QUEENSTOWN BANCORP OF MARYLAND, INC.

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2020
AUDITED FINANCIAL STATEMENTS

AUDITED FINANCIAL STATEMENTS

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ROWLES
& Company, LLP
Certified Public Accountants

To the Board of Directors and Stockholders
Queenstown Bancorp of Maryland, Inc. and Subsidiary
Queenstown, Maryland

Report of Independent Auditors

We have audited the accompanying consolidated financial statements of Queenstown Bancorp of Maryland, Inc. (the "Company") and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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.

Auditors' 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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 Queenstown Bancorp of Maryland, Inc. and its subsidiary as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Rowles & Company, LLP

Baltimore, Maryland
February 22, 2021

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QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	December 31	
	2020	**2019**
ASSETS		
Cash and due from banks	$ 6,603	5,371
Interest bearing deposits with banks	69,897	40,935
Total cash and cash equivalents	76,500	46,306
Securities available-for-sale (at fair value)	81,941	15,327
Federal Home Loan Bank stock (at cost)	439	432
Loans	401,680	395,909
Less allowance for loan losses	(7,170)	(5,752)
Loans, net	394,510	390,157
Premises and equipment, net	6,346	5,799
Bank owned life insurance	11,819	11,472
Other real estate	-	89
Deferred income taxes	2,420	1,163
Accrued interest receivable	2,240	1,590
Prepaid expenses	329	297
Other assets	433	490
TOTAL ASSETS	$576,977	$473,122
LIABILITIES AND STOCKHOLDERS' EQUITY		
Noninterest bearing deposits	$150,727	105,530
Interest bearing deposits	354,837	299,383
Total deposits	505,564	404,913
Accrued expenses and other liabilities	3,097	2,595
Total liabilities	508,661	407,508
Common stock - $10 par value; shares authorized 10,000,000, shares issued and outstanding 1,195,786 and 1,192,281 , respectively	11,958	11,923
Additional paid in capital	460	309
Retained earnings	55,762	53,368
Accumulated other comprehensive income	136	14
Total stockholders' equity	68,316	65,614
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$576,977	473,122

See accompanying notes to consolidated financial statements.

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share information)

	Years Ended		
	2020	**2019**	**2018**
INTEREST INCOME:			
Interest and fees on loans	$ 19,837	20,284	19,458
Interest and dividends on investment securities	566	435	376
Other interest income	485	884	1,224
Total interest income	20,888	21,603	21,058
INTEREST EXPENSE:			
Interest on deposits	2,720	2,455	2,157
Net interest income	18,168	19,148	18,901
Provision for loan losses	1,600	-	300
Net interest income after provision for loan losses	16,568	19,148	18,601
NONINTEREST INCOME:			
Service charges on deposit accounts	402	594	634
Other income	992	942	715
Net gain on sales of other real estate	8	51	53
Total noninterest income	1,402	1,587	1,402
NONINTEREST EXPENSES:			
Salaries and employee benefits	6,695	6,573	6,207
Data processing and electronic banking expenses	987	1,047	865
Occupancy expense	622	638	707
Equipment expenses	415	351	345
FDIC insurance premiums	110	62	137
Other real estate expenses	8	19	141
Other expenses	1,901	1,803	1,694
Total noninterest expenses	10,738	10,493	10,096
Income before income taxes	7,232	10,242	9,907
Income tax expense	1,849	2,722	2,679
Net income	$ 5,383	7,520	7,228
Basic net income per common share	$ 4.50	6.31	5.99
Diluted net income per common share	$ 4.47	6.28	5.98
Basic weighted average common shares outstanding	1,195,322	1,191,168	1,205,830
Diluted weighted average common shares outstanding	1,205,044	1,197,659	1,208,487

See accompanying notes to consolidated financial statements.

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

	Years Ended 2020	2019	2018
Net income	$ 5,383	7,520	7,228
Other comprehensive income (loss), before tax:			
Securities available for sale:			
Unrealized holding gains (losses) arising during the period	169	356	(244)
Other comprehensive income (loss), before tax	169	356	(244)
Income tax effect	(47)	(98)	67
Other comprehensive income (loss), net of tax	122	258	(177)
Total comprehensive income	$ 5,505	7,778	7,051

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2020, 2019 and 2018

(Dollars in thousands, except per share information)

	Common Stock Shares	Par Value	Additional paid- in capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Totals
Balances at January 1, 2018	1,226,125	$ 12,261	154	45,727	(67)	58,075
Net Income	-	-	-	7,228	-	7,228
Other comprehensive (loss), net of tax	-	-	-	-	(177)	(177)
Stock repurchases	(38,514)	(385)		(1,155)	-	(1,540)
Stock options exercised	470	5	11	-	-	16
Stock option compensation	-	-	19	-	-	19
Cash dividends ($2.25 per share)	-	-	-	(2,673)	-	(2,673)
Balances at December 31, 2018	1,188,081	11,881	184	49,127	(244)	60,948
Net Income	-	-	-	7,520	-	7,520
Other comprehensive income, net of tax	-	-	-	-	258	258
Stock options exercised	4,200	42	106	-	-	148
Stock option compensation	-	-	19	-	-	19
Cash dividends ($2.75 per share)	-	-	-	(3,279)	-	(3,279)
Balances at December 31, 2019	1,192,281	11,923	309	53,368	14	65,614
Net Income	-	-	-	5,383	-	5,383
Other comprehensive income, net of tax	-	-	-	-	122	122
Stock options exercised	3,505	35	120	-	-	155
Stock option compensation	-	-	31	-	-	31
Cash dividends ($2.50 per share)	-	-	-	(2,989)	-	(2,989)
Balances at December 31, 2020	1,195,786	$ 11,958	460	55,762	136	68,316

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Years Ended		
	2020	2019	2018
OPERATING ACTIVITIES:			
Net Income	5,383	7,520	7,228
Adjustments to reconcile net income to net cash provided by operating activities:			
Premium amortization on securities	236	45	67
Depreciation and amortization	395	372	368
Net (gain) on sales of other real estate	(8)	(51)	(53)
Provision for loan losses	1,600	-	300
Deferred tax (benefit) expense	(1,304)	355	(585)
Stock option compensation	31	19	19
Net changes in:			
Accrued interest receivable	(650)	38	(131)
Accrued expenses and other liabilities	502	298	205
Prepaid expenses	(32)	36	(17)
Other operating activities	392	17	432
Net cash provided by operating activities	6,545	8,649	7,833
INVESTING ACTIVITES:			
Purchases of securities available-for-sale	(73,589)	(2,327)	(4,968)
Proceeds from calls and maturities of securities available-for-sale	2,450	1,000	-
Prinicipal payments received on securities available-for-sale	4,458	1,854	1,471
Net (increase) in loans	(6,635)	(14,982)	(4,435)
Purchases of FHLB stock	(7)	-	(2)
Purchases of bank owned life insurance	-	-	(5,000)
Purchases of premises and equipment	(942)	(710)	(469)
Proceeds from sales of other real estate	97	279	1,289
Net cash (used) provided by investing activities	(74,168)	(14,886)	(12,114)
FINANCING ACTIVITIES:			
Net increase (decrease) in deposits	100,651	3,147	(2,786)
Purchases of common stock	-	-	(1,540)
Stock options exercised	155	148	16
Dividends paid	(2,989)	(3,279)	(2,673)
Net cash provided (used) by financing activities	97,817	16	(6,983)
Net increase (decrease) in cash and cash equivalents	30,194	(6,221)	(11,264)
Cash and cash equivalents at beginning of year	46,306	52,527	63,791
Cash and cash equivalents at end of year	$76,500	46,306	52,527
Supplemental disclosures:			
Interest payments	$ 2,747	2,435	2,121
Income tax payments	3,043	2,503	3,173
Noncash investing and financing activities:			
Transfers to other real estate	-	266	-

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018

(Dollars in thousands, except per share information)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Company, which includes Queenstown Bancorp of Maryland, Inc. and its wholly owned subsidiary, Queenstown Bank of Maryland (the Bank), conform to accounting principles generally accepted in the United States of America and to general practices in the banking industry. Certain reclassifications have been made to amounts previously reported to conform with the classifications made in 2020.

Basis of Presentations

The consolidated financial statements include the accounts of Queenstown Bancorp of Maryland, Inc. and its subsidiary, Queenstown Bank of Maryland, with all significant intercompany transactions eliminated.

Nature of Operations

The Company provides a full range of banking services to individuals and businesses through its main office and five branches in Queen Anne's County and one branch each in Talbot County and Caroline County Maryland. Its primary deposit products are certificates of deposit and demand, savings, and money market accounts. Its primary lending products are commercial and consumer loans and real estate mortgages. The Company's loan portfolio has a concentration of residential and commercial real estate loans in Queen Anne's County and the surrounding area.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Securities

At the purchase date, the Company classifies securities as held to maturity or available for sale. Interest and dividend income on securities are recognized in interest income on the accrual basis. Premiums and discounts on securities are amortized as an adjustment to yield using the interest method. Premiums are amortized through the earliest call date. Discounts are accreted through the maturity date.

Debt securities acquired with both the intent and ability to hold to maturity are classified as held to maturity and reported at amortized cost. Federal Home Loan Bank stock is carried at cost and is restricted as to marketability.

Securities classified as available-for-sale are used as part of the Company’s asset/liability management strategy. Sales may occur in response to changes in interest rate conditions, balance sheet composition or other economic factors. All debt securities classified as available for sale are reported at estimated fair value, with unrealized gains and losses reported as accumulated other comprehensive income or loss, net of deferred income taxes, in the stockholders’ equity section of the Consolidated Balance Sheets.

Gains or losses realized from the sale of securities are determined by specific identification and are included in noninterest income. The Company evaluates each investment security in an unrealized loss position for other than temporary impairment. If management determines that all contractual obligations from an investment may not be received, then other than temporary impairment would be recognized. The unrealized loss for other than temporary impairment on debt securities are reported in current period earnings.

Loans

Loans are stated at their principal balance outstanding net of deferred loan fees and costs. Overdrafts are included in loans outstanding. Interest income on loans is accrued at the contractual rate on the principal amount outstanding. The Company places loans, except for consumer, on nonaccrual when any portion of the principal or interest is ninety days past due and collateral is insufficient to discharge the debt in full. Interest accrual may also be discontinued earlier if, in management's opinion, collection is unlikely. Generally, consumer loans are not placed on nonaccrual, but are charged off when they are over 100 days past due. Interest received on impaired loans placed on nonaccrual status is generally applied to reduce the carrying value of the loan or, if principal is considered fully collectible, recognized as interest income. For all other loans, loan balances are charged off when it becomes evident that such balances are not fully collectible. For loans secured by real estate, the excess of the loan balances over the net realizable value of the property collateralizing the loan is charged off. Accrual of interest resumes when the loan is brought current and the borrower demonstrates the ability to service the debt on a current basis.

Loans are considered impaired, based upon current information and circumstances, if it is probable that the Company will not collect all principal and interest payments according to contractual terms. Restructured loans, meeting the definition of troubled debt restructurings, are considered impaired loans. Impaired loans do not include large groups of smaller balance homogeneous loans that are evaluated collectively for impairment such as consumer installment loans. The impairment of a loan is measured by the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral if the repayment is expected to be provided by the collateral.

Loan origination fees and certain direct loan origination costs are being deferred and the net amount is amortized over the contractual life of the loan as an adjustment to the loan's yield.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level which, in management’s judgment, is adequate to absorb credit losses inherent in the loan portfolio. The allowance is determined by management’s evaluation of the loan and lease portfolio based on such factors as the differing economic risks associated with each loan category, the current financial condition of specific borrowers, the economic environment in which borrowers operate, the level of delinquent loans, the value of any collateral and, where applicable, the existence of any guarantees or indemnification. As a result, these judgments are inherently subjective and involve material estimates that may be susceptible to significant change. The allowance is increased by the loan loss provision charged to operating expenses and reduced by charge-offs, net of recoveries. The provision for loan losses is based on the ongoing review of the loan portfolios, past loss experience and current economic conditions which could impact the borrowers’ repayment performance.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Land is stated at cost. The Company's policy is to provide for depreciation of physical properties over their estimated useful lives or the lease term (whichever is shorter) as a charge to operations at straight-line rates. Expenditures for maintenance, repairs and minor renewals are charged to operations; expenditures for betterments are charged to the property accounts. Upon retirement or other disposition of properties, the carrying value and the related accumulated depreciation or amortization are removed from the accounts.

Advertising Costs

Advertising costs are expensed as incurred.

Off-Balance Sheet Credit Risk

The Company issues financial or standby letters of credit that represent conditional commitments to fund transactions by the Company, typically to guarantee performance of a customer to a third party related to borrowing arrangements. The credit risk associated with issuing letters of credit is essentially the same as occurs when extending loan facilities to borrowers. The Company monitors the exposure to the letters of credit as part of its credit review process. Extensions of letters of credit, if any, would become part of the loan balance outstanding and would be evaluated in accordance with the Company's credit policies. Potential exposure to loss for unfunded letters of credit if deemed necessary would be recorded in other liabilities.

Other Real Estate

Real estate properties acquired through, or in lieu of, loan foreclosure are held for sale and carried at the lower of fair value minus estimated costs of disposal or cost. Fair value is based on independent appraisals and other relevant factors. At the time of acquisition any excess of loan balance over fair value is charged to the allowance for loan losses.

Income Taxes

Deferred income taxes are calculated by applying enacted statutory tax rates to temporary differences consisting of all significant items which are reported for tax purposes in different years than for accounting purposes. Deferred tax assets are recognized only to the extent that it is more likely than not that such amounts will be realized based on considerations of available evidence. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Per Share Data

Basic net income per share is computed by dividing the net income by the weighted average number of shares of common stock outstanding during the year presented. Diluted net income per share is computed by dividing net income by the weighted average number of shares of common stock plus the assumed conversions of common stock equivalents outstanding using the treasury method.

Subsequent Events

Subsequent events have been evaluated for potential recognition and disclosure through the date of the independent auditors' report, the date these consolidated financial statements were available to be issued. No subsequent events were identified that would affect the presentation of the consolidated financial statements.

Statement of Cash Flows

For purposes of reporting cash flows, cash equivalents are composed of cash and due from banks and interest bearing deposits with banks.

Comprehensive Income

Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains, and losses be included in net income. However, certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the stockholders' equity section of the consolidated balance sheet. Such items, along with net income, are componets of comprehensive income.

2. SECURITIES

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

	December 31, 2020			
Available-for-sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agencies	$ 10,126	1	51	10,076
U.S. government sponsored agencies	2,500	-	3	2,497
Residential mortgage-backed	45,617	241	159	45,699
Obligations of states and political subdivisions	23,509	229	69	23,669
Totals	$ 81,752	471	282	81,941

	December 31, 2019			
Available-for-sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S government agencies	$ 2,864	3	5	2,862
U.S. government sponsored agencies	2,000	-	-	2,000
Residential mortgage-backed	9,992	71	55	10,008
Obligations of states and political subdivisions	452	5	-	457
Totals	$ 15,308	79	60	15,327

The table below shows our securities' gross unrealized losses and fair value, aggregated by category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2020 and 2019.

	Less than 12 months		12 months or more		Totals	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
As of December 31, 2020						
U.S government agencies	$ 8,244	44	872	7	9,116	51
U.S. government sponsored agencies	1,497	3	-	-	1,497	3
Residential mortgage backed	25,239	159	41	-	25,280	159
Obligations of states and political subdivisions	7,380	69	-	-	7,380	69
Totals	$ 42,360	275	913	7	43,273	282
As of December 31, 2019						
U.S government agencies	$ 1,586	1	326	4	1,912	5
Residential mortgage backed	3,598	20	1,750	35	5,348	55
Totals	$ 5,184	21	2,076	39	7,260	60

The residential mortgage backed portfolio at December 31, 2020 is composed of GNMA, FNMA, or FHLMC mortgage backed securities.

The unrealized losses that exist are generally the result of changes in market interest rates since original purchases. These unrealized losses are considered temporary in nature and will decline over time and recover as these securities approach maturity.

The amortized cost and fair values of debt securities at December 31, 2020 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Residential mortgage-backed securities are due in monthly installments.

	Available-for-Sale	
	Amortized Cost	Fair Value
As of December 31, 2020		
Due after one through five years	$ 1,087	1,084
Due after five years through ten years	10,700	10,715
Due after ten years	24,348	24,443
	36,135	36,242
Residential mortgage-backed securities	45,617	45,699
Totals	$ 81,752	81,941

There were no sales of securities in 2020, 2019 nor 2018.

At December 31, 2020 and 2019, securities with a carrying value of $6,814 thousand and $10,497 thousand respectively, were pledged as collateral for certain government deposits and for other purposes as required or permitted by law.

3. LOANS

At December 31, 2020 and 2019, loans are as follows:

	2020	2019
Real estate:		
Construction and land development	$ 30,602	30,011
Secured by farmland	34,028	36,192
Commercial	123,378	119,378
Residential	178,022	185,586
Commercial and agricultural	13,916	17,590
U.S. S.B.A. Paycheck Protection Program Loans	15,019	-
Consumer	6,715	7,152
Totals	$ 401,680	395,909

Unamortized net deferred loan costs amounted to $50 thousand and $529 thousand at December 31, 2020 and 2019.
A summary of current, past due, and nonaccrual loans as of December 31, 2020 and 2019 was as follows:

	Current	30-89 Days Past Due	90 Days or more Past Due and accruing	Nonaccrual	Total
As of December 31, 2020					
Real estate:					
Construction and land development	$ 30,602	-	-	-	30,602
Secured by farmland	33,170	283	-	575	34,028
Commercial	122,158	327	-	893	123,378
Residential	175,771	995	696	560	178,022
Commercial and agricultural	13,876	40	-	-	13,916
U.S. S.B.A. Paycheck Protection Program Loans	15,019	-	-	-	15,019
Consumer	6,679	36	-	-	6,715
Totals	$ 397,275	1,681	696	2,028	401,680

	Current	30-89 Days Past Due	90 Days or more Past Due and accruing	Nonaccrual	Totals
As of December 31, 2019					
Real estate:					
Construction and land development	$ 29,337	-	674	-	30,011
Secured by farmland	31,910	3,512	-	770	36,192
Commercial	117,920	137	-	1,321	119,378
Residential	182,020	2,280	633	653	185,586
Commercial and agricultural	17,518	51	21	-	17,590
Consumer	7,073	79	-	-	7,152
Totals	$ 385,778	6,059	1,328	2,744	395,909

Loans on which the accrual of interest has been discontinued totaled $2,028 and $2,744 thousand at December 31, 2020 and 2019 respectively. Interest that would have been accrued on these loans totaled $132 thousand and $175 thousand for the years ended December 31, 2020 and 2019 respectively. At December 31, 2020 there were no residential mortgages in the process of foreclosure.

4. ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS

Changes in the allowance for credit losses for the year ended December 31, 2020 and 2019 were as follows:

	Real estate construction	Real estate residential	Real estate commercial and farmland	Commercial and agriculture	Consumer	Totals
As of December 31, 2020						
Beginning Balance	$ 148	2,044	3,449	96	15	5,752
Provision for loan losses	530	(323)	1,242	110	41	1,600
Net charge-offs:						
Charge-offs	(8)	(3)	(228)	(99)	(20)	(358)
Recoveries	71	33	33	29	10	176
Net (charge-offs) recoveries	63	30	(195)	(70)	(10)	(182)
Ending balance	$ 741	1,751	4,496	136	46	7,170
As of December 31, 2019						
Beginning Balance	$ 136	1,046	4,547	210	27	5,966
Provision for loan losses	15	1,177	(1,081)	(123)	12	-
Net charge-offs:						
Charge-offs	(3)	(214)	(81)	-	(48)	(346)
Recoveries	-	35	64	9	24	132
Net (charge-offs) recoveries	(3)	(179)	(17)	9	(24)	(214)
Ending balance	$ 148	2,044	3,449	96	15	5,752

Although the above allocation is performed, the allowance for loan losses is general in nature and is available to absorb losses from any loan type.

The process for calculating the adequacy of the allowance for loan losses encompasses loss estimates attributable to specific troubled credits identified during the credit review process and estimates of losses inherent in other loans not reviewed specifically. The process of determining the level of the allowance for loan losses involves classifying the loans according to characteristics of loss risk for nonperforming and criticized loans and by type of loan for all other loans. For nonaccrual loans, loans over 89 days past due accruing and any other criticized loans according to the Company's loan rating system, the loans are first reviewed for specific loss measurement. Measurement of the specific loss component is based on expected future cash flows, collateral values and other relevant factors impacting the borrower's ability to pay. The Company utilizes a loan rating system which is applied to all loans but is particularly designed for monitoring loss characteristics of the real estate and commercial loan portfolios. Loan ratings are continually monitored by the loan officer and the credit review department in accordance with the loan rating guidelines established in the loan policy. Factors considered in assigning loan ratings include borrower specific cash flows and financial condition analyses, collateral values, payment status and other relevant data impacting repayment ability. Loss allocations assigned to the various loan type pools are continually monitored and adjusted for adequacy based on trends in portfolio charge-offs and recoveries, trends in portfolio delinquencies and impaired loans, changes in the risk profile of the pools, and changes in trends within the local economy.

Loans that have their terms restructured (e.g., interest rates, loan maturity date, payment and amortization period, etc.) in circumstances that provide payment relief or other concessions to a borrower experiencing financial difficulty are considered trouble debt restructured loans. All restructurings that constitute concessions to a troubled borrower are considered impaired loans that may either be in accruing status or non-accruing status. Troubled debt restructurings are considered to be impaired loans and for purposes of establishing the allowance for loan losses are evaluated for impairment giving consideration to the impact of the modified loan terms and the present value of the loan's expected cash flows. Impairment of troubled debt restructurings that have subsequently defaulted may also be measured based on the loan's observable market price or the fair value of collateral if the loan is collateral-dependent. Non-accruing restructured loans may return to accruing status provided there is a sufficient period of payment performance in accordance with the restructure terms. Loans may be removed from the restructured category in the year subsequent to the restructuring if their revised terms are considered to be consistent with terms that can be obtained in the credit market for loans with comparable risk. At December 31, 2020 restructured loans totaled $6,572 thousand, of which $5,072 thousand were accruing and $1,500 thousand were non-accruing. Restructured loans at December 31, 2019 totaled $7,687 thousand, of which $5,545 thousand were accruing and $2,142 thousand were non-accruing.

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

	2020	2019
Impaired loans with a valuation allowance	$ 2,690	2,479
Impaired loans without a valuation allowance	5,106	6,760
Total impaired loans	$ 7,796	9,239
Allowance for loan losses applicable to impaired loans	$ 206	201
Allowance for loan losses applicable to other loans	6,964	5,551
Total allowance for loan losses	$ 7,170	5,752
Average recorded investment in impaired loans	$ 8,517	9,526

The following table provides information on impaired loans by loan category as of December 31, 2020 and 2019:

		Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment
As of December 31, 2020					
With a related allowance recorded:					
Real estate – residential	$	2,125	2,130	170	1,947
Real estate – commercial & farmland		565	565	36	637
Totals	$	2,690	2,695	206	2,584
As of December 31, 2020					
Without a related allowance recorded:					
Real estate – residential	$	3,133	3,653	-	3,272
Real estate – commercial & farmland		1,593	1,977	-	1,835
Commercial & Agricultural		380	380	-	489
Totals	$	5,106	6,010	-	5,596
As of December 31, 2019					
With a related allowance recorded:					
Real estate – residential		1,769	1,771	162	2,062
Real estate – commercial & farmland		710	716	39	1,251
Totals	$	2,479	2,487	201	3,313
As of December 31, 2019					
Without a related allowance recorded:					
Real estate – construction	$	673	674	-	404
Real estate – residential		3,412	4,073	-	3,769
Real estate – commercial & farmland		2,077	2,216	-	1,609
Commercial & Agricultural		598	598	-	431
Totals	$	6,760	7,561	-	6,213

During 2020, the Bank provided short-term deferrals of loan principal and /or interest payments for gererally up to six months for borrowers who were affected by the COVID-19 pandemic. Borrowers receiving deferrals were required to meet certain criteria, such as being in good standing, and not more than 30 days past due prior to the pandemic. Certain borrowers requested additional deferrals due to the continuing impact of the pandemic. At December 31, 2020, there were loans totalling $1,474 thousand that remained in deferral status.

The following table summarizes the loan risk ratings applied to the Company's real estate mortgages and commercial loans as of December 31, 2020 and 2019. Criticized loans are considered inadequately protected by the current paying capacity of the borrower or of the collateral pledged, if any. These loans have weaknesses that jeopardize the liquidation of the debt. Loans not meeting the definition of criticized are considered pass rated loans.

	Real estate construction	Real estate residential	Real estate commercial and farmland	Commercial and agriculture	Totals
As of December 31, 2020					
Pass	$ 29,814	174,924	151,758	13,666	370,162
Criticized accrual	788	2,538	4,180	250	7,756
Criticized nonaccrual	-	560	1,468	-	2,028
Total	$ 30,602	178,022	157,406	13,916	379,946
As of December 31, 2019					
Pass	$ 29,291	182,454	149,921	17,103	378,769
Criticized accrual	720	2,479	3,558	487	7,244
Criticized nonaccrual	-	653	2,091	-	2,744
Totals	$ 30,011	185,586	155,570	17,590	388,757

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

	Real estate construction	Real estate residential	Real estate commercial and farmland	Commercial and agriculture	Consumer	Totals
As of December 31, 2020						
Individually evaluated for impairment	$ -	170	36	-	-	206
Collectively evaluated for impairment	741	1,581	4,460	136	46	6,964
Total	$ 741	1,751	4,496	136	46	7,170
As of December 31, 2019						
Individually evaluated for impairment	$ -	162	39	-	-	201
Collectively evaluated for impairment	148	1,882	3,410	96	15	5,551
Totals	$ 148	2,044	3,449	96	15	5,752

The recorded investment in loans summarized based on impairment methodology as of December 31, 2020 and 2019 was as follows:

	Real estate construction	Real estate residential	Real estate commercial and farmland	Commercial and agriculture	S.B.A. Paycheck Protection	Consumer	Total
As of December 31, 2020							
Individually evaluated for impairment	$ -	5,258	2,158	380	-	-	7,796
Collectively evaluated for impairment	30,602	172,764	155,248	13,536	15,019	6,715	393,884
Total	$ 30,602	178,022	157,406	13,916	15,019	6,715	401,680
As of December 31, 2019							
Individually evaluated for impairment	$ 673	5,181	2,787	598	-	-	9,239
Collectively evaluated for impairment	29,338	180,405	152,783	16,992	-	7,152	386,670
Total	$ 30,011	185,586	155,570	17,590	-	7,152	395,909

Information on troubled debt restructurings for the year ended December 31, 2020 and 2019 is as follows:

	Number of contracts	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment
As of December 31, 2020			
Real estate – residential accrual	20	$ 4,997	$ 4,003
Real estate – commercial accrual	2	893	689
Commercial & Agricultural- accrual	2	825	380
Real estate – residential nonaccrual	1	129	31
Real estate- commercial nonaccrual	2	1,149	894
Real estate – farmland nonaccrual	1	818	575
Totals	28	$ 8,811	$ 6,572
As of December 31, 2019			
Real estate – residential accrual	19	$ 5,056	$ 4,254
Real estate – commercial accrual	2	893	693
Commercial & Agricultural accrual	2	825	598
Real estate – residential nonaccrual	2	234	90
Real estate- commercial nonaccrual	3	1,452	1,282
Real estate – farmland nonaccrual	1	818	770
Totals	29	$ 9,278	$ 7,687

During 2020, there was one loan modified as a TDR with a balance of approximately $79 thousand.During 2019, there was one loan modified totaling approximately $551 thousand modified as a TDR. At December 31, 2020 there are no commitments to lend additional funds to any borrower whose loan terms have been modified in a troubled debt restructuring. Information on the payment status of troubled debt restructurings is as follows:

	2020	2019
Current	$ 5,072	5,545
30-89 days past due accruing	-	-
90 days or more past due accruing	-	-
Nonaccruals	1,500	2,142
Totals	$ 6,572	7,687

5. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	December 31	
	2020	2019
Land	$ 1,908	1,908
Leasehold improvements	161	161
Buildings and land improvements	7,228	6,559
Furniture and equipment	3,129	2,879
	12,426	11,507
Accumulated depreciation and amortization	(6,080)	(5,708)
Premises and equipment – net	$ 6,346	5,799

Depreciation expense was $395 thousand, $372 thousand and $368 thousand for each of the years ended December 31, 2020, 2019 and 2018, respectively.

Rent expense applicable to operating leases amounted to $34 thousand for 2020 and 2019, and $39 thousand for 2018. The Bank has lease obligations for office locations. Future minimum lease payments subsequent to 2020 are $ 10 thousand for 2021.

6. DEPOSITS

A breakdown of interest bearing deposits at December 31, 2020 and 2019, by type of account is as follows:

	2020	2019
Savings and money market	$ 131,014	102,457
Interest bearing demand	66,987	49,335
Time deposits through $250,000	119,102	119,956
Time deposits of more than $250,000	37,734	27,635
Total interest bearing deposits	$ 354,837	299,383

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

2021	$ 81,418
2022	58,805
2023	5,549
2024	4,129
2025	6,935
	$ 156,836

Interest on deposits for the years ended December 31, 2020, 2019 and 2018 consisted of the following:

	2020	2019	2018
Savings and money market	$ 197	166	167
Interest bearing demand	253	186	122
Time deposits more than $ 250,000	583	472	575
Other time deposits	1,687	1,631	1,293
Total interest on deposits	$ 2,720	2,455	2,157

7. BORROWINGS AND CREDIT FACILITIES

Short-term borrowings consist of advances from the Federal Home Loan Bank of Atlanta with original maturities of up to one year and federal funds purchased from correspondent banks. There were no short-term borrowings outstanding during 2020 and 2019.

At December 31, 2020, credit available under the FHLB credit facility approximates $79 million with letters of credit issued for the benefit of public funds depositors of $41 million outstanding. The Bank is required to maintain an investment in stock of the FHLB in the amount of $439 thousand as a condition for the credit facility. The Bank has also pledged its portfolios of 1-4 family first and second mortgage loans plus home equity loans as collateral for this credit facility. Certain qualifying commercial mortgages are also pledged as collateral for this credit facility. Principal balances outstanding on these mortgage loans total approximately $202 million at December 31, 2020.

8. STOCKHOLDERS' EQUITY

The Board of Directors has approved plans authorizing the Company to purchase shares of its common stock. Purchased shares will be used for corporate purposes including issuance under the Company’s stock based compensation plans. The number of shares remaining available for purchase under the plans was 111,641 shares at December 31, 2020.

Cash dividends paid to the holding company by its wholly owned subsidiary, Queenstown Bank of Maryland were $2,989 thousand for 2020.

The Company and the Bank are subject to various regulatory capital requirements. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's financial statements. Regulatory non-objection may be required to pay certian dividends. 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 the Company's assets, liabilities, and certain off-balance sheet items as calculated under regulatory capital practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain amounts and ratios (as set forth in the following table) of total and Tier I Capital (as defined in the regulations) to risk-weighted assets (as defined). As of December 31, 2020, the capital levels of the Company and the Bank exceed all capital adequacy requirements to which they are subject.

As of December 31, 2020, the most recent notification from the Bank's primary regulators categorized the Bank as well capitalized under the prompt corrective action regulations. To be categorized as well capitalized, a bank must maintain a minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following tables. There are no conditions or events since the last notifications that management believes have changed the Company's and Bank's category. Actual capital amounts and ratios are presented in the following table for the Company and the Bank.

	Amount	Actual Ratio	For Capital Adequacy Purposes	To Be Well Capitalized Under Prompt Corrective Action Provisions
As of December 31, 2020				
Total capital (to risk weighted assets):				
Company (consolidated)	$ 72,841	19.67%	8%	
Bank	72,655	19.64%	8%	10%
Tier I capital (to risk weighted assets):				
Company (consolidated)	68,180	18.41%	6%	
Bank	67,998	18.37%	6%	8%
Common equity tier I				
Company (consolidated)	68,180	18.41%	4.50%	
Bank	67,998	18.37%	4.50%	6.50%
Tier I capital (to average assets):				
Company (consolidated)	68,180	11.92%	4%	
Bank	67,998	11.89%	4%	5%
As of December 31, 2019				
Total capital (to risk weighted assets):				
Company (consolidated)	$ 70,166	19.27%	8%	
Bank	70,138	19.26%	8%	10%
Tier I capital (to risk weighted assets):				
Company (consolidated)	65,600	18.02%	6%	
Bank	65,572	18.01%	6%	8%
Common equity tier I				
Company (consolidated)	65,600	18.02%	4.50%	
Bank	65,572	18.01%	4.50%	6.50%
Tier I capital (to average assets):				
Company (consolidated)	65,600	13.89%	4%	
Bank	65,572	13.88%	4%	5%

9. INCOME TAXES

Applicable income taxes on net income for 2020, 2019 and 2018 consist of the following:

	2020	2019	2018
Current income tax expense:			
Federal	$ 2,202	1,642	2,273
State	951	725	991
	3,153	2,367	3,264
Deferred income tax (benefit) expense:			
Federal	(899)	268	(395)
State	(405)	87	(190)
	(1,304)	355	(585)
Total income tax expense	$ 1,849	2,722	2,679

Components of deferred income tax (benefit) expense for 2020, 2019 and 2018 consist of the following:

	2020	2019	2018
Provision for loan losses	$ (1,257)	432	(517)
Loan fees and costs	(132)	11	(15)
Deferred compensation	(60)	(77)	(78)
Depreciation and amortization	70	86	48
Interest income	(7)	(105)	(29)
Other real estate owned sales	73	-	6
Stock option compensation	9	8	-
Total deferred income tax (benefit) expense	$ (1,304)	355	(585)

A reconciliation of income taxes computed at the maximum statutory federal tax rate to total income taxes for the years ended December 31, 2020, 2019, and 2018 follows:

	2020		2019		2018	
	Amount	Percent	Amount	Percent	Amount	Percent
Tax computed at statutory rate	$ 1,519	21.0%	2,151	21.0%	2,080	21.0%
Increase (decrease) resulting from						
Tax-exempt interest income	(28)	-0.4%	(16)	-0.2%	(20)	-0.2%
Bank owned life insurance income	(65)	-0.9%	(64)	-0.6%	(36)	-0.4%
State income tax, net of federal income tax benefit	431	6.0%	641	6.3%	633	6.4%
Other	(8)	-0.1%	10	0.1%	22	0.2%
Total income taxes	$ 1,849	25.6%	2,722	26.6%	2,679	27.0%

Significant components of the Company's deferred tax assets and liabilities at December 31, 2020 and 2019 are as follows:

	2020	2019
Deferred tax assets:		
Allowances for credit losses	$1,972	715
Deferred compensation	590	530
Interest income	197	190
Stock options	10	19
Other real estate losses	-	73
Others	3	3
Total deferred tax assets	2,772	1,530
Deferred tax liabilities:		
Accumulated depreciation and amortization	286	216
Loan fees and costs	14	146
Unrealized gain on securities available-for-sale	52	5
Total deferred tax liabilities	352	367
Net deferred tax assets	$2,420	1,163

Management has determined that no valuation allowance is required as it is more likely than not that the net deferred tax assets will be fully realizable in future years. The Company remains subject to examination of income tax returns for the years ending after December 31, 2016.

10. RETIREMENT PLANS AND OTHER EMPLOYEE BENEFIT AGREEMENTS

The Company has a Section 401(k) profit sharing plan which covers substantially all employees who meet certain service requirements. Employer contributions to the plan include a discretionary contribution and matching contributions of a percentage of employee elective salary deferral contributions. Employer contributions included in operating expenses for 2020, 2019 and 2018 were $152 thousand, $161 thousand, and $144 thousand, respectively.

The Company has provided additional retirement benefits as well as pre-retirement death benefits to selective executives through deferred compensation agreements. The deferred compensation plan agreements provide for monthly benefit payments for fifteen years after retirement. Benefit payments were $109 thousand, $62 thousand, and $55 thousand, for 2020, 2019 and 2018, respectively. The Company is accruing the present value of these benefits over the remaining number of years to the employees' retirement dates. Benefit accruals included in operating expenses for 2020, 2019 and 2018 were $218 thousand, $287 thousand, and $244 thousand, respectively. The accrued liability for deferred compensation agreements were $1,779 thousand at December 31, 2020 and $1,671 thousand at December 31, 2019.

The Company provides retirement benefits to directors. The agreements provide for annual benefit payments for ten years after retirement. Benefit payments were $23 thousand in 2020 and $11 thousand in 2019. The Company is accruing the present value of these benefits over the remaining number of years to the directors' retirement dates. Benefit accruals included in operating expenses for 2020, 2019 and 2018, were $97 thousand, $64 thousand and $95 thousand, respectively.The accrued liability for deferred compensation for directors was $ 327 thousand at December 31, 2020 and $253 thousand at December 31,2019.

11. STOCK-BASED COMPENSATION

The Company has a qualified incentive stock option plan for officers and employees and a nonqualified stock option plan for directors. The total number of shares of Common Stock that may be optioned is 126,000 for the incentive plan and 63,000 for the nonqualified plan. Information with respect to the options granted is as follows:

	2020			2019		2018		
	Options Outstanding		Weighted Average Exercise price	Options Outstanding	Weighted Average Exercise price	Options Outstanding		Weighted Average Exercise price
Balance, January 1	37,130	$	38.61	50,730	$ 41.01	42,800	$	43.21
Options granted	-		-	-	-	15,000		40.00
Options exercised	(3,505)		43.13	(4,200)	35.14	(470)		34.00
Options forfeited	(1,000)		34.00	(600)	40.00	-		-
Options expired	(5,400)		45.78	(8,800)	54.00	(6,600)		53.50
Balance, December 31	27,225	$	36.78	37,130	$ 38.61	50,730	$	41.01
Options exercisable, December 31	19,625	$	36.26	23,530	$ 39.13	30,930	$	43.17

Stock options outstanding at December 31, 2020 were as follows:

	Issued and Outstanding Options				Exercisable (Vested) Options			
Exercise Price Range	Number Outstanding	Weighted Average Remaining Life (years)		Weighted Average Exercise Price	Number Exercisable	Weighted Average Remaining Life (years)		Weighted Average Exercise Price
$0.00 through $34.99	14,625	4.85	$	34.00	12,225	4.56	$	34.00
$35.00 through $54.99	12,600	7.28	$	40.00	7,400	7.28	$	40.00
Totals:	27,225	5.98	$	36.78	19,625	5.59	$	36.26

The maximum term of stock options granted under the plans is 10 years.

Stock based compensation costs were $31 thousand for the year ended December 31, 2020 and $19 thousand for the years ended December 31, 2019 and 2018.

The fair value of stock option awards granted on or after January 1, 2006 was determined by using a lattice option-pricing model utilizing a range of assumptions related to dividend yield, volatility, risk-free interest rate, and employee exercise behavior. Dividend yield is based on historical experience and expected future dividend actions. Expected volatility is based on a blend of historical stock price volatility and volatility of similarly publicly traded bank stocks. The risk-free interest rate is based on the U.S. Treasury yield curve at the time of grant. The Company estimated forfeitures based on historical data.

There were no options granted in 2020 or 2019.

The fair value of the stock options granted for the year ended December 31, 2018 was estimated at $5.89 per option on the date of grant based on the following assumptions:

Dividend yield	3.50%
Volatility	20.00%
Risk free interest rate	2.59%
Expected life--years	6

As of December 31, 2020, the total remaining unrecognized compensation cost related to the issuance of stock options was $61 thousand, which will be amortized over the expected life of these options. The intrinsic value for the stock options exercised was $ 55 thousand , $72 thousand , and $3 thousand for the years ended December 31, 2020 , 2019 and 2018, respectively. The total intrinsic value of outstanding stock options was $632 thousand at December 31, 2020. The total intrinsic value of exercisable stock options was $466 thousand at December 31, 2020.

12. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company makes extensions of credit to its directors and their associates and several of its policy making officers on substantially the same terms, including interest rates and collateral, as those prevailing for comparable transactions with other customers. Extensions of credit outstanding, both direct and indirect, to directors and policy making officers were $2,163 thousand at December 31, 2020 and $5,489 thousand at December 31, 2019. New or additional extensions of credit during 2020 were $853 thousand. Credit reductions and retirements were $4,179 thousand during 2020. Deposit balances of directors and policy making officers were $3,426 thousand and $3,228 thousand at December 31, 2020 and 2019 , respectively. A director is a principal of the general contractor, who was retained to renovate one of the Bank's branch offices, the aggregate contract for the total project was $ 714 thousand.

13. CORRESPONDENT BANK BALANCES

The company has balances due from correspondent banks in excess of FDIC insured deposit limits. These correspondent banks meet the regulatory definitions of well capitalized financial institutions. The uninsured deposit balances with FDIC insured correspondent banks were $2.7 million at December 31,2020.

14. FINANCIAL INSTRUMENTS

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 standby letters of credit.

The Company's exposure to credit losses in the event of nonperformance by the other party to these financial instruments are represented by the contractual amount of the instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Included in other liabilities are allowances for losses on unfunded credit commitments of $24 thousand and $37 thousand at December, 2020 and December 2019 respectively. There were no provisions for losses on unfunded letters of credit in 2020, 2019 and 2018.

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

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

A summary of the contract amounts of the Company's financial instruments with off-balance sheet risk at December 31, 2020 is as follows:

Commitments to extend credit	$42,835 thousand
Standby letters of credit	$2,448 thousand

The Company discloses fair value information about financial instruments for which it is practicable to estimate the value, whether or not such financial instruments are recognized on the balance sheet. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by quoted market price, if one exists.

Quoted market prices, if available, are shown as estimates of fair value. Because no quoted market prices exist for a substantial portion of the Company's financial instuments, the fair value of such instruments has been derived based on management's assumptions with respect to future economic conditions, the amount and timing of future cash flows and estimated discount rates. Different assumptions could significantly affect these estimates. Accordingly, the net realizable value could be materially different from the estimates presented. In addition, the estimates are only indicative of individual financial instrument values and should not be considered an indication of the fair value of the Company taken as a whole.

The following methods and assumptions were used to estimate the fair value of each category of financial instrument for which it is practicable to estimate value:

- Cash and due from banks and federal funds sold: The carrying amounts reported are considered to approximate their fair values.
- Investment securities: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.
- Loans: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for other loans are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics. The carrying amount of accrued interest receivable approximates its fair value.
- Deposits: The fair value disclosed for deposits with no defined maturity are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated contractual maturities on such time deposits. The carrying amount of accrued interest payable approximates fair value.
- Borrowings: The fair value is estimated based on interest rates currently available for debt with similar terms and remaining maturities.

The estimated fair values of the Company's financial instruments as December 31, 2020 and 2019 are as follows:

	2020		2019	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Total Cash and due from banks	$ 5,202	$ 5,202	$ 5,371	$ 5,371
Interest bearing deposits with banks	71,298	71,298	40,935	40,935
Investment securities:				
Available-for-sale	81,941	81,941	15,327	15,327
Federal Home Loan Bank stock	439	439	432	432
Loans, net of allowance	394,510	400,769	390,157	393,276
Accrued interest receivable	2,240	2,240	1,590	1,590
Financial liabilities:				
Deposits	505,564	506,230	404,913	404,351
Accrued interest payable	241	241	268	268

15. FAIR VALUE MEASUREMENTS

The Company has adopted the Financial Accounting Standard Board's ("FASB") guidance on *Fair Value Measurements* which provides a framework for measuring and disclosing fair value under generally accepted accounting principles. This guidance requires disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis (for example, available-for-sale investment securities) or on a nonrecurring basis (for example, impaired loans).

FASB's guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This guidance also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

Fair Value Hierarchy

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

Level 2 – Other significant observable inputs (including quoted prices in active markets for similar assets or liabilities)

Level 3 – Significant unobservable inputs (including the Company's own assumptions in determining the fair value of assets or liabilities)

The following table presents fair value measurements on a recurring basis as of December 31, 2020 and 2019:

2020

	Level 1	Level 2	Level 3	Fair Value
U.S. government agencies securities	$ -	10,076	-	10,076
U.S. government sponsored agencies	-	2,497	-	2,497
Residential mortgage- backed securities	-	45,699	-	45,699
Obligations of states and political subdivisions	-	23,669	-	23,669
Totals	$ -	81,941	-	81,941

2019

	Level 1	Level 2	Level 3	Fair Value
U.S. government agencies securities	$ -	2,862	-	2,862
U.S. government sponsored agencies	-	2,000	-	2,000
Residential mortgage- backed securities	-	10,008	-	10,008
Obligations of states and political subdivisions	-	457	-	457
Totals	$ -	15,327	-	15,327

Securities available-for-sale are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

The Bank may also be required, from time to time, to measure certain other financial assets and liabilities at fair value on a nonrecurring basis in accordance with accounting principles generally accepted in the United States of America. The following table presents fair value measurements on a non-recurring basis as of December 31, 2020 and 2019:

2020

	Level 1	Level 2	Level 3	Fair Value
Impaired loans	$ -	-	7,590	7,590

2019

	Level 1	Level 2	Level 3	Fair Value
Impaired loans	$ -	-	9,038	9,038
Other real estate	-	-	89	89
Totals	$ -	-	9,127	9,127

Loans which are deemed to be impaired are primarily valued on a nonrecurring basis at the fair values of the underlying real estate collateral. Such fair values are derived as follows:

Level 3 inputs are independent appraisals and other available market evaluations used by management in estimating fair value.

In accordance with the provisions of ASC 360, foreclosed real estate were adjusted to their fair values, resulting in an impairment charge, which was included in earnings for the year 2019. There were no impairment charges relating to foreclosed real estate in 2020. Foreclosed real estate assets have been valued using a market approach. The fair values were determined using independent appraisals and other available market evaluations, which the Bank considers to be level 3 inputs. Appraised values are discounted, where appropriate, to reflect selling costs.