using invoices, inventory reports, accounts receivable aging reports, business financial statements, collateral appraisals, etc. Commercial and industrial loans are typically secured by personal guarantees of the business owner(s).

In underwriting commercial and industrial loans, an analysis is performed to evaluate the borrower's balance sheet and capacity to repay the loan, the adequacy of the borrower's capital and collateral, as well as the conditions affecting the borrower. Evaluation of the borrower's character and past, present and future cash flows is also an important aspect of the Company's analysis of the borrower's ability to repay.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans Receivable (Continued)

Commercial and industrial loans generally present a higher level of risk than other types of loans due primarily to the effect of general economic conditions. Commercial and industrial loans are primarily made on the basis of the borrower's ability to make repayment from cash flows from the borrower's primary business activities. As a result, the availability of funds for the repayment of commercial and industrial loans is dependent on the success of the business itself, which in turn, is likely to be dependent upon the general economic environment.

Commercial Mortgage Lending

The Company engages in commercial real estate lending in its primary market area and surrounding areas. The Company's commercial real estate portfolio is secured primarily by commercial retail space, commercial and medical office buildings, commercial warehouses and industrial buildings, storage units, multi-family residential housing and hotels. Generally, commercial real estate loans have terms that do not exceed ten years, have loan-to-value ratios of eighty percent or less of the value of the collateral property, and are typically secured by personal guarantees of the borrower(s).

In underwriting these loans, the Company performs a thorough analysis of the financial condition of the borrower, the borrower's credit history, and the reliability and predictability of the cash flow generated by the property securing the loan. The value of the property is determined primarily by independent appraisers and in some cases internal evaluations by the Bank’s credit department. Global cash flow of the borrower, guarantors, and guarantor’s net worth, liquidity and contingent liabilities are also taken into consideration.

Commercial real estate loans generally present a higher level of risk than residential real estate secured loans. Repayment of loans secured by commercial real estate is typically dependent upon the successful operation of the related real estate project and/or the effect of the general economic conditions on income producing properties.

The Company also engages in owner occupied commercial real estate. These credits are evaluated along the same guidelines as commercial and industrial lending as the owner’s business is the primary source of repayment for the loan. Loan-to-value ratios of eighty percent or less of the collateral property are typical and are additionally secured by personal guarantees of the owners as well as the operating entity.

Commercial Construction Lending

A commercial construction loan is made on the security of a real estate mortgage, the proceeds of which are funded periodically to pay for the costs of construction as construction progresses. The security value of the loan is not ultimately created until the completion of the project. Primary source of repayment is the "takeout" permanent mortgage at the completion of the project or the terming out of the loan, with interest on the construction loan funded by business cash flow or a Bank-funded interest reserve.

The level of risk associated with commercial construction lending is slightly higher than that of commercial mortgage lending due to the risks associated with managing a construction project.

Residential Mortgage Lending

The Company’s residential real estate portfolio is comprised of one-to-four family residential mortgage loan originations. These loans are generated by the Company’s marketing efforts, its present customers, walk-in customers and referrals. These loans originate primarily within or with customers from the Company’s marketing area.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans Receivable (Continued)

The Company's one-to-four family residential mortgage originations are secured primarily by properties located in its primary market area and surrounding areas. The Company offers fixed-rate mortgage loans with terms up to a maximum of thirty years for both permanent structures and those under construction. Generally, the majority of the Company's residential mortgage loans originate with a loan-to-value of eighty percent or less, or those with primary mortgage insurance at eighty-one percent or greater (up to ninety-seven percent).

In underwriting one-to-four family residential mortgage loans, the Company evaluates the borrower's ability to make monthly payments, the borrower's credit history and the value of the property securing the loan. The ability and willingness to repay is determined by the borrower's employment history, current financial conditions and credit background. A majority of the properties securing residential real estate loans made by the Company are appraised by independent appraisers. The Company generally requires mortgage loan borrowers to obtain title insurance and fire and property insurance, including flood insurance, if applicable.

Residential mortgage loans generally present a lower level of risk than consumer or commercial loans because they are secured by the borrower's primary residence. Risk is increased when the Company is in a subordinate position, especially to another lender, for the loan collateral.

Consumer Lending (including Home Equity)

The Company offers a variety of secured and unsecured consumer loans for personal, family or household purposes, including personal term loans, personal credit lines, automobile loans, home equity loans, home equity lines of credit and loans secured by funds on deposit with the Company. Consumer loans vary according to the borrower's needs, the loan term and whether the loan will be collateralized.

Generally, home equity term loans are secured by the borrower's primary residence with a maximum loan-to-value of less than ninety percent and a maximum term of fifteen years. Generally, home equity lines of credit are secured by the borrower's primary residence with a maximum loan-to-value of eighty-five percent with a term of ten years and an amortization period of fifteen years.

In underwriting consumer loans, a thorough analysis is performed which takes into consideration criteria such as understanding the purpose of the loan, the borrower's ability to repay the loan as agreed, the borrower's creditworthiness, the borrower's credit background, employment history and the value and condition of the collateral.

Home equity loans and home equity lines of credit generally present a lower level of risk than consumer loans because they are secured by the borrower's primary residence. Risk is increased when the Company is in a subordinate position, especially to another lender, for the loan collateral. Other types of consumer loans may entail greater credit risk than loans secured by residential real estate, particularly in the case of consumer loans which are unsecured or are secured by rapidly depreciable assets, such as automobiles. In such cases, repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation.

In addition, consumer loan collections are dependent on the borrower's continuing financial stability and therefore, are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans Receivable (Continued)

The accrual of interest is discontinued when the contractual payment of principal or interest has become 120 days past due, unless the credit is well secured and in the process of collection, or when management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. When a loan is placed on non-accrual 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 non-accrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current and has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

Allowance for Loan Losses

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

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

The allowance for loan losses consists of specific and general components and at times, it may include an unallocated component. The specific component relates to impaired loans, which consist of commercial, commercial mortgage, commercial construction, and residential mortgage loans for which it is probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan agreement. The Company individually evaluates such loans for impairment and does not aggregate these loans by major risk classifications. The amount of impairment for these types of impaired loans is determined by the difference between the present value of the expected cash flows related to the loan, using the original interest rate, and its recorded value; or, as a practical matter in the case of a collateral dependent loan, the difference between the fair value of the collateral and the recorded amount of the loans. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors.

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 agreements. Factors considered by management in determining impairment include payment status, collateral value, financial health of the borrower, and the probability of collecting scheduled principal and interest payments when due.

Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate or the loan's obtainable market price or the fair value of the collateral if the loan is collateral-dependent.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Troubled Debt Restructurings

In situations where, for economic or legal reasons related to a borrower's financial difficulties, management may grant a concession for other than an insignificant period of time to the borrower that would not otherwise be considered, the related loan is classified as a troubled debt restructuring ("TDR"). Management strives to identify borrowers in financial difficulty early and work with them to modify the credit to more affordable terms before their loan reaches non-accrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance, and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans. TDR loans are individually evaluated for impairment and provided for in the allowance for loan losses and are, therefore, excluded from pooled portfolio allocations. Management continually evaluates loans that are considered TDRs under the modified loan terms, including payment history and the borrower's ability to continue to repay the loan based on continued evaluations of their results of operation and cash flow from operations.

Bank-Owned Life Insurance

The Company invests in bank-owned life insurance ("BOLI") on a chosen group of employees. The policies were purchased to help offset the increase in the costs of various fringe benefit plans, including healthcare. The Bank is the owner and beneficiary of the policies. This life insurance investment is carried at the cash surrender value of the underlying policies. Income from the increase in cash surrender value of the policies is included in non-interest income on the Consolidated Statements of Income. In the event of the death of an insured individual under these policies, the Company would receive an additional death benefit, which would be recorded as non-interest income.

Endorsement Split-Dollar Life Insurance Arrangements

The Company recognizes a liability and related compensation cost for endorsed split-dollar life insurance arrangement that provides a benefit to specific retired and former employees. The amount recognized as a liability represents the present value of the post retirement cost for the endorsement split-dollar life insurance policies. The Bank's accrued liability for this benefit agreement amounted to $298,000 and $260,000 as of December 31, 2019 and 2018, respectively. The related expense for this benefit agreement amounted to $38,000 and $37,000 for the years ended December 31, 2019 and 2018, respectively.

Premises and Equipment

Land is carried at cost. Premises, leasehold improvements and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the assets' estimated useful lives. Leasehold improvements are depreciated over the estimated useful life of the improvement. The estimated useful lives for calculating depreciation are as follows:

	Years
Building	40
Leasehold improvements	8–20
Land improvements	15
Furniture, fixtures and equipment and automobiles	3–12
Computer equipment	3–5

Maintenance and minor repairs are charged to operations as incurred. The cost and accumulated depreciation of the premises and equipment retired or sold are eliminated from the property accounts at the time of retirement or sale, and the resulting gain or loss is reflected in current operations.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

A lease is defined as a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. On January 1, 2019, the Company adopted ASU 2016-02, "Leases (Topic 842)" and all subsequent ASUs that modified Topic 842. For the Company, Topic 842 affected the accounting treatment for operating lease agreements in which the Bank is a lessee.

The operating leases were previously not recognized on the Consolidated Balance Sheets. With the adoption of Topic 842, operating lease agreements are required to be recognized on the Consolidated Balance Sheets as a right-of-use ("ROU") asset and a corresponding lease liability. Topic 842 did not materially impact the accounting for the financing lease. ROU assets are classified as other assets and lease liabilities are classified as other liabilities on the Consolidated Balance Sheets.

The Company elected to separate lease and non-lease components starting on January 1, 2019, but elected not to include short-term leases (i.e., leases with initial terms of twelve months or less) on the Consolidated Balance Sheets.

The Bank's lease agreements often include one or more options to renew at the Bank's discretion. If at lease inception, the Bank considers the exercising of a renewal option to be reasonably certain, the Bank will include the extended term in the calculation of the ROU asset and lease liability. Regarding the discount rate, Topic 842 requires the use of the rate implicit in the lease whenever this rate is readily determinable. As this rate is rarely determinable, the Bank utilized its incremental borrowing rate at lease inception, on a collateralized basis, over a similar term.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the 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 or the ability to unilaterally cause the holder to return the specific asset.

Advertising Costs

The Company follows the policy of charging the costs of advertising to expense as incurred. Advertising costs of $97,000 and $294,000 are included in marketing and business development expenses for the years ended December 31, 2019 and 2018, respectively.

Rental Income

The Bank leases space to a tenant at its principal office. Rental income is recorded when earned as a component of non-interest income in the Consolidated Statements of Income. This lease is an operating lease, as disclosed in Note 13 – Lease Commitments and Rental Activity.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

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. The Company recognizes interest and penalties on income taxes as a component of income tax expense.

Off-Balance Sheet Financial Instruments

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

Treasury Stock

Common stock shares repurchased are recorded as treasury stock at cost. Shares are released from treasury using the average cost method.

Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company include the mandatory redeemable convertible debentures which are determined using the "if converted" method and outstanding stock options which are determined using the treasury stock method. Treasury shares are not deemed outstanding for earnings per share calculations.

Comprehensive Income

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

Stock-Based Compensation

The Company recognizes compensation cost relating to share-based payment transactions in the consolidated financial statements. The cost is measured based on the grant date fair value of the equity or liability instruments issued.

The Company calculates and recognizes compensation cost for all stock awards over the service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. The Company uses a Black-Scholes model to estimate the fair value of stock options.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments

Fair value of financial instruments is estimated using relevant market information and other assumptions, as more fully disclosed in Note 22 – Fair Value of Financial Instruments. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

Reclassifications

Certain amounts previously reported have been reclassified, when necessary, to conform with presentations used in the 2019 consolidated financial statements. Such reclassifications had no effect on the Company's net income or stockholders' equity.

Adoption of Accounting Standards

In February 2016, the FASB issued Accounting Standards Update ("ASU") 2016-02, "Leases (Topic 842)." The new leases standard applies a right-of-use ("ROU") model that requires a lessee to record, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset and a liability to make lease payments. For leases with a term of 12 months or less, a practical expedient is available whereby a lessee may elect, by class of underlying asset, not to recognize a ROU asset or lease liability. At inception, lessees must classify all leases as either finance or operating based on five criteria. Balance sheet recognition of finance and operating leases is similar, but the pattern of expense recognition in the income statement, as well as the effect on the statement of cash flows, differs depending on the lease classification.

The new leases standard requires a lessor to classify leases as either sales-type, direct financing or operating, similar to existing U.S. GAAP. Classification depends on the same five criteria used by lessees plus certain additional factors. The subsequent accounting treatment for all three lease types is substantially equivalent to existing U.S. GAAP for sales-type leases, direct financing leases and operating leases. However, the new standard updates certain aspects of the lessor accounting model to align it with the new lessee accounting model, as well as with the new revenue standard under Topic 606.

The new leases standard addresses other considerations including identification of a lease, separating lease and non-lease components of a contract, sale and leaseback transactions, modifications, combining contracts, reassessment of the lease term, and re-measurement of lease payments.

ASU 2016-02 became effective on January 1, 2019 and initially required transition using a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. In January 2018, the FASB issued ASU 2018-01, "Leases (Topic 842)," which provided an optional transition practical expedient to not evaluate under Topic 842 existing or expired land easements that were not previously accounted for as leases under the current lease guidance in Topic 840. In July 2018, the FASB issued ASU 2018-11, "Leases (Topic 842) - Targeted Improvements," which, among other things, provided an additional transition method that would allow entities to not apply the guidance in ASU 2016-02 in the comparative periods presented in the financial statements and instead recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. In December 2018, the FASB also issued ASU 2018-20, "Leases (Topic 842) - Narrow-Scope Improvements for Lessors," which provided for certain policy elections and changed lessor accounting for sales and similar taxes and certain lessor costs. In March 2019, the FASB issued ASU 2019-01, "Leases (Topic 842): Codification Improvements," which addresses 1) determining the fair value of the underlying asset by the lessor that are not manufacturers or dealers (generally financial institutions and captive finance companies), and 2) lessors that are depository and lending institutions should classify principal and payments received under sales-type and direct financing leases within investing activities in the cash flow statement.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of Accounting Standards (continued)

Upon adoption of ASU 2016-02, ASU 2018-01, ASU 2018-11, ASU 2018-20, and ASU 2019-01 on January 1, 2019, the Company recognized right-of-use assets and related lease liabilities totaling $194,000 and $194,000, respectively.

The Company elected to apply certain practical expedients provided under ASU 2016-02 whereby it did not reassess (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases and (iii) initial direct costs for any existing leases. The Company also did not apply the recognition requirements of ASU 2016-02 to any short-term leases (as defined by related accounting guidance). The Company has elected to account for lease and non-lease components separately because such amounts are readily determinable under its lease contracts and because the Company expects this election will result in a lower impact on its balance sheet. The Company utilized the modified-retrospective transition approach prescribed by ASU 2018-11 at the time of adoption.

NOTE 3 – RESTRICTIONS ON CASH AND DUE FROM BANK BALANCES

The Bank is required to maintain reserve balances with the Federal Reserve Bank. The required reserve balances at December 31, 2019 and 2018 were $471,000 and $483,000, respectively.

NOTE 4 – EQUITY SECURITIES

The Company had $629,000 and $512,000 in equity securities recorded at fair value at December 31, 2019 and 2018.

The following table presents the net gains and losses on equity securities recognized in earnings at December 31, 2019, and the portion of unrealized gains and losses for the period that relates to equity securities held at December 31, 2019:

(In Thousands)	2019
Net gains recognized on equity securities during the year	$ 151
Less gain realized on the sale of equity securities during the year	(14)
Unrealized net gains recognized in equity securities held at year end	$ 137

NOTE 5 – INVESTMENT SECURITIES

The amortized cost, gross unrealized gains and losses, and fair value of debt securities as of December 31, 2019 and 2018 are summarized as follows:

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
AVAILABLE-FOR-SALE:				
U.S. treasuries	$ 1,981	$ 19	$ -	$ 2,000
U.S. government agencies	35,119	138	(11)	35,246
Mortgage-backed securities in government-sponsored entities	17,424	348	(29)	17,743
Trust-preferred obligations	797	-	(41)	756
Corporate notes in financial institutions	3,999	11	(9)	4,001
Other	275	-	(7)	268
	$ 59,595	$ 516	$ (97)	$ 60,014
HELD-TO-MATURITY:				
Trust-preferred obligations	$ 5	$ -	$ -	$ 5
Other	200	-	-	200
	$ 205	$ -	$ -	$ 205

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
AVAILABLE-FOR-SALE:				
U.S. treasuries	$ 1,960	$ 7	$ -	$ 1,967
U.S. government agencies	36,155	17	(251)	35,921
Mortgage-backed securities in government-sponsored entities	18,363	381	(49)	18,695
Trust-preferred obligations	797	-	(91)	706
Corporate notes in financial institutions	3,998	3	(7)	3,994
Other	275	-	(14)	261
	$ 61,548	$ 408	$ (412)	$ 61,544
HELD-TO-MATURITY:				
Trust-preferred obligations	$ 5	$ -	$ -	$ 5
Other	200	-	-	200
	$ 205	$ -	$ -	$ 205

NOTE 5 – INVESTMENT SECURITIES (CONTINUED)

There were no sales of investment securities in 2019 and 2018.

Investment securities with a carrying value of $46,515,000 and $56,264,000 at December 31, 2019 and 2018, respectively, were pledged to secure advances from the FHLB, public deposits, securities sold under agreements to repurchase, and for other purposes as required or permitted by law.

The amortized cost and fair value of securities as of December 31, 2019, 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 penalty.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)			
Due in one year or less	$ 26,203	$ 26,221	$ -	$ -
Due after one year through five years	16,941	17,074	200	200
Due after five years through ten years	2,256	2,260	-	-
Due after ten years	14,195	14,459	5	5
Total	$ 59,595	$ 60,014	$ 205	$ 205

NOTE 5 – INVESTMENT SECURITIES (CONTINUED)

The following table shows gross unrealized losses and fair value on securities, aggregated by category and length of time that individual securities have been in continuous unrealized loss positions, at December 31, 2019 and 2018.

	December 31, 2019					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In Thousands)					
AVAILABLE-FOR-SALE:						
U.S. government agencies	$ -	$ -	$ 9,005	$ (11)	$ 9,005	$ (11)
Mortgage-backed securities in government-sponsored entities	2,317	(5)	2,979	(24)	5,296	(29)
Trust-preferred obligations	-	-	756	(41)	756	(41)
Corporate notes in financial institutions	990	(9)	-	-	990	(9)
Other	-	-	243	(7)	243	(7)
Total investment securities available-for-sale	$ 3,307	$ (14)	$ 12,983	$ (83)	$ 16,290	$ (97)

	December 31, 2018					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In Thousands)					
AVAILABLE-FOR-SALE:						
U.S. government agencies	$ 3,123	$ (8)	$ 23,816	$ (243)	$ 26,939	$ (251)
Mortgage-backed securities in government-sponsored entities	-	-	5,915	(49)	5,915	(49)
Trust-preferred obligations	358	(39)	348	(52)	706	(91)
Corporate notes in financial institutions	1,991	(7)	-	-	1,991	(7)
Other	-	-	236	(14)	236	(14)
Total investment securities available-for-sale	$ 5,472	$ (54)	$ 30,315	$ (358)	$ 35,787	$ (412)

NOTE 5 – INVESTMENT SECURITIES (CONTINUED)

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

There were 12 securities in an unrealized loss position as of December 31, 2019. Management does not believe any of their securities in an unrealized loss position represent an other-than-temporary impairment, as these unrealized losses relate principally to changes in interest rates subsequent to the acquisition of the specific securities. There was no other-than-temporary impairment recorded as a component of other comprehensive income during the years ended December 31, 2019 and 2018.

NOTE 6 – LOANS RECEIVABLE

The composition of net loans receivable at December 31, 2019 and 2018 is as follows:

	2019	2018
	(In Thousands)	
Commercial, industrial and other loans	$ 51,305	$ 55,448
Commercial mortgage	393,735	366,031
Commercial construction	44,254	45,919
Residential mortgage	23,522	21,557
Consumer	11,185	11,454
Total gross loans	524,001	500,409
Net deferred loan costs	234	229
Allowance for loan losses	(6,800)	(6,605)
Loans receivable, net	$ 517,435	$ 494,033

The Company's primary business activity is with customers located within its local trade area where commercial, residential and personal loans are granted. Although the Company has a diversified loan portfolio at December 31, 2019 and 2018, loans outstanding to individuals and businesses are dependent upon the local economic conditions in its immediate trade area.

Management has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for loan losses, the Company has segmented certain loans in the portfolio by product type. Loans are segmented into the following pools: commercial, industrial and other ("commercial"), commercial mortgage, commercial construction, residential mortgage and consumer loans. Historical loss percentages for each risk category are calculated and used as the basis for calculating allowance allocations. These historical loss percentages are calculated over a 48-month period for all portfolio segments. Certain qualitative factors are then added to the historical allocation percentage to get the adjusted factor to be applied to nonclassified loans. The following qualitative factors are analyzed for each portfolio segment:

- Changes in trends in past due, downgrades and charge-offs
- Changes in economic and industry factors
- Changes in loan concentrations
- Changes in management and lender expertise
- Changes in volume, terms and policy exceptions

NOTE 6 – LOANS RECEIVABLE (CONTINUED)

Loans by Segments

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the Consolidated Balance Sheet date. The Company considers the allowance for loan losses adequate to cover loan losses inherent in the loan portfolio at December 31, 2019. The following table presents, by portfolio segment, the allowance for loan losses and recorded investment in loans individually and collectively evaluated for impairment as of December 31, 2019 and 2018:

Allowance for Loan Losses and Loans Receivable as of December 31, 2019

(In Thousands)	Commercial	Commercial Mortgage	Commercial Construction	Residential Mortgage	Consumer	Total
Allowance for loan losses:						
Ending balance	$ 582	$ 5,160	$ 746	$ 197	$ 115	$ 6,800
Ending balance: individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance: collectively evaluated for impairment	$ 582	$ 5,160	$ 746	$ 197	$ 115	$ 6,800
Loans receivable:						
Ending balance	$ 51,305	$ 393,735	$ 44,254	$ 23,522	$ 11,185	$ 524,001
Ending balance: individually evaluated for impairment	$ 395	$ 957	$ 212	$ 32	$ -	$ 1,596
Ending balance: collectively evaluated for impairment	$ 50,910	$ 392,778	$ 44,042	$ 23,490	$ 11,185	$ 522,405

Allowance for Loan Losses and Loans Receivable as of December 31, 2018

(In Thousands)	Commercial	Commercial Mortgage	Commercial Construction	Residential Mortgage	Consumer	Total
Allowance for loan losses:						
Ending balance	$ 646	$ 4,860	$ 792	$ 188	$ 119	$ 6,605
Ending balance: individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance: collectively evaluated for impairment	$ 646	$ 4,860	$ 792	$ 188	$ 119	$ 6,605
Loans receivable:						
Ending balance	$ 55,448	$ 366,031	$ 45,919	$ 21,557	$ 11,454	$ 500,409
Ending balance: individually evaluated for impairment	$ 575	$ 1,015	$ 264	$ 33	$ -	$ 1,887
Ending balance: collectively evaluated for impairment	$ 54,873	$ 365,016	$ 45,655	$ 21,524	$ 11,454	$ 498,522

NOTE 6 – LOANS RECEIVABLE (CONTINUED)

Credit Quality Information

The following tables represent commercial, commercial mortgage and commercial construction credit exposures by internally assigned grades as of December 31, 2019 and 2018 for the commercial loan portfolio. The grading analysis estimates the capability of the borrower to repay the contractual obligations of the loan agreements as scheduled or at all. The Company's internal credit risk grading system is based on experiences with similarly graded loans.

The Company's internally assigned grades are as follows: "Pass" loans are protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral. "Special Mention" loans have a potential weakness or risk exists, which could cause a more serious problem if not corrected. "Substandard" loans have a well-defined weakness based on objective evidence and are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. "Doubtful" loans have all the weaknesses inherent in a substandard asset. In addition, these weaknesses make collection or liquidation in full highly questionable and improbable, based on existing circumstances. "Loss" loans are considered uncollectible, or of such value that continuance as an asset is not warranted.

	2019			
(In Thousands)	**Commercial**	**Commercial Mortgage**	**Commercial Construction**	**Total**
Pass	$ 50,737	$ 388,244	$ 44,042	$ 483,023
Special Mention	183	4,955	-	5,138
Substandard	385	536	212	1,133
Doubtful	-	-	-	-
Loss	-	-	-	-
Total	$ 51,305	$ 393,735	$ 44,254	$ 489,294

	2018			
(In Thousands)	**Commercial**	**Commercial Mortgage**	**Commercial Construction**	**Total**
Pass	$ 55,308	$ 365,232	$ 45,655	$ 466,195
Special Mention	-	225	-	225
Substandard	140	574	264	978
Doubtful	-	-	-	-
Loss	-	-	-	-
Total	$ 55,448	$ 366,031	$ 45,919	$ 467,398

NOTE 6 – LOANS RECEIVABLE (CONTINUED)

Credit Quality Information (Continued)

The following tables present performing and non-performing residential mortgage and consumer loans based on payment activity as of December 31, 2019 and 2018, respectively. Payment activity is reviewed by management on a monthly basis to determine how loans are performing. Loans are generally considered to be non-performing when they become 120 days past due or are placed on non-accrual status.

	2019		
(In Thousands)	**Residential Mortgage**	**Consumer**	**Total**
Performing	$ 23,490	$ 11,185	$ 34,675
Non-performing	32	-	32
Total	$ 23,522	$ 11,185	$ 34,707

	2018		
(In Thousands)	**Residential Mortgage**	**Consumer**	**Total**
Performing	$ 21,557	$ 11,454	$ 33,011
Non-performing	-	-	-
Total	$ 21,557	$ 11,454	$ 33,011

NOTE 6 – LOANS RECEIVABLE (CONTINUED)

Age Analysis of Past-Due Loans Receivable by Class

The following table includes an aging analysis of past-due loans receivable as well as the loans on non-accrual by portfolio segment as of December 31, 2019 and 2018.

	2019							
(In Thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater	Total Past Due	Total Current	Total Loans	90 Days and Accruing	Total Non-accrual
Commercial	$ -	$ -	$ 309	$ 309	$ 50,996	$ 51,305	$ -	$ 309
Commercial mortgage	127	14	-	141	393,594	393,735	-	-
Commercial construction	-	-	-	-	44,254	44,254	-	-
Residential mortgage	677	-	32	709	22,813	23,522	-	32
Consumer	-	-	-	-	11,185	11,185	-	-
Total	$ 804	$ 14	$ 341	$ 1,159	$ 522,842	$ 524,001	$ -	$ 341

	2018							
(In Thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater	Total Past Due	Total Current	Total Loans	90 Days and Accruing	Total Non-accrual
Commercial	$ 436	$ -	$ -	$ 436	$ 55,012	$ 55,448	$ -	$ 436
Commercial mortgage	-	20	-	20	366,011	366,031	-	-
Commercial construction	-	-	-	-	45,919	45,919	-	-
Residential mortgage	-	-	33	33	21,524	21,557	33	-
Consumer	-	-	-	-	11,454	11,454	-	-
Total	$ 436	$ 20	$ 33	$ 489	$ 499,920	$ 500,409	$ 33	$ 436

Impaired Loans

Management considers all loans 120 days or more past due to be impaired. Additionally, any loan modified in a TDR is also impaired. Loans which are less than 120 days past due are considered impaired when management is aware of circumstances that may affect the collectability of the loan. These loans are analyzed to determine if it is probable that all amounts will not be collected according to the contractual terms of the loan agreement. If management determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance.

NOTE 6 – LOANS RECEIVABLE (CONTINUED)

Impaired Loans (Continued)

The following table includes the recorded investment and unpaid principal balances for impaired loans as of December 31, 2019 and 2018 with their associated allowance for loan losses amount, if applicable.

	2019				
(In Thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Recorded Investment**	**Interest Income Recognized**
With a related allowance recorded:					
Commercial	$ -	$ -	$ -	$ -	$ -
Commercial mortgage	-	-	-	-	-
Commercial construction	-	-	-	-	-
Residential mortgage	-	-	-	-	-
With no related allowance recorded:					
Commercial	$ 395	$ 472	$ -	$ 512	$ 21
Commercial mortgage	957	957	-	985	58
Commercial construction	212	509	-	224	27
Residential mortgage	32	49	-	32	2
Total:					
Commercial	$ 395	$ 472	$ -	$ 512	$ 21
Commercial mortgage	957	957	-	985	58
Commercial construction	212	509	-	224	27
Residential mortgage	32	49	-	32	2

	2018				
(In Thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Recorded Investment**	**Interest Income Recognized**
With a related allowance recorded:					
Commercial	$ -	$ -	$ -	$ -	$ -
Commercial mortgage	-	-	-	-	-
Commercial construction	-	-	-	-	-
Residential mortgage	-	-	-	-	-
With no related allowance recorded:					
Commercial	$ 575	$ 638	$ -	$ 1,383	$ 60
Commercial mortgage	1,015	1,015	-	1,249	72
Commercial construction	264	562	-	334	46
Residential mortgage	33	50	-	47	3
Total:					
Commercial	$ 575	$ 638	$ -	$ 1,383	$ 60
Commercial mortgage	1,015	1,015	-	1,249	72
Commercial construction	264	562	-	334	46
Residential mortgage	33	50	-	47	3

NOTE 6 – LOANS RECEIVABLE (CONTINUED)

Impaired Loans (Continued)

The Company's loan portfolio also includes certain loans that have been modified in a troubled debt restructuring ("TDR"), where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Company's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance, or other actions.

The following table presents the recorded investment of TDRs at the dates indicated:

(In Thousands)	December 31, 2019	December 31, 2018
Non-accrual TDRs	$ 341	$ 436
Accruing TDRs	810	988
Total TDRs	$ 1,151	$ 1,424

As of December 31, 2019, the accruing TDR loans are performing according to the restructured terms; however, the non-accrual TDR loans are not performing according to the restructured terms.

During the year ended December 31, 2019, the Company had no loan modifications. During the year ended December 31, 2018, the Company had one loan modified that was considered a TDR, and this modification was a change in terms. The one loan modification that was considered a TDR during the year ended December 31, 2018 is as follows:

	2018		
(In Thousands, except number of contracts)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	1	$ 1,485	$ 1,485

As of December 31, 2019, the Company has initiated formal foreclosure proceedings on a $309,000 commercial loan and a $32,000 residential mortgage loan which have not yet been transferred into foreclosed assets. During the year ended December 31, 2018, the Company had one commercial loan classified as a TDR totaling $436,000 that defaulted within one year of modification.

The Company did not have any reserves allocated to TDRs within the allowance for loan losses at December 31, 2019 and 2018. Additionally, the Bank had no commitments to lend additional funds to borrowers whose loans have been modified in a TDR.

NOTE 7 – ALLOWANCE FOR LOAN LOSSES

The following table presents by portfolio segment, changes in the allowance for loan losses for the years ended December 31, 2019 and 2018:

(In Thousands)	Commercial	Commercial Mortgage	Commercial Construction	Residential Mortgage	Consumer	Total
Beginning balance, December 31, 2018	$ 646	$ 4,860	$ 792	$ 188	$ 119	$ 6,605
Charge-offs	-	-	-	-	(10)	(10)
Recoveries	-	-	-	-	-	-
Provision	(64)	300	(46)	9	6	205
Ending balance, December 31, 2019	$ 582	$ 5,160	$ 746	$ 197	$ 115	$ 6,800

(In Thousands)	Commercial	Commercial Mortgage	Commercial Construction	Residential Mortgage	Consumer	Total
Beginning balance, December 31, 2017	$ 637	$ 4,417	$ 899	$ 149	$ 112	$ 6,214
Charge-offs	(51)	(92)	-	-	-	(143)
Recoveries	4	39	-	-	-	43
Provision	56	496	(107)	39	7	491
Ending balance, December 31, 2018	$ 646	$ 4,860	$ 792	$ 188	$ 119	$ 6,605

NOTE 8 – PREMISES AND EQUIPMENT

The components of premises and equipment at December 31, 2019 and 2018, are as follows:

	2019	2018
	(In Thousands)	
Land	$ 2,103	$ 2,103
Building	9,011	9,011
Leasehold improvements	1,227	1,227
Land improvements	789	789
Furniture, fixtures and equipment and automobiles	1,484	1,469
Computer equipment	625	589
Fixed assets in process	-	15
	15,239	15,203
Accumulated depreciation	(3,344)	(2,915)
Total	$ 11,895	$ 12,288

Depreciation expense for the years ended December 31, 2019 and 2018 was $451,000 and $311,000, respectively.

On June 27, 2018, the Bank completed its purchase of the land and building of the Bank's headquarters for $10,808,000 from a related party. See Note 18 – Transactions with Executive Officers, Directors and Principal Stockholders.

NOTE 9 – DEPOSITS

The components of deposits at December 31, 2019 and 2018 are as follows:

	2019	2018
	(In Thousands)	
Demand, non-interest bearing	$ 48,463	$ 44,654
Demand, interest-bearing	139,120	145,533
Savings	120,693	108,869
Time deposits less than $250,000	144,426	146,764
Time deposits, $250,000 or greater	24,425	22,839
Total	$ 477,127	$ 468,659

At December 31, 2019, the scheduled maturities of time deposits are as follows (in thousands):

2020	$ 90,112
2021	14,359
2022	16,461
2023	31,104
2024	16,815
Total	$ 168,851

NOTE 10 – SHORT-TERM BORROWINGS

Short-term borrowings include FHLB advances, which generally represent overnight or less than 30-day borrowings, the Federal Discount Window, and securities sold under agreements to repurchase.

The Bank has the ability to borrow overnight funds from the FHLB under an open repurchase agreement, and these overnight funds renew daily at a rate determined by the FHLB. These borrowings are secured by the master borrowing agreement between the Bank and the FHLB. The Bank also had borrowing capacity with the Federal Discount Window of $1,515,000 and $1,501,000 at December 31, 2019 and 2018, respectively. The Bank did not have an outstanding balance of FHLB overnight borrowings or the Federal Discount Window during 2019 and 2018.

Please refer to Note 11 – Long-Term Borrowings for the Company's maximum borrowing capacity at the FHLB.

Securities Sold Under Agreements to Repurchase ("Repurchase Agreements")

The Bank enters into agreements with customers as part of cash management services where the Bank sells securities to the customer overnight with the agreement to repurchase them at par. Securities sold under agreements to repurchase generally mature within one day of the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The securities underlying the agreements are under the Bank's control and the fair value of the underlying securities are monitored on a daily basis.

NOTE 10 – SHORT-TERM BORROWINGS (CONTINUED)

Information concerning securities sold under agreements to repurchase is summarized as follows:

	Years Ended December 31, 2019	2018
	(In Thousands)	
Ending balance	$ 25,892	$ 30,331
Average balance during the year	22,899	26,040
Weighted-average interest rate during the year	0.42%	0.17%
Maximum month-end balance during year	34,764	38,798
Weighted-average interest rate at end of year	0.42%	0.17%

The Bank enters into agreements under which it sells securities subject to an obligation to repurchase the same or similar securities. Under these arrangements, the Bank may transfer legal control over the assets but still retain effective control through an agreement that both entitles and obligates the Bank to repurchase the assets.

As a result, these repurchase agreements are accounted for as collateralized financing agreements (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 on the Consolidated Balance Sheets, while the securities underlying the repurchase agreements remain in the respective investment securities asset accounts. In other words, there is not offsetting or netting of the investment securities assets with the repurchase agreement liabilities. In addition, as the Bank does not enter into reverse repurchase agreements, there is no such offsetting to be done with the repurchase agreements.

The right to setoff for a repurchase agreement resembles a secured borrowing, whereby the collateral would be used to settle the fair value of the repurchase agreement should the Bank be in a default (e.g. fails to make an interest payment to the counterparty). The collateral is held by a correspondent bank in the counterparty's custodial account. The counterparty has the right to sell or repledge the investment securities.

The following table presents the short-term borrowings subject to an enforceable master netting arrangement or repurchase agreements as of December 31, 2019 and 2018.

(In Thousands)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Consolidated Balance Sheets	Financial Instruments	Cash Collateral Pledge	Net Amount
December 31, 2019						
Repurchase agreements	$ 25,892	$ -	$ 25,892	$ (25,892)	$ -	$ -
December 31, 2018						
Repurchase agreements	$ 30,331	$ -	$ 30,331	$ (30,331)	$ -	$ -

NOTE 10 – SHORT-TERM BORROWINGS (CONTINUED)

The following table provides additional detail regarding the collateral pledged to secure the repurchase agreements and the remaining contractual maturity of the short-term borrowed funds.

	Repurchase Agreements (Sweep) Accounted for as Secured Borrowings	
	At December 31, 2019	At December 31, 2018
	Remaining Contractual Maturity of the Agreements	
	Overnight and Continuous	Overnight and Continuous
	(In Thousands)	
Repurchase agreements:		
U.S. government agencies	$ 21,716	$ 27,482
Mortgage-backed securities in government-sponsored entities	7,193	10,711
Total collateral carrying value	$ 28,909	$ 38,193
Total short-term borrowed funds	$ 25,892	$ 30,331

NOTE 11 – LONG-TERM BORROWINGS

Long-term borrowings are comprised of advances from the FHLB and a revolving line of credit with another financial institution.

The Bank is a member of the FHLB, which permits the Bank to obtain funding in the form of advances, subject to a maximum borrowing capacity of $274,333,000. Membership in the FHLB requires that the Bank maintains as collateral a certain percentage of its assets in home mortgage assets and certain investment securities, and to purchase a certain amount of FHLB common stock. Both requirements follow formulas established by the FHLB and, at December 31, 2019, the Bank was in compliance with these requirements.

Long-term borrowings with the FHLB amounted to $65.0 million at December 31, 2019 and $55.0 million at December 31, 2018. On March 26, 2019, the Bank secured an additional $10.0 million fixed rate advance with a maturity date of March 26, 2024 and an interest rate of 2.49%. The $65.0 million outstanding at December 31, 2019 consists of fixed maturity advances with maturity dates ranging from November 30, 2022 to February 7, 2028. Interest rates on these advances range from 2.36% to 3.65%, with a weighted-average interest rate of 2.90%.

Scheduled FHLB repayments of principal at December 31, 2019 are as follows:

	Balance	Weighted-Average Rate
	(In Thousands)	
2022	$ 10,000	2.36%
2023	10,000	2.49%
2024	20,000	2.58%
2025	15,000	3.65%
2028	10,000	3.33%
Total	$ 65,000	2.90%

NOTE 11 – LONG-TERM BORROWINGS (CONTINUED)

On September 14, 2018, the Company secured a $10.0 million revolving line of credit with a maturity date of September 14, 2023 with another financial institution. The interest rate on this line of credit equals the U.S. Prime Rate as published by The Wall Street Journal minus 100 basis points or 1%, floating daily. The Company is subject to certain affirmative and negative covenants as stated in the loan agreement, including maintaining capital ratios which meet or exceed regulatory capital requirements. At December 31, 2019, the Company was in compliance with these covenants and had yet to borrow on the line of credit.

NOTE 12 – SUBORDINATED DEBT

On April 26, 2002, the Company issued a $10,503,000 principal amount of 6.0 percent junior subordinated debentures due March 31, 2032 to American Capital Trust I (the "Trust"), a Delaware Business Trust. The Company owns all of the common equity of the Trust. The debentures are the sole asset of the Trust. The Trust issued $10,200,000 of 6.0 percent cumulative convertible trust-preferred securities to investors. The trust-preferred securities are callable by the Company after March 31, 2007. The trust-preferred securities must be redeemed at the maturity of the debentures on March 31, 2032. Holders of the preferred securities may elect to convert the preferred securities into common stock of the Company at any time, at a conversion ratio of one share of common stock for each preferred security. Preferred securities are convertible into 1,159,312 shares of common stock at December 31, 2019. The Company's obligations under the debentures and related documents, taken together, constitute a full and unconditional guarantee by the Company of the Trust's obligations under the preferred securities.

The debentures currently qualify as Tier 1 capital of the Company, subject to a 25 percent of capital limitation under risk-based capital guidelines developed by the Federal Reserve Board. The portion that exceeds the 25 percent of capital limitation qualifies as Tier 2 capital of the Company. For regulatory reporting purposes, the Federal Reserve Board has indicated that the preferred securities will continue to qualify as Tier 1 capital subject to these limitations, until further notice.

There were no repurchased or retired shares of trust-preferred securities during 2019.

NOTE 13 – LEASE COMMITMENTS AND RENTAL ACTIVITY

The Bank leases the premises for its disaster recovery site under a two year operating lease through September 30, 2021. The lease will automatically renew itself for a further two year term unless written notice of termination is sent by either party to the other 90 days prior to the expiration of the then current two year term.

The Bank also leases the premises for a loan production office under a seven year operating lease through January 31, 2023. The Bank is responsible for its direct or proportionate share of real estate taxes, insurance, utilities, and maintenance and repairs. The Bank has the option to extend the lease for two additional five year periods.

The Bank also leases a postage meter under a five year non-cancelable financing lease through March 31, 2023. At the end of the lease term, the Bank will return the equipment to the lessor.

NOTE 13 – LEASE COMMITMENTS AND RENTAL ACTIVITY (CONTINUED)

The following table represents the Company's ROU assets and lease liabilities.

(In Thousands)	2019		2019
Lease Right-of-Use Assets		**Lease Liabilities**	
Operating lease right-of-use assets	$ 145	Operating lease liabilities	$ 146
Finance lease right-of-use assets	9	Finance lease liabilities	9
Total lease right-of use assets	$ 154	Total lease liabilities	$ 155

The calculated amount of the ROU assets and lease liabilities in the table above is impacted by the length of the lease term and the discount rate used to present value the minimum lease payments. For operating leases existing prior to January 1, 2019, the incremental borrowing rate for the remaining lease term as of January 1, 2019 was used. For the Bank's finance lease, the Bank utilized its incremental borrowing rate as of January 1, 2019.

At December 31, 2019, the Bank's weighted-average remaining lease term was 3.8 years for its operating leases and 4.3 years for its finance lease. At December 31, 2019, the Bank's weighted-average discount rate was 2.89% for its operating leases and 2.90% for its finance lease.

The following table represents lease costs and other lease information for the year ended December 31, 2019:

(In Thousands)	2019
Operating lease cost	$ 60
Finance lease cost	
Interest on lease liabilities	-
Amortization of right-of-use asset	3
Sublease income	(174)
Net lease cost (income)	$ (111)

Future minimum lease payments for finance leases and operating leases with initial terms of one year or more as of December 31, 2019 were as follows:

(In Thousands)	Finance Lease	Operating Leases
2020	$ 3	$ 53
2021	3	53
2022	3	43
2023	-	4
Total future minimum lease payments	9	153
Amounts representing interest	-	(7)
Present value of net future minimum lease payments	$ 9	$ 146

Until June 27, 2018, the date the Bank purchased the land and building of the Bank's headquarters, the Bank leased the premises for its principal office and full-service banking operation under a five-year operating lease agreement with a related party with the fourth renewal period beginning in December 2017 and ending November 2022. The lessor was an entity owned by the Chairman of the Board, President and Chief Executive Officer of the Company.

NOTE 13 – LEASE COMMITMENTS AND RENTAL ACTIVITY (CONTINUED)

The Bank was responsible for its direct or proportionate share of real estate taxes, insurance, utilities, and maintenance and repairs. Rental expense of $301,000 was paid to the related party through June 26, 2018.

See Note 8 – Premises and Equipment for the purchase by the Bank of the land and building of the Bank's headquarters.

As of June 27, 2018, the Bank became the landlord for the tenant renting space located at its principal office under a five year operating lease agreement through February 2020. On November 12, 2019, the Bank amended this lease agreement and extended the terms of the lease to February 28, 2023. The tenant is responsible for its direct and proportionate share of utilities. The tenant may terminate the lease before the end of the term provided certain conditions and requirements as stated in the lease are met. Rental income was $174,000 and $87,000 for the years ended December 31, 2019 and 2018, respectively.

NOTE 14 – STOCKHOLDERS' EQUITY

On January 16, 2018, the Company reaffirmed its stock repurchase program, which authorizes the repurchase of 180,000 shares of its outstanding common stock. As of December 31, 2019, 111,120 shares were available for repurchase under the program.

During 2019, the Company repurchased 25,365 shares into treasury at a weighted-average cost of $11.91 per share. During 2018, the Company repurchased 45,005 shares into treasury at a weighted-average cost of $11.99 per share.

NOTE 15 – NET INCOME PER COMMON SHARE

The following table sets forth the computations of basic and diluted earnings per share for the years ended December 31, 2019 and 2018:

	2019	2018
	(In Thousands, Except Per Share Data)	
Numerator, basic earnings per share, net income	$ 7,881	$ 6,846
Interest paid on junior subordinated debentures, net of tax effect	466	469
Numerator, diluted earnings per share, net income	$ 8,347	$ 7,315
Denominators:		
Average basic shares outstanding	5,569	5,606
Average dilutive mandatory redeemable debentures effect	1,159	1,159
Average dilutive stock option effect	4	4
Average diluted shares outstanding	6,732	6,769
Net income per common share:		
Basic	$ 1.41	$ 1.22
Diluted	$ 1.24	$ 1.08

NOTE 15 – NET INCOME PER COMMON SHARE (CONTINUED)

Options to purchase 7,500 shares of common stock outstanding at December 31, 2019 were included in the computation of dilutive earnings per share. There were options to purchase 90,000 shares of common stock outstanding at December 31, 2019 with exercise prices of $11.70 - $11.80 per share that were not included in the computation of dilutive earnings per share because to do so would be anti-dilutive. Options to purchase 7,500 shares of common stock outstanding at December 31, 2018 were included in the computation of dilutive earnings per share. There were options to purchase 90,000 shares of common stock outstanding at December 31, 2018 with an exercise price of $11.70 - $11.80 per share that were not included in the computation of dilutive earnings per share because to do so would be anti-dilutive.

At December 31, 2019 and 2018, 34,897 shares and 37,832 shares of common stock in the Non-Qualified Deferred Compensation Plan for Senior Executives (“SERP”) were not included in the computation of basic and dilutive earnings per share because management has determined that it is probable that the settlement of distributions from the SERP will occur in cash.

NOTE 16 – EMPLOYEE BENEFITS

401(k) Plan

The Company has a 401(k) plan covering substantially all employees. The Company matches 50 percent of an employee’s contribution on the first 6 percent of gross pay, up to a maximum of 3 percent. Additionally, discretionary contributions may be determined annually by the Board of Directors. The Company’s contributions are expensed as costs are incurred. Total expense amounted to $103,000 and $100,000 for the years ended December 31, 2019 and 2018, respectively.

Stock Option Plans

The Company has a Non-Qualified Stock Option Plan (the “Plan”) that includes officers and independent directors. The shares of stock that may be issued under the Plan will not exceed 6.5% of the Company’s common stock outstanding. Options granted under the Plan will have an option price at least equal to the fair market value of common stock on the date of the grant. At December 31, 2019, 12,500 options were outstanding under the Plan, and stock options will no longer be granted under this Plan.

On October 16, 2018, the Board of Directors approved the 2018 Stock Option Plan (“2018 Plan”). The 2018 Plan includes employees and directors of the Company and allows stock options to be granted as an incentive stock option (an “ISO”) or as a non-qualified option. Options granted under the 2018 Plan will have an option price at least equal to the fair market value of the common stock on the date of the grant. The maximum number of shares of stock that may be issued under the 2018 Plan will not exceed 375,000 shares, all of which may be granted as ISOs. At December 31, 2019, 85,000 options were outstanding under the 2018 Plan, all of which were ISOs. Options available for grant at December 31, 2019 were 290,000 under the 2018 Plan.

The options granted under both plans expire not more than ten years after the date of the grant. Exercise and vesting dates and terms may vary and are specified at the date of the grant. Normal vesting of the options occurs between five years and ten years.

NOTE 16 – EMPLOYEE BENEFITS (CONTINUED)

Stock option transactions under the Plan were as follows:

	Year Ended December 31, 2019	
	Options	Weighted-Average Exercise Price
Outstanding at the beginning of the year	97,500	$ 11.31
Granted	-	-
Exercised	-	-
Forfeited	-	-
Outstanding at the end of the year	97,500	$ 11.31
Exercisable at December 31	24,750	$ 10.08

At December 31, 2019, the aggregate intrinsic value of total options outstanding was $67,000. At December 31, 2019, the aggregate intrinsic value of options exercisable was $48,000.

At December 31, 2019, options outstanding and options exercisable were as follows:

Outstanding				Exercisable	
Range of Exercise Prices	Number	Weighted-Average Remaining Contractual Life in Years	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
$5.50 – 11.80	97,500	8.1	$ 11.31	24,750	$ 10.08

No options were granted for the year ended December 31, 2019. The fair value of the options granted for the year ended December 31, 2018 was calculated using the Black-Scholes option pricing model with the following weighted-average assumptions:

	Exercise Price	Dividend Yield	Expected Volatility	Expected Life (Years)	Risk Free Interest Rate	Value Black Scholes
Employee stock options						
2018	$ 11.80	3.12%	34.25%	7.5	3.10%	$ 5.14

For the years December 31, 2019 and 2018, stock option compensation expense of $190,000 and $44,000, respectively, was recognized in connection with the stock option plans. A tax benefit of $40,000 and $9,000 was recognized relative to stock options during the years ended December 31, 2019 and 2018, respectively. At December 31, 2019, future compensation expense related to non-vested stock option grants aggregated to $231,000 and will be recognized over the next eight years.

NOTE 16 – EMPLOYEE BENEFITS (CONTINUED)

ESOP

The Company maintains an Employee Stock Ownership Plan ("ESOP") covering employees who meet certain eligibility requirements. The plan is designed to provide officers and eligible employees with proprietary interest in the Company as an incentive to contribute to the Company's success and to help ensure the attainment of the Company's goals. The plan is administered by a committee of the Board of Directors. At present, the securities held by the plan consist solely of shares of common stock of the Company, which were purchased on the open market. Contributions to the plan and allocations of shares under the plan are discretionary on the part of the Board of Directors. Distributions from the plan can be in the form of cash, stock or cash and stock. If an all cash distribution is elected, the fair value of the shares of stock is calculated as of the end of the previous plan year and the shares are returned to the plan as unallocated. The Company has engaged the services of an independent trustee to hold the assets of the plan and Trust.

During 2019, the plan did not purchase any shares. The Company allocated 2,500 shares of stock to eligible employees, leaving 2,859 shares of stock committed to be released at December 31, 2019. The Company did not recognize any compensation expense at the end of the plan year. The fair value of the unallocated ESOP shares at December 31, 2019 was $34,000.

At December 31, 2019, the ESOP trust owned a total of 41,537 shares of Company common stock. At that date, 38,678 shares had been allocated to employees.

During 2018, the plan did not purchase any shares. The Company allocated 2,500 shares of stock to eligible employees, leaving 4,853 shares of stock being held as unallocated at year-end. The Company did not recognize any compensation expense at the end of the plan year. The fair value of the unallocated ESOP shares at December 31, 2018 was $61,000.

At December 31, 2018, the ESOP trust owned a total of 41,537 shares of Company common stock. At that date, 36,684 shares had been allocated to employees.

Deferred Compensation Plan

The Bank maintains a Non-Qualified Deferred Compensation Plan for Senior Employees (the "SERP"), designated by the Board of Directors. The SERP is a funded plan maintained primarily for the purpose of providing deferred compensation to a select group of management or highly compensated employees within the meaning of the Employee Retirement Income Security Act of 1974, as amended. Each year the Bank may, but is not required to, make discretionary contributions to the SERP on behalf of participants. The rate of return credited to participants' accounts each year, the vesting provisions, and other provisions are set forth in the SERP document. For as long as the participant participates in the SERP as an employee of the Bank or while receiving benefits under the SERP, the participant will be bound by the non-disclosure/trade secret and non-solicitation provisions of the SERP. At December 31, 2019 and 2018, the liability for the SERP was $458,000 and $495,000, respectively. During the year ended December 31, 2019 and 2018, the amount charged to SERP expense was $0 and $67,000, respectively. During 2019, the SERP purchased 1,215 shares of the Company's common stock for allocation to the participants, sold 4,150 shares of the Company's common stock to fund participant distributions, and held 34,897 shares for allocation to participants on that date. During 2018, the SERP purchased 1,300 shares of the Company's common stock for allocation to the participants, sold 550 shares of the Company's common stock to fund participant distributions, and held 37,832 shares for allocation to participants on that date.

NOTE 17 – INCOME TAXES

The provision for federal income taxes for the years ended December 31, 2019 and 2018 consisted of the following:

	2019	2018
	(In Thousands)	
Current	$ 1,931	$ 1,610
Deferred	127	1
Total income tax expense	$ 2,058	$ 1,611

Reconciliation of the statutory income tax expense to the income tax expense included in the Consolidated Statements of Income is as follows:

	2019		2018	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Provision at statutory rate	$ 2,087	21.0%	$ 1,776	21.0%
Effect of tax-exempt income	(9)	(0.1)	(11)	(0.1)
Bank-owned life insurance income	(81)	(0.8)	(79)	(0.4)
Other, net	61	0.6	(75)	(1.5)
Income tax provision and effective rate	$ 2,058	20.7%	$ 1,611	19.0%

At December 31, 2019 and 2018, the significant components of deferred tax assets and liabilities are as follows:

	2019	2018
	(In Thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 1,428	$ 1,387
Deferred compensation	88	95
Stock option expense	5	11
Impairment losses on investment securities and equities	12	12
Other	156	139
Total gross deferred tax assets	1,689	1,644
Deferred tax liabilities:		
Net unrealized gains on investment securities	(89)	(33)
Net unrealized gains on equity securities	(63)	-
Premises and equipment	(211)	(107)
Loan origination costs	(201)	(196)
Total gross deferred tax liabilities	(564)	(336)
Net deferred tax assets	$ 1,125	$ 1,308

The Company prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information.

NOTE 17 – INCOME TAXES (CONTINUED)

A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. There is currently no liability for uncertain tax positions and no known unrecognized tax benefits at December 31, 2019 and 2018. The Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the Consolidated Statements of Income. The Company's federal tax returns for taxable years through 2016 have been closed for purposes of examination by the Internal Revenue Service. The Company's state tax returns for taxable years through 2015 have been closed for purposes of examination by the Pennsylvania Department of Revenue. The Company's state tax returns for taxable years through 2015 are closed for purposes of examination by the New Jersey Department of Revenue.

NOTE 18 – 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, as those prevailing at the time for comparable transactions with others.

A summary of the activity on related party loans, comprised of directors and executive officers and their related companies, consists of the following:

	2019	2018
	(In Thousands)	
Balance at January 1	$ 2,577	$ 2,653
Additions	-	-
Deductions	(79)	(76)
Balance at December 31	$ 2,498	$ 2,577

The above loans represent funds drawn and outstanding at the date of the consolidated financial statements. Commitments by the Bank to related parties on lines of credit for 2019 and 2018 presented an off-balance sheet risk to the extent of undisbursed funds in the amounts of $80,000 and $80,000, respectively, on the above loans.

Deposits of related parties totaled $6,902,000 and $8,009,000 at December 31, 2019 and 2018, respectively.

In addition, the Company leased property from a related party until June 27, 2018 (see Note 13 – Lease Commitments and Rental Activity). Please refer to Note 8 – Premises and Equipment for the purchase of the land and building of the Bank's headquarters from a related party.

NOTE 19 – 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 Consolidated Balance Sheets.

NOTE 19 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (CONTINUED)

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 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, 2019 and 2018 is as follows:

	2019	2018
	(In Thousands)	
Commitments to extend credit	$ 13,935	$ 17,722
Unfunded commitments under lines of credit	79,293	72,120
Outstanding letters of credit	16,330	12,335

Currently, the Bank sells certain residential mortgages to the secondary market. There were $716,000 and $0 in outstanding commitments to sell such loans at December 31, 2019 and 2018, respectively.

Commitments to extend credit and unfunded commitments under lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the 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.

NOTE 20 – REGULATORY MATTERS

The Company and the Bank are subject to various regulatory capital requirements administered by the Pennsylvania Department of Banking and the federal banking agencies. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total, Tier 1 capital and Common Equity Tier 1 (as defined in the regulations) to risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of December 31, 2019, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2019 and 2018, the most recent notification from the Federal Reserve Bank categorized the Bank as "Well Capitalized" under the regulatory framework for prompt corrective action. To be "Well Capitalized", the Bank must maintain minimum total risk-based, Tier 1 risk-based, Tier 1 leverage and Common Equity Tier 1

NOTE 20 – REGULATORY MATTERS (CONTINUED)

ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's and Company's actual capital amounts and ratios at December 31, 2019 and 2018 are presented below:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2019:						
Total capital (to risk-weighted assets)						
Bank	$ 75,540	13.24%	$ 45,660	8.00%	$ 57,075	10.00%
Company	77,076	13.48%	45,739	8.00%	57,174	10.00%
Tier 1 capital (to risk-weighted assets)						
Bank	68,648	12.03%	34,245	6.00%	45,660	8.00%
Company	70,184	12.28%	34,304	6.00%	45,739	8.00%
Tier 1 capital (to average assets)						
Bank	68,648	10.75%	25,546	4.00%	31,933	5.00%
Company	70,184	10.97%	25,591	4.00%	31,989	5.00%
Common Equity Tier 1 capital (to risk-weighted assets)						
Bank	68,648	12.03%	25,684	4.50%	37,099	6.50%
Company	60,330	10.55%	25,728	4.50%	37,163	6.50%
As of December 31, 2018:						
Total capital (to risk-weighted assets)						
Bank	$ 70,973	12.94%	$ 43,872	8.00%	$ 54,839	10.00%
Company	71,779	13.08%	43,912	8.00%	54,890	10.00%
Tier 1 capital (to risk-weighted assets)						
Bank	64,285	11.72%	32,904	6.00%	43,872	8.00%
Company	65,091	11.86%	32,934	6.00%	43,912	8.00%
Tier 1 capital (to average assets)						
Bank	64,285	10.38%	24,783	4.00%	30,978	5.00%
Company	65,091	10.49%	24,828	4.00%	31,036	5.00%
Common Equity Tier 1 capital (to risk-weighted assets)						
Bank	64,285	11.72%	24,678	4.50%	35,646	6.50%
Company	55,237	10.06%	24,700	4.50%	35,678	6.50%

NOTE 21 – FAIR VALUE MEASUREMENTS

The following disclosures show the hierarchal disclosure framework associated with the level of pricing observations utilized in measuring assets and liabilities at fair value. The three broad levels of pricing are as follows:

Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

NOTE 21 – FAIR VALUE MEASUREMENTS (CONTINUED)

Level II: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.

Level III: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. These unobservable assumptions reflect the Company's own estimates of assumptions that market participants would use in pricing the assets.

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

The following table presents the assets reported on the Consolidated Balance Sheets at their fair value as of December 31, 2019 and 2018 by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	December 31, 2019			
(In Thousands)	**Level I**	**Level II**	**Level III**	**Total**
Assets measured on a recurring basis:				
Investment securities available-for-sale:				
U.S. treasuries	$ -	$ 2,000	$ -	$ 2,000
U.S. government agencies	-	35,246	-	35,246
Mortgage-backed securities in government-sponsored entities	-	17,743	-	17,743
Trust-preferred obligations	-	756	-	756
Corporate notes in financial institutions	-	4,001	-	4,001
Other	243	25	-	268
Total investment securities available-for-sale	$ 243	$ 59,771	$ -	$ 60,014
Equity securities	$ 51	$ 578	$ -	$ 629

	December 31, 2018			
(In Thousands)	**Level I**	**Level II**	**Level III**	**Total**
Assets measured on a recurring basis:				
Investment securities available-for-sale:				
U.S. treasuries	$ -	$ 1,967	$ -	$ 1,967
U.S. government agencies	-	35,921	-	35,921
Mortgage-backed securities in government-sponsored entities	-	18,695	-	18,695
Trust-preferred obligations	-	706	-	706
Corporate notes in financial institutions	-	3,994	-	3,994
Other	236	25	-	261
Total investment securities available-for-sale	$ 236	$ 61,308	$ -	$ 61,544
Equity securities	$ 47	$ 465	$ -	$ 512

NOTE 21 – FAIR VALUE MEASUREMENTS (CONTINUED)

Investment Securities and Equity Securities

The fair value of debt and equity securities is determined by obtaining quoted market prices from nationally recognized security exchanges (Level I and II) or matrix pricing (Level II), which is a mathematical technique used widely in the industry to value debt securities without relying on the securities relationship to other benchmark techniques.

NOTE 22 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables provide the carrying amount and the fair value for certain financial instruments that are not required to be measured or reported at fair value as of December 31, 2019 and 2018:

	2019				
(In Thousands)	**Carrying Amount**	**Level I**	**Level II**	**Level III**	**Total**
Financial assets:					
Investment securities held-to-maturity	$ 205	$ 205	$ -	$ -	$ 205
Loans receivable, net	517,435	-	-	517,044	517,044
Financial liabilities:					
Deposits	$ 477,127	$ 308,276	$ -	$ 169,641	$ 477,917
Long-term borrowings	65,000	-	-	66,483	66,483
Junior subordinated debentures	10,111	10,319	-	-	10,319

	2018				
(In Thousands)	**Carrying Amount**	**Level I**	**Level II**	**Level III**	**Total**
Financial assets:					
Investment securities held-to-maturity	$ 205	$ 205	$ -	$ -	$ 205
Loans receivable, net	494,033	-	-	487,193	487,193
Financial liabilities:					
Deposits	$ 468,659	$ 299,056	$ -	$ 167,470	$ 466,526
Long-term borrowings	55,000	-	-	53,822	53,822
Junior subordinated debentures	10,111	10,361	-	-	10,361

Cash and Due from Banks, Interest-Bearing Deposits with Other Banks, Loans Held for Sale, Restricted Investment in Bank Stock, Bank-Owned Life Insurance, Accrued Interest Receivable, Short-Term Borrowings and Accrued Interest Payable

The fair values are equal to the current carrying values.

NOTE 23 – ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents the changes in accumulated other comprehensive income by component net of tax for the years ended December 31, 2019 and 2018 (in thousands):

	Unrealized Gains on Available-for-Sale Securities (a)
Balance as of December 31, 2018	$ 123
Other comprehensive income before reclassification	334
Adoption of ASU 2016-01	(127)
Amount reclassified from accumulated other comprehensive income	-
Period change	207
Balance as of December 31, 2019	$ 330

	Unrealized Gains on Available-for-Sale Securities (a)
Balance as of December 31, 2017	$ 208
Other comprehensive losses before reclassification	(126)
Adoption of ASU 2018-02 due to reclassification of tax rate change	41
Amount reclassified from accumulated other comprehensive income	-
Period change	(85)
Balance as of December 31, 2018	$ 123

(a) All amounts are net of tax. Debits are indicated by amounts in parentheses.

NOTE 24 – SUPPLEMENTAL CASH FLOW INFORMATION

The following table summarizes supplemental cash flow information for the years ended December 31:

	Years Ended December 31, 2019	2018
	(In Thousands)	
SUPPLEMENTARY CASH FLOWS INFORMATION		
Interest paid	$ 7,593	$ 6,284
Income taxes	$ 2,085	$ 425
NONCASH ITEMS		
Dividends payable	$ 684	$ 572
NONCASH INVESTING AND FINANCING ACTIVITIES		
Initial recognition of operating lease right-of-use assets	$ 194	$ -
Initial recognition of operating lease liabilities	$ 194	$ -

NOTE 25 – CONDENSED FINANCIAL INFORMATION OF AMERICAN BANK INCORPORATED (PARENT COMPANY ONLY)

BALANCE SHEETS

	December 31, 2019	December 31, 2018
	(In Thousands)	
ASSETS		
Cash and cash equivalents	$ 1,331	$ 687
Equity securities	629	512
Investments in other securities	200	200
Investment in bank subsidiary	69,236	64,538
Other assets	44	120
Total Assets	$ 71,440	$ 66,057
LIABILITIES AND STOCKHOLDERS' EQUITY		
Corporate obligation for junior subordinated debentures	$ 10,111	$ 10,111
Other liabilities	668	714
Stockholders' equity	60,661	55,232
Total Liabilities and Stockholders' Equity	$ 71,440	$ 66,057

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Years Ended December 31, 2019	Years Ended December 31, 2018
	(In Thousands)	
INCOME		
Dividend from subsidiary	$ 4,090	$ 3,550
Dividend income on equity securities	1	1
Interest income on other securities	6	5
Net gains on equity securities	151	-
Total income	4,248	3,556
EXPENSES		
Interest expense on corporate obligation for junior subordinated debentures	590	594
Operating expenses	243	108
Total expenses	833	702
Income before income taxes	3,415	2,854
Income tax benefit	(103)	(272)
Income before equity in undistributed earnings of bank subsidiary	3,518	3,126
Equity in undistributed earnings of bank subsidiary	4,363	3,720
Net income	$ 7,881	$ 6,846
Comprehensive income	$ 8,215	$ 6,720

NOTE 25 – CONDENSED FINANCIAL INFORMATION OF AMERICAN BANK INCORPORATED (PARENT COMPANY ONLY) (CONTINUED)

STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2019	Years Ended December 31, 2018
	(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 7,881	$ 6,846
Adjustments to reconcile net income to net cash provided by operating activities:		
Compensation expense on stock options	190	44
Gain on sale of equity securities	(14)	-
Net gains on equity securities	(137)	-
Other, net	(83)	(166)
Equity in undistributed earnings of Bank subsidiary	(4,363)	(3,720)
Net cash provided by operating activities	3,474	3,004
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of equity securities	34	-
Net cash provided by investing activities	34	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of junior subordinated debentures	-	(107)
Dividends paid	(2,583)	(2,205)
Exercise of stock options	-	(8)
Sale of SERP shares	36	5
Purchase of shares into Treasury	(317)	(554)
Net cash used in financing activities	(2,864)	(2,869)
Increase in cash and cash equivalents	644	135
CASH AND CASH EQUIVALENTS		
Beginning	687	552
Ending	$ 1,331	$ 687

NOTE 26 – REVENUE RECOGNITION

Under Accounting Standard Codification ("ASC") Topic 606, management determined that the primary sources of revenue emanating from interest and dividend income on loans and investments along with non-interest revenue from investment security gains, gains on sales of residential mortgage loans sold and earnings on bank-owned life insurance are not within the scope of ASC Topic 606.

The main types of non-interest income within the scope of the standard are service charges on deposit accounts and fees, exchange and other service charges.

Service charges on deposit accounts primarily consist of check orders and other deposit account related fees, and are largely transactional based. Therefore, the Company's performance obligation is satisfied, and the related revenue recognized, at a point in time.

NOTE 26 – REVENUE RECOGNITION (CONTINUED)

Fees, exchange and other service charges are primarily comprised of debit and credit card income, ATM fees, merchant card income and other service charges.

The Company issues debit and credit cards to its customers who use the cards to purchase goods and services from merchants through an electronic payment system. As a card issuer, the Company earns fees, including interchange income, for processing the cardholder's purchase transaction with a merchant through a settlement network. Purchases are charged directly to a customer's checking account (in the case of a debit card) or are posted to a customer's credit card account. The fees earned are established by the settlement network and are dependent on the type of transaction processed. Interchange income, the largest component of debit and credit card income, is settled daily through the networks. ATM fees are primarily generated when a Company cardholder uses a non-Company ATM or a non-Company cardholder uses a company ATM. The Company offers merchant processing services to its business customers to enable them to accept credit and debit card payments through a Company-provided merchant terminal. Other service charges include revenue from processing wire transfers, cashier's checks and other services. The Company's performance obligation for fees, exchange and other service charges are largely satisfied, and the related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately when the services are rendered or in the following month.

The Company determined that the level of disaggregation of revenue as reported on the Consolidated Statements of Income provided a sufficient level of detail in order to properly analyze its significant revenue streams, and therefore, no further disaggregation of any revenue streams within the scope of ASC Topic 606 was considered necessary.

NOTE 27 – SUBSEQUENT EVENTS

Management has reviewed events occurring through March 24, 2020, the date the financial statements were issued, and no subsequent events occurred requiring accrual or disclosure.

NOTES

STOCKHOLDER INFORMATION

Stock Listing

Our common stock trades on the OTC Pink under the symbol "AMBK."

American Capital Trust I preferred stock trades on the OTC Pink under the symbol "AMBKP."

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Stockholder Communication with the Board of Directors

Stockholders of American Bank Incorporated may communicate with the Board of Directors by e-mail at boardofdirectors@ambk.com or by writing to:

American Bank Incorporated
Attention: Board of Directors
Mark W. Jaindl, Chairman
4029 West Tilghman Street
Allentown, PA 18104

DIRECTORS AND OFFICERS

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Chairman, President and CEO,
American Bank Incorporated

John F. Eureyecko
President and CEO,
Belhaven Capital Group

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Toney C. Horst *
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