CELEBRATING

The NNB

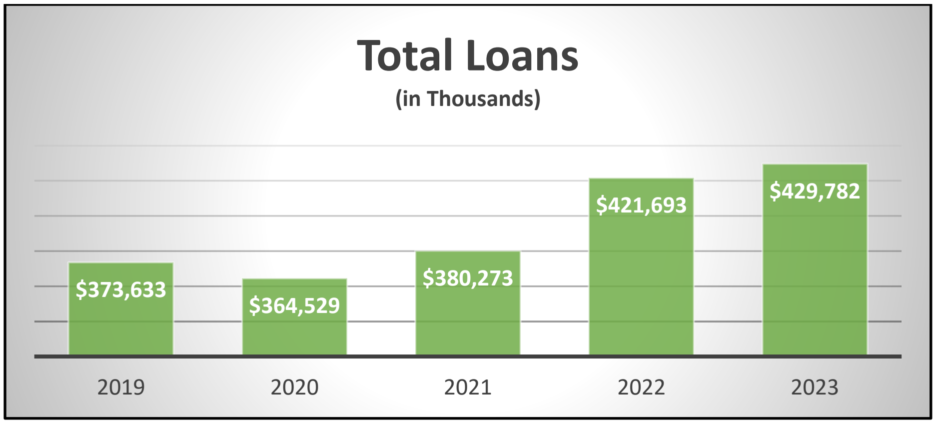
120 YEARS

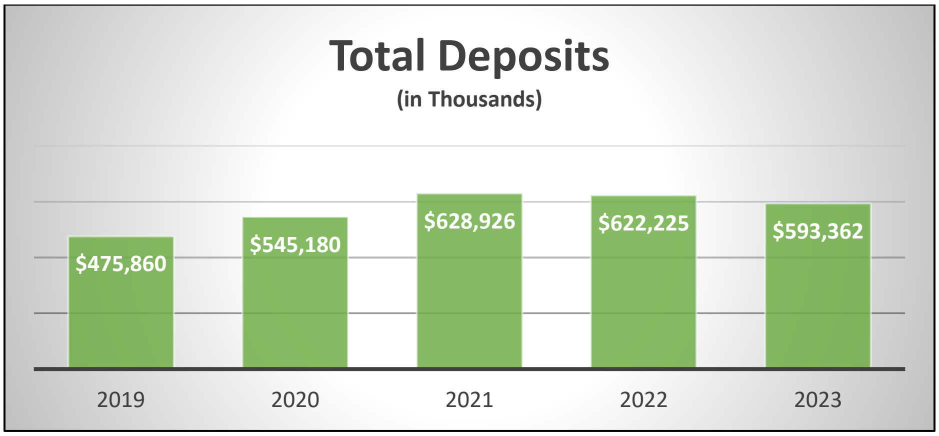
2023

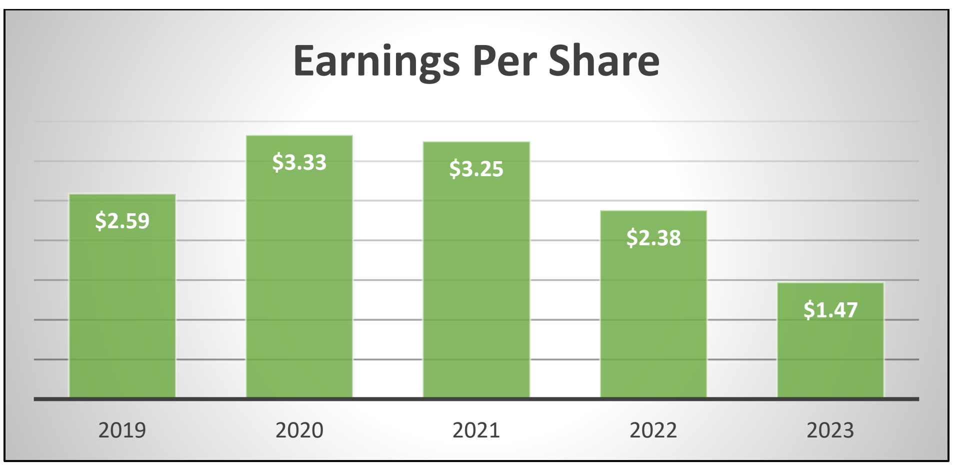
Annual Report

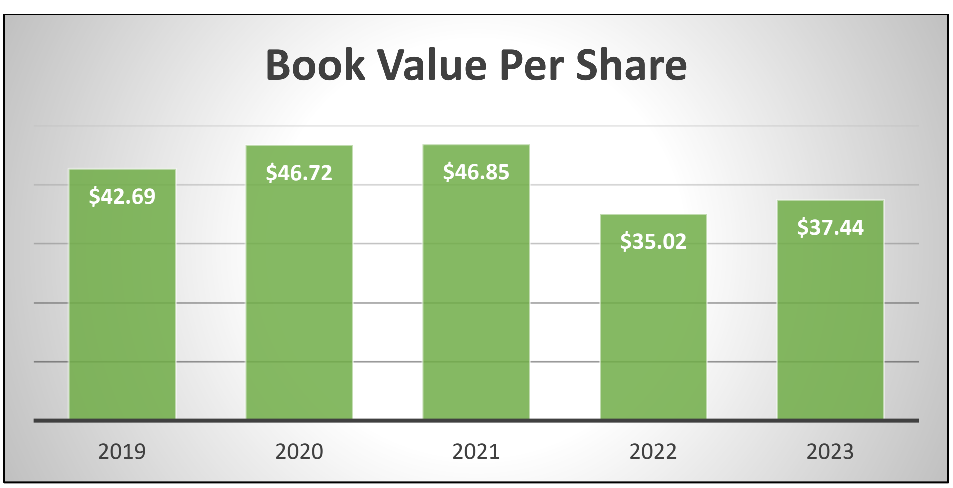
NORTHUMBERLAND BANCORP

Northumberland Bancorp Historical Performance









NORTHUMBERLAND BANCORP

Consolidated Financial Statements

December 31, 2023 and 2022

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245 Front Street • P.O. Box 271 • Northumberland, PA 17857
(570) 473-3531 • Fax (570) 473-9697

April 10, 2024

To Our Valued Shareholders:

Greetings, your Bank celebrated 120 years of providing community banking services to the Central Susquehanna Valley in October of 2023. This caused me to pause and ponder the long history of all the economic uncertainties and other impactful world or national events that this bank continued to serve the community through. As I write this letter, the current economic inflationary concerns continue, and the Federal Reserve has not yet decided to ease (lower) short-term interest rates. In the meantime, the commercial banking sector will continue to be challenged by the drastic increase in interest expense outpacing increases in interest income caused by the rapid and dramatic increase in interest rates enacted by the Federal Reserve. That being said - we are reporting an after-tax net income for 2023 of $1,892,000 or $1.47 per share. This is a 38% decline from the previous year reported at $3,053,000. This same general trend is evident to varying degrees among most local competing banks managing through the same challenges. I will add that for this bank, we did also carry certain extra ordinary expenses yet during 2023 related to completing the conversion of our core software systems. As I have reported in previous letters, these conversions were necessary to position your Bank to remain a viable independent institution for the long term. Regardless, I am happy to report the level of net income did afford to maintain the $.23 per share dividend for all four quarters of 2023 while continuing to generate retained earnings.

Turning attention to the balance sheet, net loans grew by over $7.7 million during 2023. That growth did not have a chance to impact year-end results greatly as it happened mainly in the late third and fourth quarter of the year. We continue to see loan growth thus far in 2024. This will assist in stabilizing, and eventually enhancing, the interest rate margin as the Federal Reserve appears to have at least halted rate hikes while new loans are being granted at higher interest rates. The weighted average yield on loans is also increasing due to adjustable-rate loans repricing out of the historical low-rate environment. Total Deposits declined 4.64% as interest rates became very competitive and certain depositors had many "high yield" options to consider for their larger balances. This did cause the bank to borrow funds well within our borrowing capacity limits as needed to manage liquidity needs and fund loans. As a result of lower deposit levels, the bank experienced a 2.45% decline in Total Assets from $691.6 million in 2022 to $674.7 million in 2023.

Additional 2023 financial highlights:

- Non-interest expense remained relatively flat with a .58% increase.
- Non-interest income declined 5.89% mainly due to continued lower mortgage banking activity as home buyers appear to be waiting for lower interest rates and refinances are basically nonexistent given the higher rates.
- Total Interest and Dividend Income increased 21.14%, however, Total Interest Expense increased 146.03% significantly impacting Net Interest Income for 2023.
- Total Stockholder's Equity increased by 9.39% compared to year end 2022 mainly attributable to lower value placed on "unrealized losses" in the investment portfolio.
- Excluding "unrealized losses", Book Value Per Share remained relatively flat at $49.06 compared to year end 2022 at $49.34.

The above results are certainly evidence of a challenging year. The expected easing of rates by the Federal Reserve may be what is needed in the short term to more quickly revive the ability to widen the net interest margin and enhance non-interest income streams such as increased mortgage banking activity. If rates do stay higher for longer, then the horizon will simply be stretched to get to where we need to be.

Regardless of inflation and the current interest rate environment, management has taken several steps to meet this challenge including focused expense control at all opportunities and adding additional strategic sources of liquidity than we may have previously utilized. In my first quarter letter to you, I announced the welcome addition of Doug Baxter as our new Chief Financial Officer. Doug joined us in April and was instantly making a positive impact with his “hands on” style. Besides creating more informative and meaningful financial presentations for the Board of Directors and Senior Management for day-to-day management of the bank, Doug was instrumental in bringing on board these additional options to manage liquidity. You can learn more about Doug at our bank website.

General loan quality remains strong. Classified assets remain low as compared to Tier One Risk-Based Capital. 2023 ended with an overall delinquency ratio of 1.33%. Also, you may have heard that the next possible “big concern” will be banks that have large exposures to Commercial Real Estate, especially urban office buildings. This bank would have no concentrations of concern of that credit type.

The Bank continues to be well-capitalized based on regulatory capital standards, with a Tier One Leverage capital ratio of 9.72% at December 31, 2023. The Bank’s Risk-Based capital ratios also remain strong and much higher than regulatory requirements. Tier One capital to risk-weighted assets was 15.71% and Total Risk-Based capital to risk-weighted assets was 16.73%. When calculating these capital ratios, the unrealized loss impact on reported equity capital is not considered. All ratios are an improvement over last year and the bank remains well capitalized as it continues to generate retained earnings.

As we celebrate our 120-year anniversary, I continue to remind myself of the true value of this independent community bank. In my 30 years of being a community banker, I have seen businesses that would not have succeeded and young families who would not have enjoyed purchasing their first home if it were not for a flexible and personal community bank. Community banks keep deposit money local and lend it out locally. There is a certain sense of pride that a community has when they also have successful local independent community banks able to meet their needs and provide a choice over a megabank. We remain committed to the communities we serve, and we appreciate the success they offer us. With those community relationships, our strong capital position, and a management team always motivated to address any challenges, we welcome the future.

We again thank you, our shareholders, for your continued investment and support. Remember that Northumberland Bancorp shares can be purchased on the OTC Market under the symbol of “NUBC”.

Very truly yours,

J. Todd Troxell
President and CEO

INDEPENDENT AUDITOR'S REPORT

Crowe LLP
Independent Member Crowe Global

Board of Directors and Stockholders
Northumberland Bancorp
Northumberland, Pennsylvania

Opinion

We have audited the consolidated financial statements of Northumberland Bancorp, which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Northumberland Bancorp as of December 31, 2023 and 2022, 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 Northumberland Bancorp 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.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, in 2023, the entity adopted new accounting guidance of Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 326, Financial Instruments – Credit Losses (ASC 326) using the modified retrospective method such that prior period amounts are not adjusted and continue to be report in accordance with previously applicable generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 consolidated financial statements.

In performing an audit in accordance with GAAS, we:

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or 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.

Crowe LLP

Crowe LLP

Washington, D.C.
April 10, 2024

Northumberland Bancorp

CONSOLIDATED BALANCE SHEETS

(amounts in thousands except share and per share data)

Years ended December 31,		2023	2022
ASSETS			
Cash and due from banks	$	10,473	12,444
Interest-bearing deposits in other banks	$	8,541	4,965
Total cash and cash equivalents	$	**19,014**	17,409
Investment securities available-for-sale	$	188,114	216,008
Investment securities held-to-maturity (fair value 2023 - $3,909, 2022 - $1,918)	$	4,008	2,038
Equity Securities	$	167	207
Total investment securities	$	**192,289**	218,253
Restricted stock, at cost	$	2,926	2,799
Loans held-for-sale	$	629	350
Loans	$	429,782	421,693
Less allowance for credit losses	$	4,023	3,641
Net loans	$	**425,759**	418,052
Premises and equipment	$	8,445	8,745
Bank-owned life insurance	$	15,110	14,755
Accrued interest and other assets	$	10,559	11,308
Total Assets	$	**674,731**	691,671
Liabilities and Stockholders' Equity			
Liabilities			
Deposits:			
Noninterest-bearing demand	$	140,423	150,583
Interest-bearing demand	$	164,766	236,350
Savings	$	96,489	112,591
Time deposits	$	191,685	122,701
Total deposits	$	**593,363**	622,225
Borrowings	$	20,000	13,000
Subordinated Debt, less unamortized issuance costs	$	9,850	9,830
Accrued interest and other liabilities	$	2,403	1,716
Total liabilities	$	**625,616**	646,771
Stockholders' Equity			
Common stock, par value $0.10; 5,000,000 shares authorized, 1,502,500 shares issued in 2023 and 2022 and 1,287,113 shares outstanding in 2023 and 1,282,054 shares outstanding in 2022	$	150	150
Capital surplus	$	3,832	3,832
Retained earnings	$	62,944	62,875
Unearned ESOP shares	$	(1,008)	(837)
Accumulated other comprehensive income (loss)	$	(14,038)	(18,355)
Treasury stock, at cost (190,642 shares in 2023 and 2022)	$	(2,765)	(2,765)
Total Stockholders' Equity	$	49,115	44,900
Total Liabilities and Stockholders' Equity	$	**674,731**	691,671

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

(amounts in thousands except share and per share data)

Years ended December 31,		2023	2022
Interest and Dividend Income			
Interest and fees on loans:			
Taxable	$	19,382	16,674
Tax-exempt	$	430	401
Interest on interest-bearing deposits in other banks	$	450	151
Interest and dividends on investment securities:			
Taxable	$	4,573	2,921
Tax-exempt	$	560	797
Dividends	$	233	212
Total Interest and Dividend Income	**$**	**25,628**	**21,156**
Interest Expense			
Deposits	$	8,362	3,277
Borrowings	$	884	214
Subordinated Debt, less unamortized issuance costs	$	450	450
	$	**9,696**	**3,941**
Total Interest Expense			
Net Interest Income	$	15,932	17,215
Provision (Credit) for Credit Losses	$	(48)	158
Net Interest Income After Provision (Credit) for Credit Losses	**$**	**15,980**	**17,057**
Noninterest Income			
Service charges on deposit accounts	$	1,509	1,522
Trust services income	$	1,151	1,011
Investment securities gains (loss), net	$	(316)	(35)
Gains on sales of loans	$	155	226
Earnings on bank-owned life insurance	$	355	332
Change in fair value of equity securities	$	20	(8)
Other income	$	907	970
Total Noninterest Income	**$**	**3,781**	**4,018**
Noninterest Expense			
Salaries and employee benefits	$	10,230	9,750
Occupancy expenses, net	$	843	840
Equipment expenses	$	1,442	1,686
Professional fees	$	884	873
Data processing	$	881	867
Shares tax	$	448	529
Federal deposit insurance expense	$	314	205
Other expense	$	2,649	2,838
	$	**17,691**	**17,588**
Total Noninterest Expense			
Income before income taxes	$	2,070	3,487
Income Taxes	$	178	434
Net Income	**$**	**1,892**	**3,053**
Earnings Per Share	**$**	**1.47**	**2.38**
Weighted-Average Shares Outstanding	**$**	**1,287,113**	**1,282,054**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(amounts in thousands)

Years Ended December 31,		**2023**	2022
Net Income	**$**	**1,892**	3,053
Other Comprehensive Income / (Loss)			
Change in unrealized holding gains/(losses) on investment securities available-for-sale	**$**	**5,148**	(22,853)
Tax effect	**$**	**(1,081)**	4,798
Reclassification adjustment for investment securities (gains) / losses recognized in net income	**$**	**316**	35
Tax effect	**$**	**(66)**	(7)
Other Comprehensive Income (Loss), Net of Tax	**$**	4,317	(18,027)
Comprehensive Income (Loss)	**$**	**6,209**	**(14,974)**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(amounts in thousands except share and per share data)

	Common Stock	Capital Surplus	Retained Earnings	Accum Other Comp Income (Loss)	Treasury Stock	Unearned ESOP Shares	**Total**
Balance December 31, 2021	150	3,832	61,025	(328)	(2,765)	(548)	**61,366**
Net Income			3,053				**3,053**
Other Comprehensive Income (Loss)				(18,027)			**(18,027)**
Shares purchased for ESOP (24,307 shares)						(899)	**(899)**
ESOP shares committed to be released (15,696 shares)			(6)			610	**604**
Dividends declared ($0.90 per share)			(1,197)				**(1,197)**
Balance December 31, 2022	150	3,832	62,875	(18,355)	(2,765)	(837)	**44,900**
Reclassification related to the adoption of ASU 2016-13			(595)				**(595)**
Net Income			1,892				**1,892**
Other Comprehensive Income (Loss)				4,317			**4,317**
Shares purchased for ESOP (24,307 shares)						(559)	**(559)**
ESOP shares committed to be released (10,557 shares)			(21)			388	**367**
Dividends declared ($0.92 per share)			(1,207)				**(1,207)**
Balance December 31, 2023	**150**	**3,832**	**62,944**	**(14,038)**	**(2,765)**	**(1,008)**	**49,115**

See accompanying notes to consolidated financial statements.

Northumberland Bancorp

CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)

Years ended December 31,		2023	2022
Cash Flows from Operating Activities			
Net Income	$	**1,892**	3,053
Adjustments to reconcile net income to net cash provided by operating activities:			
Change in fair value of Equity Services	$	**20**	(8)
Provision (credit) for credit losses	$	**(48)**	158
Share based compensation expense	$	**367**	604
Depreciation, amortization, and accretion, net	$	**2,778**	3,379
Proceeds from sales of loans held for sale	$	**6,476**	14,065
Gains on sales of loans	$	**(155)**	(226)
Originations of residential loans held for sale	$	**(6,598)**	(11,210)
Investment securities (losses), net	$	**(316)**	(35)
Deferred income tax expense	$	**99**	0
Earnings on bank-owned life insurance	$	**(355)**	(332)
Increase in accrued interest receivable	$	**(210)**	(283)
Decrease in accrued interest payable	$	**186**	148
Other, net	$	**298**	(1,318)
Net Cash Provided by Operating Activities	**$**	**4,434**	7,996
Cash Flows from Investing Activities			
Investment securities available-for-sale:			
Proceeds from sales	$	**12,268**	8,752
Proceeds from maturities or redemptions	$	**24,705**	31,218
Purchases	$	**(5,715)**	(25,941)
Investment securities held-to-maturity:			
Proceeds from maturities or redemptions	$	**8,000**	(1,257)
Purchases	$	**(9,792)**	(41,486)
Increase in loans, net	$	**(8,150)**	(355)
Purchases of premises and equipment, net	$	**(409)**	(1,548)
Purchases of restricted stock	$	**(1,719)**	1,200
Redemptions of restricted stock	$	**1,591**	0
Net Cash Provided by (Used in) Investing Activities	**$**	**20,779**	(29,417)
Cash Flows from Investing Activities			
Net Increase (Decrease) in deposits	$	**(28,862)**	(6,701)
Net Increase (Decrease) in borrowings	$	**7,020**	12,020
Purchase of common stock - ESOP	$	**(559)**	(899)
Cash dividends paid	$	**(1,207)**	(1,205)
Net Cash Provided by Financing Activities	**$**	**(23,608)**	3,215
Increase in cash and cash equivalents	$	**1,605**	(18,206)
Cash and Cash Equivalents, Beginning of Year	$	**17,409**	35,615
Cash and Cash Equivalents, End of Year	$	**19,014**	17,409

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

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

Nature of Operations and Basis of Presentation

Northumberland Bancorp (the "Company") is a Pennsylvania corporation and is registered under the Bank Holding Company Act. The Company was organized as the holding company of its wholly owned subsidiary, The Northumberland National Bank (the "Bank"). The Bank is a nationally chartered commercial bank located in Northumberland, Pennsylvania. The Bank's service area includes portions of Northumberland, Snyder, and Union counties in Pennsylvania. The Company and the Bank derive substantially all their income from banking and bank-related services, which include interest earnings on commercial, commercial mortgage, residential real estate, and consumer loan financing as well as interest earnings on investment securities and deposit and trust services to their customers. The Company is supervised by the Federal Reserve Board, while the Bank is subject to regulation and supervision by the Office of the Comptroller of the Currency.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, the Bank. Intercompany activity has been eliminated in consolidation.

Use of Estimates

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") and with general practice within the banking industry. In preparing the financial statements, management makes estimates and assumptions based upon available information. These estimates and assumptions affect the amounts reported in financial statements and the disclosures provided. Actual results could differ significantly from those estimates.

Investment Securities

Investment securities are classified at the time of purchase, based on management's intention and ability, as securities held-to-maturity or securities available-for-sale. Debt securities acquired with the intent and ability to hold to maturity are stated at cost adjusted for amortization of premium and accretion of discount that are computed using the level yield method and recognized as adjustments of interest income. Certain other debt securities have been classified as available-for- sale to serve principally as a source of liquidity. Equity securities are measured at fair value with changes in fair value recognized in the current period earnings. Unrealized holding gains and losses for available-for-sale securities are reported as a separate component of stockholders' equity, net of tax, until realized. Realized securities gains and losses are computed using the specific identification method. Interest and dividends on investment securities are recognized as income when earned.

Allowance for Credit Losses – Held-to-Maturity Securities: Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type [and any other risk characteristics used to segment the portfolio]. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts.

Allowance for Credit Losses – Available-For-Sale Securities: For available-for-sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available-for-sale that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

Changes in the allowance for credit losses are recorded as credit loss expense (or reversal). Losses are charged against the allowance when management believes the uncollectibility of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Federal Home Loan Bank Stock

The Bank is a member of the Federal Home Loan Bank ("FHLB") of Pittsburgh and, as such, is required to maintain a minimum investment in stock of the FHLB that varies with the level of advances outstanding with the FHLB, as well as a minimum level of mortgages in the Mortgage Partnership Finance ("MPF") program. FHLB Stock is carried at cost, classified as restricted securities, and periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income.

Loans Held for Sale and Loans Serviced

Loans held for sale are carried at a lower of cost or fair value, as determined on an aggregate basis. Gains and losses on sales of mortgage loans are determined by the difference between the sale proceeds and the carrying value of the loans. All sales are made with limited recourse. Loans held for sale were $628,535 and $350,000 at December 31, 2023 and 2022, respectively. At December 31, 2023 and 2022, the amounts of loans serviced by the Company for the benefit of others were $120,856,000 and $129,032,000, respectively. These loans are not included on the Company's consolidated balance sheets.

Mortgage Servicing Rights ("MSRs")

The Company has agreements for the express purpose of selling loans in the secondary market. The Company maintains servicing rights for certain loans. Originated MSRs are recorded by allocating total costs incurred between the loan and servicing rights based on their relative fair values. MSRs are amortized in proportion to the estimated servicing income over the estimated life of the servicing portfolio. Annually, the Company performs an impairment review of the MSRs and recognizes impairment through a valuation account. No impairment was recognized in 2023 or 2022. MSRs are a component of other assets on the consolidated balance sheets. The balance of loan servicing assets was $369,300 and $486,000 at December 31, 2023 and 2022, respectively.

Loans

Loans originated with the intention to hold to maturity are reported at their principal amount, net of unearned income and the allowance for credit losses. Interest income on all loans is recognized on an accrual basis. Nonrefundable 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 part of the loan balance.

Accrual of interest is discontinued when, in the opinion of management, reasonable doubt exists as to the collectability of additional interest. Loans are returned to accrual status when past due interest is collected and the collection of principal is probable. Commercial and commercial real estate loans are considered for nonaccrual status when they are 90 days past due, unless the loan is well-secured and in the process of collection. Residential mortgages are considered for nonaccrual when they are 180 days past due, unless they are well secured and in the process of collection. Consumer loans continue to accrue interest until they are charged off after they have reached 120 days past due. Past due status is based upon the contractual terms of the loan. In all cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days and still accruing may include smaller balance homogeneous loans that are collectively evaluated for impairment and individually evaluated loans. The fair value of the underlying collateral at the reporting date is used to determine any possible loss.

Allowance for Credit Losses – Loans

The allowance for credit losses is a valuation account that is deducted from or added to, the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses.

Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, delinquency level, or term as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors. On a quarterly basis the bank's Loan Quality Committee meets to discuss current and suggested updated credit ratings, general reviews of credit relationships, updates on required relationship monitoring and other of the loan portfolio and its quality. This committee will also review and assess the current fair market value estimate for all loans to be individually analyzed. Within this meeting, current adjustments to the Qualitative Factors and general reasonable forecasting for the future periods will be discussed as well. These decisions will then be incorporated into the quarterly updated calculation for the Current Expected Credit Loss (CECL) model as required in ASU 2016-13 *Financial Instruments – Credit Losses (Topic 326).*

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Company has identified the following portfolio segments and measures the allowance for credit losses using the following methods: Loans that are not identified for individual analysis are evaluated based on a pooled approach, using "Call Report Classifications" as the segmentations. The bank uses the "Weighted Average Remaining Life/Maturity" Loss Rate Methodology (or WARM). Under this methodology, the remaining life of loans in the pool is determined based on the contractual terms as adjusted for expected annual prepayment rates. The Remaining Life calculator within the software aims to identify the remaining life of a given pool of loans given that pool's historical experiences. In other terms, the methodology takes a calculated loss rate and applies that rate to a pool of loans on a periodic basis based on the remaining life expectation of said pool. The software contains an attrition calculator that performs quarterly, cohort-based attrition measurements. Estimated loss rates are determined using a custom "Peer Group" approach. The bank has selected a peer group of similar-sized community banks in its geography or the general central Pennsylvania region to capture this loss data.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluation. When management determines that foreclosure is probable expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for discounted selling costs as appropriate.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a borrower is experiencing financial difficulties and the resulting extension or renewal options are either included in the original or modified contract at the reporting date or a new loan is executed.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures: The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance sheet credit exposures is adjusted through credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The estimate of expected credit losses should take into consideration the likelihood that funding will occur as well as the amount expected to be funded over the estimated remaining contractual term of the off-balance-sheet credit exposures. The bank should not record an estimate of expected credit losses for off-balance-sheet exposures that are unconditionally cancellable by the issuer. The bank evaluates expected credit losses for off-balance-sheet credit exposures as of each reporting date. This is addressed within the software and the resulting calculation performed by the bank utilizes benchmark funding rates within the Peer Group or as provided by the software through its analysis of corresponding call report segments. While the process for estimating expected credit losses for these exposures is similar to the one used for on-balance-sheet financial assets, these estimated credit losses are not recorded as part of the ACLs because cash has not yet been disbursed to fund the contractual obligation to extend credit. Instead, the expected credit loss estimate for off-balance sheet credit exposures is recorded as a liability on the balance sheet (separate from any allowance for credit losses associated with recognized financial assets, the ACL) with changes in the estimate reported as credit loss expense (or credit adjustment to the expense) in the statement of net income each reporting period.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, which range from 3 to 20 years for furniture, fixtures, and equipment and 15 to 50 years for buildings and building improvements. Expenditures for maintenance and repairs are charged against income as incurred. Costs of major additions, improvements are capitalized.

Other Real Estate Owned ("OREO")

Other real estate owned acquired in settlement of foreclosed loans is carried as a component of other assets at fair value minus estimated cost to sell. Prior to foreclosure, the estimated collectible value of the collateral is evaluated to determine whether a partial charge-off of the loan balance is necessary. After transfer to real estate owned, any subsequent write-downs are charged against other operating expenses. Direct costs incurred in the foreclosure process and subsequent holding costs incurred on such properties are recorded as expenses of current operations.

Bank Owned Life Insurance

The Company invests in bank owned life insurance ("BOLI") as a source of funding for employee benefit expenses. BOLI involves purchasing life insurance on a select group of employees. The Company is the owner and beneficiary of the policies. This life insurance investment is carried at the cash surrender value of the underlying policies. Income from the increase in cash surrender value of the policies or from death benefits realized is included in other income on the consolidated statements of income.

Loan Commitments and Related Financial Instruments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet financing needs of customers. The face amount for these items represents the exposure to loss, before considering customer ability to repay. Such financial instruments are recorded when they are funded.

Advertising Expenses

Advertising expenses are expensed as costs are incurred. Advertising expenses were $90,000 and $142,000 in 2023 and 2022, respectively.

Income Taxes

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

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.

Employee Benefit Plans – 401(k) and Employee Stock Ownership Plan

401(k)

The Company has a defined contribution benefit plan in the form of a 401(k) plan, that covers all eligible employees. During 2019, the Company amended the 401(k) plan to include Roth elective deferral contributions by employees. The amendment also included employer Safe Harbor Matching Contributions by the Company for both traditional 401(k) employee contributions and Roth contributions. The Bank matches 100% of employee contributions up to 3%, and 50% of employee contributions that exceed 3% up to a maximum of 5%.

Employee Stock Ownership Plan ("ESOP")

The Company established an ESOP in 2022 to provide additional benefits to employees. The ESOP borrowed money from the Company to purchase shares, which are eligible to be allocated to employees. The Company makes discretionary contributions to the ESOP, as well as paying dividends on unallocated shares to the ESOP, and the ESOP uses funds it receives to repay the loan. When loan payments are made, ESOP shares are allocated to participants based on relative compensation and expense is recorded. Dividends on allocated shares increase participant accounts. Participants receive their allocated shares at the end of employment. A participant may require stock received to be repurchased unless the stock is traded on an established market. See footnote 9 to the consolidated financial statements for additional information.

Trust Assets

Assets held by the Company in a fiduciary or agency capacity for its customers are not included in the accompanying consolidated financial statements, since such items are not assets of the Company. The fair value of trust assets under administration were $185,313,000 and $174,572,000 as of December 31, 2023 and 2022, respectively.

Comprehensive Income (Loss)

The Company is required to present comprehensive income (loss) and its components in a full set of general-purpose financial statements for all periods presented. Other comprehensive income (loss) is comprised of net unrealized holding gains or losses on its available-for-sale investment securities, net of tax.

Earnings Per Share

The Company currently maintains a simple capital structure; therefore, there are no dilutive effects on earnings per share. As such, earnings per share are calculated using the weighted-average number of shares outstanding for the periods. Shares purchased by the ESOP are excluded from weighted-average shares, but shares allocated to participants in the ESOP are included in weighted-average shares. Treasury stock shares are excluded from weighted-average shares.

Loss contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable, and an amount or range of loss can be reasonably estimated. No loss contingency liabilities have been recorded at December 31, 2023 or December 31, 2022.

Cash Flow Information

The Company has defined cash and cash equivalents as those amounts included in the consolidated balance sheet captions “cash and due from banks,” and “interest-bearing deposits in other banks,” with original maturities of 90 days or less. The following are supplemental disclosures for the consolidated statements of cash flows (in thousands):

Years ended December 31,		**2023**	**2022**
Cash paid during the year for:			
Interest	$	**9,683**	3,424
Income Taxes	$	**0**	580

Reclassification of Comparative Amounts

Certain comparative amounts for the prior year have been reclassified to conform to current-year classifications. Reclassifications had no effect on prior year stockholders' equity or net income.

Accounting Standards Update (ASU) – Current Expected Credit Losses

On January 1, 2023, the Company adopted ASU 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost, [net investments in leases] and off-balance-sheet (OBS) credit exposures. Results for reporting periods beginning after January 1, 2023, are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. On January 1, 2023, the Company recorded an increase to its allowance for credit losses in the amount of $502,000 and a liability of $250,000 for off-balance sheet exposures. This resulted in The Company recording a net decrease to retained earnings of $595,000 as of January 1, 2023 for the cumulative effect of adopting ASC 326. The transition adjustment includes a $397,000 impact due to the allowance for credit losses on the banks' outstanding loan portfolio and a $198,000 impact related to recording a liability for off-balance sheet exposures. Both entries are net of the impact to the deferred tax asset in the amounts of $105,000 and $53,000 respectively.

The Company adopted ASC 326 using the prospective transition approach for debt securities for which other-than-temporary impairment had been recognized prior to January 1, 2023. As a result, the amortized cost basis remains the same before and after the effective date of ASC 326. The effective interest rate on these debt securities was not changed. Amounts previously recognized in accumulated other comprehensive income as of January 1, 2023 relating to improvements in cash flows expected to be collected will be accreted into income over the remaining life of the asset. Recoveries of amounts previously written off relating to improvements in cash flows after January 1, 2023 will be recorded in earnings when received.

As allowed by ASC 326, the Company elected to maintain pools of loans accounted for under ASC 310-30. In accordance with the standard, management did not reassess whether modifications to individual acquired financial assets accounted for in pools were troubled debt restructurings as of the date of adoption.

The following table illustrates the impact of ASC 326:

January 1, 2023		**As Reported Under ASC 326**	**Pre-ASC 326 Adoption**	**Impact of ASC 326 Adoption**
Assets:				
Allowance for credit losses on debt securities held-to-maturity				
Mortgage-backed: residential	$	0	0	0
Other	$	0	0	0
Loans				
Commercial	$	1,828	857	971
Commercial real estate	$	1,152	629	523
Residential real estate	$	1,077	1,779	-702
Consumer	$	87	30	57
Unallocated	$	0	346	-346
Allowance for credit losses on loans	$	4,144	3,641	503
Liabilities:				
Allowance for credit losses on OBS credit exposures	$	250	0	250

2. Investment Securities

The amortized cost and fair values of investment securities are as follows (in thousands):

December 31, 2023		**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Approximate Fair Value**
Available-for-sale:					
Obligations of states and political subdivisions	$	75,258	0	(7,620)	67,638
Mortgage-backed securities in government sponsored entities	$	130,626	557	(10,707)	120,476
Total	**$**	**205,884**	**557**	**(18,327)**	**188,114**
December 31, 2022					
Available-for-sale:					
Obligations of states and political subdivisions	$	83,877	1	(9,869)	74,009
Mortgage-backed securities in government sponsored entities	$	155,355	277	(13,633)	141,999
Total	**$**	**239,232**	**278**	**(23,502)**	**216,008**

December 31, 2023		**Amortized Cost**	**Gross Unrecognized Gains**	**Gross Unrecognized Losses**	**Approximate Fair Value**
Held-to-maturity:					
Obligations of states and political subdivisions	$	4,008	0	(81)	3,927
Total	**$**	**4,008**	**0**	**(81)**	**3,927**
December 31, 2022					
Held-to-maturity:					
Obligations of states and political subdivisions	$	2,038	0	(120)	1,918
Total	**$**	**2,038**	**0**	**(120)**	**1,918**

The following table summarizes debt securities available-for-sale in an unrealized loss position for which an allowance for credit losses has not been recorded at December 31, 2023 and December 31, 2022, aggregated by major security type and length of time in a continuous unrealized loss position:

December 31, 2023	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale:						
Obligations of states and political subdivisions	$ 0	0	67,138	(7,620)	67,138	(7,620)
Mortgage-backed securities in government sponsored entities	$ 8,305	(169)	87,179	(10,538)	95,484	(10,707)
Total	**$ 8,305**	**(169)**	**154,317**	**(18,158)**	**162,622**	**(18,327)**
	Fair Value	**Unrecognized Losses**	**Fair Value**	**Unrecognized Losses**	**Fair Value**	**Unrecognized Losses**
Held-to-maturity:						
Obligations of states and political subdivisions	$ 1,958	(1)	1,958	(80)	3,916	(81)
Total	**$ 1,958**	**(1)**	**1,958**	**(80)**	**3,916**	**(81)**

December 31, 2022	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale:						
Obligations of states and political subdivisions	$ 28,013	(1,652)	44,347	(8,217)	72,360	(9,869)
Mortgage-backed securities in government sponsored entities	$ 30,745	(1,365)	91,212	(12,268)	121,957	(13,633)
Total	**$ 58,758**	**(3,017)**	**135,559**	**(20,485)**	**194,317**	**(23,502)**
	Fair Value	**Unrecognized Losses**	**Fair Value**	**Unrecognized Losses**	**Fair Value**	**Unrecognized Losses**
Held-to-maturity:						
Obligations of states and political subdivisions	$ 1,416	(100)	493	(20)	1,909	(120)
Total	**$ 1,416**	**(100)**	**493**	**(20)**	**1,909**	**(120)**

There were 348 and 382 positions that were temporarily impaired at December 31, 2023 and 2022, respectively. The Company must evaluate if a decline in the fair value below amortized cost resulted from credit loss or other factors. The analysis should consider the guidance in ASC 326-30-35-6 and ASC 326-30-55-1 through 55-4 when determining whether a credit loss exists. Unrealized losses on corporate bonds have not been recognized into income because the issuer(s) bonds are of high credit quality, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The issuer(s) continues to make timely principal and interest payments on the bonds. The fair value is expected to recover as the bond(s) approach maturity. As of December 31, 2023, the Company has not recognized any allowance for credit losses on debt securities either designated as available for sale or held to maturity.

The amortized cost and fair value of debt securities at December 31, 2023, by contractual maturity, are shown below. Securities not due at a single maturity date are shown separately. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties (in thousands).

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 3,467	3,428	2,459	2,456
Due after one year through five years	$ 23,408	22,084	1,280	1,228
Due after five years through ten years	$ 48,383	42,126	251	226
Due after ten years	$ 0	0	18	17
Mortgage Backed Securities	$ 130,626	120,476	0	0
Total	**$ 205,884**	**188,114**	**4,008**	**3,927**

Proceeds from the sales of available-for-sale securities during 2023 amounted to $12,268,000 resulting in gross gains and gross losses of $0 and $316,000, respectively. Proceeds from the sales of available-for-sale securities during 2022 amounted to $8,752,000 resulting in gross gains and gross losses of $5,000 and $40,000, respectively. Investment securities with fair values of $100,070,000 and $120,103,000 at December 31, 2023 and 2022, respectively, were pledged to secure public deposits and other purposes as required by law.

The Company monitors the credit quality of debt securities held-to-maturity through the use of credit rating. The Company monitors the credit rating on a monthly basis. The following table summarizes the amortized cost of debt securities held-to-maturity at December 31, 2023, aggregated by credit quality indicator.

	Held-to-Maturity	
Years ended December 31,	**Mortgage backed: Residential**	**Other**
AAA/AA/A	$ 0	4,008
BBB/BB/B	$ 0	0
Unrated	$ 0	0
Total	**$ 0**	**4,008**

A security is considered to be past due once it is 90+ days contractually past due under the terms of the agreement. As of December 31, 2023, the Company did not have any past-due debt securities that are held-to-maturity.

3. Loans

Major classifications of loans are summarized as follows (in thousands):

Years ended December 31,		2023	2022
Commercial	$	89,570	99,087
Commercial Real Estate	$	97,205	88,840
Residential Real Estate	$	235,847	226,996
Consumer	$	7,160	6,770
	$	429,782	421,693
Allowance for credit loss	$	4,023	3,641
Net Loans	**$**	**425,759**	**418,052**

The Company grants residential, commercial, and consumer loans to customers throughout its trade area, which is concentrated in North Central Pennsylvania. Although the Company has a diversified loan portfolio at December 31, 2023 and 2022, a substantial portion of its debtors' ability to honor their loan agreements is dependent upon the economic stability of its immediate trade area. The bank also participated in the SBA Paycheck Protection Program Loan Program with 0 loans at $0 as of December 31, 2023 and 14 loans at $806,000 as of December 31, 2022, which are included in the commercial segment above.

4. Allowance for Credit Loss

Changes in the allowance for credit losses by portfolio segment are as follows (in thousands):

December 31, 2023		Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Beginning Balance prior to adoption of ASC 326	$	857	629	1,779	30	346	3,641
Impact of adopting ASC 326	$	971	523	(702)	57	(346)	503
Charge-offs	$	0	0	(14)	(61)	0	(75)
Recoveries	$	0	0	2	1	0	3
Provision (credit)	$	63	(137)	(42)	67	0	(49)
Ending Balance	**$**	**1,891**	**1,015**	**1,023**	**94**	**0**	**4,023**

December 31, 2022		Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Beginning Balance	$	845	690	1,343	60	543	3,481
Charge-offs	$	0	0	(1)	(11)	0	(12)
Recoveries	$	1	0	3	10	0	14
Provision (credit)	$	11	(61)	434	(29)	(197)	158
Ending Balance	**$**	**857**	**629**	**1,779**	**30**	**346**	**3,641**

The total allowance reflects management's estimate of credit losses inherent in the loan portfolio at the consolidated balance sheet date.

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2022 (in thousands):

December 31, 2022		Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Allowances for credit losses:							
Individually evaluated for impairment	$	0	0	0	0	0	0
Collectively evaluated for impairment	$	857	629	1,779	31	345	3,641
Ending Balance	**$**	**857**	**629**	**1,779**	**31**	**345**	**3,641**
Loans:							
Individually evaluated for impairment	$	0	0	0	0	0	0
Collectively evaluated for impairment	$	99,087	88,840	226,996	6,770	0	421,693
Ending Balance	**$**	**99,087**	**88,840**	**226,996**	**6,770**	**0**	**421,693**

Credit Quality Information

The Company's internally assigned loan grades are as follows:

Pass loans are protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral. There are five sub-grades within the pass category to further distinguish the loan.

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

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

Doubtful loans have all the weaknesses inherent in a substandard asset. In addition, these weaknesses make collection or liquidation in full highly questionable and improbable, based on existing circumstances.

Loss loans are considered uncollectible, or of such value that continuance as an asset is not warranted.

The following tables represent credit exposures for commercial real estate and commercial loans by internally assigned grades for the years ended December 31, 2023 and 2022. The grading analysis estimates the capability of the borrower to repay the contractual obligations of the loan agreements as scheduled or at all. The Company's internal credit risk grading system is based on experiences with similarly graded loans (in thousands).

	Term Loans Amortized Cost Basis by Origination Year and Risk Grades						
Dollars in thousands	**2023**	**2022**	**2021**	**Prior**	**Revolving Loans Amortized Cost Basis**	**Revolving loans converted to term Amortized Cost Basis**	**Total**
Commercial							
Pass	8,275	8,769	29,133	41,805	0	0	87,982
Special Mention	0	15	0	0	0	0	15
Substandard	97	1,132	0	344	0	0	1,573
Total Commercial Loans	8,372	9,916	29,133	42,149	0	0	89,570
Current Period Net write-offs	0	0	0	0	0	0	0
Commercial Real Estate							
Pass	9,685	33,368	21,403	29,815	0	0	94,271
Special Mention	18	0	0	0	0	0	18
Substandard	0	0	0	2,916	0	0	2,916
Total Commercial Real Estate Loans	9,703	33,368	21,403	32,731	0	0	97,205
Current Period Net write-offs	0	0	0	0	0	0	0

Dollars in thousands	Term Loans Amortized Cost Basis by Origination Year and Risk Grades 2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Revolving loans converted to term Amortized Cost Basis	Total
Residential Real Estate							
Performing	38,180	55,268	39,144	102,266	0	0	234,858
Nonperforming	0	0	0	989	0	0	989
Total Residential Loans	38,180	55,268	39,144	103,255	0	0	235,847
Current Period Net write-offs	0	0	0	12	0	0	12
Consumer							
Performing	3,422	2,186	601	880	0	0	7,089
Nonperforming	0	47	19	5	0	0	71
Total Consumer Loans	3,422	2,233	620	885	0	0	7,160
Current Period Net write-offs	11	19	29	1	0	0	60
Portfolio Total	59,677	100,785	90,300	179,020	0	0	429,782
Current Period Net write-offs	11	19	29	13	0	0	72

December 31, 2022	Loans to States and Political Subdivisions	Other Commercial Loans	Loans for Investment Properties	Other Commercial Real Estate Loans	Total
Pass	$ 22,881	72,357	26,432	61,500	183,170
Special Mention	$ 0	4,280	0	908	5,188
Substandard	$ 0	0	0	0	0
Doubtful	$ 0	0	0	0	0
Loss	$ 0	0	0	0	0
Total	**$ 22,881**	**76,637**	**26,432**	**62,408**	**188,358**

The Company evaluates credit quality for residential real estate and consumer loans based upon the aging status of the loan, which is presented below, and by payment activity. The following tables present performing and nonperforming residential real estate and consumer loans based on payment activity for the years ended December 31, 2023 and 2022 (in thousands):

December 31, 2023		**First Mortgages**	**Home Equity Loans**	**Consumer**	**Total**
Performing	$	212,380	22,478	7,089	241,947
Nonperforming (Nonaccrual loans)	$	955	34	71	1,060
Total	**$**	**213,335**	**22,512**	**7,160**	**243,007**

December 31, 2022		**First Mortgages**	**Home Equity Loans**	**Consumer**	**Total**
Performing	$	196,955	29,154	6,770	232,879
Nonperforming (Nonaccrual loans)	$	838	49	0	887
Total	**$**	**197,793**	**29,203**	**6,770**	**233,766**

Following are tables which include an aging analysis of the recorded investment of past-due loans as of December 31, 2023 and 2022 (in thousands):

December 31, 2023		Loans Past Due (Days)					
		30 - 59	**60 - 89**	**90 +**	**Total**	**Current**	**Total Loans**
Commercial:							
Obligations of state and political subdivisions	$	0	0	0	0	13,778	**13,778**
Other commercial loans	$	3	5	1,418	1,426	74,366	**75,792**
	$	3	5	1,418	1,426	88,144	**89,570**
Commercial Real Estate:							
Loans for investment property	$	0	0	0	0	7,370	**7,370**
Other commercial real estate loans	$	125	18	0	143	89,692	**89,835**
	$	125	18	0	143	97,062	**97,205**
Residential Mortgage Loans:							
First Mortgage	$	1,558	251	1,847	3,656	209,679	**213,335**
Home equity loans	$	186	21	83	290	22,222	**22,512**
	$	1,744	272	1,930	3,946	231,901	**235,847**
Consumer:	$	109	31	71	211	6,949	**7,160**
Ending Balance	**$**	**1,981**	**326**	**3,419**	**5,726**	**424,056**	**429,782**

December 31, 2022		Loans Past Due (Days)					
		30 - 59	**60 - 89**	**90 +**	**Total**	**Current**	**Total Loans**
Commercial:							
Obligations of state and political subdivisions	$	90	0	0	90	22,791	**22,881**
Other commercial loans	$	26	0	0	26	76,180	**76,206**
	$	116	0	0	116	98,971	**99,087**
Commercial Real Estate:							
Loans for investment property	$	139	466	188	793	25,639	**26,432**
Other commercial real estate loans	$	0	0	0	0	62,408	**62,408**
	$	139	466	188	793	88,047	**88,840**
Residential Mortgage Loans:							
First Mortgage	$	1,349	1,169	1,098	3,616	194,177	**197,793**
Home equity loans	$	89	229	58	376	28,827	**29,203**
	$	1,438	1,398	1,156	3,992	223,004	**226,996**
Consumer:	$	81	37	2	120	6,650	**6,770**
Ending Balance	**$**	**1,774**	**1,901**	**1,346**	**5,021**	**416,672**	**421,693**

Impaired Loans

Management evaluates commercial loans and commercial real estate loans which are 90 days or more past due and considers them to be impaired. Loans rated substandard or doubtful are also evaluated for impairment. These loans are analyzed to determine whether it is probable that all amounts will not be collected according to the contractual terms of the loan agreement. If management determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees, or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance.

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

December 31, 2022		**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Recorded Investment**	**Interest Income Recognized**
With no related allowance recorded:						
Commercial:						
Other commercial loans	$	0	0	0	0	0
Commercial Reat Estate:						
Loans for investment properties	$	0	0	0	0	0
Residential Mortgage Loans:						
First Mortgage	$	226	261	0	276	16
With an allowance recorded:						
Commercial:						
Other commercial loans	$	0	0	0	0	0
Commercial Reat Estate:						
Loans for investment properties	$	0	0	0	0	0
Residential Mortgage Loans:						
First Mortgage	$	0	0	0	0	0
Net Loans	**$**	**226**	**261**	**0**	**276**	**16**

Nonaccrual Loans

Loans are considered for nonaccrual status when they are 90 days past due. When a loan is placed on nonaccrual status, previously accrued but unpaid interest is deducted from interest income.

The following tables present loans that are on nonaccrual status and that are 90 days past due and still accruing interest by portfolio segment as of December 31 (in thousands):

December 31, 2023		**Nonaccrual With No Allowance for Credit Loss**		**Nonaccrual With an Allowance**	**Past Due 90 Days or More and Still Accruing**
Commercial Loans:					
Obligations of states and political subdivisions	$	0	$	0	0
Other commercial loans	$	1,094	$	324	0
Commercial Reat Estate:					
Loans for investment properties	$	0	$	0	0
Other commercial real estate loans	$	0	$	0	0
Residential Mortgage Loans:					
First Mortgages	$	135	$	820	892
Home equity loans	$	0	$	34	49
Consumer Loans	$	0	$	71	0
Net Loans	**$**	**1,229**	**$**	**1,249**	**941**

December 31, 2022		Nonaccrual	Past Due 90 Days or More and Still Accruing
Commercial Loans:			
Obligations of states and political subdivisions	$	0	0
Other commercial loans	$	0	0
Commercial Reat Estate:			
Loans for investment properties	$	0	0
Other commercial real estate loans	$	0	0
Residential Mortgage Loans:			
First Mortgages	$	838	748
Home equity loans	$	49	58
Consumer Loans	$	0	2
Net Loans	**$**	**887**	**808**

The following table presents the amortized cost basis of collateral-dependent loans by class as of December 31, 2023:

December 31, 2023		Real Estate Collateral	Other Collateral
Commercial Loans:			
Obligations of states and political subdivisions	$	0	0
Other commercial loans	$	1,094	345
Commercial Reat Estate:			
Loans for investment properties	$	0	0
Other commercial real estate loans	$	2,916	0
Residential Mortgage Loans:			
First Mortgages	$	834	0
Home equity loans	$	0	0
Consumer Loans	$	0	0
Net Loans	**$**	**4,844**	**345**

Interest income on nonaccrual loans not recognized during 2023 and 2022 was $63,400 and $69,000, respectively.

Occasionally, the Company modifies loans to borrowers in financial distress by providing; principal forgiveness, term extension, an other-than-insignificant payment delay or interest rate reduction. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit losses.

In some cases, the Company provides multiple types of concessions on one loan. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted.

There were no modifications in 2023 for borrowers experiencing financial difficulty.

5. Premises and Equipment

Major classifications of premises and equipment are summarized as follows (in thousands):

Years ended December 31,		**2023**	**2022**
Land and improvements	$	1,969	1,969
Buildings and improvements	$	10,321	10,267
Furniture, fixtures and equipment	$	5,477	5,295
	$	17,767	17,531
Less accumulated depreciation	$	9,322	8,786
Total	**$**	**8,445**	**8,745**

Depreciation expense for the years ended December 31, 2023 and 2022 was $655,000 and $609,000, respectively.

6. Leases

In the normal course of business, the Company leases a property for one of its branch locations. This lease has a remaining term of eight years with no renewal options remaining. This lease was classified as an operating lease as of the commencement date. Lease expense for operating leases is recognized on a straight line basis over the lease term. Right-of-use assets represent our right to use an underlying asset for the lease term, and lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

The Company uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known. The Company's incremental borrowing rate is based on the FHLB amortizing advance rate, adjusted for the lease term and other factors. The incremental borrowing rate used at lease commencement was 3.00%.

Right-of-use assets and lease liabilities by lease type and associated balance sheet captions are as follows (in thousands):

Years ended December 31,	**Balance Sheet Classification**		**2023**	**2022**
Right-of-use asset: Operating Lease	Buildings and Improvements	$	244	309
Lease Liability: Operating Lease	Other Liabilities	$	244	309

Future undiscounted lease payments as of December 31, 2023 are as follows (in thousands):

Years ended December 31,			
	2024	$	74
	2025	$	74
	2026	$	74
	2027	$	74
	2028	$	74
	Thereafter	$	233
Total undiscounted lease payments		$	603
Less imputed interest		$	(359)
Net lease Liability		**$**	**244**

7. Deposits

The components of deposits at December 31, 2023 and 2022 are as follows (in thousands):

Years ended December 31,		2023	2022
Demand, non-interest bearing	$	140,423	150,583
Demand, interest-bearing	$	67,910	108,924
Savings	$	96,489	112,591
Money Market Accounts	$	96,856	127,426
Time, $250 and over	$	49,164	24,166
Time, other	$	142,521	98,535
Total	**$**	**593,363**	**622,225**

Brokered deposits in the amount of $9.9 million and $0, are included in the above totals as of December 31, 2023, and December 31, 2022, respectively.

Time deposits and their remaining maturities at December 31, 2023 are as follows (in thousands):

Years ended December 31,		
2024	$	139,509
2025	$	43,049
2026	$	5,622
2027	$	2,414
2028	$	1,091
Thereafter	$	0
	$	**191,685**

8. Borrowings and Subordinated Debt

Borrowings

Borrowings at December 31, 2023 and 2022 consisted of the following advances from the Federal Home Loan Bank (dollars in thousands):

Maturity Date	Interest Rate		2023	2022
January 25, 2023	4.474%	$	0	4,000
February 27, 2023	4.655%	$	0	2,500
March 27, 2023	4.776%	$	0	2,500
December 8, 2023	2.936%	$	0	2,000
March 15, 2027	4.333%	$	20,000	2,000
Total		**$**	**20,000**	**13,000**

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The advances were collateralized by $313,503,000 and $315,507,000 of mortgage and non-mortgage loans under a blanket lien arrangement at December 31, 2023 and December 31, 2022, respectively. Based on this collateral, and the Company's holding of FHLB stock, the Company is eligible to borrow up to $253,551,000 at December 31, 2023. Additionally, the Company had unused unsecured lines of credit with correspondent banks which provided another $11,000,000 of available credit at December 31, 2023.

Subordinated Debt

In June 2021, the Company issued $10 million of subordinated debt. The subordinated debt has a term of 10 years, maturing in June 2031, and a contractual fixed interest rate of 4.50% through June 30, 2026. The effective rate is 4.70%, which includes the amortization of issuance costs. Subsequent to June 30, 2026, the interest rate will be floating, based on the 90-day average Secured Overnight Financing Rate ("SOFR") plus 382 basis points. Interest is paid semi-annually in June and December.

The Company may redeem or prepay any or all of the subordinated debt, in whole or in part, without premium or penalty, at any time on or after June 30, 2026, and prior to the maturity date at a price of 100% of the principal amount, plus interest accrued and unpaid to the date of redemption or prepayment.

9. Employee Stock Ownership Plan

The Company established an Employee Stock Ownership Plan in 2021 to provide additional benefits to employees. In 2021 the ESOP borrowed money from the Company to purchase 24,307 shares of stock at $38.00 per share. In 2022 the ESOP borrowed money from the Company to purchase 24,307 shares of stock at $37.00 per share. In 2023 the ESOP borrowed money from the Company to purchase 24,307 shares of stock at $23.00 per share. The Company makes discretionary contributions to the ESOP, as well as paying dividends on unallocated shares to the ESOP, and the ESOP uses funds it receives to repay the loan. When loan payments are made, ESOP shares are allocated to participants based on relative compensation and expense is recorded. In 2023, the total expense was 5% of qualifying compensation, or approximately $343,000. Dividends on allocated shares increase participant accounts.

Participants receive their allocated shares at the end of employment. A participant may require stock received to be repurchased unless the stock is traded on an established market.

Shares held by the ESOP were as follows:		**2023**	**2022**
Allocated to participants	$	35,196	24,639
Unallocated	$	37,725	23,975
Total ESOP shares	**$**	**72,921**	**48,614**

Fair value of unearned shares at December 31, 2023 $831,082

10. Revenue Recognition

All the revenue from contracts with customers, within the scope of ASC 606 is recognized in Non Interest Income. The following table presents the Company's sources of Non-Interest Income for the years ended December 31, 2023 and 2022, respectively. Items outside the scope of ASC 606 are noted as such.

Years ended December 31,		**2023**	**2022**
Non-Interest Income			
Service Charges on Deposit Accounts	$	**457**	401
Trust Services - Asset Management	$	**1,111**	1,011
Trust Services - Estate Settlement	$	**40**	5
Debt Card Income	$	**991**	1,036
Insurance and Investment Management Fees	$	**241**	250
ATM Service Charge Income	$	**61**	66
Loan Servicing income	$	**571**	400
Gains on Sales of Loans*	$	**155**	226
Earnings on Bank-Owned Life Insurance*	$	**355**	332
Investment Security Gains (Losses)*	$	**(316)**	(35)
Other	$	**115**	326
Total	**$**	**3,781**	4,018

"*" Not within the scope of ASC 606

Sources of revenue for the Company which fall within the scope of ASC 606 are described as follows:

- Service Charges on Deposit Accounts – The Bank earns fees from its deposit customers for various services, including transaction-based services and periodic account maintenance. Transaction based services include, but are not limited to stop payment fees, overdraft fees, check cashing fees, wire transfer fees, and early withdrawal penalties. Maintenance fees include account maintenance fees, minimum balance fees, and monthly service charge. Transaction based fees are only recognized when the transaction is complete, and maintenance fees are recognized when the period of the obligation is complete.

- Trust Services

    - Asset Management - The Trust department receives fees for providing trust related services including Investment Management, Security Custody, and Other Trust Services. These fees are based upon the value of assets under management and are assessed using a tiered rate schedule. Fees are recognized on a monthly basis when the service obligation is complete. These fees are recognized in trust services income on the Consolidated Statement of Income.

    - Estate Settlement – The trust department provides estate settlement services. These fees are based on the estimated fair value of the estate according to a tiered rate schedule. Each estate is unique in the nature, size, and complexity, and may include many tasks or milestones to complete. Fees are recognized in proportion to the number of milestones completed which is a judgement made by the trust management team. These fees are included in trust services income on the Consolidated Statements of Income.

- Debit Card Income – The Bank provides electronic funds transfer processing services for the debit cards it offers to its customers. The Bank earns interchange fees from each cardholder transaction conducted through various networks. The fees are transaction based and are earned when the transaction is complete. These fees are recognized in other income on the Consolidated Statements of Income.

- Insurance and Investment Service Fees – The Company sells investments and insurance through its Trust and Wealth Management division. Commissions from the sale of these products are recognized upon the completion of the transaction. These fees are recognized in other income on the Consolidated Statements of Income.

- ATM Service Charges – ATM service charges are earned when non customers use Bank ATMs. These fees are recognized when the transaction is complete. These fees are recognized in other income on The Consolidated Statements of Income.

- Gains/Losses on the Sale of Other Real Estate – these assets are de-recognized when control of the property transfers to the buyer. These gains/losses are included in other income on the Consolidated Statements of Income.

11. Income Taxes

The provision for Federal income taxes consists of (in thousands):

Years ended December 31,		**2023**	**2022**
Current Expense	$	79	434
Deferred (benefit)	$	99	0
Total	**$**	**178**	**434**

The tax effects of deductible and taxable temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities, respectively, at December 31 are as follows (in thousands):

Years ended December 31,		**2023**	**2022**
Deferred tax assets:			
Allowance for credit losses	$	**897**	765
Nonaccrual loan interest	$	**15**	147
Lease liability	$	**51**	65
Unrealized loss on investment securities	$	**3,732**	4,873
Other	$	**251**	145
Total gross deferred tax assets	**$**	**4,946**	5,995
Deferred tax liabilities:			
Premises and equipment	$	**247**	172
Investment accretion	$	**38**	18
Loan origination fees and costs	$	**93**	113
Mortgage servicing rights	$	**78**	102
Right of use asset	$	**51**	65
Other	$	**5**	8
Total gross deferred tax liabilities	**$**	**512**	478
Net Deferred Tax Asset/(Liability)	**$**	**4,434**	5,517

No valuation allowance was established at December 31, 2023 and 2022, in view of the Company's ability to carryback to taxes paid in previous years and certain tax strategies, coupled with the anticipated future taxable income as evidenced by the Company's earnings potential. Net deferred tax assets are included in Accrued Interest and Other Assets on the consolidated balance sheets.

The following is a reconciliation of the federal statutory rate and the Company's effective income tax rate for the years ended December 31 (dollars in thousands):

	2023			2022		
		Amount	Percent of Pretax Income		Amount	Percent of Pretax Income
Provision at statutory rate	$	435	21.0%	$	732	21.0%
Effect of tax-exempt income	$	(211)	-10.2%	$	(246)	-7.1%
Nondeductible interest expense	$	33	1.6%	$	14	0.4%
Bank Owned Life Insurance	$	(75)	-3.6%	$	(70)	-2.0%
Other	$	(4)	-0.2%	$	4	0.1%
Actual Tax Expense and Effective Rate	**$**	**178**	**8.6%**	**$**	**434**	**12.4%**

The Company prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met.

There is currently no liability for uncertain tax positions and no known unrecognized tax benefits. The Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the consolidated statements of income. With few exceptions, the Company is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2020.

12. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company makes various commitments that are not reflected in the accompanying consolidated financial statements. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The Company's exposure to credit loss in the event of nonperformance by the other parties to the financial instruments is represented by the contractual amounts as disclosed. Losses, if any, are charged to the allowance for credit losses. The Company minimizes its exposure to credit loss under these commitments by subjecting them to credit approval, review procedures, and collateral requirements as deemed necessary.

The off-balance sheet commitments consisted of the following (in thousands):

Years ended December 31,		**2023**	**2022**
Commitments to extend credit	$	86,245	117,222
Standby letters of credit	$	4,145	4,934
Total	**$**	**90,390**	**122,156**

Commitments to extend credit are agreements to lend to a customer if there is no violation of any condition established in the loan agreement. These commitments are composed primarily of available commercial lines of credit and mortgage loan commitments. The Company uses the same credit policies in making loan commitments and conditional obligations as it does for on-balance sheet instruments. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, as deemed necessary, is based upon management credit evaluation in compliance with the Company's lending policy guidelines. Customers use credit commitments to ensure funds will be available for working capital purposes, for capital expenditures, and to ensure access to funds at specified terms and conditions.

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

13. REGULATORY MATTERS

Cash and Due from Banks

The Bank is required to maintain average cash reserve balances in vault cash or with the Federal Reserve Bank. There are no required reserves at December 31, 2023 or December 31, 2022.

Loans

Federal law prevents the Company from borrowing from the Bank unless the loans are secured by specific collateral. Further, such secured loans are limited in amount to 10 percent of the Bank's common stock and capital surplus.

Dividends

The Company is subject to a dividend restriction that generally limits the amount of dividends that can be paid by a national bank. Prior approval of the Office of the Comptroller of the Currency ("OCC") is required if the total of all dividends declared by a national bank in any calendar year exceeds net profits, as defined for the year, combined with its retained net profits for the two preceding calendar years less any required transfers to surplus. Using this formula, the amount available for payment of dividends by the Bank in 2023, without approval of the OCC, is approximately $3,367,000 plus 2023 net profits retained up to the date of the dividend declaration.

Capital Requirements

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

Information presented for December 31, 2023 and 2022, reflects the Basel III capital requirements. Under these capital requirements and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk-weightings and other factors.

The risk-based capital rules adopted effective January 1, 2015 require that banks and holding companies maintain a "capital conservation buffer" of 250 basis points in excess of the "minimum capital ratio." The minimum capital ratio is equal to the prompt corrective action adequately capitalized threshold ratio. The capital conservation buffer is 2.5% for 2019 and thereafter. Failure to maintain the required capital conservation buffer will result in limitations on capital distributions and on discretionary bonuses to executive officers.

Effective January 1, 2023, the capital levels required for the Bank to avoid these limitations were as follows:

- Common Equity Tier 1 capital ratio of 7.00%
- Tier 1 risk based capital ratio of 8.50%
- Total risk based capital ratio of 10.50%

As of December 31, 2023, the Bank had a conservation buffer greater than 2.5%.

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

As of December 31, 2023 and 2022, the OCC categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be classified as a well-capitalized financial institution, Common equity Tier 1, Total risk-based, Tier I risk-based, and Tier I leverage capital ratios must be at least 6.5 percent, 10.0 percent, 8.0 percent, and 5.0 percent, respectively.

The following table presents the Bank's Capital Ratios as of the dates indicated (dollars in thousands).

	Actual		To be Adequately Capitalized under Prompt Corrective Action Provisions		To be Well Capitalized under Prompt Corrective Action Provisions	
2023	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Common equity Tier 1 (total risk-weighted assets)	$ 65,750	15.71%	$ > 18,835	> 4.50%	$ > 27,205	> 6.50%
Total capital (to risk-weighted assets)	$ 70,023	16.73%	$ > 33,484	> 8.00%	$ > 41,855	> 10.00%
Tier 1 capital (to risk-weighted assets)	$ 65,750	15.71%	$ > 25,113	> 6.00%	$ > 33,484	> 8.00%
Tier 1 capital (to average assets)	$ 65,750	9.72%	$ > 27,070	> 4.00%	$ > 33,838	> 5.00%
2022	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Common equity Tier 1 (total risk-weighted assets)	$ 65,411	15.52%	$ > 18,965	> 4.50%	$ > 27,393	> 6.50%
Total capital (to risk-weighted assets)	$ 69,052	16.39%	$ > 33,715	> 8.00%	$ > 42,143	> 10.00%
Tier 1 capital (to risk-weighted assets)	$ 65,411	15.52%	$ > 25,286	> 6.00%	$ > 33,715	> 8.00%
Tier 1 capital (to average assets)	$ 65,411	9.61%	$ > 27,218	> 4.00%	$ > 34,023	> 5.00%

14. Fair Value Measurements

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

Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level 2: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

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

Balance December 31, 2023	**Level 1**	**Level 2**	**Level 3**	**TOTAL**
Assets measured on a recurring basis:				
Investment securities available-for-sale				
Obligations of states and political subdivisions	$ 0	$ 67,638	$ 0	$ 67,638
Mortgage-backed securities in government-sponsored entities	$ 0	$ 120,476	$ 0	$ 120,476
Equity securities in financial institutions	$ 167	$ 0	$ 0	$ 167
Total	$ 167	$ 188,114	$ 0	$ 188,281

Balance December 31, 2022	**Level 1**	**Level 2**	**Level 3**	**TOTAL**
Assets measured on a recurring basis:				
Investment securities available-for-sale				
Obligations of states and political subdivisions	$ 0	$ 74,009	$ 0	$ 74,009
Mortgage-backed securities in government-sponsored entities	$ 0	$ 141,999	$ 0	$ 141,999
Equity securities in financial institutions	$ 207	$ 0	$ 0	$ 207
Total	$ 207	$ 216,008	$ 0	$ 216,215

15. Fair Value of Financial Instruments

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

Balance December 31, 2023	**Carrying Value**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial Assets:					
Cash and cash equivalents	$ 19,014	$ 19,014	$ 19,014	$	$
Investment securities:					
Available-for-sale	$ 188,144	$ 188,114	$	$ 188,114	$
Held-to-maturity	$ 4,008	$ 4,008	$	$ 4,008	$
Equity securities	$ 167	$ 167	$ 167	$	$
Loans held for sale	$ 629	$ 629	$ 629	$	$
Net loans	$ 425,759	$ 404,457	$	$	$ 404,457
Restricted stock	$ 2,926	$ N/A	$ N/A	$ N/A	$
Mortgage servicing rights	$ 369	$ 1,288	$	$ 1,288	$
Accrued interest receivable	$ 2,317	$ 2,317	$	$ 2,317	$
Financial Liabilities:					
Deposits	$ 593,362	$ 543,754	$	$ 543,754	$
Borrowings	$ 20,000	$ 20,000	$	$ 20,000	$
Accrued interest payable	$ 366	$ 366	$	$ 366	$

Balance December 31, 2022	**Carrying Value**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial Assets:					
Cash and cash equivalents	$ 17,409	$ 17,409	$ 17,409	$	$
Investment securities:					
Available-for-sale	$ 216,008	$ 216,008	$	$ 216,008	$
Held-to-maturity	$ 2,038	$ 2,021	$	$ 2,021	$
Equity securities	$ 207	$ 207	$ 207	$	$
Loans held for sale	$ 350	$ 350	$ 350	$	$
Net loans	$ 421,693	$ 396,991	$	$	$ 396,991
Restricted stock	$ 2,799	$ N/A	$ N/A	$ N/A	$
Mortgage servicing rights	$ 486	$ 1,336	$	$ 1,336	$
Accrued interest receivable	$ 2,107	$ 2,107	$	$ 2,107	$
Financial Liabilities:					
Deposits	$ 622,225	$ 561,498	$	$ 561,495	$
Borrowings	$ 13,000	$ 13,000	$	$ 13,000	$
Accrued interest payable	$ 151	$ 151	$	$ 151	$

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.

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

If no readily available market exists, the fair value estimates for financial instruments should be based upon management's judgment regarding current economic conditions, interest rate risk, expected cash flows, future estimated losses, and other factors as determined through various option pricing formulas. As many of these assumptions result from judgments made by management based upon estimates that are inherently uncertain, the resulting estimated fair values may not be indicative of the amount realizable in the sale of a particular financial instrument. In addition, changes in assumptions on which the estimated fair values are based may have a significant impact on the resulting estimated fair values.

In accordance with Accounting Standards Update (ASU) 2016-01, *Recognition and Measurement of Financial Assets and Liabilities*, the Company has considered the exit price notion when measuring the fair value of financial instruments.

The Company employed simulation modeling in determining the estimated fair value of financial instruments for which quoted market prices were not available based upon the following assumptions:

Investment Securities

The fair market value of investment securities is equal to the available quoted market price. If no quoted market price is available, fair value is estimated using the quoted market price for similar securities. Fair values for certain corporate bonds were determined utilizing discounted cash flow models, due to the absence of a current market to provide reliable market quotes for the instruments.

Mortgage Servicing Rights

The fair value for mortgage servicing rights is estimated by discounting contractual cash flows and adjusting for prepayment estimates. Discount rates are based upon rates generally charged for such loans with similar characteristics.

Commitments to Extend Credit and Commercial Letters of Credit

These financial instruments are generally not subject to sale, and estimated fair values are not readily available.

The carrying value, represented by the net deferred fee arising from the unrecognized commitment or letter of credit, and the fair value, determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk, are not considered material for disclosure. The contractual amounts of unfunded commitments and letters of credit are presented in Note 11.

16. Related Party Transactions

Certain officers, directors and other related parties have loans and conduct other transactions with the Company. Deposits of related parties totaled $5,094,000 and $4,889,000 at December 31, 2023 and 2022, respectively. The aggregate dollar amount of loans to related parties, along with an analysis of the activity for December 31, 2023 and 2022 are as follows (in thousands):

Years ended December 31,		**2023**	**2022**
Balance, beginning	$	1,078	1,826
Additions	$	406	485
Repayments	$	(128)	(1,233)
Effect of changes in composition of related parties	$	0	0
Balance, ending	**$**	**1,356**	**1,078**

17. Subsequent Events

Management has reviewed events occurring through April 10, 2024, the date the financial statements were available to be issued for items that should potentially be recognized or disclosed in these consolidated financial statements.

BOARD OF DIRECTORS

J. Donald Steele, Jr., Chairman of the Board
Willard J. Bowen
Timothy J. Apple
Chad M. Geise
Amanda Kessler
Anthony B. Markunas
Adam C. Purdy
William J. Roll, Lead Director
J. Todd Troxell, President & Chief Executive Officer

SENIOR MANAGEMENT TEAM

J. Todd Troxell, President & Chief Executive Officer
Mark A. Ritter, Executive Vice President & Chief Administrative Officer
Douglas C. Baxter, Senior Vice President & Chief Financial Officer
Lisa M. Hassinger, Senior Vice President & Chief Risk Officer
Rebecca A. Bingaman, Senior Vice President & Chief Credit Officer
Brad L. Huyck, Senior Vice President, Director of Information Technology
Jerry L. Bolig, Vice President, Finance
Stephanie L. Kahley, Vice President, Human Resources & Investor Relations
Lisa J. Lapp, Vice President, Branch Administration & Security Officer

SENIOR OFFICERS

Ann M. Conrad, Vice President, Tax & Compliance Officer (Trust and Investments)
Patricia A. Pensyl, Senior Vice President of Commercial Lending
John D. Yoder, Vice President, Commercial Lending Officer
Julie A. Rodkey, Vice President, Trust Officer
Jared L. Roush, Vice President, Trust Officer
James A. Shaffer, Vice President & Investment Manager

BRANCH OFFICE MANAGEMENT and LENDING OFFICERS

Heather L. Bohn, Branch Manager Lending Officer, Downtown Selinsgrove Office
Timothy L. Botts, Branch Manager Lending Officer, Main Northumberland Office
Robin M. Camp, Asst. Vice President, Branch Manager Lending Officer, Middleburg Office
Rose A. Rapp, Asst. Vice President, Branch Manager Lending Officer, Port Trevorton Office
Deborah A. Shief, Branch Manager, Sunbury Office
Rodney F. Zechman, Asst. Vice President, Branch Manager Lending Officer, Hummels Wharf Office
Matthew S. Brown, Commercial Lending Officer
Brenda N. Fiorenza, Mortgage Lending Officer
Dennis E. Keefer, Ag Lending Development Officer
Tanja S. Sheaffer, Mortgage Lending Officer
Mary Jo Snyder, Asst. Vice President, Mortgage Lending Manager

The Northumberland National Bank

2023

The Right **People**. The Right **Solutions**. The Right **Bank**.

The Northumberland National Bank is a subsidiary of Northumberland Bancorp