# 2023 ANNUAL REPORT

UNB CORP.
AND ITS WHOLLY OWNED SUBSIDIARY
UNB Bank
INDEPENDENTLY OWNED SINCE 1906

UNB CORP. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

# INDEX

PAGE

McGrail Merkel Quinn & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Clay Avenue Professional Plaza
1173 Clay Avenue
Scranton, PA 18510
570 961-0345
Fax: 570 961-8650
mmq.com

# Independent Auditor's Report

To the Board of Directors and Stockholders
UNB Corp. and Subsidiary
Mount Carmel, Pennsylvania

## Opinion

We have audited the consolidated financial statements of UNB Corp. and Subsidiary (the Company), which comprise the consolidated balance sheet as of December 31, 2023, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Basis for Opinion

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

## Other Matter

The financial statements of the Company, as of and for the year ended December 31, 2022, were audited by other auditors, whose report, dated February 24, 2023, expressed an unmodified opinion on those statements.

## 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.

To the Board of Directors and Stockholders
UNB Corp. and Subsidiary

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

**Auditor's Responsibilities for the Audit of the Financial Statements**

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

McGrail Merkel Quinn
& Associates, P.C.

Scranton, Pennsylvania
April 25, 2024

# UNB CORP. AND SUBSIDIARY
# CONSOLIDATED BALANCE SHEETS
## DECEMBER 31, 2023 AND 2022

| | 2023 | 2022 |
|---|---|---|
| **ASSETS** | | |
| Cash and due from banks | $ 2,131,449 | $ 2,034,440 |
| Federal funds sold | 18,750,000 | 12,175,000 |
| Cash and cash equivalents | 20,881,449 | 14,209,440 |
| Available-for-sale securities | 44,847,057 | 48,877,265 |
| Loans and leases, net | 88,947,454 | 86,320,440 |
| Bank premises and equipment, net | 2,017,774 | 2,120,606 |
| Accrued interest receivable | 286,907 | 275,011 |
| Bank owned life insurance | 3,323,029 | 3,255,494 |
| Restricted stock | 119,300 | 133,000 |
| Other assets | 2,006,414 | 2,234,648 |
| Total assets | $ 162,429,384 | $ 157,425,904 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Liabilities | | |
| Non-interest bearing | $ 43,549,099 | $ 43,729,795 |
| Interest bearing | 109,026,263 | 105,179,359 |
| Total deposits | 152,575,362 | 148,909,154 |
| Accrued interest payable | 108,788 | 36,596 |
| Other liabilities | 907,207 | 914,462 |
| Total liabilities | 153,591,357 | 149,860,212 |
| Stockholders' equity | | |
| Common stock, $5.00 par value, 60,000 shares authorized, issued and outstanding | 300,000 | 300,000 |
| Additional paid-in capital | 1,000,650 | 1,000,650 |
| Retained earnings | 14,567,739 | 14,358,087 |
| Accumulated other comprehensive income | (6,514,164) | (7,576,847) |
| Total | 9,354,225 | 8,081,890 |
| Less: Treasury stock, 2,758 shares | 516,198 | 516,198 |
| Total stockholders' equity | 8,838,027 | 7,565,692 |
| Total liabilities and stockholders' equity | $ 162,429,384 | $ 157,425,904 |

The accompanying Notes are an integral part of these Consolidated Financial Statements.

UNB CORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2023 AND 2022

| | 2023 | 2022 |
|---|---|---|
| Interest income | | |
| Interest and fees on loans | $ 3,449,800 | $ 3,036,067 |
| Interest on investments: | | |
| Taxable | 900,581 | 909,949 |
| Tax-exempt | 49,216 | 54,940 |
| Interest on Federal funds sold | 699,106 | 304,498 |
| Interest on balances with banks | 4,682 | 4,708 |
| Total interest income | 5,103,385 | 4,310,162 |
| Interest expense | | |
| Interest on deposits | 1,177,225 | 493,458 |
| Interest on borrowed funds | 3 | - |
| Total interest expense | 1,177,228 | 493,458 |
| Net interest income | 3,926,157 | 3,816,704 |
| Provision for loan losses | 24,000 | 24,000 |
| Net interest income, after provision for loan losses | 3,902,157 | 3,792,704 |
| Other income | | |
| Service charges on deposit accounts | 101,471 | 105,005 |
| Other service charges and fees | 94,465 | 99,728 |
| Earnings on bank owned life insurance | 67,535 | 63,230 |
| Trust department income | 729 | - |
| Other operating income | 38,540 | 47,512 |
| Total other income | 302,740 | 315,475 |
| Other expenses | | |
| Salaries and employee benefits | 2,159,990 | 1,841,166 |
| Occupancy expense | 577,952 | 552,350 |
| Pennsylvania shares tax | 70,650 | 131,260 |
| Bank examination fees | 112,800 | 112,800 |
| Other operating expenses | 870,603 | 817,726 |
| Total other expenses | 3,791,995 | 3,455,302 |
| Income before income taxes | 412,902 | 652,877 |
| Provision for income taxes | 60,145 | 112,323 |
| Net income | $ 352,757 | $ 540,554 |
| Net income per share | $ 6.16 | $ 9.44 |

The accompanying Notes are an integral part of these Consolidated Financial Statements.

# UNB CORP. AND SUBSIDIARY
## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
## YEARS ENDED DECEMBER 31, 2023 AND 2022

| | 2023 | 2022 |
|---|---|---|
| Net income | $ 352,757 | $ 540,554 |
| Other comprehensive income, net of tax: | | |
| Unrealized holding gains (losses) arising during the year | 1,062,683 | (6,955,359) |
| Less: Reclassification adjustment for gains included in net income | - | - |
| Other comprehensive income | 1,062,683 | (6,955,359) |
| Comprehensive income | $ 1,415,440 | $ (6,414,805) |

The accompanying Notes are an integral part of these Consolidated Financial Statements.

UNB CORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES
IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2023 AND 2022

| | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income | Treasury Stock | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| Balance, December 31, 2021 | $ 300,000 | $ 1,000,650 | $ 13,960,638 | $ (621,488) | $ (516,198) | $ 14,123,602 |
| Net income | | | 540,554 | | | 540,554 |
| Other comprehensive income | | | | (6,955,359) | | (6,955,359) |
| Cash dividends declared ($2.50 per share) | | | (143,105) | | | (143,105) |
| Balance, December 31, 2022 | 300,000 | 1,000,650 | 14,358,087 | (7,576,847) | (516,198) | 7,565,692 |
| Net income | | | 352,757 | | | 352,757 |
| Other comprehensive income | | | | 1,062,683 | | 1,062,683 |
| Cash dividends declared ($2.50 per share) | | | (143,105) | | | (143,105) |
| Balance, December 31, 2023 | $ 300,000 | $ 1,000,650 | $ 14,567,739 | $ (6,514,164) | $ (516,198) | $ 8,838,027 |

The accompanying Notes are an integral part of these Consolidated Financial Statements.

UNB CORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2023 AND 2022

| | 2023 | 2022 |
|---|---|---|
| Operating activities | | |
| Net income | $ 352,757 | $ 540,554 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Provision for loan losses | 24,000 | 24,000 |
| Depreciation | 201,790 | 200,162 |
| Amortization of securities (net of accretion) | 205,010 | 273,634 |
| Loss on sale of bank premises an equipment | - | 6,361 |
| Gain on sale of other real estate | - | (14,404) |
| Increase in bank owned life insurance | (67,535) | (63,230) |
| Deferred taxes | (18,092) | (9,677) |
| (Increase) decrease in accrued interest receivable | (11,896) | 31,148 |
| (Increase) decrease in other assets | (36,158) | 52,423 |
| Increase (decrease) in accrued interest payable | 72,192 | (13,296) |
| Decrease in other liabilities | (7,255) | (1,940,955) |
| Net cash provided by (used in) operating activities | 714,813 | (913,280) |
| Investing activities | | |
| Proceeds from sales and repayments of available-for-sale securities | 5,170,365 | 8,366,448 |
| Purchase of restricted stock | - | (19,000) |
| Proceeds from restricted stock | 13,700 | - |
| Proceeds from sale of other real estate | - | 38,000 |
| Net (increase) decrease in loans | (2,651,014) | 965,015 |
| Purchase of bank premises and equipment | (98,958) | (104,939) |
| Net cash provided by investing activities | 2,434,093 | 9,245,524 |
| Financing activities | | |
| Net increase (decrease) in deposits | 3,666,208 | (8,427,248) |
| Dividends paid to stockholders of common stock | (143,105) | (143,105) |
| Net cash provided by (used in) financing activities | 3,523,103 | (8,570,353) |
| Net increase (decrease) in cash and cash equivalents | 6,672,009 | (238,109) |
| Cash and cash equivalents at January 1 | 14,209,440 | 14,447,549 |
| Cash and cash equivalents at December 31 | $ 20,881,449 | $ 14,209,440 |

The accompanying Notes are an integral part of these Consolidated Financial Statements.

## Note 1 – Nature of Operations and Summary of Significant Accounting Policies

### Nature of Operations

UNB Corp. (Company) is a Pennsylvania corporation organized as a financial services holding company of UNB Bank (Bank). The Bank is a state chartered commercial bank located in Mount Carmel, Pennsylvania and operates as a traditional community bank, providing commercial and consumer banking in Northumberland, Columbia and Snyder Counties and the surrounding market area.

### Basis of Presentation

The financial statements of the Company have been consolidated with those of its wholly-owned subsidiary, UNB Bank, eliminating all intercompany items and transactions.

### Segment Reporting

Public business enterprises are required to report financial and descriptive information about their reportable operating segments. The Company has determined that its only reportable segment is community banking.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans and the valuation of investment securities.

### Investment Securities

Available-for-sale securities consist of debt securities and mortgage-backed securities and are carried at fair value with unrealized holding gains and losses, net of tax, reported in a separate component of stockholders' equity until realized.

The amortization of premiums and accretion of discounts on investment securities are calculated by a method that approximates the effective interest method.

Gains and losses on the sale of securities are determined using the specific identification method and are reported as a separate component of other income in the Consolidated Statements of Income.

Note 1 – Nature of Operations and Summary of Significant Accounting Policies – (Continued)

Investment Securities - (Continued)

The Company evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. The Company considers available evidence in evaluating potential impairment of its investments. In the event that the cost of an investment exceeds its fair value, the Company evaluates, among other factors, the magnitude and duration of the decline in fair value; the expected cash flows of the securities; the financial health of and business outlook for the issuer; the performance of the underlying assets for interests in securitized assets; and the Company's intent and ability to hold the investment. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded in investment income and a new cost basis in the investment is established.

Loans

Loans are stated at the unpaid principal, net of unamortized deferred loan fees and costs and an allowance for loan losses. Interest income on real estate loans is accrued on the unpaid principal balance using a 360-day or 365-day year. Interest income on business and consumer loans is accrued on the unpaid principal balance using a 365-day year. The Company recognizes nonrefundable loan origination fees and certain direct loan origination costs over the life of the related loans as an adjustment to yield using the interest method.

A loan is considered past due when a contractually due payment has not been received as of the date such payment was due. A loan is placed on nonaccrual when principal or interest is past due 90 days or more for commercial loans, 120 days for consumer loans and 180 days for residential loans, and the collection of interest is doubtful. When a loan is placed on nonaccrual status, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and it is probable that all amounts due will be collected (both principal and interest) according to the terms of the loan agreement.

Allowance for Credit Losses

The Company's allowance for credit losses (the allowance) is determined using the current expected credit loss ("CECL") approach. The allowance is a valuation of the lifetime probable incurred credit loss and is recorded immediately when a loan is originated or purchased. The allowance is deducted from the amortized cost basis of the loans to present the net amount expected to be collected on the loans. The allowance is established through a provision for credit losses which is charged to expense. Loans deemed to be uncollectible are charged against the allowance, and subsequent recoveries, if any, are credited to the allowance.

The estimate of the expected credit losses is measured based on a collective basis when similar risk characteristics exist. The measurement also incorporates relevant information about past events, current economic conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts. The Company applies historical credit loss experience, current economic conditions, and considers forecasts about future economic conditions expected to exist throughout the contractual lives of the loans that are reasonable and supportable. Determining the appropriateness of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. In future periods, evaluations of the overall loan portfolio, considering the factors and forecasts then prevailing, may result in significant changes in the allowance and the credit loss expense in those future periods.

## Note 1 – Nature of Operations and Summary of Significant Accounting Policies – (Continued)

### Allowance for Credit Losses - (Continued)

Loans that do not share risk characteristics are evaluated on an individual basis based on various factors and are not included in the collective evaluation. Factors that may be considered are borrower delinquency trends and non-accrual status, probability of foreclosure, changes in the borrower's circumstances or cash collections, or other facts and circumstances of the loan or collateral. For a loan that does not share risk characteristics with other loans, expected credit loss is measured based on net realizable value, that is, the difference between the discounted value of the expected future cash flows, based on the original effective interest rate, and the amortized cost basis of the loan. For these loans, the Company recognizes expected credit loss equal to the amount by which the net realizable value of the loan is less than the amortized cost basis of the loan (net of previous charge-offs), except when the loan is collateral dependent, that is, when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. In these cases, expected credit loss is measured as the difference between the amortized cost basis of the loan and the fair value of the collateral. The fair value of the collateral is adjusted for the estimated costs to sell the collateral if repayment or satisfaction of a loan is dependent on the sale (rather than only on the operation) of the collateral.

### Bank Premises and Equipment

Bank premises and equipment are stated at cost, less accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets. Buildings and improvements are depreciated over 15 to 40 years. Furniture, fixtures and equipment are depreciated over 3 to 10 years. Repairs and maintenance are expensed as incurred. When premises or equipment are retired or sold, the remaining cost and accumulated depreciation are removed from the accounts and any gain or loss is credited or charged to income.

### Other Real Estate

Other real estate acquired through foreclosure or other means is recorded at the lower of its carrying value or fair value of the property at the transfer date, less estimated selling costs. Costs to maintain other real estate are expensed as incurred. Other real estate is included with other assets in the consolidated balance sheets. The Company had no other real estate owned as of December 31, 2023 or 2022.

### Bank Owned Life Insurance

The Company has purchased life insurance (BOLI) policies on certain directors, officers and employees and is the beneficiary on these policies. BOLI is recorded at the lower of its cash surrender value, or the amount that can be realized.

### Treasury Stock

Treasury stock is recorded at cost. At the date of subsequent reissue, the treasury stock account is reduced by the cost of the stock using the specific identification method.

Note 1 – Nature of Operations and Summary of Significant Accounting Policies – (Continued)

Revenue Recognition

ASC 606, *Revenue from Contracts with Customers* ("ASC 606"), establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

The majority of the Company's revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as loans, letters of credit, and investment securities. The descriptions of revenue-generating activities that are within the scope of ASC 606, are presented in the consolidated statements of income as components of other income are as follows:

Service charges on deposit accounts consist of monthly service fees, check orders, and other deposit account related fees. The Company's performance obligation for monthly services fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transactional based, and therefore, the Company's performance obligation is satisfied and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts.

Fees, exchange, and other service charges are primarily comprised of debit and credit card income, ATM fees, merchant services income, and other service charges. Debit and credit 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. ATM fees are primarily generated when a Company cardholder uses a non-Company ATM or a non-Company cardholder uses a Company ATM. Merchant services income mainly represents fees charged to merchants to process their debit and credit card transactions, in addition to account management fees. Other service charges include revenue from processing wire transfers, bill pay service, cashier's checks, and other services. The Company's performance obligation for fees, exchange, and other service charges 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.

Income Taxes

Provision for income taxes are based on taxes payable or refundable for the current year (after exclusion of non-taxable income such as interest on state and municipal securities) as well as deferred taxes on temporary differences. Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of temporary differences between book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

Management evaluated the Company's tax positions and concluded that the Company had taken no uncertain tax positions that require adjustment to the financial statements. With few exceptions, the Company is no longer subject to income tax examinations by the U.S. Federal, state or local tax authorities for years before 2020.

Note 1 – Nature of Operations and Summary of Significant Accounting Policies – (Continued)

Per Share Data

Earnings per share of common stock have been computed based on the weighted-average number of shares of common stock outstanding during the period. The number of common shares used in computing basic earnings per share and dividends per share was 57,242 in 2023 and 2022.

Cash Flows

For purposes of the Consolidated Statements of Cash Flows, cash and cash equivalents include cash on hand, due from banks, interest bearing balances with banks and Federal funds sold for a one-day period.

The Company paid interest and income taxes of $1,105,036 and $153,067 during the year ended December 31, 2023, and $506,754 and $93,128 during the year ended December 31, 2022, respectively.

Non-cash transactions during the years ended December 31, 2023 and 2022 included the change in unrealized gains (losses) on available-for-sale securities of $1,345,168 and ($8,804,252), respectively, and the acquisition of real estate in the settlement of loans of $0 and $23,596, respectively.

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which created a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU required financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU required that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of income as the amounts expected to be collected change. ASU 2016-13 was effective for the Company on January 1, 2023. The adoption of ASU 2016-13 did not have a significant impact on the Company's consolidated financial statements.

In April 2019, the FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*. ASU No. 2019-04 was issued as part of the FASB's ongoing project to improve upon its Accounting Standards Codification (ASC), and to clarify and improve areas of guidance related to recently issued standards on credit losses, hedging, and recognition and measurement. This guidance contains several effective dates. The amendments related to ASC 326 were effective for the Company as of January 1, 2023, the amendments related to ASC 815 and ASC 825 were effective for the Company as of January 1, 2020. Neither amendment had a significant impact on the Company's consolidated financial statements.

Note 1 – Nature of Operations and Summary of Significant Accounting Policies – (Continued)

Recent Accounting Pronouncements – (Continued)

In August 2020, the FASB issued ASU 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, which addresses the complexity of its guidance for certain financial instruments with characteristics of liabilities and equity. ASU 2020-06 removes the accounting models that require beneficial conversion features or cash conversion features associated with convertible instruments to be recognized as a separate component of equity, adds certain disclosure requirements for convertible instruments, amends the guidance for the derivatives scope exception for contracts in an entity's own equity and simplifies the diluted earnings per share calculation for certain situations. This ASU is effective for the Company beginning on January 1, 2024. The adoption of ASU 2020-06 is not expected to have a significant impact on the Company's consolidated financial statements.

In March 2022, the FASB issued ASU 2022-02, *Financial instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures* This ASU eliminated the accounting guidance for troubled debt restructurings by creditors in ASC 310-40, Receivables—Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. In addition, for public business entities, ASU 2022-02 required that an entity disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of ASC 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost. This guidance was effective for the Company as of January 1, 2023. The adoption of this standard primarily impacted the Company's disclosures but did not have a material impact on its consolidated financial position and consolidated results of operations.

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*, which provides for improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information. This guidance is effective for the Company beginning on January 1, 2025. The adoption of ASU 2023-09 is not expected to have a significant impact on the Company's consolidated financial statements.

Subsequent Events

The Company has evaluated subsequent events through April 25, 2024, the date that these financial statements were available to be issued, and concluded no events or transactions occurred during that period requiring recognition or disclosure.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Note 2 – Restrictions on Cash and Due from Banks

Banks are required to maintain reserves, in the form of cash balances with the Federal Reserve Bank, against their deposit liabilities. The Company may, from time to time, maintain balances with financial institutions in excess of federally insured limits.

Note 3 – Investment Securities

The amortized cost and estimated fair value of available-for-sale investment securities are as follows (in thousands):

| | December 31, 2023 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| U.S. Government agencies | $ 1,896 | $ 7 | $ 104 | $ 1,799 |
| State and political subdivisions | 4,918 | - | 428 | 4,490 |
| Mortgage-backed securities | 45,103 | - | 7,457 | 37,646 |
| Collateralized mortgage obligations | 1,176 | - | 264 | 912 |
| Total available-for-sale | $ 53,093 | $ 7 | $ 8,253 | $ 44,847 |

| | December 31, 2022 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| U.S. Government agencies | $ 2,706 | $ 17 | $ 132 | $ 2,591 |
| State and political subdivisions | 4,999 | - | 695 | 4,304 |
| Mortgage-backed securities | 49,450 | 1 | 8,504 | 40,947 |
| Collateralized mortgage obligations | 1,313 | - | 278 | 1,035 |
| Total available-for-sale | $ 58,468 | $ 18 | $ 9,609 | $ 48,877 |

The amortized cost and estimated fair value of debt securities at December 31, 2023, by contractual maturity, are presented below (in thousands). Expected maturities will differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or repayment penalties.

| | Amortized Cost | Fair Value |
|---|---|---|
| Due in one year or less | $ - | $ - |
| Due after one year through five years | 1,322 | 1,279 |
| Due after five years through ten years | 1,317 | 1,167 |
| Due after ten years | 4,175 | 3,843 |
| Subtotal | 6,814 | 6,289 |
| Mortgage-backed securities | 45,103 | 37,646 |
| Collateralized mortgage obligations | 1,176 | 912 |
| Total debt securities | $ 53,093 | $ 44,847 |

There were no sales of available-for-sale debt securities during the years ended December 31, 2023 or 2022.

Note 3 – Investment Securities – (Continued)

Investment securities with a carrying value of approximately $20,000,561 at December 31, 2023 and $13,505,000 at December 31, 2022, respectively, were pledged as collateral for public deposits and other items as provided by law.

Gross unrealized losses and fair values, aggregated by investment category and length of time individual securities have been in a continuous unrealized loss position are shown below (in thousands).

| | December 31, 2023 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 Months | | 12 Months or Greater | | Total | |
| | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses |
| U.S. Government agencies | $ - | $ - | $ 1,234 | $ 104 | $ 1,234 | $ 104 |
| State and political subdivisions | - | - | 4,490 | 428 | 4,490 | 428 |
| Mortgage-backed securities | 216 | 4 | 37,343 | 7,453 | 37,559 | 7,457 |
| Collateralized mortgage obligations | - | - | 912 | 264 | 912 | 264 |
| Totals | $ 216 | $ 4 | $ 43,979 | $ 8,249 | $ 44,195 | $ 8,253 |

| | December 31, 2022 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 Months | | 12 Months or Greater | | Total | |
| | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses |
| U.S. Government agencies | $ 1,165 | $ 77 | $ 526 | $ 55 | $ 1,691 | $ 132 |
| State and political subdivisions | - | - | 4,304 | 695 | 4,304 | 695 |
| Mortgage-backed securities | 4,651 | 371 | 36,194 | 8,133 | 40,845 | 8,504 |
| Collateralized mortgage obligations | - | - | 1,035 | 278 | 1,035 | 278 |
| | $ 5,816 | $ 448 | $ 42,059 | $ 9,161 | $ 47,875 | $ 9,609 |

Note 3 – Investment Securities – (Continued)

At December 31, 2023 one (1) security has unrealized losses for less than twelve months and eighty-five (85) securities have been in an unrealized loss position for twelve or more months. At December 31, 2022, six (6) securities have unrealized losses for less than twelve months and eighty-one (81) securities have been in an unrealized loss position for twelve or more months.

Investment securities, other than mortgage-backed securities and Collateralized mortgage obligations - The unrealized losses on the Company's investments in investment securities, other than mortgage-backed securities and collateralized mortgage obligations, were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2023.

Mortgage-backed securities and collateralized mortgage obligations - The unrealized losses on the Company's investments in mortgage-backed securities and collateralized mortgage obligations were caused by interest rate increases. The contractual cash flows of those investments are guaranteed by agencies of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Company's investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2023.

Note 4 – Loans and Allowance for Loan Losses

Major segments of the loan portfolio are as follows (in thousands):

| | December 31, | |
|---|---|---|
| | 2023 | 2022 |
| Residential real estate | $ 73,370 | $ 69,520 |
| Commercial real estate | 8,265 | 9,037 |
| Commercial | 3,008 | 2,850 |
| Consumer | 1,625 | 1,346 |
| Indirect auto | 13 | 37 |
| Government guaranteed | 3,590 | 4,430 |
| Gross loans and leases | 89,871 | 87,220 |
| Unamortized premium on government guaranteed loans | 17 | 29 |
| Net unamortized loan fees and costs | (47) | (55) |
| Allowance for loan losses | (894) | (874) |
| Loans, net | $ 88,947 | $ 86,320 |

Note 4 – Loans and Allowance for Loan Losses – (Continued)

The Company grants residential, commercial and personal loans to customers primarily in Northumberland, Columbia and Montour counties, along the eastern ends of Snyder and Union counties, the northern and western ends of Schuylkill County, northern Dauphin County, and southern Lycoming County, Pennsylvania:

The age analysis of the loan portfolio as of December 31, 2023 and 2022 is as follows (in thousands):

| | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or More | Total Past Due | Current | Total Loans |
|---|---|---|---|---|---|---|
| 2023 | | | | | | |
| Residential real estate | $ 241 | $ 101 | $ 33 | $ 375 | $ 72,995 | $ 73,370 |
| Commercial real estate | - | - | - | - | 8,265 | 8,265 |
| Commercial | - | - | - | - | 3,008 | 3,008 |
| Consumer | - | 2 | - | 2 | 1,623 | 1,625 |
| Indirect auto | - | - | - | - | 13 | 13 |
| Government guaranteed | - | - | - | - | 3,590 | 3,590 |
| Total | $ 241 | $ 103 | $ 33 | $ 377 | $ 89,494 | $ 89,871 |
| 2022 | | | | | | |
| Residential real estate | $ 66 | $ 160 | $ 94 | $ 320 | $ 69,200 | $ 69,520 |
| Commercial real estate | - | - | - | - | 9,037 | 9,037 |
| Commercial | 30 | - | - | 30 | 2,820 | 2,850 |
| Consumer | - | - | - | - | 1,346 | 1,346 |
| Indirect auto | - | - | - | - | 37 | 37 |
| Government guaranteed | - | - | - | - | 4,430 | 4,430 |
| Total | $ 96 | $ 160 | $ 94 | $ 350 | $ 86,870 | $ 87,720 |

*Non-Accrual Loans.* Loans are placed on non-accrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on non-accrual status regardless of whether or not such loans are considered past due.

Loans on nonaccrual and loans past due over 90 days still on accrual by class of loans as of December 31, 2023 and 2022 is as follows (in thousands):

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | Nonaccrual | Over 90 Days and Accruing | Nonaccrual | Over 90 Days and Accruing |
| Residential real estate | $ - | $ 33 | $ - | $ 94 |
| Total | $ - | $ 33 | $ - | $ 94 |

Note 4 – Loans and Allowance for Loan Losses – (Continued)

In the normal course of business, the Company may execute loan modifications with borrowers. These modifications are analyzed to determine whether the modification is considered concessionary, long term and made to a borrower experiencing financial difficulty. The Company's modifications generally include interest rate adjustments, principal reductions, and amortization and maturity date extensions. These modifications allow the borrower short-term cash relief to allow them to improve their financial condition. If a loan modification is determined to be made to a borrower experiencing financial difficulty, the loan is considered collateral dependent and evaluated as part of the allowance for credit losses.

The Company monitors loan payments on an on-going basis to determine if a loan is considered to have a payment default. Determination of payment default involves analyzing the economic conditions that exist for each customer and their ability to generate positive cash flows during the loan term. For the year ended December 31, 2023, the Company had no loan modifications made to borrowers experiencing financial difficulty for which there was a payment default within the 12 months following the modification date.

Prior to January 1, 2023, if a borrower was experiencing financial difficulty and the Company did not expect to collect the contractual cash flows owed under the original loan agreement, and a concession in loan terms was granted, the Company considered the loan modification as a troubled debt restructuring (TDR). There were no TDRs for the year ended December 31, 2022.

*Credit Quality Indicators.* As part of the on-going monitoring of the credit quality of the Company's loan portfolio, management tracks certain credit quality indicators including trends related to (i) loan delinquency, (ii) the level of classified commercial loans, (iii) net charge-offs, (iv) non-performing loans (see details above) and (v) the general economic conditions in the State of Pennsylvania.

The Company has developed credit quality indicators that are assigned to individual loans to measure and report credit risk exposure as follows:

**Pass**: Loans that are adequately protected by the current sound worth and debt service capacity of the borrower, guarantor, or the underlying collateral generally are considered pass credits. Similarly, loans to sound borrowers that are renewed or restructured in accordance with prudent underwriting standards are considered pass credits.

**Special Mention:** A special mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special mention loans are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

**Substandard:** A substandard loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the company will sustain some loss if the deficiencies are not corrected.

**Doubtful:** A loan classified as doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. These loans are placed on nonaccrual status.

Note 4 – Loans and Allowance for Loan Losses – (Continued)

**Loss:** Loans classified as loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future.

The risk category, by loan segment, as of December 31, 2023 and 2022 is as follows (in thousands):

2023

| | Pass | Special Mention | Substandard | Doubtful | Total |
|---|---|---|---|---|---|
| Residential real estate | $ 73,337 | $ - | $ 33 | $ - | $ 73,370 |
| Commercial | 3,008 | - | - | - | 3,008 |
| Commercial real estate | 8,265 | - | - | - | 8,265 |
| Consumer | 1,625 | - | - | - | 1,625 |
| Indirect auto | 13 | - | - | - | 13 |
| Government guaranteed | 3,590 | - | - | - | 3,590 |
| | $ 89,838 | $ - | $ 33 | $ - | $ 89,871 |

2022

| | Pass | Special Mention | Substandard | Doubtful | Total |
|---|---|---|---|---|---|
| Residential real estate | $ 69,464 | $ - | $ 56 | $ - | $ 69,520 |
| Commercial | 2,850 | - | - | - | 2,850 |
| Commercial real estate | 8,377 | 80 | 580 | - | 9,037 |
| Consumer | 1,346 | - | - | - | 1,346 |
| Indirect auto | 37 | - | - | - | 37 |
| Government guaranteed | 4,430 | - | - | - | 4,430 |
| | $ 86,504 | $ 80 | $ 636 | $ - | $ 87,220 |

The allowance for loan losses by portfolio segment for the years ended December 31, 2023 and 2022 is presented below (in thousands). Government guaranteed loans are considered fully collectable and no allowance is calculated for those loans:

| | Residential Real Estate | Commercial Real Estate | Commercial | Consumer | Indirect Auto | Unallocated | Total |
|---|---|---|---|---|---|---|---|
| 2023 | | | | | | | |
| Beginning balance | $ 662 | $ 108 | $ 34 | $ 16 | $ - | $ 54 | $874 |
| Provision | 53 | (40) | (18) | 8 | - | 21 | 24 |
| Loans charged-off | - | - | - | (5) | - | - | (5) |
| Recoveries | - | 1 | - | - | - | - | 1 |
| Ending balance | $ 715 | $ 69 | $ 16 | $ 19 | $ - | $ 75 | $894 |

## Note 4 – Loans and Allowance for Loan Losses – (Continued)

| | Residential Real Estate | Commercial Real Estate | Commercial | Consumer | Indirect Auto | Unallocated | Total |
|---|---|---|---|---|---|---|---|
| 2022 | | | | | | | |
| Beginning balance | $ 639 | $ 97 | $ 42 | $ 14 | $ 1 | $ 68 | $861 |
| Provision | 22 | 19 | (8) | 6 | (1) | (14) | 24 |
| Loans charged-off | (2) | (8) | - | (4) | - | - | (14) |
| Recoveries | 3 | - | - | - | - | - | 3 |
| Ending balance | $ 662 | $ 108 | $ 34 | $ 16 | $ - | $ 54 | $874 |

## Note 5 – Bank Premises and Equipment

Bank premises and equipment are summarized as follows (in thousands):

| | December 31, 2023 | December 31, 2022 |
|---|---|---|
| Land | $ 493 | $ 493 |
| Bank premises | 4,376 | 4,340 |
| Furniture, fixtures and equipment | 1,845 | 1,819 |
| Total | 6,714 | 6,652 |
| Less: accumulated depreciation | 4,696 | 4,531 |
| Bank premises and equipment, net | $ 2,018 | $ 2,121 |

Depreciation of bank premises and equipment charged to operations amounted to $201,790 and $200,162 for the years ended December 31, 2023 and 2022, respectively.

## Note 6 – Restricted Stock

Restricted stock at December 31, 2023 and 2022 consisted of Federal Home Loan Bank (FHLB) and Atlantic Central Bankers Bank (ACBB) stock, which are required investments in order to participate in various programs including an available line of credit program. All restricted stock is stated at par value as they are restricted to purchases and sales with the various institutions.

## Note 7 – Deposits

The composition of deposits is as follows (in thousands):

| | December 31, 2023 | December 31, 2022 |
|---|---|---|
| Demand - non-interest bearing | $ 43,549 | $ 43,730 |
| Demand - interest bearing | 21,207 | 21,182 |
| Savings | 37,775 | 42,233 |
| Time - over $250,000 | 3,953 | 1,303 |
| Time - other | 46,091 | 40,461 |
| Total | $ 152,575 | $ 148,909 |

Note 7 – Deposits – (Continued)

The scheduled maturities of time deposits at December 31, 2023 are as follows:

| | |
|---|---|
| 2024 | $ 37,149 |
| 2025 | 4,807 |
| 2026 | 4,103 |
| 2027 | 2,338 |
| 2028 | 1,648 |
| Total | $ 50,045 |

Time deposits of $250,000 or more totaled approximately $3,953,000 and $1,303,000 at December 31, 2023 and 2022, respectively. Interest expense related to these deposits was approximately $20,000 and $9,000 for the years ended December 31, 2023 and 2022, respectively.

Note 8 – Short-Term Borrowings

The Bank has available two types of borrowings with the FHLB. Advances under the FHLB "Open RepoPlus" are short-term borrowings maturing within one year and bear interest at a variable rate based on a requested interest payment frequency. Advances under the FHLB "RepoPlus" and "Mid-Term Repo" are borrowings maturing from 1 day to 3 years and bear interest at a fixed rate or an adjustable rate set at the time of funding. The Bank has a borrowing limit under this arrangement of approximately $53,794,650, exclusive of any outstanding advances. All advances are collateralized by the Bank's FHLB stock and certain permitted bank loans and securities under a floating-lien agreement. There were no outstanding advances at December 31, 2023 or 2022.

The Bank has the availability of an unsecured Federal funds credit line of $3,000,000 with a correspondent bank. There was no outstanding balance on the line at December 31, 2023 or 2022.

Note 9 – Noninterest Income

The following table presents noninterest income segregated by revenue stream in-scope and out-of-scope of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, for the years ended December 31, 2023 and 2022 (in thousands):

| | 2023 | 2022 |
|---|---|---|
| In-scope of Topic 606: | | |
| Service charges on deposit accounts | $101 | $105 |
| Other service charges and fees | 99 | 99 |
| Total in-scope | 200 | 204 |
| Noninterest income (out-of-scope of Topic 606) | 103 | 111 |
| Total noninterest income | $303 | $315 |

Note 10 – Income Taxes

The components of applicable income taxes are as follows (in thousands):

| | Years Ended December 31, 2023 | Years Ended December 31, 2022 |
|---|---|---|
| Current payable | $ 78 | $ 122 |
| Deferred (benefit) provision | (18) | (10) |
| Provision for income taxes | $ 60 | $ 112 |

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

| | December 31, 2023 | December 31, 2022 |
|---|---|---|
| Deferred tax assets: | | |
| Allowance for loan losses | $ 142 | $ 137 |
| Deferred compensation | 161 | 160 |
| Unrealized holding loss on available-for-sale securities | 1,732 | 2,014 |
| Total | 2,035 | 2,311 |
| Deferred tax liabilities: | | |
| Premises and equipment | 195 | 209 |
| Total | 195 | 209 |
| Deferred tax asset, net | $ 1,840 | $ 2,102 |

The reconciliation between the expected statutory income tax rate and the effective income tax rate is as follows (in thousands:

| | Years Ended December 31, 2023 | | 2022 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| Provision at statutory rate | $ 87 | 21.0 | $ 137 | 21.0 |
| Tax-exempt income | (30) | (7.2) | (31) | (4.8) |
| Other items | 3 | 0.7 | 6 | 0.9 |
| Total | $ 60 | 14.5 | $ 112 | 17.1 |

As of December 31, 2023, the Company had taken no tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within 12 months. The Company's policy is to recognize interest related to income tax in interest expense and interest income and recognize penalties in other operating expenses. During 2023 and 2022, the Company was not required to recognize interest or penalties related to income tax.

The Company is no longer subject to examination by Federal and state tax authorities for the years before 2020.

## Note 11 – Employee Benefit Plans

The Company maintains a defined contribution benefit plan under Section 401(k) of the Internal Revenue Code, which covers substantially all eligible employees. This plan permits employees to make contributions, which are matched by the Company based on a percentage of the employee's compensation, subject to certain restrictions. The cost of this plan is charged to operating expense annually as benefit costs are incurred. The Company's contribution to the plan was approximately $42,000 and $39,000 for the years ended December 31, 2023 and 2022, respectively.

The Company has a deferred compensation plan whereby participating directors and former directors elected to forego receiving director's fees for a period of five years. Under this plan, the Company makes payments for a ten-year period beginning at age 65 or at death, if earlier. Upon death, payments would be made to the director's designated beneficiaries. The cost of the plan was $65,883 and $66,835 for the years ended December 31, 2023 and 2022, respectively. Benefits of $64,531 were paid during each of the years ended December 31, 2023 and 2022, respectively.

The Company is the owner and beneficiary of life insurance policies acquired on the lives of participating directors and former directors. The amount of the coverage is designed to provide sufficient revenues to cover all costs of the deferred compensation plan. As of December 31, 2023 and 2022, the cash surrender value of these policies was $752,921 and $730,000, respectively.

The Company has survivor income life insurance policies on the lives of key officers and employees at December 31, 2022 and 2021. The Company owns the cash surrender value and a certain amount of the death proceeds is endorsed to the officer or beneficiary. The policies were paid with a single premium and have a combined death benefit of approximately $4,868,673 and $4,871,000 at December 31, 2023 and 2022, respectively. The cash surrender value of these policies was $2,570,000 and $2,525,485 at December 31, 2023 and 2022, respectively.

## Note 12 – Related Party Transactions

In the normal course of business, loans are extended to directors, executive officers and their associates. In management's opinion, all of these loans are on substantially the same terms and conditions as loans to other individuals and businesses of comparable creditworthiness.

A summary of loan activity for those directors, executive officers, and their associates is as follows (in thousands):

| Years Ended December 31, | Beginning Balance | Additions | Reductions | Ending Balance |
|---|---|---|---|---|
| 2023 | $ 208 | $ 64 | $ 79 | $ 193 |
| 2022 | $ 224 | $ 8 | $ 24 | $ 208 |

Note 13 – Commitments and Contingencies

An allowance for unfunded loan commitments and letters of credit is maintained at a level believed by management to be sufficient to absorb estimated losses related to these unfunded credit facilities. The determination of the adequacy of the allowance is based on periodic evaluations of the unfunded credit facilities including an assessment of the probability of commitment usage, credit risk factors for loans outstanding to these same customers and the terms and expiration dates of the unfunded credit facilities.

Net adjustments to the allowance, if any, for unfunded loan commitments and letters of credit are provided in the consolidated statements of income and a separate reserve is recorded within the liabilities section of the consolidated balance sheets in other liabilities. At December 31, 2023 and 2022, the allowance for unfunded loan commitments and letters of credit amounted to $30,000.

Note 14 – Off-Balance Sheet Risk

In the normal course of business, there are outstanding commitments and contingent liabilities, created under prevailing terms and collateral requirements such as commitments to extend credit, financial guarantees and letters of credit, which are not reflected in the accompanying Financial Statements. The Company does not anticipate any losses as a result of these transactions. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Consolidated Balance Sheets.

The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

Financial instruments whose contract amounts represent credit risk at December 31, 2023 and 2022 are as follows (in thousands):

| | 2023 | 2022 |
|---|---|---|
| Commitments and unfunded commitments to extend credit: | | |
| Fixed rate | $ 502 | $ 2,425 |
| Variable rate | $ 4,397 | $ 4.478 |
| Standby letters of credit: | | |
| Fixed rate | $ 1,084 | $ 829 |

Commitments to make loans are generally made for periods of 45 days or less. The fixed loan commitments have interest rates ranging from 3.50% to 7.00% and maturities ranging from 5 years to 30 years.

Commitments to extend credit are legally binding agreements to lend to customers. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future liquidity requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company on extension of credit is based on management's credit assessment of the counterparty. Collateral held varies but may include accounts receivable, inventory, property and equipment and income-producing commercial properties.

Note 14 – Off-Balance Sheet Risk – (Continued)

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed.

Standby letters of credit are conditional commitments issued by the Company guaranteeing performance by a customer to a third party. Standby letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit.

Note 15 – Regulatory Matters

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

As of June 30, 2023, the most recent notification from the FDIC, the Company was categorized as well capitalized under the regulatory framework for prompt corrective action. To remain categorized as well capitalized, the Company will have to maintain minimum leverage capital ratios as disclosed in the table below. There are no conditions or events since the most recent notification that management believes have changed the Company's prompt corrective action category.

In 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio framework (CBLR framework), for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020 and was elected by the Bank in the first quarter of 2020.

In April 2020, the federal banking agencies issued an interim final rule that makes temporary changes to the CBLR framework, pursuant to section 4012 of the CARES Act, and a second interim final rule that provides a graduated increase in the community bank leverage ratio requirement after the expiration of the temporary changes implemented pursuant to section 4012 of the CARES Act.

The community bank leverage ratio removes the requirements for qualifying banking organizations to calculate and report risk-based capital but rather only requires a Tier 1 to average assets (leverage) ratio. Qualifying banking organizations that elect to use the CBLR framework and that maintain a leverage ratio of greater than required minimums will be considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies' capital rules (generally applicable rule) and, if applicable, will be considered to have met the well capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. Under the interim final rules the CBLR minimum requirement is 9% for calendar year 2022 and beyond.

Note 15 – Regulatory Matters - (Continued)

Under the final rule, an eligible banking organization can opt out of the CBLR framework and revert to the risk-weighting framework without restriction. As of December 31, 2023 and 2022, both the Company and Bank were qualifying community banking organizations as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework.

The following table reflects the Company's and Bank's actual capital and capital ratios as well as the ratios required for the Company and Bank to be considered adequately capitalized under the regulatory framework for prompt corrective action under the rules applicable at December 31, 2023 and 2022 (in thousands):

| | Actual | | For Capital Adequacy Purposes | | To Be Well Capitalized | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| December 31, 2023 | | | | | | |
| Leverage Capital (to Average Total Assets) | | | | | | |
| Company | $ 15,347 | 9.7% | $ 6,346 | 4.0% | $ 7,933 | 5.0% |
| Bank | $ 15,342 | 9.7% | $ 6,346 | 4.0% | $ 7,933 | 5.0% |

| | Actual | | For Capital Adequacy Purposes | | To Be "Well Capitalized" | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| December 31, 2022 | | | | | | |
| Leverage Capital (to Average Total Assets) | | | | | | |
| Company | $ 15,141 | 9.3% | $ 6,492 | 4.0% | $ 8,115 | 5.0% |
| Bank | $ 15,138 | 9.3% | $ 6,492 | 4.0% | $ 8,115 | 5.0% |

Restrictions imposed by Federal Reserve Regulation H limit dividend payments in any year to the current year's net income plus the retained net income of the prior two years without the approval of the Bank's regulatory agency. Accordingly, Bank dividends in 2024 may not exceed Bank net income for 2024 plus approximately $604,000. Additionally, banking regulations limit the amount of dividends that may be paid to the Company by the Bank without prior approval of the Bank's regulatory agency. Retained earnings against which dividends may be paid without prior approval of the banking regulators amounted to approximately $13,500,000 at December 31, 2023, subject to the minimum capital ratio requirements noted above.

The Bank is subject to regulatory restrictions that limit its ability to loan or advance funds to the Company. At December 31, 2023, the regulatory lending limit amounted to approximately $2,302,000.

There were no loans or advances outstanding at December 31, 2023 or 2022.

Note 16 –Fair Value of Financial Instruments

The Company records or discloses certain of its assets and liabilities at fair value. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value measurements are classified within one of three levels in a valuation hierarchy based upon the observability of inputs to the valuation of an asset or liability as of the measurement date. The three levels of the fair value hierarchy are described as follows:

Level I: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level II: Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level III: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Transfers of financial instruments between levels within the fair value hierarchy are recognized on the date management determines that the underlying circumstances or assumptions have changed.

The Company believes that its valuation techniques are appropriate and consistent with the techniques used by other market participants. However, the use of different methodologies and assumptions could result in a different estimate of fair values at the reporting date.

**Financial Assets Measured at Fair Value on a Recurring Basis**

Assets measured at fair value on a recurring basis and the valuation method used at December 31, 2023 and 2022 are as follows (in thousands):

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| December 31, 2023: | | | | |
| Available-for-sale securities: | | | | |
| U.S. Government agencies and corporations | $ - | $ 1,799 | $ - | $ 1,799 |
| States and political subdivisions | - | 4,490 | - | 4,490 |
| Residential mortgage-backed securities | - | 37,646 | - | 37,646 |
| Collateralized mortgage obligations | - | 912 | - | 912 |

Note 16 –Fair Value of Financial Instruments – (Continued)

| | Level 1 | | Level 2 | | Level 3 | | Total | |
|---|---|---|---|---|---|---|---|---|
| December 31, 2022: | | | | | | | | |
| Available-for-sale securities: | | | | | | | | |
| U.S. Government agencies | $ | - | $ | 2,591 | $ | - | $ | 2,591 |
| States and political subdivisions | | - | | 4,304 | | - | | 4,304 |
| Residential mortgage-backed securities | | - | | 40,947 | | - | | 40,947 |
| Collateralized mortgage obligations | | - | | 1,035 | | - | | 1,035 |

The Company held no investment securities classified as Level I. The estimated fair values of all debt securities classified as Level II are obtained from nationally-recognized third-party pricing agencies. The estimated fair values are derived primarily from cash flow models, which include assumptions for interest rates, credit losses, and prepayment speeds. The significant inputs utilized in the cash flow models are based on market data obtained from sources independent of the Company (observable inputs), and are therefore, classified as Level II within the fair value hierarchy. The Company held no investment securities classified as Level III. There were no transfers between valuation levels during 2023 or 2022.

**Additional Disclosures about Fair Value of Financial Instruments**

The following table presents fair value information about financial instruments, whether or not recognized in the consolidated balance sheets, for which it is practicable to estimate that value. The actual carrying amounts and estimated fair values of the Company's financial instruments that are included in the consolidated balance sheets are as follows (in thousands):

| | December 31, 2023 | | | | |
|---|---|---|---|---|---|
| | Carrying Amount | Level 1 | Level 2 | Level 3 | Total Fair Value |
| FINANCIAL ASSETS | | | | | |
| Cash and cash equivalents | $ 20,881 | $ 20,881 | $ - | $ - | $ 20,881 |
| Investment securities | 44,847 | - | 44,847 | - | 44,847 |
| Loans and leases, net | 88,947 | - | - | 80,929 | 80,929 |
| Accrued interest receivable | 287 | - | 133 | 154 | 287 |
| Bank owned life insurance | 3,323 | - | 3,323 | - | 3,323 |
| Restricted stock | 119 | - | - | 119 | 119 |
| FINANCIAL LIABILITIES | | | | | |
| Deposits | $ 152,577 | $ - | $ 138,516 | $ - | $ 138,516 |
| Accrued interest payable | 109 | - | 109 | - | 109 |

Note 16 –Fair Value of Financial Instruments – (Continued)

| | December 31, 2022 | | | | |
|---|---|---|---|---|---|
| | Carrying Amount | Level 1 | Level 2 | Level 3 | Total Fair Value |
| FINANCIAL ASSETS | | | | | |
| Cash and cash equivalents | $ 14,209 | $ 14,209 | $ - | $ - | $ 14,209 |
| Investment securities | 48,877 | - | 48,877 | - | 48,877 |
| Loans and leases, net | 86,320 | - | - | 80,340 | 80,340 |
| Accrued interest receivable | 275 | - | - | 275 | 275 |
| Bank owned life insurance | 3,255 | - | 3,255 | - | 3,255 |
| Restricted stock | 133 | - | - | 133 | 133 |
| FINANCIAL LIABILITIES | | | | | |
| Deposits | $ 148,909 | $ - | $ 127,871 | $ - | $ 127,871 |
| Accrued interest payable | 37 | - | 37 | - | 37 |

Generally Accepted Accounting Principles (GAAP) require disclosure of the estimated fair value of an entity's assets and liabilities considered to be financial instruments. For the Company, as for most financial institutions, the majority of its assets and liabilities are considered financial instruments. However, many such instruments lack an available trading market, as characterized by a willing buyer and seller engaging in an exchange transaction. Also, it is the Company's general practice and intent to hold its financial instruments to maturity and not to engage in trading or sales activities, except for certain loans and investments. Therefore, the Company had to use significant estimates and present value calculations to prepare this disclosure.

Estimated fair values have been determined by the Company using the best available data and an estimation methodology suitable for each category of financial instruments. The estimation methodologies used at December 31, 2023 and December 31, 2022 are described below. The methodologies for estimating the fair value of financial assets and financial liabilities that are measured at fair value on a recurring or non-recurring basis are discussed in the fair value measurements section above. The estimated fair value approximates carrying value for cash and cash equivalents, accrued interest and the cash surrender value of life insurance policies. The methodologies for other financial assets and financial liabilities are discussed below:

Investment securities - The fair value of investment securities is based on quoted market prices, where available. If quoted market prices are not available, external pricing services that approximate fair value are used.

Loans - Fair values are estimated for portfolios of loans with similar financial characteristics. For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for other loans are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Restricted stock - All restricted stock is stated at par value as they are restricted to purchases and sales with the various institutions.

Note 18 –Fair Value of Financial Instruments – (Continued)

Deposits - The fair value of deposits with no stated maturity is the amount payable on demand as of December 31, 2023 and 2022. For time deposits, fair value is estimated by discounting the contractual cash flows using a discount rate equal to the rate currently offered for similar deposits of similar maturities.

Off-Balance Sheet Financial Instruments – The fair values for off-balance sheet financial instruments (lending commitments and letters of credit) are based on fees currently charged in the market to enter into similar agreements, considering the remaining terms of the agreements and the counterparties' credit standing.

Note 19 – Condensed Financial Statements of Parent Company

The condensed financial statements for UNB Corp. are as follows (in thousands):

| | December 31, | |
|---|---|---|
| **BALANCE SHEETS** | 2023 | 2022 |
| ASSETS | | |
| Cash | $ 5 | $ 3 |
| Investment in subsidiary | 8,833 | 7,563 |
| Total Assets | $ 8,838 | $ 7,566 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities | $ - | $ - |
| Stockholders' Equity | 8,838 | 7,566 |
| Total Liabilities and Stockholders' Equity | $ 8,838 | $ 7,566 |

| | Years Ended December 31, | |
|---|---|---|
| **STATEMENTS OF INCOME** | 2023 | 2022 |
| Dividends from subsidiary | $ 148 | $ 148 |
| Equity in undistributed earnings of subsidiary | 208 | 396 |
| Expenses | (3) | (3) |
| Net Income | $ 353 | $ 541 |

| **STATEMENTS OF CASH FLOWS** | 2023 | 2022 |
|---|---|---|
| Operating Activities: | | |
| Net income | $ 353 | $ 541 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Equity in undistributed earnings of subsidiaries | (208) | (396) |
| Net cash provided by operating activities | 145 | 145 |
| Financing Activities: | | |
| Dividends paid | (143) | (143) |
| Net cash used in financing activities | (143) | (143) |
| Increase in cash and cash equivalents | 2 | 2 |
| Cash at January 1 | 3 | 1 |
| Cash at December 31 | $ 5 | $ 3 |

UNB CORP.

AND ITS WHOLLY OWNED SUBSIDIARY

UNB Bank

INDEPENDENTLY OWNED SINCE 1906

www.unb.bank

1-877-786-5805