Annual REPORT 2022

CCFNB BANCORP, INC.

To Our Shareholders

To Our Shareholders
For the sixth consecutive year, CCFNB Bancorp, Inc. achieved record-setting earnings in 2022. These results are a reflection of our customer focus, disciplined investment approach, and organizational efficiencies. With a steadfast commitment to these priorities, we were well positioned to deliver strong performance, achieve growth goals, and make progress in the face of post-pandemic challenges and significant inflationary pressures.

Financial Highlights
Our Corporation achieved a record net income of $9,514,000 for the year ended December 31, 2022, as compared to $9,405,000 for the same period in 2021, a 1.16 percent increase. Earnings per share for the twelve months ended December 31, 2022 and 2021 were $4.58 and $4.53, respectively. The return on average assets and return on average equity were 1.0 percent and 10.45 percent at December 31, 2022, as compared to 1.02 percent and 8.91 percent for the same period of 2021.

Total assets ended the year at $944.0 million, reflecting a 0.9 percent decrease from last year. This decline was attributed to decreasing customer balances due to the ending of COVID-19 related government payments, coupled with forced higher levels of spending for basic goods and services, which was driven by inflation.

In comparison to December 31, 2021, stockholders' equity, excluding accumulated other comprehensive income (loss), rose $6.1 million or 5.7 percent from $107.2 million to $113.3 million. Total stockholders' equity equated to a book value of $41.34 at December 31, 2022, as compared to $50.21 at the end of 2021.

The unrealized losses in our investment securities portfolio have reduced the Corporation's book value by approximately $11.79 per share since December 31, 2021.

During the year-ended December 31, 2022, cash dividends of $1.67 per share were paid to stockholders, as compared to $3.13 per share for the year 2021. Of note, a one-time special dividend of $1.50 per share was paid in 2021.

Asset quality remained strong with $2,879,000 loans past due, or .55 percent at December 31, 2022, as compared to $1,385,000 loans past due, or .29 percent at December 31, 2021. In addition to our history of strong credit performance, in recent years our bank has maintained a very solid level of allowance for loan loss. In 2022, we ended the year with a sizable allowance for loan losses of $7,279,000, or 1.37 percent of total loans.

Inflation & Rising Interest Rates
While a rise in interest rates was expected in 2022 to counter rising inflation, the pace and frequency by which the Federal Reserve increased rates was aggressive. What began as a 25 basis point warning shot in the first quarter of 2022 ended with a total of six additional rate increases, ending the year with a total increase of 4.25%. This steep acceleration was further magnified coming off a lengthy period of historically low rates.

The rapid rate acceleration resulted in an inverted yield curve wherein long-term rates are less than short-term rates. This presents unique challenges for the entire banking industry as we work to manage interest rate margins and balance sheets.

Although rates have risen, and the housing market has experienced a tightening, First Columbia Bank remained the leading mortgage lender in the area, far outpacing our nearest competitors with more than 600 mortgages closed in 2022 in our core market of Columbia and Montour counties. We continue our focus on providing an exceptional, personalized home mortgage experience for home buyers that has made us the lender of choice in our area.

In addition to impacting account balances and interest rates, inflation has affected other areas of our bank, just as it has most businesses. Labor shortages created during the pandemic persist and are further amplified by inflation in terms of wage pressures, gas prices, and an overall increase in the cost of living. While we continue to deal with staffing related challenges, we have made notable progress on the recruiting and retention fronts and are on track to reach full staff levels.

Positioning for the Future of Banking

As customer behavior and banking preferences evolve, we work to keep pace with our technology and services. Behind the scenes in 2022, the bank underwent a conversion of its core processing system, as the existing system was being sunset. This complex bank-wide project affected every process, department, and employee and required detailed preparation, planning, and execution. Our team rallied and successfully implemented the new core with minimal interruption and manageable customer impact. This new system positions us for the future with scalable capabilities. For example, we now have the opportunity to offer “The Pays” (Apple Pay, Google Pay, and Samsung Pay). The goal here is for our debit cards to be “top of wallet” in the digital space, as well as in customers’ back pockets. In addition, we have begun implementing enhanced security services for business customers with a “Positive Pay” program that helps avert fraudulent check transactions.

Banking trends move toward online transactions and interactions, and we continually assess branch activity levels. In November of 2022, we made the strategic decision to close our in-store branch located inside the Walmart Supercenter in Buckhorn. This decision was made based on reduced traffic to that location—a reflection not just of banking trends, but also general consumer shopping behaviors, which have accelerated in this post-pandemic time. This move reduces expenses of a physical branch and has minimal impact on customers given the proximity of another full service branch within a half mile and in the same Buckhorn area.

Board Retirement

In June of 2022, board member Alvin J. Luschas retired. His board tenure spanned six years, during which he also served as Chair of the Trust Committee. As an attorney and local business owner, Mr. Luschas’ counsel and perspective over the years was greatly valued. In anticipation of his pending retirement, Brenda R.H. Williams, a local attorney, joined the board in 2021.

Looking Ahead

I am proud of our performance and progress in 2022. We enter 2023 as a leading community bank in our area with a strong brand, solid performance, and loyal customers. Going forward, we are committed to retaining and attracting core deposit customers, remaining the number one lender in our area, and serving as an integral partner in progress to local businesses. As the banking industry changes, we will continue to invest strategically in the products, services, technology, and talent necessary to deliver an exceptional banking experience.

I am honored to lead our team of employees and am especially proud this year. Our employees displayed true teamwork and commitment as they came together to ensure a successful core system conversion, while never losing focus on the customers they serve. I would also like to thank our officers and directors for their dedication, loyalty, and support.

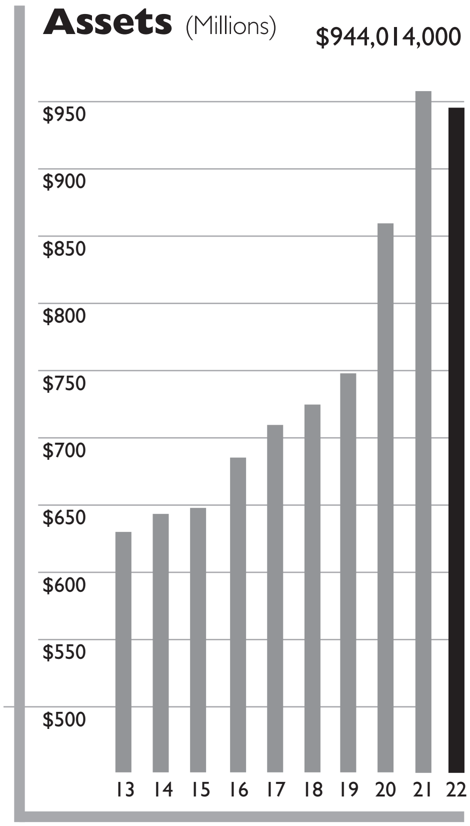
While we expect this complex economic landscape to persist, I remain confident in our ability to manage the challenges ahead. I believe that CCFNB Bancorp, Inc. is positioned well to continue performing at a high level. Thank you for investing in us.

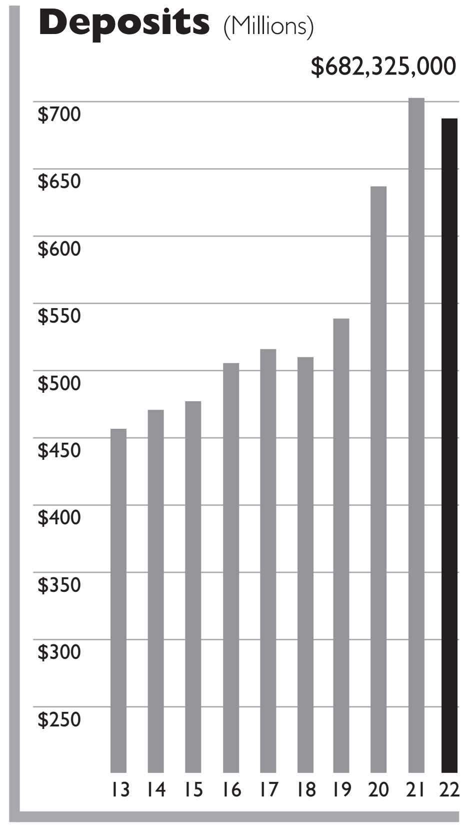
Sincerely,

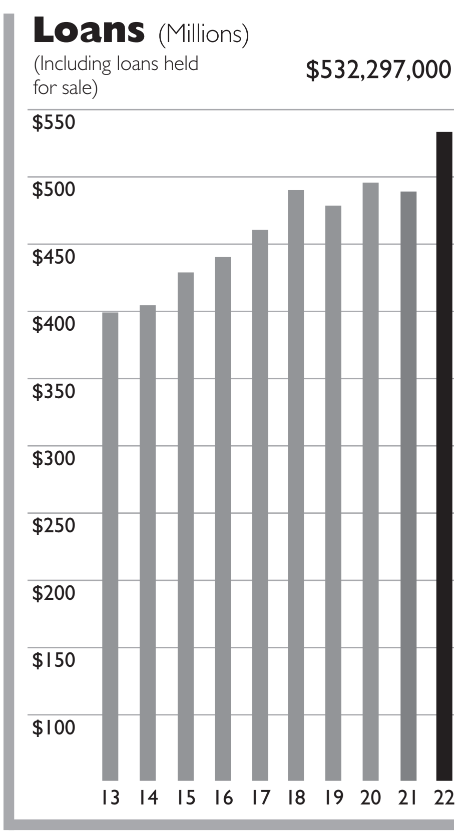
Lance O. Diehl

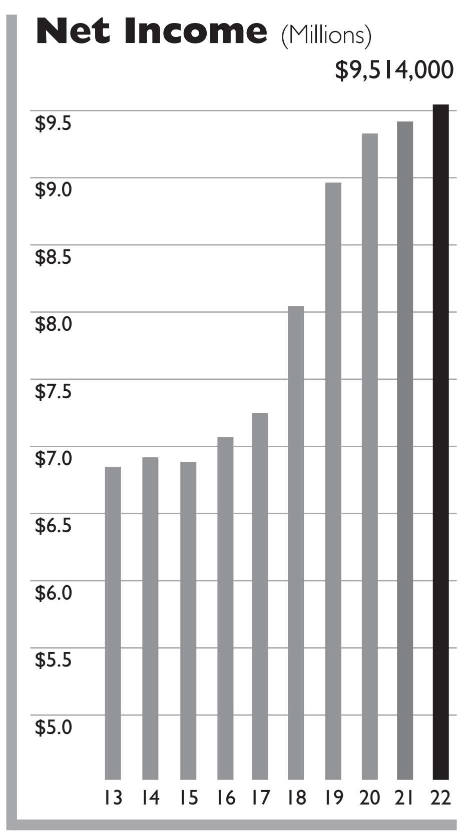
Lance O. Diehl
President and Chief Executive Officer

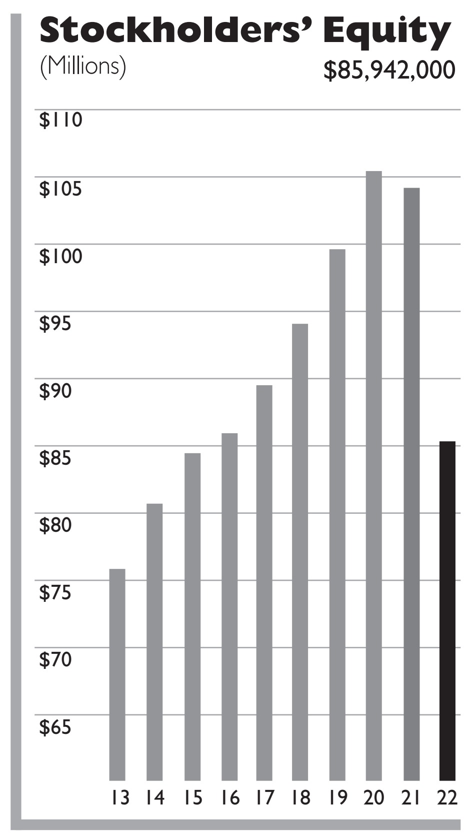
Ten Year Performance Comparison











SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders
CCFNB Bancorp, Inc.
Bloomsburg, Pennsylvania

Opinion

We have audited the accompanying consolidated financial statements of CCFNB Bancorp, 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 stockholders' equity, and cash flows for the 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 Shareholders' Letter and Ten Year Performance Comparison 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
February 13, 2023

CCFNB Bancorp, Inc.
Consolidated Balance Sheets

(In Thousands, Except Share Data)	December 31, 2022	December 31, 2021
ASSETS		
Cash and due from banks	$ 9,750	$ 14,496
Interest-bearing deposits in other banks	3,333	74,868
Federal funds sold	1	8,179
Total cash and cash equivalents	13,084	97,543
Investment debt securities, available for sale, at fair value	341,051	337,832
Investment equity securities, at fair value	1,077	1,114
Restricted securities	3,223	3,060
Loans held for sale	4,568	3,935
Loans, net of unearned income	527,729	467,300
Less: Allowance for loan losses	7,279	9,136
Loans, net	520,450	458,164
Premises and equipment:		
Operating lease right-of-use asset	298	914
Other premises and equipment, net	12,514	12,877
Accrued interest receivable	2,222	1,490
Cash surrender value of bank-owned life insurance	21,859	20,964
Investment in limited partnerships	3,745	1,499
Goodwill	7,937	7,937
Other assets	11,986	5,384
TOTAL ASSETS	$ 944,014	$ 952,713
LIABILITIES		
Interest-bearing deposits	$ 500,480	$ 517,511
Noninterest-bearing deposits	181,845	183,984
Total deposits	682,325	701,495
Short-term borrowings	171,741	142,718
Long-term borrowings	24	28
Accrued interest payable	187	206
Operating lease liability	298	914
Other liabilities	3,497	3,010
TOTAL LIABILITIES	858,072	848,371
STOCKHOLDERS' EQUITY		
Common stock, par value $1.25 per share; authorized 15,000,000 shares, issued 2,343,835 shares in 2022 and 2,342,184 shares in 2021	2,930	2,928
Surplus	30,030	29,950
Retained earnings	90,156	84,113
Accumulated other comprehensive loss	(27,384)	(2,884)
Treasury stock, at cost; 264,700 and 264,200 shares in 2022 and 2021	(9,790)	(9,765)
TOTAL STOCKHOLDERS' EQUITY	85,942	104,342
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 944,014	$ 952,713

See accompanying notes to consolidated financial statements

CCFNB Bancorp, Inc.
Consolidated Statements of Income

(In Thousands, Except Share and Per Share Data)	For the Years Ended December 31, 2022	2021
INTEREST AND DIVIDEND INCOME		
Interest and fees on loans:		
Taxable	$ 20,604	$ 20,634
Tax-exempt	675	725
Interest and dividends on investment securities:		
Taxable	4,321	2,343
Tax-exempt	185	229
Dividend and other interest income	198	213
Federal funds sold	20	1
Deposits in other banks	385	128
TOTAL INTEREST AND DIVIDEND INCOME	26,388	24,273
INTEREST EXPENSE		
Deposits	1,773	1,923
Short-term borrowings	2,286	322
Long-term borrowings	2	2
TOTAL INTEREST EXPENSE	4,061	2,247
NET INTEREST INCOME	22,327	22,026
(CREDIT) PROVISION FOR LOAN LOSSES	(1,810)	120
NET INTEREST INCOME AFTER (CREDIT) PROVISION FOR LOAN LOSSES	24,137	21,906
NON-INTEREST INCOME		
Service charges and fees	2,117	1,185
Gain on sale of loans	478	1,837
Earnings on bank-owned life insurance	652	421
Brokerage	597	599
Trust	845	901
(Loss) gain on equity securities	(37)	164
Investment security losses	(1,236)	-
Gain on sale of premises and equipment	-	149
Interchange fees	1,720	1,788
Other	935	954
TOTAL NON-INTEREST INCOME	6,071	7,998
NON-INTEREST EXPENSE		
Salaries	7,655	7,411
Employee benefits	2,751	2,140
Occupancy	1,476	1,309
Furniture and Equipment	1,757	1,504
State shares tax	412	829
Professional fees	1,390	1,384
Director's fees	314	335
FDIC assessments	262	242
Telecommunications	351	395
Automated teller machine and interchange	338	321
Other	2,362	2,281
TOTAL NON-INTEREST EXPENSE	19,068	18,151
INCOME BEFORE INCOME TAX PROVISION	11,140	11,753
INCOME TAX PROVISION	1,626	2,348
NET INCOME	$ 9,514	$ 9,405
EARNINGS PER SHARE	$ 4.58	$ 4.53
CASH DIVIDENDS PER SHARE	$ 1.67	$ 3.13
WEIGHTED AVERAGE SHARES OUTSTANDING	2,078,218	2,076,963

See accompanying notes to consolidated financial statements

CCFNB Bancorp, Inc.
Consolidated Statements of Comprehensive (Loss) Income

(In Thousands)	For the Years Ended December 31,	
	2022	2021
Net Income	$ 9,514	$ 9,405
Other comprehensive loss:		
Unrealized losses on investment debt securities		
available for sale	(32,249)	(5,476)
Tax effect	6,773	1,150
Realized loss included in net income	1,236	-
Tax effect	(260)	-
Other comprehensive loss, net	(24,500)	(4,326)
Total comprehensive (loss) income	$ (14,986)	$ 5,079

See accompanying notes to consolidated financial statements

CCFNB Bancorp, Inc.
Consolidated Statements of Changes in Stockholders' Equity

(In Thousands Except Share and Per Share Data)	Common Stock Shares	Common Stock Amount	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2020	2,340,501	$ 2,926	$ 29,875	$ 81,209	$ 1,442	$ (9,765)	$ 105,687
Net income				9,405			9,405
Other comprehensive loss					(4,326)		(4,326)
Common stock issuance under dividend reinvestment and stock purchase plans	1,683	2	67				69
Recognition of employee stock purchase plan expense			8				8
Cash dividends ($3.13 per share)				(6,501)			(6,501)
Balance, December 31, 2021	2,342,184	2,928	29,950	84,113	(2,884)	(9,765)	104,342
Net income				9,514			9,514
Other comprehensive loss					(24,500)		(24,500)
Common stock issuance under dividend reinvestment and stock purchase plans	1,651	2	72				74
Recognition of employee stock purchase plan expense			8				8
Purchase of treasury stock (500 shares)						(25)	(25)
Cash dividends ($1.67 per share)				(3,471)			(3,471)
Balance, December 31, 2022	2,343,835	$ 2,930	$ 30,030	$ 90,156	$ (27,384)	$ (9,790)	$ 85,942

See accompanying notes to consolidated financial statements

CCFNB Bancorp, Inc.
Consolidated Statements of Cash Flows

(In Thousands)	Years Ended December 31, 2022	2021
OPERATING ACTIVITIES		
Net Income	$ 9,514	$ 9,405
Adjustments to reconcile net income to net cash provided by operating activities:		
(Credit) provision for loan losses	(1,810)	120
Depreciation and amortization of other premises and equipment	662	678
Loss (gain) on equity securities	37	(164)
Investment security losses, net	1,236	-
Amortization and accretion on investment debt securities	840	1,175
Gain on sale of premises and equipment	-	(149)
Deferred income tax benefit	67	108
Gain on sale of loans	(478)	(1,837)
Proceeds from sale of mortgage loans	15,428	55,388
Originations of mortgage loans held for resale	(15,583)	(50,117)
Amortization of investment in limited partnerships	213	339
(Increase) decrease in accrued interest receivable	(732)	455
Earnings on bank-owned life insurance	(426)	(421)
Gain on settlement of bank-owned life insurance claims	(226)	-
Decrease in accrued interest payable	(19)	(82)
Amortization of operating leases right-of-use assets	53	56
Other, net	887	(360)
Net cash provided by operating activities	9,663	14,594
INVESTING ACTIVITIES		
Investment securities available for sale:		
Purchases	(99,145)	(233,163)
Proceeds from sales	38,629	-
Proceeds from maturities, principal payments and calls	24,208	98,937
Purchase of bank-owned life insurance	(844)	(43)
Proceeds from redemption of restricted securities	518	609
Purchase of restricted securities	(681)	(210)
Net (increase) decrease in loans	(60,494)	15,177
Proceeds from sale of premises and equipment	-	172
Proceeds from sale of other real estate owned	18	-
Purchase of investment in limited partnership	(2,459)	(434)
Acquisition of premises and equipment	(299)	(281)
Net cash used for investing activities	(100,549)	(119,236)
FINANCING ACTIVITIES		
Net (decrease) increase in deposits	(19,170)	68,152
Net increase in short-term borrowings	29,023	31,123
Repayment of long-term borrowings	(4)	(3)
Acquisition of treasury stock	(25)	-
Proceeds from issuance of common stock	74	69
Cash dividends paid	(3,471)	(6,501)
Net cash provided by financing activities	6,427	92,840
NET DECREASE IN CASH AND CASH EQUIVALENTS	(84,459)	(11,802)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	97,543	109,345
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 13,084	$ 97,543

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	2022	2021
Interest paid	$ 4,080	$ 2,329
Income taxes paid	1,375	2,100
Loans transferred to other real estate owned	18	-
Early termination of right-of-use asset	563	-
Early termination of lease liability	563	-
Bank-owned life insurance death benefit receivable	601	-

See accompanying notes to consolidated financial statements.

CCFNB BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of CCFNB Bancorp, Inc. (the "Corporation") are in accordance with the accounting principles generally accepted in the United States of America and conform to common practices within the banking industry. The more significant policies follow:

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of CCFNB Bancorp, Inc. and its wholly-owned subsidiary, First Columbia Bank & Trust Co. (the "Bank"). All significant inter-company balances and transactions have been eliminated in consolidation.

NATURE OF OPERATIONS

The Corporation is a financial holding company that provides full service banking, including trust services, through the Bank, to individuals, municipality and corporate customers. The Bank operates twelve offices spanning the three counties of Columbia, Montour and Eastern Northumberland in Northcentral Pennsylvania. The Corporation and Bank are subject to the regulation of the Pennsylvania Department of Banking, the Federal Deposit Insurance Corporation, and the Federal Reserve Bank of Philadelphia.

Procuring deposits and making loans are the major lines of business. The deposits are mainly deposits of individuals and small businesses and include various types of checking accounts, statement savings, money market accounts, interest checking accounts, individual retirement accounts, and certificates of deposit. The Bank also offers non-FDIC insured "Repurchase sweep" accounts. Lending products include commercial, consumer, and mortgage loans. The trust services, trading under the name of B.B.C.T., Co. include administration of various estates, pension plans, self-directed IRA's and other services. A third-party brokerage arrangement is also resident in the Buckhorn branch. This investment center offers a full line of stocks, bonds and other non-insured financial services.

SEGMENT REPORTING

The Bank acts as an independent community financial services provider, and offers traditional banking and related financial services to individual, business and government customers. Through its branch, remote capture, internet banking, telephone, mobile banking, and automated teller machine network, the Bank offers a full array of commercial and retail financial services, including the taking of time, savings and demand deposits; the making of commercial, consumer and mortgage loans; and the providing of other financial services. The Bank also performs personal, corporate, pension and fiduciary services through its B.B.C.T., Co. as well as offers diverse investment products through its investment center.

Management does not separately allocate expenses, including the cost of funding loan demand, between the commercial, retail, trust and investment center operations of the Corporation. As such, relevant financial information is not available and segment reporting would not be meaningful.

USE OF ESTIMATES

The preparation of these Consolidated Financial Statements in conformity with accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of these Consolidated Financial Statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant changes include the assessment for other than temporary impairment of certain investment securities, the allowance for loan losses, valuation of deferred tax assets, impairment of intangible assets, and fair value of financial instruments. Assumptions and factors used in the estimates are evaluated on an annual basis or whenever events or changes in circumstances indicate that the previous assumptions and factors have changed. The result of the analysis could result in adjustments to the estimates.

COMPREHENSIVE INCOME (LOSS)

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

INVESTMENT – DEBT SECURITIES

The Corporation classifies its investment securities as either "held to maturity" or "available for sale" at the time of purchase. Debt securities are classified as held to maturity when the Corporation has the ability and positive intent to hold the securities to maturity. Investment debt securities held to maturity are carried at cost adjusted for amortization of premiums and accretion of discounts to maturity.

Debt securities not classified as held to maturity included in the available for sale category are carried at fair value, and the amount of any unrealized gain or loss net of the effect of deferred income taxes is reported as other comprehensive income in the Consolidated Statement of Comprehensive Income. Management's decision to sell available-for-sale securities is based on changes in economic conditions controlling the sources and uses of funds, terms, availability of and yield of alternative investments, interest rate risk, and the need for liquidity.

The cost of debt securities classified as held to maturity or available for sale is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion, as well as interest, is included in interest income from investments. Realized gains and losses are included in net investment securities gains. The cost of investment securities sold, redeemed or matured is based on the specific identification method.

Declines in the fair value of available for sale debt securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, the Corporation considers: (1) the length of time and the extent to which the fair value has been less than cost; (2) the financial condition and near-term prospects of the issuer; (3) whether the market decline was affected by macroeconomic conditions, and (4) the Corporation's intent to sell the security or whether it's more likely than not that the Corporation would be required to sell the security before its anticipated recovery in market value.

INVESTMENT – EQUITY SECURITIES

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

RESTRICTED SECURITIES

Restricted securities consist of stock in the Federal Home Loan Bank of Pittsburgh ("FHLB – Pittsburgh"), and Atlantic Community Bankers Bank ("ACBB") and do not have a readily determinable fair value because their ownership is restricted, and they can be sold back only to the FHLB-Pittsburgh, ACBB or to another member institution. Therefore, these securities are classified as restricted securities, carried at cost, and evaluated for impairment. At December 31, 2022, the Corporation held $3,188,000 in stock of the FHLB-Pittsburgh and $35,000 in stock of ACBB. At December 31, 2021, the Corporation held $3,025,000 in stock of FHLB-Pittsburgh and $35,000 in stock of ACBB.

The Corporation evaluated its holding of restricted stock for impairment and deemed the stock to not be impaired due to the expected recoverability of par value, which equals the value reflected within the Corporation's financial statements. The decision was based on several items ranging from the estimated true economic losses embedded within FHLB's mortgage portfolio to the FHLB's liquidity position and credit rating. The Corporation utilizes the impairment framework outlined in Generally Accepted Accounting Principles to evaluate stock for impairment. The following factors were evaluated to determine the ultimate recoverability of the par value of the Corporation's restricted stock holdings; (i) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted; (ii) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB; (iii) the impact of legislative and regulatory changes on the institutions and, accordingly, on the customer base of the FHLB; (iv) the liquidity position of the FHLB; and (v) whether a decline is temporary or whether it affects the ultimate recoverability of the FHLB stock based on (a) the materiality of the carrying amount to the member institution and (b) whether an assessment of the institution's operational needs for the foreseeable future allow management to dispose of the stock.

LOANS

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are reported at their outstanding principal balances, net of deferred fees or costs, unearned income, and the allowance for loan losses. Interest on loans is accrued on the principal amount outstanding, primarily on an actual day basis. Non-refundable loan fees and certain direct costs are deferred and amortized over the life of the loans using the interest method. The amortization is reflected as an interest yield adjustment, and the deferred portion of the net fees and costs is reflected as a part of the loan balance.

Real estate mortgage loans held for resale are carried at the lower of cost or market on an aggregate basis. A portion of these loans are sold with limited recourse by the Corporation.

Generally, a loan is classified as non-accrual, with the accrual of interest on such a loan discontinued when the contractual payment of principal or interest has become 90-days past due or management has serious doubts about further collectability of principal or interest, even though the loan may be currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well-secured. When a loan is placed on non-accrual status, unpaid interest credited to income in the current year is reversed. Certain non-accrual loans may continue to perform wherein payments are still being received with those payments generally applied to principal. Non-accrual loans remain under constant scrutiny and if performance continues, interest income may be recorded on a cash basis based on management's judgment as to collectability of principal.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all amounts due according to the contractual terms of the loan agreement. Under current accounting standards, the allowance for loan losses related to impaired loans is based on discounted cash flows using the loan's effective interest rate or the fair value of the collateral for certain collateral dependent loans. The recognition of interest income on impaired loans is the same as for non-accrual loans discussed above.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is established through provisions for loan losses charged against income. Loan amounts deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is maintained at a level established by management to be adequate to absorb estimated potential loan losses. Management's periodic evaluation of the adequacy of the allowance for loan losses is based on the Corporation's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay (including the timing of future payments), the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors. This evaluation is inherently subjective as it requires significant estimates, including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change.

In addition, the Bank is subject to periodic examination by its federal and state examiners, and may be required by such regulators to recognize additions to the allowance for loan losses based on their assessment of credit information available to them at the time of their examinations.

In addition, an allowance is provided for possible credit losses on off-balance sheet credit exposures. The allowance is estimated by management and is classified in other liabilities.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. At the present time, select loans are not aggregated for collective impairment evaluation, as such, all loans are subject to individual impairment evaluation should the facts and circumstances pertinent to a particular loan suggest that such evaluation is necessary. Factors considered by management in determining impairment include payment status and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan’s existing rate or at the fair value of collateral if repayment is expected solely from the liquidation of the collateral. Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan’s effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Bank determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component covers all other loans not identified as impaired and is based on historical losses adjusted for current factors. The historical loss component of the allowance is determined by losses recognized by portfolio segment over the preceding five years. In calculating the historical component of our allowance, we aggregate our loans into one of five portfolio segments: Commercial, Financial & Agriculture, Tax-exempt, Commercial Real Estate, Consumer Real Estate, and Installment Loans to Individuals. Risk factors impacting loans in each of the portfolio segments include broad deterioration of property values, reduced consumer and business spending as a result of continued high unemployment and reduced credit availability and lack of confidence in a sustainable recovery. Actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: the concentration of watch and substandard loans as a percentage of total loans, levels of loan concentration within the portfolio segment or division of a portfolio segment and broad economic conditions.

A loan is considered to be a troubled debt restructuring (“TDR”) loan when the Bank grants a concession to the borrower because of the borrower’s financial condition that it would not otherwise consider. Such concessions include the reduction of interest rates, forgiveness of principal or interest, extending repayment terms, creating balloon options or other modifications that would not be typically offered to new borrowers with acceptable credit risk.

PREMISES AND EQUIPMENT

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation computed principally on the straight-line method over the estimated useful lives of the assets, which range from 3 to 20 years for furniture, fixtures, and equipment and 15 to 40 years for buildings and the shorter of the lease period or useful life for leasehold improvements. Maintenance and minor repairs are charged to operations as incurred. The cost and accumulated depreciation of the premises and equipment retired or sold are eliminated from the property accounts at the time of retirement or sale, and the resulting gain or loss is reflected in current operations.

MORTGAGE SERVICING RIGHTS

The Bank originates and sells real estate loans to investors in the secondary mortgage market. After the sale, the Bank retains the right to service most of these loans. When originated mortgage loans are sold and servicing is retained, a servicing asset is capitalized based on relative fair value at the date of sale. Servicing assets are amortized as an offset to other fees in proportion to, and over the period of, estimated net servicing income. The servicing rights are periodically evaluated for impairment based on their relative fair value. Significant inputs to the valuation include expected net servicing income to be received, the expected life of the underlying loans and the discount rate.

INTANGIBLE ASSETS - GOODWILL

Goodwill represents the excess of the purchase price over the fair value of net assets acquired. The Corporation has recorded net goodwill of $7,937,000 at December 31, 2022 and 2021. In accordance with current accounting standards, goodwill is not amortized. Management performs an annual evaluation for impairment. Any impairment of goodwill results in a charge to income. The Corporation periodically assesses whether events or changes in circumstances indicate that the carrying amounts of goodwill and other intangible assets may be impaired. Goodwill is tested for impairment at the reporting unit level and an impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. The Corporation employs general industry practices in evaluating the impairment of its goodwill and other intangible assets. The Corporation calculates the value of goodwill using a combination of the following valuation methods: dividend discount analysis under the income approach, which calculates the present value of all excess cash flows plus the present value of a terminal value, the price/earnings multiple under the market approach and the change in control premium to market price approach. Based upon these reviews, management determined there was no impairment of goodwill during 2022 or 2021. No assurance can be given that future impairment tests will not result in a charge to earnings.

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 Corporation; (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 Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

OTHER REAL ESTATE OWNED

Real estate properties acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value on the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less cost to sell and is included in other assets. Revenues derived from and costs to maintain the assets and subsequent gains and losses on sales are included in other non-interest income and expense.

BANK OWNED LIFE INSURANCE

The Corporation invests in Bank Owned Life Insurance (BOLI). Purchase of BOLI provides life insurance coverage on certain present and former employees and Directors with the Corporation being owner and primary beneficiary of the policies. The cash surrender value of the policies is included as an asset on the Consolidated Balance Sheets, and any increases in the cash surrender value are recorded as non-interest income on the Consolidated Statements of Income.

INVESTMENTS IN LIMITED PARTNERSHIPS

The Corporation is a limited partner in six partnerships at December 31, 2022 that provide low income housing in the Corporation's geographic market area. The investments are accounted for under the effective yield method. Under the effective yield method, the Corporation recognizes tax credits as they are allocated and amortizes the initial cost of the investment to provide a constant effective yield over the period that the tax credits are allocated to the Corporation. Under this method, the tax credits allocated, net of any amortization of the investment in the limited partnerships, are recognized in the Consolidated Statements of Income as a component of income tax expense. The amount of tax credits allocated to the Corporation was $234,000 and the amortization of the investments in limited partnerships was $213,000 in 2022. The amount of tax credits allocated to the Corporation was $249,000 and the amortization of the investments in limited partnerships was $339,000 in 2021.

INCOME TAXES

The provision for income taxes is based on the results of operations, adjusted primarily for tax-exempt income. Certain items of income and expense are reported in different periods for financial reporting and tax return purposes. Deferred tax assets and liabilities are determined based on the differences between the consolidated financial statement and income tax basis of assets and liabilities measured by using the enacted tax rates and laws expected to be in effect when the timing differences are expected to reverse. Deferred tax expense or benefit is based on the difference between deferred tax asset and liability from period to period.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, the projected future taxable income and tax planning strategies in making this assessment. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded.

The Corporation and the Bank are subject to U.S. federal income tax and Commonwealth of Pennsylvania tax. The Corporation recognizes interest related to income tax matters as interest expense and penalties related to income tax matters as other noninterest expense. At December 31, 2022 and December 31, 2021, the Corporation does not have any amounts accrued for interest and/or penalties.

PER SHARE DATA

Basic earnings per share are calculated by dividing net income by the weighted average number of shares of common stock outstanding at the end of each period. Diluted earnings per share are calculated by increasing the denominator for the assumed conversion of all potentially dilutive securities. The Corporation does not have any securities which have or will have a dilutive effect, so accordingly, basic and diluted per share data are the same. Treasury shares are not deemed outstanding for earnings per share calculations.

CASH AND CASH EQUIVALENTS

For purposes of reporting consolidated cash flows, cash and cash equivalents include cash on hand and due from banks, interest-bearing deposits in other banks and federal funds sold. The Corporation considers cash classified as interest-bearing deposits with other banks as a cash equivalent because they are represented by cash accounts essentially on a demand basis. Federal funds are also included as a cash equivalent because they are generally purchased and sold for one-day periods.

TREASURY STOCK

The purchase of the Corporation’s common stock is recorded at cost. At the date of subsequent reissue, the treasury stock account is reduced by the cost of such stock on a last-in first-out basis.

TRUST ASSETS AND INCOME

Property held by the Corporation in a fiduciary or agency capacity for its customers is not included in the accompanying consolidated financial statements because such items are not assets of the Corporation or the Bank.

ADVERTISING COSTS

It is the Corporation’s policy to expense advertising costs in the period in which they are incurred. Advertising expense for the years ended December 31, 2022 and 2021 was approximately $285,000 and $602,000, respectively.

CHANGE IN ACCOUNTING POLICY

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments (ASU 2016-13), which changes the impairment model for most financial assets. This update is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The underlying premise of the update is that financial assets measured at amortized cost should be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The allowance for credit losses should reflect management’s current estimate of credit losses that are expected to occur over the remaining life of a financial asset. The income statement will be affected for the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. With certain exceptions, transition to the new requirements will be through a cumulative effect adjustment to opening retained earnings as of the beginning of the first reporting period in which the guidance is adopted. This update is effective for fiscal years beginning after December 15, 2022. The Corporation intends to adopt ASU 2016-13 effective January 1, 2023. The allowance for credit losses (ACL) will be based on our historical loss experience, borrower characteristics, reasonable and supportable forecasts of future economic conditions, and other relevant factors. We will also apply qualitative factors to account for information that may not be reflected in quantitatively derived results to ensure that the ACL reflects the best estimate of current expected credit losses. The allowance of credit losses under the CECL methodology is estimated to be between $6.6 and $7.3 million. However, such estimates are subject to significant change as we continue to finalize the judgmental qualitative factors.

RECLASSIFICATIONS

Certain amounts in the 2021 Consolidated Financial Statements have been reclassified to conform to presentations used in the 2022 Consolidated Financial Statements. Such reclassifications had no effect on the Corporation's consolidated financial condition, stockholders equity or net income.

2. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

(In Thousands)	Unrealized Losses Available For Sale Securities (a)
Balance, December 31, 2020	$ 1,442
Other comprehensive loss before reclassifications, net of tax	(4,326)
Amounts reclassified from accumulated other comprehensive income, net of tax	-
Net change in accumulated other comprehensive income	(4,326)
Balance, December 31, 2021	(2,884)
Other comprehensive loss before reclassifications, net of tax	(25,476)
Amounts reclassified from accumulated other comprehensive loss, net of tax	976
Net change in accumulated other comprehensive loss	(24,500)
Balance, December 31, 2022	$ (27,384)

(a) All amounts are net of tax. Amounts in parenthesis indicates debits.

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

(In Thousands) Details about accumulated other comprehensive income (loss) (a)	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) Twelve Months Ended December 31, 2022	2021	Affected Line Item in the Consolidated Statements of Income
Unrealized loss on available for sale securities	$ (1,236)	$ -	Investment security losses
	260	-	Income tax provision
	$ (976)	$ -	

(a) Amounts in parenthesis indicates debits to net income.

3. INVESTMENT SECURITIES

DEBT SECURITIES

The amortized cost, related fair value, and unrealized gains and losses for available for sale investment debt securities were as follows at December 31, 2022 and 2021:

(In Thousands)	2022 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligation of U.S.Government Corporations				
and Agencies:				
Mortgage-backed	$ 144,806	$ 1	$ (18,742)	$ 126,065
Other	217,254	-	(16,331)	200,923
Obligations of state and political subdivisions	13,654	451	(42)	14,063
Total debt securities, available for sale	$ 375,714	$ 452	$ (35,115)	$ 341,051

(In Thousands)	2021 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligation of U.S.Government Corporations				
and Agencies:				
Mortgage-backed	$ 147,303	$ 684	$ (2,070)	$ 145,917
Other	187,428	3	(2,370)	185,061
Obligations of state and political subdivisions	6,751	103	-	6,854
Total debt securities, available for sale	$ 341,482	$ 790	$ (4,440)	$ 337,832

Securities available for sale with an aggregate fair value of $260,805,000 and $243,810,000 at December 31, 2022 and 2021, respectively, were pledged to secure public funds, trust funds, securities sold under agreements to repurchase and other balances of $207,828,000 and $178,627,000 at December 31, 2022 and 2021, respectively, as required by law.

The amortized cost and fair value of investment debt securities, by expected maturity, are shown below at December 31, 2022. Expected maturities on debt securities will differ from contractual maturities, because some 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	$ 20,096	$ 19,386
Due after one year to five years	198,590	182,942
Due after five years to ten years	16,068	15,748
Due after ten years	140,960	122,975
Total	$ 375,714	$ 341,051

There were no aggregate investments with a single issuer (excluding the U. S. Government and its Agencies) which exceeded ten percent of consolidated stockholders' equity at December 31, 2022. The quality rating of all obligations of state and political subdivisions were "A" or higher on all securities, as rated by Moody's or Standard and Poors. All of the state and political subdivision investments were actively traded in a liquid market.

Proceeds from the sale of investments in debt securities classified as available for sale during 2022 were $38,629,000. There were no sales of investments in debt securities classified as available for sale during 2021. For the year ended December 31, 2022, the Corporation realized gross losses of $1,236,000 and no gross gains.

Management evaluates securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. In determining OTTI, management considers many factors, including (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

When other-than-temporary-impairment occurs, the amount of the other-than-temporary-impairment recognized in earnings depends on whether an entity intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss. If an entity intends to sell or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment shall be recognized in earnings equal to the entire difference between the investments amortized cost basis and its fair value at the balance sheet date. If an entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period loss, the other-than-temporary impairment shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total other-than-temporary impairment related to the other factors shall be recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the other-than-temporary-impairment recognized in earnings shall become the new amortized cost basis of the investment.

The following summary shows the gross unrealized losses and fair value, aggregated by investment category of those individual securities that have been in a continuous unrealized loss position for less than or more than 12 months as of December 31, 2022 and 2021:

	2022					
	Less than Twelve Months		Twelve Months or Greater		Total	
(In Thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Obligations of U.S. Government Corporations and Agencies:						
Mortgage-backed	$ 31,981	$ (2,344)	$ 93,981	$ (16,398)	$ 125,962	$ (18,742)
Other	52,746	(2,079)	148,177	(14,252)	200,923	(16,331)
Obligations of state and political subdivisions	3,848	(42)	-	-	3,848	(42)
Total	$ 88,575	$ (4,465)	$ 242,158	$ (30,650)	$ 330,733	$ (35,115)

(In Thousands)	2021 Less than Twelve Months Fair Value	Gross Unrealized Losses	Twelve Months or Greater Fair Value	Gross Unrealized Losses	Total Fair Value	Gross Unrealized Losses
Obligations of U.S. Government Corporations and Agencies:						
Mortgage-backed	$ 97,875	$ (1,521)	$ 27,045	$ (549)	$ 124,920	$ (2,070)
Other	171,134	(2,295)	3,924	(75)	175,058	(2,370)
Obligations of state and political subdivisions	-	-	-	-	-	-
Total	$ 269,009	$ (3,816)	$ 30,969	$ (624)	$ 299,978	$ (4,440)

At December 31, 2022, the Corporation had a total of 169 debt securities. There were a total of 79 individual debt securities that were in a continuous unrealized loss position for less than twelve months and there were 90 debt securities in a continuous loss position for greater than twelve months.

The Corporation invests in various forms of agency debt including mortgage-backed securities and callable agency debt. The fair value of these securities is influenced by market interest rates, prepayment speeds on mortgage securities, bid to offer spreads in the market place and credit premiums for various types of agency debt. These factors change continuously and therefore the fair market value of these securities may be higher or lower than the Corporation's carrying value at any measurement date. The Corporation does not consider the debt securities contained in the previous table to be other-than-temporarily impaired since it has both the intent and ability to hold the securities until a recovery of fair value, which may be maturity.

EQUITY SECURITIES

At December 31, 2022 and 2021, the Corporation had $1,077,000 and $1,114,000 in equity securities recorded at fair value, respectively. The following is a summary of unrealized and realized gains and losses recognized in net income on equity securities during the years ended December 31, 2022 and 2021:

(In Thousands)	For the Year Ended December 31, 2022	2021
Net (losses) gains recognized in equity securities during the year	$ (37)	$ 164
Less: Net gains (losses) realized on the sale of equity securities during the year	-	-
Unrealized (losses) gains recognized in equity securities held at reporting date	$ (37)	$ 164

4. LOANS

Major classifications of loans at December 31, 2022 and 2021 consisted of:

(In Thousands)

	2022	2021
Commercial, financial and agricultural	$ 39,573	$ 29,459
Tax-exempt	30,679	36,457
Commercial real estate:		
Commercial mortgages	145,622	130,154
Other construction and land development loans	18,649	10,885
Secured by farmland	13,120	13,737
Consumer real estate:		
Home equity loans	13,391	14,650
Home equity lines of credit	12,262	10,750
1-4 family residential mortgages	241,179	208,750
Construction	7,430	6,703
Installment loans to individuals	5,824	5,755
Gross loans	$ 527,729	$ 467,300

During 2022 and 2021 the Corporation participated in the Paycheck Protection Program, administered directly by the U.S. SBA. The PPP provided loans to small businesses who were impacted by economic conditions as a result of COVID-19 to provide cash-flow assistance to employers who maintained their payroll (including healthcare and certain related expenses) and used the proceeds to cover mortgage interest, rent, leases, and utilities during the COVID-19 emergency. As of December 31, 2022 and 2021, the Corporation had outstanding principal balances of $4,000 and $2,715,000, 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 were used to cover eligible payroll costs, mortgage interest costs, rent, and utility costs over a period of up to 24 weeks after the loan was 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 Corporation. PPP loans are included in the Commercial, financial, and agricultural loan category.

In accordance with the SBA terms and conditions on these PPP loans, the Corporation received fees associated with the processing of these loans. Upon funding of the loan, these fees were deferred and amortized over the life of the loan as an adjustment to yield in accordance with FASB ASC 310-20-25-2. For the years ended December 31, 2022 and 2021, fees recognized amounted to $205,000 and $1,723,000, respectively. There were minimal unrecognized fees at December 31, 2022.

Loan Origination and Risk Management

The Corporation has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and the Board of Directors approve these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan exceptions, loan delinquencies and non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

Commercial, financial, and agricultural loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently. Underwriting standards are designed to promote relationship banking rather than transactional banking. Once it is determined that the borrower's management possesses sound ethics and solid business acumen, the Corporation's management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial, financial, and agricultural loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers; however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial, financial, and agricultural loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee; however, some short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Commercial real estate loans are subject to underwriting standards and processes similar to commercial, financial, and agricultural loans, in addition to those of real estate loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Corporations' commercial real estate portfolio are diverse in terms of type and geographic locations served by the Corporation. This diversity helps reduce the Corporation's exposure to adverse economic events that affect any single market or industry. Management monitors and evaluates commercial real estate loans based on collateral. As a general rule the Corporation avoids financing single-purpose projects unless other underwriting factors are present to help mitigate risk.

The Corporation originates consumer loans using a credit scoring system to supplement the underwriting process. To monitor and manage consumer loan risk, policies and procedures are reviewed and modified on a regular basis. In addition, risk is reduced by keeping the loan amounts relatively small and spread across many individual borrowers. Additionally, trend reports are reviewed regularly by management. Underwriting standards for home equity loans are influenced by statutory requirements, which include such controls as maximum loan-to-value percentages, collection remedies and documentation requirements.

The Corporation contracts an independent third party consultant that reviews and validates the credit risk program on an annual basis. Results of these reviews are presented to management and the Board of Directors. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Corporation's loan policies and procedures.

The Corporation uses the following definitions for risk ratings, which are consistent with the definitions used in supervisory guidance:

Special Mention. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard. Loans classified as substandard may be inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well–defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above are analyzed individually as part of the above described process and are considered to be pass rated loans.

As of December 31, 2022, based on the most recent credit analysis performed, the risk category of loans by class of loans is as follows:

(In Thousands)	December 31, 2022 Commercial, Financial & Agricultural	Tax-exempt	Commercial Real Estate	Total
Pass	$ 38,827	$ 30,593	$ 171,806	$ 241,226
Special Mention	434	86	2,681	3,201
Substandard	312	-	2,904	3,216
Doubtful	-	-	-	-
Total	$ 39,573	$ 30,679	$ 177,391	$ 247,643

As of December 31, 2021, based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

(In Thousands)	December 31, 2021 Commercial, Financial & Agricultural	Tax-exempt	Commercial Real Estate	Total
Pass	$ 28,316	$ 36,457	$ 148,082	$ 212,855
Special Mention	256	-	2,496	2,752
Substandard	887	-	4,198	5,085
Doubtful	-	-	-	-
Total	$ 29,459	$ 36,457	$ 154,776	$ 220,692

For consumer real estate loans, home equity loans and lines of credit, construction real estate loans, and installment loans to individuals, the Corporation evaluates credit quality based on the performance of the individual credits. The following table presents the recorded investment in the loan classes based on payment activity as of December 31, 2022 and December 31, 2021:

(In Thousands)	December 31, 2022 Performing	Nonperforming	Total
Consumer real estate:			
Home equity loans	$ 13,352	$ 39	$ 13,391
Home equity lines of credit	12,224	38	12,262
1-4 family residential mortgages	240,025	1,154	241,179
Construction	7,430	-	7,430
Installment loans to individuals	5,820	4	5,824
	$ 278,851	$ 1,235	$ 280,086

(In Thousands)	December 31, 2021 Performing	Nonperforming	Total
Consumer real estate:			
Home equity loans	$ 14,582	$ 68	$ 14,650
Home equity lines of credit	10,732	18	10,750
1-4 family residential mortgages	207,638	1,112	208,750
Construction	6,703	-	6,703
Installment loans to individuals	5,755	-	5,755
	$ 245,410	$ 1,198	$ 246,608

Concentrations of Credit Risk

Most of the Corporation’s lending activity occurs within the Bank’s primary market area which encompasses Columbia, Montour and Eastern Northumberland counties in Northcentral Pennsylvania. The majority of the Corporation’s loan portfolio consists of commercial and consumer real estate loans. As of December 31, 2022 and 2021, there were no concentrations of loans related to any single industry in excess of 10% of total loans.

Non-Accrual and Past Due Loans

Generally, a loan is classified as non-accrual, with the accrual of interest on such a loan discontinued when the contractual payment of principal or interest has become 90-days past due or management has serious doubts about further collectability of principal or interest, even though the loan may be currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well-secured. When a loan is placed on non-accrual status, unpaid interest credited to income in the current year is reversed, and unpaid interest accrued in prior years is charged against the allowance for loan losses. Certain non-accrual loans may continue to perform wherein payments are still being received with those payments generally applied to principal. Non-accrual loans remain under constant scrutiny and if performance continues, interest income may be recorded on a cash basis based on management's judgment as to collectability of principal.

Non-accrual loans, segregated by class of loans, were as follows as of December 31:

(In Thousands)	2022	2021
Commercial, financial and agricultural	$ -	$ -
Tax-exempt	-	-
Commercial real estate:		
Commercial mortgages	614	1,041
Other construction and land development loans	-	-
Secured by farmland	-	-
Consumer real estate:		
Home equity loans	39	68
Home equity lines of credit	38	18
1-4 family residential mortgages	1,154	1,112
Construction	-	-
Installment loans to individuals	4	-
Total	$ 1,849	$ 2,239

The gross interest that would have been recorded if all non-accrual loans during the year had been current in accordance with their original terms and the amounts actually recorded in income were as follows:

(In Thousands)	2022	2021
Gross interest due under terms	$ 173	$ 262
Amount included in income	(58)	(122)
Interest income not recognized	$ 115	$ 140

At December 31, 2022, there were no significant commitments to lend additional funds with respect to non-accrual and restructured loans.

Generally, a loan is considered past due when a payment is in arrears for a period of 10 or 15 days, depending on the type of loan. Delinquent notices are issued at this point and collection efforts will continue on loans past due beyond 60 days which have not been satisfied. Past due loans are continually evaluated with determination for charge-off being made when no reasonable chance remains that the status of the loan can be improved.

An age analysis of past due loans, segregated by class of loans, as of December 31, 2022 and 2021 are as follows:

	2022					
(In Thousands)	Loans 30-89 Days Past Due	Loans 90 or more days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or more Days Past Due
Commercial, financial and agricultural	$ 239	$ -	$ 239	$ 39,334	$ 39,573	$ -
Tax-exempt	-	-	-	30,679	30,679	-
Commercial real estate:						
Commercial mortgages	439	405	844	144,778	145,622	-
Other construction and land development loans	48	-	48	18,601	18,649	-
Secured by farmland	258	-	258	12,862	13,120	-
Consumer real estate:						
Home equity loans	132	-	132	13,259	13,391	-
Home equity lines of credit	16	17	33	12,229	12,262	-
1-4 family residential mortgages	1,061	229	1,290	239,889	241,179	-
Construction	-	-	-	7,430	7,430	-
Installment loans to individuals	35	-	35	5,789	5,824	-
Gross loans	$ 2,228	$ 651	$ 2,879	$ 524,850	$ 527,729	$ -

(In Thousands)	2021 Loans 30-89 Days Past Due	Loans 90 or more days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or more Days Past Due
Commercial, financial and agricultural	$ 51	$ -	$ 51	$ 29,408	$ 29,459	$ -
Tax-exempt	-	-	-	36,457	36,457	-
Commercial real estate:						
Commercial mortgages	28	-	28	130,126	130,154	-
Other construction and land development loans	-	-	-	10,885	10,885	-
Secured by farmland	-	-	-	13,737	13,737	-
Consumer real estate:						
Home equity loans	167	-	167	14,483	14,650	-
Home equity lines of credit	139	-	139	10,611	10,750	-
1-4 family residential mortgages	473	505	978	207,772	208,750	-
Construction	-	-	-	6,703	6,703	-
Installment loans to individuals	22	-	22	5,733	5,755	-
Gross loans	$ 880	$ 505	$ 1,385	$ 465,915	$ 467,300	$ -

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable the Corporation will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment is evaluated in smaller balance loans of a similar nature and on an individual basis for other loans. If a loan is impaired, a specific allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. The recognition of interest income on impaired loans is the same as for non-accrual loans discussed above.

No additional charge to operations was required to provide for these impaired loans as the specifically allocated allowance of $0 and $38,000 at December 31, 2022 and 2021 are estimated by management to be adequate to provide for the potential loan losses associated with these impaired loans.

Impaired loans are set forth in the following table as of December 31:

(In Thousands)	2022 Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Commercial, financial and agricultural	$ 3	$ -	$ -	$ -	$ -	$ 12	$ 1
Tax-exempt	-	-	-	-	-	-	-
Commercial real estate:							
Commercial mortgages	773	614	-	614	-	773	3
Other construction and land development loans	-	-	-	-	-	-	-
Secured by farmland	345	345	-	345	-	345	24
Consumer real estate:							
Home equity loans	50	44	-	44		53	2
Home equity lines of credit	45	38	-	38	-	47	1
1-4 family residential mortgages	1,142	1,021	-	1,021	-	1,145	26
Construction	-	-	-	-	-	-	-
Installment loans to individuals	4	4	-	4	-	5	-
Gross loans	$ 2,362	$ 2,066	$ -	$ 2,066	$ -	$ 2,380	$ 57

(In Thousands)	2021 Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Commercial, financial and agricultural	$ -	$ -	$ -	$ -	$ -	$ 68	$ 3
Tax-exempt	-	-	-	-	-	-	-
Commercial real estate:							
Commercial mortgages	1,268	1,042	-	1,042	-	1,311	40
Other construction and land development loans	-	-	-	-	-	-	-
Secured by farmland	355	355	-	355	-	363	21
Consumer real estate:							
Home equity loans	88	75	-	75		91	2
Home equity lines of credit	23	18	-	18	-	24	1
1-4 family residential mortgages	1,527	1,145	269	1,414	38	1,591	55
Construction	-	-	-	-	-	-	-
Installment loans to individuals	-	-	-	-	-	-	-
Gross loans	$ 3,261	$ 2,635	$ 269	$ 2,904	$ 38	$ 3,448	$ 122

Allowance for Loan Losses

The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses is maintained at a level established by management to be adequate to absorb estimated potential loan losses. Management's periodic evaluation of the adequacy of the allowance for loan losses is based on the Corporation's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay (including the timing of future payments), the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors. This evaluation is inherently subjective as it requires material estimates, including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change.

During 2022, the Corporation recorded a $1,810,000 credit for loan losses given the clarity that exists with the COVID-19 pandemic and the related financial condition of municipalities and the local businesses. The 2022 credit reflects management’s decision to reduce certain qualitative factors within our allowance for loan losses calculation. The related decreases in our qualitative factors for municipality and other lending areas caused a decrease to our commercial real estate and our consumer real estate allocation.

During 2021, the factor for commercial, financial and agriculture, and tax-exempt increased slightly as a result of increased loan balances. Also during 2021 commercial real estate allocations decreased slightly as a result of decreased loan balances. In addition, consumer and commercial allocations increased slightly as a result of increased economic risk factors related to large employers.

The following table details activity in the allowance for possible loan losses by portfolio segment for the years ended December 31, 2022 and 2021. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

(In Thousands)	2022 Commercial, Financial & Agricultural, Tax-exempt	Commercial Real Estate	Consumer Real Estate	Installment Loans Individuals	Unallocated	Total
Balance, beginning of year	$ 1,018	$ 3,438	$ 3,413	$ 74	$ 1,193	$ 9,136
(Credit) provision charged to operations	61	(542)	(343)	3	(989)	(1,810)
Loans charged off	(47)	-	(3)	(40)	-	(90)
Recoveries	9	1	10	23	-	43
Ending balance	$ 1,041	$ 2,897	$ 3,077	$ 60	$ 204	7,279
Ending balance individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance collectively evaluated for impairment	$ 1,041	$ 2,897	$ 3,077	$ 60	$ 204	$ 7,279

(In Thousands)	2021					
	Commercial, Financial & Agricultural, Tax-exempt	Commercial Real Estate	Consumer Real Estate	Installment Loans Individuals	Unallocated	Total
Balance, beginning of year	$ 960	$ 3,636	$ 3,433	$ 61	$ 1,029	$ 9,119
(Credit) provision charged to operations	130	(219)	7	38	164	120
Loans charged off	(84)	-	(29)	(35)	-	(148)
Recoveries	12	21	2	10	-	45
Ending balance	$ 1,018	$ 3,438	$ 3,413	$ 74	$ 1,193	9,136
Ending balance individually evaluated for impairment	$ -	$ -	$ 38	$ -	$ -	$ 38
Ending balance collectively evaluated for impairment	$ 1,018	$ 3,438	$ 3,375	$ 74	$ 1,193	$ 9,098

The Corporation's recorded investment in loans as of December 31, 2022 and 2021 related to each balance in the allowance for possible loan losses by portfolio segment and disaggregated on the basis of the Corporation's impairment methodology was as follows:

(In Thousands)	2022				
	Commercial, Financial & Agricultural, Tax-exempt	Commercial Real Estate	Consumer Real Estate	Installment Loans Individuals	Total
Ending balance individually evaluated for impairment	$ -	$ 959	$ 1,103	$ 4	$ 2,066
Ending balance collectively evaluated for impairment	70,252	176,432	273,159	5,820	525,663
Ending balance	$ 70,252	$ 177,391	$ 274,262	$ 5,824	$ 527,729

(In Thousands)	2021				
	Commercial, Financial & Agricultural, Tax-exempt	Commercial Real Estate	Consumer Real Estate	Installment Loans Individuals	Total
Ending balance individually evaluated for impairment	$ -	$ 1,397	$ 1,507	$ -	$ 2,904
Ending balance collectively evaluated for impairment	65,916	153,379	239,346	5,755	464,396
Ending balance	$ 65,916	$ 154,776	$ 240,853	$ 5,755	$ 467,300

Loan Modifications

From time to time, the Bank may agree to modify the contractual terms of a borrower's loan. In cases where such modifications represent a concession to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring. Loans modified in a troubled debt restructuring may be placed on non-accrual status until the Bank determines the future collection of principal and interest is reasonably assured, which generally requires that the borrower demonstrate a period of performance according to the restructured terms of six months. Loan modifications considered troubled debt restructurings completed during the year ended December 31, 2022 and 2021 were as follows:

(In Thousands)	2022				
	Commercial, Financial & Agricultural, Tax-exempt	Commercial Real Estate	Consumer Real Estate	Installment Loans Individuals	Total
Number of contracts:					
Interest modification	-	-	-	-	-
Term modification	-	1	-	-	1
Pre-modification outstanding recorded investment	$ -	$ 298	$ -	$ -	$ 298
Post-modification outstanding recorded investment	$ -	$ 271	$ -	$ -	$ 271

(In Thousands)	2021				
	Commercial, Financial & Agricultural, Tax-exempt	Commercial Real Estate	Consumer Real Estate	Installment Loans Individuals	Total
Number of contracts:					
Interest modification	-	-	-	-	-
Term modification	-	-	1	-	1
Pre-modification outstanding recorded investment	$ -	$ -	$ 31	$ -	$ 31
Post-modification outstanding recorded investment	$ -	$ -	$ 31	$ -	$ 31

In addition, the risk-rating on COVID-19 modified loans did not change, and these loans will not be considered past due until after the deferral period is over and scheduled payments resume. The credit quality of these loans will be reevaluated after the deferral period ends.

During 2022 and 2021, no borrowers defaulted on their obligations pursuant to the modified loans.

Foreclosed assets acquired in settlement of loans are carried at fair value, less estimated costs to sell, and are included in the Consolidated Balance Sheet. As of December 31, 2022 and 2021, there were no foreclosed asset amounts included with other assets. As of December 31, 2022 and 2021, the Bank has not initiated formal proceedings on any loans that have not been transferred into foreclosed assets.

5. MORTGAGE SERVICING RIGHTS

The Bank sells real estate mortgages. The mortgage loans sold which are serviced for others are not included in the accompanying Consolidated Balance Sheets. The unpaid principal balances of mortgage loans serviced for others were $195,143,000 and $203,820,000 at December 31, 2022 and 2021, respectively. The balances of mortgage servicing rights included in other assets at December 31, 2022 and 2021 were $1,290,000 and $1,425,000, respectively. Valuation allowances were not provided since fair values were determined to exceed carrying values. Fair values were determined using a discount rate of 6% and average expected lives of 4 to 8 years.

6. PREMISES AND EQUIPMENT

A summary of premises and equipment at December 31, 2022 and 2021 follows:

(In Thousands)	2022	2021
Land	$ 2,577	$ 2,577
Premises	16,323	16,084
Furniture and equipment	11,829	11,777
Leasehold improvements	4	12
Total	30,733	30,450
Less accumulated depreciation and amortization	18,219	17,573
Other premises and equipment, net	$ 12,514	$ 12,877
Operating lease right-of-use asset	$ 298	$ 914

Depreciation and amortization expense on other premises and equipment amounted to $662,000 and $678,000 in 2022 and 2021, respectively.

7. DEPOSITS

Major classifications of deposits at December 31, 2022 and 2021 consisted of:

(In Thousands)	2022	2021
Demand deposits	$ 181,845	$ 183,984
Interest-bearing demand deposits	152,656	159,027
Savings	223,312	218,144
Time deposits	124,512	140,340
Total deposits	$ 682,325	$ 701,495

The following is a schedule reflecting remaining maturities of time deposits at December 31, 2022:

(In Thousands)		
2023	$	45,993
2024		31,552
2025		28,210
2026		9,975
2027		8,782
Total	$	124,512

Time deposits of $250,000 or more amounted to $15,951,000 and $21,729,000 as of December 31, 2022 and 2021, respectively.

8. SHORT-TERM BORROWINGS

Securities sold under agreements to repurchase and Federal Home Loan Bank advances generally represented overnight or less than 30-day borrowings. Short-term borrowings consisted of the following at December 31, 2022 and 2021:

	2022							
(In Thousands)		Ending Balance		Weighted Average Balance		Maximum Month End Balance	Average Rate	Weighted Average Rate At Year End
Securities sold under agreements to repurchase	$	171,741	$	149,247	$	174,146	1.52%	3.76%
Other short-term borrowings		-		489		1,000	4.44%	-
Total	$	171,741	$	149,736	$	175,146	1.53%	3.76%

	2021							
(In Thousands)		Ending Balance		Weighted Average Balance		Maximum Month End Balance	Average Rate	Weighted Average Rate At Year End
Securities sold under agreements to repurchase	$	142,718	$	125,338	$	144,377	0.26%	0.25%
Other short-term borrowings		-		-		-	-	-
Total	$	142,718	$	125,338	$	144,377	0.26%	0.25%

Securities sold under agreements to repurchase. We utilize securities sold under agreements to repurchase to facilitate the needs of our customers and to facilitate secured short-term funding needs. Securities sold under agreements to repurchase are stated at the amount of cash received in connection with the transaction. We monitor collateral levels on a continuous basis. We may be required to provide additional collateral based on the fair value of the underlying securities. Securities pledged as collateral under repurchase agreements are maintained with our safekeeping agents.

The remaining contractual maturity of repurchase agreements in the consolidated balance sheets as of December 31, 2022 and 2021 is presented in the following tables.

	Remaining Contractual Maturity of the Agreements									
(In Thousands)		Overnight and Continuous		Up to 30 Days		30-90 Days		Greater than 90 Days		Total
December 31, 2022										
Securities sold under agreements to repurchase:										
Obligation of U.S. Government Corporations and Agencies:										
Mortgage-backed	$	104,671	$	-	$	-	$	-	$	104,671
Other		62,941		1,269		1,055		1,805		67,070
Total borrowings	$	167,612	$	1,269	$	1,055	$	1,805	$	171,741
Gross amount of recognized liabilities for repurchase agreements									$	171,741
Amounts related to agreements not included in offsetting disclosure above									$	-

	Remaining Contractual Maturity of the Agreements									
(In Thousands)		Overnight and Continuous		Up to 30 Days		30-90 Days		Greater than 90 Days		Total
December 31, 2021										
Securities sold under agreements to repurchase:										
Obligation of U.S. Government Corporations and Agencies:										
Mortgage-backed	$	101,915	$	-	$	-	$	-	$	101,915
Other		36,698		-		1,048		3,057		40,803
Total borrowings	$	138,613	$	-	$	1,048	$	3,057	$	142,718
Gross amount of recognized liabilities for repurchase agreements									$	142,718
Amounts related to agreements not included in offsetting disclosure above									$	-

9. LONG-TERM BORROWINGS

Long-term borrowings consist of advances due to the FHLB - Pittsburgh. Under terms of a blanket agreement, the loans were secured by certain qualifying assets of the Bank which consisted principally of first mortgage loans. The carrying value of these collateralized items was $251,993,000 at December 31, 2022. The Bank has lines of credit with the Federal Reserve Bank Discount Window, FHLB – Pittsburgh, and Atlantic Community Bankers Bank in the aggregate amount of $261,993,000 at December 31, 2022. The unused portion of these lines of credit was $261,969,000 at December 31, 2022. Long-term borrowings consisted of the following at December 31, 2022 and 2021:

(In Thousands)	2022	2021
Loan dated June 25, 1998 in the original amount of $72,000 for a 30-year term requiring monthly payments of $425 including interest at 5.86%.	$ 24	$ 28
Total	$ 24	$ 28

The following is a schedule reflecting remaining maturities of long-term debt at December 31, 2022:

(In Thousands)	
2023	$ 4
2024	4
2025	4
2026	4
2027	4
Thereafter	4
Total	$ 24

10. STOCKHOLDERS' EQUITY AND STOCK PURCHASE PLANS

The Amended Articles of Incorporation contain a provision that permits the Corporation to issue warrants for the purchase of shares of common stock, par value $1.25 per share (the "Common Stock"), at below market prices in the event any person or entity acquires 25% or more of the Common Stock.

The Corporation offers employees a stock purchase plan. The maximum number of shares of the Common Stock to be issued under this plan is 20,000. In addition, the Corporation may choose to purchase shares on the open market to facilitate this plan. The plan allows participating employees to elect quarterly deductions of at least 1% of base pay, but not more than 10% of base pay, to cover purchases of shares under this plan. A participating employee shall be deemed to have been granted an opportunity to purchase a number of shares of the Common Stock equal to the quarterly aggregate amount of payroll deductions elected by the employee divided by the lower of 90% of the fair market value of Common Stock on the average of the last ten days prior to the offering date or 90% of the fair market value of Common Stock on the average of the last ten days prior to purchase date as defined by the plan. Stock issued to participating employees under the plan for the most recent two year period was:

		Average Per Share	
	Number of Shares	Employees' Purchase Price	Market Value of Shares
Year Issued:			
2022	1,651	$ 44.63	$ 49.59
2021	1,683	$ 41.79	$ 46.44

11. INCOME TAXES

The provision for income tax expense consisted of the following components:

	For the Years Ended December 31,	
(In Thousands)	2022	2021
Currently payable	$ 1,560	$ 2,240
Deferred tax (benefit)	66	108
Total income tax provision	$ 1,626	$ 2,348

A reconciliation of the actual provision for federal income tax expense and the amounts which would have been recorded based upon the statutory rate of 21% at December 31, 2022 and 2021 follows:

(In Thousands)	2022		2021	
	Amount	%	Amount	%
Provision at statutory rate	$ 2,339	21.0 %	$ 2,468	21.0 %
Tax-exempt income	(177)	(1.6)	(200)	(1.7)
Bank-owned life insurance income-net	(137)	(1.2)	(88)	(0.8)
Tax credit from limited partnerships less amortization, net	(237)	(2.1)	(222)	(1.9)
Non-deductible expenses	(290)	(2.6)	47	0.4
Other, net	128	1.1	343	3.0
Effective income tax and rate	$ 1,626	14.6 %	$ 2,348	20.0 %

The net deferred tax asset recorded by the Corporation consisted of the following tax effects of temporary timing differences at December 31, 2022 and 2021:

(In Thousands)	2022	2021
Deferred tax assets:		
Allowance for loan losses	$ 1,529	$ 1,918
Allowance for off balance sheet losses	14	14
Deferred compensation and director's fees	738	644
Non-accrual loan interest	3	3
Investment in limited partnerships	251	239
Unrealized investment debt security losses	7,279	767
Intangibles	5	3
Other	58	21
Total	9,877	3,609
Deferred tax liabilities:		
Loan fees and costs	(140)	(128)
Bond accretion	(9)	(93)
Depreciation	(312)	(345)
Mortgage servicing rights	(144)	(209)
Other	(859)	(859)
Unrealized equity security gains	(36)	(44)
Total	(1,500)	(1,678)
Deferred tax asset, net	$ 8,377	$ 1,931

The above net deferred tax asset is included in other assets on the accompanying Consolidated Balance Sheets. It is anticipated that all tax assets shown above will be realized and accordingly no valuation allowance was provided. The Corporation and the Bank file a consolidated federal income tax return. The Corporation is also required to file a separate state income tax return and has available state operating loss carry forwards totaling $1,768,000. The losses expire through 2041. The related deferred net state tax asset in the amount of $177,000 has been fully reserved and is not reflected in the net tax asset since management is of the opinion that such assets will not be realized in the foreseeable future.

The Corporation 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. With limited exception, the Corporation’s federal and state income tax returns for taxable years through 2019 have been closed for purposes of examination by the federal and state taxing jurisdictions.

12. EMPLOYEE BENEFIT AND DEFERRED COMPENSATION PLANS

EMPLOYEE BENEFIT PLANS

The Bank maintains a 401K salary deferral profit sharing plan for the benefit of its employees. Under the salary deferral component, employees may elect to contribute a percentage of compensation up to the maximum amount allowable not to exceed the limits of IRS Code Section 401K. The Corporation matches 100% of employee contributions up to 4% of compensation. Under the profit sharing component, contributions are made at the discretion of the Bank’s Board of Directors. Matching contributions amounted to $263,000 and $270,000 for the years ended December 31, 2022 and 2021, respectively. There were no discretionary contributions for the years ended December 31, 2022 and 2021.

DEFERRED COMPENSATION PLANS

Directors

The directors have the option of receiving or deferring their directors’ fees under a non-qualified deferred compensation plan which allows the director to defer such fees until the year following the expiration of the directors’ term. Payments are then made over specified terms under these arrangements up to a ten-year period. Interest is to accrue on these deferred fees at a 5-year certificate of deposit rate, which was 2.08% in 2022 and 2021. The certificate of deposit rate will reset in January 2023. Three directors have elected to participate in this program and the total accrued liability as of December 31, 2022 and 2021 was $329,000, and $323,000, respectively.

Total directors' fees, including amounts currently paid for the years ended December 31, 2022 and 2021 were $314,000 and $335,000, respectively.

The directors have the option of receiving or deferring their entire or partial directors' fees under a second non-qualified deferred compensation plan with the same features as the above plan. The interest rate that was paid in 2022 and 2021 was 2.38%. The certificate of deposit rate will reset in January 2024. Total accrued liability as of December 31, 2022 and 2021 was $732,000 and $670,000.

Officers

The Bank entered into non-qualified deferred compensation agreements with three senior officers to provide supplemental retirement benefits commencing with the executive's retirement and ending 15 years thereafter. One participant began payout during 2009 with amount received being $8,000 during 2009 and $20,000 each year thereafter. During 2013 a second participant began payout with amount received being $12,500 during 2013 and $50,000 each year thereafter. During June 2022, the Bank entered into an additional non-qualified deferred compensation agreement with a senior officer to provide a supplemental retirement benefit commencing with the executive reaching age 65 and ending 15 years thereafter. The deferred compensation expense related to these agreements for the years ended December 31, 2022 and 2021 was $182,000 and $87,000, respectively, and the total accrued liability as of December 31, 2022 and 2021 was $1,197,000 and $1,085,000, respectively.

In 2009, the Bank entered into a non-qualified deferred compensation agreement with one senior officer to provide supplemental retirement benefits commencing with the executive's retirement and ending 15 years thereafter. The deferred compensation expense related to this agreement for the years ended December 31, 2022 and 2021 was $59,000 and $55,000, respectively, and the total accrued liability as of December 31, 2022 and 2021 was $489,000 and $430,000, respectively.

In December 2010, the Bank entered into a Supplemental Executive Retirement Plan for one senior officer to provide supplemental retirement benefits commencing with the executive's retirement and ending 15 years thereafter. During June 2022, this plan was amended to increase the benefit payable to the executive. The deferred compensation expense related to this agreement for the years ended December 31, 2022 and 2021 was $172,000 and $41,000, respectively, and the total accrued liability as of December 31, 2022 and 2021 was $418,000 and $246,000.

In January 2018, the Bank entered into a Supplemental Executive Retirement Plan for one senior officer to provide supplemental retirement benefits commencing with the executive's retirement and ending 15 years thereafter. The deferred compensation expense related to this agreement for the years ended December 31, 2022 and 2021 was $11,000 and $11,000, respectively, and the total accrued liability as of December 31, 2022 and 2021 was $74,000 and $63,000, respectively.

In March 2022, the Bank entered into a Supplemental Executive Retirement Plan for one senior officer to provide supplemental retirement benefits commencing with the executive's retirement and ending 15 years thereafter. The deferred compensation expense related to this agreement for the year ended December 31, 2022 was $11,000 and the total accrued liability as of December 31, 2022 was $11,000.

In June 2016, the Bank entered into Split Dollar Life Insurance agreements with two senior officers. Upon the senior officer's death, if while employed by the Bank, their beneficiary would receive a benefit of $250,000. During January 2018, the Bank terminated the Split Dollar Insurance agreement with one senior officer and entered into the Supplemental Executive Retirement Plan described above.

The Bank entered into agreements to provide post-retirement benefits to a group of current and/or former officers in the form of life insurance payable to the employee's estate upon their death through endorsement split dollar life insurance arrangements. The Corporation recognizes a liability for future benefits as related to these agreements. The post-retirement benefit expense related to these split dollar arrangements amounted to $19,000 and $18,000 for the years ended December 31, 2022 and 2021. The total accrued liability for the split dollar post retirement benefits amounted to $262,000 and $247,000 for the years ended December 31, 2022 and 2021, respectively.

Total deferred compensation and split dollar post retirement benefit expense for current and retired officers for the years ended December 31, 2022 and 2021 was $454,000 and $212,000, respectively, and the total accrued liability under the officers' deferred compensation and split dollar post retirement plans as of December 31, 2022 and 2021 was $2,451,000 and $2,071,000, respectively.

During 2022, net death benefits pertaining to a former employee amounted to $226,000, which is reported in non-interest income.

13. LEASE COMMITMENTS AND CONTINGENCIES

The Corporation leases two office locations under operating leases. The Corporation has elected to account for the variable nonlease components, such as common area maintenance charges, utilities, real estate taxes, and insurance, separately from the lease component. Such variable nonlease components are reported in net occupancy expense on the Consolidated Statements of Income when paid. These variable nonlease components were excluded from the calculation of the present value of the remaining lease payments, therefore, they are not included in the right-of-use assets and lease liabilities reported on the Consolidated Balance Sheets. The lease cost associated with the operating leases for the years ending December 31, 2022 and 2021 amounted to $82,000 and $85,000, respectively.

Certain of the Corporation's leases contain options to renew the lease after the initial term. Management considers the Corporation's historical pattern of exercising renewal options on leases and the positive performance of the leased locations, when determining whether it is reasonably certain that the leases will be renewed. If management concludes that there is reasonable certainty about the renewal option, it is included in the calculation of the remaining term of each applicable lease. The discount rate utilized in calculating the present value of the remaining lease payments for each lease was the Federal Home Loan Bank of Pittsburgh advance rate corresponding to the remaining maturity of the lease as of January 1, 2019. The following table presents the weighted-average remaining lease term and discount rate for the leases outstanding at December 31, 2022.

	Operating
Weighted-average remaining term (years)	9.3
Weighted-average discount rate	3.94%

The following table presents the undiscounted cash flows due related to operating leases as of December 31, 2022, along with a reconciliation to the discounted amount recorded on the Consolidated Balance Sheets:

Undiscounted cash flows due (In thousands):	Operating
2023	$ 38
2024	38
2025	38
2026	38
2027	38
2028 and thereafter	166
Total undiscounted cash flows	356
Discount on cash flows	(58)
Total lease liabilities	$ 298

Under Topic 842, the lessee can elect to not record on the Consolidated Balance Sheets a lease whose term is twelve months or less and does not include a purchase option that the lessee is reasonably certain to exercise. As of December 31, 2022, the Corporation had no leases that had a term of twelve months or less.

Rental expense under operating leases totaled approximately $227,000 in 2022 and $105,000 in 2021. Effective November 19, 2022, the Corporation terminated a lease and paid a one-time fee of $132,000. The early termination fee was expensed and included in the rental expense costs in 2022. During 2022, one lease was terminated and resulted in a reduction of the right-of-use asset and liability in the amount of $563,000.

14. RELATED PARTY TRANSACTIONS

Certain directors and executive officers of the Corporation and the Bank, as well as companies in which they are principal owners (i.e., at least 10% ownership), were indebted to the Bank at December 31, 2022 and 2021. These loans were made on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties. These loans did not present more than the normal risk of collectibility nor present other unfavorable features. A summary of the activity on these related party loans consisted of the following:

(In Thousands)	Beginning Balance	Additions	Payments	Ending Balance
2022	$ 8,211	$ 4,789	$ (1,677)	$ 11,323
2021	5,105	3,768	(662)	8,211

The above loans represent funds drawn and outstanding at the date of the accompanying consolidated financial statement. Commitments by the Bank to related parties on loan commitments and standby letters of credit for 2022 and 2021 presented an off-balance sheet risk to the extent of undisbursed funds in the amount of $2,109,000 and $3,102,000 respectively.

Deposits from certain officers and directors and/or their affiliated companies held by the Bank amounted to $13,395,000 and $13,359,000 at December 31, 2022 and 2021, respectively.

15. REGULATORY MATTERS

Dividends paid by the Corporation are generally provided from dividends paid to it by the Bank. Under provisions of the Pennsylvania Banking Code, cash dividends may be paid by the Bank from accumulated net earnings (retained earnings) as long as minimum capital requirements are met. The minimum capital requirements stipulate that the Bank's surplus or excess of capital be equal to the amount of capital stock. The Bank carries capital in excess of capital requirements. The Bank has a balance of $63.5 million in its retained earnings at December 31, 2022, which is fully available for the payout of cash dividends. In order for the Corporation to maintain its financial holding company status, all banking subsidiaries must maintain a well capitalized status. The Corporation's balance of retained earnings at December 31, 2022 is $90.2 million and would be available for the payout of cash dividends, although payment of dividends to such extent would not be prudent or likely. The Federal Reserve Board notified all bank holding companies that dividends should be eliminated, deferred or significantly reduced if the bank holding company's net income for the past four quarters, net of dividends paid during that period, is not sufficient to fully fund the dividends; the bank holding company's prospective rate of earnings retention is not consistent with the bank holding company's capital needs and overall, current and prospective financial condition; or the bank holding company will not meet or is in danger of meeting its minimum regulatory capital adequacy ratios.

The Corporation is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Corporation's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation must meet specific capital guidelines that involve quantitative measures of the Corporation's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Corporation's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulatory capital standards to ensure capital adequacy require the Corporation to maintain minimum amounts and ratios (set forth in the table below) of Total and Tier I Capital (as defined in the regulations) to risk-weighted assets (as defined), Common Equity Tier I Capital (as defined) to risk-weighted assets (as defined), and of Tier I Capital (as defined) to average assets (as defined). Management believes, as of December 31, 2022 and 2021, that the Corporation and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2022, the Bank was categorized as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, common equity Tier I risk-based capital, and Tier I leverage ratios as set forth in the table.

The following table reflects the Corporation's actual consolidated capital amounts and ratios at December 31:

(In Thousands)	2022		2021	
	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-weighted Assets)				
Actual	$ 112,969	21.0 %	$ 106,078	22.5 %
For Capital Adequacy Purposes	42,956	8.0	37,686	8.0
To Be Well-Capitalized	53,695	10.0	47,108	10.0
Tier I Capital (to Risk-weighted Assets)				
Actual	$ 106,249	19.8 %	$ 100,149	21.3 %
For Capital Adequacy Purposes	32,217	6.0	28,265	6.0
To Be Well-Capitalized	42,956	8.0	37,686	8.0
Tier I Capital (to Average Assets)				
Actual	$ 106,249	11.0 %	$ 100,149	10.5 %
For Capital Adequacy Purposes	38,576	4.0	38,149	4.0
To Be Well-Capitalized	48,220	5.0	47,686	5.0
Common Equity Tier I Capital (to Risk-weighted Assets)				
Actual	$ 106,249	19.8 %	$ 100,149	21.3 %
For Capital Adequacy Purposes	24,163	4.5	21,198	4.5
To Be Well-Capitalized	34,902	6.5	30,620	6.5

The Corporation's capital ratios are not materially different from those of the Bank.

16. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby and commercial letters of credit, and dealer floor plans. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments. The Corporation does not engage in trading activities with respect to any of its financial instruments with off-balance sheet risk.

The Corporation may require collateral or other security to support financial instruments with off-balance sheet credit risk. The contract or notional amounts at December 31, 2022 and 2021 were as follows:

(In Thousands)	2022	2021
Financial instruments whose contract amounts represents credit risk:		
Commitments to extend credit	$ 84,851	$ 96,904
Standby letters of credit	6,357	9,301
Dealer floor plans	1,705	1,696

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. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation of the counter-party. Collateral held varies but may include deposits, equity and debt securities, accounts receivable, inventory, property, plant, equipment and income-producing commercial properties.

Standby letters of credit and commercial letters of credit are conditional commitments issued by the Corporation to guarantee payment to a third party when a customer either fails to repay an obligation or fails to perform some non-financial obligation. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Corporation holds collateral supporting those commitments for which collateral is deemed necessary. The extent of collateral held for those commitments at December 31, 2022 varied from 0 percent to 100 percent. The average amount collateralized was 89.3 percent.

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

The Corporation granted commercial, consumer and residential loans to customers primarily within Pennsylvania. Of the total loan portfolio, 85.6 percent was for real estate loans, principally residential. It was the opinion of management that this high concentration did not pose an adverse credit risk. Further, it is management's opinion that the remainder of the loan portfolio was balanced and diversified to the extent necessary to avoid any significant concentration of credit.

17. FAIR VALUE MEASUREMENTS

The Corporation establishes a hierarchal disclosure framework associated with the level of pricing observability utilized in measuring assets and liabilities at fair value. The standard describes three levels of inputs that may be used to measure fair values:

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 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 judgement or estimation.

This hierarchy requires the use of observable market data available.

The following table presents the assets reported on the Consolidated Balance Sheet at their fair value on a recurring basis as of December 31, 2022 and 2021, 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.

At December 31, 2022 and 2021, investments measured at fair value on a recurring basis and the valuation methods used are as follows:

	December 31, 2022			
(In Thousands)	Level I	Level II	Level III	Total
Obligation of US Government Corporations and Agencies				
Mortgage-backed	$ -	$ 126,065	$ -	$ 126,065
Other	-	200,923	-	200,923
Obligations of state and political subdivisions	-	14,063	-	14,063
Investment equity securities	1,077	-	-	1,077
	$ 1,077	$ 341,051	$ -	$ 342,128

	December 31, 2021			
(In Thousands)	Level I	Level II	Level III	Total
Obligation of US Government Corporations and Agencies				
Mortgage-backed	$ -	$ 145,917	$ -	$ 145,917
Other	-	185,061	-	185,061
Obligations of state and political subdivisions	-	6,854	-	6,854
Investment equity securities	1,114	-	-	1,114
	$ 1,114	$ 337,832	$ -	$ 338,946

The fair values of equity securities classified as Level I are derived from quoted market prices in active markets; these assets consist entirely of stocks held in other banks. The fair values of all debt securities classified as Level II are obtained from nationally-recognized third-party pricing agencies. The fair values are derived primarily from cash flow models, which include assumptions for interest rates, credit losses, and prepayment speeds. The significant inputs utilized in the cash flow models are based on market data obtained from sources independent of the Corporation (observable inputs), and are therefore classified as Level II within the fair value hierarchy.

The following tables present the assets measured on a nonrecurring basis on the Consolidated Balance Sheets at their fair value as of December 31, 2021, by level within the fair value hierarchy. There were no assets measured on a non-recurring basis as of December 31, 2022. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	December 31, 2021			
(In Thousands)	Level I	Level II	Level III	Total
Assets Measured on a Non-recurring Basis:				
Impaired Loans	$ -	$ -	$ 231	$ 231
	$ -	$ -	$ 231	$ 231

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 includes quoted market prices for identified assets classified as Level I inputs; and 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. The fair value consists of loan balances of $269,000 less their valuation allowances of $38,000 at December 31, 2021.

The following table provides information describing the valuation processes used to determine nonrecurring fair value measurements categorized within Level III of the hierarchy.

	December 31, 2021			
(In thousands)	Quantitative Information about Level III Fair Value Measurements			
	Fair Value Estimate (In thousands)	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Impaired Loans	$ 231	Appraisal of Collateral (1)	Appraisal adjustments (2)	25-50% (38%)

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which include various Level III inputs which are not identifiable.

(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions, aging, and/or estimated liquidation expenses incurred when selling the collateral. The range and weighted average of appraisal adjustment and liquidation expenses are presented as a percentage of the appraisal.

(3) Includes qualitative adjustments by management.

18. FAIR VALUES OF FINANCIAL INSTRUMENTS

At December 31, 2022 and 2021, the carrying values and fair values of financial instruments that are not required to be measured at fair value are presented in the table below:

	2022				
(In Thousands)	Carrying Amount	Fair Value	Level I	Level II	Level III
Financial Assets:					
Loans held for sale	$ 4,568	$ 4,568	$ 4,568	$ -	$ -
Loans, net	520,450	466,776	-	-	466,776
Mortgage servicing rights	1,290	1,678	-	-	1,678
Financial Liabilities:					
Interest- bearing deposits	$ 500,480	$ 499,211	$ 375,968	$ -	$ 123,243
Long-term borrowings	24	24	-	-	24

(In Thousands)	2021 Carrying Amount	Fair Value	Level I	Level II	Level III
Financial Assets:					
Loans held for sale	$ 3,935	$ 3,935	$ 3,935	$ -	$ -
Loans, net	458,164	458,074	-	-	458,074
Mortgage servicing rights	1,425	1,508	-	-	1,508
Financial Liabilities:					
Interest- bearing deposits	$ 517,511	$ 518,879	$ 377,171	$ -	$ 141,708
Long-term borrowings	28	37	-	-	37

Financial instruments are defined as cash, evidence of ownership interest in an entity, or a contract that 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. The carrying value is a reasonable estimate of the true fair value for cash and cash equivalents, restricted securities, cash surrender value of bank owned life insurance, accrued interest receivable, noninterest bearing deposits, short-term borrowings, and accrued interest payable.

Fair value is defined as a financial instrument which 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, but focuses on the exit price of the asset and liability.

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 estimate losses, and other factors as determined through various option pricing formulas. 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 estimate 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 Corporation.

19. REVENUE RECOGNITION

Management determined that the primary sources of revenue associated with financial instruments, including interest income on loans and investments, along with certain noninterest revenue sources including investment security gains, loan servicing charges, gains on the sale of loans, and earnings on bank owned life insurance are not within the scope of Topic 606. As a result, no changes were made during the period related to these sources of revenue, which cumulatively comprise 82.4% of the total revenue of the Corporation.

Noninterest income within the scope of Topic 606 are as follows:

- Trust and Brokerage fees – Trust and investment advisory income is primarily comprised of fees earned from the management and administration of trusts and customer investment portfolios. The Corporation's performance obligation is generally satisfied over a period of time and the resulting fees are billed monthly or quarterly, based upon the month end market value of the assets under management. Payment is generally received after month end through a direct charge to customers' accounts. Other performance obligations (such as delivery of account statements to customers) are generally considered immaterial to the overall transactions price. Commissions on transactions are recognized on a trade-date basis as the performance obligation is satisfied at the point in time in which the trade is processed.

- Service charges and fees – The Corporation has contracts with its deposit account customers where fees are charged if certain parameters are not met. These agreements can be cancelled at any time by either the Corporation or the deposit customer. Revenue from these transactions is recognized on a monthly basis as the Corporation has an unconditional right to the fee consideration. The Corporation also has transaction fees related to specific transactions or activities resulting from a customer request or activity that include overdraft fees, online banking fees, interchange fees, ATM fees and other transaction fees. All these fees are attributed to specific performance obligations of the Corporation where revenue is recognized at a defined point in time upon the completion of the requested service/transaction.

- Interchange fees - The Corporation issues debit cards to consumer and business customers with checking deposit accounts. Debit card and ATM transactions are processed via electronic systems that involve several parties. The Corporation's debit card and ATM transaction processing is executed via contractual arrangements with payment processing networks, a processor and a settlement bank. As described above, all deposit liabilities are considered to have one-day terms and therefore interchange revenue from customers' use of their debit cards to initiate transactions are recognized in income at the time when the services are provided and related fees received in the Corporation's deposit account with the settlement bank. Incremental costs associated with ATM and interchange processing are recognized as expense when incurred within noninterest expense in the consolidated statements of income.

- Other noninterest income – Other noninterest income consists of other recurring revenue streams such as safe deposit box rental fees, gain (loss) on sale of other real estate owned and other miscellaneous revenue streams. Safe deposit box rental fees are charged to the customer on an annual basis and recognized when billed. However, if the safe deposit box rental fee is prepaid (i.e. paid prior to issuance of annual bill), the revenue is recognized upon receipt of payment. The Corporation has determined that since rentals and renewals occur consistently over time, revenue is recognized on a basis consistent with the duration of the performance obligation. Gains and losses on the sale of other real estate owned are recognized at the completion of the property sale when the buyer obtains control of the real estate and all the performance obligations of the Corporation have been satisfied.

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the year ended December 31, 2022 and 2021:

(In Thousands)	For the Years Ended December 31,	
Non-interest Income	2022	2021
In-Scope of Topic 606:		
Trust and Brokerage Services	$ 1,441	$ 1,501
Service Charges and Fees	2,117	1,185
Interchange Fees	1,720	1,788
Other	441	544
Non-interest Income (in-scope of Topic 606)	5,719	5,018
Non-interest Income (out-of-scope of Topic 606)	352	2,980
Total Non-interest Income	$ 6,071	$ 7,998

20. SUBSEQUENT EVENTS

Management has reviewed events occurring through February 13, 2023, the date the financial statements were issued, and no subsequent events occurred requiring accrual or disclosure.

Board of Directors

Robert M. Brewington, Jr.
Russell S. Cotner
Lance O. Diehl
Robert W. Dillon
Joanne I. Keenan
Willard H. Kile, Jr.
Brian D. Klingerman
W. Bruce McMichael, Jr.
Andrew B. Pruden
Steven H. Shannon
Edwin A. Wenner
Brenda R.H. Williams

CCFNB Bancorp, Inc. Officers

Edwin A. Wenner, Chairman of the Board
Lance O. Diehl, President & Chief Executive Officer
Jeffrey T. Arnold, *CPA, CIA,* Executive Vice President, Treasurer, Assistant Secretary & Chief Financial Officer
Nancy R. Diehl, Vice President & Secretary

First Columbia Bank & Trust Co. Officers

Lance Diehl, President, Chief Executive Officer

Jeffrey Arnold, Executive Vice President, Chief Financial Officer

Paul Page, Executive Vice President, Chief Lending Officer

Jeffrey Whitenight, Executive Vice President, Branch/Loan Administration

Matthew Beagle, Senior Vice President, Chief Wealth Management Officer

Taylor Farr, Senior Vice President, Commercial Loan Team Leader

Craig Bennett, Vice President, Consumer Lender

Karen Brouse, Vice President, Internal Audit & Compliance

Angela Crossley, Vice President, eBanking & Deposit Solutions Officer

Michelle Densberger, Vice President, Mortgage Originator

Nancy Diehl, Vice President, SEC & Regulatory Financial Reporting Officer

Joanna Dillon, Vice President, Loan Operations Manager

Kelli Fester, Vice President, eBanking & Customer Support Manager

Melissa Fisher, Vice President, Commercial Lender

Deborah Hack, Vice President, Deposit Operations Officer

Jean MacDermott, Vice President, Business Development Officer

Brooke Mertz, Vice President, Mortgage Originator

Karen Murdock, Vice President, Community Office Manager

Charles Puckett, Vice President, Information Technology Manager

Courtney Sinclair-McGovern, Vice President, Community Office Manager

Sandra Smith, Vice President, Community Office Manager

Richard Talanca, Vice President, Mortgage Originator

Kevin Troutman, Vice President, Trust Officer

Lisa Valeski, Vice President, Human Resources Director

Maria Valles, Vice President, Marketing Director

Tina Wood, Vice President, Community Office Manager

Pamela Young, Vice President, Business Development Officer

Christine Zanis, Vice President, Director of Trust Services

Sandra Allen, Assistant Vice President, Community Office Manager

Kara Aurand, Assistant Vice President, Community Office Manager

Andrea Bartlett, Assistant Vice President, Executive Assistant

Cynthia Beagle, Assistant Vice President, Loan Processing Manager, Mortgage

Marie Bennett, Assistant Vice President, Loan Servicing Manager

Tessa Bogert-Creasy, Assistant Vice President, Senior Credit Analyst

Michael Celli, Assistant Vice President, Commercial Lender

Leslie Chyko, Assistant Vice President, Executive Assistant

Daniel Diehl, Assistant Vice President, Commercial Lender

Kristina Gregory, Assistant Vice President, Community Office Manager

Logan Heffner, Assistant Vice President, Community Office Manager

Trystan Johnson, Assistant Vice President, Mortgage Underwriter & Loan Processing Supervisor

Teresa Karchner, Assistant Vice President, Security & Training Officer

Carol Kupsky, Assistant Vice President, Assistant Controller

Denise Neidig, Assistant Vice President, Community Office Manager

Francesca Schu, Assistant Vice President, Marketing Manager

Tammy Taney, Assistant Vice President, Business Solutions Specialist

David Utt, Assistant Vice President, Management Trainee

Vicki Yackiel, Assistant Vice President, Financial Analyst

McKayla Zimmerman, Assistant Vice President, Community Office Manager

Rebecca Zimmerman, Assistant Vice President, Assistant Deposit Operations Manager

Full Time Employees

Katelyn Acevedo
Aubrianna Aikey
Tyler Allen
Debbie Andrews
Karisa Auten
Janice Bankes
Kristin Bennett
Meredith Berger
Sari Breech
Heather Brusseau
Katie Carpenter
Anna Cashman
Susan Celli
Dakota Conner
Carol Cox
Amanda Creasy
Jared Cromley
Kristen Dalrymple

Anne DeFrain
Brittany Derr
Kristen Dohl
Tristan Dzoch
David Eisenhower
Pamela Eppinette
Reyna Everett
Kelly Fensch
Teresa Foster
Dannelle Galutia
Billie Jo Giger
John Gilliland
Elizabeth Glica
Amanda Good
Megan Goodrich
Kelly Grabowski
Cheyanne Greager
Samantha Gregorowicz

Sierra Harriot
Sally Hatt
Kristina Heintzelman
Melanie Henry
Corina Honse
Bonnie Hook
Zane Houser
Sherry Jaworski
Doreen Karns
Jesica Kline
Amy Knapp
Jennifer Krystofosky-Levan
Aubrey Kuczynski
Janet Kulp
ElannaLadson
Linda Lindemuth
Renee Lockard

Jessica Lyons
Cynthia Marr
Gayle McGee
Maranda Messersmith
Cassandra Mihoch
Lauren Miller
Melissa Miller
Kristine Morris
Petina Napoli
Elise Neiderhiser
Leanne Niedzwiecki
Jordan Pizzuto
Alison Powlus
Lori Reabuck
Sarah Rosenberger
Brenda Ruth
Faith Smith
Lauren Smith

Dawn Sopkanich
Martin Spewak
Beth Stahl
Allen Strauch
Mary Lou Thomas
TiffanyThrash
Haley Traugh
Lydia Traugh
Tracey Travelpiece
Ashleigh Tyson
Angela Varano
Kaitlin Vought
Teresa Woll
Susan Wynings

Part Time Employees

Jan Anderson
David Beagle
Madison Beisswanger
Walter Betsko
PattyBrosious
Logan Bulchie
Thomas Church
Isabelle Chyko
Christin Cleaves

Gregory Conrad
GabriellaDunlap
Thomas Evans
Blake Evans
Jay Flick
Kirk Gilbert
Jacob Hagerty
James Harding
Linda Heller

Michelle Houser
Kyle Hummel
Patricia Kessler
Gary Kinney
Zachary Kremer
Vonda Laubach
Hyun Long
Susan Millard
Chase Morris

Emma Morris
Lauren Palmer
Benjamin Pasukinis
Deborah Pure
Kristene Reibsome
Morgan Rupp
Lisa Schultz
Cassandra Spencer
Hope Stiltner

Vanessa Stouffer
Molly Sullivan
Kevin Tanribilir
Sierra Tappe
Samantha Thomas
Ashley Thompson
Cheryl Yoder
Zoe Zajac

First Columbia Bank & Trust Co. Locations

Benton
200 Market Street
Benton, PA 17814
(570) 925-6181

Berwick
1919 West Front Street
Berwick, PA 18603
(570) 752-3230

300 Market Street
Berwick, PA 18603
(570) 752-8024

Catawissa
347 Main Street
Catawissa, PA 17820
(570) 356-2371

Danville
710 Walnut Street
Danville, PA 17821
(570) 416-5308

Bloomsburg
232 East Street
Bloomsburg, PA 17815
(570) 784-4400
(570) 784-1660

1010 South Market Street
Bloomsburg, PA 17815
(570) 387-4665

Buckhorn
279 Columbia Mall Drive
Bloomsburg, PA 17815
(570) 387-6100

Elysburg
119 Northumberland Drive
Elysburg, PA 17824
(570) 672-1500

Lightstreet
1199 Lightstreet Road
Bloomsburg, PA 17815
(570) 784-5600

Millville
125 South State Street
Millville, PA 17846
(570) 458-5650

Scott Township
2691 Columbia Boulevard
(Route 11)
Bloomsburg, PA 17815
(570) 387-4653

FIRST COLUMBIA BANK & TRUST CO.

Market Makers:

For a listing of Market Makers, please visit our website at **www.firstcolumbiabank.com**

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