DIMECO, INC.

HONESDALE, PENNSYLVANIA

AUDIT REPORT

DECEMBER 31, 2022

DIMECO, INC.
AUDITED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Shareholders
Dimeco, Inc.
Honesdale, Pennsylvania

Opinion

We have audited the accompanying consolidated financial statements of Dimeco, Inc. and its subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021; the related consolidated statements of income, comprehensive (loss) income, changes in shareholders' equity, and cash flows for the three years then ended; and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

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S.R. Snodgrass, P.C. d/b/a S.R. Snodgrass, A.C. in West Virginia

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Other Information Included in Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or whether the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

S. R. Snodgrass, P.C.

Cranberry Township, Pennsylvania
March 16, 2023

CONSOLIDATED BALANCE SHEET

(in thousands, except shares and per share data)	December 31, 2022	2021
Assets		
Cash and due from banks	$ 6,262	$ 5,174
Interest-bearing deposits in other banks	1,735	23,326
Total cash and cash equivalents	7,997	28,500
Investment securities available for sale	218,768	220,839
Equity securities	55	52
Loans, net of unearned income	679,072	657,267
Less allowance for loan losses	10,588	11,532
Net loans	668,484	645,735
Premises and equipment	20,558	14,925
Accrued interest receivable	3,308	2,828
Bank-owned life insurance	26,732	26,148
Other real estate owned	224	224
Other assets	23,441	18,969
TOTAL ASSETS	$ 969,567	$ 958,220
Liabilities		
Deposits:		
Noninterest-bearing	$ 193,322	$ 185,556
Interest-bearing	594,252	611,360
Total deposits	787,574	796,916
Short-term borrowings	65,164	2,500
Other borrowed funds	14,890	44,329
Accrued interest payable	214	122
Other liabilities	13,712	13,542
TOTAL LIABILITIES	881,554	857,409
Stockholders' Equity		
Common stock, $.50 par value; 5,000,000 shares authorized; 2,643,220 and 2,633,648 shares issued in 2022 and 2021; 2,554,752 and 2,545,180 shares outstanding in 2022 and 2021, respectively	1,322	1,317
Capital surplus	10,631	10,298
Retained earnings	98,799	90,179
Accumulated other comprehensive (loss) income	(20,030)	1,726
Treasury stock, at cost (88,468 shares)	(2,709)	(2,709)
TOTAL STOCKHOLDERS' EQUITY	88,013	100,811
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 969,567	$ 958,220

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

(in thousands, except per share data)	Year Ended December 31, 2022	2021	2020
Interest Income			
Interest and fees on loans	$ 32,616	$ 31,182	$ 30,122
Investment securities:			
Taxable	3,869	2,367	2,331
Exempt from federal income tax	1,796	1,603	1,207
Other	297	258	290
Total interest income	38,578	35,410	33,950
Interest Expense			
Deposits	2,892	1,833	3,381
Short-term borrowings	424	41	36
Other borrowed funds	453	1,594	1,654
Total interest expense	3,769	3,468	5,071
Net Interest Income	34,809	31,942	28,879
(Credit) provision for loan losses	(825)	1,200	3,500
Net Interest Income After (Credit) Provision for Loan Losses	35,634	30,742	25,379
Noninterest Income			
Service charges on deposit accounts	1,077	968	970
Mortgage loans held for sale gains, net	184	587	1,172
Investment securities (losses) gains, net	(860)	225	124
Equity security gains (losses), net	3	5	(7)
Brokerage commissions	2,171	1,993	1,419
Earnings on bank-owned life insurance	584	522	441
Debit card interchange fees	1,721	1,666	1,328
Other income	76	179	330
Total noninterest income	4,956	6,145	5,777
Noninterest Expense			
Salaries and employee benefits	14,861	13,269	11,944
Occupancy expense, net	2,925	1,896	1,728
Professional fees	1,378	1,599	1,282
Data processing expense	1,604	1,372	1,642
Communication expense	469	455	451
Other real estate expense	6	3	94
ATM expense	648	546	677
PA shares tax	339	512	447
Other expense	3,532	3,127	2,816
Total noninterest expense	25,762	22,779	21,081
Income before income taxes	14,828	14,108	10,075
Income taxes	2,487	2,156	1,219
NET INCOME	$ 12,341	$ 11,952	$ 8,856
Earnings Per Share:			
Basic	$ 4.86	$ 4.73	$ 3.54
Diluted	$ 4.85	$ 4.72	$ 3.52

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE (LOSS) INCOME

(in thousands)	Year Ended December 31, 2022	2021	2020
Net income	$ 12,341	$ 11,952	$ 8,856
Other comprehensive (loss) income:			
Unrealized (loss) gain on available for sale securities	(28,422)	(2,967)	3,570
Tax effect	5,969	623	(750)
	(22,453)	(2,344)	2,820
Investment securities losses (gains), net	860	(225)	(124)
Tax effect	(181)	47	26
	679	(178)	(98)
Unrealized gain (loss) on derivative	54	20	(20)
Tax effect	(11)	(4)	4
	43	16	(16)
Reclassification adjustment for (gains) losses on derivatives included in net income	(32)	8	(3)
Tax effect	7	(2)	1
	(25)	6	(2)
Other comprehensive (loss) income	(21,756)	(2,500)	2,704
Comprehensive (loss) income	$ (9,415)	$ 9,452	$ 11,560

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(in thousands, except shares and per share data)	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2019	$ 1,279	$ 8,577	$ 77,479	$ 1,522	$ (1,463)	$ 87,394
Net income			8,856			8,856
Other comprehensive income				2,704		2,704
Stock compensation expense		123				123
Purchase of treasury stock (17,800 shares)					(635)	(635)
Exercise of stock options (18,131 shares)	9	378			37	424
Employee stock purchase plan (2,561 shares)	1	84				85
Issuance of 3,590 shares for restricted stock plan	4	(4)				-
Cash dividends ($1.33 per share)			(3,336)			(3,336)
Balance, December 31, 2020	1,293	9,158	82,999	4,226	(2,061)	95,615
Net income			11,952			11,952
Other comprehensive loss				(2,500)		(2,500)
Stock compensation expense		135				135
Purchase of treasury stock (18,000 shares)					(648)	(648)
Exercise of stock options (39,794 shares)	20	915				935
Employee stock purchase plan (2,584 shares)	1	89				90
Employee stock bonus plan (120 shares)		4				4
Issuance of 5,600 shares for restricted stock plan	3	(3)				-
Cash dividends ($1.88 per share)			(4,772)			(4,772)
Balance, December 31, 2021	1,317	10,298	90,179	1,726	(2,709)	100,811
Net income			12,341			12,341
Other comprehensive loss				(21,756)		(21,756)
Stock compensation expense		166				166
Exercise of stock options (1,690 shares)	1	61				62
Employee stock purchase plan (2,582 shares)	1	109				110
Issuance of 5,300 shares for restricted stock plan	3	(3)				-
Cash dividends ($1.46 per share)			(3,721)			(3,721)
Balance, December 31, 2022	$ 1,322	$ 10,631	$ 98,799	$ (20,030)	$ (2,709)	$ 88,013

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)	Year Ended December 31, 2022	2021	2020
Operating Activities			
Net income	$ 12,341	$ 11,952	$ 8,856
Adjustments to reconcile net income to net cash provided by operating activities:			
(Credit) provision for loan losses	(825)	1,200	3,500
Depreciation and amortization	902	758	833
Amortization of premium and discount on investment securities, net	1,247	1,081	664
Accretion of net deferred loan origination fees	(1,485)	(2,855)	(1,377)
Investment securities gains, net	860	(225)	(124)
Equity securities (gains) losses, net	(3)	(5)	7
Origination of loans held for sale	(8,138)	(17,512)	(25,731)
Proceeds from sale of loans	8,322	18,099	26,903
Mortgage loans held for sale gains, net	(184)	(587)	(1,172)
Impairment of other real estate owned	-	-	35
Gain on the sale of other real estate owned	-	(18)	(113)
(Increase) decrease in accrued interest receivable	(480)	59	(701)
Increase (decrease) in accrued interest payable	92	(71)	(193)
Deferred federal income taxes	389	(334)	(597)
Earnings on bank-owned life insurance	(584)	(522)	(441)
Stock compensation expense	166	135	123
(Decrease) increase in prepaid federal income taxes	(161)	23	451
Other, net	1,617	1,561	867
Net cash provided by operating activities	14,076	12,739	11,790
Investing Activities			
Investment securities available for sale:			
Proceeds from sales or calls	8,228	10,639	13,019
Proceeds from maturities or paydown	22,487	22,665	48,148
Purchases	(58,313)	(88,953)	(99,388)
Redemption of Federal Home Loan Bank stock	3,696	1,742	1,443
Purchase of Federal Home Loan Bank stock	(5,179)	(367)	(2,983)
Net increase in loans	(20,440)	(9,984)	(92,921)
Purchase of fixed annuity	-	(3,000)	-
Redemption of fixed annuity	2,185	-	-
Purchase of bank-owned life insurance	-	(4,288)	(2,900)
Proceeds from sale of other real estate owned	-	-	1,291
Purchase of premises and equipment	(6,361)	(2,860)	(606)
Net cash used for investing activities	(53,697)	(74,406)	(134,897)
Financing Activities			
Net (decrease) increase in deposits	(9,342)	110,501	106,166
Increase (decrease) in short-term borrowings	62,664	(20,700)	21,644
Proceeds from other borrowed funds	-	-	24,041
Repayment of other borrowed funds	(29,439)	(21,655)	(10,931)
Purchase of treasury stock	-	(648)	(635)
Proceeds from exercise of stock options	62	935	424
Proceeds from employee stock purchase and stock bonus plan	110	94	85
Cash dividends paid	(4,937)	(3,438)	(3,309)
Net cash provided by financing activities	19,118	65,089	137,485
(Decrease) increase in cash and cash equivalents	(20,503)	3,422	14,378
Cash and cash equivalents at beginning of year	28,500	25,078	10,700
Cash and cash equivalents at end of year	$ 7,997	$ 28,500	$ 25,078

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Nature of Operations and Basis of Presentation

Dimeco, Inc. (the "Company") is a Pennsylvania company organized as the holding company of The Dime Bank (the "Bank"). The Bank is a state-chartered bank and operates from seven locations in northeastern Pennsylvania. The Company and its subsidiary derive substantially all of their income from banking and bank-related services that include interest earnings on residential real estate, commercial mortgage, commercial and consumer financing as well as interest earnings on investment securities. The Company, through its subsidiary, provides deposit services including checking, savings and certificate of deposit accounts and investment services. The Company is supervised by the Federal Reserve Board, while the Bank is subject to regulation and supervision by the Federal Deposit Insurance Corporation ("FDIC") and the Pennsylvania Department of Banking.

The consolidated financial statements of the Company include its wholly owned subsidiary, the Bank. All inter-company items have been eliminated in preparing the consolidated financial statements. The investment in subsidiary on the parent company financial statements is carried at the parent company's equity in the underlying net assets of the Bank. Wealth management assets held by the Bank in fiduciary or agency capacities for its customers are not included in the accompanying Consolidated Balance Sheet, since such items are not assets of the Bank or the Company. In accordance with industry practice, wealth management fees are recorded on a cash basis and approximate the fees that would have been recognized on the accrual basis.

The consolidated financial statements have been prepared in conformity with U.S. GAAP. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the consolidated balance sheet date and revenues and expenses for the period. Actual results could differ significantly from those estimates.

Investment Securities

Investment securities are classified at the time of purchase, based on management's intention and ability, as securities available for sale. Debt securities have been classified as available for sale to serve principally as a source of liquidity. Unrealized holding gains and losses for available for sale securities are reported as a separate component of stockholders' equity, net of tax, until realized. Realized securities gains and losses are computed using the specific identification method and included in noninterest income. Amortization of premium and discounts for U.S. government agencies, obligations of states and political subdivisions and corporate securities use the constant yield method. Amortization of premium and discounts for collateralized mortgage obligations is a two-step proration method. This method uses a proration component and the calculated final amortization/accretion date. Mortgage-backed securities and Small Business Administration ("SBA") securities also use a two-step proration method that has a proration component and a three-month historical constant pre-payment rate ("CPR") and periodic discounted cash flow yield. The SBA securities are included in the U.S. government agency category. Interest and dividends on investment securities are recognized as income when earned.

Securities are periodically reviewed for other than temporary impairment based upon a number of factors. Those factors include, but are not limited to, the length of time and extent to which the fair 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 fair value and whether management intends to sell and their belief that they will not be required to sell these securities before recovery of their cost basis, which may be at maturity. A decline in value that is considered to be other than temporary is recorded as a loss within noninterest income in the Consolidated Statement of Income. Any remaining difference between fair value and amortized cost is recognized in other comprehensive income, net of applicable taxes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity Securities

Equity securities are held at fair value. Holding gains and losses are recorded in non-interest income. Dividends on equity securities are recognized as income when earned.

Restricted Stock

Common stock of the Federal Home Loan Bank of Pittsburgh ("FHLB") and the Atlantic Community Bankers Bank ("ACBB") represents ownership in institutions that are wholly owned by other financial institutions. These securities are accounted for at cost and are classified with other assets.

The Bank is a member of FHLB and as such, is required to maintain a minimum investment in stock of FHLB that varies with the level of advances outstanding with FHLB. The stock is bought from and sold to FHLB based upon its $100 par value. The stock does not have a readily determinable fair value and as such is classified as restricted stock, carried at cost, and evaluated for impairment by management. The stock's 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 FHLB as compared to the capital stock amount and the length of time this situation has persisted; (b) commitments by 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 FHLB and; (d) the liquidity position of FHLB.

Management evaluated the stock of both ACBB and FHLB and concluded that the stock was not impaired for the periods presented herein. This evaluation took into consideration regulatory capital ratios and liquidity. In addition, new shares of ACBB and FHLB stock continue to exchange hands at the $250 and $100 par value, respectively.

Mortgage Loans Held for Sale

In general, fixed rate residential mortgage loans originated by the Bank that qualify for sale in the secondary market are held for sale and are carried at the aggregate lower of cost or fair value. Such loans sold are generally serviced by the Bank.

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.

Loans

Loans are stated at the principal amount outstanding, net of any unearned income, deferred loan fees and the allowance for loan losses. Interest on consumer loans is credited to operations over the term of each loan using a method which results in a level yield or the simple interest method. Interest income on mortgage loans is accrued on the amortized balance. Interest income on other loans is accrued on the principal amount outstanding. Loan fees which represent an adjustment to interest yield are deferred and amortized over the life of the loan. Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. Accrual of interest on loans is generally discontinued when it is determined that a reasonable doubt exists as to the collectability of additional interest. When a loan is placed on nonaccrual status, unpaid interest is charged against income. Payments received on nonaccrual loans are either applied to principal or reported as interest income according to management's judgment as to the collectability of principal. Loans are returned to accrual status when past due principal and interest is collected and the collection of principal is probable.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for Loan Losses

The allowance for loan losses represents the amount which management estimates is adequate to provide for probable losses inherent in its loan portfolio as of the balance sheet date. The allowance method is used in providing for loan losses. Accordingly, all loan losses are charged to the allowance and all recoveries are credited to it. The allowance for loan losses is established through a provision for loan losses charged to operations. The provision for loan losses is based on management's periodic evaluation of individual loans, economic factors, past loan loss experience, changes in the composition and volume of the portfolio and other relevant factors. The estimates used in determining the adequacy of the allowance for loan losses, including the amounts and timing of future cash flows expected on impaired loans, are particularly susceptible to changes in the near term.

Historical loss percentages for each risk category are calculated and used as the basis for calculating allowance allocations. Certain qualitative factors are then added to the historical allocation percentage to get the adjusted factor to be applied to non-classified loans. The following qualitative factors are analyzed:

- Levels of and trends in delinquencies
- Trends in volume and terms
- Changes in lending policies and procedures
- Changes in collateral value
- Changes in adverse classification levels
- Quality of the loan review function
- Economic trends
- Concentrations of credit
- Experience, depth, and ability of management
- Other factors affecting the collectability of the loans

The Company analyzes its loan portfolio each quarter to determine the appropriateness of its allowance for loan losses.

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 to more affordable terms before their loan reaches nonaccrual 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 and charges down the principal balance as determined in the analysis. This process is completed for all types of loans. It is then further analyzed to determine if the loan should be classified as impaired.

Impaired loans are primarily commercial and commercial real estate loan relationships 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. Management considers loans which are 90 days or more past due and accruing or any TDR with a balance of $100,000 or greater as impaired, and if warranted, includes the entire customer relationship in that status. Non-accruing loans greater than $250,000 are considered impaired. The Company individually evaluates such loans for impairment and does not aggregate loans by major risk classifications. The definition of "impaired loans" is not the same as the definition of "nonaccrual loans," although the two categories overlap. The Company may choose to place a loan on nonaccrual status due to payment delinquency or uncertain collectability, while not classifying the loan as impaired if the loan is not a commercial or commercial real estate loan. Factors considered by management in determining impairment include payment status and collateral value. 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 expedient in the case of collateralized loans, the difference between the fair value of the collateral and the recorded amount of the loans. When foreclosure is probable, impairment is measured based on the fair value of the collateral.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for Loan Losses (continued)

Mortgage loans on one-to-four family properties and all consumer loans are large groups of smaller-balance homogeneous loans and are measured for impairment collectively unless included in an impaired loan relationship. Loans that experience insignificant payment delays, which are defined as 90 days or less, generally are not classified as impaired. Management determines the significance of payment delays on a case-by-case basis taking into consideration all the circumstances surrounding the loan and the borrower including the length of the delay, the borrower's prior payment record and the amount of shortfall in relation to the principal and interest owed. Residential mortgages and consumer loans are generally evaluated to determine a fair value of the collateral when 90 days past due and then are fully or partially charged down to reflect that fair value unless the loan is well secured and in the process of collection.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is principally computed on the straight-line method over the estimated useful lives of the related assets, which range from 3 to 20 years for furniture and equipment and 5 to 31 years for office buildings and improvements. Leasehold improvements are amortized over the shorter of their estimated useful lives or their respective lease terms, which range from 5 to 20 years. Expenditures for maintenance and repairs are charged against income as incurred. Costs of major additions and improvements are capitalized.

Bank-Owned Life Insurance ("BOLI")

The Company owns insurance on the lives of a certain group of key employees. The policies were purchased to help offset the increase in the costs of various fringe benefit plans including healthcare. The cash surrender value of these policies is included as an asset on the Consolidated Balance Sheet, and any increases in cash surrender value are recorded as noninterest income on the Consolidated Statement of Income. In the event of the death of an insured individual under these policies, the Company would receive a death benefit which would be recorded as noninterest income.

Other Real Estate Owned

Real estate acquired by foreclosure is classified on the Consolidated Balance Sheet at its fair value minus estimated costs of sale. Prior to foreclosure, the value of the underlying collateral is written down by a charge to the allowance for loan losses, if necessary. Any subsequent write-downs are charged against operating expenses. Operating expenses of such properties, net of related income and losses on their disposition, are included as other real estate owned expense.

Income Taxes

The Company and the Bank file a consolidated federal income tax return. Deferred tax assets or liabilities are computed based on the difference between the financial statement and the income tax basis of assets and liabilities using the enacted marginal tax rates. Deferred income tax expenses or benefits are based on the changes in the deferred tax asset or liability from period to period.

Earnings Per Share

The Company provides dual presentation of basic and diluted earnings per share. Basic earnings per share are calculated utilizing net income as reported as the numerator and average shares outstanding as the denominator. The computation of diluted earnings per share differs in that the dilutive effects of any options and non-vested restricted stock grants are adjusted for in the denominator.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Stock Based Compensation

The Company accounts for stock-based compensation issued to employees, and where appropriate non-employees, at fair value. Under fair value provisions, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the appropriate vesting period using the straight-line method. The amount of stock-based compensation recognized at any date must at least equal the portion of the grant date fair value of the award that is vested at that date and as a result it may be necessary to recognize the expense using a ratable method. Determining the fair value of stock-based awards at the date of grant requires judgment, including estimating the expected term of the stock options and the expected volatility of the Company's stock. In addition, judgment is required in estimating the amount of stock-based awards that are expected to be forfeited.

Mortgage Servicing Rights ("MSRs")

The Company has agreements for the express purpose of selling loans in the secondary market. The Company maintains servicing rights for most of these loans. MSRs are carried at the lower of cost or fair value. Originated MSRs are recorded by allocating total costs incurred between the loan and servicing rights based on their relative fair values. MSRs are amortized in proportion to the estimated servicing income over the estimated life of the servicing portfolio. MSRs are a component of other assets on the Consolidated Balance Sheet.

Derivative Instruments and Hedging Activities

The Company records all derivatives on the Consolidated balance sheet at fair value. The accounting for changes in fair value of derivatives depends on the intended use of the derivative, whether the Company elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability of expected future cash flows are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes of the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risk, even though the hedge accounting does not apply, or the Company elects not to apply hedge accounting. Changes in the fair value of derivatives designated as fair value hedges are recorded in earnings. Changes in the fair value of derivatives designated as cash flow hedges are recorded in accumulated other comprehensive income (loss) and are reclassified into the income statement when the hedge item affects earnings. Hedge ineffectiveness and gains on losses on the excluded component of a derivative in assessing hedge effectiveness are recorded in earnings. The interest rate swap with the swap counterparty and the hedging agreement is a derivative contract. As the interest rate swap and the customer hedging agreement are structured to offset each other, changes to the underlying market values of these instruments do not result in an impact to earnings; however, there may be fair value adjustments related to credit quality variations between counterparties, which may impact earnings as required by FASB ASC 820.

Revenue Recognition

The primary sources of the revenue the Company recognizes emanates from interest and dividend income on loans and securities along with noninterest revenue resulting from investment security gains, loan servicing, gains on the sale of loans, commitment fees, fees from financial guarantees, certain credit card fees and income on bank owned life insurance which are not in the scope of Accounting Standards Codification (ASC) 606, Revenue from Contracts with Customers. Services within the scope of ASC 606 include income from fiduciary activities, brokerage fees, service charges on deposits accounts, other service income, ATM fees, interchange fees and gain on sale of other real estate owned, net. For these accounts, fees are related to specific customer transactions that are attributable to specific performance obligations of the Bank where revenue is recognized at a defined point in time, completion of the requested service/transaction.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash Flows

The Company has defined cash and cash equivalents as cash and due from banks and interest-bearing deposits in other banks that have original maturities of 90 days or less.

Amounts paid for interest and income taxes and noncash activities are as follows (in thousands):

	2022	2021	2020
Cash paid during the year for:			
Interest	$ 3,677	$ 3,539	$ 5,267
Income taxes	$ 2,268	$ 2,627	$ 1,211
Noncash investing activities:			
Transfer of loans to other real estate owned	$ -	$ 109	$ 711
Loans to facilitate the sale of other real estate owned	$ -	$ 101	$ 200
Dividends payable	$ 971	$ 2,189	$ 855
Changes in unrealized holding (losses) and gains on available for sale securities	$ (27,562)	$ (3,192)	$ 3,446
Initial recognition of operating lease right of use assets	$ -	$ -	$ 379
Initial recognition of operating lease obligations	$ -	$ -	$ 379
Transfer of other real estate to fixed asset	$ -	$ -	$ 3,368
Investment purchase not settled	$ 970	$ -	$ -

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-13, Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments, which changes the impairment model for most financial assets. This standard, along with several other subsequent codification updates, replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses that are expected to occur over the remaining life of a financial asset and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments in this update require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The new current expected credit losses model (“CECL”) will apply to the allowance for loan losses, available-for-sale and held-to-maturity debt securities, purchased financial assets with credit deterioration and certain off-balance sheet credit exposures.

Management has completed its implementation plan, segmentation and testing, and model validation. The implementation plan included drafting of additional controls and policies to govern data uploads to its third-party vendor, balancing and reconciling, testing and auditing of inputs, and review and decision-making surrounding segmentation, methodologies, qualitative factor adjustments, and reasonable and supportable forecasts and reversion techniques. Parallel runs were processed during 2022 and the results were consistent with management's expectations. The implementation plan is currently going through the Company's control structure and internal control testing is being performed.

As a result of adopting this standard, the Company does not expect a material adjustment in its allowance effective January 1, 2023. These estimates are subject to further refinements based on ongoing evaluations of our model, methodologies, and judgments, as well as prevailing economic conditions and forecasts as of the adoption date. The adoption of ASU 2016-13 is not expected to have a significant impact on our regulatory capital ratios.

At adoption, the Company did not have any securities classified as HTM debt securities. No allowance was recorded related to AFS debt securities at the date of adoption, January 1, 2023.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements (continued)

In January 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, March 2020*, to provide temporary optional expedients and exceptions to the U.S. GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens of the expected market transition from LIBOR and other interbank offered rates to alternative reference rates, such as the Secured Overnight Financing Rate. Entities can elect not to apply certain modification accounting requirements to contracts affected by what the guidance calls "reference rate reform" if certain criteria are met. An entity that makes this election would not have to remeasure the contracts at the modification date or reassess a previous accounting determination. Also, entities can elect various optional expedients that would allow them to continue applying hedge accounting for hedging relationships affected by reference rate reform if certain criteria are met and can make a one-time election to sell and/or reclassify held-to-maturity debt securities that reference an interest rate affected by reference rate reform. The amendments in this ASU are effective for all entities upon issuance through December 31, 2022. In December 2022, the FASB issued ASU 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*, which extends the sunset (or expiration) date of Accounting Standards Codification (ASC) Topic 848 to December 31, 2024. This gives reporting entities two additional years to apply the accounting relief provided under ASC Topic 848 for matters related to reference rate reform. ASU 2022-06 is effective for all reporting entities immediately upon issuance and must be applied on a prospective basis. This Update is not expected to have a significant impact on the Company's financial statements.

In January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform (Topic 848)*, which provides optional temporary guidance for entities transitioning away from the London Interbank Offered Rate (LIBOR) and other interbank offered rates (IBORs) to new references rates so that derivatives affected by the discounting transition are explicitly eligible for certain optional expedients and exceptions within Topic 848. ASU 2021-01 clarifies that the derivatives affected by the discounting transition are explicitly eligible for certain optional expedients and exceptions in Topic 848. ASU 2021-01 is effective immediately for all entities. Entities may elect to apply the amendments on a full retrospective basis as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or on a prospective basis to new modifications from any date within an interim period that includes or is subsequent to the date of the issuance of a final update, up to the date that financial statements are available to be issued. The amendments in this update do not apply to contract modifications made, as well as new hedging relationships entered into, after December 31, 2022, and to existing hedging relationships evaluated for effectiveness for periods after December 31, 2022, except for certain hedging relationships existing as of December 31, 2022, that apply certain optional expedients in which the accounting effects are recorded through the end of the hedging relationship. This Update is not expected to have a significant impact on the Company's financial statements.

Reclassification of Comparative Amounts

Certain comparative amounts for prior years have been reclassified to conform to current year presentations. The reclassified amounts did not affect net income or stockholders' equity.

NOTE 2 - EARNINGS PER SHARE

There are no convertible securities that would affect the numerator in calculating basic and diluted earnings per share; therefore, net income as presented on the Consolidated Statement of Income will be used as the numerator. The following table sets forth the composition of the weighted-average common shares (denominator) used in the basic and diluted earnings per share computation for the years ended December 31:

	2022	2021	2020
Weighted-average common shares issued	2,635,734	2,607,475	2,573,579
Average treasury stock shares	(88,468)	(76,202)	(65,001)
Average unearned nonvested shares	(5,888)	(4,848)	(5,788)
Weighted-average common shares and common stock equivalents used to calculate basic earnings per share	2,541,378	2,526,425	2,502,790
Additional common stock equivalents (nonvested stock) used to calculate diluted earnings per share	131	50	-
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	4,456	64	15,310
Weighted-average common shares and common stock equivalents used to calculate diluted earnings per share	2,545,965	2,526,539	2,518,100

For the years ended December 31, 2022, 2021, and 2020, the Company excluded from the computation of diluted weighted average shares the impact of 15,150, 47,150, and 33,700 options to purchase shares of the Company's common stock as the effect would have been anti-dilutive.

NOTE 3 - INVESTMENT AND EQUITY SECURITIES

The amortized costs and fair value of investment securities at December 31 are summarized as follows (in thousands):

	2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
AVAILABLE FOR SALE				
U.S. government agencies	$ 5,663	$ 3	$ (284)	$ 5,382
Mortgage-backed securities of government-sponsored entities	24,962	-	(3,759)	21,203
Collateralized mortgage obligations of government-sponsored entities	92,020	34	(7,177)	84,877
Obligations of states and political subdivisions:				
Taxable	15,333	-	(3,545)	11,788
Tax-exempt	78,510	46	(9,055)	69,501
Asset backed securities	9,303	-	(200)	9,103
Corporate securities	18,359	5	(1,450)	16,914
Total	$ 244,150	$ 88	$ (25,470)	$ 218,768

	2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
AVAILABLE FOR SALE				
U.S. treasuries	$ 1,516	$ -	$ (30)	$ 1,486
U.S. government agencies	7,588	7	(157)	7,438
Mortgage-backed securities of government-sponsored entities	28,251	172	(387)	28,036
Collateralized mortgage obligations of government-sponsored entities	72,481	847	(597)	72,731
Obligations of states and political subdivisions:				
Taxable	12,562	68	(107)	12,523
Tax-exempt	72,917	2,461	(68)	75,310
Asset backed securities	9,933	81	(37)	9,977
Corporate securities	13,411	90	(163)	13,338
Total	$ 218,659	$ 3,726	$ (1,546)	$ 220,839

NOTE 3 - INVESTMENT AND EQUITY SECURITIES (continued)

The following table shows the Company's fair value and gross unrealized losses, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position, at December 31 (in thousands):

	2022					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government agencies	$ 1,300	$ (48)	$ 3,847	$ (236)	$ 5,147	$ (284)
Mortgage-backed securities of government-sponsored entities	5,061	(487)	16,142	(3,272)	21,203	(3,759)
Collateralized mortgage obligations of government-sponsored entities	44,959	(2,398)	32,342	(4,779)	77,301	(7,177)
Obligations of states and political subdivisions:						
Taxable	2,615	(444)	9,173	(3,101)	11,788	(3,545)
Tax-exempt	46,987	(4,694)	19,158	(4,361)	66,145	(9,055)
Asset backed securities	4,269	(55)	3,644	(145)	7,913	(200)
Corporate securities	7,357	(403)	6,130	(1,047)	13,487	(1,450)
Total	$112,548	$ (8,529)	$ 90,436	$ (16,941)	$202,984	$ (25,470)

	2021					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. treasuries	$ 1,486	$ (30)	$ -	$ -	$ 1,486	$ (30)
U.S. government agencies	1,667	(27)	5,295	(130)	6,962	(157)
Mortgage-backed securities of government-sponsored entities	19,979	(301)	2,573	(86)	22,552	(387)
Collateralized mortgage obligations of government-sponsored entities	30,432	(423)	7,919	(174)	38,351	(597)
Obligations of states and political subdivisions:						
Taxable	6,149	(74)	1,226	(33)	7,375	(107)
Tax-exempt	8,026	(66)	299	(2)	8,325	(68)
Asset backed securities	3,585	(37)	-	-	3,585	(37)
Corporate securities	6,551	(146)	484	(17)	7,035	(163)
Total debt securities	$ 77,875	$ (1,104)	$ 17,796	$ (442)	$ 95,671	$ (1,546)

The Company reviews its position quarterly and has asserted that at December 31, 2022 and 2021, the declines outlined in the previous tables represent temporary declines and the Company does not intend to sell and does not believe they will be required to sell these securities before recovery of their cost basis, which may be at maturity. There were 342 and 115 positions that were temporarily impaired at December 31, 2022 and 2021, respectively. The Company has concluded that the unrealized losses disclosed above are not other than temporary, but are the result of interest rate changes, sector credit ratings changes or company-specific ratings changes that are not expected to result in the non-collection of principal and interest.

NOTE 3 – INVESTMENT AND EQUITY SECURITIES (continued)

The amortized cost and fair values of debt securities at December 31, 2022, by contractual maturity, are shown below. Expected maturities of mortgage-backed securities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties (in thousands):

	Amortized Cost	Fair Value
Due in one year or less	$ 17,784	$ 16,734
Due after one year through five years	52,637	48,650
Due after five years through ten years	58,035	52,527
Due after ten years	115,694	100,857
Total debt securities	$ 244,150	$ 218,768

The following table is a summary of proceeds received, gross gains, and gross losses realized on the sale, call, and merger of investment securities for the years ended December 31 (in thousands):

	2022	2021	2020
Proceeds	$ 8,228	$ 10,639	$ 13,019
Gross gains	$ -	$ 225	$ 138
Gross losses	$ 860	$ -	$ (14)

Investment securities that were pledged to secure deposits, short-term borrowings and for other purposes as required by law as of December 31 are as follows (in thousands):

	2022	2021
Amortized cost	$ 133,894	$ 117,862
Fair value	$ 120,723	$ 119,208

Equity Securities

The following summary of unrealized and realized gains and losses recognized in net income on equity securities for the years ended December 31 are as follows (in thousands):

	2022	2021	2020
Net realized gains	$ -	$ -	$ -
Net unrealized gains (losses)	3	5	(7)
Net gains (losses)	$ 3	$ 5	$ (7)

There were no sales of equity securities in 2022, 2021 and 2020.

NOTE 4 - LOANS

Major classifications of loans at December 31 are as follows (in thousands):

	2022	2021
Commercial	$ 96,456	$ 135,292
Construction and development	47,861	35,421
Commercial real estate	390,201	360,213
Consumer	14,065	10,267
Residential real estate	130,489	116,074
Total	$ 679,072	$ 657,267

Total loans were net of unearned income of $2.2 million and $2.7 million at December 31, 2022 and 2021, respectively.

Real estate loans serviced for others which are not included in the Consolidated Balance Sheet totaled $94.6 million and $100 million, respectively at December 31, 2022 and 2021. Commercial loans serviced for others which are not included in the Consolidated Balance Sheet totaled $30.4 million and $24.5 million at December 31, 2022 and 2021, respectively.

In the normal course of business, loans are extended to officers and directors, their families, and corporations in which they are beneficially interested as stockholders, officers, or directors. A summary of loan activity for those officers and directors with aggregate loan balances in excess of $60,000 for the year ended December 31, 2022, and 2021, is as follows (in thousands):

December 31, 2021	Additions	Amounts Collected	December 31, 2022
$ 19,024	$ 2,590	$ 3,678	$ 17,936

December 31, 2020	Additions	Amounts Collected	December 31, 2021
$ 21,892	$ 5,001	$ 7,869	$ 19,024

The Company's primary business activity is with customers located within its local trade area. Generally, the Company grants commercial, residential and consumer loans. The Company also selectively funds and purchases commercial and residential loans outside of its local trade area provided such loans meet the Company's credit policy guidelines. At December 31, 2022 and 2021, the Company had approximately $182 million and $202 million, respectively, of outstanding loans to summer camps and recreational facilities in the northeastern United States. Although the Company has a diversified loan portfolio at December 31, 2022 and 2021, loans outstanding to individuals and businesses are dependent upon the local economic conditions in its immediate trade area.

During 2021 and 2020, the Company participated in the Paycheck Protection Program ("PPP"), administered directly by the U.S. SBA. The PPP provides loans to small businesses who were affected by economic conditions as a result of COVID-19 to provide cash-flow assistance to employers who maintain their payroll (including healthcare and certain related expenses), mortgage interest, rent, leases, utilities, and interest on existing debt during the COVID-19 emergency. During 2021 and 2020, the Company funded $65.1 million and $69.8 million in PPP loan, respectively. As of December 31, 2022, and 2021, the Company had outstanding principal balances of $4.4 and $40.8 million, respectively. The PPP loans are fully guaranteed by the SBA and may be eligible for forgiveness by the SBA to the extent that the proceeds are used to cover eligible payroll costs, interest costs, rent, and utility costs over a period of up to 24 weeks after the loan is made as long as certain conditions are met regarding employee retention and compensation levels. PPP loans deemed eligible for forgiveness by the SBA will be repaid by the SBA to the Company. PPP loans are included in the commercial loan category.

NOTE 4 – LOANS (continued)

In accordance with the SBA terms and conditions on these PPP loans, the Company received approximately $2.7 million in 2021 and $2.5 million in 2020 in fees associated with the processing of these loans. $1.1 million in fees was recognized in income in 2022 and $2.8 million in fees in 2021. $77 thousand was deferred as of December 31, 2022, and $1.2 million was deferred as of December 31, 2021. Upon funding of the loan, these fees were deferred and will be amortized over the life of the loan as an adjustment to yield in accordance with FASB ASC 310-20-25-2.

NOTE 5–ALLOWANCE FOR LOAN LOSSES

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the balance sheet date. The Company considers the allowance for loan losses adequate to cover loan losses inherent in the loan portfolio. The following tables present by portfolio segment, the allowance for loan losses for the year ended December 31 (in thousands):

	2022						
	Commercial	Construction & Development	Commercial Real Estate	Consumer	Residential Real Estate	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 2,090	$ 431	$ 6,804	$ 141	$ 1,531	$ 535	$ 11,532
Charge-offs	(218)	-	(160)	(87)	(16)	-	(481)
Recoveries	189	-	121	44	8	-	362
Provision	(163)	135	(611)	88	100	(374)	(825)
Ending balance	$ 1,898	$ 566	$ 6,154	$ 186	$ 1,623	$ 161	$ 10,588
Ending allowance balance:							
Loans individually evaluated for impairment	$ 89	$ -	$ 88	$ -	$ -	$ -	$ 177
Loans collectively evaluated for impairment	1,809	566	6,066	186	1,623	161	10,411
Total	$ 1,898	$ 566	$ 6,154	$ 186	$ 1,623	$ 161	$ 10,588
Ending loan balance:							
Loans individually evaluated for impairment	$ 652	$ -	$ 2,626	$ -	$ 813	$ -	$ 4,091
Loans collectively evaluated for impairment	95,804	47,861	387,575	14,065	129,676	-	674,981
Total	$ 96,456	$ 47,861	$ 390,201	$ 14,065	$ 130,489	$ -	$ 679,072

In 2022, the overall allowance for loan losses decreased due to a reduction in the specific reserve for one loan relationship and a decrease in classified loans even though our loan portfolio increased by $22 million.

NOTE 5 –ALLOWANCE FOR LOAN LOSSES (continued)

	2021						
	Commercial	Construction & Development	Commercial Real Estate	Consumer	Residential Real Estate	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 2,845	$ 358	$ 4,966	$ 155	$ 1,440	$ 890	$ 10,654
Charge-offs	(342)	-	(13)	(119)	(120)	-	(594)
Recoveries	48	-	170	40	14	-	272
Provision	(461)	73	1,681	65	197	(355)	1,200
Ending balance	$ 2,090	$ 431	$ 6,804	$ 141	$ 1,531	$ 535	$ 11,532
Ending allowance balance:							
Loans individually evaluated for impairment	$ 238	$ -	$ 1,400	$ -	$ 52	$ -	$ 1,690
Loans collectively evaluated for impairment	1,852	431	5,404	141	1,479	535	9,842
Total	$ 2,090	$ 431	$ 6,804	$ 141	$ 1,531	$ 535	$ 11,532
Ending loan balance:							
Loans individually evaluated for impairment	$ 929	$ -	$ 11,023	$ -	$ 747	$ -	$ 12,699
Loans collectively evaluated for impairment	134,363	35,421	349,190	10,267	115,327	-	644,568
Total	$ 135,292	$ 35,421	$ 360,213	$ 10,267	$ 116,074	$ -	$657,267

In 2021, the allowance for loan losses on individually analyzed commercial real estate loans increased as overall balances on impaired loans of this type decreased. This increase was due to the changes in the collateral value supporting loans in the commercial real estate category.

NOTE 5 –ALLOWANCE FOR LOAN LOSSES (continued)

	2020						
	Commercial	Construction & Development	Commercial Real Estate	Consumer	Residential Real Estate	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 2,771	$ 205	$ 3,333	$ 130	$ 1,285	$ 714	$ 8,438
Charge-offs	(947)	-	(431)	(81)	(23)	-	(1,482)
Recoveries	105	-	35	55	3	-	198
Provision	916	153	2,029	51	175	176	3,500
Ending balance	$ 2,845	$ 358	$ 4,966	$ 155	$ 1,440	$ 890	$ 10,654
Ending allowance balance:							
Loans individually evaluated for impairment	$ 193	$ -	$ 559	$ -	$ 100	$ -	$ 852
Loans collectively evaluated for impairment	2,652	358	4,407	155	1,340	890	9,802
Total	$ 2,845	$ 358	$ 4,966	$ 155	$ 1,440	$ 890	$ 10,654
Ending loan balance:							
Loans individually evaluated for impairment	$ 1,673	$ -	$ 17,680	$ -	$ 1,403	$ -	$ 20,756
Loans collectively evaluated for impairment	162,612	31,857	309,205	11,077	109,224	-	623,975
Total	$ 164,285	$ 31,857	$ 326,885	$ 11,077	$ 110,627	$ -	$ 644,731

In 2020, the allowance for loan losses increased due to the impact of the world-wide pandemic on the qualitative factors used in the allowance calculation. The more significant impacts were caused by the dramatic increase on the local communities' unemployment rate and the decline of the U.S. economy. Commercial real estate loans reviewed on an individual basis increased, however the reserve on these loans decreased due to value of the collateral. Additionally, the hospitality industry was significantly affected by the pandemic, and we increased our qualitative factors in this sector which impacted the commercial and commercial real estate categories.

NOTE 5 –ALLOWANCE FOR LOAN LOSSES (continued)

Credit Quality Information

The following tables represent credit exposures by assigned grades for the years ended December 31, 2022 and 2021. 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 which are protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral.

Special Mention – loans where a potential weakness or risk exists, which could cause a more serious problem if not corrected.

Substandard – loans that have a well-defined weakness based on objective evidence and are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful – loans classified as doubtful 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 classified as a loss are considered uncollectable, or of such value that continuance as an asset is not warranted.

NOTE 5 –ALLOWANCE FOR LOAN LOSSES (continued)

Credit Quality Information (continued)

Loans are graded by either independent loan review or internal review. Internally reviewed loans were assigned a risk weighting by the loan officer and approved by the loan committee but have not undergone a formal loan review by an independent party. These loans are typically smaller dollar balances that have not experienced delinquency issues. Balances are net of unearned income and include overdrafts, loan settlement and loan unposted, as of December 31 (in thousands):

	2022					
	Commercial	Construction & Development	Commercial Real Estate	Consumer	Residential Real Estate	Total
Pass	$ 94,254	$ 44,514	$ 369,170	$ 14,053	$ 128,527	$ 650,518
Special Mention	143	-	17,231	-	444	17,818
Substandard	2,059	3,347	3,800	12	1,518	10,736
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$ 96,456	$ 47,861	$ 390,201	$ 14,065	$ 130,489	$ 679,072

	2021					
	Commercial	Construction & Development	Commercial Real Estate	Consumer	Residential Real Estate	Total
Pass	$ 131,036	$ 31,946	$ 335,227	$ 10,267	$ 113,836	$ 622,312
Special Mention	1,853	107	13,190	-	586	15,736
Substandard	2,403	3,368	11,796	-	1,652	19,219
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$ 135,292	$ 35,421	$ 360,213	$ 10,267	$ 116,074	$ 657,267

NOTE 5 –ALLOWANCE FOR LOAN LOSSES (continued)

Age Analysis of Past Due Loans by Class

The following is a table which includes an aging analysis of the recorded investment of past due loans as of December 31 including loans which are in nonaccrual status (in thousands):

	2022						
	30-59 Days Past Due	60-89 Days Past Due	90 Days Or Greater	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Commercial	$ 27	$ 38	$ -	$ 65	$ 96,391	$ 96,456	$ -
Construction and development	100	-	-	100	47,761	47,861	-
Commercial real estate	650	-	1,851	2,501	387,700	390,201	-
Consumer	11	11	5	27	14,038	14,065	-
Residential real estate	308	47	332	687	129,802	130,489	-
Total	$ 1,096	$ 96	$ 2,188	$ 3,380	$ 675,692	$ 679,072	$ -

	2021						
	30-59 Days Past Due	60-89 Days Past Due	90 Days Or Greater	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Commercial	$ 14	$ -	$ 251	$ 265	$ 135,027	$ 135,292	$ -
Construction and development	-	-	-	-	35,421	35,421	-
Commercial real estate	783	118	1,916	2,817	357,396	360,213	-
Consumer	63	12	-	75	10,192	10,267	-
Residential real estate	33	211	62	306	115,768	116,074	-
Total	$ 893	$ 341	$ 2,229	$ 3,463	$ 653,804	$ 657,267	$ -

NOTE 5 –ALLOWANCE FOR LOAN LOSSES (continued)

Impaired Loans

Management considers loans which are 90 days or more past due and accruing or any TDR with a balance of $100,000 or greater as impaired, and if warranted, includes the entire customer relationship in that status. Non-accruing loans greater than $250,000 are considered impaired. 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.

The following tables include the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount, if applicable, as of December 31 (in thousands):

	2022				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ 81	$ 90	$ -	$ 187	$ 3
Commercial real estate	2,312	3,828	-	5,717	419
Residential real estate	813	1,069	-	739	48
With an allowance recorded:					
Commercial	571	740	89	609	36
Commercial real estate	314	314	88	332	60
Residential real estate	-	-	-	120	-
Total	$ 4,091	$ 6,041	$ 177	$ 7,704	$ 566

	2021				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ 166	$ 168	$ -	$ 284	$ 5
Commercial real estate	9,111	10,750	-	13,995	842
Residential real estate	517	867	-	726	49
With an allowance recorded:					
Commercial	763	803	238	784	55
Commercial real estate	1,912	2,002	1,400	1,970	104
Residential real estate	230	230	52	233	9
Total	$ 12,699	$ 14,820	$ 1,690	$ 17,992	$ 1,064

NOTE 5 –ALLOWANCE FOR LOAN LOSSES (continued)

Impaired Loans (continued)

	2020				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ 1,178	$ 1,855	$ -	$ 1,836	$ 98
Commercial real estate	15,638	17,626	-	13,673	962
Residential real estate	1,132	1,497	-	1,312	92
With an allowance recorded:					
Commercial	495	728	193	1,129	41
Commercial real estate	2,042	2,041	559	823	32
Residential real estate	271	271	100	274	12
Total	$ 20,756	$ 24,018	$ 852	$ 19,047	$ 1,237

Nonaccrual Loans

The following are the loans, presented by class, on nonaccrual status as of December 31 (in thousands):

	2022	2021
Commercial	$ 660	$ 1,292
Commercial real estate	2,785	11,134
Consumer	11	-
Residential real estate	1,114	1,173
Total	$ 4,570	$ 13,599

Residential real estate loans in process of foreclosure were $261 and $14 for the years ended December 31, 2022, and 2021, respectively.

NOTE 5 –ALLOWANCE FOR LOAN LOSSES (continued)

Troubled Debt Restructurings

Loan modifications that are considered troubled debt restructurings completed during the year are as follows (dollars in thousands):

	2022		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	1	$ 120	$ 43
Residential real estate	1	254	254
Total	2	$ 374	$ 297

	2021		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commerical real estate	2	$ 812	$ 812
Residential real estate	1	239	239
Total	3	$ 1,051	$ 1,051

In 2022, the bank restructured two loans. No additional interest was recognized because all loans are on non-accrual.

In 2021, the bank restructured three loans. No additional interest was recognized because all loans are on non-accrual.

When a loan is classified as a troubled debt restructuring, we evaluate it for impairment. Unsecured loans are evaluated based on the present value of expected cash flows discounted at the contractual interest rate of the original loan agreement. Secured loans are evaluated based on a discounted fair market value of the collateral minus the cost to sell. If the value of the modified loan is less than the recorded investment, impairment is recognized either through a charge off to the allowance for loan losses or a specific reserve. As of December 31,2022, a charge off of $77 thousand was required on a commercial loan trouble debt restructuring while in 2021 no charge offs were required.

NOTE 6 - PREMISES AND EQUIPMENT

A summary by asset classification at December 31 is as follows (in thousands):

	2022	2021
Land	$ 3,493	$ 3,493
Premises and improvements	22,370	17,103
Furniture and equipment	5,585	4,843
Leasehold improvements	2,080	2,653
Total, at cost	33,528	28,092
Less accumulated depreciation	12,970	13,167
Net premises and equipment	$ 20,558	$ 14,925

Depreciation and amortization expense was $723, $535, and $567 thousand, in 2022, 2021, and 2020, respectively.

NOTE 7 - DEPOSITS

Deposits at December 31 are summarized as follows (in thousands):

	2022	2021
Demand - noninterest-bearing	$ 193,322	$ 185,556
Demand - interest-bearing	185,149	188,547
Money market	88,981	104,277
Savings	155,720	152,740
Time deposits of $250,000 or more	63,547	56,350
Other time deposits	100,855	109,446
Total	$ 787,574	$ 796,916

Included in the deposit accounts are deposits of one customer relationship totaling $41 million and $36.8 million at December 31, 2022 and 2021, respectively.

The following table summarizes the maturity distribution of time deposits at December 31, 2022 (in thousands):

2023	$ 136,049
2024	21,237
2025	3,202
2026	1,609
2027	2,305
Total	$ 164,402

Brokered deposits totaled $9.6 million and $13.5 million for the years ended December 31, 2022, and 2021, respectively.

NOTE 8 - SHORT-TERM BORROWINGS

Short-term borrowings consist of borrowings from correspondent banks and securities sold under agreements to repurchase. Average amounts outstanding during the year represent daily average balances and average interest rates represent interest expense divided by the related average balance.

The outstanding balances and related information for short-term borrowings at December 31 are summarized as follows (in thousands):

	2022		2021	
	Amount	Rate	Amount	Rate
Balance at year-end	$ 65,164	4.43%	$ 2,500	.26%
Average balance outstanding during the year	$ 13,144	3.23%	$ 12,039	.34%
Maximum amount outstanding at any month-end	$ 65,164		$ 23,200	

FHLB borrowings are subject to annual renewal, incur no service charges and are secured by a blanket security agreement on certain investment securities, qualifying loans, and the Bank's investment in FHLB stock.
At December 31, 2022, the Bank's remaining borrowing capacity with FHLB was approximately $270 million. The Bank has unsecured lines of credit with correspondent banks in the amount of $22 million. In addition, the Bank has the ability to borrow overnight at the Federal Reserve Bank of Philadelphia ("Fed") discount window based on the level of collateral pledged. At December 31, 2022 the balance available was approximately $9.9 million.

NOTE 9 - OTHER BORROWED FUNDS

Other borrowed funds consist of FHLB fixed rate advances at December 31 as follows (in thousands):

Description	Maturity Range From	Maturity Range To	Weighted-Average Rate	Stated Interest Rate Range From	Stated Interest Rate Range To	2022	2021
Fixed rate	01/04/23	03/31/25	1.66%	.95%	3.91%	$ 11,541	$ 23,541
Fixed rate amortizing	12/28/23	08/23/27	2.99%	2.31%	4.91%	3,349	20,788
Total						$ 14,890	$ 44,329

The following table represents maturities/repayments and weighted average rates of the remaining FHLB advances (in thousands):

Year Ending December 31,	Maturities/ Repayments	Weighted-Average Rate
2023	$ 5,585	1.96%
2024	2,480	1.44%
2025	5,839	1.50%
2026	838	2.31%
2027	148	2.31%
Total	$ 14,890	1.71%

NOTE 10- DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses interest rate swaps as part of its interest rate risk management strategy. In 2020, the Company entered into an interest rate swap designated as a cash flow hedge that involved the payment of fixed amount in exchange for the receipt of a variable amount from a counterparty. As of December 31, 2022, and 2021, the Company had one cash flow hedge with a notional amount of $2.5 million. For derivatives designed as cash flow hedges, the effective portion of changes in fair value of the derivative is initially reported in other comprehensive income (outside of earnings), net of tax, and subsequently reclassified to earnings when the hedged transaction affects earnings and the ineffective portion of changes in the fair value of the derivative is recognized directly into earnings. The Company assesses the effectiveness of the relationship by comparing the changes in cash flows of the designated hedged transaction. The Company did not recognize any hedge ineffectiveness in earnings during the period ended December 31, 2022, and 2021. As of December 31, 2022, and 2021, the Company was not required to pledge any collateral for the cash flow hedge.

In 2018, the Company entered into an interest rate swap to hedge the interest rate risk related to a fixed rate commercial loan. Under the commercial loan agreement, the Company entered into a variable rate loan agreement with a customer in addition to a hedging agreement, which serves to effectively convert the customer's variable rate into a fixed rate. The Company then entered into a corresponding interest rate swap agreement with a swap counterparty in order to economically hedge its exposure to the customer hedging agreement. The interest rate swap with the swap counterparty and the hedging agreement with the customer are not designated as hedges under FASB ASC 815. The customer hedging agreement meets the definition of a derivative contract (ASC 815-10-83) that must be bifurcated (ASC 815-15-25-1) and accounted for as a standalone derivative. The market value of both the interest rate swap and the customer hedging agreement are carried on the balance sheet at their underlying market values.

Changes in the underlying market values of the interest rate swap and the customer hedging agreement are recorded in current earnings. There was no effect on earnings in any periods presented. At December 31, 2022, based upon the swap contract values, a U.S. Government-sponsored mortgage-backed security was pledged for collateral with the third-party financial institution with a fair value $448 thousand.

As part of the LIBOR transition considerations, the Company recognizes that new LIBOR swap contracts cannot be entered into after December 31, 2021. In addition, any existing contracts tied to LIBOR must be amended to a new index by June 30, 2023. The company anticipates utilizing the Secured Overnight Rate ("SOFR") for existing contracts on or before June 2023. FASB ASU 2020-04 recognizes SOFR as the preferred alternative to LIBOR. The Company does not anticipate a material impact to the Company's financial position and /or results of operations.

As of December 31, summary information regarding these derivatives is presented below (in thousands):

2022

Interest Rate Derivative	Notional Amount	Interest Rate Paid	Interest Rate Received	Maturity Date	Unrealized Gain
Commerical Loan	$ 2,392	Fixed	1 month Libor plus margin	2028	$ -
90 day wholesale funding	$ 2,500	Fixed	3 month Libor	2023	$ 54

2021

Interest Rate Derivative	Notional Amount	Interest Rate Paid	Interest Rate Received	Maturity Date	Unrealized Gain
Commerical Loan	$ 2,553	Fixed	1 month Libor plus margin	2028	$ -
90 day wholesale funding	$ 2,500	Fixed	3 month Libor	2023	$ 20

NOTE 10- DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The following table presents the fair values of derivative instruments in the balance sheet as of December 31 (in thousands):

Interest rate derivatives	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
2022	Other assets	$ 60	Other liabilities	$ 33
2021	Other assets	$ 295	Other liabilities	$ 291

NOTE 11 - DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

The Company maintains a Dividend Reinvestment and Stock Purchase Plan (the "DRP Plan"). Participation is available to all common stockholders. The DRP Plan provides each participant with a simple and convenient method of purchasing additional common shares without payment of any brokerage commission or other service fees.

A participant in the DRP Plan may elect to reinvest dividends on all or part of his or her shares to acquire additional common stock. Participants may also make cash contributions for the purchase of additional shares of common stock. A participant may withdraw from the DRP Plan at any time. The following table represents the number of shares purchased by stockholders through the DRP Plan:

	2022	2021	2020
Shares purchased through dividend reinvestment	26,564	23,409	20,645
Shares purchased through cash contributions	1,434	2,076	1,661
Total shares	27,998	25,485	22,306

The Company offers an Employee Stock Purchase Plan that allows eligible employees the opportunity through payroll deductions to purchase shares of the Company stock at a discounted rate with no additional fees. Employees purchased 2,582 shares in 2022, 2,584 shares in 2021, and 2,561 shares in 2020 under this program.

NOTE 12 - EMPLOYEE BENEFITS

Retirement Plan

The Bank maintains a section 401(k) employee savings and investment plan for substantially all employees and officers of the Bank. The Bank's contribution to the plan is based on 100 percent matching of voluntary contributions up to 3 percent and 50 percent matching on the next 2 percent of individual compensation. Additionally, the Bank may contribute a discretionary amount each year. For each of the years of 2022, 2021, and 2010, the Board of Directors authorized an additional 4 percent, 4 percent, and 3 percent, respectively, of each eligible employee's compensation. Employee contributions are vested at all times, and Bank contributions are fully vested after five years. Contributions for 2022, 2021, and 2020 to this plan amounted to $604, $669, and $529 thousand, respectively.

Supplemental Retirement Plan

The Bank maintains a Salary Continuation Plan for certain officers of the Bank to provide guaranteed consecutive postretirement payments totaling a predetermined amount over a ten or fifteen-year period. As of December 31, 2022, and 2021 these balances were $4.6 million and $4.3 million, respectively. Expenses for the years ended December 31, 2022, 2021, and 2020 amounted to $533, $496, and $353 thousand, respectively, and are included as a component of salaries and employee benefits.

NOTE 12 - EMPLOYEE BENEFITS (continued)

Stock Compensation Plans

On April 25, 2019, the 2019 Equity Incentive Plan was approved by shareholders. A total of 200,000 shares are included for issuance or transfer. The plan will terminate on the day preceding the tenth anniversary of the date of shareholder ratification. These awards may be made as incentive stock options, non-qualified stock options, stock appreciation rights, deferred stock, performance award or restricted stock grants. The only restriction placed on awards are that a maximum of 25,000 shares can be awarded per individual per calendar year. Options are granted at no less than the fair value of the Company's common stock on the date of grant.

There were 15,150 options of the 2019 Equity Incentive Plan granted in 2022 and 16,050 options in 2021 and 10,200 options granted in 2020. There were 5,300 shares of shares of restricted stock of the 2019 Equity Incentive Plan granted in 2022 and 5,600 in 2021 and 3,590 shares granted in 2020.

The Company also maintains an Equity Incentive Plan approved April 22, 2010. A total of 187,500 shares of either authorized and unissued shares or authorized shares issued by and subsequently reacquired by the Company are issuable under the Plan. The Plan was terminated on April 21, 2020. These awards may be made as incentive stock options, non-qualified stock options or restricted stock grants. Restrictions placed on awards are: 1) a maximum of 25%, or 46,875 of the shares may be issued to directors and 2) up to 25%, or 46,875, of the shares in the Plan may be awarded as restricted stock. Awards are granted at no less than the fair value of the Company's common stock on the date of grant.

There were no options of the 2010 plan granted in 2022, 2021 or 2020. There were no shares of restricted stock of the 2010 plan granted in 2022, 2021 or 2020.

Stock options and restricted stock granted to directors vested over two years. Stock options and restricted stock granted to officers vested over five years. All stock options expire ten years after the grant. The weighted average period over which these expenses were recognized was approximately five years for employees and two years for directors.

The Company expenses the fair value of all share-based compensation over the requisite service periods. The fair value of both stock options and restricted stock are expensed on a straight-line basis. The Company classifies share-based compensation for employees within "salaries and employee benefits" and for directors within "other expense" on the Consolidated Statement of Income. Additionally, the Company reports the expense associated with the grants as an adjustment to operating cash flows.

As of December 31, the following was expensed as compensation expense relating to share-based compensation (in thousands):

	2022	2021	2020
Stock options	$ 47	$ 39	$ 47
Restricted stock	$ 119	$ 96	$ 76

As of December 31, 2022, there was a tax benefit recognized of $32 thousand, there was no tax benefit recognized in 2021 and there was a tax benefit of $16 thousand recognized in 2020.

As of December 31, the following was unrecognized compensation related to the plan (in thousands):

	2022	2021	2020
Stock options	$ 177	$ 128	$ 94
Restricted stock	$ 446	$ 329	$ 224

NOTE 12 - EMPLOYEE BENEFITS (continued)

Stock Compensation Plans (continued)

A summary of the Company's stock award activity for the year ended December 31 is as follows:

	2022	Weighted-Average Exercise Price
Stock options:		
Outstanding, beginning of year	49,250	$ 38.02
Granted	15,150	$ 44.44
Exercised	(1,690)	$ 36.72
Forfeited	-	-
Expired	-	-
Outstanding, end of year	62,710	$ 39.61
Restricted stock awards:		
Nonvested, beginning of year	11,187	$ 37.05
Granted	5,300	$ 44.44
Vested	(3,050)	$ 37.30
Forfeited	-	-
Nonvested, end of year	13,437	$ 39.91

The following table summarizes characteristics of stock options outstanding at December 31, 2022:

	Outstanding			Exercisable	
Exercise Price	Shares	Average Remaining Life	Average Exercise Price	Shares	Average Exercise Price
$ 40.30	23,200	6.05	$ 40.30	16,800	$ 40.30
$ 36.00	9,470	7.34	$ 36.00	3,640	$ 36.00
$ 35.90	14,890	8.46	$ 35.90	2,810	$ 35.90
$ 44.44	15,150	9.93	$ 44.44	-	$ 44.44
Total	62,710		Total	23,250	

On February 23, 2017, the Company adopted an employee stock bonus plan. Stock is issued at no cost to certain employees. Expense associated with this plan is included in salaries and employee benefits. There were no expenses related to the plan year ended December 31, 2022, 2021, or 2020. A total of 750 shares of common stock are reserved under the plan. There were no shares issued in 2022. There were 120 shares with 435 available to be issued as of December 31, 2021. There were no shares issued in 2020.

	2022	2021	2020
Available shares to be issued	435	555	555
Granted	-	-	-
Shares issued	-	120	-
Remaining shares	435	435	555

NOTE 13 - INCOME TAXES

Income tax expense at December 31 consists of the following (in thousands):

	2022	2021	2020
Currently payable-federal	$ 1,886	$ 2,348	$ 1,730
Currently payable-state	212	142	86
Deferred taxes	389	(334)	(597)
Total provision	$ 2,487	$ 2,156	$ 1,219

The components of the net deferred tax assets and liabilities at December 31 are as follows (in thousands):

	2022	2021
Deferred tax assets:		
Allowance for loan losses	$ 2,223	$ 2,422
Salary continuation plan	970	908
Nonaccrual loans	241	318
Stock options and grants	47	41
Right of use-leases	428	290
Accrued compensation	84	81
Partnership investment	459	275
Deferred Fees-PPP	16	257
Unrealized loss on investment securities	5,330	-
Total	9,798	4,592
Deferred tax liabilities:		
Premises and equipment	317	219
Deferred loan origination fees, net	126	136
Prepaid contribution	86	46
Lease liability	417	286
Derivative	6	-
Unrealized gain on investment securities	-	458
Total	952	1,145
Net deferred tax assets	$ 8,846	$ 3,447

No valuation allowance was established at December 31, 2022 and 2021, in view of the Company's ability to carryback taxes paid in previous years and certain tax strategies and anticipated future taxable income as evidenced by the Company's earnings potential.

NOTE 13 - INCOME TAXES (continued)

A reconciliation between the expected statutory income tax rate and the effective income tax rate follows (in thousands):

	2022		2021		2020	
	Amount	% of Pretax Income	Amount	% of Pretax Income	Amount	% of Pretax Income
Provision at statutory rate	$ 3,114	21.0 %	$ 2,963	21.0 %	$ 2,116	21.0 %
State tax, net of federal tax benefit	168	1.1	112	.8	69	.7
Tax-exempt income	(448)	(3.0)	(436)	(3.1)	(377)	(3.8)
BOLI earnings	(123)	(.8)	(110)	(.8)	(93)	(.9)
Nondeductible interest	43	.3	34	.2	29	.3
Partnership investment tax credit	(343)	(2.3)	(371)	(2.6)	(578)	(5.7)
Stock options	-	-	(48)	(.3)	(28)	(.3)
Other, net	76	.5	12	.1	81	.8
Effective income tax and rate	$ 2,487	16.8 %	$ 2,156	15.3 %	$ 1,219	12.1 %

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. 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. The Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the Consolidated Statement of Income. The Company's federal and state income tax returns for taxable years through 2018 have been closed for purposes of examination by the Internal Revenue Service and the Pennsylvania Department of Revenue.

NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

In the normal course of business, there are outstanding commitments and contingent liabilities such as commitments to extend credit, financial guarantees and letters of credit that are not reflected in the accompanying Consolidated Financial Statements. The Company does not anticipate any losses as a result of these transactions. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Consolidated Balance Sheet. The contractual or notional amounts of those instruments reflect the extent of involvement the Company has in the particular classes of financial instruments.

NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Financial instruments whose contractual amounts represent credit risk at December 31 are as follows (in thousands):

	2022	2021
Commitments to extend credit	$ 93,602	$ 98,315
Standby letters of credit	$ 9,093	$ 9,300

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Standby letters of credit represent conditional commitments issued by the Company to guarantee the performance of a customer to a third party. These instruments are issued primarily to support bid or performance-related contracts. The coverage period for these instruments is typically a one-year period with an annual renewal option subject to prior approval by management. Fees earned from the issuance of these letters are recognized at the expiration of the coverage period.

On September 28, 2016, the Company entered into an Agreement of Limited Partnership which generates low-income housing credits for use in future periods. The agreement states the Bank will acquire a 33.33% interest in the partnership at a cost of $2,500. The final installment of this investment of $29 thousand was paid in 2020.

Operating leases in which the Company is the lessee are recorded as operating lease Right of Use ("ROU") assets and operating lease liabilities, included in other assets and other liabilities, respectively, on the consolidated balance sheets. The Company does not currently have any finance leases. Operating lease ROU assets represent the right to use an underlying asset during the lease term and operating lease liabilities represent the obligation to make lease payments arising from the lease. The Company elected to adopt the transition method, which uses a modified retrospective transition approach. ROU assets and operating lease liabilities are recognized as of the date of adoption based on the present value of the remaining lease payments using a discount rate that represents the Company's incremental borrowing rate at the date of initial application.

Operating lease expense, which is comprised of amortization of the ROU asset and the implicit interest accreted on the operating lease liability, is recognized on a straight-line basis over the lease term and is recorded in occupancy and equipment expense in the consolidated statements of income and other comprehensive income. The leases relate to bank branches with remaining lease terms of generally 1 to 5 years. Certain lease arrangements contain extension options which are typically 5 years at the then fair market rental rates. As these extension options are generally considered reasonably certain of exercise, they are included in the lease term.

At December 31, 2022, operating lease ROU assets were $2.0 million, and operating lease liabilities were $2.0 million.

December 31, 2022	
Weighted average remaining lease term- operating leases in years	17.2
Weighted average discounted rate-operating leases	3.50%

NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES (continued)

The following table summarizes aggregate lease maturities and obligations as of December 31, 2022 (in thousands):

2023	$ 203
2024	190
2025	190
2026	189
2027	170
2028 and thereafter	1,851
Total lease payments	2,793
Less: interest	754
Present value of lease liability	$ 2,039

Rental expense amounted to $333, $290, and $280 thousand for the years ended December 31, 2022, 2021, and 2020, respectively.

Contingent Liabilities

The Company and its subsidiary are involved in various legal actions from the normal course of business activities. Management believes the liability, if any, arising from such actions will not have a material adverse effect on the Company's financial position.

NOTE 15 - REGULATORY RESTRICTIONS

Cash and Due From Banks

The Bank is no longer required to maintain reserved funds in cash or on deposit with Fed.

Dividends

The Pennsylvania Banking Code restricts the availability of capital funds for payment of dividends by all state-chartered banks to the surplus of the Bank. Accordingly, at December 31, 2022, the balance in the capital surplus account totaling approximately $1.8 million is unavailable for dividends.

NOTE 16 - REGULATORY CAPITAL REQUIREMENTS

Federal regulations require the Company and the bank to maintain minimum amounts of capital. Specifically, each is required to maintain certain minimum dollar amounts of ratios of Common Equity Tier 1, Total, and Tier 1 Capital to Risk-Weighted Assets and of Tier 1 Capital to Average Assets.

In addition to the capital requirements, the Federal Deposit Insurance Corporation Insurance Act ("FDICIA") established five capital categories ranging from "well capitalized" to "critically undercapitalized." Should any institution fail to meet the requirements to be considered "adequately capitalized," it would become subject to a series of increasingly restrictive regulatory actions.

As of December 31, 2022, and 2021, the FDIC categorized the bank as well capitalized under the regulatory framework for prompt corrective action. To be classified as a well-capitalized financial institution, Common Equity Tier 1 Risk-Based, Tier 1 Risked-Based, Total Risk-Based, and Tier 1 Leverage Capital ratios must be at least 6.5%, 8%, 10%, and 5%, respectively.

The Company's capital position does not differ significantly from the bank's capital position. The Company's actual capital ratios (using the definitions from the prompt corrective action rules) are presented in the following tables, which shows the Company met all regulatory capital requirements.

NOTE 16 - REGULATORY CAPITAL REQUIREMENTS (continued)

At December 31, 2022 and 2021, the Company's capital levels were as follows (in thousands):

	2022		2021	
	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-Weighted Assets)				
Actual	$ 118,480	14.19%	$ 108,499	14.45%
For capital adequacy purposes	$ 66,783	8.00%	$ 60,080	8.00%
To be well capitalized	$ 83,479	10.00%	$ 75,101	10.00%
Tier I Capital (to Risk-Weighted Assets)				
Actual	$ 108,043	12.94%	$ 99,085	13.19%
For capital adequacy purposes	$ 50,087	6.00%	$ 45,060	6.00%
To be well capitalized	$ 66,783	8.00%	$ 60,080	8.00%
Tier I Capital (to Average Assets)				
Actual	$ 108,043	11.07%	$ 99,085	10.48%
For capital adequacy purposes	$ 39,046	4.00%	$ 37,829	4.00%
To be well capitalized	$ 48,808	5.00%	$ 47,286	5.00%
Common Equity Tier 1 (to Risk-Weighted Assets)				
Actual	$ 108,043	12.94%	$ 99,085	13.19%
For capital adequacy purposes	$ 37,565	4.50%	$ 33,795	4.50%
To be well capitalized	$ 54,261	6.50%	$ 48,815	6.50%

NOTE 17 – 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 defined by the Company are as follows:

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

Level II: Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities include 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: Assets and liabilities that have little to no pricing observability as of the reported date. These items do not have two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

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

The following is a description of the valuation methodologies the Company uses for financial instruments recorded at fair value on either a recurring or nonrecurring basis:

Securities Available for Sale

Securities available for sale consists of debt securities. These securities are recorded at fair value on a recurring basis. At December 31, all of these securities used valuation methodologies involving market-based or market derived information, collectively Level I and Level II measurements, to measure fair value.

The Company closely monitors market conditions involving assets that have become less actively traded. If the fair value measurement is based upon recent observable market activity of such assets or comparable assets (other than forced or distressed transactions) that occur in sufficient volume, and do not require significant adjustment using unobservable inputs, those assets are classified as Level I or Level II; if not, they are classified as Level III. Making this assessment requires significant judgment.

The Company uses prices from independent pricing services and, to a lesser extent, indicative (non-binding) quotes from independent brokers to measure securities.

Equity Securities

Equity securities are recorded at fair value on a recurring basis. At December 31, these securities used valuation methodologies involving market-based information as Level 1 measurements to measure fair value.

Derivative Instruments

Derivates are recorded at fair value on a recurring basis. At December 31, these derivatives used valuation methods involving discounted net present value of the fixed and floating cash flow streams.

NOTE 17 – FAIR VALUE MEASUREMENTS (continued)

The following tables present the assets reported on the Consolidated Balance Sheet at their fair value as of December 31, 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 (in thousands):

	2022			
	Level 1	Level II	Level III	Total
Assets:				
U.S. government agencies	$ -	$ 5,382	$ -	$ 5,382
Mortgage-backed securities of government-sponsored entities	-	21,203	-	21,203
Collateralized mortgage obligations of government-sponsored entities	-	84,877	-	84,877
Obligations of states and political subdivisions:				
Taxable	-	11,788	-	11,788
Tax-exempt	-	69,501	-	69,501
Asset backed securities	-	9,103	-	9,103
Corporate securities	-	14,964	1,950	16,914
Total debt securities	$ -	$ 216,818	$ 1,950	$ 218,768
Equity securities of financial institutions	$ 55	$ -	$ -	$ 55
Derivatives	$ -	$ 60	$ -	$ 60
Liabilities:				
Derivatives	$ -	$ 33	$ -	$ 33

	2021			
	Level 1	Level II	Level III	Total
Assets:				
U.S. treasuries	$ -	$ 1,486	$ -	$ 1,486
U.S. government agencies	-	7,438	-	7,438
Mortgage-backed securities of government-sponsored entities	-	28,036	-	28,036
Collateralized mortgage obligations of government-sponsored entities	-	69,727	3,004	72,731
Obligations of states and political subdivisions:				
Taxable	-	12,523	-	12,523
Tax-exempt	-	75,310	-	75,310
Asset backed securities	-	9,977	-	9,977
Corporate securities	-	11,638	1,700	13,338
Total debt securities	$ -	$ 216,135	$ 4,704	$ 220,839
Equity securities of financial institutions	$ 52	$ -	$ -	$ 52
Derivatives	$ -	$ 295	$ -	$ 295
Liabilities:				
Derivatives	$ -	$ 291	$ -	$ 291

NOTE 17 – FAIR VALUE MEASUREMENTS (continued)

The following tables present the assets measured on a nonrecurring basis on the Consolidated Balance Sheet at their fair value as of December 31 by level within the fair value hierarchy. Other real estate fair value is determined by current appraisal less management estimate of market volatility or by a current market offering adjusted for volatility, both classified as Level III inputs. Impaired loans that are collateral dependent are written down to fair value through the establishment of specific reserves. Techniques used to value the collateral that secure the impaired loan include quoted market prices for identical assets classified as Level I inputs; observable inputs, employed by certified appraisers, for similar assets classified as Level II inputs. In cases where valuation techniques included inputs that are unobservable and are based on estimates and assumptions developed by management based on the best information available under each circumstance, the asset valuation is classified as Level III inputs. Mortgage servicing rights fair value is estimated by discounting future cash flows using current market inputs at which loans with similar terms and qualities would be made to borrowers of similar credit quality. Where quoted market prices were available, primarily for certain residential mortgage loans, such market rates were utilized as estimates for fair value. Those valuations are as follows (in thousands):

	2022			
	Level 1	Level II	Level III	Total
Assets measured on a nonrecurring basis:				
Impaired loans	$ -	$ -	$ 708	$ 708
Other real estate owned	$ -	$ -	$ 224	$ 224
Mortgage servicing rights	$ -	$ -	$ 685	$ 685

	2021			
	Level 1	Level II	Level III	Total
Assets measured on a nonrecurring basis:				
Impaired loans	$ -	$ -	$ 1,215	$ 1,215
Other real estate owned	$ -	$ -	$ 224	$ 224
Mortgage servicing rights	$ -	$ -	$ 717	$ 717

NOTE 17 – FAIR VALUE MEASUREMENTS (continued)

The following tables provide information describing the valuation processes used to determine nonrecurring fair value measurements categorized within Level III of the fair value hierarchy as follows (in thousands):

2022

	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired loans	$ 708	Appraised values	Management discount for property type and recent market volatility	29.99% - 39.75% discount (33.27%)
Other real estate owned	$ 224	Appraised values/tax assessment	Management discount for property type and recent market volatility	12.92% discount
Mortgage servicing rights	$ 685	Discounted cash flows	Market rates	10% - 11% discount (10.30%)

2021

	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired loans	$ 1,215	Appraised values	Management discount for property type and recent market volatility	25.80% - 35.69% discount (34.04%)
Other real estate owned	$ 224	Appraised values	Management discount for property type and recent market volatility	12.92% discount
Mortgage servicing rights	$ 717	Discounted cash flows	Market rates	10% - 11% discount (10.20%)

NOTE 18 - FAIR VALUE DISCLOSURE

The estimated fair values of the Company's financial instruments carried at cost at December 31 are as follows (in thousands):

	2022				
	Carrying Value	Level I	Level II	Level III	Total Fair Value
Financial assets:					
Cash and cash equivalents	$ 7,997	$ 7,997	$ -	$ -	$ 7,997
Net loans	$ 668,484	$ -	$ -	$ 643,421	$ 643,421
Accrued interest receivable	$ 3,308	$ 3,308	$ -	$ -	$ 3,308
Regulatory stock	$ 4,850	$ 4,850	$ -	$ -	$ 4,850
Fixed annuity	$ 3,091	$ 3,091	$ -	$ -	$ 3,091
Bank-owned life insurance	$ 26,732	$ 26,732	$ -	$ -	$ 26,732
Financial liabilities:					
Deposits	$ 787,574	$ 623,172	$ -	$ 160,606	$ 783,778
Short-term borrowings	$ 65,164	$ 65,164	$ -	$ -	$ 65,164
Other borrowed funds	$ 14,890	$ -	$ -	$ 14,195	$ 14,195
Accrued interest payable	$ 214	$ 214	$ -	$ -	$ 214

	2021				
	Carrying Value	Level I	Level II	Level III	Total Fair Value
Financial assets:					
Cash and cash equivalents	$ 28,500	$ 28,500	$ -	$ -	$ 28,500
Net loans	$ 645,734	$ -	$ -	$ 648,228	$ 648,228
Accrued interest receivable	$ 2,828	$ 2,828	$ -	$ -	$ 2,828
Regulatory stock	$ 3,367	$ 3,367	$ -	$ -	$ 3,367
Fixed annuity	$ 5,159	$ 5,159	$ -	$ -	$ 5,159
Bank-owned life insurance	$ 26,148	$ 26,148	$ -	$ -	$ 26,148
Financial liabilities:					
Deposits	$ 796,916	$ 631,120	$ -	$ 165,530	$ 796,650
Short-term borrowings	$ 2,500	$ 2,500	$ -	$ -	$ 2,500
Other borrowed funds	$ 44,329	$ -	$ -	$ 45,137	$ 45,137
Accrued interest payable	$ 122	$ 122	$ -	$ -	$ 122

NOTE 18 - FAIR VALUE DISCLOSURE (continued)

Financial instruments are defined as cash, evidence of ownership interest in an entity, or a contract which creates an obligation or right to receive or deliver cash or another financial instrument from/to a second entity on potentially favorable or unfavorable terms.

Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. If a quoted market price is available for a financial instrument, the estimated fair value would be calculated based upon the market price per trading unit of the instrument.

If no readily available market exists, the fair value estimates for financial instruments should be based upon management's judgment regarding current economic conditions, interest rate risk, expected cash flows, future estimated losses and other factors as determined through various option pricing formulas or simulation modeling.

As many of these assumptions result from judgments made by management based upon estimates that are inherently uncertain, the resulting estimated fair values may not be indicative of the amount realizable in the sale of a particular financial instrument. In addition, changes in assumptions on which the estimated fair values are based may have a significant impact on the resulting estimated fair values.

As certain assets such as deferred tax assets and premises and equipment are not considered financial instruments, the estimated fair value of financial instruments would not represent the full value of the Company.

NOTE 19 – ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The following table presents the changes in accumulated other comprehensive (loss) income by component net of tax for the years ended December 31, 2022, 2021, and 2020 (in thousands):

	Unrealized (losses) gains on available for sale securities [1]	Cash Flow Hedge	Total
Balance as of December 31, 2019	$ 1,522	$ -	$ 1,522
Other comprehensive gain (loss) before reclassification	$ 2,820	$ (16)	$ 2,804
Amount reclassified from accumulated other comprehensive income (loss)	(98)	(2)	(100)
Total other comprehensive income	2,722	(18)	2,704
Balance as of December 31, 2020	$ 4,244	$ (18)	$ 4,226
Other comprehensive (loss) gain before reclassification	$ (2,344)	$ 16	$ (2,328)
Amount reclassified from accumulated other comprehensive (loss) income	(178)	6	(172)
Total other comprehensive loss	(2,522)	22	(2,500)
Balance as of December 31, 2021	$ 1,722	$ 4	$ 1,726
Other comprehensive (loss) gain before reclassification	$ (22,453)	$ 43	$ (22,410)
Amount reclassified from accumulated other comprehensive income (loss)	679	(25)	654
Total other comprehensive loss	(21,774)	18	(21,756)
Balance as of December 31, 2022	$ (20,052)	$ 22	$ (20,030)

[1] All amounts are net of tax. Amounts in parentheses indicate debits.

NOTE 19 – ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME (continued)

The following table presents amounts reclassified out of each component of other comprehensive (loss) income for the years ended December 31, 2022, 2021, and 2020 (in thousands):

Components of accumulated other comprehesive (loss) income	Amount reclassified from accumulated other comprehensive (loss) income (1)			Affected line item in the consolidated statement of income
	2022	2021	2020	
Unrealized (losses) gains on available for sale securities	$ (860)	$ 225	$ 124	Investment securities (losses) gains, net
Unrealized gain (loss) on hedging activity	32	(8)	3	Interest expense
	174	(45)	(27)	Income taxes
	$ (654)	$ 172	$ 100	Net of taxes

(1) Amounts in parentheses indicate debits.

NOTE 20 – QUALIFIED AFFORDABLE HOUSING PROJECT INVESTMENTS

The Company invests in qualified affordable housing projects. At December 31, 2022 and 2021, the balance of the investment for qualified affordable housing projects was $1.5 million and $2.5 million. These balances are reflected in the other assets line on the consolidated balance sheet. There were no unfunded commitments related to the investments in qualified affordable housing projects at December 31, 2022 nor 2021.

During the years ended December 31, 2022, 2021 and 2020, the Company recognized investment loss with respect to its investment in qualified affordable housing projects of $990 thousand, $811 thousand, and $671 thousand, respectively, which was included within pretax income on the consolidated statement of income. Additionally, during the years ended December 31, 2022, 2021 and 2020, the Company recognized tax credits and other benefits from its investment in affordable housing tax credits of $343 thousand, $371 thousand, and $578 thousand, respectively.

NOTE 21 – SUBSEQUENT EVENTS

The Company assessed events occurring subsequent to December 31, 2022 through March 16, 2023, for potential recognition and disclosure in the consolidated financial statements. No other events have occurred that would require adjustment to or disclosure in the consolidated financial statements.