HARLEYSVILLE FINANCIAL CORPORATION

2022
Annual Report

HARLEYSVILLE FINANCIAL CORPORATION
2022 ANNUAL REPORT

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CORPORATE PROFILE

Harleysville Financial Corporation, (the "Company") is a Pennsylvania corporation headquartered in Harleysville, Pennsylvania. The Company became the bank holding company for Harleysville Bank, in connection with the holding company reorganization of the Bank in February 2000 (the "Reorganization"). In August 1987, the Bank's predecessor, Harleysville Savings Association, converted to the stock form of organization. The Bank, whose predecessor was originally, incorporated in 1915, converted from a Pennsylvania chartered, permanent reserve fund savings association to a Pennsylvania chartered stock savings bank in June 1991. The Bank operates from six full-service offices located in Montgomery County and one office located in Bucks County, Pennsylvania. The Bank's primary market area includes Montgomery County, which has the third largest population and the second highest per capita income in the Commonwealth of Pennsylvania, and, to a lesser extent, Bucks County. As of September 30, 2022, the Company had $912.1 million of total assets, $755.9 million of deposits and $84.8 million of stockholders' equity. The Company's stockholders' equity constituted 9.3% of total assets as of September 30, 2022.

The Bank's primary business consists of attracting deposits from the general public and business customers through a variety of deposit programs and investing such deposits principally in first mortgage loans secured by residential properties in the Bank's primary market area. The Bank also originates a variety of consumer loans, predominately home equity loans and lines of credit also secured by residential properties in the Bank's primary lending area. The Bank is also engaged in the general commercial banking business and provides a full range of commercial loans and commercial real estate loans to customers in the Bank's primary market area. The Bank serves its customers through its full-service branch network, the internet, telephone, and mobile banking.

Deposits with the Bank are insured to the maximum extent provided by law through the Deposit Insurance Fund administered by the Federal Deposit Insurance Corporation ("FDIC"). The Bank is subject to examination and comprehensive regulation by the FDIC and the Pennsylvania Department of Banking ("Department"). It is also a member of the Federal Home Loan Bank of Pittsburgh ("FHLB of Pittsburgh" or "FHLB"), which is one of the 11 regional banks comprising the Federal Home Loan Bank System ("FHLB System"). The Bank is also subject to regulations of the Board of Governors of the Federal Reserve System ("Federal Reserve Board") governing reserves required to be maintained against deposits and certain other matters.

The Company's principal executive offices are located at 271 Main Street, Harleysville, Pennsylvania 19438, and its telephone number is (215) 256-8828.

Competition

The Company's most direct competition for deposits has historically come from commercial banks and savings institutions located in its market area. The Company faces additional significant competition for investors' funds from other financial intermediaries. The Company competes for deposits principally by offering depositors a variety of deposit programs, convenient branch locations, hours, and other services. The Company does not rely upon any individual group or entity for a material portion of its deposits.

The Company's competition for real estate loans comes principally from mortgage banking companies, other savings institutions, and commercial banks. The Bank competes for loan originations primarily through the interest rates and loan fees it charges, the efficiency and quality of services it provides borrowers, referrals from real estate brokers and builders, and the variety of its products. Factors which affect competition include the general and local economic conditions, current interest rate levels and volatility in the mortgage markets.

STOCK MARKET INFORMATION

Harleysville Financial Corporation's common stock trades on the OTC Bulletin Board under the symbol "HARL". Prices shown below reflect the prices reported on the OTC Bulletin Board during the indicated periods. The closing price of the common stock on September 30, 2022, was $25.50 per share. There were 3,719,141 shares of common stock outstanding as of September 30, 2022, held by approximately 1,000 stockholders of record, not including the number of persons or entities whose stock is held in nominee or "street" name through various brokerage firms and banks.

For The Quarter Ended	High	Low	Close	Cash Dividends Declared
September 30, 2022	**$27.50**	**$25.50**	**$25.50**	**$0.29**
June 30, 2022	**27.25**	**26.00**	**26.00**	**0.29**
March 31, 2022	**27.75**	**25.66**	**25.95**	**0.29**
December 31, 2021	**25.70**	**24.96**	**24.96**	**0.28**
September 30, 2021	$26.00	$24.15	$25.70	$0.28
June 30, 2021	27.00	23.50	25.65	0.28
March 31, 2021	24.25	21.34	23.50	0.28
December 31, 2020	22.74	20.50	21.50	0.27

Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion is intended to assist in understanding the financial condition, and the results of operations for Harleysville Financial Corporation, and its subsidiary Harleysville Bank, for the fiscal years ended September 30, 2022 and 2021. The information in this section should be read in conjunction with the Company's financial statements and the accompanying notes included elsewhere herein.

Overview

Harleysville Financial Corporation, a bank holding company, of which Harleysville Bank (the "Bank"), is a wholly owned subsidiary, was formed in February 2000. For purposes of this discussion, the Company, including its wholly owned subsidiary, will be referred to as the "Company." The Company's earnings are primarily dependent upon its net interest income, which is determined by (i) the difference between yields earned on interest-earning assets and rates paid on interest-bearing liabilities ("interest rate spread") and (ii) the relative amounts of interest-earning assets and interest-bearing liabilities outstanding. The Company's interest rate spread is affected by regulatory, economic, and competitive factors that influence interest rates, loan demand and deposit flows. The Company, like other institutions, is vulnerable to an increase in interest rates to the extent that interest-bearing liabilities mature or reprice more rapidly than interest-earning assets. To reduce the effect of adverse changes in interest rates on its operations, the Company has adopted certain asset and liability management strategies, described below. The Company's earnings are also affected by, among other factors, other non-interest income, other expenses, and income taxes.

The Company's total assets at September 30, 2022 amounted to $912.1 million compared to $892.6 million as of September 30, 2021. The increase in assets was primarily due to an increase in loans receivable and investments of $90.4 million. The increase was partially offset by a decrease in cash of $70.0 million. Total liabilities at September 30, 2022 were $827.3 million compared to $811.9 million at September 30, 2021. The increase in liabilities was due to an increase in total deposits of $30.0 million. The increase was partially offset by a decrease in borrowings of $15.7 million. Stockholders' equity totaled $84.8 million at September 30, 2022 compared to $80.7 million at September 30, 2021.

During fiscal 2022, net interest income increased $1.7 million or 7.4% from the prior fiscal year. This increase was primarily due to an increase in the interest rate spread to 2.60% in fiscal year 2022 from 2.43% in fiscal year 2021. There was a 3.0% increase in the average interest-earning assets and a 3.9% increase in average interest-bearing liabilities. Net income for fiscal 2022 was $8.8 million compared to $7.3 million for the fiscal year 2021. The Company's return on average assets (net income divided by average total assets) was 1.0% during fiscal 2022 compared to 0.8% during fiscal 2021. Return on average equity (net income divided by average equity) was 10.6% during fiscal 2022 compared to 9.1% during fiscal 2021.

Results of Operations

The following table sets forth as of the periods indicated, information regarding: (i) the total dollar amounts of interest income from interest-earning assets and the resulting average yields; (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resulting average costs; (iii) net interest income; (iv) interest rate spread; (v) net interest-earning assets; (vi) the net yield earned on interest-earning assets; and (vii) the ratio of total interest-earning assets to total interest-bearing liabilities. Average balances are calculated on a monthly basis. Yields on tax-exempt assets have not been calculated on a fully tax-exempt basis.

	For The Year Ended September 30,					
	2022			2021		
	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
Interest-earning assets:						
Mortgage loans (2)(3)	**$228,320**	**$ 9,695**	**4.25%**	$263,159	$ 11,443	4.35%
Mortgage-backed securities	**120,994**	**2,334**	**1.93%**	73,354	1,258	1.71%
Commercial loans (3)	**269,158**	**11,712**	**4.35%**	260,961	11,904	4.56%
Consumer and other loans (3)	**63,217**	**1,917**	**3.03%**	71,430	2,094	2.93%
Cash and investments	**216,583**	**1,657**	**0.77%**	203,321	624	0.31%
Total interest-earning assets	**898,272**	**27,315**	**3.04%**	872,225	27,323	3.13%
Interest-bearing liabilities:						
Savings and money market	**313,809**	**488**	**0.16%**	275,712	579	0.21%
Checking	**193,253**	**5**	**0.00%**	163,280	10	0.01%
Certificates of deposit	**137,795**	**1,285**	**0.93%**	163,950	2,245	1.37%
Total deposits	**644,857**	**1,778**	**0.28%**	602,942	2,834	0.47%
Borrowings	**68,339**	**1,379**	**2.02%**	83,385	1,999	2.40%
Total interest-bearing liabilities	**713,196**	**3,157**	**0.44%**	686,327	4,833	0.70%
Net interest income/interest rate spread		**$ 24,158**	**2.60%**		$ 22,490	2.43%
Net interest-earning assets/net yield on interest-earning assets (1)	**$ 185,076**		**2.69%**	$ 185,898		2.58%
Ratio of average interest-earning assets to average interest-bearing liabilities			**126.0%**			127.1%

(1) Net interest income divided by average interest-earning assets.
(2) Loan fee income is immaterial to this analysis.
(3) There were 25 non-accruing loans totaling $2.9 million at September 30, 2022 and 35 non-accruing loans totaling $7.3 million at September 30, 2021.

Net Interest Income

Net interest income increased by $1.7 million or 7.4% in fiscal 2022, over the prior year. The increase in the net interest income in fiscal 2022 was due to an increase in the interest rate spread between interest earning assets and interest-bearing liabilities. The driving factors are further explained below under "- Interest Income" and "- Interest Expense."

Interest Income

Interest income on mortgage loans decreased by $1.7 million or 15.3% in fiscal 2022 from the prior year. During fiscal 2022, the average balance of mortgage loans decreased $34.8 million or 13.2% and the yield decreased by 10 basis points. The majority of loans during the year were fixed rate mortgages. The increase in interest on mortgage-backed securities reflects an increase in the yield of 22 basis points and an increase in the average balance of $47.6 million in fiscal 2022. During fiscal 2022, the consumer and other loan average balance decreased $8.2 million or 11.5% while the yield increased by 10 basis points.

Interest income on commercial loans decreased $192,000 or 1.6% in fiscal 2022 from the prior year. The decrease in interest on commercial loans during fiscal 2022 reflected an increase in the average balance of $8.2 million and a decrease in yield of 21 basis points.

Interest and dividends on cash and investments increased by $1.0 million or 165.5% in fiscal 2022 from fiscal 2021. During fiscal 2022, the increase in income resulted from an increase in the yield of 46 basis points as well as an increase in the average balance of $13.3 million or 6.5%.

Interest Expense

Interest expense on deposits decreased $1.1 million or 37.3% in fiscal 2022 as compared to the prior year. In fiscal 2022, the average balance of deposits increased by $42.0 million. The average rate paid on deposits decreased to 0.3% for the year ended September 30, 2022, compared to 0.5% for year ended September 30, 2021.

Interest expense on borrowings decreased by $620,000 or 31.0% in fiscal 2022 compared to the prior year. The decrease in fiscal 2022 was primarily the result of a decrease in the average balance of borrowings of $15.0 million or 18.0%.

Provision for Loan Losses

Management establishes reserves for losses on loans when it determines that losses are probable. The adequacy of loan loss reserves is based upon a regular monthly review of loan delinquencies and "classified assets", as well as local and national economic trends. The allowance for loan losses totaled $5.0 million at September 30, 2022, compared to $5.5 million for fiscal year ended September 30, 2021 or 0.9% and 1.0% of total loans at September 30, 2022 and 2021, respectively. The Company recorded a provision for loan losses of $280,000 in fiscal 2022 compared to $385,000 in fiscal 2021. The provision for loan loss reflects the Company's analysis and review of its loan portfolio and assessment of the underlying risks associated with delinquent loans as well as loans classified for regulatory purposes. For additional analysis of the allowance refer to Note 4 – Loans Receivable in the Consolidated Financial Statements.

Other Income

The Company's total other income decreased to $3.0 million in fiscal 2022 compared to $3.2 million in fiscal 2021. The decrease in fiscal 2022 was primarily due to the discontinuation of Federal Home Loan Bank (Mortgage Participation Finance) program. Income from sales of loans in fiscal 2022 was $21,000 .

Customer service fees and debit card income were $1.7 million and $1.6 million in fiscal 2022 and 2021, respectively.

Other, which consists primarily of loan servicing fees, the sale of non-deposit products, and insurance commissions, decreased by $87,000 or 8.6% during fiscal 2022. The fees, which comprise other income, are set by the Company at a level that is intended to cover the cost of providing the related services and expenses to customers.

Other Expenses

Salaries and employee benefits increased by $358,000 or 4.2% in fiscal 2022 as compared to fiscal 2021. The increased expenses of salaries and employee benefits during the periods are attributable to an increase to both salary increases, and increases to incentive based compensation.

Occupancy and equipment expense increased $29,000 or 2.1% in fiscal year 2022 as compared to fiscal 2021.

Data processing costs decreased by $19,000 in fiscal 2022.

Other expenses, which consist primarily of advertising expenses, directors' fees, ATM network fees, professional fees, checking account costs, rewards expenses, REO expenses, stockholders expense and other operating expenses decreased by $478,000 or 12.6% in fiscal 2022 compared to fiscal 2021.

Deposit insurance premiums for the fiscal year 2022 increased $15,000 or 6.4% from fiscal 2021 due to an increase in the assessment base.

Income Taxes

The Company recorded income tax provisions of $2.7 million in fiscal year 2022 and $2.6 million in 2021. The effective tax rate was 23.5% in fiscal 2022 compared to 26.1% in fiscal 2021. See Note 8 of the Consolidated Financial Statements which provides an analysis of the provision for income taxes.

INDEPENDENT AUDITOR'S REPORT

Audit Committee
Harleysville Financial Corporation
Harleysville, Pennsylvania

Opinion

We have audited the accompanying consolidated financial statements of Harleysville Financial Corporation and its subsidiaries (the "Company"), which comprise the consolidated statements of financial condition as of September 30, 2022 and 2021; the related consolidated statements of income, comprehensive income, 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 September 30, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Other Information Included in the Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the Company's Corporate Profile, Stock Market Information, and Management's Discussion and Analysis of Financial Condition and Results of Operations 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
December 6, 2022

Consolidated Statements of Financial Condition

(In thousands, except share data)	September 30, 2022	2021
Assets		
Cash and amounts due from depository institutions	**$ 2,332**	$ 2,909
Interest-bearing demand deposits	**133,419**	202,884
Total cash and cash equivalents	**135,751**	205,793
Investments and mortgage-backed securities:		
Available for sale (amortized cost – 2022, $4,457; 2021, $1,128)	**4,461**	1,140
Held to maturity (fair value – 2022, $157,436; 2021, $106,258)	**174,027**	104,336
Loans receivable (net of allowance for loan losses - 2022, $5,021; 2021, $5,520)	**562,110**	544,706
Loans held for sale	**-**	466
Accrued interest receivable	**1,851**	1,606
Federal Home Loan Bank stock - at cost	**3,049**	3,583
Office properties and equipment, net	**8,841**	9,343
Bank-owned life insurance	**18,043**	17,653
Prepaid expenses and other assets	**3,994**	4,013
TOTAL ASSETS	**$ 912,127**	$ 892,639
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits	**$ 755,886**	$ 725,936
Short-term borrowings	**14,858**	18,558
Long-term debt	**47,000**	59,000
Accrued interest payable	**120**	138
Advances from borrowers for taxes and insurance	**1,374**	1,441
Other liabilities	**8,050**	6,864
Total liabilities	**827,288**	811,937
Commitments and contingencies (Notes 13 & 14)	**-**	-
Stockholders' Equity:		
Preferred Stock: $.01 par value; 7,500,000 shares authorized; none issued	**-**	-
Common stock: $.01 par value; 15,000,000 shares authorized; 3,921,191 shares issued: shares outstanding 2022, 3,719,141; 2021, 3,721,038	**39**	39
Additional paid-in capital	**7,127**	7,303
Treasury stock, at cost (2022, 202,050 shares; 2021, 200,153 shares)	**(4,469)**	(4,282)
Retained earnings - partially restricted	**82,141**	77,636
Accumulated other comprehensive income	**1**	6
Total stockholders' equity	**84,839**	80,702
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 912,127**	$ 892,639

See notes to consolidated financial statements.

Consolidated Statements of Income

(In thousands, except share and per share data)	Year Ended September 30, 2022	2021
Interest and Dividend Income:		
Interest and fees on mortgage loans	**$ 9,695**	$ 11,443
Interest on commercial loans	**11,712**	11,904
Interest on consumer and other loans	**1,917**	2,094
Interest on mortgage-backed securities	**2,334**	1,258
Interest on taxable investments	**1,557**	436
Interest on tax-exempt investments	**96**	188
Dividends on investment securities	**4**	-
Total interest and dividend income	**27,315**	27,323
Interest Expense:		
Interest on deposits	**1,778**	2,834
Interest on short-term borrowings	**38**	45
Interest on long-term debt	**1,341**	1,954
Total interest expense	**3,157**	4,833
Net Interest Income	**24,158**	22,490
Provision for Loan Losses	**280**	385
Net Interest Income, after Provision for Loan Losses	**23,878**	22,105
Other Income:		
Customer service fees and debit card income	**1,654**	1,515
Realized gains on sale of loans, net	**21**	252
Income on bank-owned life insurance	**389**	393
Other income	**929**	1,016
Total other income	**2,993**	3,176
Other Expenses:		
Salaries and employee benefits	**8,810**	8,452
Occupancy and equipment	**1,407**	1,378
Deposit insurance premiums	**248**	233
Data processing	**1,583**	1,564
Other	**3,326**	3,804
Total other expenses	**15,374**	15,431
Income before Income Tax Expense	**11,497**	9,850
Income tax expense	**2,707**	2,566
Net Income	**$ 8,790**	$ 7,284
Earnings Per Share:		
Basic	**$ 2.36**	$ 1.95
Diluted	**$ 2.34**	$ 1.93
Weighted Average Shares Outstanding:		
Basic	**3,718,208**	3,744,566
Diluted	**3,756,246**	3,780,450

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

(In thousands)	Year Ended September 30, 2022	2021
Net Income	**$ 8,790**	$ 7,284
Other Comprehensive Loss:		
Unrealized losses on available for sale securities	**(8)**	(2)
Income tax effect	**3**	-
Other comprehensive loss, net of tax	**(5)**	(2)
Comprehensive income	**$ 8,785**	$ 7,282

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

(In thousands, except share and per share data)

	Common Stock Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings-Partially Restricted	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
Balance at September 30, 2020	3,752,221	$ 39	$ 7,509	$ 74,517	$ 8	$ (3,442)	$ 78,631
Net income				7,284			7,284
Dividends - $1.11 per share				(4,165)			(4,165)
Restricted stock awards	4,868		(101)			101	-
Stock based compensation			50				50
Treasury stock delivered under 401k			(27)			(196)	(223)
Treasury stock purchase	(52,433)					(1,281)	(1,281)
Treasury stock delivered under dividend reinvestment plan	5,257		41			305	346
Employee options exercised	11,125		(169)			231	62
Other comprehensive loss					(2)		(2)
Balance at September 30, 2021	3,721,038	39	7,303	77,636	6	(4,282)	80,702
Net income				**8,790**			**8,790**
Dividends - $1.15 per share				**(4,285)**			**(4,285)**
Restricted stock awards	**3,456**		**(74)**			**74**	**-**
Stock based compensation			**224**				**224**
Treasury stock delivered or received under 401k	**(5,897)**		**(24)**			**(127)**	**(151)**
Treasury stock purchase	**(31,845)**					**(823)**	**(823)**
Treasury stock delivered under dividend reinvestment plan	**7,897**		**36**			**167**	**203**
Employee options exercised	**24,492**		**(338)**			**522**	**184**
Other comprehensive loss					**(5)**		**(5)**
Balance at September 30, 2022	**3,719,141**	**$ 39**	**$ 7,127**	**$ 82,141**	**$ 1**	**$ (4,469)**	**$ 84,839**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(In thousands)	Year Ended September 30, 2022	2021
Operating Activities:		
Net Income	**$ 8,790**	$ 7,284
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**615**	675
Provision for loan losses	**280**	385
Deferred income taxes	**342**	(143)
Realized gains on sale of loans, net	**21**	(252)
Origination of mortgage loans held for sale	**-**	(11,099)
Proceeds from sale of mortgage loans held for sales	**462**	10,885
Amortization of deferred fees	**102**	1,180
Increase in cash surrender value of bank owned life insurance	**(389)**	(393)
Stock based compensation	**224**	50
Changes in assets and liabilities which provided (used) cash:		
Increase (decrease) in other liabilities	**1,189**	(446)
(Increase) decrease in prepaid expenses and other assets	**(341)**	382
(Increase) decrease in accrued interest receivable	**(245)**	748
Decrease in accrued interest payable	**(18)**	(71)
Net cash provided by operating activities	**11,032**	9,185
Investing Activities:		
Purchase of mortgage-backed securities held to maturity	**(107,104)**	(55,729)
Purchase of investment securities available for sale	**(121,984)**	(58,951)
Purchase of FHLB stock	**(57)**	(372)
Redemption of FHLB stock	**591**	1,252
Principal collected on securities available for sale	**88**	141
Proceeds from the redemption of investment securities available for sale	**118,567**	63,277
Proceeds from maturities of investment securities held for sale	**12,025**	4,330
Principal collected on mortgage-backed securities held for sale	**25,388**	35,994
(Decrease) increase in loans, net	**(17,786)**	60,591
Purchase of premises and equipment	**(113)**	(136)
Net cash (used for) provided by investing activities	**(90,385)**	50,397
Financing Activities:		
Net increase in demand deposits, NOW accounts and savings accounts	**61,071**	89,395
Net decrease in certificates of deposit	**(31,121)**	(21,189)
Cash dividends	**(4,285)**	(4,165)
Decrease in short term borrowings	**(3,700)**	(2,865)
Repayment of long-term debt	**(12,000)**	(29,261)
Acquisition of treasury stock	**(823)**	(1,281)
Sale of treasury stock delivered under employee stock plans	**236**	185
Net increase (decrease) in advances from borrowers for taxes and insurance	**(67)**	129
Net cash provided by financing activities	**9,311**	30,948
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(70,042)**	90,530
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**205,793**	115,263
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 135,751**	$ **205,793**
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for:		
Interest	**$ 3,175**	$ **4,904**
Income taxes	**1,716**	2,637

See notes to consolidated financial statements

Notes to Consolidated Financial Statements

1. Nature of Operations and Organizational Structure

Harleysville Financial Corporation, (the "Company") is a bank holding company that is regulated by the Federal Reserve Bank of Philadelphia. Harleysville Bank, (the "Bank") is a wholly owned subsidiary and is regulated by the FDIC and the Pennsylvania Department of Banking. The Bank is principally in the business of attracting deposits through its branch offices and investing those deposits, together with funds from borrowings and operations, primarily in single family residential, commercial, consumer loans and investments. The Bank's customers are primarily in southeastern Pennsylvania.

2. Summary of Significant Accounting Policies

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of the Company, the Bank, and the Bank's wholly owned subsidiary, HSB Inc., a Delaware subsidiary which was formed in order to accommodate the transfer of certain assets, Freedom Financial Solutions LLC that allows the Company to offer non-deposit products and HARL, LLC that allows the Bank to invest in equity investments. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates in Preparation of the Consolidated Financial Statements - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Statement of Financial Condition and the reported amounts of income and expenses during the reporting period. The most significant of these estimates and assumptions in the Company's consolidated financial statements is the allowance for loan losses and other-than-temporary impairment of investments. Actual results could differ from those estimates.

Significant Group Concentrations of Credit Risk - Most of the Company's activities are with customers located within the southeastern region of Pennsylvania. Note 3 discusses the types of securities that the Company invests in. Note 4 discusses the types of lending that the Company engages in. The Company does not have any significant concentrations to any one industry or customer.

Cash and Cash Equivalents - For purposes of the Consolidated Statements of Cash Flows, cash and cash equivalents include cash and amounts due from depository institutions, including interest-bearing demand deposits in banks with original maturities of less than 90 days.

Investment and Mortgage-Backed Securities - The Company classifies and accounts for debt securities as follows:

Held to Maturity - Debt securities that management has the positive intent and ability to hold until maturity are classified as held to maturity and are carried at their remaining unpaid principal balance, net of unamortized premiums or unaccreted discounts. Premiums are amortized and discounts are accreted using the interest method over the estimated remaining term of the underlying security.

Available for Sale - Debt securities that will be held for indefinite periods of time, including securities that may be sold in response to changes in market interest or prepayment rates, needs for liquidity and changes in the availability of and the yield of alternative investments are classified as available for sale. These assets are carried at fair value. Unrealized gains and losses are excluded from earnings and are reported net of tax in other comprehensive income. Realized gains and losses on the sale of investment securities are recorded as of the trade date, reported in the Consolidated Statements of Income and determined using the amortized cost of the specific security sold.

For all securities that are in an unrealized loss position for an extended period of time and for all securities whose fair value is significantly below amortized cost, the Company performs an evaluation of the specific events attributable to the market decline of the security. The Company considers the length of time and extent to which the security's fair value has been below cost as well as the general market conditions, industry characteristics, and the fundamental operating results of the issuer to determine if the decline is other-than-temporary. The Company also considers as part of the evaluation its intent and ability to hold the security and whether it is more likely than not that it will be required to sell the security before its fair value has recovered to a level at least equal to the amortized cost.

For debt securities, accounting guidance specifies that (a) if a company does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When an entity does not intend to sell the security, and it is more likely than not, the entity will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held to maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment should be amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

When the Company determines that a security's unrealized loss is other-than-temporary, an impairment loss is recognized in the period in which the decline in value is determined to be other-than-temporary.

Loans - The Company grants commercial, mortgage and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans throughout southeastern Pennsylvania. The ability of the Company's debtors to honor their contracts is dependent upon the general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans.

Loans Held for Sale - Loans originated and intended for sale in the secondary market are carried at the lower of cost or market. Gains and losses on loan sales (sales proceeds minus carrying value) are recorded in noninterest income, and direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of the loan.

Interest Income on Loans - Interest income is accrued on the unpaid principal balance. Interest on loans is recognized as income when earned. The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off are reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Deferred Loan Fees - Loan origination fees, net of certain direct origination costs, are deferred and the balance is amortized to income as an adjustment over the life of the loan using the interest method.

Allowance for Loan Losses - The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. An allowance for loan losses is maintained at a level that management considers adequate to provide for losses based upon evaluation of known and inherent risks in the loan portfolio. The loan loss reserves are established as an allowance for estimated losses based on the probable losses of the loan portfolio. In assessing risk, management considers historical experience, volume and composition of lending conducted by the Company, industry standards, and status of nonperforming loans, general economic conditions as they relate to the Company's market area, and other factors related to the collectibility of the Company's loan portfolio.

The allowance for loan losses consists of three elements: (1) specific allowances for impaired loans; (2) a general valuation allowance on all classified loans which are not impaired; and (3) a general valuation allowance on the remainder of the loan portfolio. This is consistent with the regulatory method of classifying reserves. Although the amount of each element of the allowance is determined separately, the entire allowance for loan losses is available for the entire portfolio. An allowance for impaired loans is established in the amounts by which the discounted cash flows (or collateral value or observable market price) are lower than the carrying value of the loan. A general allowance is established for classified loans that are not impaired. These loans are segregated by loan category, and allowance percentages are assigned to each category based on inherent losses associated with each type of lending and consideration that these loans, in the aggregate, represent an above-average credit risk and that more of these loans will prove to be uncollectible compared to loans in the general portfolio.

Foreclosed Real Estate - Real estate acquired through, or in lieu of, loan foreclosures are carried at the lesser of cost or fair value of the property, based on an appraisal less cost to sell. Costs relating to the development and improvement of the property are capitalized, and those relating to holding the property are charged to expense. The Company had no foreclosed real estate as of September 30, 2022 and 2021, respectively.

Office Properties and Equipment - Land is carried at cost. Office properties and equipment are recorded at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the expected useful lives of the assets that range from four to forty years. The costs of maintenance and repairs are expensed as they are incurred, and renewals and betterments are capitalized.

Federal Home Loan Bank Stock - Federal law requires a member institution of the Federal Home Loan Bank (FHLB) to hold stock of its district FHLB according to a predetermined formula. The restricted stock is carried at cost.

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

Cash Surrender Value of Bank-Owned Life Insurance (BOLI) - The Bank funded the purchase of insurance policies on the lives of officers and employees of the Bank. The Company has recognized any increase in cash surrender value of life insurance, net of insurance costs, in the Consolidated Statements of Income as income on BOLI. The cash surrender value of the insurance policies is recorded as an asset in other assets in the Consolidated Statements of Financial Condition and amounted to $18.0 million and $17.7 million at September 30, 2022 and 2021, respectively.

Income Taxes - Deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. The Company and its subsidiary file a consolidated federal income tax return.

The Company analyzes each tax position taken in its tax returns and determines the likelihood that the position will be realized. Only tax positions that are "more likely than not" to be realized can be recognized in the Company's financial statements. For tax positions that do not meet this recognition threshold, the Company will record an unrecognized tax benefit for the difference between the position taken on the tax return and the amount recognized in the financial statements. The Company does not have any material unrecognized tax benefits or accrued interest or penalties at September 30, 2022 and 2021, or during the years then ended. No unrecognized tax benefits are expected to arise within the next twelve months. The Company's policy is to account for interest as a component of interest expense and penalties as a component of other expenses. The Company and its subsidiaries are subject to U.S. Federal income tax as well as income tax of the Commonwealth of Pennsylvania. The Company is no longer subject to examination by taxing authorities for the years before October 1, 2019.

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

Treasury Stock - The Company records treasury stock purchases at cost. Gains and losses on subsequent reissuance of shares are credited or charged to additional paid-in capital using the average-cost method.

Stock Based Compensation - The Company currently has several stock-based compensation plans in place for employees and directors of the Company. The Company recognizes the cost of employee services received in exchange for an award of equity investment based on grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. Stock-based compensation expense for the years ended September 30, 2022 and 2021 was $224,500 and $50,000, respectively. The tax benefit recognized related to the compensation expense for the years ended September 30, 2022 and 2021 was $20,600 and $5,000, respectively.

Earnings Per Share - Basic earnings per common share is computed based on the weighted average number of shares outstanding. Diluted earnings per share is computed based on the weighted average number of shares outstanding, increased by additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued by the Company relate to outstanding stock options and unvested stock awards, and are determined using the treasury stock method. The number of anti-dilutive options that are excluded from the earnings per share calculation for the years ended September 30, 2022 and 2021 were 127,816 and 155,126, respectively. For the years ended September 30, 2022 and 2021, the exercise price for the options representing anti-dilutive shares ranged from $22.00 to $25.96. The weighted average shares outstanding used to calculate earnings per share were as follows:

	Year Ended September 30,	
	2022	**2021**
Weighted average shares outstanding – basic	**3,718,208**	3,744,566
Increase in shares due to dilutive potential common shares	**38,038**	35,884
Weighted average shares outstanding – diluted	**3,756,246**	3,780,450

Other Comprehensive Loss - The Company presents, as a component of comprehensive income, amounts from transactions and other events, which are currently excluded from the Consolidated Statements of Income and are recorded directly to stockholders' equity. The Company's other comprehensive loss consists of net unrealized holding gains or losses on securities available for sale, net of income taxes.

Reclassifications - Certain amounts in the prior period's financial statements have been reclassified to conform with the current year classifications. The reclassifications had no effect on net income.

Recently Issued Accounting Standards - In March 2020, the FASB issued ASU 2020-03*, Codification Improvements to Financial Instruments.* This ASU was issued to improve and clarify various financial instruments topics, including the current expected credit losses (CECL) standard issued in 2016. The ASU includes seven issues that describe the areas of improvement and the related amendments to GAAP; they are intended to make the standards easier to understand and apply and to eliminate inconsistencies, and they are narrow in scope and are not expected to significantly change practice for most entities. Among its provisions, the ASU clarifies that all entities, other than public business entities that elected the fair value option, are required to provide certain fair value disclosures under ASC 825, *Financial Instruments*, in both interim and annual financial statements. It also clarifies that the contractual term of a net investment in a lease under Topic 842 should be the contractual term used to measure expected credit losses under Topic 326. Amendments related to ASU 2019-04 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is not permitted before an entity's adoption of ASU 2016-01. Amendments related to ASU 2016-13 for entities that have not yet adopted that guidance are effective upon adoption of the amendments in ASU 2016-13. Early adoption is not permitted before an entity's adoption of ASU 2016-13. Amendments related to ASU 2016-13 for entities that have adopted that guidance are effective for fiscal years beginning after December 15, 2019, including interim periods within those years. Other amendments are effective upon issuance of this ASU. This Update is not expected to have a significant impact on the Company's financial statements.

In March 2022, the FASB issued ASU 2022-02, *Financial Instruments - Credit Losses (ASC 326): Troubled Debt Restructurings (TDRs) and Vintage Disclosures*. The guidance amends ASC 326 to eliminate the accounting guidance for TDRs by creditors, while enhancing disclosure requirements for certain loan refinancing and restructuring activities by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying TDR recognition and measurement guidance, creditors will determine whether a modification results in a new loan or continuation of existing loan. These amendments are intended to enhance existing disclosure requirements and introduce new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. Additionally, the amendments to ASC 326 require that an entity disclose current-period gross write-offs by year of origination within the vintage disclosures, which requires that an entity disclose the amortized cost basis of financing receivables by credit quality indicator and class of financing receivable by year of origination. The guidance is only for entities that have adopted the amendments in Update 2016-13 for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. Early adoption using prospective application, including adoption in an interim period where the guidance should be applied as of the beginning of the fiscal year. This Update is not expected to have a significant impact on the Company's financial statements.

3. INVESTMENT AND MORTGAGE-BACKED SECURITIES

The amortized cost and fair value of the Company's securities with gross unrealized gains and losses, as of September 30, 2022 and 2021 are as follows:

Available for sale securities:

(In thousands)	September 30, 2022 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Collateralized mortgage obligations	$ 444	$ 4	$ -	$ 448
U.S. Government money market funds	4,013	-	-	4,013
Total Available for Sale Securities	$ 4,457	$ 4	$ -	$ 4,461

(In thousands)	September 30, 2021 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Collateralized mortgage obligations	$ 532	$ 12	$ -	$ 544
U.S. Government money market funds	596	-	-	596
Total Available for Sale Securities	$ 1,128	$ 12	$ -	$ 1,140

Held to maturity securities:

(In thousands)	September 30, 2022 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities- U.S. Government Sponsored Enterprises (GSE'S)	$ 164,041	$ 1	$ (16,151)	$ 147,891
Collateralized mortgage obligations	519	14	-	533
Municipal bonds	1,512	5	-	1,517
U.S. Government Agencies	7,955	-	(460)	7,495
Total Held to Maturity Securities	$ 174,027	$ 20	$ (16,611)	$ 157,436

(In thousands)	September 30, 2021 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities- U.S. Government Sponsored Enterprises (GSE'S)	$ 82,250	$ 1,997	$ (175)	$ 84,072
Collateralized mortgage obligations	618	26	-	644
Municipal bonds	3,521	77	-	3,598
U.S. Government Agencies	17,947	-	(3)	17,944
Total Held to Maturity Securities	$ 104,336	$ 2,100	$ (178)	$ 106,258

All the Company's mortgage-backed securities and collateralized mortgage obligations are residential. At September 30, 2022 and 2021, the Bank held $964,000 and $1.2 million, respectively in Collateralized Mortgage Obligations (CMOs) of which all were issued by Government Sponsored Enterprises and none were privately issued.

There were no sales of securities during the year ended September 30, 2022 and September 30, 2021, respectively.

A summary of securities with unrealized losses, aggregated by category, as of September 30, 2022 is as follows:

	September 30, 2022					
	Less than 12 Months		12 Months or Longer			
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Total Fair Value	Total Unrealized Losses
Mortgage-backed securities- U.S. Government Sponsored Enterprises (GSE'S)	$ 26,696	$ (4,881)	$ 121,062	$ (11,270)	$ 147,758	$ (16,151)
U.S. Government Agencies	7,495	(460)	-	-	7,495	(460)
Total temporarily impaired securities	$ 34,191	$ (5,341)	$ 121,062	$ (11,270)	$ 155,253	$ (16,611)

At September 30, 2022, debt securities in a gross unrealized loss position consisted of 150 securities that at such date had an aggregate depreciation of 10.7% from the Company's amortized cost basis. Management believes that the estimated fair value of the securities disclosed above is primarily dependent upon the movement in market interest rates. Management evaluated the length of time and the extent to which the fair value has been less than cost; the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer. The Company has the ability and intent to hold these securities until maturity and the Company does not believe it will be required to sell such securities prior to the recovery of the amortized cost basis. Management does not believe any individual unrealized loss on debt securities as of September 30, 2022 represents other-than-temporary impairment.

The following table sets forth the stated maturities of the investment and mortgage-backed securities at September 30, 2022. Money market funds are not included in the table based on lack of maturity.

	September 30, 2022	
(In thousands)	Amortized Cost	Fair Value
Available for sale:		
Due after ten years	$ 444	$ 448
Total	$ 444	$ 448
Held to maturity:		
Due in one year or less	$ 5,603	$ 5,568
Due after one year through five years	6,664	6,449
Due after five years through ten years	22,522	20,701
Due after ten years	139,238	124,718
Total	$ 174,027	$ 157,436

Certain of the Company's investment securities, totaling $27.5 million and $21.9 million at September 30, 2022 and 2021, respectively, were pledged or restricted for deposit sweep accounts, public deposits, or other purposes as required or permitted by law.

4. LOANS RECEIVABLE

Loans receivable consists of the following:

(In thousands)	September 30, 2022	2021
Residential Mortgages	**$ 229,113**	$ 240,125
Construction	**8,459**	8,270
Home Equity	**42,598**	48,148
Commercial Mortgages	**280,813**	243,019
Commercial Business Loans*	**10,568**	15,493
Consumer Non-Real Estate	**306**	434
Total	**571,857**	555,489
Undisbursed portion of loans in process	**(4,871)**	(5,118)
Deferred loan fees and costs	**145**	(145)
Allowance for loan losses	**(5,021)**	(5,520)
Loans Receivable - net	**$ 562,110**	$ 544,706

*-includes none and $7.8 million of PPP loans at September 30, 2022 and 2021, respectively

At September 30, 2022 and 2021, the Company was servicing residential mortgage loans for others amounting to approximately $18.2 million and $19.1 million, respectively. Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors and foreclosure processing. Loan servicing income is recognized over the life of the loan. The Company receives a servicing fee of 0.25% on sold loans, which totaled $63,000 as of September 30, 2022. These servicing fees are included in prepaid expenses and other assets on the Consolidated Statements of Financial Condition. In connection with the loans serviced for others, the Company held borrowers' escrow balances of approximately $76,000 and $97,000 for September 30, 2022 and 2021, respectively. The net gain on the sale of residential mortgage loans was $21,000 and $252,000 for 2022 and 2021, respectively. This $231,000 decrease in the net gain on sale of loans was result of decreased residential mortgage activity during 2022. Proceeds from the sale of residential mortgages were $462,000 and $10.9 million for 2022 and 2021, respectively.

The Bank has had, and may be expected to have in the future, loan transactions in the ordinary course of business with directors, officers, principal stockholders, their immediate families and affiliated companies (commonly referred to as related parties), on the same terms including interest rates and collateral, as those prevailing at the time for comparable transactions with others. Loans to related parties at September 30, 2022 and 2021, were approximately $3.4 million and $3.0 million, respectively. There were $600,000 in additional loans and $162,000 in repayments for the year ended September 30, 2022 compared to $1.1 million in additional loans and $11.4 million in repayments for the year ended September 30, 2021.

The loans receivable portfolio is segmented into consumer and commercial loans. Consumer loans consist of the following classes: residential mortgage loans, construction loans, home equity loans and non-real estate consumer loans. Commercial loans consist of the following classes: commercial mortgages and commercial business loans. For all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans including impaired loans generally are either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the Consolidated Statements of Financial Condition date and is recorded as a reduction to loans. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Because all identified losses are immediately charged off, no portion of the allowance for loan losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a monthly evaluation of the adequacy of the allowance. The allowance is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These significant factors may include changes in lending policies and procedures, changes in existing general economic and business conditions affecting our primary lending areas, credit quality trends, collateral value, loan volumes and concentrations, seasoning of the loan portfolio, recent loss
experience in particular segments of the portfolio, duration of the current business cycle and bank regulatory examination results. The applied loss factors are reevaluated quarterly to ensure their relevance in the current economic environment.

Residential mortgage lending generally entails a lower risk of default than other types of lending. Other consumer loans and commercial real estate loans generally involve more risk of collectability because of the type and nature of the collateral and, in certain cases, the absence of collateral. It is the Company's policy to establish specific reserves for losses on delinquent commercial loans when it determines that losses are probable.

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Additionally, all loans modified in a troubled debt restructuring are considered impaired. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of the Company's impaired loans are measured based on the estimated fair value of the loan's collateral. Interest payments on impaired loans and non-accrual loans are applied to principal unless the ability to collect the principal amount is fully secured, in which case interest is recognized on the cash basis.

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

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

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans criticized special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

In addition, federal regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Company's internal risk rating system as of September 30, 2022 and 2021:

September 30, 2022

(In thousands)	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Total**
Residential Mortgages	**$ 226,918**	**$ -**	**$ 1,552**	**$ 643**	**$ 229,113**
Construction	**8,459**	**-**	**-**	**-**	**8,459**
Home Equity	**42,291**	**-**	**226**	**81**	**42,598**
Commercial Mortgages	**276,788**	**3,625**	**400**	**-**	**280,813**
Commercial Business Loans	**10,457**	**111**	**-**	**-**	**10,568**
Consumer Non-Real Estate	**306**	**-**	**-**	**-**	**306**
Total	**$ 565,219**	**$ 3,736**	**$ 2,178**	**$ 724**	**$ 571,857**

September 30, 2021

(In thousands)	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Total**
Residential Mortgages	$ 237,336	$ -	$ 2,789	$ -	$ 240,125
Construction	8,270	-	-	-	8,270
Home Equity	47,565	-	583	-	48,148
Commercial Mortgages	235,283	2,718	5,018	-	243,019
Commercial Business Loans	15,370	-	123	-	15,493
Consumer Non-Real Estate	434	-	-	-	434
Total	$ 544,258	$ 2,718	$ 8,513	$ -	$ 555,489

The following table summarizes information in regards to impaired loans by loan portfolio class as of September 30, 2022 and for the year then ended:

(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential Mortgages	$ 2,195	$ 2,227	$ -	$ 2,263	$ 70
Construction	-	-	-	-	-
Home Equity	252	357	-	366	8
Commercial Mortgages	400	400	-	414	14
Commercial Business Loans	-	-	-	-	-
Consumer Non-Real Estate	-	-	-	-	-
Subtotal:	2,847	2,984	-	3,043	92
With an allowance recorded:					
Residential Mortgages	-	-	-	-	-
Construction	-	-	-	-	-
Home Equity	88	88	24	88	2
Commercial Mortgages	-	-	-	-	-
Commercial Business Loans	-	-	-	-	-
Consumer Non-Real Estate	-	-	-	-	-
Subtotal:	88	88	24	88	2
Total:					
Residential Mortgages	2,195	2,227	-	2,263	70
Construction	-	-	-	-	-
Home Equity	340	445	24	454	10
Commercial Mortgages	400	400	-	414	14
Commercial Business Loans	-	-	-	-	-
Consumer Non-Real Estate	-	-	-	-	-
Totals:	$ 2,935	$ 3,072	$ 24	$ 3,131	$ 94

The following table summarizes information in regards to impaired loans by loan portfolio class as of September 30, 2021 and for the year then ended:

(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential Mortgages	$ 2,789	$ 2,851	$ -	$ 2,888	$ 77
Construction	-	-	-	-	-
Home Equity	531	636	-	642	8
Commercial Mortgages	3,636	3,844	-	3,921	117
Commercial Business Loans	123	123	-	125	-
Consumer Non-Real Estate	-	-	-	-	-
Subtotal:	7,079	7,454	-	7,576	202
With an allowance recorded:					
Residential Mortgages	-	-	-	-	-
Construction	-	-	-	-	-
Home Equity	88	88	35	88	3
Commercial Mortgages	1,382	1,772	170	1,772	-
Commercial Business Loans	-	-	-	-	-
Consumer Non-Real Estate	-	-	-	-	-
Subtotal:	1,470	1,860	205	1,860	3
Total:					
Residential Mortgages	2,789	2,851	-	2,888	77
Construction	-	-	-	-	-
Home Equity	619	724	35	730	11
Commercial Mortgages	5,018	5,616	170	5,693	117
Commercial Business Loans	123	123	-	125	-
Consumer Non-Real Estate	-	-	-	-	-
Totals:	$ 8,549	$ 9,314	$ 205	$ 9,436	$ 205

The performance and credit quality of the loan portfolio is also monitored by the analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by the past due status as of September 30, 2022 and 2021:

September 30, 2022

(In thousands)	30-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Loans Receivable > 90 Days and Accruing
Residential Mortgages	**$ 1,879**	**$ 1,841**	**$ 3,720**	**$225,393**	**$ 229,113**	**$ -**
Construction	**-**	**-**	**-**	**8,459**	**8,459**	**-**
Home Equity	**856**	**313**	**1,169**	**41,429**	**42,598**	**-**
Commercial Mortgages	**-**	**400**	**400**	**280,413**	**280,813**	**-**
Commercial Business Loans	**-**	**-**	**-**	**10,568**	**10,568**	**-**
Consumer Non-Real Estate	**-**	**-**	**-**	**306**	**306**	**-**
Total	**$ 2,735**	**$ 2,554**	**$ 5,289**	**$566,568**	**$ 571,857**	**$ -**

September 30, 2021

(In thousands)	30-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Loans Receivable > 90 Days and Accruing
Residential Mortgages	$ 1,914	$ 2,129	$ 4,043	$236,082	$ 240,125	$ -
Construction	-	-	-	8,270	8,270	-
Home Equity	399	433	832	47,316	48,148	-
Commercial Mortgages	-	3,916	3,916	239,103	243,019	-
Commercial Business Loans	-	-	-	15,493	15,493	-
Consumer Non-Real Estate	-	-	-	434	434	-
Total	$ 2,313	$ 6,478	$ 8,791	$546,698	$ 555,489	$ -

The following table presents nonaccrual loans by classes of the loan portfolio for the years ended September 30, 2022 and 2021:

	September 30, 2022	September 30, 2021
(In thousands)		
Residential Mortgages	**$ 2,195**	$ 2,795
Construction	**-**	-
Home Equity	**307**	582
Commercial Mortgages	**400**	3,916
Commercial Business Loans	**-**	-
Consumer Non-Real Estate	**-**	-
Total	**$ 2,902**	$ 7,293

The following table provides the activity in the allowance for loan losses by loan class for the years ended September 30, 2022 and 2021 and the balance in the allowance for loan losses at September 30, 2022 and 2021 disaggregated on the basis of the Company's impairment method by loan class along with the balance of loans receivable by class disaggregated on the basis of the Company's impairment methodology.

	September 30, 2022							
(In thousands)	Residential Mortgages	Construction	Home Equity	Commercial Mortgages	Commercial Business Loans	Consumer Non-Real Estate	Unallocated	Totals
Allowance for loan loss:								
Beginning Balance, September 30, 2021	$ 841	$ -	$ 248	$ 2,722	$ 144	$ 41	$ 1.524	$ 5,520
Charge-offs	(15)	-	-	(485)	-	(333)	-	(833)
Recoveries	-	-	-	-	-	54	-	54
Provisions	(43)	-	(37)	616	34	272	(562)	280
Ending balance, September 30, 2022	$ 783	$ -	$ 211	$ 2,853	$ 178	$ 34	$ 962	$ 5,021
Ending balance:								
Individually evaluated for impairment	$ -	$ -	$ 24	$ -	$ -	$ -	$ -	$ 24
Ending balance:								
Collectively evaluated for impairment	$ 783	$ -	$ 187	$ 2,853	$ 178	$ 34	$ 962	$ 4,997
Loans:								
Ending balance:	$ 229,113	$ 8,459	$ 42,598	$ 280,813	$ 10,568	$ 306		$571,857
Ending balance:								
Individually evaluated for impairment	$ 2,195	$ -	$ 340	$ 400	$ -	$ -		$ 2,935
Ending balance:								
Collectively evaluated for impairment	$ 226,918	$ 8,459	$ 42,258	$ 280,413	$ 10,568	$ 306		$568,922

During the fiscal year ended September 30, 2022 a credit provision was recorded in the residential mortgage and home equity portfolios while the commercial mortgage, commercial business loan and consumer non-real- estate portfolios required provision expense. The credit provision in the residential mortgage and home equity portfolios was the result of decreased historical loss factors. The provision expense recorded for the commercial mortgage, commercial business loan and consumer non-real-estate portfolios was the result of increased historical loss factors, no qualitative factor changes occurred in fiscal year 2022.

(In thousands)	September 30, 2021							
	Residential Mortgages	Construction	Home Equity	Commercial Mortgages	Commercial Business Loans	Consumer Non-Real Estate	Unallocated	Totals
Allowance for loan loss:								
Beginning Balance, September 30, 2020	$ 1,070	$ -	$ 359	$ 2,334	$ 168	$ 39	$ 1.338	$ 5,308
Charge-offs	-	-	-	(166)	-	(39)	-	(205)
Recoveries	-	-	-	-	-	32	-	32
Provisions	(229)	-	(111)	554	(24)	9	186	385
Ending balance, September 30, 2021	$ 841	$ -	$ 248	$ 2,722	$ 144	$ 41	$ 1,524	$ 5,520
Ending balance:								
Individually evaluated for impairment	$ -	$ -	$ 35	$ 170	$ -	$ -	$ -	$ 205
Ending balance:								
Collectively evaluated for impairment	$ 841	$ -	$ 213	$ 2,552	$ 144	$ 41	$ 1,524	$ 5,315
Loans:								
Ending balance:	$ 240,125	$ 8,270	$ 48,148	$ 243,019	$ 15,493	$ 434		$555,489
Ending balance:								
Individually evaluated for impairment	$ 2,789	$ -	$ 619	$ 5,018	$ 123	$ -		$ 8,549
Ending balance:								
Collectively evaluated for impairment	$ 237,336	$ 8,270	$ 47,529	$ 238,001	$ 15,370	$ 434		$546,940

During the fiscal year ended September 30, 2021 a credit provision was recorded in the residential mortgage, home equity and commercial business loan portfolio while the commercial mortgage and consumer non-real-estate portfolios required provision expense. The credit provision in the residential mortgage, home equity and commercial business loan portfolio was the result of decreased historical loss factors and a decline in the portfolio balance partially offset by an increase in the qualitative factors related to economic risks from COVID-19. The provision expense recorded for the commercial mortgage and consumer non-real-estate portfolios was the result of qualitative factors related to economic risks from Covid-19, an increase in balance and an increase in specific reserves.

Foreclosed assets acquired in settlement of loans are carried at fair value, less estimated costs to sell. As of September 30, 2022, the Company had no foreclosed assets and has initiated formal foreclosure proceeds on $1.1 million of consumer residential mortgages loans, which have not yet been transferred into foreclosed assets.

A troubled debt restructuring (“TDR”) is a formal restructure of a loan when the lender, for economic or legal reasons related to the borrower’s financial difficulties, grants a concession to the borrower. The concessions may be granted in various forms, including reduction in the stated interest rate, reduction in the loan balance or accrued interest, or extension of the maturity date.

The Company had no troubled debt restructuring modifications during the twelve months ended September 30, 2022 and 2021, respectively.

Paycheck Protection Program

In April 2020, our team in business banking and retail began accepting and processing applications for loans under the Paycheck Protection Program ("PPP") implemented by the Small Business Association ("SBA") with support from the Department of Treasury under the recently enacted Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). The Company originated 155 and 324 loans from new and existing customers totaling $37.2 million in PPP loans. We received none and approximately $1.2 million in processing fee income for the years ended September 30, 2022 and 2021, respectively. The processing fee income is deferred and recognized over the contractual life of the loan, or accelerated if the loan is forgiven. The PPP loans have a two-year term and earn interest at 1%. The Company funded these short-term loans primarily from available liquidity through Bank deposits. The SBA fully guarantees the principle and interest unless the lender violated an obligation under the agreement. The Company did not include the PPP loans in the allowance for loan loss calculation as loan losses, if any, are anticipated to be immaterial.

Deferral Requests

The Company has worked with the customers impacted by COVID-19 to provide short-term assistance up to six months in accordance with regulatory guidelines. Commercial borrowers requesting assistance have been offered either a 90-day principal and interest deferral or a 90- day interest only with a potential deferral of up to two additional months. These deferrals do not constitute TDR's under the CARES Act as they met the requirements under section 4013. Section 4013 of the CARES Act, "Temporary Relief from Troubled Debt Restructurings," provides banks the option to temporarily suspend certain requirements under U.S. GAAP related to TDR's for a limited period of time to account for the effects of COVID-19. Residential borrowers needing assistance have been offered a 90-day principal and interest deferral with a potential additional 90-day deferral. The Company has no deferral requests, no outstanding loans as of September 30, 2022. As of September 30, 2021, the Company has 30 loans remaining in deferral, representing $5.3 million in total outstanding loans. Management expects deferral requests could continue throughout year end 2021.

The following table provides a breakdown of loans deferred under the payment deferral program by category as of September 30, 2022 and 2021:

	September 30, 2022	September 30, 2021	Total Deferral Requests
(In thousands)			
Residential Mortgages	$ -	$ 4,961	$ 4,961
Home Equity	-	73	73
Commercial Mortgages	-	232	232
Commercial Business Loans	-	-	-
Total	$ -	$ 5,266	$ 5,266

5. OFFICE PROPERTIES AND EQUIPMENT

Office properties and equipment are summarized by major classifications as follows:

	September 30,	
(In thousands)	**2022**	**2021**
Land	**$ 3,277**	$ 3,277
Buildings	**10,739**	10,724
Fixed assets suspense	**11**	31
Furniture, fixtures and equipment	**6,098**	6 054
Data processing	**2,508**	2,434
Automobiles	**92**	92
Total	**22,725**	22,612
Less accumulated depreciation	**(13,884)**	(13,269)
Net	**$ 8,841**	$ 9,343

Depreciation expense for the years ended September 30, 2022 and 2021 amounted to approximately $615,000 and $675,000, respectively.

6. DEPOSITS

Deposits are summarized as follows:

	September 30,			
	2022		2021	
(In thousands)	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
Non-interest-bearing checking accounts	**$ 100,918**	**0.00%**	$ 89,088	0.00%
NOW accounts	**61,564**	**0.05**	55,888	0.04
Interest-bearing checking accounts	**142,859**	**0.26**	128,298	0.20
Money market deposit accounts	**325,863**	**0.07**	296,691	0.04
Passbook and club accounts	**2,447**	**0.19**	2,615	0.19
Certificate of deposit accounts	**122,235**	**0.63**	153,356	1.25
Total Deposits	**$755,886**	**0.18%**	$725,936	0.32%

At September 30, 2022, the amounts of scheduled maturities of certificate of deposit accounts were as follows (in thousands):

For the year ended September 30,	**2023**	**$ 56,549**
	2024	**24,059**
	2025	**27,171**
	2026	**7,513**
	2027	**6,943**
Total		**$ 122,235**

The aggregate amount of certificate accounts in denominations of $250,000 or more at September 30, 2022 and 2021 amounted to approximately $9.7 million and $12.2 million, respectively.

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

The Bank's short-term borrowings activities are summarized as follows:

FHLB RepoPlus Advance	**2022**	**2021**
	(Dollar in thousands)	
Balance at year-end	**$ 14,858**	$ 18,558
Maximum amount of outstanding at any month-end	**17,890**	20,498
Average balance outstanding during the year	**15,321**	19,242
Weighted-average interest rate:		
As of year-end	**0.34%**	0.25%
Paid during the year	**0.25%**	0.23%

Average amounts outstanding during the year represent daily average balances, while weighted-average interest rates represent interest expense divided by the related average balance for the period indicated.

The Bank maintains the Repo Plus Advance credit arrangement, which is renewable annually, with the FHLB. The line maintains a variable rate of interest that may be reset daily at the FHLB's discretion. The Bank's maximum borrowing capacity under the credit arrangement with the FHLB as of September 30, 2022, is approximately $354.9 million. FHLB advances are secured by a blanket security agreement that includes the Company's FHLB stock as well as certain residential mortgage loans and investments.

Long-term debt consists of the following (in thousands):

	Maturity Range		**Weighted Average Interest**	**Stated Interest Rate Range**			
Description	**From**	**To**	**Rate**	**From**	**To**	**2022**	**2021**
Fixed rate	10/25/2022	02/20/2024	2.54%	1.64%	3.25%	**$ 47,000**	$ 59,000
						$ 47,000	$ 59,000

Maturities of long-term advances as of September 30, 2022 are summarized as follows:

		Amount	**Weighted Average Rate**
		(In thousands)	
FHLB long-term debt:			
	2023	**$ 36,000**	**2.44%**
	2024	**11,000**	**2.84%**
	Total FHLB long-term debt	**47,000**	**2.54%**

8. INCOME TAXES

The Company computes its reserve for bad debts under the specific charge-off method. The bad debt deduction allowable under this method is available to large banks with assets greater than $500 million. Generally, this method allows the Company to deduct an annual addition to the reserve for bad debts equal to its net charge-offs. Retained earnings at September 30, 2022 and 2021 includes approximately $1,325,000 representing bad debt deductions for which no deferred income taxes have been provided.

The expense for income taxes differs from that computed at the statutory federal corporate tax rate as follows:

	Year Ended September 30,			
	2022		2021	
(In thousands)	Amount	Percentage of Pretax Income	Amount	Percentage of Pretax Income
At statutory rate	**$ 2,414**	**21.0%**	$ 2,068	21.0%
Adjustments resulting from:				
Tax-exempt income	**(101)**	**(0.9)**	(121)	(1.2)
State tax-net of federal tax benefit	**582**	**5.1**	558	5.7
Other	**(189)**	**(1.6)**	61	0.6
Expense per consolidated statements of income	**$ 2,707**	**23.5%**	$ 2,566	26.1%

Income tax expense is summarized as follows:

	Year Ended September 30,	
(In thousands)	2022	2021
Current	**$ 2,365**	$ 2,709
Deferred	**342**	(143)
Total Income Tax Expense	**$ 2,707**	$ 2,566

Items that gave rise to significant portions of the deferred tax accounts are as follows:

	September 30,	
(In thousands)	2022	2021
Deferred Tax Assets:		
Deferred Loan Fees	**$ 12**	$ 12
Allowance for Loan Losses	**1,054**	1,159
Lease Liability	**603**	620
Other	**103**	399
Sub-Total	**1,772**	2,190
Deferred Tax Liabilities:		
Unrealized gain on investment securities	**(1)**	(3)
Properties and equipment	**(531)**	(581)
Right-of-Use Assets	**(574)**	(600)
Sub-Total	**(1,106)**	(1,184)
Total	**$ 666**	**$** 1,006

9. REGULATORY CAPITAL REQUIREMENTS

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

Quantitative measures established by regulatory capital standards to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital to risk-weighted assets, common equity Tier 1 capital to total risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of September 30, 2022, that the Bank meets all capital adequacy requirements to which it is subject.

As of September 30, 2022, and September 30, 2021, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based capital, Tier 1 risk-based capital, common equity Tier 1 risk-based capital, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank’s actual capital amounts and ratios are also presented in the table.

	Actual		**For Capital Adequacy Purposes**		**To Be Considered Well Capitalized Under Prompt Corrective Action Provisions**	
(In thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
At September 30, 2022						
Tier 1 Capital (to assets)	**$84,896**	**9.22%**	**$36,850**	**4.00%**	**$46,062**	**5.00%**
Common Equity Tier 1 Capital (to risk weighted assets)	**84,896**	**16.43%**	**23,258**	**4.50%**	**33,595**	**6.50%**
Tier 1 Capital (to risk weighted assets)	**84,896**	**16.43%**	**31,011**	**6.00%**	**41,348**	**8.00%**
Total Capital (to risk weighted assets)	**90,002**	**17.41%**	**41,348**	**8.00%**	**51,685**	**10.00%**
At September 30, 2021						
Tier 1 Capital (to assets)	$80,739	8.91%	$36,241	4.00%	$45,302	5.00%
Common Equity Tier 1 Capital (to risk weighted assets)	80,739	15.95%	22,783	4.50%	32,908	6.50%
Tier 1 Capital (to risk weighted assets)	80,739	15.95%	30,377	6.00%	40,502	8.00%
Total Capital (to risk weighted assets)	86,344	17.05%	40,502	8.00%	50,628	10.00%

The Company’s capital ratios are not significantly different than the Bank’s disclosed above.

10. RETIREMENT SAVINGS PLANS

The Company has a qualified 401 (k) retirement savings plan covering all full-time employees meeting certain eligibility requirements. Contributions for the plan are at the discretion of the Company’s Board of Directors. Compensation expense related to the plan was $535,000 and $560,000 for the years ended September 30, 2022 and 2021, respectively.

11. STOCK BASED COMPENSATION AND EMPLOYEE STOCK PURCHASE PLAN

In January 2016, the stockholders approved the 2015 Stock Incentive Plan which provides 300,000 shares for the granting of incentive stock options, compensatory stock options, stock appreciation rights and share awards of restrictive stock. The number of shares available to be issued as share awards will not exceed 75,000 shares. There are 43,760 shares remaining for grant under this plan.

The life of the options under the above plan is ten years. The vesting period for the options is five years.

A summary of stock option transactions under these plans follows:

	2022		2021	
	Options	**Weighted Average Price**	**Options**	**Weighted Average Price**
Outstanding, beginning of year	**294,581**	**$ 21.40**	286,236	$ 20.40
Exercised	**(57,769)**	**18.68**	(25,465)	16.62
Forfeited	**(10,700)**	**20.60**	(3,900)	23.02
Expired	**-**	**-**	-	-
Granted	**28,889**	**24.80**	37,710	25.96
Outstanding, end of year	**255,001**	**$ 22.44**	294,581	$ 21.40
Options exercisable, end of year	**97,624**	**$ 19.88**	116,190	$ 19.16

A summary of the exercise price ranges at September 30, 2022 and 2021 is as follows:

2022

Number of Option Shares	Exercise Price Range	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price per Share
9,189	**$ 14.84-16.95**	**2.12**	**$ 16.95**
40,634	**16.96-18.79**	**2.84**	**18.41**
205,178	**18.80-25.96**	**7.07**	**23.48**
255,001	**$ 14.84-25.96**	**6.22**	**$ 22.44**

2021

Number of Option Shares	Exercise Price Range	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price per Share
20,336	$ 14.84-16.95	2.68	$ 16.65
73,863	16.96-18.79	3.47	18.31
200,382	18.80-25.96	7.42	23.02
294,581	$ 14.84-25.96	6.10	$ 21.40

At September 30, 2022 and 2021, the aggregate intrinsic value of options outstanding was $798,000 and $1.3 million, respectively. At September 30, 2022 and 2021, the aggregate intrinsic value of options exercisable was $548,000 and $760,000, respectively. For the years ended September 30, 2022 and 2021, the aggregate intrinsic value of options exercised was $441,000 and $201,000, respectively.

The aggregate intrinsic value of a stock option represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holder had all option holders exercised their options on September 30, 2022. This amount changes based on changes in the market value of the Company's common stock.

The weighted average fair value of stock options granted in the years ended September 30, 2022 and 2021 was $4.69 and $4.35, respectively, and was estimated at the date of grant using a Binomial Option Pricing Model with the following weighted-average assumptions while the market price of the Company's common stock at the date of grant is used for restricted stock awards:

	Year Ended September 30,	
	2022	**2021**
Risk free interest rate of return	**3.13%**	1.01%
Expected option life	**84 months**	84 months
Expected volatility	**25.00%**	25.00%
Expected dividends	**4.68%**	4.50%

The expected volatility is based on historic volatility. The risk-free interest rates for periods within the contractual life of the awards are based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life is based on historical exercise experience. The dividend yield assumption is based on the Company's history and expectation of dividend payouts.

Stock based compensation expense related to stock options for the years ended September 30, 2022 and 2021 was $135,000 or $89,000 net of tax, and $29,000 or $26,000 net of tax, respectively. As of September 30, 2022, there was approximately $261,000 of total unrecognized compensation cost related to non-vested stock options under the plans.

On August 19, 2020, 3,723 shares of restricted grant date fair value of $22.00 vests beginning August 19, 2021. The restricted stock awarded vests 33% annually beginning August 19, 2021. On August 17, 2021, 3,298 shares of restricted grant date fair value of $25.96 vests beginning August 17, 2022. On July 20, 2022, 3,644 shares of restricted grant date fair value of $24.80 vests beginning July 21, 2023. The restricted stock awarded vests 33% annually beginning July 21, 2023. During the years ended September 30, 2021 and 2020, $21,000 and $69,000, respectively in compensation expense was recognized in regard to these restricted stock awards. At September 30, 2021, there was $112,000 of unrecognized compensation expense related to the restricted stock awards which is expected to be recognized over a period of three years. At September 30, 2022, there was $116,000 of unrecognized compensation expense related to the restricted stock awards which is expected to be recognized over a period of three years.

Restricted stock award activity for the year ended September 30, 2022 was as follows:

	Number of shares	Weighted Average Grant Date Fair Value
Unvested restricted stock, beginning of year	**6,896**	**$ 24.17**
Granted	**3,644**	**24.80**
Forfeited	**-**	**-**
Vested	**(3,456)**	**15.44**
Unvested restricted stock, end of year	**7,084**	**$ 24.31**

Restricted stock award activity for the year ended September 30, 2021 was as follows:

	Number of shares	Weighted Average Grant Date Fair Value
Unvested restricted stock, beginning of year	8,466	$ 22.76
Granted	3,298	25.96
Forfeited	-	-
Vested	(4,868)	22.93
Unvested restricted stock, end of year	6,896	$ 24.17

The Company also has established an Employee Stock Purchase Plan (the "Purchase Plan") whereby employees may elect to make contributions to the Purchase Plan in an aggregate amount not less than 2% or more than 10% of such employee's total compensation. These contributions would then be used to purchase stock during an offering period determined by the Company's Salary and Benefits Committee. The purchase price of the stock would be the lesser of 85% of the market price on the first day or the last day of the offering period. At September 30, 2022 and 2021, there were 53,583 shares available for future purchase. The Company suspended participation in the Purchase Plan in March 2005 and the plan is not currently active.

12. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents the changes in accumulated other comprehensive income by component net of tax for the years ended September 30, 2022 and 2021.

	Unrealized gains on available for sale securities (a)
	(In thousands)
Balance as of September 30, 2021	**$ 6**
Other comprehensive loss before reclassification	**(8)**
Amount reclassified from accumulated other comprehensive income	**3**
Total other comprehensive loss	**(5)**
Balance as of September 30, 2022	**$ 1**

(a) All amounts are net of tax. Amounts in parentheses indicate debits.

	Unrealized gains on available for sale securities (a)
	(In thousands)
Balance as of September 30, 2020	$ 8
Other comprehensive loss before reclassification	(2)
Amount reclassified from accumulated other comprehensive income	-
Total other comprehensive loss	(2)
Balance as of September 30, 2021	$ 6

(a) All amounts are net of tax. Amounts in parentheses indicate debits.

There were no items that were reclassified from accumulated other comprehensive income for the years ended September 30, 2022 and 2021.

13. COMMITMENTS

At September 30, 2022, the Company had approximately $17.5 million in outstanding commitments to originate mortgage loans, of which $13.7 million were fixed rates ranging from 4.38% to 6.25% and $3.8 million were adjustable rates ranging from 4.25% to 5.38%. The unfunded home equity line of credit commitments at September 30, 2022 were $61.2 million. The Company had $4.7 million and $2.3 million of committed commercial and consumer loans, respectively, at September 30, 2022. In addition, the Company had $30.3 million of unused commercial lines of credit at September 30, 2022. The amounts of undisbursed portions of loans in process at September 30, 2022 were $4.9 million. The Company had a total of $222,000 in standby letters of credit. Also, at September 30, 2022, the Company had no outstanding futures or options positions.

At September 30, 2021, the Company had approximately $10.5 million in outstanding commitments to originate mortgage loans, of which $10.1 million were fixed rates ranging from 2.75% to 4.88% and $375,000 was adjustable rate 2.75%. The unfunded home equity line of credit commitments at September 30, 2021 were $62.9 million. The Company had $7.0 million and $1.3 million of committed commercial and consumer loans, respectively, at September 30, 2021. In addition, the Company had $20.7 million of unused commercial lines of credit at September 30, 2021. The amounts of undisbursed portions of loans in process at September 30, 2021 were $5.1 million. The Company had a total of $758,000 in standby letters of credit. Also, at September 30, 2021, the Company had no outstanding futures or options positions.

Outstanding letters of credit written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next twelve months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Company requires collateral supporting these letters of credit as deemed necessary. Management believes that the proceeds obtained through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The current amount of the liability as of September 30, 2022 for guarantees under standby letters of credit issued is not material.

As announced on March 15, 2020, the Federal Reserve Board reduced reserve requirement ratios to zero percent effective March 26, 2020. This action eliminated reserve requirements for all depository institutions.

14. LEGAL CONTINGENCIES

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company's consolidated financial statements.

15. RESTRICTED RETAINED EARNINGS

At the time of conversion to a stock savings bank, in 1987, the Bank established a liquidation account in an amount equal to the Bank's net worth as reflected in the latest Consolidated Statements of Financial Condition of the Bank contained in the offering circular utilized in the conversion. The function of the liquidation account is to establish a priority on liquidation and, except with respect to the payment of cash dividends on, or the re-purchase of, any of the common stock by the Bank, the existence of the liquidation account will not operate to restrict the use or application of any of the net worth accounts of the Bank. In the event of a complete liquidation of the Bank (and only in such event), each eligible account holder will be entitled to receive a pro rata distribution from the liquidation account, based on such holder's proportionate amount of the total current adjusted balances from deposit accounts then held by all eligible account holders, before any liquidation distribution may be made with respect to stockholders. The liquidation account was approximately $2,300,000 at September 30, 2022. Furthermore, the Company may not repurchase any of its stock if the effect thereof would cause the Company's net worth to be reduced below (i) the amount required for the liquidation account or (ii) the regulatory capital requirements.

16. FAIR VALUE MEASUREMENTS AND DISCLOSURES

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with accounting guidance, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumption used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is determined at a reasonable point within the range that is most representative of fair value under current market conditions.

The guidance establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

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

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at September 30, 2022 and 2021 are as follows (in thousands):

Description	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
September 30, 2022				
Available for sale securities:				
Collateralized mortgage obligations	$ 448	$ -	$ 448	$ -
U.S. Government money market funds	4,013	4,013	-	-
Totals	$ 4,461	$ 4,013	$ 448	$ -

Description	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
September 30, 2021				
Available for sale securities:				
Collateralized mortgage obligations	$ 544	$ -	$ 544	$ -
U.S. Government money market funds	596	596	-	-
Totals	$ 1,140	$ 596	$ 544	$ -

There were no transfers in and out of Level 1 and Level 2 fair value measurements for the year ended September 30, 2022.

For assets measured at fair value on a non recurring basis, the fair value measurements by level within the fair value hierarchy used at September 30, 2022 and 2021 are as follows (in thousands):

Description	September 30, 2022	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Impaired Loans	$ 2,766	$ -	$ -	$ 2,766
Totals	$ 2,766	$ -	$ -	$ 2,766

Description	September 30, 2021	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Impaired Loans	$ 8,344	$ -	$ -	$ 8,344
Totals	$ 8,344	$ -	$ -	$ 8,344

Quantitative Information about Level 3 Fair Value Measurements

	September 30, 2022			
Description	**Fair Value**	**Valuation Technique**	**Unobservable Input**	**Range (Weighted Average) (3)**
Impaired loans	**$ 2,911**	**Fair Value of Collateral (1)**	**Appraised Value (2)**	**17% - 21% (17%)**

Quantitative Information about Level 3 Fair Value Measurements

	September 30, 2021			
Description	**Fair Value**	**Valuation Technique**	**Unobservable Input**	**Range (Weighted Average) (3)**
Impaired loans	$ 8,344	Fair Value of Collateral (1)	Appraised Value (2)	17% - 27% (18%)

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which include Level 3 inputs that are not identifiable.
(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses.
(3) The range and weighted average of qualitative factors such as economic conditions and estimated liquidation expenses are presented as a percent of the appraised value.

The significant unobservable inputs for impaired loans are the appraised value or an agreed upon sales price. These values are adjusted for estimated costs to sell which are incremental direct costs to transact a sale such as broker commission, legal fees, closing costs and title transfer fees. The costs must be considered essential to the sale and would not have been incurred if the decision to sell had not been made. The costs to sell are based on costs associated with the Company's actual sales of other real estate owned which are assessed annually.

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at September 30, 2022 and 2021.

Securities

The fair value of securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices. The Company currently holds U.S. Government money market funds which are classified as Level 1, because quoted prices are available for these securities in an active market.

The Bank's investment portfolio is maintained by a third-party which utilizes Interactive Data Corporation (IDC) as its primary source for security valuations. IDC is not affiliated with or owned by a securities broker, dealer or underwriter, nor is it actively involved in the business of investment management or securities trading. Some of the major asset classes that IDC provides pricing and market inputs are as follows: U.S. Agency/Government Sponsored Enterprise (GSE) issues, U.S. high grade municipal issues, and U.S. Structured Securities Agency/GSE Collateralized Mortgage Obligation issues. The methodology used to price the above asset classes include: broker quotes, proprietary modes, vast descriptive terms and conditions databases, as well as extensive quality control programs. Market inputs used to help determine the fair value hierarchy include but not limited to: security characteristics, ratings updates, prepayment schedules; cash flows and yield to maturity. Based on these methodologies employed by IDC; the Company considers these evaluations Level 2 in reference to ASC 820 with the exception of inactive markets. There are no securities in an inactive environment.

			Fair Value Measurements at September 30, 2022		
(In thousands)	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:					
Cash and cash equivalents	**$ 135,751**	**$ 135,751**	**$ 135,751**	**$ -**	**$ -**
Securities held to maturity	**174,027**	**157,436**	**-**	**157,436**	**-**
Loans receivable - net	**562,110**	**569,044**	**-**	**-**	**569,044**
Federal Home Loan Bank stock	**3,049**	**3,049**	**3,049**	**-**	**-**
Bank-owned life insurance	**18,043**	**18,043**	**18,043**	**-**	**-**
Accrued interest receivable	**1,851**	**1,851**	**1,851**	**-**	**-**
Liabilities:					
Checking, club and NOW deposit accounts	**305,341**	**305,341**	**305,341**	**-**	**-**
Money Market and passbook deposit accounts	**328,310**	**328,310**	**328,310**	**-**	**-**
Certificate of deposit accounts	**122,235**	**115,384**	**-**	**-**	**115,384**
Short-term borrowings	**14,858**	**14,858**	**14,858**	**-**	**-**
Long-term borrowings	**47,000**	**47,727**	**-**	**-**	**47,727**
Accrued interest payable	**120**	**120**	**120**	**-**	**-**
Off-balance sheet financial instruments	**-**	**-**	**-**	**-**	**-**

(In thousands)	Carrying Amount	Estimated Fair Value	Fair Value Measurements at September 30, 2021 Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:					
Cash and cash equivalents	$ 205,793	$ 205,793	$ 205,793	$ -	$ -
Securities held to maturity	104,336	106,258	-	106,258	-
Loans receivable - net	544,706	544,505	-	-	544,505
Federal Home Loan Bank stock	3,583	3,583	3,583	-	-
Bank-owned life insurance	17,654	17,654	17,654	-	-
Accrued interest receivable	1,606	1,606	1,606	-	-
Liabilities:					
Checking, club and NOW deposit accounts	273,274	273,274	273,274	-	-
Money Market and passbook deposit accounts	299,306	299,306	299,306	-	-
Certificate of deposit accounts	153,356	154,352	-	-	154,352
Short-term borrowings	18,558	18,558	18,558	-	-
Long-term borrowings	59,000	61,122	-	-	61,122
Accrued interest payable	138	138	138	-	-
Off-balance sheet financial instruments	-	-	-	-	-

17. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

Condensed financial statements of Harleysville Financial Corporation are as follows:

(In thousands) **Condensed Statements of Financial Condition**	**September 30, 2022**	**2021**
Assets		
Cash	**$ 28**	$ 30
Investment in subsidiary	**84,899**	80,748
Total Assets	**$ 84,927**	$ 80,778
Liabilities and Stockholders' Equity		
Other liabilities	**$ 88**	$ 76
Stockholders' equity	**84,839**	80,702
Total Liabilities and Stockholders' Equity	**$ 84,927**	$ 80,778

Condensed Undistributed Statements of Income:	**For the Year Ended September 30, 2022**	**2021**
Equity in income of subsidiary	**$ 4,158**	$ 2,154
Distributed earnings of subsidiary	**5,335**	5,640
Other expense	**703**	510
Net income	**$ 8,790**	$ 7,284

Condensed Statements of Cash Flows	**For the Year Ended September 30, 2022**	**2021**
Net income	**$ 8,790**	$ 7,284
Increase (decrease) in other liabilities	**12**	(2)
Stock based compensation	**224**	50
Equity in undistributed earnings of subsidiary	**(4,158)**	(2,154)
Net cash provided by operating activities	**4,868**	5,178
Financing activities:		
Acquisition of treasury stock	**(823)**	(1,281)
Sale of treasury stock delivered under employee stock plans	**236**	185
Dividends paid	**(4,285)**	(4,165)
Net cash used in financing activities	**(4,872)**	(5,261)
Decrease in cash and cash equivalents	**(4)**	(83)
Cash and cash equivalents at the beginning of the period	**32**	115
Cash and cash equivalents at the end of the period	**$ 28**	$ 32

18. REVENUE RECOGNITION

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain noninterest income streams such as income from bank owned life insurance, sales of investment securities, and certain items within other income are also not in scope of the new guidance. Topic 606 is applicable to noninterest revenue streams such as deposit related fees and interchange fees. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606.

The following table presents noninterest income for the year ended September 30, 2022 and 2021:

(Dollars in thousands)	Year Ended September 30,	
Non-Interest Income	**2022**	**2021**
In-scope of Topic 606:		
Fee income	**$ 195**	$ 168
Insufficient fund fees	**530**	375
Interchange fee income	**929**	972
Other income	**383**	432
Total Non-Interest Income (in-scope of Topic 606)	**2,037**	1,947
Out-of-scope of Topic 606:		
Increase in cash surrender value of bank-owned life insurance	**389**	393
Gains on sales of loans, net	**21**	252
Other	**546**	584
Total Non-Interest Income (out-scope of Topic 606)	**956**	1,229
Total Non-Interest Income (in-scope of Topic 606)	**2,037**	1,947
Total Non-Interest Income	**$ 2,993**	$ 3,176

The following is a discussion of key revenues of fees for customer services that are within the scope of the new revenue guidance:

- *Fee income* – Fees include service charges on deposits and consist of transaction-based fees, debit card replacement fees, Automated Clearing House (ACH) fees and account maintenance fees for various retail and business checking customers. These fees are charged as earned on the day of the transaction or within the month of the service.

- *Insufficient funds fees and other income*– Revenue from service charges on deposit accounts is earned through cash management, wire transfer, ATM fees and other deposit-related services, as well as overdraft, non-sufficient funds and account management fees. Revenue is recognized for these services either over time, corresponding with deposit accounts' monthly cycle, or at a point in time for transactional related services and fees. These revenues are included in insufficient funds fees and other income in the table above.

- I*nterchange fee income* – Fees generated when Company cardholders conduct transactions on their debit cards with merchants for goods or services. The Company then collects a portion of the fees generated from those transactions. Revenue is recognized for these transactions within the month they transpire.

19. LEASES

A lease is defined as a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. On October 1, 2019, the Company adopted ASU No. 2016-02 “Leases” (Topic 842) and all subsequent ASUs that modified Topic 842. For the Company, Topic 842 primarily affected the accounting treatment for operating lease agreements in which the Company is the lessee.

Lessee Accounting

Substantially all of the leases in which the Company is the lessee are comprised of real estate property for branches and office space with terms extending through 2043. All of our leases are classified as operating leases, and therefore, were previously not recognized on the Company’s Consolidated Statement of Financial Condition. With the adoption of Topic 842, operating lease agreements are required to be recognized on the Consolidated Statement of Financial Condition as a right-of-use (“ROU”) asset and a corresponding lease liability.

The following table presents the Consolidated Statement of Financial Condition classification of the Company’s ROU assets and lease liabilities. The Company elected not to include short-term leases (i.e., leases with initial terms of twelve months or less), or equipment leases (deemed immaterial) on the Consolidated Statement of Financial Condition as of September 30, 2022 and 2021.

(in thousands)		**September 30, 2022**	**September 30, 2021**
Lease Right-of-Use Assets	**Classification**		
Operating lease right-of-use assets	Other assets	**$2,733**	$2,861
Total Lease Right-Of-Use Assets		**$2,733**	$2,861

(in thousands)		**September 30, 2022**	**September 30, 2021**
Lease Liabilities	**Classification**		
Operating lease liabilities	Other liabilities	**$2,868**	$2,954
Total Lease Liabilities		**$2,868**	$2,954

The calculated amount of the ROU assets and lease liabilities in the table above are impacted by the length of the lease term and the discount rate used to present value the minimum lease payments. The Company’s lease agreements often include one or more options to renew at the Company’s discretion. If at lease inception, the Company considers the exercising of a renewal option to be reasonably certain, the Company will include the extended term in the calculation of the ROU asset and lease liability. Regarding the discount rate, Topic 842 requires the use of the rate implicit in the lease whenever this rate is readily determinable. As this rate is rarely determinable, the Company utilizes its incremental borrowing rate at lease inception, on a collateralized basis, over a similar term.

A summary of weighted average remaining lease term, as of September 30, 2022 and 2021.

	September 30, 2022	September 30, 2021
Weighted average remaining lease term		
Operating leases	**11.6 years**	14.9 years
Weighted average discount rate		
Operating leases	**2.68%**	2.68%

The following table represents lease costs and other lease information. As the Company elected, for all classes of underlying assets, not to separate lease and non-lease components and instead to account for them as a single lease component, the variable lease cost primarily represents variable payments such as common area maintenance and utilities, as of September 30, 2022 and 2021.

	Twelve Months Ended	
Lease Costs (in thousands)	**September 30, 2022**	**September 30, 2021**
Operating lease cost	**$152**	$153
Variable lease cost	**47**	46
Net lease cost	**$199**	$199

Future minimum payments for operating leases with initial or remaining terms of one year or more as of September 30, 2022 as follows:

(in thousands)	Operating leases September 30, 2022
Twelve months Ended:	
Within one year	**$ 158**
After one but within two years	**167**
After two but within three years	**168**
After three but within four years	**173**
After four but within five years	**173**
After five years	**2,909**
Total future minimum lease payments	**$ 3,748**
Amounts representing interest	**(880)**
Present Value of Net Future Minimum Lease Payments	**$ 2,868**

20. SUBSEQUENT EVENTS

Management has reviewed events occurring through December 6, 2022, the date the financial statements were issued, and no subsequent events occurred requiring accrual or disclosures.