STRENGTH
in motion

1ST SUMMIT BANCORP

2022 ANNUAL REPORT

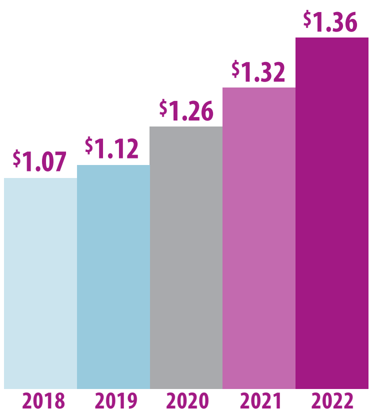
FINANCIAL *highlights*

1st Summit Bancorp operates through the Company's subsidiaries 1st Summit Bank, 1st Summit Trust and Investment Services, and Value Finance. There are 25 offices located across six counties in Pennsylvania.

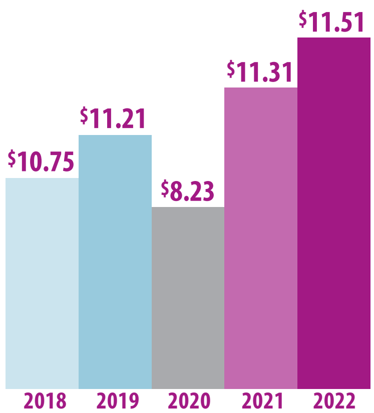
For The Year Ended December 31	2022	2021	2020	% Change Over Prior Year
Net Income	$ 11,513	$ 11,305	$ 8,230	+ 2%
Cash Dividends	3,745	3,634	3,535	+ 3%
Per Share*				
Net Income	$ 5.26	$ 5.16	$ 3.75	+ 2%
Cash Dividends	1.71	1.66	1.61	+ 3%
Book Value	46.26	58.97	57.07	- 22%
Market Value	72.00	68.50	66.25	+ 5%
Financial Position				
Assets	$1,361,775	$1,324,223	$1,257,438	+ 3%
Deposits	1,160,735	1,137,788	1,086,815	+ 2%
Net Loans	726,537	672,218	643,550	+ 8%
Investment Securities	559,959	590,749	558,030	- 5%
Trust and Investment Assets	486,037	446,842	389,562	+ 9%
Shareholders' Equity	101,285	129,138	125,296	- 22%
Allowance for Loan Losses	7,498	7,444	6,395	+ 1%
Selected Financial Ratios				
Return on Average Assets	0.84%	0.87%	0.69%	—
Return on Average Equity	10.90%	8.89%	6.87%	—
Equity Capital to Total Assets	7.44%	9.75%	9.96%	—
Tier 1 Capital to Total Assets	10.12%	9.81%	9.76%	—
Allowance for Loan Losses to Loans	1.02%	1.10%	0.98%	—
Non-performing Assets to Total Assets	0.34%	0.28%	0.21%	—

(In thousands, except per share data)

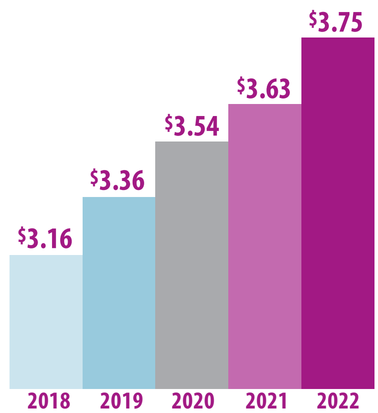
**Adjusted to reflect 100% stock dividend issued in April 2022*



TOTAL *assets*
(in billions)



NET *income*
(in millions)



CASH DIVIDENDS *paid*
(in millions)

TO OUR *shareholders*

J. ERIC RENNER
President & CEO

1ST SUMMIT lost an iconic leader with the passing of Elmer Laslo in early January. Throughout the 40+ years of Elmer's leadership, the Bank saw much growth and expansion; from three offices and $17 million in assets to seventeen offices and $1.36 billion in assets today. Elmer oversaw many changes over the years, and we are forever grateful for his leadership and the legacy he built. It's humbling to learn of the many great things Elmer has accomplished, both at the Bank and in our communities. We are dedicated to continuing this community-first, relationship banking approach. We have a strong team in place here at 1ST SUMMIT, and we will continue to grow this company successfully and profitably, well into the future.

2022 marked another year of growth and profitability for the Bank. 1ST SUMMIT BANCORP reported a record level of net income in 2022, totaling $11.513 million, compared to $11.305 million in 2021. Driving this increased level of earnings was an improvement in the company's net interest income, lower provision for loan losses, and higher non-interest income. Additionally, we experienced continued growth in the Bank's loan portfolio which increased $55 million. Excluding the remaining balances of Paycheck Protection Program loans that were forgiven during the year, loans grew 10%. Deposit balances also continued an upward trend, growing 2% for the year. As a result of the company's strong earnings and capital position, the Board of Directors increased the cash dividend by 3% to $1.71 per share. This action represents the 46th consecutive year of dividend increases. Total shareholder return (dividend yield plus stock price appreciation) for the common stock was 7.5% for the year.

These financial successes of 2022 all took place with much happening behind the scenes to help position the bank for continued growth well into the future. We were proud to add Mr. Joseph Kelly, as Senior Vice President and Chief Credit Officer in April. As our company grows, it is very important that we make continued strong progress in loan growth. However, we must do that safely with an eye towards maintaining good credit quality. Joe has brought an abundance of experience in managing commercial banking relationships, credit policy, operations, and leadership to the Bank; and in just a short period of time, Joe has proven to be a critical member of the leadership team.

After many months of development, the Bank was excited to launch a new merchant services program that provides innovative and efficient ways for businesses to securely process customer payments. This program is a major initiative for the Bank, and we believe we will be able to assist hundreds of businesses by saving them money and offering top-of-the-line customer service.

The Bank laid the groundwork to open its 18th location by receiving regulatory approval to open a new Community Office in Greensburg, Westmoreland County. We are excited for this new location along busy Route 30, supporting the communities between our office in Latrobe and our Greensburg Walmart location. We believe that this is a great next step for 1ST SUMMIT BANK to make a dramatic impact, as this location will help us provide extraordinary service to current customers and offer personal, business, and wealth opportunities to many new customers. You can expect a grand opening in late 2023.

2022 was no different when it came to the accolades given the Bank and its professionals for the continued commitment to the communities we serve. 1ST SUMMIT BANK was named a "Top 100 Organization" by *Pennsylvania Business Central* and also a "Best Place to Work in PA" in the *Central Penn Business Journal*. We have been named a Best Place to Work in Pennsylvania a record 21 times, a coveted accomplishment for everyone in the organization. *American Banker* magazine also recognized the Bank as a "Best Bank to Work For," and we received numerous local recognitions, of which we are very proud.

As we look toward 2023, the Bank will continue to develop new relationships with businesses – both large and small – by providing the support they need to grow and succeed for years to come. We will continue to find ways to meet the evolving needs of our customers in a timely, efficient, and friendly manner. 1ST SUMMIT BANCORP truly cares about our customers, communities, and employees. We are on the cusp of celebrating 100 years of service in 2024, and we fully expect to be a leader in our region for 100 more.

JOHN W. MCCALL
Chairman of the Board

J. ERIC RENNER
President and CEO

a legacy of STRENGTH

ELMER C. LASLO
1948 to 2023

> *"A champion is one who is remembered. A legend is one who is never forgotten."*
>
> *Matshona Dhliwayo*

In early January, 1ST SUMMIT BANK lost a titan for the banking industry with the passing of Elmer C. Laslo. Elmer served as CEO & President of the Bank for 43 years before retiring in 2020, and he still led 1ST SUMMIT BANCORP as President & CEO at the time of his passing.

Elmer Laslo joined 1ST SUMMIT BANK, formerly Salix State Bank, in 1977 as Chief Executive Officer. Named President in addition to his role as CEO in 1984, he oversaw the Bank as it grew from three small branches (Sidman, Salix, and Beaverdale) to 17 community offices across five counties. The Bank has grown from $17 million in total assets to over $1.36 billion today.

In 1980, Salix State Bank moved the majority of their operations and executive offices to its new main office in Richland. This was the first of many expansions that Elmer oversaw. In 1982, the name of the Bank was officially changed to SUMMIT BANK, and a new office was opened in Downtown Johnstown.

Through the years, the Bank continued to grow under Elmer's leadership. In the '80s, SUMMIT BANK grew to seven total offices after the completions of the Portage and Westmont Offices. In 1990, SUMMIT BANCORP, Inc. was established and exceeded $100 million in assets. In 1996, SUMMIT BANCORP, Inc. acquired Cambria Thrift Consumer Discount Company, which already had three locations (and a fourth added in 1998).

1999 was an important year for the Bank, as the name officially changed to 1ST SUMMIT BANK and assets grew to over $200 million. Celebrating its 75th anniversary, 1ST SUMMIT BANK expanded outside of Cambria County with the opening of offices in Somerset and Indiana.

Expansions continued through the 2000s under Elmer's watch, with offices opening in multiple Walmart locations and finally into Westmoreland County. Ultimately, the Bank grew from a small operation that oversaw three offices in the Forest Hills area into a true difference maker in Western Pennsylvania. However, the small-town culture never disappeared. Elmer created a true community banking approach with the Bank's customers. This culture of relationship banking is engrained in the fabric of the company, committed to by the Bank's employees, and appreciated by customers.

The organization has received numerous awards and recognition for its financial performance, community involvement, customer service, and treatment of its professionals through the years, and Elmer was essential to each one. From being named one of the "100 Best Places to Work in Pennsylvania" a record 21 times and a "Best Bank to Work For" in the country, to being named "Simply the Best Bank" year over year by *The Tribune-Democrat*, Elmer's leadership shined bright. Through his 45 years of service at the Bank, Elmer was a great leader, community advocate, mentor, and friend to many. He will be missed dearly.

Now, it is the responsibility of the Bank's Board of Directors, Senior Leadership Team, and all other professionals to continue to grow Elmer's legacy by doing the same thing that he did for years – putting customers first, caring about employees, and investing in the long-term health of the community. 1ST SUMMIT BANK will continue to be a true community bank, leveraging what Elmer has built as a strong foundation. His legacy will lead the way of 1ST SUMMIT BANK into the future.

Our Leadership Team (back row, left to right) Jocelyn Sauter, Mike Paulman, Eric Renner, Carol Myers, Dom Cagliuso; (front row, left to right) Joe Kelly, Karen Mento, Tim Smith, Polly Previte

OUR SENIOR *Leadership Team*

From Retail, IT, and Wealth Management to Business Banking, Finance, Credit, and Human and Strategic Resources, our team of Senior Leaders has it covered. With decades of experience, this team is poised to build on the legacy of the past 98 years, continuing to grow and support our stakeholders well into the future.

J. Eric Renner
President
Chief Executive Officer

Carol A. Myers
Executive Vice President
Senior Chief Financial Officer

Timothy W. Smith
Senior Vice President
Chief Information Officer

Polly A. Previte
Senior Vice President
Head of Retail Banking

Karen M. Mento
Senior Vice President
Chief Administrative Officer

Michael J. Paulman
Senior Vice President
Chief Lending Officer

Joseph P. Kelly, Jr.
Senior Vice President
Chief Credit Officer

Domenic M. Cagliuso
Senior Vice President
Senior Wealth Management Division Head

Jocelyn A. Sauter
Senior Vice President
Chief Human Resources Officer

STRENGTH

Joseph P. Kelly, Jr.
Senior Vice President
& Chief Credit Officer

new chief credit officer

In April 2022, Joseph Kelly joined our 1st Summit Leadership Team as Senior Vice President and Chief Credit Officer. In his role, he oversees credit administration, credit policy, consumer and mortgage underwriting, collections, and special assets teams. Joe brings 14 years of valuable experience in commercial and consumer lending relationships, loan portfolio management, credit policy, and operations. Joe is already heavily engaged in educating and refining our knowledge and expertise around credit and protecting the Bank, while becoming acclimated to our many customer relationships and the Community Bank lending capabilities that make 1st Summit Bank so special.

roots run deep

2022 marks 98 years that 1st Summit Bank has been supporting our communities. Throughout this time, we've grown from a single bank office to 17 Community Offices and over $1.3 billion in assets. So much has changed in banking over that time and continues to change today. We are constantly building on our strong foundation.

Salix State Bank was granted a charter in May 1924.

shareholder return — stock split

1st Summit Bank stock has always been a symbol of strength for our shareholders. In fact, the market value of 1st Summit Bancorp common stock was $72 per share on December 31, 2022, up $3.50 for the year, after adjusting for the stock dividend paid in April 2022. The total return on the stock for the year, including the price appreciation and dividend, was 7.5%.

In addition, 1st Summit Bancorp completed a two-for-one stock split which was paid on April 19, 2022, in the form of a 100% stock dividend to shareholders of record as of April 18, 2022. This doubled the number of shares each shareholder owns. For this reason, all per share information is adjusted for comparability. In June, the quarterly cash dividend was raised to $0.43 per share and is $1.71 per share for 2022, compared to $1.66 per share in 2021. Due to the stock split, each dividend increase will have twice the impact on shareholders.

investing in our communities

1st Summit is continually giving back to the community, helping to support the many organizations and nonprofits that make a difference in all of our markets. In 2022, we contributed almost $413,000 in donations supporting over 347 nonprofit organizations and independent causes, all working to make our communities a better place to live and work.

expanding in our markets

In May 2022, the Bank executed a lease for a new Branch Office location on Route 30 in Greensburg. The team began plans to review and renovate a beautiful office with tremendous visibility and opportunity right in front of the Eastgate Shopping Center. This strategic location sits just between our Latrobe Office and our Greensburg Walmart Office along a major thoroughfare in this expanding market. We are hard at work designing and planning for this beautiful new location to bring real community banking to the people of Greensburg. At this full-service office, our customers can access drive-through capabilities and have meaningful conversations with our professionals about any financial challenge or opportunity to help them reach their financial goals and dreams. We are genuinely excited for the opportunity! We expect to gain possession of the location in early March 2023 and are targeting an October 2023 Grand Opening.

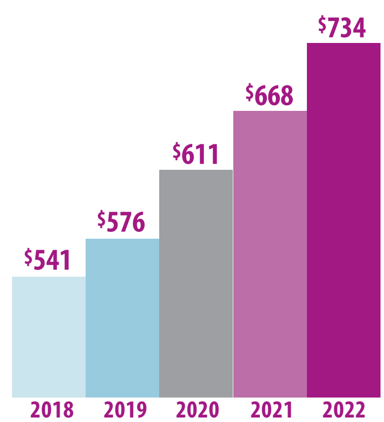
bright future, brighter offices

In 2022, all of our Community Offices were given a refresh—brightening workstations, enhancing digital messaging, and creating a consistent look and feel throughout the network. Two offices, in particular, are receiving much needed renovations. Our newly-renovated Portage Office now offers more private consultative space to meet with customers, a clean branded look, digital marketing and messaging capabilities, as well as brightened workspaces. Our Cresson Office refresh will be completed in the first quarter of 2023.

Our Portage Office underwent a renovation in 2022, and a similar revamp of the Cresson Office will be completed in early 2023.

loans —— growing communities and assets

Loans are the backbone of any financial institution, creating interest income and asset growth. Funding both large and small businesses helps our communities to grow and prosper through manufacturing, jobs, and stability. For the last several years, loan growth has been a focused commitment of our organization. In fact, in the last three years, loans have grown by 10%, 9%, and 6%, respectively (excluding PPP Loans). Total loan growth since 2018 was 36% or $192.6 million for our organization, this in a time where interest rates were rising and fewer companies were investing in their businesses. Loan growth will continue to be a significant focus for our Bank in 2023 and beyond, building more stability in our balance sheet and in our communities.



FIVE YEAR
loan growth
(in millions - excluding PPP)

STRENGTH

1ST SUMMIT BANK
Experience the Difference

Our Mission

To be the premier provider of lifelong mutually rewarding Relationship Banking experiences and solutions in the communities we serve.

Our Vision

To make a meaningful difference in our communities as the Company of Choice for customers, employees, and shareholders through a shared sense of mission.

Our Core Values

Teamwork
We respect and value each other, operate with humility, and share in the rewards for meeting the needs of our stakeholders.

Caring
We have a passion to educate and guide our customers to financial wellness through the appropriate solutions.

Integrity
We operate from an open communication style that fosters honesty, trust, and commitment.

Accountability
We are responsible for our performance, taking job ownership and committing to volunteerism in our communities.

Positive Attitude
We are enthusiastic, energetic, and maintain positive attitudes.

Excellence
We are committed to be the best we can be and see ourselves as ambassadors of the company—maintaining the highest degree of professionalism.

growing wealth management

In March 2022, Angela Moffat joined 1ST SUMMIT as a Senior Wealth Management Officer, covering Westmoreland, Indiana, and Somerset counties. Angela has over 13 years of experience as a financial advisor, holding her Series 6, 7, 63, and 66, as well as Life, Accident, and Health Insurance licenses. She provides expert guidance and innovative solutions to both individuals and businesses. Angela's commitment to serve our customers and communities is backed not only by the 10 years she served on the Pennsylvania Army National Guard, but also through her continued involvement with the board of directors of the Westmoreland Intermediate Unit Foundation, which provides supplemental support to students, teachers, and educational programs throughout Westmoreland County. We're excited to have Angela on our team and know she is making a considerable impact in our communities.

Angela C. Moffat
Assistant Vice President
& Senior Wealth
Management Officer

payment processing solutions for merchants

The Bank launched a new solution partnering with FiTech by Deluxe, offering local establishments a way to save money while accessing state-of-the-art payment processing solutions for their customers. This partnership rolled out in July, and a dedicated Services Representative has taken the reins and responsibility for working with our Business and Office Relationship management team to reach local business and grow this revenue-producing business for our Bank.

Additionally, new business deposit, consumer deposit, and cash management products are planned as a major strategic initiative in 2023 and 2024.

investing in technology

The Bank invested over $700 thousand in new technology in 2022 to improve the security of customer information and streamline processes. To achieve these improvements, we implemented items such as ID scanners and upgraded computer technology to improve network security and disaster recovery capabilities.

A new Information Technology Officer was hired in late 2021, and has worked throughout 2022 to provide crucial Systems Analysis, Information Security, and Core System Specialization.

Results of these investments include:

- Enhanced experiences for our customers through our branch network and digital banking channels.
- Heightened focus on cybersecurity oversight and fraud detection to protect customers from bad actors.
- Improved internal systems so our professionals can serve customers more efficiently, and provide sound financial advice and direction through advanced analytics.

1st Summit CAREs

The Bank is committed to continuously enhancing our customer experience and partnering with our customers throughout their lives as their goals, dreams, and plans evolve. Our focus on relationship building represents our commitment to providing a personalized approach to discovering financial solutions to meet customers' needs and wants.

1ST SUMMIT CAREs describes our approach to every interaction by taking the opportunity to engage our customers in Financial Wellness conversations. Throughout 2022, workshops were conducted to enable and empower our retail professionals to uncover customers' day-to-day banking, savings, investing, and borrowing needs. We will continue to develop our expertise and expand this approach into our business interactions throughout 2023.

1ST SUMMIT CAREs (Connect, Ask, Recommend and Expand)

strength in motion

1ST SUMMIT has been serving our communities for over 98 years. During that time, we have truly become part of these communities. This was evidenced by how the loss of Elmer Laslo affected so many people in so many organizations. These people worked with the Bank and built their businesses and organizations under Elmer's guidance.

That cornerstone of strength is the foundation on which 1ST SUMMIT will continue to build. We will put new technology and expertise in motion to grow our Bank, to continue to support and grow our communities, and to expand in our markets for many years to come. In this volatile economy, interest rates are rising faster than ever before. And there will be no shortage of challenges. However, by continuing to focus on the core values and strengths that got us where we are today, we will grow and prosper for many years to come.

BOARD
of directors

John W. McCall
Chairman
1ST SUMMIT BANCORP &
1ST SUMMIT BANK
McCall Motors, Inc.

J. Eric Renner
President & CEO
1ST SUMMIT BANCORP
President & CEO
1ST SUMMIT BANK

Robert P. Gardill, II
General American Resources, Inc.

Rex W. McQuaide, Esq.
MCS Logistics, Inc.
Challenge Warehousing, Inc.
Centerport, Inc.

Edward J. Sheehan, Jr.
Concurrent Technologies
Corporation

Michael E. Ondesko, Jr.
Dunlo Transfer Co., Inc.
Dunlo Realty, Inc.

Jacqueline M. Martella
Martella's Pharmacies
Boswell Prescription/Boswell
Pharmacy Services, LLC

Jennifer H. Lunden, Esq.*
Hergenroeder Rega Ewing
& Kennedy, LLC

**Serves on 1ST SUMMIT BANK board only.*

1ST SUMMIT Board of Directors *(back row, left to right) Bob Gardill II, Ed Sheehan; (front row, left to right) Rex McQuaide, Jennifer Lunden, John W. McCall, Jackie Martella, Eric Renner, Mike Ondesko*

DIRECTORS EMERITI

Barry M. Alberter
Dominic A. Bellvia
Robert P. Gardill

1ST SUMMIT BANCORP
operating officers

J. Eric Renner
President & Chief Executive Officer

Carol A. Myers
Executive Vice President & Treasurer

Michael J. Paulman
Senior Vice President

Timothy W. Smith
Senior Vice President & Secretary

Polly A. Previte
Senior Vice President

1ST SUMMIT BANK
advisory boards

NORTHERN AREA

George E. Letcher, Jr., CPA
Professor Emeritus
University of Pittsburgh at Johnstown

Anthony F. Pacifico
A & M Pacific Associates
Pacific Hospitality

Paul J. Calandra
Cresson Steel/Jennmar Corp.

Jeffrey R. Holtz, Broker
Holtz and Associates Real Estate, LLC

Marie E. Polinsky
Choices People Supporting
People, Inc. (retired)

Michael J. Bellvia
Pro Disposal, Inc.
Triple B Trucking, LLC
McBell, LLC
Mainline Equipment Rentals
Double Bell, LLC

SOUTHERN AREA

Charles F. Erickson, Jr.
Allegheny Logistics Center

Leah Spangler, Ed.D.
The Learning Lamp &
Ignite Education Solutions

F. Nicholas Jacobs
Senior Management
Resources, LLC

Mark J. Duray
Citizens' Cemetery Association

Mark R. Tercek
LCT Energy

P.J. McGowan
Precious Metals & Diamond Co.
Beauty Lawn
Eco Safe Sanitizing

WESTERN AREA

Joseph R. Green, Esquire
Attorney at Law

Stephen W. Osborne, Ph.D.
Professor of Management
Indiana University of Pennsylvania

Eric E. Bononi, Esquire, CPA
Bononi and Company, PC

David S. Gehlman
Business Owner (retired)

Douglas R. McIlwain
McIlwain Charters

Steven L. Remaley, CPA
Roy & Associates, PC

VALUE FINANCE
officers & directors

OFFICERS

J. Eric Renner
Chairman, Chief Executive Officer and President

Connie B. Hobbs
Executive Vice President, Chief Operating Officer
and Corporate Secretary

Carol A. Myers
Executive Vice President and Treasurer

Michael J. Paulman
Senior Vice President

DIRECTORS

J. Eric Renner

John W. McCall

Robert P. Gardill, II

Rex W. McQuaide

Edward J. Sheehan, Jr.

Michael E. Ondesko, Jr.

Jacqueline M. Martella

Jennifer H. Lunden

1ST SUMMIT BANK
operating officers

J. Eric Renner
President & Chief Executive Officer

Carol A. Myers
Executive Vice President,
Treasurer & Sr. Chief Financial Officer

Timothy W. Smith
Sr. Vice President, Secretary &
Chief Information Officer

Karen M. Mento
Sr. Vice President &
Chief Administrative Officer

Jocelyn A. Sauter
Sr. Vice President &
Chief Human Resources Officer

Donald F. Yeager
Sr. Vice President,
Sr. Business Relationship Mgr. &
Public Fund Officer

Polly A. Previte
Sr. Vice President &
Head of Retail Banking

Michael Seigh
Sr. Vice President of Finance

Michael J. Paulman
Sr. Vice President &
Chief Lending Officer

Domenic M. Cagliuso
Sr. Vice President & Sr. Wealth
Management Div. Head

Joseph P. Kelly, Jr.
Sr. Vice President &
Chief Credit Officer

Sean P. Lewis
Vice President & Sr. Wealth
Management Relationship Officer

Susan K. Stem
Vice President & Regional
Relationship Center Coach

Christina L. Hines
Vice President & Regional
Relationship Center Coach

Kelly L. Goncher
Vice President &
Sr. Mortgage Loan Officer

Tonya M. Kelly
Vice President & Operations Officer

Kenneth R. Szczur
Vice President & Sr. Regional
Business Relationship Mgr.

Jonathan E. Tapocik
Vice President & Sr. Regional Business
Relationship Mgr.-Western Region

Kathy J. Berkebile
Vice President & Sr. Regional Business
Relationship Mgr.-Southern Region

Michael A. Matten
Vice President & Sr. Regional Business
Relationship Mgr.-Northern Region

Beth Ann Eicher
Vice President & Sr. Regional
Business Relationship Mgr.

Janeen L. Moffa
Vice President & Sr. Regional
Business Relationship Mgr.

Julie A. Edwards
Vice President & General Auditor

Lori R. Baumgardner
Vice President &
Customer Experience & Quality Officer

Elliott T. Sumner
Vice President &
Sr. Information Systems Officer

Jerry F. Updyke
Vice President & Sr. Loan Officer

Lori A. Kurtz
Vice President &
Special Assets & Collections Mgr.

Jarrett J. Yantus
Vice President &
Sr. Information Technology Officer

Leslie N. Morgenstern
Assistant Vice President &
Credit Administration Dept. Head

J. Ilene Boughner
Assistant Vice President &
Sr. Personal Banking Officer/
Regional Lender-Indiana

Angela C. Moffat
Asst. Vice President & Wealth
Management Relationship Officer

Rebecca L. Darr
Assistant Vice President &
Mortgage Loan Officer

Eleanore B. Bucchi
Assistant Vice President &
Mortgage Loan Officer

Nancy A. Becker
Assistant Vice President &
Mortgage Loan Officer

Denise N. Sivi
Assistant Vice President &
Loan Operations Mgr.

Jennifer L. Rankin
Assistant Vice President &
Business Intelligence Analyst

Sherry A. King
Assistant Vice President &
Project & Process Improvement Mgr.

Kathleen L. Burkett
Assistant Vice President &
Information Technology Officer

Stacy L. Martin
Assistant Vice President &
Sr. Mortgage Loan Underwriter

Jeannine M. Goncher
Assistant Vice President &
Sr. Administrative Asst.-Operations/HR

Pamela H. Carroll
Assistant Vice President &
Sr. Executive Asst. to the President

Susan J. McQuillen
Assistant Vice President &
Deposit Operations Officer

Lawrence Albertelli
Assistant Vice President &
Sr. Credit Administration Officer

Susan A. Martin
Assistant Vice President &
Sr. Personal Banking Officer-Westmont

Mary E. Woy
Assistant Vice President &
Sr. Personal Banking Officer

Julie A. Mikolich
Assistant Vice President & Sr. Personal
Banking Officer-Downtown

Alysha R. McCauley
Assistant Vice President &
Sr. Personal Banking Officer-Latrobe

Jennifer L. Swinger
Assistant Vice President & Controller

Brian W. Britton
Assistant Vice President &
Sr. Electronic Banking Officer

Annette M. Rose
Assistant Vice President & Trust Officer

Jessica M. Marshall
Asst. Vice President & Sr. Operational
Risk Management & Compliance Officer

Nathanael R. Shaffer
Asst. Vice President & Wealth
Management Relationship Officer

Lisa K. Yocum
Asst. Vice President & Wealth
Management Relationship Officer

Katherine E. Curcio
Assistant Secretary &
Personal Banking Officer-Ebensburg

Heather A. Shearman
Assistant Secretary &
Personal Banking Officer-Portage

Melanie A. Eberly
Assistant Secretary &
Personal Banking Officer-Somerset

Jason R. Miller
Assistant Secretary &
Personal Banking Officer-Salix

Joseph P. Ivock
Assistant Treasurer & Data Center Officer

Sean R. McCool
Assistant Secretary & Public Relations
& Communications Mgr.

Emily D. Boyer
Assistant Secretary & Sr. Retail
Professional Development Officer

Robert B. Rock
Assistant Secretary &
Assistant Consumer Loan Officer

Keith R. Santee
Assistant Treasurer &
Regulatory Audit Supervisor

Alissa J. Mincek
Assistant Secretary &
Customer Service Officer

Diane M. Saylor
Assistant Secretary &
Executive Assistant

Joshua E. Barto
Assistant Secretary &
Credit Administration Officer

Colton J. Makin
Assistant Secretary &
Information Security Engineer

Adam J. Rogers
Assistant Secretary &
Assistant BSA Officer

Christopher A. Gaydis
Assistant Secretary &
Senior Auditor

Amy F. Leventry
Assistant Secretary &
Customer Service Officer

Lori A. Lundberg
Assistant Secretary &
Customer Service Officer

Joyce L. Czyrnik
Assistant Secretary &
Customer Service Officer

SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders
1ST SUMMIT BANCORP of Johnstown, Inc.
Johnstown, Pennsylvania

Opinion
We have audited the accompanying consolidated financial statements of 1ST SUMMIT BANCORP of Johnstown, Inc. and subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021; the related consolidated statements of income, comprehensive (loss) income, changes in stockholders' equity, and cash flows for the years then ended; and the related notes to the consolidated financial statements (collectively, the "financial statements").

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

We have also audited, in accordance with auditing standards generally accepted in the United States of America (GAAS), the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated February 24, 2023, expressed an unmodified opinion on the effectiveness of the Company's internal control over financial reporting.

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

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

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

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

SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders
1ST SUMMIT BANCORP of Johnstown, Inc.
Page 2

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)
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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

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

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

S.R. Snodgrass, P.C.
Cranberry Township, Pennsylvania
February 24, 2023

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CONSOLIDATED BALANCE SHEET

(in thousands, except per share data)	December 31, 2022	2021
ASSETS		
Cash and due from banks	**$ 10,572**	$ 13,671
Interest-bearing deposits in banks	**113**	878
Cash and cash equivalents	**10,685**	14,549
Equity securities	**8,732**	9,798
Investment securities available for sale	**300,476**	336,049
Investment securities held to maturity (fair value of $222,530 and $245,917)	**250,751**	244,902
Loans	**734,035**	679,662
Less allowance for loan losses	**7,498**	7,444
Net loans	**726,537**	672,218
Operating lease right-of-use asset	**2,511**	2,949
Premises and equipment, net	**13,185**	12,623
Goodwill	**389**	389
Bank-owned life insurance	**22,793**	17,849
Accrued interest receivable	**4,807**	4,570
Federal Home Loan Bank stock	**4,211**	1,251
Other assets	**16,698**	7,076
TOTAL ASSETS	**$ 1,361,775**	$ 1,324,223
LIABILITIES		
Deposits:		
Noninterest-bearing checking	**$ 129,978**	$ 122,613
Interest-bearing checking	**323,649**	320,939
Money market	**146,622**	167,703
Savings	**188,271**	188,040
Time	**372,215**	338,493
Total deposits	**1,160,735**	1,137,788
Operating lease liabilities	**2,595**	3,032
Short-term borrowings	**61,889**	15,400
Other borrowed funds	**28,435**	31,585
Accrued interest payable and other liabilities	**6,836**	7,280
TOTAL LIABILITIES	**1,260,490**	1,195,085
STOCKHOLDERS' EQUITY		
Preferred stock, no par value; 300,000 shares authorized; none issued	**—**	—
Common stock, $5 par value; 4,800,000 shares authorized; 2,203,038 issued	**11,015**	5,507
Capital surplus	**5,825**	5,791
Retained earnings	**116,125**	113,865
Accumulated other comprehensive (loss) income	**(30,914)**	4,823
Treasury stock, at cost (12,028 shares and 13,628 shares)	**(766)**	(848)
TOTAL STOCKHOLDERS' EQUITY	**101,285**	129,138
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 1,361,775**	$ 1,324,223

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

(in thousands, except per share data)	Year Ended December 31, **2022**	2021
INTEREST AND DIVIDEND INCOME		
Interest and fees on loans	**$ 31,814**	$ 29,997
Interest and dividends on investment securities:		
Taxable	**8,126**	5,573
Exempt from federal income tax	**4,951**	5,013
Other interest	**149**	58
Total interest and dividend income	**45,040**	40,641
INTEREST EXPENSE		
Deposits	**6,145**	5,829
Short-term borrowings	**991**	49
Other borrowed funds	**1,023**	980
Total interest expense	**8,159**	6,858
NET INTEREST INCOME	**36,881**	33,783
PROVISION FOR LOAN LOSSES	**368**	1,756
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	**36,513**	32,027
OTHER INCOME		
Service charges on deposit accounts	**1,899**	1,576
(Loss) gain on equity securities change in fair value, net	**(890)**	1,535
Wealth management income	**2,024**	1,772
Earnings on bank-owned life insurance	**363**	281
Bank card income	**2,098**	1,994
Other income	**396**	411
Total other income	**5,890**	7,569
OTHER EXPENSE		
Salaries and employee benefits	**17,229**	15,305
Occupancy expense	**2,109**	2,021
Equipment expense	**2,228**	1,951
Federal deposit insurance expense	**360**	332
Data processing expense	**1,249**	1,051
Shares tax expense	**1,161**	1,068
Donations expense	**303**	312
Other expense	**4,676**	4,680
Total other expense	**29,315**	26,720
INCOME BEFORE INCOME TAXES	**13,088**	12,876
Income tax expense	**1,575**	1,571
NET INCOME	**$ 11,513**	$ 11,305
EARNINGS PER SHARE	**$ 5.26**	$ 5.16
AVERAGE SHARES OUTSTANDING	**2,189,596**	2,189,742

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE (LOSS) INCOME

(in thousands)	Year Ended December 31, 2022	2021
NET INCOME	**$ 11,513**	$ 11,305
COMPONENTS OF OTHER COMPREHENSIVE (LOSS):		
Unrealized loss on available-for-sale securities	**(45,237)**	(4,327)
Tax effect	**9,500**	909
TOTAL OTHER COMPREHENSIVE LOSS	**(35,737)**	(3,418)
TOTAL COMPREHENSIVE (LOSS) INCOME	**$ (24,224)**	$ 7,887

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(in thousands, except per share data)	Outstanding Shares	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2020	1,097,805	$ 5,507	$ 5,791	$ 106,194	$ 8,241	$ (437)	$ 125,296
Net income				11,305			11,305
Other comprehensive loss					(3,418)		(3,418)
Cash dividends ($1.66 per share)				(3,634)			(3,634)
Purchase of treasury stock	(3,100)					(411)	(411)
Balance, December 31, 2021	**1,094,705**	**5,507**	**5,791**	**113,865**	**4,823**	**(848)**	**129,138**
Net income				**11,513**			**11,513**
Other comprehensive loss					**(35,737)**		**(35,737)**
100 percent stock dividend effective in the form of a stock split	**1,094,705**	**5,508**		**(5,508)**			
Cash dividends ($1.71 per share)				**(3,745)**			**(3,745)**
Purchase of treasury stock	**(100)**					**(7)**	**(7)**
Sale of treasury stock	**1,700**		**34**			**89**	**123**
Balance, December 31, 2022	**2,191,010**	**$ 11,015**	**$ 5,825**	**$ 116,125**	**$ (30,914)**	**$ (766)**	**$ 101,285**

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)	Year Ended December 31, 2022	2021
OPERATING ACTIVITIES		
Net income	**$ 11,513**	$ 11,305
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**368**	1,756
Depreciation and amortization	**3,440**	4,414
Loss (gain) on equity securities change in fair value, net	**890**	(1,535)
Deferred income taxes	**345**	238
Earnings on bank-owned life insurance	**(363)**	(281)
(Increase) decrease in accrued interest receivable	**(237)**	484
Increase (decrease) in accrued interest payable	**280**	(540)
Other, net	**(1,748)**	(1,215)
Net cash provided by operating activities	**14,488**	14,626
INVESTING ACTIVITIES		
Investment securities available for sale:		
Proceeds from maturities and paydowns	**28,665**	65,723
Purchases	**(39,368)**	(91,536)
Investment securities held to maturity:		
Proceeds from maturities and paydowns	**31,326**	84,745
Purchases	**(38,237)**	(99,350)
Equity securities held:		
Proceeds from equity securities	**176**	83
Net increase in loans, excluding purchases	**(54,234)**	(17,438)
Purchases of loans	**—**	(10,652)
Purchases of premises and equipment	**(1,814)**	(1,183)
Proceeds from bank-owned life insurance	**—**	7
Purchases of bank-owned life insurance	**(4,581)**	(3.059)
Proceeds from sale of real estate owned	**18**	239
Redemption of Federal Home Loan Bank stock	**10,653**	89
Purchase of Federal Home Loan Bank stock	**(13,613)**	(71)
Net cash used for investing activities	**(81,009)**	(72,403)
FINANCING ACTIVITIES		
Net increase in deposits	**22,947**	50,973
Net change in short-term borrowings	**46,489**	15,400
Repayments of other borrowed funds	**(3,150)**	(2,216)
Dividends paid on common stock	**(3,745)**	(3,634)
Purchases of treasury stock	**(7)**	(411)
Proceeds from sales of treasury stock	**123**	—
Net cash provided by financing activities	**62,657**	60,112
(Decrease) increase in cash and cash equivalents	**(3,864)**	2,335
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**14,549**	12,214
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 10,685**	$ 14,549

See accompanying notes to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Nature of Operations and Basis of Presentation

The consolidated financial statements include the accounts of 1ST SUMMIT BANCORP of Johnstown, Inc. (the "Company"), and its wholly owned subsidiaries, 1ST SUMMIT BANK (the "Bank") and Value Finance, Inc. ("Value"). All significant intercompany transactions have been eliminated in consolidation. The investment in subsidiaries on the parent company financial statements is carried in the parent company's equity and equals the underlying net assets of the subsidiaries.

The Company is a Pennsylvania company organized to become the holding company of the Bank. The Bank is a state-chartered bank located in Pennsylvania. Value is a Pennsylvania-chartered consumer finance company. The Company's principal sources of revenue emanate from its portfolio of residential real estate, commercial mortgage, commercial, and consumer loans, its investment portfolio, as well as trust and a variety of deposit services to its customers through seventeen Bank offices, one Bank Loan Production Office ("LPO"), and seven Value locations. The Company is supervised by the Board of Governors of the Federal Reserve System, while the Bank is subject to regulation and supervision by the Federal Deposit Insurance Corporation. The Bank, the LPO, and Value are regulated by the Pennsylvania Department of Banking.

The financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP"). In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the Consolidated Balance Sheet date and reported amounts of revenues and expenses for the period. Actual results could differ from those estimates.

Investment Securities

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

Securities are evaluated on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in their value is other than temporary. For debt securities, management considers whether the present value of cash flows expected to be collected are less than the security's amortized cost basis (the difference defined as the credit loss), the magnitude and duration of the decline, the reasons underlying the decline and the Company's intent to sell the security or whether it is more likely than not that the Company would be required to sell the security before its anticipated recovery in market value, to determine whether the loss in value is other than temporary. Once a decline in value is determined to be other than temporary, if the investor does not intend to sell the security, and it is more likely than not that it will not be required to sell the security, before recovery of the security's amortized cost basis, the charge to earnings is limited to the amount of credit loss. Any remaining difference between fair value and amortized cost (the difference defined as the noncredit portion) is recognized in other comprehensive (loss) income, net of applicable taxes. Otherwise, the entire difference between fair value and amortized cost is charged to earnings.

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

Investment in Federal Home Loan Bank ("FHLB") Stock

The Bank is a member of the FHLB of Pittsburgh and, as such, is required to maintain a minimum investment in stock of the FHLB that varies with the level of advances outstanding with the FHLB. The stock is bought from and sold to the FHLB based upon its $100 par value. The stock does not have a readily determinable fair value and, as such, is classified as restricted stock, carried at cost and evaluated for impairment. The stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the FHLB as compared with the capital stock amount and the length of time this situation has persisted, (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance, (c) the impact of legislative and regulatory changes on the customer base of the FHLB, and (d) the liquidity position of the FHLB. There was no impairment of the FHLB stock as of December 31, 2022 or 2021.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are reported at their outstanding principal amount, net of unearned income. Interest from installment loans is recognized in income based on the simple-interest method, actuarial method, or sum-of-the-month's-digits method depending on which entity originated the loans. All three methods result in approximate level rates of return over the terms of the loans. Interest on real estate mortgages and commercial loans is recognized as income when earned on the accrual method. Generally, the policy has been to stop accruing interest on loans when it is determined that a reasonable doubt exists as to the collectability of additional interest. Interest previously accrued, but deemed uncollectible, is deducted from current interest income. Payments received on nonaccrual loans are either applied to principal or reported as interest income according to management's judgment as to the collectability of principal. Loans are returned to accrual status when past due interest is collected and the collection of principal is probable.

Loan origination fees and certain direct loan origination costs are being deferred and the net amount amortized as an adjustment of the related loan's yield. Management is amortizing these amounts over the contractual life of the related loans.

Allowance for Loan Losses

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost, less accumulated depreciation. Depreciation is principally computed on the straight-line method over the estimated useful lives of the related assets, which range from 3 to 10 years for furniture, fixtures, and equipment and 25 to 40 years for building premises. Leasehold improvements are amortized over the shorter of their estimated useful lives or their respective lease terms, which range from 7 to 15 years. Expenditures for maintenance and repairs are charged against income as incurred. Costs of major additions and improvements are capitalized

Goodwill

The Company accounts for goodwill using an annual impairment analysis of goodwill that includes a qualitative assessment in order to determine if the two-step process of measuring impairment is necessary on at least an annual basis. This approach could cause more volatility in the Company's reported net income because impairment losses, if any, could occur irregularly and in varying amounts. No impairment of goodwill was recognized in any of the periods presented.

Bank-Owned Life Insurance ("BOLI")

The Bank purchased life insurance policies on certain key employees and directors. BOLI is recorded at its cash surrender value or the amount that can be realized and is shown on the Consolidated Balance Sheet. Any increases in the cash surrender value are recorded as other income on the Consolidated Statement of Income.

Trust Department

Trust department assets (other than cash deposits) held by the Bank in fiduciary or agency capacities for its customers are not included in the accompanying Consolidated Balance Sheet since such items are not assets of the Bank.

Advertising Costs

Advertising costs are expensed as incurred. Total advertising costs included in other expense on the Consolidated Statement of Income were $387 thousand in 2022 and $339 thousand in 2021.

Income Taxes

The Company, the Bank, and Value file a consolidated federal income tax return. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. The federal corporate tax rate was 21% for 2022 and 2021.

Earnings Per Share

The Company currently maintains a simple capital structure; thus, there are no dilutive effects on earnings per share. Earnings per share is calculated by dividing net income by the weighted-average number of shares outstanding for the period. Earnings per share calculations give retroactive effect to stock dividends declared by the company.

Comprehensive (Loss) Income

The Company is required to present comprehensive (loss) income in a full set of general-purpose financial statements for all periods presented. Other comprehensive (loss) income is comprised of unrealized holding gains (losses) on the available-for-sale securities portfolio and reclassification adjustment for realized gains recognized in income.

Statement of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks and interest-bearing deposits at banks with original maturities of 90 days or less. Cash payments for interest in 2022 and 2021 were $7.9 million and $7.4 million, respectively. Income tax payments totaled $1.1 million in 2022 and $1.6 million in 2021. In 2022, additional right-of-use assets of $205 thousand and related lease liabilities of $205 thousand were recognized. In 2021, additional right-of-use assets of $1.2 million and related lease liabilities of $1.2 million were recognized. In 2022, there was a noncash transfer of repossessed assets of $102 thousand from loans to other assets and a noncash transfer of real estate of $519 thousand from loans to real estate owned. In 2021, there was a noncash transfer of repossessed assets of $6 thousand from loans to other assets and a noncash transfer of real estate of $41 thousand from loans to real estate owned. In 2022, there was a noncash transfer of $5.5 million from retained earnings to common stock for the stock dividend issued on April 19, 2022.

Reclassification of Comparative Amounts

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. REVENUE RECOGNITION

The Company recognized revenue from contracts with customers in accordance with ASC Topic 606. Topic 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 gain and losses on sales of debt and equity securities are out of scope of Topic 606. The Company has evaluated the nature of its contracts with customers and determined that further disaggregation beyond what is presented in the Consolidated Statement of Income was not necessary.

Service Charges on Deposit Accounts

Topic 606 is applicable to noninterest revenue streams such as service charges on deposit accounts which consists of monthly service fees, wire transfer fees, ATM fees, and other deposit account related fees. The Company's performance obligation for account analysis fees and monthly service fees is generally satisfied and the related revenue recognized, over the period in which the service is provided. Other deposit account related fees are largely transactional based, and therefore, revenue is recognized upon completion of transaction.

Wealth Management Income

Wealth management income is primarily comprised of fees earned from the management and administration of trusts and other customer assets along with commissions from the sale of mutual funds and annuities. The Company's performance obligation for management and administration is generally satisfied over time and the resulting fees are recognized monthly, based upon the month-end market value of the assets under management and the applicable fee rate. Payment is generally received a few days after month end through a direct charge to the customers' accounts. The Company's performance obligation for mutual fund and annuity sales is generally satisfied upon completion of the transaction.

Bank Card Income

Bank card income is primarily comprised of interchange fees earned whenever the Company's debit and credit cards are processed through card payment networks such as VISA®. The Company's performance obligation for these fees are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month.

Other Income

Other income within the scope of Topic 606 is primarily comprised of credit life insurance commissions and safe deposit box rents. Credit life insurance commissions are recognized over time using the monthly outstanding balance method which corresponds to the underlying insurance policy period, for which the Company is obligated to perform under contract with the insurance carrier. Safe deposit box rental fees are charged to the customer on an annual basis and recognized upon receipt of payment. The Company determined that since rentals and renewals occur fairly consistently over time, revenue is recognized on a basis consistent with the duration of the performance obligation.

3. INVESTMENT SECURITIES

The amortized cost and fair value of investment securities excluding equity securities as of December 31 are summarized as follows (in thousands):

	2022			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
AVAILABLE FOR SALE				
Obligations of states and political subdivisions	**$ 154,703**	**$ 55**	**$ (17,920)**	**$ 136,838**
Mortgage-backed securities in government-sponsored entities	**167,869**	**24**	**(20,468)**	**147,425**
Corporate bonds	**17,035**	**2**	**(824)**	**16,213**
Total debt securities	**$ 339,607**	**$ 81**	**$ (39,212)**	**$ 300,476**

	2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
AVAILABLE FOR SALE				
Obligations of states and political subdivisions	$ 149,612	$ 5,914	$ (202)	$ 155,324
Mortgage-backed securities in government-sponsored entities	166,816	1,877	(1,755)	166,938
Corporate bonds	13,516	300	(29)	13,787
Total debt securities	$ 329,944	$ 8,091	$ (1,986)	$ 336,049

	2022			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
HELD TO MATURITY				
U.S. government agency securities	**$ 18,148**	**$ —**	**$ (2,783)**	**$ 15,365**
Obligations of states and political subdivisions	**43,799**	**58**	**(2,271)**	**41,586**
Mortgage-backed securities in government-sponsored entities	**188,804**	**87**	**(23,312)**	**165,579**
Total	**$ 250,751**	**$ 145**	**$ (28,366)**	**$ 222,530**

	2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
HELD TO MATURITY				
U.S. government agency securities	$ 15,066	$ 159	$ (317)	$ 14,908
Obligations of states and political subdivisions	43,519	1,301	—	44,820
Mortgage-backed securities in government-sponsored entities	186,317	1,763	(1,891)	186,189
Total	$ 244,902	$ 3,223	$ (2,208)	$ 245,917

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. INVESTMENT SECURITIES (Cont'd)

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

2022	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government agency securities	$ 4,724	$ (368)	$ 10,641	$ (2,415)	$ 15,365	$ (2,783)
Obligations of states and political subdivisions	142,660	(12,190)	25,372	(8,001)	168,032	(20,191)
Mortgage-backed securities in government-sponsored entities	122,872	(9,464)	184,405	(34,316)	307,277	(43,780)
Corporate bonds	9,200	(575)	2,860	(249)	12,060	(824)
Total debt securities	$ 279,456	$ (22,597)	$ 223,278	$ (44,981)	$ 502,734	$ (67,578)

2021	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government agency securities	$ 11,774	$ (285)	$ 967	$ (32)	$ 12,741	$ (317)
Obligations of states and political subdivisions	16,746	(188)	640	(14)	17,386	(202)
Mortgage-backed securities in government-sponsored entities	184,743	(2,628)	44,126	(1,018)	228,869	(3,646)
Corporate bonds	2,088	(24)	995	(5)	3,083	(29)
Total debt securities	$ 215,351	$ (3,125)	$ 46,728	$ (1,069)	$ 262,079	$ (4,194)

The Company reviews its position quarterly and has asserted that at December 31, 2022, the declines outlined in the above table represent temporary declines and the Company does not intend to sell and does not believe it will be required to sell these securities before recovery of its cost basis, which may be at maturity. There were 1,041 positions that were temporarily impaired at December 31, 2022.

The Company conducts periodic reviews of its investments in debt securities to identify and evaluate each investment that has an unrealized loss. An unrealized loss exists when the current fair value of an individual security is less than its amortized cost basis. Unrealized losses that are determined to be temporary in nature are recorded, net of tax, in *Accumulated Other Comprehensive (Loss) Income* ("AOCI") for available-for-sale securities, while such losses related to held-to-maturity securities are not recorded, as these investments are carried at their amortized cost.

Regardless of the classification of the securities as available for sale or held to maturity, the Company has assessed each unrealized loss position for credit impairment. Factors considered in determining whether a loss is temporary include:

- the length of time and the extent to which fair value has been below cost;
- the severity of the impairment;
- the cause of the impairment and the financial condition and near-term prospects of the issuer;
- activity in the market of the issuer which may indicate adverse credit conditions;
- if the Company intends to sell the investment;
- if it's more likely than not the Company will be required to sell the investment before recovering its amortized cost basis; and
- if the Company does not expect to recover the investment's entire amortized cost basis (even if the Company does not intend to sell the security).

The Company's review for impairment generally entails:

- identification and evaluation of investments that have indications of possible impairment;
- analysis of individual investments that have fair values less than amortized cost, including consideration of the length of time the investment has been in an unrealized loss position and the expected recovery period;
- discussion of evidential matter, including an evaluation of factors or triggers that could cause individual investments to qualify as having other-than-temporary impairment and those that would not support other-than-temporary impairment; and
- documentation of the results of these analyses, as required under business policies.

For debt securities that are not deemed to be credit impaired, management performs additional analysis to assess whether it intends to sell or would more likely than not be required to sell the investment before the expected recovery of the amortized cost basis. Management has asserted that it has no intent to sell and that it believes it is more likely than not that it will not be required to sell the investment before recovery of its amortized cost basis.

The Company has concluded that the unrealized losses disclosed in the previous table are not other than temporary but are the result of interest rate changes, sector credit ratings changes, or Company-specific ratings changes that are not expected to result in the noncollection of principal and interest during the period.

For debt securities, a critical component of the evaluation for other-than-temporary impairment is the identification of credit impaired securities where management does not receive cash flows sufficient to recover the entire amortized cost basis of the security. Where management deems the security to be other-than-temporarily impaired based upon the above factors and the duration and extent to which the fair value has been less than cost, the inability to forecast a recovery in fair value, and other factors concerning the issuers in the pooled security, the decline is recorded in earnings.

The amortized cost and fair values of debt securities at December 31, 2022, by contractual maturity, are shown below (in thousands). The Company's mortgage-backed securities have contractual maturities ranging from 15 to 30 years. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	AVAILABLE-FOR-SALE		HELD-TO-MATURITY	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ —	$ —	$ 835	$ 827
Due after one year through five years	6,369	6,244	10,010	9,845
Due after five years through ten years	46,499	43,954	49,679	45,065
Due after ten years	286,739	250,278	190,227	166,793
Total	$ 339,607	$ 300,476	$ 250,751	$ 222,530

There were no proceeds from sales of debt and equity investment securities during 2022 and 2021. The Company sold no held-to-maturity securities during 2022 or 2021.

Net losses on the change in fair value of equity securities were $890 thousand in 2022, and net gains on the change in fair value of equity securities were $1.5 million in 2021. Proceeds from equity securities of $176 thousand were received in 2022 and $83 thousand in 2021 as a result of business combinations.

Investment securities with a carrying value of $345.5 million and $292.1 million at December 31, 2022 and 2021, respectively, were pledged to secure public deposits, borrowings, and for other purposes as required by law.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. LOANS

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

	2022	2021
Consumer	**$ 33,490**	$ 37,379
Residential real estate	**375,571**	344,443
Construction	**37,557**	34,220
Commercial and industrial	**133,728**	131,871
Commercial real estate - nonowner occupied	**85,158**	66,306
Commercial real estate - all other	**68,531**	65,443
	734,035	679,662
Less allowance for loan losses	**7,498**	7,444
Net loans	**$ 726,537**	$ 672,218

Gross loan balances at December 31, 2022 and 2021, are net of unearned income including net deferred loan fees of $788 thousand and $756 thousand respectively. The Company did not purchase any loans in 2022. During 2021, the Company purchased $10.3 million in mortgage loans and $0.3 million in consumer loans at a premium which generated a purchase premium of $73 thousand.

The Company had nonaccrual loans as follows (in thousands):

	2022	2021
Consumer	**$ 128**	$ 82
Residential real estate	**471**	389
Construction	**753**	766
Commercial and industrial	**—**	110
Commercial real estate - nonowner occupied	**1,804**	1,678
Commercial real estate - all other	**—**	—
Total nonaccrual loans	**$ 3,156**	$ 3,025

In the normal course of business, loans are extended to directors, executive officers, and their associates. A summary of loan activity for those directors, executive officers, and their associates with loan balances in excess of $60,000 for the year ended December 31, 2022, is as follows (in thousands):

2021	Additions	Repayments	2022
$ 20,680	$ 16,154	$ 15,679	$ 23,155

The Company's primary business activity is with customers located within Cambria, Somerset, Indiana, Blair, Allegheny, and Westmoreland counties. Commercial, residential, personal, and agricultural loans are granted. The Company also selectively purchases and funds commercial and residential loans originated outside its trade area, provided such loans meet the Company's credit policy guidelines. Although the Company has a diversified loan portfolio at December 31, 2022 and 2021, the repayment of the loans outstanding to individuals and businesses is dependent upon the local economic conditions in its immediate trade area.

COVID-19 Loan Forbearance Programs

Section 4013 of the CARES Act provides that banks may elect not to categorize a loan modification as a TDR if the loan modification is (1) related to COVID-19; (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020, and the earlier of (A) 60 days after the date on which the national emergency concerning the novel coronavirus disease (COVID–19) outbreak declared by the President on March 13, 2020, under the National Emergencies Act terminates, or (B) January 1, 2022.

On April 7, 2020, federal banking regulators issued a revised interagency statement that included guidance on their approach for the accounting of loan modifications in light of the economic impact of the COVID-19 pandemic. The guidance interprets current accounting standards and indicates that a lender can conclude that a borrower is not experiencing financial difficulty if short-term modifications are made in response to COVID-19, such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant related to the loans in which the borrower is less than 30 days past due on its contractual payments at the time a modification program is implemented.

According to the Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised) issued by the federal bank regulatory agencies on April 7, 2020, short-term loan modifications not otherwise eligible under Section 4013 that are made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief are not TDRs. This includes short-term (e.g., six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant.

During 2022, no customers were granted payment deferrals or payments of interest only on loans. During 2021, three of our customers were granted payment deferrals or payments of interest only on loans totaling $403 thousand. In accordance with Section 4013 of the CARES Act and the interagency guidance issued on April 7, 2020, these short-term deferrals are not considered troubled debt restructurings. As of December 31, 2022, the Company had no loans that remain on a Cares Act modification.

Paycheck Protection Program

During 2022 and 2021 the Company participated in the Paycheck Protection Program ("PPP"), administered directly by the U.S. SBA. The PPP provides loans to small businesses who were affected by economic conditions as a result of COVID-19 to provide cash-flow assistance to employers who maintain their payroll (including healthcare and certain related expenses), mortgage interest, rent, leases, utilities and interest on existing debt during the COVID-19 emergency. As of December 31, 2022 and December 31, 2021, the Company had outstanding principal balances of $0.3 million and $12.3 million, respectively. The PPP loans are fully guaranteed by the SBA and may be eligible for forgiveness by the SBA to the extent that the proceeds are used to cover eligible payroll costs, interest costs, rent, utility costs, and other covered expenditures over a period of up to 24 weeks after the loan is made as long as certain conditions are met regarding employee retention and compensation levels. PPP loans deemed eligible for forgiveness by the SBA will be repaid by the SBA to the Company. PPP loans are included in the Commercial and Industrial loan category.

In accordance with the SBA terms and conditions on these PPP loans, the Company received approximately $3.7 million in fees associated with the processing of these loans. For the year ended December 31, 2022 and December 31, 2021, the Company recognized $551 thousand and $2.1 million, respectively, in fees relating to PPP loans. Upon funding of the loan, these fees were deferred and will be amortized over the life of the loan as an adjustment to yield in accordance with FASB ASC 310-20-25-2.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. COMMITMENTS

In the normal course of business, there are various outstanding commitments and contingent liabilities which are not reflected in the accompanying consolidated financial statements. These commitments comprised the following at December 31 (in thousands):

	2022	2021
Commercial loan commitments	**$ 109,141**	$ 100,071
One-to-four family commitments	**52,457**	47,179
Other commitments	**20,199**	19,580
Standby letters of credit and financial guarantees	**3,629**	3,904
Total	**$ 185,426**	$ 170,734

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. In the normal course of business, the Company makes various commitments which are not reflected in the accompanying consolidated financial statements. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Consolidated Balance Sheet. The Company's exposure to credit loss in the event of nonperformance by the other parties to the financial instruments is represented by the contractual amounts as disclosed. The Company minimizes its exposure to credit loss under these commitments by subjecting them to credit approval and review procedures and collateral requirements as deemed necessary. Commitments generally have fixed expiration dates within one year of their origination.

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

6. ALLOWANCE FOR LOAN LOSSES

Management establishes the allowance for loan losses based upon its evaluation of the pertinent factors underlying the types and quality of loans in the portfolio. Commercial loans and commercial real estate loans are reviewed on a regular basis with larger loan relationships greater than $750 thousand being reviewed annually. Commercial loans and commercial real estate loans which are 90 days or more past due are considered for impairment testing. These loans are analyzed to determine if they are "impaired," which means that it is probable that all amounts will not be collected according to the contractual terms of the loan agreement. All loans that are delinquent 90 days and are placed on nonaccrual status are classified on an individual basis. Residential loans 90 days past due which are still accruing interest are classified as Substandard as per the Company's asset classification policy. The remaining loans are evaluated and classified as groups of loans with similar risk characteristics. The Company allocates allowances based on the factors described below, which conform to the Company's asset classification policy. In reviewing risk within the Bank's loan portfolio, management has determined there to be several different risk categories or portfolio segments within the loan portfolio. The allowance for loan losses consists of the following portfolio segments: (i) the consumer loan portfolio; (ii) the residential real estate loan portfolio; (iii) the construction loan portfolio; (iv) the commercial and industrial loan portfolio; (v) the commercial real estate – nonowner occupied loan portfolio; (vi) the commercial real estate – all other loan portfolio; and (vii) the unallocated portion.

Factors considered in this process included general loan terms, collateral, and availability of historical data to support the analysis. Historical loss percentages for each risk category are calculated and used as the basis for calculating allowance allocations. Certain qualitative factors are then added to the historical allocation percentage to get the adjusted factor to be applied to nonclassified loans. The following qualitative factors are analyzed:

- Changes in lending policies and procedures
- Experience depth and ability of management
- Economic trends
- Trends in volume and terms
- Levels of and trends in delinquencies, nonaccruals, and losses
- Loan review and regulatory oversight
- Concentrations of credit

The Company also maintains an unallocated allowance to account for any factors or conditions that may cause a potential loss, but are not specifically addressed in the process described above. The Company analyzes its loan portfolio each month to determine the appropriateness of its allowance for loan losses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. ALLOWANCE FOR LOAN LOSSES (Cont'd)

Changes in the allowance for loan losses for the years ended December 31 are as follows (in thousands):

	Consumer	Residential Real Estate	Construction	Commercial and Industrial	Commercial Real Estate - Nonowner Occupied	Commerical Real Estate - All Other	Unallocated	Total
Balance December 31, 2020	$ 512	$ 2,000	$ 354	$ 1,275	$ 997	$ 720	$ 537	$ 6,395
Add:								
Provision for loan losses	291	572	518	183	366	34	(208)	1,756
Recoveries	76	6	—	30	—	75	—	187
Less loans charged-off	365	35	190	174	90	40	—	894
Balance December 31, 2021	**$ 514**	**$ 2,543**	**$ 682**	**$ 1,314**	**$ 1,273**	**$ 789**	**$ 329**	**$ 7,444**
Add:								
Provision for loan losses	**128**	**(207)**	**5**	**276**	**159**	**(143)**	**150**	**368**
Recoveries	**65**	**24**	**—**	**27**	**75**	**116**	**—**	**307**
Less loans charged-off	**292**	**14**	**—**	**315**	**—**	**—**	**—**	**621**
Balance December 31, 2022	**$ 415**	**$ 2,346**	**$ 687**	**$ 1,302**	**$ 1,507**	**$ 762**	**$ 479**	**$ 7,498**

During 2022, the loan policy factor in the qualitative factors for the allowance calculation was reduced from 0.10 percent to zero for all sectors of the allowance for loan losses. Loan policy was reassessed, is strong, and credit quality has not been an issue as a result of any loan policy issues. The reserves for consumer loans decreased due to a decrease in the related loan balances. The reserves for residential real estate loans decreased during the year due the decrease in the qualitative factor for loan policy. The reserves for construction loans increased due to an increase in the related loan balances in this sector. The reserves for commercial and industrial loans decreased slightly due to the decrease in the qualitative factor for loan policy. PPP loans are included in the commercial and industrial loans, but are not included in the calculation of the allowance as they are government guaranteed. The reserves for commercial real estate-nonowner occupied increased due to an increase in the related loan balances in this sector. Commercial real estate-all other loans increased while the related reserves decreased due to the decrease in the qualitative factor for loan policy and a decrease in the historical loss factors which were partially offset by an increase in the qualitative factor for credit quality due to an increase in special mention and substandard loans in this sector. During 2021, the reserves for consumer loans increased slightly due to an increase in the related loan balances. The reserves for residential real estate loans increased during the year due to an increase in the the qualitative factor for loan growth and an increase in the related loan balances. The reserves for construction loans increased due to increases in the qualitative factors for economic factors, loan growth, and credit quality, in addition to an increase in the related loan balances in this sector and an increase in the historical loss factors in this sector. The reserves for commercial and industrial loans increased due to an increase in the historical loss factors in this sector. PPP loans are included in the commercial and industrial loans, but are not included in the calculation of the allowance as they are government guaranteed. The reserves for commercial real estate-nonowner occupied increased due to an increase in the related loan balances in this sector. Commercial real estate-all other loans decreased while the related reserves increased due to an increase in the qualitative factor for credit quality and in the historical loss factors in this sector.

Loans receivable and the related allowance for loan losses at December 31, 2022 and 2021, as well as the method the Company uses to evaluate these loans within their allowance for loan losses are summarized, by portfolio segment, as follows (in thousands):

	Consumer	Residential Real Estate	Construction	Commercial and Industrial	Commercial Real Estate - Nonowner Occupied	Commerical Real Estate - All Other	Unallocated	Total
December 31, 2022								
Allowance for loan losses:								
Ending balance: collectively evaluated for impairment	**$ 415**	**$ 2,346**	**$ 687**	**$ 1,301**	**$ 1,122**	**$ 762**	**$ 479**	**$ 7,112**
Ending balance: individually evaluated for impairment	**—**	**—**	**—**	**1**	**385**	**—**	**—**	**386**
Ending balance	**$ 415**	**$ 2,346**	**$ 687**	**$ 1,302**	**$ 1,507**	**$ 762**	**$ 479**	**$ 7,498**
Loans:								
Ending balance: collectively evaluated for impairment	**$ 33,490**	**$ 375,571**	**$ 37,240**	**$ 130,764**	**$ 83,089**	**$ 68,132**		**$ 728,286**
Ending balance: individually evaluated for impairment	**—**	**—**	**317**	**2,964**	**2,069**	**399**		**5,749**
Ending balance	**$ 33,490**	**$ 375,571**	**$ 37,557**	**$ 133,728**	**$ 85,158**	**$ 68,531**		**$ 734,035**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. ALLOWANCE FOR LOAN LOSSES (Cont'd)

	Consumer	Residential Real Estate	Construction	Commercial and Industrial	Commercial Real Estate - Nonowner Occupied	Commerical Real Estate - All Other	Unallocated	Total
December 31, 2021								
Allowance for loan losses:								
Ending balance: collectively evaluated for impairment	$ 514	$ 2,543	$ 682	$ 1,299	$ 1,273	$ 789	$ 329	$ 7,429
Ending balance: individually evaluated for impairment	—	—	—	15	—	—	—	15
Ending balance	$ 514	$ 2,543	$ 682	$ 1,314	$ 1,273	$ 789	$ 329	$ 7,444
Loans:								
Ending balance: collectively evaluated for impairment	$ 37,379	$ 344,443	$ 33,454	$ 131,761	$ 64,628	$ 64,434		$ 676,099
Ending balance: individually evaluated for impairment	—	—	766	110	1,678	1,009		3,563
Ending balance	$ 37,379	$ 344,443	$ 34,220	$ 131,871	$ 66,306	$ 65,443		$ 679,662

Impaired loans are commercial and commercial real estate loans for which it is probable the Company will not be able to collect all amounts due according to the contractual terms of the loan agreement. Also, any loan modified in a troubled debt restructuring is also considered to be impaired. The Company individually evaluates such loans for impairment and does not aggregate loans by major risk classifications. The definition of "impaired loans" is not the same as the definition of "nonaccrual loans," although the two categories overlap. The Company may choose to place a loan on nonaccrual status due to payment delinquency or uncertain collectability while not classifying the loan as impaired, provided the loan is not a commercial or commercial real estate classification. Factors considered by management in determining impairment include payment status and collateral value. The amount of impairment for these types of loans is determined by the difference between the present value of the expected cash flows related to the loan using the original interest rate and its recorded value or, as a practical expedient in the case of collateralized loans, the difference between the fair value of the collateral and the recorded amount of the loans. When foreclosure is probable, impairment is measured based on the fair value of the collateral. Impaired loans are summarized as follows (in thousands):

	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance	Total Impaired Loans			
	Recorded Investment	**Related Allowance**	**Recorded Investment**	**Recorded Investment**	**Unpaid Principal Balance**	**Average Recorded Investment**	**Interest Income Recognized**
December 31, 2022							
Consumer	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential real estate	—	—	—	—	—	—	—
Construction	—	—	317	317	317	578	—
Commercial and industrial	1,235	1	1,729	2,964	3,603	1,433	74
Commercial real estate - nonowner occupied	1,623	385	446	2,069	2,069	984	10
Commercial real estate - all other	—	—	399	399	399	451	11
Total impaired loans	$ 2,858	$ 386	$ 2,891	$ 5,749	$ 6,388	$ 3,446	$ 95

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. ALLOWANCE FOR LOAN LOSSES (Cont'd)

	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance	Total Impaired Loans			
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance	Average Recorded Investment	Interest Income Recognized
December 31, 2021							
Consumer	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential real estate	—	—	—	—	—	—	—
Construction	—	—	766	766	1,156	891	—
Commercial and industrial	110	15	—	110	228	9	—
Commercial real estate - nonowner occupied	—	—	1,678	1,678	1,768	728	17
Commercial real estate - all other	—	—	1,009	1,009	1,648	1,179	44
Total impaired loans	$ 110	$ 15	$ 3,453	$ 3,563	$ 4,800	$ 2,807	$ 61

Mortgage loans secured by one-to-four family properties and all consumer loans are large groups of smaller-balance homogenous loans and are measured for impairment collectively. Loans that experience insignificant payment delays, which are defined as 89 days or less, generally are not classified as impaired. Management determines the significance of payment delays on a case-by-case basis, taking into consideration all circumstances concerning the loan, the creditworthiness and payment history of the borrower, the length of the payment delay, and the amount of shortfall in relation to the principal and interest owed. Current and past due loans are summarized as follows (in thousands):

December 31, 2022	**Current**	**30-89 Days Past Due**	**90 Days + Past Due**	**Total Past Due**	**Total Loans**	**90 Days + Past Due, Still Accruing**
Consumer	**$ 32,611**	**$ 525**	**$ 354**	**$ 879**	**$ 33,490**	**$ 226**
Residential real estate	**373,201**	**1,179**	**1,191**	**2,370**	**375,571**	**720**
Construction	**36,803**	**—**	**754**	**754**	**37,557**	**—**
Commercial and industrial	**133,382**	**273**	**73**	**346**	**133,728**	**73**
Commercial real estate - nonowner occupied	**83,197**	**157**	**1,804**	**1,961**	**85,158**	**—**
Commercial real estate - all other	**68,212**	**316**	**3**	**319**	**68,531**	**3**
Total	**$ 727,406**	**$ 2,450**	**$ 4,179**	**$ 6,629**	**$ 734,035**	**$ 1,022**

December 31, 2021	Current	30-89 Days Past Due	90 Days + Past Due	Total Past Due	Total Loans	90 Days + Past Due, Still Accruing
Consumer	$ 36,460	$ 663	$ 256	$ 919	$ 37,379	$ 174
Residential real estate	342,556	955	932	1,887	344,443	543
Construction	33,454	—	766	766	34,220	—
Commercial and industrial	131,702	59	110	169	131,871	—
Commercial real estate - nonowner occupied	64,628	—	1,678	1,678	66,306	—
Commercial real estate - all other	65,054	389	—	389	65,443	—
Total	$ 673,854	$ 2,066	$ 3,742	$ 5,808	$ 679,662	$ 717

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. ALLOWANCE FOR LOAN LOSSES (Cont'd)

Management maintains an eight-point internal risk rating system to monitor the credit quality of the overall loan portfolio. The first four categories are considered not criticized, and are aggregated as "Pass" rated. The criticized rating categories utilized by management generally follow bank regulatory definitions. The Special Mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a Substandard classification. Balances in the Substandard category are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Balances in the Doubtful category have all the deficiencies inherent in the Substandard category, with the added characteristics that the deficiencies make collection in full, on the basis of currently existing facts, conditions, and values, highly questionable or improbable. Any portion of a loan deemed uncollectable is placed in the Loss category.

All consumer and residential real estate loans greater than 90 days past due are considered nonperforming. The nonperforming classification is based solely on delinquency levels. It is the policy of the Company that consumer loans are generally fully or partially charged down to the fair value of collateral securing the asset when the loan is 120 days past due for open-end loans, 90 days past due for unsecured open-end loans and 90 days past due for closed-end loans unless the loan is well secured and in the process of collection. The outstanding balance of any consumer or residential mortgage loan that exceeds 90 days past due is reviewed to determine collectability. If not all principal and interest is determined to be collectable the balance is transferred to nonaccrual status and subsequently evaluated to determine the fair value of the collateral less selling costs. A charge down is recorded for any deficiency determined from the collateral evaluation. Loan credit quality is summarized as follows (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2022					
Construction	$ 30,204	$ 4,501	$ 2,852	$ —	$ 37,557
Commercial and industrial	128,351	645	4,731	1	133,728
Commercial real estate - nonowner occupied	81,762	1,072	1,939	385	85,158
Commercial real estate - all other	63,459	3,189	1,883	—	68,531
Total	$ 303,776	$ 9,407	$ 11,405	$ 386	$ 324,974

	Performing	Nonperforming	Total
December 31, 2022			
Consumer	$ 33,136	$ 354	$ 33,490
Residential real estate	374,380	1,191	375,571
	$ 407,516	$ 1,545	$ 409,061

	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2021					
Construction	$ 31,335	$ —	$ 2,885	$ —	$ 34,220
Commercial and industrial	130,163	—	1,693	15	131,871
Commercial real estate - nonowner occupied	64,628	—	1,678	—	66,306
Commercial real estate - all other	61,873	419	3,151	—	65,443
Total	$ 287,999	$ 419	$ 9,407	$ 15	$ 297,840

	Performing	Nonperforming	Total
December 31, 2021			
Consumer	$ 37,123	$ 256	$ 37,379
Residential real estate	343,511	932	344,443
	$ 380,634	$ 1,188	$ 381,822

The increase in the special mention category is primarily caused by the addition of one large customer relationship. This relationship is actively under review and is well secured.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. ALLOWANCE FOR LOAN LOSSES (Cont'd)

Foreclosed Assets Held For Sale

Foreclosed assets acquired in settlement of loans are carried at fair value less estimated costs to sell and are included in other assets on the Consolidated Balance Sheet. As of December 31, 2022 and 2021, a total of $519 thousand and $13 thousand, respectively of foreclosed assets were included with other assets. As of December 31, 2022 and 2021, included within foreclosed assets is $70 thousand and $13 thousand, respectively of consumer residential mortgages that were foreclosed on or received via a deed in lieu transaction prior to the period end. As of December 31, 2022 and 2021, the Company had initiated formal foreclosure procedures on $634 thousand and $229 thousand of consumer residential mortgages, respectively, that have not yet been moved to foreclosed assets. As of December 31, 2022, the Company had also initiated formal foreclosure procedures on $539 thousand of land loans originally intended for development.

Troubled Debt Restructuring

Consistent with accounting and regulatory guidance, the Company recognizes a troubled debt restructuring ("TDR") when the Company, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that would not normally be considered. Regardless of the form of concession granted, the Company's objective in offering a TDR is to increase the probability of repayment of the borrower's loan. To be considered a TDR, the borrower must be experiencing financial difficulties and, the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that would not otherwise be considered.

The Company had zero loan modifications that were considered TDR's during the years ended December 31, 2022 and 2021.

7. PREMISES AND EQUIPMENT

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

	2022	2021
Land	$ 3,019	$ 2,960
Buildings	12,561	12,228
Furniture, fixtures, and equipment	12,867	11,691
Leasehold improvements	3,093	2,847
	31,540	29,726
Less accumulated depreciation and amortization	18,355	17,103
Total	$ 13,185	$ 12,623

Depreciation and amortization charged to operations was $1,252 thousand in 2022 and $1,134 thousand in 2021.

8. GOODWILL

For each of the years ended December 31, 2022 and 2021, goodwill has a net carrying amount of $389 thousand.

The gross carrying amount of goodwill is tested for impairment in the fourth quarter, after the annual forecasting process. Based on fair value of the reporting unit, estimated using a qualitative analysis, no goodwill impairment loss was recognized in 2022 or 2021.

9. TIME DEPOSITS

The scheduled maturities of time deposits are as follows (in thousands):

2023	$ 241,494
2024	86,845
2025	23,067
2026	14,995
2027	5,814
Thereafter	—
Total	$ 372,215

The aggregate of all time deposit accounts of $250 thousand or more amounted to $95.8 million and $58.9 million at December 31, 2022 and 2021, respectively.

10. SHORT-TERM BORROWINGS

The Company has entered into a borrowing agreement with a revolving line of credit agreement on June 12, 2018 whereby it can borrow up to $150 million from the FHLB. All borrowings from the FHLB are secured by a blanket lien on qualified collateral, defined principally as investment securities and mortgage loans which are owned by the Bank free and clear of any liens or encumbrances. At December 31, 2022, the outstanding balance was $61.9 million with a rate of 4.45 percent. The average balance during the year was $40.6 million with an average rate during the year of 2.43 percent. The maturity date on the revolving line of credit is June 5, 2023. This line was in place at December 31, 2021 with no outstanding balance at year end and no outstanding balances during the year.

During 2022 and 2021, the Company used the Federal Reserve Discount Window for overnight borrowings. At December 31, 2022, there was no outstanding balance. The average balance during the year was $1.7 million with an average rate of 0.26 percent. At December 31, 2021, there was an outstanding balance of $15.4 million with an interest rate of 0.25 percent. The average balance during the year was $19.6 million with an average rate of 0.25 percent.

11. OTHER BORROWED FUNDS

Maturities of other borrowed funds at December 31, 2022, are as follows (in thousands):

Year Ending December 31,	Amount	Weighted-Average Rate
2023	$ 11,534	3.12 %
2024	10,715	2.96
2025	—	—
2026	—	—
2027	—	—
Thereafter	6,186	7.26
Total	$ 28,435	3.96 %

All borrowings from the FHLB are secured by a blanket lien on qualified collateral, defined principally as investment securities and mortgage loans which are owned by the Bank free and clear of any liens or encumbrances. The advances are collateralized by FHLB stock, obligations of U.S. government corporations and agencies, mortgage-backed securities, and first mortgage loans. During 2022, the Bank had a borrowing limit of approximately $388.7 million, with a variable rate of interest, based on the FHLB's cost of funds.

Subordinated capital debt consists of variable rate and fixed rate obligations with maturity dates ranging from September 1, 2023, through May 1, 2024. This is comprised of $2.0 million of notes issued by the Bank and $8.2 million of notes issued by Value. The Company fully and unconditionally guarantees these notes and they are subordinate in right of payments to the depositors and all claims of creditors. Interest on fixed rate notes is computed at 4.6 percent or 4.5 percent. Interest on variable notes is computed at 1.5 percent above the Federal Reserve discount rate, or 1 percent below the prime rate. Subordinated capital notes of $5.5 million and $4.7 million mature in 2023 and 2024, respectively.

The Company formed a special purpose entity ("Entity 1") to issue $3 million of floating rate, obligated mandatorily redeemable securities and $93 thousand in common securities as part of a pooled offering with a maturity date of April 24, 2033. The rate is determined quarterly and floats based on the three-month LIBOR plus 3.25 percent. At December 31, 2022, the rate was 7.69 percent. The Entity 1 may redeem them, in whole or in part, at face value on a quarterly basis with proper notice. The Company borrowed the proceeds of the issuance from the Entity 1 in April 2003 in the form of a $3 million note payable, which is included in the liabilities section of the Company's Consolidated Balance Sheet.

The Company formed an additional special purpose entity ("Entity 2") to issue $3 million of floating rate, obligated mandatorily redeemable securities and $93 thousand in common securities as part of a pooled offering with a maturity date of April 6, 2034. The rate is determined quarterly and floats based on the three-month LIBOR plus 2.75 percent. At December 31, 2022, the rate was 6.83 percent. The Entity 2 may redeem them, in whole or in part, at face value on a quarterly basis with proper notice. The Company borrowed the proceeds of the issuance from the Entity 2 in March 2004 in the form of a $3 million note payable, which is included in the liabilities section of the Company's Consolidated Balance Sheet.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. OTHER BORROWED FUNDS (Cont'd)

Under current accounting rules, the Company's minority interest in both Entity 1 and Entity 2 was recorded at the initial investment amount and is included in the other assets section of the Consolidated Balance Sheet. Neither Entity 1 nor Entity 2 is consolidated as part of the Company's consolidated financial statements.

The following table sets forth information concerning other borrowed funds (in thousands):

Description	Maturity Range From	Maturity Range To	Weighted-Average Interest Rate	Stated Interest Rate Range From	Stated Interest Rate Range To	At December 31, 2022	At December 31, 2021
Fixed rate	02/06/23	02/27/24	1.72 %	1.35 %	1.87 %	**$ 12,000**	$ 15,000
Subordinated capital debt	09/01/23	05/01/24	4.58 %	4.50 %	5.00 %	**10,249**	10,399
Long-term notes payable	04/24/33	04/06/34	7.26 %	6.83 %	7.69 %	**6,186**	6,186
						$ 28,435	$ 31,585

12. DIRECTOR, OFFICER, AND EMPLOYEE BENEFITS

Savings Plan

The Company maintains a trusteed Section 401(k) plan with contributions matching those by eligible employees to a maximum of 25 percent of employee contributions annually, to a maximum of 7 percent of base salary. The Company may also make an elective contribution annually. All employees age 21 and older at time of hire are eligible to participate in the plan. The Company's contribution to this plan was $262 thousand and $258 thousand in 2022 and 2021, respectively.

The plan assets include 163,706 shares of the Company's common stock that is valued at $11.8 million.

Deferred Compensation Plan

The Company has a deferred director's compensation plan whereby participating directors elected to forego directors' fees. To fund benefits under the deferred compensation plan, the Company established a rabbi trust. The Company guarantees a return equal to the average New York prime rate of interest to plan participants with a floor of 6 percent. Contributions to the plan were $120 thousand in 2022 and $85 thousand in 2021. Distributions from the plan were $65 thousand in 2022 and $83 thousand in 2021. The Company carried a liability of $3.0 million in 2022 and $3.1 million in 2021.

Performance Unit Plan

On January 25, 2022, the Board of Directors approved the 2022 Performance Unit Plan which is intended to serve as a successor program to the Company's 2017 Performance Unit Plan. The plan may award annual grants to executive management and directors equal in value to the appreciation on a share of stock between the date the performance unit becomes vested and the date of award. Payments to employees vested under the plan are made in cash. Since January 24, 2017, at the beginning of each succeeding year, a participant may elect to receive full payment in cash of allocated performance units as of the preceding year-end. During 2022, $20 thousand in expense was recognized under the plan while $202 thousand in expense was recognized during 2021. The Company carried a liability of $20 thousand in 2022 and $681 thousand in 2021.

13. INCOME TAXES

Federal income tax expense consists of the following (in thousands):

	2022	2021
Currently payable	**$ 1,230**	$ 1,333
Deferred	**345**	238
Total	**$ 1,575**	$ 1,571

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

	2022	2021
Deferred tax assets:		
Allowance for loan losses	**$ 1,578**	$ 1,566
Deferred directors' fees	**514**	462
Deferred performance plan	**4**	143
Lease Liability	**545**	637
Net unrealized loss on available for sale securities	**8,218**	—
Other	**—**	—
Total	**10,859**	2,808
Deferred tax liabilities:		
Premises and equipment	**875**	515
Deferred loan origination costs, net	**228**	137
Investment discount accretion	**38**	26
Unrealized gain - merger	**16**	16
Unrealized gain - equity securities	**173**	367
Right-of-use lease asset	**527**	619
Net unrealized gain on available for sale securities	**—**	1,282
Other	**11**	10
Total	**1,868**	2,972
Net deferred tax (liabilities)	**$ 8,991**	$ (164)

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

The reconciliation of the statutory rate and the effective income tax rate is as follows in thousands):

	2022 Amount	2022 % of Pretax Income	2021 Amount	2021 % of Pretax Income
Computed at statutory rate	**$ 2,748**	**21.0 %**	$ 2,704	21.0 %
Effect of tax-free interest income	**(1,182)**	**(9.0)**	(1,191)	(9.2)
BOLI earnings	**(76)**	**(0.6)**	(59)	(0.5)
Nondeductible interest to carry tax-exempt assets	**54**	**0.4**	43	0.3
Other	**31**	**0.2**	74	0.6
Income tax expense and effective rate	**$ 1,575**	**12.0 %**	$ 1,571	12.2 %

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. INCOME TAXES (Cont'd)

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

There is currently no liability for uncertain tax positions and no known unrecognized tax benefits. The Bank recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the Consolidated Statement of Income. The Bank's federal and PA shares tax returns for taxable years through 2018 have been closed for purposes of examination by the Internal Revenue Service and the Pennsylvania Department of Revenue.

14. LEASE COMMITMENTS

The Company utilizes leases for nineteen of its locations. As of December 31, 2022, right-of-use assets representing operating leases amounted to $2.5 million and have remaining lease terms of 1 to 7 years. As of December 31, 2022, the Company had no financing leases. As of December 31, 2021, right-of-use assets representing operating leases amounted to $2.9 million and have remaining lease terms of 1 to 7 years. As of December 31, 2021, the Company had no financing leases. Lease costs incurred were entirely operating lease costs which approximate rent payments being made. As of December 31, 2022, the weighted average term for operating leases is 6 years and the weighted average discount rate is 2.95 percent. As of December 31, 2021, the weighted average term for operating leases is 7 years and the weighted average discount rate is 2.97 percent. The following table displays the undiscounted cash flows due related to operating leases as of December 31, 2022, along with a reconciliation to the discounted amount recorded on the December 31, 2022 consolidated balance sheet (in thousands):

Undiscounted cash flows due within:	Operating Lease Payments
2023	$ 733
2024	644
2025	345
2026	233
2027	193
Thereafter	701
Total	$ 2,849
Impact of present value discount	(254)
Amount reported on balance sheet	$ 2,595

15. REGULATORY RESTRICTIONS

The Company's wholly owned subsidiary, the Bank, is subject to the Pennsylvania Banking Code which restricts the availability of surplus for dividend purposes. At December 31, 2022, surplus funds of $13.2 million were not available for dividends.

Effective, March 26, 2020, the Federal Reserve reduced reserve requirements to zero for all depository institutions. There were no required federal reserves included in "Cash and due from banks" at December 31, 2022 or December 31, 2021. The required reserves are used to facilitate the implementation of monetary policy by the Federal Reserve System. The required reserves are computed by applying prescribed ratios to the classes of average deposit balances. These are held in the form of vault cash and a depository amount held with the Federal Reserve Bank. Federal law prohibits the Company from borrowing from the Bank unless the loans are secured by specific collateral.

16. REGULATORY CAPITAL REQUIREMENTS

Federal regulations require the Company and the Bank to maintain minimum amounts of capital. Specifically, each is required to maintain certain minimum dollar amounts and ratios of Total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average total assets.

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

The Company is subject to various capital requirements administered by the federal banking agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the company must meet specific capital guidelines that involve quantitative measures of the company's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. 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 consolidated financial statements.

Quantitative measures established by regulation to ensure capital adequacy require the company to maintain minimum amounts and ratios (set forth in the table below) of Total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. For December 31, 2022 and 2021, the final Basel III rules require the Company to maintain minimum amounts of ratios of Common equity tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined). Additionally, under Basel III rules the decision was made to opt-out of including accumulated other comprehensive income in regulatory capital. As of December 31, 2022, and 2021, the FDIC categorized the Company and the Bank as well capitalized under the regulatory framework for prompt corrective action. To be classified as a well-capitalized financial institution, the Company must maintain minimum Total capital, Common equity tier 1 capital, Tier 1 capital, and Tier 1 leverage capital ratios as set forth in the table.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. REGULATORY CAPITAL REQUIREMENTS (Cont'd)

The Company's actual capital ratios are presented in the following table (in thousands), which shows the Company met all regulatory capital requirements. The capital position of the Bank does not differ significantly from the Company's.

	2022					
	Actual		For Capital Adequacy Purposes		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)	**$ 145,308**	**17.87 %**	**$ 65,037**	**8.00 %**	**$ 81,297**	**10.00 %**
Common equity tier 1 capital (to risk-weighted assets)	**$ 131,810**	**16.21 %**	**$ 36,583**	**4.50 %**	**$ 52,843**	**6.50 %**
Tier 1 capital (to risk-weighted assets)	**$ 137,810**	**16.95 %**	**$ 48,778**	**6.00 %**	**$ 65,037**	**8.00 %**
Tier 1 capital (to average assets)	**$ 137,810**	**10.08 %**	**$ 54,667**	**4.00 %**	**$ 68,334**	**5.00 %**

	2021					
	Actual		For Capital Adequacy Purposes		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)	$ 137,770	18.70 %	$ 58,931	8.00 %	$ 73,663	10.00 %
Common equity tier 1 capital (to risk-weighted assets)	$ 123,926	16.82 %	$ 33,148	4.50 %	$ 47,881	6.50 %
Tier 1 capital (to risk-weighted assets)	$ 129,926	17.64 %	$ 44,198	6.00 %	$ 58,931	8.00 %
Tier 1 capital (to average assets)	$ 129,926	9.98 %	$ 52,058	4.00 %	$ 65,073	5.00 %

17. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for an asset or liability in an orderly transaction between market participants at the measurement date. The following three levels show the fair value hierarchy that prioritizes the use of inputs used in valuation methodologies.

Level I: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available. A contractually binding sales price also provides reliable evidence of fair value.

Level II: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; inputs to the valuation methodology include quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs to the valuation methodology that utilize model-based techniques for which all significant assumptions are observable in the market.

Level III: Inputs to the valuation methodology are unobservable and significant to the fair value measurement; inputs to the valuation methodology that utilize model-based techniques for which significant assumptions are not observable in the market; or inputs to the valuation methodology that require significant management judgment or estimation, some of which may be internally developed.

Management maximizes the use of observable inputs and minimizes the use of unobservable inputs when determining fair value measurements. Management reviews and updates the fair value hierarchy classifications of the Company's assets and liabilities on a quarterly basis.

The following tables present the assets reported on the Consolidated Balance Sheet at their fair value (in thousands) as of December 31, 2022 and 2021, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	December 31, 2022			
	Level I	Level II	Level III	Total
Assets:				
Investment securities available for sale, mutual fund and equity securities held				
Obligations of states and political subdivisions	**$ —**	**$ 136,838**	**$ —**	**$ 136,838**
Mortgage-backed securities in government-sponsored entities	**—**	**147,425**	**—**	**147,425**
Corporate bonds	**—**	**16,213**	**—**	**16,213**
Equity securities - mutual fund	**432**	**—**	**—**	**432**
Equity securities - financial institutions	**8,300**	**—**	**—**	**8,300**
Total	**$ 8,732**	**$ 300,476**	**$ —**	**$ 309,208**

	December 31, 2021			
	Level I	Level II	Level III	Total
Assets:				
Investment securities available for sale, mutual fund and equity securities held				
Obligations of states and political subdivisions	$ —	$ 155,324	$ —	$ 155,324
Mortgage-backed securities in government-sponsored entities	—	166,938	—	166,938
Corporate bonds	—	13,787	—	13,787
Equity securities - mutual fund	487	—	—	487
Equity securities - financial institutions	9,311	—	—	9,311
Total	$ 9,798	$ 336,049	$ —	$ 345,847

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. FAIR VALUE MEASUREMENTS (Cont'd)

Financial instruments are considered Level III when their values are determined using pricing models and discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. In addition to these unobservable inputs, the valuation models for Level III financial instruments typically also rely on a number of inputs that are readily observable either directly or indirectly. Level III financial instruments also include those for which the determination of fair value requires significant management judgment or estimation. The Company had no recurring Level III measurements during 2022 or 2021.

The following tables present the assets measured on a nonrecurring basis on the Consolidated Balance Sheet at their fair value, by level within the fair value hierarchy (in thousands):

	December 31, 2022			
	Level I	**Level II**	**Level III**	**Total**
Assets:				
Other real estate owned	$ —	$ —	$ 519	$ 519
Impaired loans	—	—	1,623	1,623
	$ —	$ —	$ 2,142	$ 2,142

	December 31, 2021			
	Level I	Level II	Level III	Total
Assets:				
Other real estate owned	$ —	$ —	$ 13	$ 13
Impaired loans	—	—	2,118	2,118
	$ —	$ —	$ 2,131	$ 2,131

Other real estate owned ("OREO") is carried at the lower of cost or fair value, which is measured at the foreclosure date. If the fair value of the collateral exceeds the carrying amount of the loan, no charge-off or adjustment is necessary, the loan is not considered to be carried at fair value, and is therefore not included in the table above. If the fair value of the collateral is less than the carrying amount of the loan, management will charge the loan down to its estimated realizable value. The fair value of OREO is based on the appraised value of the property, which is generally unadjusted by management and is based on comparable sales for similar properties in the same geographic region as the subject property, and is included in the above table as a Level II measurement. In some cases, management may adjust the appraised value due to the age of the appraisal, changes in market conditions, or observable deterioration of the property since the appraisal was completed. In these cases, the loans are categorized in the above table as level III measurement since these adjustments are considered to be unobservable inputs. Income and expenses from operations and further declines in the fair value of the collateral subsequent to foreclosure are included in net expenses from OREO.

The Company has measured impairment on impaired loans 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. In some cases, management may adjust the appraised value due to the age of the appraisal, changes in market conditions, or observable deterioration of the property since the appraisal was completed. Additionally, management makes estimates about expected costs to sell the property which are also included in the net realizable value. If the fair value of the collateral dependent loan is less than the carrying amount of the loan a specific reserve for the loan is made in the allowance for loan losses or a charge-off is taken to reduce the loan to the fair value of the collateral (less estimated selling costs) and the loan is included in the table above as a level III measurement. If the fair value of the collateral exceeds the carrying amount of the loan, then the loan is not included in the table above as it is not currently being carried at its fair value. At December 31, 2022 and 2021, the fair values shown above exclude estimated selling costs of $121 thousand and $111 thousand, respectively.

The following tables present additional quantitative information about assets measured at fair value on a nonrecurring basis for which the Company uses Level III inputs to determine fair value (in thousands):

December 31, 2022	Quantitative Information About Level III Fair Value Measurements			
	Estimate	**Valuation Techniques**	**Unobservable Input**	**Average**
Assets:				
Other real estate owned	**$ 519**	Appraisal of collateral (1)	Appraisal adjustments (2) Liquidation expenses (2)	3 % 10 %
Impaired loans	**$ 1,623**	Fair value of collateral (1)	Appraisal adjustments (2) Liquidation expenses (2)	3 % 5 %

December 31, 2021	Quantitative Information About Level III Fair Value Measurements			
	Estimate	Valuation Techniques	Unobservable Input	Average
Assets:				
Other real estate owned	$ 13	Appraisal of collateral (1)	Appraisal adjustments (2) Liquidation expenses (2)	42 % 7 %
Impaired loans	$ 2,118	Fair value of collateral (1)	Appraisal adjustments (2) Liquidation expenses (2)	10 % 2 %

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

(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range and weighted average of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. FAIR VALUE DISCLOSURE

The fair value of the Company's financial instruments not recorded at fair value on a recurring basis as of December 31 is as follows (in thousands):

	2022				
	Carrying Value	**Fair Value**	**Level I**	**Level II**	**Level III**
Financial assets:					
Investment securities held to maturity	**$ 250,751**	**$ 222,530**	**$ —**	**$ 222,530**	**$ —**
Net loans	**726,537**	**642,683**	**—**	**—**	**642,683**
Financial liabilities:					
Deposits	**$ 1,160,735**	**$ 1,145,247**	**$ 788,520**	**$ —**	**$ 356,727**
Other borrowed funds	**28,435**	**28,179**	**—**	**—**	**28,179**

	2021				
	Carrying Value	Fair Value	Level I	Level II	Level III
Financial assets:					
Investment securities held to maturity	$ 244,902	$ 245,917	$ —	$ 245,917	$ —
Net loans	672,218	672,836	—	—	672,836
Financial liabilities:					
Deposits	$ 1,137,788	$ 1,136,725	$ 799,295	$ —	$ 337,430
Other borrowed funds	31,585	31,827	—	—	31,827

For cash and due from banks, interest bearing deposits in banks, accrued interest receivable, FHLB stock, bank owned life insurance, short-term borrowings, and accrued interest payable, the carrying value is a reasonable estimate of fair value.

19. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	2022	2021
	Net Unrealized Gains (Losses) on Investment Securities	Net Unrealized Gains (Losses) on Investment Securities
Accumulated other comprehensive (loss) income, beginning of year	**$ 4,823**	$ 8,241
Unrealized (loss) on available-for-sale securities	**(45,237)**	(4,327)
Tax effect	**9,500**	909
Net unrealized (loss) on available-for-sale securities	**(35,737)**	(3,418)
Accumulated other comprehensive (loss) income, end of year	**$ (30,914)**	$ 4,823

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20. PARENT COMPANY

Following are condensed financial statements for the parent company (in thousands):

CONDENSED BALANCE SHEET

	December 31, 2022	December 31, 2021
ASSETS		
Cash in bank subsidiary	$ 781	$ 1,169
Investment securities available for sale held at fair value	3,578	3,127
Equity securities held at fair value	5,308	6,194
Investment in bank subsidiary	95,470	123,285
Investment in non-bank subsidiaries	1,736	1,811
Premises and equipment, net	477	490
Other assets	1,327	1,117
TOTAL ASSETS	$ 108,677	$ 137,193
LIABILITIES		
Long-term note payable	$ 6,186	$ 6,186
Other liabilities	1,206	1,869
TOTAL LIABILITIES	7,392	8,055
STOCKHOLDERS' EQUITY	101,285	129,138
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 108,677	$ 137,193

CONDENSED STATEMENT OF INCOME AND COMPREHENSIVE (LOSS) INCOME

	Year Ended December 31, 2022	Year Ended December 31, 2021
INCOME		
Dividends from bank subsidiary	$ 4,745	$ 5,140
Dividends from non-bank subsidiary	24	85
Interest and dividends on investment securities	349	305
Partnership (loss)	(1)	—
(Loss) gain on equity securities change in fair value, net	(719)	954
TOTAL INCOME	4,398	6,484
EXPENSES		
Interest expense	309	199
Operating expenses	362	555
Income before income tax (benefit) expense	3,727	5,730
Income tax (benefit) expense	(245)	80
Income before equity in undistributed net income of subsidiaries	3,972	5,650
Equity in undistributed net income of subsidiaries	7,541	5,655
NET INCOME	$ 11,513	$ 11,305
COMPREHENSIVE INCOME	$ (24,224)	$ 7,887

CONDENSED STATEMENT OF CASH FLOWS

	Year Ended December 31, 2022	Year Ended December 31, 2021
OPERATING ACTIVITIES		
Net income	$ 11,513	$ 11,305
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed net income of subsidiaries	(7,541)	(5,655)
Loss (gain) on equity securities change in fair value, net	719	(954)
Other, net	(774)	402
Net cash provided by operating activities	3,917	5,098
INVESTING ACTIVITIES		
Purchases of investment securities	(1,262)	(1,523)
Proceeds from maturities and paydowns	419	1,044
Purchases of equity securities	167	—
Net cash used for investing activities	(676)	(479)
FINANCING ACTIVITIES		
Dividends paid	(3,745)	(3,634)
Purchases of treasury stock	(7)	(411)
Proceeds from sales of treasury stock	123	—
Net cash used for financing activities	(3,629)	(4,045)
(Decrease) increase in cash	(388)	574
CASH AT BEGINNING OF YEAR	1,169	595
CASH AT END OF YEAR	$ 781	$ 1,169

21. LEGAL PROCEEDINGS

The Company and its subsidiaries are subject to various legal actions arising in the normal course of business. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on the Company's results of operations.

22. SUBSEQUENT EVENTS

Management has reviewed events occurring through February 24, 2023 the date the financial statements were issued and no other subsequent events occurred requiring accrual or disclosure.

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Management's discussion and analysis and related financial data are presented to assist in the understanding and evaluation of the financial condition and results of operations of 1ST SUMMIT BANCORP of Johnstown, Inc. (the "Company") and its main subsidiaries, 1ST SUMMIT BANK (the "Bank") and Value Finance, Inc. ("Value"), for the years ended December 31, 2022 and 2021. This section should be read in conjunction with the consolidated financial statements and related footnotes.

Sections of this financial review, as well as the notes to the consolidated financial statements, contain certain forward-looking statements which reflect management's beliefs and expectations based on information currently available and may contain the words "expect," "estimate," "anticipate," "should," "intend," "probability," "risk," "target," "objective," and similar expressions or variations on such expressions. These forward-looking statements are inherently subject to significant risks and uncertainties which could cause actual results to differ materially from those projected. Those risks and uncertainties include changes in interest rates, economic conditions, costs of opening new offices, and the ability to control costs and expenses. You should not place undue reliance on our forward-looking statements. Forward-looking statements speak only as of the date on which they were made. The Company undertakes no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances that arise after the date hereof.

RESULTS OF OPERATIONS - SUMMARY

Net income for the year was $11,513 thousand compared to $11,305 thousand for the year 2021. This represents an increase of $208 thousand, or 1.8% over the prior year. Earnings per share for 2022 were $5.26, increasing from $5.16 in 2021, after adjusting for the stock dividend issued on April 19, 2022. The return on average assets for the year ended December 31, 2022, was 0.84% and 0.87% for the year ended December 31, 2021. The return on average equity for 2022 was 10.90%, and 8.89% for 2021.

The increase in earnings was principally attributable to a higher net interest margin and, higher non-interest income, including higher bank card income, wealth management income, and excluding losses on equity securities change in fair value, net. Net interest income totaled $36,881 thousand compared to $33,783 thousand in 2021. Net interest income increased as a result of higher interest rates with higher earning asset yields, higher funding costs, and $58.7 million more in average earning assets during 2022. The net interest margin, on a fully tax equivalent basis, for 2022 was 2.93% compared to 2.81% in 2021.

Other income for 2022, excluding the loss on equity securities change in fair value, net of $890 thousand was $6,780 thousand, an increase of $746 thousand or 12.4% over 2021. This category of income increased primarily due to higher service charges on deposit accounts, wealth management income, bank-owned-life insurance income, and bank card interchange income. Loss on equity securities change in fair value, net was $890 thousand compared to the gain of $1,535 thousand in 2021, a decrease of $2,425 thousand. This decrease was the result of the decreased value of our equity securities portfolio in 2022. Total other income represented 11.6% of total revenues in 2022 compared to 15.7% in 2021.

Other expenses totaled $29,315 thousand in 2022 compared to $26,720 thousand in 2021, an increase of $2,595 thousand or 9.7%. The higher expenses were principally due to higher salaries and benefits costs for additional hiring, higher occupancy, equipment, federal deposit insurance, data processing, and shares tax expense.

FINANCIAL CONDITION

Total Assets

Total assets at December 31, 2022 were $1.362 billion compared to $1.324 billion at December 31, 2021, an increase of $37.6 million or 2.8%. Net loans increased $54.3 million, while debt and equity securities decreased by $30.7 million, cash and equivalents were down $3.9 million, and all other assets combined were up $17.9 million. This increase in assets was funded by deposit growth of $22.9 million and an increase in short-term debt of $46.5 million, partially offset by a decrease in other borrowed funds of $3.2 million and a decrease in stockholders' equity of $27.8 million.

Loans Receivable

The Company grants credit to commercial, consumer, and real estate customers with the view of serving the community's credit needs. Loan growth was broad based with residential real estate showing the greatest increase, as well as commercial and industrial, commercial real estate, and construction loans contributing to growth. Total loans receivable represented the most significant percentage of the Company's assets at 53.9% of total assets. This includes loans at both the Bank and Value. At December 31, 2022, total loans receivable were $734.0 million compared to $679.7 million at December 31, 2021, an increase of $54.3 million, or 8.0%.

Commercial loans consist principally of loans made to small and medium sized businesses within the Company's market and are usually secured by real estate and other assets of the borrower. Loans made under the Paycheck Protection Program ("PPP") totaled $0.3 million at December 31, 2022 compared to $12.3 million in 2021 and, are included in this category. Commercial and commercial real estate loans combined, increased to $287.4 million at December 31, 2022, from $263.6 million in 2021, an increase of $23.8 million or 9.0%.

Residential real estate, which includes home equity lending, totaled $375.6 million at December 31, 2022 compared to $344.4 million at December 31, 2021. This increase of $31.2 million was net of payments and refinancing activity. In 2022, fixed rate mortgage products were preferred by customers and accounted for the majority of the lending activity.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Loans Receivable (Cont'd)

Construction loans, which include loans for real estate development along with residential construction, totaled $37.6 million at December 31, 2022 compared to $34.2 million at December 31, 2021, an increase of $3.3 million or 9.8%.

Consumer loans, which include loans to individuals for household, family, personal, and consumer autos decreased to $33.5 million at December 31, 2022, down $3.9 million or 10.4%, from $37.4 million at December 31, 2021.

Non-Performing Assets and Allowance for Loan and Lease Losses

Non-performing assets consist of non-performing loans, (non-accrual and credits delinquent 90 days and over) real estate acquired through foreclosure, and non-performing investment securities. Commercial, real estate and consumer loans are generally placed on non-accrual status when interest is 90 days delinquent or when management ascertains that an obligor's financial condition renders collection of interest doubtful.

The Company's emphasis on asset quality as a key objective continued in 2022. Non-performing assets totaled $4.7 million, representing 0.34% of total assets at year-end 2022, compared to $3.8 million and 0.28% of assets at December 31, 2021. Non-performing assets include loans of $4.2 million and foreclosed real estate of $0.5 million at December 31, 2022, compared to $3.7 million and $0.1 million, respectively, at December 31, 2021.

The allowance for loan and lease losses ("allowance") is a reserve to provide for possible loan portfolio losses. The allowance increased to $7.5 million, representing 1.02% of total loans at December 31, 2022 and totaled $7.4 million or 1.10% of total loans at December 31, 2021. The allowance increase in 2022 is due to increases in portfolio size and qualitative factors related to credit quality and loan growth offset by a reduction in the qualitative factor for loan policy. The provision for loan losses ("provision") is an expense charged to earnings to fund the allowance. The provision of $368 thousand or 0.05% of loans during 2022 is lower mainly due to the reduction in the loan policy factor. Loan policy was reassessed, is strong, and credit quality has not been an issue as a result of any loan policy issues. This compares with the provision of $1,756 thousand or 0.26% of loans during 2021. Net loan charge-offs in 2022 were $314 thousand or 0.04% of average loans compared to net loan charge-offs of $707 thousand or 0.11% of average loans in 2021.

Adequacy of the allowance for loan and lease losses is evaluated on a monthly basis. The evaluation includes, but is not restricted to, the composition of risks inherent in the loan portfolio, the analysis of impaired loans and a historical review of loans. The current allowance of $7.5 million at December 31, 2022 is deemed adequate and at 1.02% of loans, represents a favorable ratio. The reserve has increased 27.4% over the past five years.

The following table sets forth information relative to the Company's allowance for loan and lease losses on the indicated dates:

	(In thousands)				
Allowance for Loan and Lease Losses	**2022**	2021	2020	2019	2018
Allowance balance, January 1	**$ 7,444**	$ 6,395	$ 5,645	$ 5,843	$ 5,884
Charge-offs:					
Consumer	**(292)**	(365)	(429)	(273)	(288)
Residential real estate	**(14)**	(35)	(62)	(63)	(75)
Commercial and all other	**(315)**	(494)	(716)	(593)	(308)
Total charge-offs	**(621)**	(894)	(1,207)	(929)	(671)
Recoveries:					
Consumer	**65**	76	80	47	46
Residential real estate	**24**	6	15	4	—
Commercial and all other	**218**	105	51	62	139
Total recoveries	**307**	187	146	113	185
Provisions	**368**	1,756	1,811	618	445
Allowance balance, December 31	**$ 7,498**	$ 7,444	$ 6,395	$ 5,645	$ 5,843
Allowance for loan losses as a percent of total loans outstanding	**1.02%**	1.10%	0.98%	0.98%	1.08%
Net loans charged-off as a percent of average loans outstanding	**0.04%**	0.11%	0.17%	0.15%	0.09%

MANAGEMENT'S DISCUSSION AND ANALYSIS

Non-Performing Assets and Allowance for Loan and Lease Losses (Cont'd)

The following table sets forth information relative to non-accrual loans, non-performing loans and non-performing assets on the indicated dates:

	December 31, (In thousands)				
Non-Performing Assets	**2022**	2021	2020	2019	2018
Non-accrual loans:					
Consumer	**$ 128**	$ 82	$ 132	$ 139	$ 148
Residential real estate	**471**	389	483	516	720
Commercial and all other	**2,558**	2,554	1,008	452	966
Total non-accrual loans	**3,157**	3,025	1,623	1,107	1,834
Accruing loans which are contractually past due 90 days or more	**1,022**	717	828	1,791	1,213
Total non-performing loans	**4,179**	3,742	2,451	2,898	3,047
Foreclosed real estate	**519**	13	128	336	495
Non-performing investments	**—**	—	—	—	—
Total non-performing assets	**$4,698**	$3,755	$2,579	$3,234	$3,542
Non-performing loans to total loans	**0.57%**	0.55%	0.38%	0.50%	0.56%
Non-performing loans to total assets	**0.31%**	0.28%	0.19%	0.26%	0.28%
Non-performing assets to total assets	**0.34%**	0.28%	0.21%	0.29%	0.33%

Securities

The securities portfolio consists principally of issues of United States Government agencies, including mortgage-backed securities, municipal obligations, corporate debt, and equity securities of other financial institutions. The Company classifies its investments in three categories at the time of purchase as held to maturity ("HTM"), available for sale ("AFS"), and equity securities. The Company does not have a trading account. Securities classified as HTM are those in which the Company has the ability and intent to hold the security until contractual maturity. At December 31, 2022, the HTM portfolio totaled $250.8 million and consisted of longer-term municipal obligations, U.S. Government agencies, and mortgage-backed securities. Securities classified as AFS are eligible to be sold due to liquidity needs or interest rate risk management. These securities are adjusted to and carried at their fair value with any unrealized gains or losses, net of tax, recorded in the equity section of the consolidated balance sheet as accumulated other comprehensive income. At December 31, 2022, $300.5 million in securities were so classified and carried at their fair value, with unrealized losses, net of tax of $30.9 million, included in accumulated other comprehensive (loss) income in stockholders' equity. Equity securities are adjusted to and carried at their fair value with any changes in fair value recorded as gains or losses in income. At December 31, 2022, equity securities were $8.7 million.

At December 31, 2022, the average life of the portfolio was 5.3 years compared to 3.7 years at the prior year end. The increase was principally due to the purchase of longer-term amortizing securities, coupled with natural amortization in the portfolio. Total purchases for the year were $77.6 million, securities matured or called with cash flows of $60.0 million, and equity proceeds of $0.2 million. The purchases were funded principally by cash flow from the portfolio and deposit growth.

At December 31, 2022, the Company's securities portfolio (HTM, AFS, and equities) totaled $560.0 million with the mix as follows: U. S. Government agencies 3.2%, mortgage-backed securities 60.0%, municipal obligations 32.3%, corporate obligations, equity securities of other financial institutions, and mutual funds combined 4.5%. The portfolio contained no structured notes, step-up bonds, and no off-balance sheet derivatives were in use. The portfolio totaled $590.7 million at December 31, 2021.

Deposits

The Company provides a complete range of deposit products to its customers through the Bank's seventeen community offices. These products include interest-bearing and noninterest-bearing demand deposit accounts, statement savings, and money market accounts. Time deposits consist of certificates of deposit with terms of up to ten years and include individual retirement accounts.

Deposits, the main source of funding for the Company, grew $22.9 million or 2.0% to a year-end total of $1,161 million. In 2022, the time deposit category showed the most significant growth. As of December 31, 2022, the Company's time deposits increased $33.7 million or 10.0% to $372.2 million. Noninterest-bearing checking deposits increased $7.4 million, or 6.0% to $130.0 million. Interest-bearing checking deposits totaled $323.6 million, increasing $2.7 million from the prior year while savings deposits totaled $188.3 million, increasing $0.2 million from the prior year. Money market account deposits totaled $146.6 million, decreasing $21.1 million from the prior year. Time deposits of $250,000 or more, which include public funds, were $95.8 million at December 31, 2022, compared with $58.9 million at year end 2021. These deposits are usually subject to competitive bids and the Company bases its bids on current interest rates, loan demand, and the relative cost of other funding sources.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Interest Rate Risk

Interest rate sensitivity and market risk of assets and liabilities are managed by the Asset and Liability Management Committee. The principal objective of the committee is to maximize net interest income within acceptable levels of risk which are established by policy. Interest rate risk is monitored and managed by using financial modeling techniques to measure the impact of changes in interest rates.

Net interest income, which is the primary source of the Company's earnings, is impacted by changes in interest rates. To manage the impact of interest rate changes, the balance sheet must be structured so that repricing opportunities exist for both assets and liabilities. The Company uses net interest income simulation to assist in interest rate risk management. The process includes simulating various interest rate scenarios and their respective impact on net interest income. It is assumed that a change in rates is instantaneous and that all rates move in a parallel manner. Assumptions are also made concerning prepayment speeds on loans and securities. While management believes such assumptions to be reasonable, there can be no assurance that modeled results will approximate actual results. The following is a rate shock for a twelve-month period, assuming a static balance sheet as of December 31, 2022:

Parallel rate shock in basis points	**-200**	**-100**	**+100**	**+200**	**+300**
Net interest income change (in thousands):	$ 2,146	$ 1,971	$ (1,881)	$ (3,802)	$ (6,180)
Percentage change from static	5.9%	5.4%	5.2%	10.4%	16.9%

At December 31, 2022, the level of net interest income at risk in all scenarios was within the Company's policy threshold.

The Company also projects future cash flows from assets and liabilities over a long-term horizon and then discounts these cash flows using instantaneous parallel shocks to interest rates. The aggregation of these discounted cash flows is the Economic Value of Equity ("EVE"). At December 31, 2022, the EVE at risk in all scenarios was within the Company's policy threshold.

Liquidity

Liquidity can be viewed as the ability to fund customers' borrowing needs and withdrawal requests while supporting asset growth. The Company's primary sources of liquidity include deposit generation and cash flow from asset maturities and securities repayments. At December 31, 2022, the Company had cash and cash equivalents of $10.7 million in the form of cash, due from banks, and short-term interest-bearing deposits with other institutions. In addition, the Company had securities available for sale of $300.5 million which could be used for liquidity needs. Cash and securities available for sale totaled $311.2 million and represented 22.8% of total assets compared to 26.5% of total assets at December 31, 2021. The Company also monitors other liquidity measures, all of which were well within the Company's policy guidelines at December 31, 2022. The Company believes its liquidity position is adequate.

The Company maintains established lines of credit with the Federal Home Loan Bank ("FHLB") of Pittsburgh and other correspondent banks which support liquidity needs. The approximate borrowing capacity from the FHLB was $388.7 million. At December 31, 2022, the Company had $73.9 million in borrowings from the FHLB, which is $58.9 million higher than at December 31, 2021.

Off-Balance Sheet Arrangements

The Company's financial statements do not reflect various commitments that are made in the normal course of business which may involve some liquidity risk. These commitments consist primarily of unfunded loans, standby letters of credit, and financial guarantees made under the same standards as on-balance sheet instruments. Unused commitments at December 31, 2022 totaled $185.4 million and consisted of $181.8 million of unfunded loans and $3.6 million in standby letters of credit and financial guarantees. Since these instruments generally have fixed expiration dates within one year of their original origination, and because many of them will expire without being drawn upon, they do not present significant liquidity risk.

Management believes any amounts actually drawn upon can be funded in the normal course of operations. The Company has no investment in, or financial relationship with, any unconsolidated entities that are reasonably likely to have a material effect on liquidity or the availability of capital resources.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Contractual Obligations

The following table represents the aggregate on- and off-balance sheet contractual obligations to make future payments:

	December 31, 2022 (In thousands)				
	Less Than 1 Year	**1-3 Years**	**4-5 Years**	**Over 5 Years**	**Total**
Time deposits	**$241,494**	**$109,912**	**$ 20,809**	**$ —**	**$372,215**
Short- and long-term debt	**73,423**	**10,715**	**—**	**6,186**	**90,324**
Operating leases	**733**	**989**	**426**	**701**	**2,849**
	$315,650	**$121,616**	**$ 21,235**	**$ 6,887**	**$465,388**

The Company is not aware of any known trends, demands, commitments, events, or uncertainties which would result in any material increase or decrease in liquidity.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income is the difference between income earned on loans and securities and interest paid on deposits and borrowings. For the year ended December 31, 2022, net interest income was $36,881 thousand, an increase of $3,098 thousand or 9.2% over 2021. The resulting interest spread, on a fully tax equivalent basis, for 2022 was 2.93% compared to 2.81% in 2021.

Interest income for the year ended December 31, 2022 totaled $45,040 thousand compared to $40,641 thousand in 2021. The increase of $4,399 thousand was principally due to higher yields on earning assets along with a significantly higher level of earning assets during the year. On average, loans represented 54.4% of earning assets, compared to 53.1% in 2021. Investment securities represented 45.6% of average earning assets in 2022, compared to 46.8% in 2021. Average federal funds sold and interest-bearing balances were not significant in 2022 or in 2021.

Interest income earned on loans totaled $31,814 thousand in 2022, with a yield of 4.49% on a fully tax equivalent basis, increasing from $29,997 thousand in 2021, with a yield of 4.53% on a fully tax equivalent basis. While the actual yield on loans has moved higher, the decrease in the average yield was due to lower loan fee income in 2022 compared to the prior year. PPP loan fee income was $0.6 million in 2022 compared to $2.1 million in 2021. The average prime rate was 4.87% in 2022 and 3.25% in 2021. Loans averaged $712.9 million in 2022, compared to $665.7 million in 2021.

Securities averaged $598.3 million in 2022 with interest income of $13,077 thousand and a fully tax equivalent yield of 2.43%, compared to $586.6 million, $10,586 thousand and 2.04%, respectively, in 2021. The increase in yield was principally due to higher interest rates in 2022 with a portion of the investment income from tax exempt municipal obligations. Principal cash flow from securities was reinvested in mortgage-backed securities, U.S. Government agency securities, and tax-exempt municipal obligations.

Interest expense for the year ended December 31, 2022, totaled $8,159 thousand increasing from $6,858 thousand in 2021. The Company's cost of interest-bearing deposits increased to 0.60% from 0.58% in 2021. The average cost of interest-bearing liabilities in 2022 was 0.74%, an increase of 9 basis points from 0.65% in 2021.

Other Income

The following table shows other income by selected categories:

	Year Ended December 31, (In thousands)	
Other Income	**2022**	2021
Service charges and fees on deposit accounts	**$ 1,899**	$ 1,576
Fiduciary activities	**1,029**	903
Mutual funds and annuities	**995**	869
Bank-owned life insurance income	**363**	281
Debit/check card income	**1,689**	1,617
Credit card income	**409**	377
Other income	**396**	411
Subtotal	**6,780**	6,034
Gain (loss) on equity securities change in fair value, net	**(890)**	1,535
Total	**$ 5,890**	$ 7,569

Other income totaled $5,890 thousand in 2022, a decrease of $1,679 thousand from $7,569 thousand in 2021. Other income is revenue derived from sources other than interest and dividends. Excluding net (loss) gain on equity securities change in fair value of $(890) thousand in 2022 and $1,535 thousand in 2021, other income for the year was $6,780 thousand, compared to $6,034 thousand, an increase of $746 thousand or 12.4%.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Other Income (Cont'd)

Service charge income and fees on deposit accounts were $1,899 thousand in 2022 and $1,576 thousand in 2021. Deposit accounts include Consumer "Club" and "NOW" accounts, No Frills checking, Regular checking, PrimeTimers' checking, Business Regular checking and Business interest-bearing checking accounts. The increase in income was a result of more customers using our special overdraft privilege service.

Wealth management income of $2,024 thousand in 2022 was a 14.2% increase from $1,772 thousand in 2021. This includes trust department income, mutual fund fees and discount brokerage fees. Income from trust department activities was $1,029 thousand in 2022, compared to $903 thousand in 2021, with the increase principally due to more assets under management in 2022. Commissions on sales of annuities and mutual funds were $995 thousand on sales of $41.0 million in 2022, increasing from revenues of $869 thousand on sales of $30.0 million in 2021. Brokerage fees were not significant in 2022 or 2021.

Income on bank-owned life insurance was $363 thousand in 2022 and $281 thousand in 2021. The Bank implemented this program in the second quarter of 2004 where key officers are granted life insurance coverage, with the Bank and the officers' beneficiaries to receive insurance proceeds through these split dollar policies.

Debit card income was $1,689 thousand in 2022, an increase of $72 thousand, compared with $1,617 thousand in 2021. This revenue source was a result of customers transacting business with VISA® merchants.

Credit card fees increased to $409 thousand from $377 thousand in 2021, an 8.5% increase attributed to increased merchant activity.

The balance of other income, $396 thousand, down from $411 thousand was comprised primarily of revenues received from title insurance, credit life/accident and health insurance, stop payments, safe deposit box rents, and secondary market activity.

The Company had (losses) gains on equity securities change in fair value, net of $(890) thousand in 2022 compared to $1,535 thousand in 2021. This revenue was from the change in the fair value of equity securities held.

The Company had no impairment losses in 2022 or 2021. Securities are evaluated quarterly to determine if a decline in value is other than temporary. Once a decline in value is determined to be other than temporary, the amount of credit loss is charged to earnings. Any remaining difference between fair value and amortized cost is recognized in other comprehensive income.

Other Expense

The following table shows other expense by selected categories:

	Year Ended December 31, (In thousands)	
Other Expense	**2022**	2021
Salaries and employee benefits	**$17,229**	$ 15,305
Occupancy expense	**2,109**	2,021
Equipment expense	**2,228**	1,951
Federal depository insurance expense	**360**	332
Data processing expense	**1,249**	1,051
Pennsylvania shares tax expense	**1,161**	1,068
Donations expense	**303**	312
Other operating expense	**4,676**	4,680
Total	**$29,315**	$ 26,720

Other expense totaled $29,315 thousand in 2022, an increase of $2,595 thousand or 9.7% over $26,720 thousand in 2021. Salaries and employee benefit costs, which represented 58.8% of total other expense, were $17,229 thousand for 2022, an increase of $1,924 thousand or 12.6%. Occupancy expense increased $88 thousand or 4.4% in 2022. Equipment expense increased $277 thousand or 14.2% in 2022. Federal depository insurance expense increased 8.4% to $360 thousand in 2022. Data processing expense was up 18.8% to $1,249 thousand in 2022. Pennsylvania shares tax expense, a tax levied on the book value of shares of stock in banks and trust companies that conduct business in Pennsylvania, increased $93 thousand or 8.7% in 2022 to $1,161 thousand. Donations expense decreased $9 thousand or 2.9% in 2022 to $303 thousand. Other operating expense was $4,676 thousand for 2022, a decrease of $4 thousand or 0.1%. This other operating expense category includes a wide array of operating expenses.

Income Taxes

Federal income tax expense in 2022 was $1,575 thousand with an effective tax rate of 12.0%, compared to expense of $1,571 thousand, with an effective tax rate of 12.2% in 2021. The decrease in the effective tax rate was primarily due to higher levels of tax-free income from loans, municipal obligations, and bank-owned life insurance.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Stockholders' Equity

Total stockholders' equity at December 31, 2022 was $101,285 thousand compared to $129,138 thousand at December 31, 2021. Excluding accumulated other comprehensive (loss) income, total stockholders' equity was $132,199 thousand in 2022 and $124,315 thousand in 2021, a 6.3% increase.

Book value of the common stock was $46.26 per share at December 31, 2022 compared to $58.97 per share at December 31, 2021, after adjusting for the stock dividend paid on April 19, 2022. At year-end 2022, the market price was $72.00 per share, compared to $68.50 at December 31, 2021, adjusted for the stock dividend.

At December 31, 2022, the Company had a Total risk-based capital ratio of 17.87%, Common equity tier 1 risk-based capital ratio of 16.21%, Tier 1 risk-based capital ratio of 16.95%, and Tier 1 leverage capital ratio of 10.08%, compared to a Total risk-based capital ratio of 18.70%, Common equity tier 1 risk-based capital ratio of 16.82%, Tier 1 risk-based capital ratio of 17.64%, and Tier 1 leverage capital ratio of 9.98%, for 2021. The Bank was considered well capitalized under the regulatory framework for prompt corrective action. To be considered well capitalized, the Bank must maintain minimum Total risk-based capital, Common equity tier 1 risk-based capital, Tier 1 risk-based capital, and Tier 1 leverage ratios as set forth in the table below:

	Actual	To Be Considered Well Capitalized	Minimum Required
Ratios		**At December 31, 2022**	
Total capital to risk-weighted assets	**17.87%**	**10.00%**	**8.00%**
Common equity tier 1 capital to risk-weighted assets	**16.21%**	**6.50%**	**4.50%**
Tier 1 capital to risk-weighted assets	**16.95%**	**8.00%**	**6.00%**
Tier 1 leverage ratio	**10.08%**	**5.00%**	**4.00%**
		At December 31, 2021	
Total capital to risk-weighted assets	18.70%	10.00%	8.00%
Common equity tier 1 capital to risk-weighted assets	16.82%	6.50%	4.50%
Tier 1 capital to risk-weighted assets	17.64%	8.00%	6.00%
Tier 1 leverage ratio	9.98%	5.00%	4.00%

SUMMARY OF QUARTERLY FINANCIAL DATA

Unaudited quarterly results

(In thousands, except per share data)	First	Second	Third	Fourth
2022				
CONDENSED INCOME STATEMENT				
Interest income	$ 10,187	$ 10,822	$ 11,649	$ 12,382
Interest expense	1,305	1,328	2,213	3,313
Net interest income	8,882	9,494	9,436	9,069
Provision for loan and lease losses	136	101	101	30
Net interest income after provision	8,746	9,393	9,335	9,039
Other income	1,523	1,707	1,791	1,759
Gain (loss) on equity securities change in fair value, net	(252)	(768)	(215)	345
Noninterest expense	6,932	7,218	7,451	7,714
Income before income taxes	3,085	3,114	3,460	3,429
Applicable income taxes	354	388	423	410
Net income	$ 2,731	$ 2,726	$ 3,037	$ 3,019
PER COMMON SHARE*				
Net income	$ 1.25	$ 1.24	$ 1.39	$ 1.38
Dividends paid	$ 0.42	$ 0.43	$ 0.43	$ 0.43
Market price	$ 66.50	$ 70.00	$ 72.00	$ 72.00

(In thousands, except per share data)	First	Second	Third	Fourth
2021				
CONDENSED INCOME STATEMENT				
Interest income	$ 10,280	$ 9,948	$ 10,287	$ 10,126
Interest expense	2,039	1,773	1,585	1,461
Net interest income	8,241	8,175	8,702	8,665
Provision for loan and lease losses	381	355	405	615
Net interest income after provision	7,860	7,820	8,297	8,050
Other income	1,360	1,567	1,585	1,522
Gain (loss) on equity securities change in fair value, net	1,043	107	124	261
Noninterest expense	6,226	6,370	6,784	7,340
Income before income taxes	4,037	3,124	3,222	2,493
Applicable income taxes	571	382	420	198
Net income	$ 3,466	$ 2,742	$ 2,802	$ 2,295
PER COMMON SHARE*				
Net income	$ 1.58	$ 1.25	$ 1.28	$ 1.05
Dividends paid	$ 0.41	$ 0.42	$ 0.42	$ 0.42
Market price	$ 66.50	$ 66.75	$ 67.50	$ 68.50

*Adjusted to reflect 100% stock dividend issued in April 2022.

SELECTED FINANCIAL DATA

(In thousands, except per share data)

BALANCE SHEET	**2022**	2021	2020	2019	2018	2017
ASSETS						
Cash and cash equivalents	**$ 10,685**	$ 14,549	$ 12,214	$ 8,910	$ 11,912	$ 8,503
Investment securities	**559,959**	590,749	558,030	500,071	488,684	491,069
Loans	**734,035**	679,662	649,945	575,572	541,203	511,448
Allowance for loan losses	**7,498**	7,444	6,395	5,645	5,843	5,884
Net loans	**726,537**	672,218	643,550	569,927	535,360	505,564
Fixed assets	**13,185**	12,623	12,574	11,738	9,517	9,671
Other assets	**51,409**	34,084	31,070	30,048	27,802	26,206
TOTAL ASSETS	**$1,361,775**	$ 1,324,223	$ 1,257,438	$ 1,120,694	$ 1,073,275	$ 1,041,013
LIABILITIES AND STOCKHOLDERS' EQUITY						
Deposits	**$1,160,735**	$ 1,137,788	$ 1,086,815	$ 948,989	$ 930,034	$ 908,751
Borrowed funds	**90,324**	46,985	33,801	46,233	38,420	31,176
Other liabilities	**9,431**	10,312	11,526	10,100	6,222	5,992
Total stockholders' equity	**101,285**	129,138	125,296	115,372	98,599	95,094
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$1,361,775**	$ 1,324,223	$ 1,257,438	$ 1,120,694	$ 1,073,275	$ 1,041,013

STATEMENT OF INCOME	**2022**	2021	2020	2019	2018	2017
Total interest income	**$ 45,040**	$ 40,641	$ 41,924	$ 42,754	$ 39,822	$ 36,905
Total interest expense	**8,159**	6,858	11,071	13,322	10,601	8,530
Net interest income	**36,881**	33,783	30,853	29,432	29,221	28,375
Provision for loan losses	**368**	1,756	1,811	618	445	1,232
Net interest income after provision	**36,513**	32,027	29,042	28,814	28,776	27,143
Other income	**6,780**	6,034	5,133	5,304	5,032	5,113
Gain on sale of debt and equity securities, net	**—**	—	367	125	186	2,495
Gain (loss) on equity securities change in fair value, net	**(890)**	1,535	(1,000)	1,180	(534)	—
Noninterest expense	**29,315**	26,720	24,560	22,672	21,240	20,884
Income before income taxes	**13,088**	12,876	8,982	12,751	12,220	13,867
Income tax expense	**1,575**	1,571	752	1,539	1,470	3,975
NET INCOME	**$ 11,513**	$ 11,305	$ 8,230	$ 11,212	$ 10,750	$ 9,892
PER SHARE DATA*						
Net income	**$ 5.26**	$ 5.16	$ 3.75	$ 5.11	$ 4.90	$ 4.51
Cash dividend	**$ 1.71**	$ 1.66	$ 1.61	$ 1.53	$ 1.44	$ 1.32
Book value	**$ 46.26**	$ 58.97	$ 57.07	$ 52.56	$ 44.91	$ 43.29
Market value	**$ 72.00**	$ 68.50	$ 66.25	$ 64.50	$ 61.50	$ 56.50
Average shares outstanding	**2,189,596**	2,189,742	2,195,670	2,195,338	2,195,776	2,196,836

*Adjusted to reflect 100% stock dividend issued in April 2022.

FINANCIAL *information*

Annual Meeting

The Annual Meeting of the Shareholders of 1ST SUMMIT BANCORP of Johnstown, Inc. will be held at 3:00 pm on Wednesday, April 19, 2023, at Sunnehanna Country Club, Sunnehanna Drive, Johnstown, PA. We encourage your attendance and look forward to sharing our continued success with you. Call Pamela Carroll at 814-262-4148 for reservations.

Stock Information

1ST SUMMIT BANCORP of Johnstown, Inc. common stock is traded on OTC Pink under the symbol "FSMK." If you are interested in buying or selling stock, we provide a free service to match buyers and sellers, on a bid basis, at no cost. Requests for information or assistance should be directed to Annette Rose at 814-262-4043 or by mail to Shareholder Relations, 1ST SUMMIT BANCORP, PO Box 5480, Johnstown, PA 15904.

Dividend Calendar

1ST SUMMIT BANCORP issues a quarterly dividend payment.
It will be paid on or about March 15, June 15, September 15, and December 15.

Transfer Agent

1ST SUMMIT BANK Trust Department
PO Box 5480, Johnstown, PA 15904 | 814-262-4043

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subsidiaries

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17 Community Offices & 1 LPO

Serving Cambria, Somerset, Indiana, Blair, and Westmoreland counties.

VALUE FINANCE

Main Office

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