CONSOLIDATED FINANCIAL STATEMENTS

ATLANTIC COMMUNITY BANCSHARES, INC. AND SUBSIDIARY

CAMP HILL, PENNSYLVANIA | DECEMBER 31, 2023

ACBB
ATLANTIC COMMUNITY BANKERS BANK

CELEBRATING 40 YEARS

Atlantic Community Bancshares, Inc. and Subsidiary

Financial Statements

December 31, 2023

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CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Shareholders
Atlantic Community Bancshares, Inc.
Camp Hill, Pennsylvania

Opinion

We have audited the accompanying consolidated financial statements of Atlantic Community Bancshares, Inc. and subsidiary (the "Company"), which comprise the consolidated balance sheet as of December 31, 2023 and 2022; the related consolidated statement of income, comprehensive income (loss), shareholders' equity, and cash flows for the years then ended; and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 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 the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company changed its method of accounting for credit losses effective January 1, 2023, due to the adoption of Accounting Standards Codification (ASC) Topic 326, *Financial Instruments – Credit Losses*. 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 financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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Responsibilities of Management for the Financial Statements (Continued)

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

S.R. Snodgrass P.C.

King of Prussia, Pennsylvania
March 18, 2024

Atlantic Community Bancshares, Inc. and Subsidiary

Consolidated Balance Sheet
(Dollars in Thousands, Except Share Data)
December 31, 2023 and 2022

		2023		2022
Assets				
Cash and due from banks	$	4,116	$	15,546
Interest-bearing deposits with banks		142,428		113,861
Federal funds sold		6,007		12,105
Certificates of deposit		-		250
Cash and cash equivalents		152,551		141,762
Securities available for sale, at estimated fair value		163,046		158,281
Securities held to maturity, at amortized cost		22,963		23,200
Restricted investment in bank stock		4,635		4,688
Loans, net of allowance for credit losses of $9,294 and $8,481		501,233		408,833
Premises and equipment, net		1,801		1,339
Cash surrender value of life insurance		35,632		34,808
Accrued interest receivable		2,620		1,793
Other assets		12,841		11,990
Total assets	$	897,322	$	786,694
Liabilities and Shareholders' Equity				
Liabilities				
Noninterest-bearing deposits	$	231,100	$	240,429
Interest-bearing deposits		329,531		179,967
Total deposits		560,631		420,396
Federal funds purchased		125,093		139,412
Federal Home Loan Bank advances		63,382		85,955
Accrued interest payable and other liabilities		13,222		11,765
Total liabilities		762,328		657,528
Shareholders' Equity				
Preferred stock, no par value; 25,000 shares authorized in 2023 and 2022, with none outstanding in 2023 and 2022		-		-
Common stock, par value $250 per share; 50,000 shares authorized in 2023 and 2022; 15,573 shares issued and 15,501 outstanding in 2023 and 15,573 shares issued and 15,441 outstanding in 2022		3,893		3,893
Paid-in capital		33,763		33,679
Retained earnings		102,995		97,732
Treasury stock, at cost, 32 shares in 2023, 112 shares in 2022		(252)		(392)
Accumulated other comprehensive loss		(5,929)		(6,180)
Total Atlantic Community Bancshares, Inc. shareholders' equity		134,470		128,732
Noncontrolling interest from continuing operations		524		434
Total liabilities and shareholders' equity	$	897,322	$	786,694

See notes to consolidated financial statements.

Atlantic Community Bancshares, Inc. and Subsidiary

Consolidated Statement of Income
(Dollars in Thousands, Except Per Share Data)
Years Ended December 31, 2023 and 2022

	2023	2022
Interest Income		
Loans, including fees	$ 25,657	$ 16,384
Debt securities, taxable	7,250	3,315
Debt securities, tax exempt	479	496
Federal funds sold	1,076	438
Other	7,951	2,260
Total interest income	42,413	22,893
Interest Expense		
Deposits	12,257	2,697
Federal funds purchased	7,609	3,049
Federal Home Loan Bank advances	1,542	1,129
Other	42	20
Total interest expense	21,450	6,895
Net interest income	20,963	15,998
Provision for Credit Losses	1,122	(850)
Net interest income after provision for credit losses	19,841	16,848
Other Income		
Clearing and analysis fees	5,604	7,118
International wire commissions	2,144	1,889
Agency federal funds fees	655	725
Earnings on cash surrender value of life insurance	824	735
Gain on the sale of building	-	715
Other	901	850
Total other income	10,128	12,032
Other Expenses		
Salaries and employee benefits	11,152	10,343
Occupancy and equipment	865	748
Data processing and servicing fees	4,193	5,015
Professional fees	1,385	1,669
Pennsylvania bank shares tax	785	921
FDIC insurance	307	304
Other	3,892	3,107
Total other expenses	22,579	22,107
Income before income tax expense	7,390	6,773
Income Tax Expense	1,448	1,394
Net income	5,942	5,379
Net income applicable to noncontrolling interests	465	301
Net income applicable to Atlantic Community Bancshares, Inc.	$ 5,477	$ 5,078
Basic and Diluted Earnings Per Share	$ 352	$ 328

See notes to consolidated financial statements.

Atlantic Community Bancshares, Inc. and Subsidiary

Consolidated Statement of Comprehensive Income (Loss)
(Dollars in Thousands)
Years Ended December 31, 2023 and 2022

	2023	2022
Net income	$ 5,942	$ 5,379
Other Comprehensive Income (Loss)		
Unrealized holding gain (loss) on available-for-sale securities	886	(9,734)
Income tax effect	(212)	2,338
	674	(7,396)
Unrealized (loss) gain on Fed funds interest rate swap	(557)	1,243
Income tax effect	134	(299)
	(423)	944
Total other comprehensive income (loss)	251	(6,452)
Total comprehensive income (loss)	$ 6,193	$ (1,073)

See notes to consolidated financial statements.

Atlantic Community Bancshares, Inc. and Subsidiary

Consolidated Statement of Shareholders' Equity

(Dollars in Thousands, Except Share and Per Share Data)

Years Ended December 31, 2023 and 2022

	Common Stock	Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Shareholders' Equity
Balance, December 31, 2021	$ 3,893	$ 33,519	$ 92,951	$ (387)	$ 272	$ 197	$ 130,445
Sale of 164 shares of treasury stock	-	160	-	660	-	-	820
Net income	-	-	5,078	-	-	301	5,379
Distribution to members	-	-	-	-	-	(108)	(108)
Contribution from members	-	-	-	-	-	44	44
Acquisition of 190 shares of treasury stock	-	-	-	(665)	-	-	(665)
Dividend declared and paid, $19.11 per share	-	-	(297)	-	-	-	(297)
Other comprehensive loss	-	-	-	-	(6,452)	-	(6,452)
Balance, December 31, 2022	3,893	33,679	97,732	(392)	(6,180)	434	129,166
Sale of 40 shares of treasury stock	-	84	-	140	-	-	224
Net income	-	-	5,477	-	-	465	5,942
Distribution to members	-	-	-	-	-	(375)	(375)
Adoption of CECL[(1)]	-	-	294	-	-	-	294
Dividend declared and paid, $32.84 per share	-	-	(508)	-	-	-	(508)
Other comprehensive income	-	-	-	-	251	-	251
Balance, December 31, 2023	$ 3,893	$ 33,763	$ 102,995	$ (252)	$ (5,929)	$ 524	$ 134,994

See notes to consolidated financial statements.

(1) Adoption of ASU 2016-13, effective January 1, 2023. Refer to Note 1 for additional information.

Consolidated Statement of Cash Flows
(Dollars in Thousands)
Years Ended December 31, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities		
Net income	$ 5,942	$ 5,379
Adjustments to reconcile net income to net cash		
provided by operating activities:		
Depreciation of premises and equipment	439	460
Net amortization of premiums and discounts on securities	129	280
Amortization of deferred loan fees, net	(727)	(355)
Amortization of fair value purchase accounting adjustments	(13)	(25)
Amortization of core deposit intangible	174	208
Provision for credit losses	1,122	(850)
Earnings on cash value of life insurance	(824)	(735)
Deferred income taxes	(366)	100
Increase in other assets	(1,360)	(237)
Increase (decrease) in accrued interest payable and other liabilities	696	(291)
Net cash provided by operating activities	5,212	3,934
Cash Flows from Investing Activities		
Activity in available-for-sale securities:		
Purchases	(33,259)	(47,487)
Proceeds from maturities, calls, and repayments	29,344	40,536
Activity in held-to-maturity securities:		
Purchases	-	(3,709)
Proceeds from maturities and calls	145	1,810
Purchase of equity investment	-	(638)
Net increase in loans	(92,489)	(84,374)
Net redemption (purchase) of restricted stock	53	(1,479)
Net purchases of premises and equipment	(901)	(793)
Purchase of additional life insurance	-	(5,288)
Net cash used for investing activities	(97,107)	(101,422)
Cash Flows from Financing Activities		
Net increase (decrease) in deposits	140,235	(40,996)
Repayments of long-term borrowings	(27,573)	(17,799)
Proceeds from long-term borrowings	5,000	55,000
(Decrease) increase in federal funds purchased	(14,319)	56,294
Proceeds from sale of treasury stock	224	820
Acquisition of treasury stock	-	(665)
Contributions from members	-	44
Distributions to members	(375)	(108)
Payments of dividends	(508)	(297)
Net cash provided by financing activities	102,684	52,293
Net increase (decrease) in cash and cash equivalents	10,789	(45,195)
Cash, Cash Equivalents and Restricted Cash, Beginning of the Year	141,762	186,957
Cash, Cash Equivalents and Restricted Cash, End of Year	$ 152,551	$ 141,762

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows (Continued)
(Dollars in Thousands)
Years Ended December 31, 2023 and 2022

	2023	2022
Supplementary Cash Flows Information		
Cash paid during the period for:		
Interest	$ 21,741	$ 5,878
Income taxes	5,318	1,245
Recognition of Right of Use Asset	764	1,777
Recognition of lease liability	764	1,777

See notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

Organization and Nature of Operations

Atlantic Community Bancshares, Inc. (the “Company”) is a Pennsylvania corporation organized as the holding company of Atlantic Community Bankers Bank (the “Bank” or “ACBB”). The Bank provides correspondent banking services, both credit and noncredit, to financial institutions in the Mid-Atlantic and New England regions of the United States of America. The Bank is subject to regulation and supervision by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Pennsylvania Department of Banking and Securities. Bank AnoVa Partners, LLC (Bank AnoVa) is a limited liability partnership between ACBB, as majority owner, and Acceleron Bank, based in Vermont. Bank AnoVa provides international wire services to ACBB’s community financial institution clients.

The Bank participates in commercial and commercial real estate loans with other financial institutions throughout the Mid-Atlantic and New England regions of the United States of America and makes direct loans to financial institutions and officers and directors of financial institutions. In addition, the Bank accepts deposits and purchases federal funds from financial institutions. The Bank performs various services for its customers in an agency capacity and, therefore, these items are excluded from the Bank’s financial statements since they do not constitute assets of the Bank. The Bank had agency federal funds of $65,423,000 and $35,036,000 as of December 31, 2023 and 2022, respectively. The Bank had excess balance accounts, held with the Federal Reserve Bank of Philadelphia (“FRB”) of $852,129,000 and $743,909,000 as of December 31, 2023 and 2022, respectively. Both the agency federal funds and excess balance accounts are excluded from these financial statements.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its subsidiary, ACBB, and the Bank’s subsidiaries, Bank AnoVa Partners, LLC and 1400 Market Street, LLC. All significant intercompany accounts and transactions are eliminated in the consolidation.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Balance Sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses (ACL).

Significant Group Concentrations of Credit Risk

Most of the Company's activities are with customers located within the Mid-Atlantic and New England regions of the United States of America. The Company participates in commercial and commercial real estate loans with other financial institutions throughout the Mid-Atlantic and New England regions and makes direct loans to officers and directors of financial institutions. The loan portfolio is generally collateralized by assets of the borrower. A substantial portion of the Bank's loan portfolio is concentrated in the real estate industry. Therefore, its debtors' ability to honor their contracts at December 31, 2023 and 2022, is dependent upon the real estate sector of the economy. The concentration of credit by type of loan is set forth in Note 4, Loans.

Presentation of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold and certificates of deposit, all of which have initial maturities of 90 days or less. Generally, federal funds are purchased or sold for one-day periods, but for those that exceed three days, are presented as term federal funds sold on the Consolidated Balance Sheet.

Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity (HTM) and recorded at amortized cost. Securities not classified as HTM or trading are classified as available-for-sale (AFS) and recorded at fair value, with unrealized gains and losses excluded from earnings and reported, net of tax, in other comprehensive income (loss). Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each Consolidated Balance Sheet date.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. The Company did not sell any securities in the years ended December 31, 2023 or 2022.

Refer to Note 3, Securities, for further information.

Restricted Investment in Bank Stock

The required investments in FRB stock and Federal Home Loan Bank of Pittsburgh ("FHLB") stock are carried at cost.

Management evaluates the restricted stock for impairment. Management's determination of whether these investments are impaired is based on an assessment of the ultimate recoverability of cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of cost is influenced by criteria such as (1) the significance of the decline in net assets of the correspondent bank as compared to the capital stock amount of the correspondent bank and the length of time this situation has persisted, (2) commitments by the correspondent bank to make payments required by law or regulation and the level of such payments in relation to the operating performance of the correspondent bank, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the correspondent bank.

Management believes no impairment charge was necessary related to the restricted investments in bank stock in 2023 or 2022.

Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances and any deferred fees or costs, net of an allowance for credit losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Bank is generally amortizing these amounts over the contractual life of the loan.

The loans receivable portfolio is primarily comprised of commercial loans. Commercial loans consist of the following classes: real estate construction and land development, commercial real estate - owner occupied, commercial real estate, multi-family real estate, hotel and bank holding company loans. Included in the other category, are smaller portfolios of residential, commercial real estate – non-owner occupied, commercial and industrial and stock loans.

For all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. Past-due status is based on the contractual terms of the loan. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for credit losses. Payments received on nonaccrual loans generally are either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

Refer to Note 4, Loans, for further information.

Allowance for Credit Losses

CECL Adoption

On January 1, 2023, the Company adopted ASU 2016-13, *Financial Instruments – Credit Losses (ASC Topic 326): Measurement of Credit Losses on Financial Instruments*, , which replaced the incurred loss model and is referred to as CECL. The measurement of expected credit losses under CECL is applicable to financial assets measured at amortized cost, including loans and HTM debt securities. It also applies to off-balance sheet (OBS) credit exposures, such as loan commitments, standby letters of credit, financial guarantees, and other similar instruments, and net investments in leases recognized by a lessor in accordance with ASC Topic 842.

The Bank adopted CECL using the modified retrospective approach for all financial assets at amortized cost, net investments in leases and off-balance sheet exposures. Results for reporting periods after January 1, 2023 are presented under CECL, while prior period results are reported in accordance with the previously applicable incurred loss methodology, ASC 310-10 and ASC 450-20. The Company recorded a decrease of \$309,000 to the allowance for credit losses (ACL) on January 1, 2023 as a result of the adoption of CECL. In addition, there was \$63,000 decrease in the reserve for unfunded commitments as part of this adoption. As a result of both adjustments, retained earnings increased by \$294,000 and deferred tax assets decreased by \$78,000.

The Bank has elected to exclude accrued interest receivable from the measurement of its ACL. When a loan is placed on non-accrual status, any outstanding accrued interest is reversed against interest income.

The ACL consists of the ACL on loans and OBS credit exposures. The ACL is increased by the provision for credit losses, and decreased by charge-offs, net of recoveries. The ACL is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the ACL.

The Bank is under $1 Billion in assets and elected to use the FRB Scaled CECL Allowance for Losses Estimated (SCALE) method for CECL. The SCALE method includes four key components: lifetime loss rate, individually assess loan losses, qualitative adjustments and adjustment to peer group lifetime loss rate to reflect the Bank's insight on portfolio performance.

Loans: The ACL for loans is an estimate of the expected losses to be realized over the life of the loans in the portfolio. The ACL is determined for two distinct categories of loans: 1) loans evaluated collectively for expected credit losses and 2) loans evaluated individually for expected credit losses. Loans deemed to be uncollectible are charged against the ACL, and subsequent recoveries, if any, are credited to the ACL. All, or part, of the principal balance of loans receivable are charged off to the ACL as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Because all identified losses are immediately charged off, no portion of the ACL is restricted to any individual loan or groups of loans, and the entire ACL is available to absorb any and all credit losses.

Loans Evaluated Collectively: Loans evaluated collectively covers pools of loans by loan class including commercial loans on accrual status and loans initially evaluated individually, but determined not to have enhanced credit risk characteristics. It also includes smaller-balance homogeneous loans, such as residential real estate. These pools of loans are evaluated for loss exposure using the SCALE method

A majority of the Bank's loan assets are loans to business owners of many types. The Bank makes commercial loans for real estate development and other business purposes required by the customer base.

Loans Evaluated Individually: Loans evaluated individually for expected credit losses include loans that are risk rated Substandard or worse and any loan on non-accrual status. The required ACL for such loans is determined using either the present value of expected future cash flows, observable market price or the fair value of collateral.

The Bank's credit policies determine advance rates against the different forms of collateral that can be pledged against commercial loans. Typically, the majority of loans will be limited to a percentage of their underlying collateral values such as real estate values, equipment, eligible accounts receivable, and inventory. Individual loan advance rates may be higher or lower depending upon the financial strength of the borrower and/or term of the loan. The assets financed through commercial loans are used within the business for its ongoing operation. Repayment of these loans generally comes from the cash flow of the business or the ongoing conversions of assets. Commercial real estate loans include long-term loans financing commercial properties. Repayment of theses loan are dependent upon either the ongoing cash flow of the borrowing entity or the resale of or lease of the subject property. Commercial real estate loans typically require a loan-to-value ratio of not greater than 80 percent, and they vary in terms.

For commercial loans secured by real estate, fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal, and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the fair value. The discounts also include estimated costs to sell the property.

For commercial and industrial loans secured by non-real-estate collateral, such as accounts receivable, inventory, and equipment, fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable agings or equipment appraisals, or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

The Company segregates loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors, and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include regulatory classifications. The following is a summary of the Company's internal risk rating categories:

- *Pass*: These loans do not currently pose undue credit risk and can range from the highest to average quality, depending on the degree of potential risk.

- *Special Mention*: These loans have a heightened credit risk, but not to the point of justifying a classification of Substandard. Loans in this category are currently acceptable but, are nevertheless potentially weak.

- *Substandard or Lower*: These loans are inadequately protected by current sound worth and paying capacity of the borrower. There exists a well-defined weakness or weaknesses that jeopardize the normal repayment of the debt.

CECL ACL Lifetime Loss Rate: Using the SCALE method, the Bank uses publicly available data to obtain an initial proxy expected lifetime loss rates. Management further adjusts the proxy expected lifetime loss rates to reflect the Bank's specific facts and circumstances to arrive at the final ACL estimate that adequately reflects the loss history and credit risk in the portfolio.

Qualitative and Other Adjustments to ACL: In addition to the ACL Lifetime Loss Rate estimates for loans evaluated collectively, qualitative factors that may not be fully captured in the quantitative results are also evaluated. These qualitative factors include:

1. Indirect Underwriting Risk
2. General Economic Conditions
3. Stability/Demonstrated Performance
4. Collateral Value Trends
5. Delinquency, Criticized, Classified and Non-Performing Assets
6. Concentrations of Credit
7. Loan Review System
8. Portfolio Growth & Maturities
9. Changes in Policies & Procedures
10. Competition, Legal and Regulatory
11. Staff Levels, Training & Quality

Each factor is assigned a value to reflect improving, stable, or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Qualitative adjustments are evaluated and approved on a quarterly basis and supported through documentation of changes in conditions in a narrative accompanying the ACL calculation.

OBS Credit Exposures: The ACL for OBS credit exposures is recorded in other liabilities on the consolidated balance sheets. This portion of the ACL represents management's estimate of expected losses in its unfunded loan commitments and other OBS credit exposures. The ACL specific to unfunded commitments is determined by estimating future draws and applying the expected loss rates on those draws. Future draws are based on historical averages of utilization rates (i.e., the likelihood of draws taken). The ACL for OBS credit exposures is increased or decreased by charges or reductions to expense, through the provision for credit losses.

Investment Securities: Expected credit losses on HTM debt securities would be recorded in the ACL on HTM debt securities. As of December 31, 2023, no HTM debt securities required an ACL as these investments consist solely of government guaranteed municipal securities.

The ACL approach for AFS debt securities differs from the approach used for HTM debt securities as AFS debt securities are carried at fair value rather than amortized cost. Under CECL, the concept of other-than-temporary impairment has been eliminated, and credit losses on AFS debt securities are recognized through an ACL rather than through a direct write-down of the security. In evaluating credit losses on AFS debt securities, management considers factors such as delinquency, guarantees and whether the securities are rated higher than investment grade. As of December 31, 2023, no AFS debt securities required an ACL.

The Bank is excluding accrued interest receivable from the measurement of its ACL on debt securities.

Prior to the adoption of CECL on January 1, 2023, declines in the fair value of HTM and AFS securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses on debt securities, management considers (1) whether management intends to sell the securities, (2) if it is more likely than not that management will be required to sell the security before recovery, or (3) management does not expect to recover the entire amortized cost basis. In assessing potential other-than-temporary impairment for equity securities, consideration is given to management's intention and ability to hold the securities until recovery of unrealized losses. The Company did not recognized any other-than-temporary impairment losses in the year ended December 31, 2022.

<u>ACL Methodology Before CECL Adoption</u>

Prior to the adoption of CECL, the ACL was based on the Bank's expected losses, past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors. This evaluation was inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

For loans that were classified as impaired, an allowance was established when the discounted cash flows (or collateral value or observable market price) of the impaired loan was lower than the carrying value of that loan. An ACL was established for an impaired loan if its carrying value exceeds its fair value. The fair values of substantially all of the Bank's impaired loans were measured based on the fair value of the loan's collateral.

Refer to Note 4, Loans, for further information.

Loans Acquired

Prior to CECL adoption, loans acquired including loans that have evidence of deterioration of credit quality since origination and for which it was probable, at acquisition, that the Bank will be unable to collect all contractually required payments receivable, were initially recorded at fair value (as determined by the present value of expected future cash flows) with no valuation allowance. Loans were evaluated individually to determine if there is evidence of deterioration of credit quality since origination. The difference between the undiscounted cash flows expected at acquisition and the investment in the loan, or the "accretable yield," was recognized as interest income on a level-yield method over the life of the loan. Contractually required payments for interest and principal that exceeded the undiscounted cash flows expected at acquisition, or the "non-accretable difference," were not recognized as a yield adjustment or as a loss accrual or a valuation allowance. Increases in expected cash flows subsequent to the initial investment are recognized prospectively through adjustment of the yield on the loan over its remaining estimated life. Decreases in expected cash flows are recognized immediately as impairment. Any valuation allowances on these impaired loans reflect only losses incurred after the acquisition.

For purchased loans acquired that were not deemed impaired at acquisition, credit discounts representing the principal losses expected over the life of the loan were a component of the initial fair value. Loans may be aggregated and accounted for as a pool of loans if the loans being aggregated have common risk characteristics. Subsequent to the purchase date, the methods utilized to estimate the required ACL for these loans was similar to originated loans; however, the Bank recorded a provision for loan losses only when the required allowance exceeded any remaining credit discounts. The remaining differences between the purchase price and the unpaid principal balance at the date of acquisition were recorded in interest income over the life of the loans.

No loans have been acquired subsequent to the adoption of CECL.

Transfers of Financial Assets

Transfers of financial assets, including loan and loan participation sales, are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Foreclosed Real Estate

Foreclosed real estate ("OREO) is comprised of property acquired through a foreclosure proceeding or an acceptance of a deed in lieu of foreclosure. Balances are initially reflected at the fair value less any estimated disposition costs, with subsequent adjustments made to reflect further declines in value. Any loss upon disposition of the property and holding costs, prior thereto, are charged against income. The Company has not recognized any OREO in the years ended December 31, 2023 or 2022.

Premises and Equipment

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 related assets. The estimated useful lives of the building and improvements range from 10 to 30 years or the life of the lease, whichever is shorter, from 3 to 10 years for furniture and equipment, and 7 years for enhanced communication services equipment. Refer to Note 5, Premises and Equipment, for additional information.

Cash Surrender Value of Life Insurance

Cash surrender value of life insurance is carried at its net cash surrender value as determined by the insurance companies. The value represents the amount of premiums invested and earnings thereon. Premiums for purchases of life insurance with a cash surrender value are capitalized. Earnings on the cash surrender value of life insurance are included in other income while expenses are recorded as a component of other expenses in the Consolidated Statement of Income.

Core Deposit Intangible

Core deposit intangible is a measure of the value of member bank deposits acquired in business combinations accounted for as purchases. The core deposit intangible is being amortized over a ten-year period using a sum of the years' digits basis. The core deposit intangible is subject to impairment testing whenever events or changes in circumstances indicate such testing. There was no impairment recorded during the periods ended December 31, 2023 and December 31, 2022. Refer to Note 6, Core Deposit Intangible Assets, for additional information.

Derivatives

The Company is exposed to certain risk arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its assets and liabilities and the use of derivative financial instruments. Specifically, the Bank enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Bank's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Bank's known or expected cash receipts and its known or expected cash payments.

For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (outside of earnings), net of tax, and subsequently reclassified to earnings when the hedged transaction affects earnings, and the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. The Bank assesses the effectiveness of each hedging relationship by comparing the changes in cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged transactions. The Company did not recognize any hedge ineffectiveness in earnings during the periods ended December 31, 2023 and 2022. Refer to Note 18, Derivative and Hedging Activity, for additional information.

Leases

The Company accounts for its leases, where it is the lessee in accordance with ASC 842. All leases with an initial term greater than 12 months recognize: (1) a Right of Use (ROU) asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term; and (2) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, each measured on a discounted basis. The ROU asset and lease liability are recognized on the Consolidated Balance Sheet under Other Assets and Other Liabilities, respectively. The Company elected to not separate lease and non-lease components.

As a lessee, the Company has two operating leases which consists of real estate leases for the Company's headquarters in Camp Hill, PA and office space in Glastonbury, CT. ROU assets and lease liabilities are not recognized for leases with an initial term of 12 months or less.

Operating lease expense represents fixed lease payments for operating leases recognized on a straight-line basis over the applicable lease term. Variable lease expense represents expenses such as the payment of real estate taxes, insurance and common area maintenance based on the Company's pro-rata share. Refer to Note 10, Leases, for additional information.

Marketing and Promotion Expense

The Company follows the policy of charging the costs of marketing and promotion to expense as incurred and totaled $300,000 and $118,000 for the years ended December 31, 2023 and 2022, respectively.

Income Taxes

The Company accounts for income taxes in accordance with income tax accounting guidance. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company accounts for uncertain tax positions if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment.

The Company and Bank recognize interest and penalties on income taxes as a component of income tax expense. With few exceptions, the Company and Bank are no longer subject to U.S. federal or state income tax examinations for years before 2020. Refer to Note 11, Income Taxes, for additional information.

Comprehensive Income (Loss)

GAAP requires that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on AFS securities, are reported as a separate component of the equity section of the Consolidated Balance Sheet, such items, along with net income, are components of other comprehensive income (loss). Refer to Note 17, Other Comprehensive Income (Loss), for additional information.

Common Stock Ownership

Ownership of the Company's common stock is limited to other depository institutions in the United States of America. The number of shares for which an investor may subscribe is limited to 10 percent of the Company's capital and surplus. The maximum number of shares that any investor may vote is limited to 4.99 percent of the issued and outstanding shares of the Company.

Revenue Recognition and Deferred Revenue

The majority of the Company's revenues come from interest income and other sources, including loans, leases, securities and derivatives, that are outside the scope of ASC 606. The Company's services that fall within the scope of ASC 606 are presented within Other Income and are recognized as revenue as the Company satisfies its obligation to the customer. Services within the scope of ASC 606 include analysis service charge income, international wire commissions, commissions earned as agent for Federal Funds and Federal Reserve Excess Balance Account transactions, and the sale of OREO. Refer to Note 19, Revenue Recognition, for further discussion on the Company's accounting policies for revenue sources within the scope of ASC 606.

Earnings Per Share

The Company has a simple capital structure. Basic earnings per share represents net income divided by the weighted-average number of common shares outstanding. Treasury shares are not deemed outstanding for earnings per share calculations. Basic earnings per share calculation is presented below for the years ended December 31, 2023 and 2022 (in thousands, except per share data):

	2023	2022
Basis and Diluted weighted average shares outstanding	15,607	15,526
Net income applicable to common shares	5,477	5,077
Basic and diluted earnings per share - net income	352	328

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Company has entered into OBS financial instruments consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the Consolidated Balance Sheet when they are funded.

Reclassifications

Certain amounts in the 2022 consolidated financial statements have been reclassified to conform to the 2023 presentation. Such reclassification had no impact on net income or shareholders' equity.

2. Restrictions on Cash and Due from Banks

In return for service obtained through correspondent banks, the Bank is required to maintain cash balances in certain correspondent banks. At December 31, 2023 and 2022, the FRB did not require the Bank to maintain a non-interest bearing balance in either year. As of December 31 2023 and 2022, a financial institution required the Bank to maintain a $5,000,000 balance in an interest bearing account.

Through the sale of the Bank's subsidiary, BITS in 2021, a representation and warranty reserve was established by the sellers in the amount of $175,000. The cash was restricted for use of expenses specific to the sale of BITS. The Bank's portion of the funds was approximately 84 percent of the balance, which represented the Bank's portion of BITS as its subsidiary prior to the sale. These funds were released 18 months after the sale of BITS, occurring in March 2023.

3. Securities

Amortized cost, gross unrealized gains and losses, and fair value at December 31 were as follows (in thousands):

	2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
Mortgage-backed securities:				
U.S. government-sponsored enterprises residential	$ 145,220	$ 210	$ (6,545)	$ 138,885
U.S. agency securities	12,848	11	(40)	12,819
Corporate securities	13,113	-	(1,771)	11,342
Total	$ 171,181	$ 221	$ (8,356)	$ 163,046

	2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to maturity				
Obligations of states and political subdivisions	$ 22,963	$ 1	$ (3,587)	$ 19,377

3. Securities (Continued)

	2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
Mortgage-backed securities:				
U.S. government-sponsored enterprises residential	$ 148,385	$ 6	$ (7,758)	$ 140,633
U.S. agency securities	5,772	4	(7)	5,769
Corporate securities	13,145	-	(1,266)	11,879
Total	$ 167,302	$ 10	$ (9,031)	$ 158,281

	2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to maturity				
Obligations of states and political subdivisions	$ 23,200	$ 4	$ (4,239)	$ 18,965

3. Securities (Continued)

The following tables reflect the fair value of securities that were in an unrealized loss position for which an ACL has not been recorded, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2023 and 2022 (in thousands):

	2023					
	Less than Twelve Months		Twelve Months or Greater		Total	
Available for sale	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Mortgage-backed securities:						
U.S. government-sponsored enterprises residential	$ 14,255	$ (87)	$ 104,772	$ (6,458)	$ 119,027	$ (6,545)
U.S. agency securities	6,518	(32)	1,656	(8)	8,174	(40)
Corporate Securities	-	-	11,342	(1,771)	11,342	(1,771)
Total	$ 20,773	$ (119)	$ 117,770	$ (8,237)	$ 138,543	$ (8,356)
Held to maturity						
Obligations of states and political subdivisions	$ 1,064	$ (17)	$ 18,057	$ (3,570)	$ 19,121	$ (3,587)

	2022					
	Less than Twelve Months		Twelve Months or Greater		Total	
Available for sale	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Mortgage-backed securities:						
U.S. government-sponsored enterprises residential	$ 96,922	$ (3,079)	$ 39,172	$ (4,679)	$ 136,094	$ (7,758)
U.S. agency securities	2,399	(7)	-	-	2,399	(7)
Corporate Securities	6,470	(525)	5,409	(741)	11,879	(1,266)
Total	$ 105,791	$ (3,611)	$ 44,581	$ (5,420)	$ 150,372	$ (9,031)
Held to maturity						
Obligations of states and political subdivisions	$ 6,475	$ (609)	$ 12,228	$ (3,630)	$ 18,703	$ (4,239)

3. Securities (Continued)

At December 31, 2023, the fair value of AFS securities in an unrealized loss position for which an ACL had not been recorded was $138,543,000, including unrealized losses of $8,356,000. Unrealized losses on AFS securities have not been recognized into income because the issuers bonds are either explicitly or implicitly guaranteed by the U.S. government, 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 issuers continue to make timely principal and interest payments on the bonds. The fair value is expected to recover as the bonds approach maturity.

There was no ACL on securities AFS at December 31, 2023 and no impairment recorded during the year ended December 31, 2022.

At December 31, 2023, the fair value of HTM securities in an unrealized loss position for which an ACL had not been recorded was $19,121,000, including unrealized losses of $3,587,000. The Company monitors the credit quality of debt securities HTM primarily through utilizing credit rating. The Company monitors the credit rating on a quarterly basis. The Company did not recognize any credit losses on HTM debt securities for the year ended December 31, 2023 or other-than-temporary impairment charges during 2022.

Amortized cost and fair value at December 31, 2023, by maturity are shown below (in thousands). Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay with or without penalties.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 657	$ 656	$ 155	$ 155
Due after one year through five years	61,759	60,291	3,549	3,283
Due after five years through ten years	107,265	100,599	4,885	4,359
Due after ten years	1,500	1,500	14,374	11,580
Total	$ 171,181	$ 163,046	$ 22,963	$ 19,377

During the years ended December 31, 2023 and 2022, the Company did not sell any securities.

The Company had pledged investment securities with a carrying value of $147,549,000 and $143,019,000 to secure borrowed monies as of December 31, 2023 and 2022, respectively.

4. Loans

The composition of loans receivable at December 31 is as follows (in thousands):

	2023	2022
Real estate construction and land development	$ 43,211	$ 24,160
Commercial real estate	183,786	157,597
Commercial real estate, owner occupied	81,625	58,826
Hotels	56,613	50,243
Multi-family real estate	79,108	72,008
Bank holding company	8,700	5,788
Other	58,321	49,249
	511,364	417,871
Less:		
Deferred loan fees	837	557
Allowance for credit losses	9,294	8,481
Net loans	$ 501,233	$ 408,833

The following table summarizes the impact of the adoption of CECL and the activity in the ACL by loan class for the year ended December 31, 2023 (in thousands):

	2023					
	Beginning Balance	Impact of adopting ASU 2016-13	Charge-offs	Recoveries	Provisions (Reductions)	Ending Balance
Real estate construction and land development	$ 720	$ (148)	$ -	$ -	$ 345	$ 917
Commercial real estate	2,926	112	-	-	218	3,256
Commercial real estate, owner occipied	1,158	5	-	-	283	1,446
Hotels	1,190	(203)	-	-	15	1,002
Multi-family real estate	1,431	42	-	-	(72)	1,401
Bank holding company	129	3	-	-	77	209
Other	927	(120)	-	-	256	1,063
	$ 8,481	$ (309)	$ -	$ -	$ 1,122	$ 9,294

4. Loans (Continued)

The following table summarizes, under the incurred loss model, the activity in the ACL by loan class for the year ended December 31, 2022, and information in regards to the allowance for loan loss and the recorded investment in loans receivable by loan class as of December 31, 2022 (in thousands):

	2022				
	Beginning Balance	Charge-offs	Recoveries	Provisions (Reductions)	Ending Balance
Real estate construction and land development	$ 803	$ -	$ -	$ (83)	$ 720
Commercial real estate	3,475	-	-	(549)	2,926
Commercial real estate, owner occupied	1,284	-	-	(126)	1,158
Hotels	1,145	-	-	45	1,190
Multi-family real estate	1,276	-	-	155	1,431
Bank holding company	137	-	-	(8)	129
Other	1,211	-	-	(284)	927
	$ 9,331	$ -	$ -	$ (850)	$ 8,481

The following table present, by portfolio segment, those loans individually and collectively evaluated for impairment at December 31, 2022 as required under in the incurred loss model (in thousands):

	2022		
	Loans Receivable		
	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Real estate construction and land development	$ 24,160	$ -	$ 24,160
Commercial real estate	157,597	5,315	152,282
Commercial real estate, owner occupied	58,826	78	58,748
Hotels	50,243	-	50,243
Multi-family real estate	72,008	-	72,008
Bank holding company	5,788	-	5,788
Other	49,249	-	49,249
	$ 417,871	$ 5,393	$ 412,478

As required by ASC 310 and ASC 450 in 2022, loans were either individually or collectively evaluated for impairment, respectively. At December 31, 2022, the Bank had $5,393,000 of loans individually evaluated for impairment. There were no specific reserves required on loans that were identified as impaired.

4. Loans (Continued)

The following tables summarize information in regards to impaired loans by loan portfolio class as of the years ended December 31, 2022 as required under the incurred loss model (in thousands):

	2022				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With a related allowance recorded:					
Real estate construction and land development	$ -	$ -	$ -	$ -	$ -
Commercial real estate	-	-	-	-	-
Commercial real estate, owner occupied	-	-	-	-	-
Hotels	-	-	-	-	-
Multi-family real estate	-	-	-	-	-
Bank holding company	-	-	-	-	-
Other	-	-	-	-	-
	-	-	-	-	-
With no related allowance recorded:					
Real estate construction and land development	-	-	-	-	-
Commercial real estate	5,315	5,315	-	5,378	239
Commercial real estate, owner occupied	78	1,220	-	112	-
Hotels	-	-	-	-	-
Multi-family real estate	-	-	-	-	-
Bank holding company	-	-	-	-	-
Other	-	-	-	-	-
	5,393	6,535	-	5,490	239
Total:					
Real estate construction and land development	-	-	-	-	-
Commercial real estate	5,315	5,315	-	5,378	239
Commercial real estate, owner occupied	78	1,220	-	112	-
Hotels	-	-	-	-	-
Multi-family real estate	-	-	-	-	-
Bank holding company	-	-	-	-	-
Other	-	-	-	-	-
	$ 5,393	$ 6,535	$ -	$ 5,490	$ 239

4. Loans (Continued)

The following tables present the classes of the loan portfolio summarized by the aggregate Pass rating and the classified ratings of Special Mention, and Substandard and lower, within the Company's internal risk rating system as of December 31 (in thousands):

	2023			
	Pass	Special Mention	Substandard	Total
Real estate construction and land development	$ 43,211	$ -	$ -	$ 43,211
Commercial real estate	183,786	-	-	183,786
Commercial real estate, owner occupied	81,625	-	-	81,625
Hotels	56,613	-	-	56,613
Multi-family real estate	79,108	-	-	79,108
Bank holding company	8,700	-	-	8,700
Other	58,321	-	-	58,321
Total	$ 511,364	$ -	$ -	$ 511,364

	2022			
	Pass	Special Mention	Substandard	Total
Real estate construction and land development	$ 24,160	$ -	$ -	$ 24,160
Commercial real estate	148,885	3,397	5,315	157,597
Commercial real estate, owner occupied	58,748	-	78	58,826
Hotels	50,243	-	-	50,243
Multi-family real estate	70,118	1,890	-	72,008
Bank holding company	5,788	-	-	5,788
Other	49,249	-	-	49,249
Total	$ 407,191	$ 5,287	$ 5,393	$ 417,871

4. Loans (Continued)

The performance and credit quality of the loan portfolio are also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past-due status as of December 31 (in thousands):

	2023					
	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Total Loans
Real estate construction and land development	$ 43,211	$ -	$ -	$ -	$ -	$ 43,211
Commercial real estate	183,786	-	-	-	-	183,786
Commercial real estate, owner occupied	81,625	-	-	-	-	81,625
Hotels	56,613	-	-	-	-	56,613
Multi-family real estate	79,108	-	-	-	-	79,108
Bank holding company	8,700	-	-	-	-	8,700
Other	58,204	117	-	-	117	58,321
Total	$ 511,247	$ 117	$ -	$ -	$ 117	$ 511,364

	2022					
	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Total Loans
Real estate construction and land development	$ 24,160	$ -	$ -	$ -	$ -	$ 24,160
Commercial real estate	157,597	-	-	-	-	157,597
Commercial real estate, owner occupied	58,826	-	-	-	-	58,826
Hotels	50,243	-	-	-	-	50,243
Multi-family real estate	72,008	-	-	-	-	72,008
Bank holding company	5,788	-	-	-	-	5,788
Other	48,856	393	-	-	393	49,249
Total	$ 417,478	$ 393	$ -	$ -	$ 393	$ 417,871

As of December 31, 2023, the loan portfolio did not have any nonaccrual loans. As of December 31, 2022, there was one nonaccrual loan in commercial real estate, owner occupied of $78,000, which paid to zero in 2023.

4. Loans (Continued)

The Company may grant a modification to borrowers in financial distress by providing a temporary reduction in interest rate, or an extension of a loan's stated maturity date. Loan modifications are intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral.

The Company identifies loans for potential restructure primarily through conversations with the lead bank for loan participations or direct communication with the borrower for direct loans. The Bank evaluates the borrower's financial statements, revenue projections, tax returns, and credit reports. Even if the borrower is not presently in default, management will consider the likelihood that cash flow shortages, adverse economic conditions, and negative trends may result in a payment default in the near future.

There were no modifications of loans to borrowers experiencing financial difficulty during the year ended December 31, 2023.

As described in Note 1, the Company adopted CECL on January 1, 2023, which eliminated the recognition and measurement of troubled debt restructurings (TDRs). There were no TDRs as of or during the year ended December 31, 2022.

5. Premises and Equipment

The components of premises and equipment at December 31 are as follows (in thousands):

	2023	2022
Building and Leasehold improvements	$ 243	$ 119
Furniture, fixtures, and equipment	3,277	3,030
Software	620	620
Construction in Process	456	-
	4,596	3,769
Less accumulated depreciation	(2,795)	(2,430)
Total	$ 1,801	$ 1,339

Depreciation expense was $439,000 and $460,000 for the years ended December 31, 2023 and 2022, respectively.

The Company sold the land and building of its headquarters in Camp Hill, PA in May 2022 and recognized as gain of $715,000.

6. Core Deposit Intangible Assets

The Company's core deposit intangible assets at December 31, 2023 and 2022 were as follows (in thousands):

	2023	2022
Gross carrying value	$ 1,910	$ 1,910
Accumulated amortization	(1,563)	(1,389)
Net carrying amount	$ 347	$ 521

Projected future amortization expense for the Company's core deposit intangible assets as of December 31, 2023 is (in thousands):

Year ending December 31:

	2024	$ 139
	2025	104
	2026	69
	2027	35
Total		$ 347

7. Deposits

In return for services provided by the Bank, member banks are required to maintain noninterest-bearing demand deposits at the Bank. In lieu of paying interest on these demand deposit accounts, the Bank provides an earnings credit to eligible member banks to reduce the overall expense to member banks for using the Bank's services. Due to the nature of the Bank's operations, it is not uncommon for the member banks demand deposit account balances to exceed $250,000.

Deposits were comprised of the following as of December 31:

	2023	2022
Noninterest-bearing demand	$ 231,100	$ 240,429
Money market accounts	152,960	52,862
Total demand and money market	384,060	293,291
Brokered deposits	50,999	-
Time deposits	125,572	127,105
Total Deposits	$ 560,631	$ 420,396

7. Deposits (Continued)

At December 31, 2023, the scheduled maturities of time deposits are as follows (in thousands):

Years ending December 31:		
2024	$	35,639
2025		64,727
2026		25,206
Total	$	125,572

Individual time deposit accounts with balances that exceed $250,000 totaled $2,746,000 and $3,238,000 at December 31, 2023 and 2022, respectively.

8. Federal Funds

Federal funds are reported on a gross basis. Federal funds sold are stated as assets and federal funds purchased are stated as liabilities. Federal funds purchased had interest rates ranging from 4.54 percent to 5.37 percent throughout the year ended December 31, 2023, and at December 31, 2023, the federal funds purchase rate was 5.37 percent, driven by the increases in the Federal Funds Target Rate experienced throughout 2023. Federal funds purchased had an interest rates ranging from 0.04 percent to 4.54 percent throughout the year ended December 31, 2022.

9. Borrowings

The Bank has a $274,571,000 line of credit available through the FRB secured by a blanket floating lien on all qualifying loans. At December 31, 2023 and 2022, the Bank had no balance outstanding with the FRB on this line of credit. At December 31, 2023 and 2022, the Bank also had $75,000,000 available under line of credit agreements with other financial institutions. There were no advances outstanding on these lines at December 31, 2023 and 2022.

In 2023, the Bank established a repurchase agreement with a financial institution to which municipal securities are pledgable to access borrowing if needed. As December 31, 2023, there were no advances on this line.

The Bank has borrowing agreements with the FHLB consisting of sixteen fixed-rate long-term advances. There are four amortizing advances with monthly principal and interest payments and twelve advances are non-amortizing advances with quarterly interest payments only. The Bank is permitted to borrow provided sufficient collateral is in place. Currently, collateral is provided by pledging government securities. At December 31, 2023, the Bank had pledged collateral of $147,582,000 to secure credit provided of $63,382,000. The maximum borrowing capacity at December 31, 2023, based on the current fair value of collateral pledged was $138,325,000.

A summary of the FHLB borrowings at December 31 is as follows (dollars in thousands):

9. Borrowings (Continued)

Description	Maturity Range From	Maturity Range To	Average Interest Rate	Rate Range From	Rate Range To		2023		2022
Fixed rate nonamortizing	04/23/24	12/14/27	2.55 %	0.81 %	4.44 %	$	59,000	$	79,000
Fixed rate amortizing	10/02/24	02/11/27	2.12	2.07	2.34		4,382		6,955
	Total					$	63,382	$	85,955

A summary of the FHLB borrowings as of December 31, 2023, is as follows (in thousands):

2024	$	6,155
2025		16,000
2026		8,000
2027		33,227
Thereafter		-
Total	$	63,382

10. Leases

The Bank enters into noncancellable lease arrangements for some of its offices, including its headquarters in Camp Hill, PA and additional office space in Glastonbury, CT. The lease arrangements contain clauses requiring increasing rental payments over the lease term, which are generally contractually stipulated. These lease arrangements provide the Bank with the option to renew the lease arrangement after the initial lease term. These options are included in determining the lease term used to establish the ROU assets and lease liabilities, in accordance with ASC 842, when it is reasonably certain the Bank will exercise its renewal option. The Bank's leases do not have a readily determinable implicit rate, the incremental borrowing rate is primarily used to determine the discount rate for purposes of measuring the ROU assets and lease liabilities. The Bank's lease arrangements do not contain any material residual value guarantees or material restrictive covenants. The following ROU and lease liabilities are reported within the Consolidated Statements of Condition as follows as of December 31:

Operating Leases:	**Balance Sheet Classification**		**2023**		**2022**
ROU assets	Other assets	$	2,222	$	1,741
Lease liabilities	Other liabilities		2,291		1,790

Supplemental balance sheet information related to leases was as follows for the year ended:

Weighted average remaining lease term	5.50 years
Weighted average discount rate	4.42%

10. Leases (Continued)

The following summarized the remaining scheduled future minimum lease payments for operating leases as of December 31, 2023:

2024	$	445
2025		459
2026		472
2027		487
2028		408
Thereafter		354
Total undiscounted cash flows		2,625
Discount on cash flows		(334)
Total lease liability	$	2,291

As of December 31, 2023, the Bank had not entered into any significant leases that have not yet commenced.

11. Income Taxes

Allocation of income tax expense from continuing operations is as follows for the years ended December 31 (in thousands):

	2023	2022
Current	$ 1,814	$ 1,294
Deferred	(366)	100
Total	$ 1,448	$ 1,394

The components of the federal deferred tax assets, included in other assets on the Consolidated Balance Sheet, at December 31 are as follows (in thousands):

	2023	2022
Deferred tax assets:		
Allowance for credit losses - loans	$ 2,231	$ 2,036
Employee benefit plans	1,591	1,461
Accured unfunded commitments	195	162
Organizational costs of holding company	19	20
Sellers representative gain	-	35
Unrealized losses on AFS	1,952	2,165
Lease liability	550	430
Other	328	37
Gross deferred tax assets	6,866	6,346
Deferred tax liabilities:		
Premises and equipment	351	61
Purchase accounting adjustments	72	127
Investment in subsidiary	64	49
Unrealized gain on derivative asset	80	213
ROU asset	533	418
Gross deferred tax liabilities	1,100	868
Net deferred tax assets	$ 5,766	$ 5,478

11. Income Taxes (Continued)

Realization of deferred tax assets is dependent upon the generation of future taxable income. A valuation allowance is recognized when it is considered more likely than not that some portion of the deferred tax assets will not be realized. In assessing the need for a valuation allowance, management considers the scheduled reversal of the deferred tax liabilities, the level of historical taxable income, and projected future taxable income over the periods in which the temporary differences comprising the deferred tax assets will be deductible. Based on its assessment, management determined that no valuation allowance is necessary.

Income tax expense reported differs from the amount computed by applying the federal income tax rate to income before taxes. A reconciliation of the differences by amount and percentage is as follows (in thousands).

	2023		2022	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Provision at statutory rate	$ 1,552	21.0 %	$ 1,359	21.0 %
Current state tax	168	2.3	157	2.4
Effect of a tax-exempt income	(77)	(1.0)	(95)	(1.5)
BOLI income	(173)	(2.3)	(154)	(2.4)
Other	(22)	(0.3)	127	2.0
Actual tax expense and effective rate	$ 1,448	19.6 %	$ 1,394	21.5 %

There is currently no liability for uncertain tax positions and no known unrecognized tax benefits. The Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the Consolidated Statement of Income.

12. Transactions with Executive Officers, Directors, and Principal Shareholders

The Bank has had, and may be expected to have in the future, transactions in the ordinary course of business with its directors, their immediate families, and their affiliated banks (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others.

As of December 31, 2023 there are two holding company lines of credit with related parties totaling $6,000,000, with $471,000 outstanding. As of December 31, 2022 there was one holding company line of credit with related parties totaling $5,000,000, with zero outstanding balance.

As of December 31, 2023 there are nine directors’ banks that hold $21,742,000 of deposits, consisting of noninterest demand and money market accounts at the Bank. As of December 31, 2022, there were eight directors’ banks that held $4,639,000 of noninterest bearing demand deposits at the Bank.

13. Commitments and Contingent Liabilities

Commitments

The Bank is a party to financial instruments with OBS risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Consolidated Balance Sheet.

The following financial instruments whose contract amounts represent credit risk were outstanding at December 31 (in thousands):

	2023	2022
Commitments to grant loans	$ 10,090	$ 6,785
Unfunded commitments under lines of credit and construction agreements	122,888	95,181
Standby letters of credit	2,855	2,888
Commercial and similar letters of credit	-	-
Total	$ 135,833	$ 104,854

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory, and equipment.

Stand-by letters of credit are conditional commitments by the Bank to guarantee the performance of a customer to a third party. The majority of these stand-by letters of credit expire within 12 months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Contingent Liabilities

The Company is subject to legal proceedings, claims, and litigation arising in the ordinary course of business. The Company defends itself vigorously against any such claims. Although the outcome of these matters is currently not determinable, management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

Through the sale of BITS, a representation and warranty reserve was established in the amount of $175,000, which covers all the sellers involved in the transaction. The Bank was holding these funds on behalf of all the sellers, with its portion of the funds approximately 84 percent, if the reserve is not used for future expenses. The funds were set to release 18 months after the close of the sale, which occurred in March 2023. The cash expected to be received was considered restricted in 2022 and included in Note 2 "Restrictions on Cash and Due from Banks".

14. Employee Benefit Plans

The Company maintains a 401(k) savings plan, in which employees may elect to defer pre-tax salary dollars. Employees may make contributions to the plan in the month following their third month of service and are eligible for employer contributions in the month following their twelfth month of service. The Company matches employee contributions at the rate of 100.0 percent for the first 4.0 percent of employee contributions and 50.0 percent on the next 4.0 percent. The Company may also contribute a discretionary amount up to 3.0 percent of an employee's annual plan salary if it is approved by the Board of Directors. There were no changes to the 401(k) plan in 2023 and 2022. The Company had a total expense of $459,000 and $473,000 for the years ended December 31, 2023 and 2022, respectively.

The Company maintains an arrangement for supplemental compensation (the Supplemental Plan) for certain of its executive officers (Executives). The Supplemental Plan provides that the Company and the Executives share in the rights to the death benefits of bank-owned split-dollar life insurance policies (BOLI Policies). The amount of the BOLI Policies has been calculated so that the projected increases in their cash surrender value will partially offset the Company's expense related to the Supplemental Plan. The Supplemental Plan is designed to provide certain Executives, upon attaining the normal retirement age, as defined within the Supplemental Plan, with projected annual distributions.

The amount of the benefit obligation is increased or decreased each year based on the service cost, interest cost, and benefits paid by the Supplemental Plan. The expense associated with the Supplemental Plan was $476,000 and $603,000 for the years ended December 31, 2023 and 2022, respectively. The benefit obligation associated with the Supplemental Plan was $5,270,000 and $5,147,000 at December 31, 2023 and 2022, respectively, and is included in other liabilities in the Consolidated Balance Sheet.

The Company has defined contribution plans for Executives. The expense associated with these plans $238,000 and $117,000 for the years ended December 31, 2023 and 2022, respectively.

15. Regulatory Matters

Effective January 1, 2015, the Company and the Bank became subject to the final rules issued by the Federal Reserve and the OCC and subsequently adopted by the FDIC, establishing a new comprehensive capital frame work for banking organizations. The new capital framework substantially revised the risk-based capital requirements in comparison to the prior rules, which were in effect through December 31, 2014. The Basel III Capital Rules introduced a new capital measure, "Common Equity Tier l"; increased the minimum requirements for Tier 1 Capital ratio as well as the minimum to be considered well capitalized under prompt corrective action; and introduce the "capital conservation buffer", which was phased in over a four-year period. Failure to meet minimum capital requirements can initiate certain mandatory-and possibly additional discretionary-actions by regulators that, if undertaken, could have a direct material effect on the Company's 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 OBS items as calculated under U.S. GAAP, regulatory reporting requirements, and regulatory capital standards. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulatory capital standards to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets, common equity Tier 1 capital to total risk-weighted assets, and Tier 1 capital to average assets. Management believes, as of December 31, 2023, that the Bank meets all capital adequacy requirements, including the capital conservation buffer, to which it is subject.

As of December 31, 2023 and 2022, the Bank is categorized as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based capital, Tier 1 risk-based capital, common equity Tier 1 risk-based capital, and Tier 1 leverage ratios of at least 10 percent, 8 percent, 6.5 percent, and 5 percent, respectively.

The consolidated asset limit on small bank holding companies is $3 billion, and a company with assets under that limit is not subject to the consolidated capital rules.

15. Regulatory Matters (Continued)

The Bank's actual capital amounts and ratios at December 31 are presented below (dollars in thousands):

	2023		2022	
	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)				
Actual	$ 142,722	21.82 %	$ 135,207	24.88 %
For capital adequacy purposes	52,338	8.00	43,473	8.00
To be well capitalized	65,423	10.00	54,341	10.00
Tier 1 capital (to risk-weighted assets)				
Actual	$ 133,996	20.48 %	$ 127,951	23.55 %
For capital adequacy purposes	39,254	6.00	32,605	6.00
To be well capitalized	52,338	8.00	43,473	8.00
Common equity Tier 1 capital (to risk-weighted assets)				
Actual	$ 133,996	20.48 %	$ 127,951	23.55 %
For capital adequacy purposes	29,440	4.50	24,454	4.50
To be well capitalized	42,525	6.50	35,322	6.50
Tier 1 capital (to average assets)				
Actual	$ 133,996	15.12 %	$ 127,951	16.88 %
For capital adequacy purposes	35,457	4.00	31,001	4.00
To be well capitalized	44,322	5.00	38,751	5.00

The Bank is subject to certain restrictions on the amount of dividends that it may declare due to regulatory considerations, including maintaining the capital ratios referenced above.

As of December 31, 2022, the Bank was subject to regulatory consent orders issued during 2020 with the Pennsylvania Department of Banking and Securities and is under a written agreement with the FRB of Philadelphia that identified deficiencies in the Bank's centralized Bank Secrecy Act ("BSA") and anti-money laundering ("AML") compliance program. In addition to requiring strengthening and enhancement of the BSA/AML Compliance Program, while the consent order remain in effect, the Bank is subject to certain restrictions on expansion activities of the Bank. Further, any failure to comply with the requirements of any of the consent orders involving the Bank could result in further enforcement actions, the imposition of material restrictions on the activities of the Company, or the assessment of fines or penalties. Effective March 9, 2023, the FRB of Governors announced the termination of all the Bank's regulatory orders.

16. Fair Value Measurements

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Bank could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year-ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

Fair value is defined as the price that would be received to sell the asset or transfer the liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. Additional guidance is provided in determining fair value when the volume and level of activity for the asset or liability has significantly decreased, including guidance on identifying circumstances when a transaction may not be considered orderly.

A reporting entity should determine whether there has been a significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity for the asset or liability. When the reporting entity concludes there has been a significant decrease in the volume and level of activity for the asset or liability, further analysis of the information from that market is needed and significant adjustments to the related prices may be necessary to estimate fair value.

A reporting entity must determine if the decrease in the volume and level of activity for the asset or liability, suggest the transactions may not be orderly. In those situations, the entity must evaluate the weight of the evidence to determine whether the transaction is orderly, considering the circumstances that indicate that a transaction is not orderly. A transaction price that is not associated with an orderly transaction is given little, if any, weight when estimating fair value.

The guidance establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level I measurements) and the lowest priority to unobservable inputs (Level III measurements). The three levels of the fair value hierarchy are as follows:

Level I: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level II: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level III: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

16. Fair Value Measurements (Continued)

For financial assets and liabilities measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31 are as follows (in thousands):

	2023			
	Level I	Level II	Level III	Total
Assets measured at fair value on a recurring basis:				
Mortgage-backed securities:				
U.S. government-sponsored enterprises residential	$ -	$ 138,885	$ -	$ 138,885
U.S. agency securities	-	12,819	-	12,819
Corporate securities	-	11,342	-	11,342
Derivative instrument	-	332	-	332
Total	$ -	$ 163,378	$ -	$ 163,378

	2022			
	Level I	Level II	Level III	Total
Assets measured at fair value on a recurring basis:				
Mortgage-backed securities:				
U.S. government-sponsored enterprises residential	$ -	$ 140,633	$ -	$ 140,633
U.S. agency securities	-	5,769	-	5,769
Corporate securities	-	11,879	-	11,879
Derivative instrument	-	889	-	889
Total	$ -	$ 159,170	$ -	$ 159,170

16. Fair Value Measurements (Continued)

For financial assets measured at fair value on a nonrecurring basis, the Bank reports individually evaluated loans as Level III financial assets. Bank did not have any loans that met this criteria for the years ended December 31, 2023 and December 31, 2022.

The following information should not be interpreted as an estimate of the fair value of the entire Bank since a fair value calculation is only provided for a limited portion of the Bank's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Bank's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Bank's financial instruments measured at fair value at December 31, 2023 and 2022.

Securities

The fair value of securities AFS (carried at fair value) and HTM are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level I), or matrix pricing (Level II), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark-quoted prices.

Individually Evaluated

This category consists of loans that were individually evaluated for credit loss, net of related ACL, and have been classified as Level 3 assets. All of these loans are considered collateral-dependent; therefore, all of the Company's individually assessed loans, whether reporting a specific allowance allocation or not, are considered collateral-dependent. At December 31, 2023, there were no loans that met this definition.

Prior to CECL, impaired loans (generally carried at fair value) were those that are accounted for under ASC 310*,* in which the Bank has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. The valuation technique used for impaired loans is through independent appraisals of the underlying collateral, which generally include various Level III inputs, which are not identifiable. Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal. These assets were included as Level III fair values, based upon the lowest level of input that was significant to the fair value measurements. At December 31, 2022, no impaired loans met the definition of Level III.

Derivative Instruments

Fair value of the Bank's derivative instrument (carried at fair value), consisting of an interest rate swap, is based on the amount required to settle the contract in the market using the difference between the present value of the cash flows of the fixed payments made by the Bank and the present value of the variable payments made by the counterparty. It also factors in the amount of collateral the Bank is required to hold with the counterparty.

17. Accumulated Other Comprehensive Income (Loss)

The following table presents the changes in accumulated other comprehensive income (loss) by component net of tax for years ended December 31, 2023 and 2022 (in thousands):

	Unrealized Gains (Losses) on Available-for-Sale Securities	Unrealized Gains (Losses) on Derivative Instrument	Total
Balance as of December 31, 2022	$ (6,855)	$ 675	$ (6,180)
Amounts relassified from accumulated comprehensive loss	-	(531)	(531)
Other comprehensive income	674	108	782
Balance as of December 31, 2023	$ (6,181)	$ 252	$ (5,929)
Balance as of December 31, 2021	$ 541	$ (269)	$ 272
Amounts relassified from accumulated comprehensive loss	-	(30)	(30)
Other comprehensive income/(loss)	(7,396)	974	(6,422)
Balance as of December 31, 2022	$ (6,855)	$ 675	$ (6,180)

During the year ended December 31, 2023, $697,000, net of related income tax expense of $166,000, was reclassified from other comprehensive income (loss) into interest expense, resulting in a reduction to interest expense. During the year ended December 31, 2022, $38,000, net of related income tax expense of $8,000, was reclassified from other comprehensive income (loss) into interest expense, resulting in a reduction to interest expense.

18. Derivative and Hedging Activity

The Company's objectives in using interest rate derivatives are to add stability to interest income and expense and to manage its exposure to interest rate movements. To accomplish this objective, the Bank has entered into an interest rate swap as part of its interest rate risk management strategy. This interest rate swap is designated as a cash flow hedge and involves the receipt of a variable rate amount from a counterparty in exchange for the Bank making fixed payments. As of December 31, 2023 and 2022, the Company had one interest rate swap with a notional amount of $20,000,000 associated with the Bank's cash outflows associated with overnight Federal Funds Purchased.

The swap contract at December 31, 2023 and 2022 is summarized as follows (in thousands):

Effective Date	Termination Date	Fixed Rate	Variable Rate	Notional Amount	Fair Value As of December 31, 2023	Fair Value As of December 31, 2022
6/27/19	6/27/24	1.57%	Fed Funds Effective Rate	$ 20,000	$ 332	$ 889

An asset of $332,000 was included in the Consolidated Balance Sheet as of December 31, 2023 and an unrealized gain of $252,000 net of $80,000 deferred tax was included in other comprehensive income (loss) as of December 31, 2023. An asset of $889,000 was included in the Consolidated Balance Sheet as of December 31, 2022 and an unrealized gain of $675,000 net of $213,000 deferred tax was included in other comprehensive income (loss) as of December 31, 2022.

The Bank has agreements with its derivative counterparty that contain a provision where if the Bank defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Bank could also be declared in default on its derivative obligation. The Bank also has an agreement with its derivative counterparty that contains a provision where if the Bank fails to maintain its status as a well / adequately capitalized institution, then the counterparty could terminate the derivative position and the Bank would be required to settle its obligation under the agreement. Because the interest rate swap was in an asset position as of December 31, 2023 and 2022, the Bank was in receipt of $630,000 and $880,000 of collateral from the counterparty, respectively. If the Bank had breached any of these provisions at December 31, 2023, it could have been required to settle its obligation under the agreements at the termination value.

19. Revenue Recognition

The Company accounts for its applicable revenue in accordance with ASC 606 – Revenue from Contracts with Customers. The core principle of Topic 606 is that an entity recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. ASC 606 requires entities to exercise judgment when considering the terms of a contract. ASC 606 applies to all contracts with customers to provide goods or services in the ordinary course of business, except for contracts that are specifically excluded from its scope. ASC 606 does not apply to revenue associated with interest income on financial instruments, including loans and securities. Additionally, certain noninterest income streams, such as income from bank-owned life insurance and gains and losses on sales of debt and equity securities, are out of the scope of ASC 606.

The main types of non-interest income within the scope of the standard are:

<u>Analysis Service Charges</u>

Analysis service charges include aggregated services provided to customer financial institutions under a master services agreement, and include core services such as vault cash services, safekeeping of securities, international services, settlement and transaction fees, document destruction and maintenance fees. A portion of these fees is offset by earnings credits based on the customer's average demand deposit balance for the month at a predetermined earnings credit rate. Revenue for analysis service charges is recognized in the month after the services take place. Net service charges are deducted from the customer's demand deposit account. If no demand deposit account exists, the customer is invoiced.

<u>Agency Federal Funds and Agency Excess Balance Account Commissions</u>

The Bank acts as agent for financial institutions in selling excess funds in the unsecured overnight Federal Funds market. The customer is paid an interest rate determined by the Bank based on current market conditions on a transaction by transaction basis. The Bank charges a fee which does not exceed $.36/$100,000 and is netted out of the daily interest proceeds. The Bank also acts as agent for financial institutions in investing excess balance accounts at the FRB. The interest rate is determined by the FRB. The agent fee for investing excess balance account funds does not exceed $.10/$100,000 and is netted out of the daily interest proceeds.

<u>International Wire Commissions</u>

The Bank, through it's subsidiary, earns revenue from international wire services from commissions and transactions fees. The commission revenues vary by transaction based upon such factors as channel and the principal amount sent. The Bank's performance obligation for fees and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately. The transaction fee revenue is generated from fees collected from its financial institution customers when a foreign wire is initiated. The Bank earns transaction fee revenue on a per item basis. Fees are collected at the time of transaction and the Bank's performance obligation is satisfied, and related revenue recognized, when the services are rendered or upon completion.

<u>Advisory Services</u>

The Company earns income from credit review and consulting services from its contracts with financial institutions. These fees are earned on a set fee basis or an hourly basis and recognized at the time of service. The Company also earns revenue from compliance services, including webinars, education and consulting services. Revenue from these services is based on a set fee schedule and is either recognized at the time of service or monthly as a subscription service.

20. Subsequent Events

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2023, for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through March 18, 2024, the date these financial statements were available to be issued.