

HAMLIN BANK
AND
TRUST COMPANY



2023 ANNUAL REPORT

FINANCIAL HIGHLIGHTS

	2023	2022
Net income	\$ 3,802,787	\$ 3,111,973
Dividend	4,35,756	4,370,255
Per Share		
Net income	\$ 10.47	\$ 8.53
Dividends	12.00	12.00
Year End		
Total assets	\$ 437,725,414	\$ 444,503,731
Investment securities	159,015,457	159,043,549
Net loans	271,597,285	251,036,258
Deposits	321,490,075	353,856,136
Shareholders' equity	85,526,450	83,331,579
Ratios		
Return on average shareholders' equity	4.66%	3.61%
Return on average assets	0.89%	0.65%
Trust Funds (market value)	\$ 100,104,938	\$ 94,016,681

TO OUR SHAREHOLDERS AND FRIENDS

It is a pleasure to report a successful year at Hamlin Bank. Net income in 2023 was \$3,802,789 or \$10.47 per share, increased from \$8.53 per share in 2022. Dividends paid in 2023 were \$12.00 per share, level with 2022.

On an operating basis, excluding fair value accounting for unrealized gains and losses, as well as adjusting taxes, Hamlin Bank's 2023 net income was \$4,479,056 or \$12.33 per share. Net income was influenced by fair value adjustments of equity securities, falling net interest income, and increased noninterest expenses. Net interest income was 4% lower in 2023 due to interest costs on deposits and borrowed funds increasing more rapidly than interest on loans and investment securities. Noninterest expenses increased \$1,118,922 or 11.7% in 2023 as inflationary price increases were experienced in nearly every expense area.

Loan volume grew \$20,520,396 or 8.1% in 2023 and totaled \$271,597,285 at year-end. Net loan charge-offs in 2023 were 0.19% of average loans, and year-end loan loss reserve was \$3,466,464. Reserve levels are based on loan losses inherent in the loan portfolio, and provide an adequate level of protection from anticipated future credit losses.

Total Hamlin Bank capital increased to \$85,526,450 in 2023 as capital markets recovered at the end of 2023 increasing fair market values of mark to market securities. Hamlin Bank's equity capitalization ratio of 21.22% ranks the Bank among the most well capitalized banks in the peer group.

Hamlin Bank recognizes the contributions of employees in part through a fully funded defined benefit plan. Importantly, the Retirement Plan for the Employees of Hamlin Bank is fully funded, and at 12/31/2023 carried assets sufficient to cover the benefits employees have earned, as well as projected future benefits.

In 2023 Hamlin Bank completed construction of the new St. Marys, Pennsylvania branch office. This office, located in the high traffic core of the St. Marys community, opened for business in January 2024 and will provide improved service to existing Elk County customers and attract new customers to Hamlin Bank.

Hamlin Bank's success is the work of our employees who are deeply appreciated. We welcome our new St. Marys staff, and invite our shareholders to visit or telephone with questions regarding your investment in Hamlin Bank and Trust Company.

Sincerely,



Martin J. Digel
Executive Chairman



Jeffery A. Wilson
President and Chief Executive Officer

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Shareholders
Hamlin Bank and Trust Company
Smethport, Pennsylvania

Opinion

We have audited the accompanying consolidated financial statements of Hamlin Bank and Trust Company and its subsidiary (the "Bank"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022; the related consolidated statements of income, comprehensive income (loss), changes in shareholders' equity, and cash flows for the years then ended; and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2023 and 2022, and the results of its operations and 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 Bank and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Bank changed its method of accounting for credit losses effective January 1, 2023, due to the adoption of Accounting Standards Codification (ASC) Topic 326, *Financial Instruments – Credit Losses*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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 Bank'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.

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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 Bank'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 Bank's ability to continue as a going concern for a reasonable period of time.

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

Other Information Included in Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the Financial Highlights and President's Message 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
March 11, 2024

HAMLIN BANK AND TRUST COMPANY
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2023	2022
ASSETS		
Cash and due from banks	\$ 5,456,041	\$ 27,793,997
Investment securities available for sale (amortized cost of \$125,862,833, net of allowance for credit losses of \$0)	118,446,027	126,374,799
Equity securities, at fair value	31,569,430	32,668,750
Loans	275,063,749	254,543,353
Less allowance for credit losses	3,466,464	3,507,095
Net loans	271,597,285	251,036,258
Premises and equipment, net	6,330,705	3,595,822
Accrued interest and other assets	4,030,193	3,034,105
Prepaid defined benefit plans	295,733	-
TOTAL ASSETS	<u>\$ 437,725,414</u>	<u>\$ 444,503,731</u>
LIABILITIES		
Deposits:		
Noninterest-bearing demand	\$ 76,430,883	\$ 77,757,435
Interest-bearing demand	42,315,535	48,718,535
Money market	38,186,450	60,381,662
Savings	106,078,427	123,526,558
Time	58,478,780	43,471,946
Total deposits	321,490,075	353,856,136
Short-term borrowings	23,000,000	-
Accrued defined benefit plans	-	654,857
Deferred tax liabilities	2,463,843	1,957,767
Accrued interest and other liabilities	5,245,046	4,703,392
TOTAL LIABILITIES	<u>352,198,964</u>	<u>361,172,152</u>
SHAREHOLDERS' EQUITY		
Common stock, par value \$2.50; 377,511 and 377,965 shares authorized and issued, 363,230 and 363,684 shares outstanding at December 31, 2023 and 2022	943,778	944,913
Surplus	8,313,322	8,410,247
Retained earnings	83,918,846	84,474,815
Accumulated other comprehensive loss	(7,580,275)	(10,429,175)
Treasury stock (14,281 shares, at cost)	(69,221)	(69,221)
TOTAL SHAREHOLDERS' EQUITY	<u>85,526,450</u>	<u>83,331,579</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 437,725,414</u>	<u>\$ 444,503,731</u>

See accompanying notes to the consolidated financial statements.

HAMLIN BANK AND TRUST COMPANY
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,	
	2023	2022
INTEREST AND DIVIDEND INCOME		
Interest and fees on loans	\$ 13,192,816	\$ 12,262,559
Interest-bearing deposits in other institutions	293,174	1,045,840
Investment securities:		
Taxable interest	2,954,401	2,229,558
Tax-exempt interest	495,907	490,548
Dividends	1,346,466	1,306,141
Total interest and dividend income	<u>18,282,764</u>	<u>17,334,646</u>
INTEREST EXPENSE		
Deposits	2,390,731	1,236,457
Short-term borrowings	415,836	-
Financing lease	14,625	14,880
Total interest expense	<u>2,821,192</u>	<u>1,251,337</u>
NET INTEREST INCOME	15,461,572	16,083,309
Provision for credit losses	<u>450,000</u>	<u>500,000</u>
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	<u>15,011,572</u>	<u>15,583,309</u>
NONINTEREST INCOME		
Income from trust services	351,799	346,261
Service charges on deposit accounts	429,845	400,403
Investment securities gains	-	6,782
Change in fair value of equity securities	(1,099,320)	(3,708,527)
Debit card fees	500,832	505,487
Other	41,971	40,581
Total noninterest income (loss)	<u>225,127</u>	<u>(2,409,013)</u>
NONINTEREST EXPENSE		
Salaries and employee benefits	5,393,936	4,698,501
Net occupancy	496,792	502,982
Equipment and data processing	1,016,322	777,427
Federal deposit insurance	171,907	116,455
(Gains) losses on real estate owned	(8,560)	79,201
Shares tax	583,795	646,266
Other	3,012,136	2,726,574
Total noninterest expense	<u>10,666,328</u>	<u>9,547,406</u>
Income before income taxes	4,570,371	3,626,890
Income tax expense	<u>767,584</u>	<u>514,917</u>
NET INCOME	<u>\$ 3,802,787</u>	<u>\$ 3,111,973</u>
EARNINGS PER SHARE	\$ 10.47	\$ 8.53
WEIGHTED-AVERAGE SHARES OUTSTANDING	363,317	364,678

See accompanying notes to the consolidated financial statements.

HAMLIN BANK AND TRUST COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31,	
	2023	2022
Net income	\$ 3,802,787	\$ 3,111,973
Other comprehensive income (loss):		
Unrealized gain (loss) on available-for-sale securities	2,686,309	(11,198,185)
Income tax effect	(564,126)	2,351,619
Change in unrecognized pension costs	919,895	1,197,765
Income tax effect	<u>(193,178)</u>	<u>(251,531)</u>
Other comprehensive income (loss), net of tax	<u>2,848,900</u>	<u>(7,900,332)</u>
Comprehensive income (loss)	<u>\$ 6,651,687</u>	<u>\$ (4,788,359)</u>

See accompanying notes to the consolidated financial statements.

HAMLIN BANK AND TRUST COMPANY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance, January 1, 2022	\$ 948,208	\$ 8,732,672	\$ 85,733,097	\$ (2,528,843)	\$ (69,221)	\$ 92,815,913
Net income	-	-	3,111,973	-	-	3,111,973
Other comprehensive loss	-	-	-	(7,900,332)	-	(7,900,332)
Retirement of common stock (1,318 shares)	(3,295)	(322,425)	-	-	-	(325,720)
Cash dividends declared (\$12.00 per share)	<u>-</u>	<u>-</u>	<u>(4,370,255)</u>	<u>-</u>	<u>-</u>	<u>(4,370,255)</u>
Balance, December 31, 2022	944,913	8,410,247	84,474,815	(10,429,175)	(69,221)	83,331,579
Net income	-	-	3,802,787	-	-	3,802,787
Other comprehensive income	-	-	-	2,848,900	-	2,848,900
Retirement of common stock (454 shares)	(1,135)	(96,925)	-	-	-	(98,060)
Cash dividends declared (\$12.00 per share)	<u>-</u>	<u>-</u>	<u>(4,358,756)</u>	<u>-</u>	<u>-</u>	<u>(4,358,756)</u>
Balance, December 31, 2023	<u>\$ 943,778</u>	<u>\$ 8,313,322</u>	<u>\$ 83,918,846</u>	<u>\$ (7,580,275)</u>	<u>\$ (69,221)</u>	<u>\$ 85,526,450</u>

See accompanying notes to the consolidated financial statements.

HAMLIN BANK AND TRUST COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2023	2022
OPERATING ACTIVITIES		
Net income	\$ 3,802,787	\$ 3,111,973
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, net	185,230	195,952
Net accretion on investment securities	(358,754)	(144,693)
Amortization of deferred loan costs, net	97,617	97,411
Equity securities losses	1,099,320	3,708,527
Provision for credit losses	450,000	500,000
Change in deferred income taxes	(253,989)	(765,862)
Losses on real estate owned	(8,560)	88,256
Increase in accrued interest receivable	(39,819)	(397,749)
Increase (decrease) in accrued interest payable	502,243	(42,688)
Other, net	(100,607)	(54,971)
Net cash provided by operating activities	5,375,468	6,296,156
INVESTING ACTIVITIES		
Investment securities available for sale:		
Proceeds from maturities and calls	11,924,455	20,330,239
Purchases	(950,620)	(58,173,436)
Increase in loans, net	(21,433,351)	(10,225,000)
Acquisitions of premises and equipment	(2,931,955)	(340,359)
Proceeds from the sale of real estate owned	514,667	134,944
Purchase of regulatory stock	(2,020,000)	(9,700)
Redemption of regulatory stock	1,020,000	-
Net cash used for investing activities	(13,876,804)	(48,283,312)
FINANCING ACTIVITIES		
Decrease in deposits, net	(32,366,061)	(4,713,427)
Increase in short-term borrowings, net	23,000,000	-
Retirement of common stock	(98,060)	(325,720)
Finance lease payments	(11,019)	(10,165)
Cash dividends paid	(4,361,480)	(4,378,463)
Net cash used for financing activities	(13,836,620)	(9,427,775)
Decrease in cash and cash equivalents	(22,337,956)	(51,414,931)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	27,793,997	79,208,928
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 5,456,041	\$ 27,793,997
SUPPLEMENTAL INFORMATION:		
Cash paid during the year for:		
Interest	\$ 2,318,949	\$ 1,294,025
Income taxes	769,408	1,187,085
Noncash investing transactions:		
Real estate loans transferred to real estate owned	\$ 606,387	\$ 612,242
Loans to facilitate the sale of real estate owned	(263,367)	(584,918)

See accompanying notes to the consolidated financial statements.

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Hamlin Bank and Trust Company (the “Bank”) is a state-chartered bank located in Smethport, Pennsylvania. The Bank’s principal sources of revenue emanate from its portfolio of residential real estate, commercial mortgage, commercial, and consumer loans, as well as interest on investment securities and a variety of deposit and trust services provided to its customers through six locations. The Bank is supervised by the Federal Deposit Insurance Corporation (FDIC) and the Pennsylvania Department of Banking.

The consolidated financial statements of the Bank include the accounts of the wholly owned subsidiary, Hamlin Corporation. All significant intercompany transactions have been eliminated in consolidation. The investment in subsidiary on the Bank’s financial statements is carried at the Bank’s equity in the underlying net assets of the subsidiary.

The U.S. generally accepted accounting principles (GAAP) followed by the Bank and the methods of applying these principles conform to U.S. generally accepted accounting principles and to general practice within the banking industry. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the balance sheet date and reported amounts of revenues and expenses for the period. Actual results could differ significantly from those estimates.

Investment Securities

The Bank has classified debt securities as available for sale to serve principally as a source of liquidity. Investment securities are recorded at fair value, with unrealized holding gains and losses reported as a separate component of shareholders’ equity, net of tax, until realized. Realized securities gains and losses are computed using the specific identification method for debt securities and by the average cost method for marketable equity securities. Interest and dividends on investment securities are recognized as income when earned. Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

Accounting Pronouncements Adopted in 2023

In June 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-13, *Financial Instruments – Credit Losses Topic 326: Measurement of Credit Losses on Financial Instruments* and subsequent related updates. This ASU replaces the incurred loss methodology for recognizing credit losses and requires businesses and other organizations to measure the current expected credit losses (CECL) on financial assets measured at amortized cost, including loans and held-to-maturity securities, net investments in leases, off-balance sheet credit such as unfunded commitments, and other financial instruments. In addition, ASC 326 requires credit losses on available-for-sale debt securities to be presented as an allowance rather than as a write-down when management does not intend to sell or believes that it is more likely than not they will be required to sell. This guidance became effective on January 1, 2023, for the Company. The results reported for periods beginning after January 1, 2023, are presented under ASC 326 while prior period amounts continue to be reported with previously applicable accounting standards.

The Company adopted this guidance, and subsequent related updates, using the modified retrospective approach for all financial assets measured at amortized cost, including loans, available for sale debt securities, held to maturity debt securities, and unfunded commitments. On January 1, 2023, the Company did not record a cumulative effect adjustment to retained earnings because the overall impact of the adoption was insignificant to the recorded balance of the allowance for credit losses.

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses – Available-for-Sale Securities

For available-for-sale securities in an unrealized loss position, the Bank first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income.

For available-for-sale debt securities that do not meet the aforementioned criteria, the Bank evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Bank considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this evaluation indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses (ACL) is recorded for the credit loss, equal to the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

The ACL on available-for-sale debt securities is included within investment securities available for sale on the Consolidated Balance Sheet. Changes in the ACL are recorded within the provision for credit losses on the Consolidated Statement of Income. Losses are charged against the allowance when the Bank believes the collectability of an available-for-sale security is in jeopardy or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable on available-for-sale debt securities totaled \$732,755 at December 31, 2023, and is included within accrued interest and other assets on the Consolidated Balance Sheet. This amount is excluded from the estimate of expected credit losses. Available-for-sale debt securities are typically classified as nonaccrual when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about the further collectability of principal or interest. When available-for-sale debt securities are placed on nonaccrual status, unpaid interest credited to income is reversed.

Equity Securities

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

Federal Home Loan Bank Stock

The Bank is a member of the Federal Home Loan Bank (FHLB) of Pittsburgh and, as such, is required to maintain a minimum investment in stock of the FHLB that varies with the level of advances outstanding with the FHLB. The stock is bought from and sold to the FHLB based upon its \$100 par value. The stock does not have a readily determinable fair value and, as such, is classified as restricted stock, carried at cost and evaluated for impairment, as necessary. The stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and the length of time this situation has persisted, (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance, (c) the impact of legislative and regulatory changes on the customer base of the FHLB, and (d) the liquidity position of the FHLB.

Management evaluated the stock and concluded that the stock was not impaired for the periods presented herein. Management considered that the FHLB maintains regulatory capital ratios in excess of all regulatory capital requirements, liquidity appears adequate, and new shares of FHLB stock continue to change hands at the \$100 par value and at the resumption of dividends.

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are generally reported at their principal amount net of unearned income and the allowance for loan losses. Interest on all loans is recognized as income when earned on the accrual method. The Bank's general policy is to stop accruing interest on loans when it is determined that reasonable doubt exists as to the collectability of additional interest. Payments received on nonaccrual loans are recorded as income or applied against principal according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

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

Allowance for Credit Losses

The ACL is a valuation reserve established and maintained by charges against income and is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loans. Loans, or portions thereof, are charged off against the ACL when they are deemed uncollectible. Expected recoveries do not exceed the aggregate of amounts previously charged off and expected to be charged off.

The ACL is an estimate of expected credit losses, measured over the contractual life of a loan, that considers our historical loss experience, current conditions, and forecasts of future economic conditions. Determination of an appropriate ACL is inherently subjective and may have significant changes from period to period.

The methodology for determining the ACL has two main components: evaluation of expected credit losses for certain groups of homogeneous loans that share similar risk characteristics and evaluation of loans that do not share risk characteristics with other loans.

The ACL is measured on a collective pool basis when similar risk characteristics exist. The Bank has identified the following portfolio segments and measures the allowance for credit losses using the following methods: residential real estate, commercial real estate, construction real estate, commercial and industrial, and consumer. These segments are analyzed in smaller cohort groupings based on similar risk characteristics.

Historical credit loss experience is the basis for the estimation of expected credit losses. We apply historical loss rates to pools of loans with similar risk characteristics. After consideration of the historic loss calculation, management applies qualitative adjustments to reflect the current conditions and reasonable and supportable forecasts not already reflected in the historical loss information at the balance sheet date. Our reasonable and supportable forecast adjustment is based on the unemployment forecast and management judgment. For periods beyond our reasonable and supportable forecast, we revert to historical loss rates utilizing a straight-line method over a one-year reversion period. The qualitative adjustments for current conditions are based upon changes in lending policies and practices, experience and ability of lending staff, quality of the Bank's loan review system, value of underlying collateral, the existence of and changes in concentrations and other external factors. These modified historical loss rates are multiplied by the outstanding principal balance of each loan to calculate a required reserve.

Accrued interest receivable on loans totaled \$712,904 at December 31, 2023, and is included within accrued interest and other assets on the Consolidated Balance Sheet.

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses (Continued)

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

A loan is considered collateral-dependent when the debtor is experiencing financial difficulty and repayment is expected to be provided substantially through the sale or operation of the collateral. For all classes of loans deemed collateral-dependent, the Bank elected the practical expedient to estimate expected credit losses based on the collateral's fair value less cost to sell. Substantially all of the collateral consists of various types of business assets or real estate.

The ACL for individual loans begins with the use of normal credit review procedures to identify whether a loan no longer shares similar risk characteristics with other pooled loans and therefore should be individually assessed. We evaluate all commercial loans that meet the following criteria: they are commercial and commercial real estate loans, for which it is probable the Bank will not be able to collect all amounts due according to the contractual terms of the loan agreement. The Bank individually evaluates such loans for impairment and does not aggregate loans by major risk classifications. The definition of "individually evaluated loans" is not the same as the definition of "nonaccrual loans," although the two categories overlap. Specific reserves are established based on the fair value of the collateral when the loan is collateral-dependent. Our individual loan evaluations consist primarily of the fair value of collateral method because most of our loans are collateral-dependent. Collateral values are discounted to consider disposition costs when appropriate. A specific reserve is established or a charge-off is taken if the fair value of the loan is less than the loan balance.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, which range from 3 to 20 years for furniture, fixtures, and equipment, and 10 to 40 years for buildings. Expenditures for maintenance and repairs are charged against income, as incurred. Costs of major additions and improvements are capitalized.

Real Estate Owned

Real estate owned acquired in settlement of foreclosed loans is carried as a component of other assets at the lower of cost or fair value less estimated cost to sell. Direct costs incurred in the foreclosure process and subsequent holding costs incurred on such properties are recorded as expenses of current operations.

As of December 31, 2023 and 2022, the Bank had \$204,111 and \$385,509, respectively, of foreclosed residential real estate property obtained by physical possession, which is recorded as a component of other assets on the Consolidated Balance Sheet. As of December 31, 2023, the Bank had \$154,363 of loans secured by residential real estate properties, for which foreclosure proceedings are in process, according to local jurisdictions.

Trust Department

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

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pension Plan and Other Postretirement Plans

The Bank maintains a noncontributory defined benefit pension plan covering substantially all employees. The plan calls for benefits to be paid to eligible employees at retirement based primarily upon years of service with the Bank and compensation rates near retirement.

The Bank also maintains a noncontributory defined benefit postretirement plan covering all employees. The plan provides a level of life insurance coverage to retirees that is based upon their annual compensation prior to retirement.

Income Taxes

Deferred tax assets and liabilities are reflected at currently enacted income tax rates, applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Comprehensive Income (Loss)

The Bank is required to present comprehensive income (loss) in a full set of general-purpose financial statements for all periods presented. Other comprehensive income (loss) is composed of unrealized holding gains and losses on the available-for-sale securities portfolio and change in unrecognized pension costs.

Cash Equivalents

For purposes of the Consolidated Statements of Cash Flows, cash and cash equivalents include cash and due from banks.

Earnings Per Share

The Bank currently maintains a simple capital structure; therefore, there are no dilutive effects on earnings per share. As such, earnings per share are calculated by dividing net income by the weighted-average number of shares of stock outstanding during the year.

Reclassification of Comparative Amounts

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

Accounting Pronouncements Adopted in 2023

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* and subsequent related updates. This ASU replaces the incurred loss methodology for recognizing credit losses and requires businesses and other organizations to measure the current expected credit losses (CECL) on financial assets measured at amortized cost, including loans and held-to-maturity securities, net investments in leases, off-balance-sheet credit exposures such as unfunded commitments, and other financial instruments. In addition, ASC 326 requires credit losses on available-for-sale debt securities to be presented as an allowance rather than as a write-down when management does not intend to sell or believes that it is not more likely than not they will be required to sell. This guidance became effective on January 1, 2023, for the Bank. The results reported for periods beginning after January 1, 2023, are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable accounting standards.

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Pronouncements Adopted in 2023 (Continued)

The Bank adopted this guidance, and subsequent related updates, using the modified retrospective approach for all financial assets measured at amortized cost, including loans and held-to-maturity debt securities, available-for-sale debt securities, and unfunded commitments. On January 1, 2023, the Bank recorded no impact of the CECL adoption.

2. REVENUE RECOGNITION

The Bank has several products and services for which it recognized revenues in accordance with *Revenue from Contracts with Customers (Topic 606)*. Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. Topic 606 is applicable to noninterest revenue streams, such as trust income, deposit-related fees, interchange fees, and merchant income. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Noninterest revenue streams in scope of Topic 606 are discussed below.

Trust Department Fees

Trust and asset management income is primarily comprised of fees earned from the management and administration of trusts and other customer assets. The Bank's performance obligation is generally satisfied over time, and the resulting annual fees are based on the market value of assets held in the account as valued at the end of each quarter. Payment is generally received within a few days after the end of the quarter via a debit from the customers' accounts. The Bank does not earn performance-based incentives. Additional services, including, but not limited to, additional accountings and supervision of personal affairs for the elderly may be provided on a case-by-case basis. The Bank's performance obligation for these transactional-based services is generally satisfied, and related revenue recognized, at a point in time (i.e., as incurred). Payment is received shortly after services are rendered.

Service Charges

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

Debit Card Network Fees

The Bank earns interchange fees from debit cardholder transactions conducted primarily through the Mastercard payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, net of card network fees, concurrently with the transaction processing services provided to the cardholder.

Gain on Sale of Other Real Estate Owned (OREO)

The Bank records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of delivery of an executed deed. When the Bank finances the sale of OREO to the buyer, management assesses whether the buyer is committed to perform the buyer's obligation under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on the sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Bank adjusts the transaction price and related gain (loss) on sale if a significant financing component is present.

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. INVESTMENT SECURITIES AVAILABLE FOR SALE

The amortized cost, gross unrealized gains and losses, and fair values of investment securities available for sale are as follows at December 31:

	2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
U.S. government agencies	\$ 69,057,285	\$ 12,843	\$ (4,750,786)	\$ -	\$ 64,319,342
Obligations of states and political subdivisions	20,367,751	6,126	(1,664,567)	-	18,709,310
Corporate securities	36,437,797	93,932	(1,114,354)	-	35,417,375
Total	<u>\$ 125,862,833</u>	<u>\$ 112,901</u>	<u>\$ (7,529,707)</u>	<u>\$ -</u>	<u>\$ 118,446,027</u>
	2022				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	
U.S. government agencies	\$ 71,811,449	\$ -	\$ (6,192,999)	\$ 65,618,450	
Obligations of states and political subdivisions	21,795,636	6,247	(2,062,311)	19,739,572	
Corporate securities	42,870,829	29,819	(1,883,871)	41,016,777	
Total	<u>\$ 136,477,914</u>	<u>\$ 36,066</u>	<u>\$ (10,139,181)</u>	<u>\$ 126,374,799</u>	

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. INVESTMENT SECURITIES AVAILABLE FOR SALE (Continued)

The following tables show the Bank's gross unrealized losses and fair values, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position, at December 31.

		2023					
		Less Than Twelve Months		Twelve Months or Greater		Total	
		Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government agencies	\$	-	\$ -	\$ 62,525,848	\$ (4,750,786)	\$ 62,525,848	\$ (4,750,786)
Obligations of states and political subdivisions		976,864	(3,137)	16,026,322	(1,661,430)	17,003,186	(1,664,567)
Corporate securities		505,262	(9,606)	27,701,644	(1,104,748)	28,206,906	(1,114,354)
Total	\$	<u>1,482,126</u>	<u>(12,743)</u>	<u>106,253,814</u>	<u>(7,516,964)</u>	<u>107,735,940</u>	<u>(7,529,707)</u>

		2022					
		Less Than Twelve Months		Twelve Months or Greater		Total	
		Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government agencies	\$	38,330,659	\$ (2,493,388)	\$ 27,287,791	\$ (3,699,611)	\$ 65,618,450	\$ (6,192,999)
Obligations of states and political subdivisions		14,341,021	(1,417,135)	3,192,304	(645,176)	17,533,325	(2,062,311)
Corporate securities		37,831,266	(1,693,002)	812,825	(190,869)	38,644,091	(1,883,871)
Total	\$	<u>90,502,946</u>	<u>(5,603,525)</u>	<u>31,292,920</u>	<u>(4,535,656)</u>	<u>121,795,866</u>	<u>(10,139,181)</u>

At December 31, 2023, the Bank had ten available-for-sale securities that have been in a gross unrealized loss position for less than 12 months with depreciation of 0.9 percent from the Bank's amortized cost basis. At December 31, 2023, the Bank had 154 available-for-sale securities that have been in a gross unrealized loss position for greater than 12 months with depreciation of 7.1 percent from the Bank's amortized cost basis. The gross unrealized loss positions were primarily related to securities issued by U.S. government agencies or U.S. government-sponsored enterprises. These securities carry the explicit and/or implicit guarantee of the U.S. Government, are widely recognized as "risk free," and have a long history of zero credit loss. Total gross unrealized losses were primarily attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. The Bank does not intend to sell the investment securities that were in an unrealized loss position, and it is not more likely than not that the Bank will be required to sell the investment securities before recovery of their amortized cost basis, which may be at maturity. Therefore, as of December 31, 2023, no allowance for credit losses (ACL) was required for available-for-sale securities.

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. INVESTMENT SECURITIES AVAILABLE FOR SALE (Continued)

The amortized cost and fair values of debt securities by contractual maturity at December 31, 2023, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due in one year or less	\$ 14,995,299	\$ 14,717,730
Due after one year through five years	50,588,325	48,233,755
Due after five years through ten years	58,127,980	53,586,880
Due after ten years	2,151,229	1,907,662
Total	<u>\$ 125,862,833</u>	<u>\$ 118,446,027</u>

During 2023, the Bank recorded no gains on called securities. During 2022, the Bank recorded a gain of \$6,782 on two called securities. Investment securities with carrying values of \$64,319,342 and \$65,618,450 were pledged to secure public deposits and for other purposes as required by law at December 31, 2023 and 2022, respectively.

The following table presents the net gains and losses on equity investments recognized in earnings during the years ended December 31, 2023 and 2022, and the portion of unrealized gains and losses for the periods that related to equity investments held at December 31, 2023 and 2022.

	Year Ended December 31, 2023	2022
Net equity security losses recognized during the year	\$ (1,099,320)	\$ (3,725,226)
Net gains realized due to mergers of equity securities during the year	<u>-</u>	<u>16,699</u>
Net equity security unrealized losses recognized during the year	<u>\$ (1,099,320)</u>	<u>\$ (3,708,527)</u>

4. LOANS

Major classifications of loans are summarized as follows:

	2023	2022
Real estate:		
Residential	\$ 233,393,718	\$ 216,165,039
Commercial	12,038,353	11,732,330
Construction	861,917	933,384
Commercial and industrial	6,562,325	5,035,794
Consumer	22,207,436	20,676,806
	<u>275,063,749</u>	<u>254,543,353</u>
Less allowance for credit losses	3,466,464	3,507,095
Net loans	<u>\$ 271,597,285</u>	<u>\$ 251,036,258</u>

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. LOANS (Continued)

At December 31, 2023 and 2022, the amount in the table above included net deferred loan origination costs of \$125,255 and \$128,110, respectively.

The Bank's primary business activity is with customers located within its local trade area, which is primarily McKean County in northwestern Pennsylvania. Although the Bank has a diversified loan portfolio at December 31, 2023 and 2022, loans outstanding to individuals and businesses are dependent upon the local economic conditions in its immediate trade area.

5. ALLOWANCE FOR CREDIT LOSSES

Management has an established methodology to determine the adequacy of the ACL that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the ACL, the Bank has segmented certain loans in the portfolio by product type and age of delinquency. Loans are segmented into the following pools: residential real estate, commercial real estate, commercial and industrial, and consumer.

Changes in the allowance for loan losses by portfolio segment for the years ended December 31 are as follows:

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
Allowance for credit losses - loans						
<u>Years Ended December 31,</u>						
Balance at December 31, 2021	\$ 1,785,360	\$ 222,537	\$ 305,718	\$ 792,842	\$ 273,998	\$ 3,380,455
Provisions (credit) for credit losses	(41,392)	(99,147)	(4,081)	810,891	(166,271)	500,000
Loans charged-off	(56,397)	(10,958)	(9,639)	(582,080)	-	(659,074)
Recoveries of loans previously charged-off	20,823	24,698	44,231	195,962	-	285,714
Balance at December 31, 2022	1,708,394	137,130	336,229	1,217,615	107,727	3,507,095
Cumulative effect of change in accounting principle	-	-	-	-	-	-
Provisions (credit) for credit losses	579,873	(80,621)	(100,453)	47,743	3,458	450,000
Loans charged-off	(95,732)	(808)	(10,000)	(622,420)	-	(728,960)
Recoveries of loans previously charged-off	27,784	14,909	15,993	179,643	-	238,329
Balance at December 31, 2023	<u>\$ 2,220,319</u>	<u>\$ 70,610</u>	<u>\$ 241,769</u>	<u>\$ 822,581</u>	<u>\$ 111,185</u>	<u>\$ 3,466,464</u>

The total allowance for loan losses reflects management's estimate of loan losses inherent in the loan portfolio at the Consolidated Balance Sheet date. The Bank considers the allowance for loan losses adequate to cover loan losses inherent in the loan portfolio at December 31, 2023. The following tables present the balance in the allowance for credit losses and the recorded investment in loans by portfolio segment and based on whether the loans are collectively or individually evaluated as of December 31, 2023 and 2022.

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. ALLOWANCE FOR LOAN LOSSES (Continued)

		2023					
		Residential Real Estate	Commercial Real Estate	Construction Real Estate	Commercial and Industrial	Consumer	Total
Allowance for credit losses:							
Individually evaluated	\$	11,239	\$ -	\$ -	\$ -	\$ 4,137	\$ 15,376
Collectively evaluated		<u>2,209,080</u>	<u>70,610</u>	<u>-</u>	<u>241,769</u>	<u>818,444</u>	<u>3,451,088</u>
Total ending allowance balance	\$	<u>2,220,319</u>	<u>\$ 70,610</u>	<u>\$ -</u>	<u>\$ 241,769</u>	<u>\$ 822,581</u>	<u>\$ 3,466,464</u>
Loans:							
Individually evaluated	\$	1,298,189	\$ 201,403	\$ -	\$ 72,787	\$ 41,832	\$ 1,614,211
Collectively evaluated		<u>232,095,529</u>	<u>11,836,950</u>	<u>861,917</u>	<u>6,489,538</u>	<u>22,165,604</u>	<u>273,449,538</u>
Total ending loans balance	\$	<u>233,393,718</u>	<u>\$ 12,038,353</u>	<u>\$ 861,917</u>	<u>\$ 6,562,325</u>	<u>\$ 22,207,436</u>	<u>\$ 275,063,749</u>
		2022					
		Residential Real Estate	Commercial Real Estate	Construction Real Estate	Commercial and Industrial	Consumer	Total
Allowance for loan losses:							
Individually evaluated for impairment	\$	15,403	\$ -	\$ -	\$ -	\$ -	\$ 15,403
Collectively evaluated for impairment		<u>1,692,991</u>	<u>137,130</u>	<u>-</u>	<u>336,229</u>	<u>1,217,615</u>	<u>3,491,692</u>
Total ending allowance balance	\$	<u>1,708,394</u>	<u>\$ 137,130</u>	<u>\$ -</u>	<u>\$ 336,229</u>	<u>\$ 1,217,615</u>	<u>\$ 3,507,095</u>
Loans:							
Individually evaluated for impairment	\$	1,164,654	\$ 178,779	\$ -	\$ 97,162	\$ -	\$ 1,440,595
Collectively evaluated for impairment		<u>215,000,385</u>	<u>11,553,551</u>	<u>933,384</u>	<u>4,938,632</u>	<u>20,676,806</u>	<u>253,102,758</u>
Total ending loans balance	\$	<u>216,165,039</u>	<u>\$ 11,732,330</u>	<u>\$ 933,384</u>	<u>\$ 5,035,794</u>	<u>\$ 20,676,806</u>	<u>\$ 254,543,353</u>

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. ALLOWANCE FOR LOAN LOSSES (Continued)

Credit Quality Information

The Bank's internally assigned grades are as follows:

Pass – loans that are protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral.

Substandard – loans that have a well-defined weakness based on objective evidence and are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Substandard loans typically consist of residential real estate loans contractually past due 90 days or more, and commercial real estate, construction real estate, commercial and industrial, and consumer loans contractually past due 60 to 89 days.

Doubtful – loans classified as doubtful have all the weaknesses inherent in a substandard asset. In addition, these weaknesses make collection or liquidation in full highly questionable and improbable, based on existing circumstances. Doubtful loans typically consist of commercial real estate, construction real estate, commercial and industrial, and consumer loans contractually past due 90 days or more.

Nonperforming loans consist of loans that are on a nonaccrual basis and loans contractually past due 90 days or more but are not on nonaccrual status because they are well secured or in the process of collection.

The following table represents credit exposures by internally assigned grades for the year ended December 31, 2023, in accordance with ASC-326. The grading analysis estimates the capability of the borrower to repay the contractual obligations of the loan agreements as scheduled or at all. The Bank's internal credit risk grading system is based on experiences with similarly graded loans.

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. ALLOWANCE FOR LOAN LOSSES (Continued)

Credit Quality Information (Continued)

		Term Loans Amortized Costs Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
December 31, 2023		2023	2022	2021	2020	2019	Prior			
Residential Real Estate										
	Risk Rating									
	Pass	\$ 48,146,630	\$ 41,203,055	\$ 36,492,616	\$ 21,854,558	\$ 17,776,693	\$ 65,541,732	\$ -	\$ -	\$ 231,015,284
	Substandard	87,865	-	296,481	354,986	378,730	1,260,372	-	-	2,378,434
	Doubtful	-	-	-	-	-	-	-	-	-
	Total	<u>\$ 48,234,495</u>	<u>\$ 41,203,055</u>	<u>\$ 36,789,097</u>	<u>\$ 22,209,544</u>	<u>\$ 18,155,423</u>	<u>\$ 66,802,104</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 233,393,718</u>
Residential Real Estate										
	Current period gross charge-offs	\$ 13,251	\$ -	\$ -	\$ -	\$ -	\$ 82,481	\$ -	\$ -	\$ 95,732
Commercial Real Estate										
	Risk Rating									
	Pass	\$ 3,444,243	\$ 2,117,977	\$ 1,410,627	\$ 825,409	\$ 1,053,592	\$ 2,944,428	\$ -	\$ -	\$ 11,796,276
	Substandard	-	-	21,064	-	-	86,672	-	-	107,736
	Doubtful	-	-	70,064	-	-	64,277	-	-	134,341
	Total	<u>\$ 3,444,243</u>	<u>\$ 2,117,977</u>	<u>\$ 1,501,755</u>	<u>\$ 825,409</u>	<u>\$ 1,053,592</u>	<u>\$ 3,095,377</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,038,353</u>
Commercial Real Estate										
	Current period gross charge-offs	\$ 808	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 808
Construction Real Estate										
	Risk Rating									
	Pass	\$ 272,464	\$ 71,646	\$ 94,917	\$ 187,011	\$ 95,441	\$ 103,503	\$ -	\$ -	\$ 824,982
	Substandard	-	-	-	-	-	36,935	-	-	36,935
	Doubtful	-	-	-	-	-	-	-	-	-
	Total	<u>\$ 272,464</u>	<u>\$ 71,646</u>	<u>\$ 94,917</u>	<u>\$ 187,011</u>	<u>\$ 95,441</u>	<u>\$ 140,438</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 861,917</u>
Construction Real Estate										
	Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial & Industrial										
	Risk Rating									
	Pass	\$ 3,995,634	\$ 1,407,630	\$ 627,239	\$ 204,271	\$ 8,271	\$ 284,858	\$ -	\$ -	\$ 6,527,903
	Substandard	-	-	-	-	-	-	-	-	-
	Doubtful	-	-	24,769	9,653	-	-	-	-	34,422
	Total	<u>\$ 3,995,634</u>	<u>\$ 1,407,630</u>	<u>\$ 652,008</u>	<u>\$ 213,924</u>	<u>\$ 8,271</u>	<u>\$ 284,858</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,562,325</u>
Commercial & Industrial										
	Current period gross charge-offs	\$ -	\$ -	\$ 10,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,000
Consumer										
	Risk Rating									
	Pass	\$ 13,485,810	\$ 5,553,238	\$ 1,904,679	\$ 420,014	\$ 98,481	\$ 35,435	\$ -	\$ -	\$ 21,497,657
	Substandard	118,952	202,912	104,658	54,339	224	10,259	-	-	491,344
	Doubtful	63,265	90,558	50,963	12,587	1,062	-	-	-	218,435
	Total	<u>\$ 13,668,027</u>	<u>\$ 5,846,708</u>	<u>\$ 2,060,300</u>	<u>\$ 486,940</u>	<u>\$ 99,767</u>	<u>\$ 45,694</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,207,436</u>
Consumer										
	Current period gross charge-offs	\$ 162,309	\$ 292,172	\$ 117,051	\$ 31,005	\$ 8,159	\$ 11,724	\$ -	\$ -	\$ 622,420
Total										
	Risk Rating									
	Pass	\$ 69,344,781	\$ 50,353,546	\$ 40,530,078	\$ 23,491,263	\$ 19,032,478	\$ 68,909,956	\$ -	\$ -	\$ 271,662,102
	Substandard	206,817	202,912	422,203	409,325	378,954	1,394,238	-	-	3,014,449
	Doubtful	63,265	90,558	145,796	22,240	1,062	64,277	-	-	387,198
	Total	<u>\$ 69,614,863</u>	<u>\$ 50,647,016</u>	<u>\$ 41,098,077</u>	<u>\$ 23,922,828</u>	<u>\$ 19,412,494</u>	<u>\$ 70,368,471</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 275,063,749</u>

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. ALLOWANCE FOR LOAN LOSSES (Continued)

Credit Quality Information (Continued)

The following table represents credit exposures by internally assigned grades for the year ended December 31, 2022, prior to the adoption of ASC 326. The grading analysis estimates the capability of the borrower to repay the contractual obligations of the loan agreements as scheduled or at all. The Bank's internal credit risk grading system is based on experiences with similarly graded loans.

	2022					
	Residential Real Estate	Commercial Real Estate	Construction Real Estate	Commercial and Industrial	Consumer	Total
Pass	\$ 212,140,897	\$ 11,223,476	\$ 933,384	\$ 4,890,518	\$ 20,238,349	\$ 249,426,624
Substandard	4,024,142	418,631	-	105,649	258,304	4,806,726
Doubtful	-	90,223	-	39,627	180,153	310,003
Ending balance	<u>\$ 216,165,039</u>	<u>\$ 11,732,330</u>	<u>\$ 933,384</u>	<u>\$ 5,035,794</u>	<u>\$ 20,676,806</u>	<u>\$ 254,543,353</u>

Following are tables that include an aging analysis of the recorded investment of past-due loans as of December 31, 2023 and 2022.

	2023					
	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans
Real estate:						
Residential	\$ 9,081,157	\$ 3,787,586	\$ 2,378,434	\$ 15,247,177	\$ 218,146,541	\$ 233,393,718
Commercial	575,853	107,737	134,340	817,930	11,220,423	12,038,353
Construction	50,692	-	36,935	87,627	774,290	861,917
Commercial and industrial	161,486	-	44,422	205,908	6,356,417	6,562,325
Consumer	1,098,363	491,345	218,435	1,808,143	20,399,293	22,207,436
Total	<u>\$ 10,967,551</u>	<u>\$ 4,386,668</u>	<u>\$ 2,812,566</u>	<u>\$ 18,166,785</u>	<u>\$ 256,896,964</u>	<u>\$ 275,063,749</u>

	2022					
	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans
Real estate:						
Residential	\$ 8,950,764	\$ 3,091,663	\$ 3,057,444	\$ 15,099,871	\$ 201,065,168	\$ 216,165,039
Commercial	715,619	341,266	90,223	1,147,108	10,585,222	11,732,330
Construction	20,557	-	-	20,557	912,827	933,384
Commercial and industrial	191,633	19,121	39,627	250,381	4,785,413	5,035,794
Consumer	871,454	364,043	180,153	1,415,650	19,261,156	20,676,806
Total	<u>\$ 10,750,027</u>	<u>\$ 3,816,093</u>	<u>\$ 3,367,447</u>	<u>\$ 17,933,567</u>	<u>\$ 236,609,786</u>	<u>\$ 254,543,353</u>

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. ALLOWANCE FOR LOAN LOSSES (Continued)

Individually Evaluated Loans

The following table presents the amortized cost basis of individually evaluated loans as of December 31, 2023. Changes in the fair value of the collateral for individually evaluated loans are reported as a provision for credit losses or a reversal of provision of credit losses in the period of change.

	Type of Collateral	
	Business Assets	Real Estate
December 31, 2023		
Real estate:		
Residential	\$ -	\$ 1,298,190
Commercial	-	201,403
Consumer	-	-
Commercial and Industrial	72,787	-
Consumer	-	41,831
Total	<u>\$ 72,787</u>	<u>\$ 1,541,424</u>

Impaired Loans (Prior to the Adoptions of ASC 326)

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

The following table includes the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount at December 31, 2022:

	2022						
	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance	Total Impaired Loans			
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Average Recorded Investment	Unpaid Principal Balance	Interest Income Recognized
Residential real estate	\$ 106,303	\$ 15,403	\$ 1,058,351	\$ 1,164,654	\$ 1,194,143	\$ 1,164,654	\$ 57,704
Commercial real estate	-	-	178,779	178,779	313,124	178,779	17,000
Commercial and industrial	-	-	97,162	97,162	141,947	97,162	14,812
	\$ 106,303	\$ 15,403	\$ 1,334,292	\$ 1,440,595	\$ 1,649,214	\$ 1,440,595	\$ 89,516

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. ALLOWANCE FOR LOAN LOSSES (Continued)

Nonaccrual Loans

Loans are evaluated for nonaccrual status upon 90 days delinquency unless adequately secured by real estate. When a loan is placed in nonaccrual status, previously accrued but unpaid interest is deducted from interest income.

The following tables present loans that are on nonaccrual status and that are 90 days delinquent and still accruing interest by portfolio segment as of December 31, 2023 and 2022:

December 31, 2023	Nonaccrual with no ACL	Nonaccrual with ACL	Total Nonaccrual	Loans Past Due Over 90+ Days Still Accruing	Total Nonperforming
Real estate:					
Residential	\$ 65,521	\$ -	\$ 65,521	\$ 2,378,434	2,443,955
Commercial	277,744	-	277,744	-	277,744
Construction	36,935	-	36,935	-	36,935
Commercial and industrial	58,092	-	58,092	-	58,092
Consumer	-	-	-	218,435	218,435
Total	<u>\$ 438,292</u>	<u>\$ -</u>	<u>\$ 438,292</u>	<u>\$ 2,596,869</u>	<u>3,035,161</u>

December 31, 2022	Nonaccrual with no ACL	Nonaccrual with ACL	Total Nonaccrual	Loans Past Due Over 90+ Days Still Accruing	Total Nonperforming
Real estate:					
Residential	\$ 37,321	\$ -	\$ 37,321	\$ 3,057,444	3,094,765
Commercial	450,468	-	450,468	-	450,468
Construction	-	-	-	-	-
Commercial and industrial	59,218	-	59,218	-	59,218
Consumer	-	-	-	180,153	180,153
Total	<u>\$ 547,007</u>	<u>\$ -</u>	<u>\$ 547,007</u>	<u>\$ 3,237,597</u>	<u>3,784,604</u>

Modifications to Borrower's Experiencing Financial Difficulti

Occasionally, the Bank will modify the contractual terms of loans to a borrower experiencing financial difficulties as a way to mitigate loss, proactively work with borrowers in financial difficulty, or to comply with regulations regarding the treatment of certain bankruptcy filing and discharge situations. Loans are designated as modified when, as part of an agreement to modify the original contractual terms of the loan as a result of financial difficulties of the borrower, the Bank grants the borrower a concession on the terms that would not otherwise be considered. Typically, such concessions may consist of a reduction in interest rate to a below-market rate, taking into account the credit quality of the note, extension of additional credit based on receipt of adequate collateral, or a deferment or reduction of payments (principal or interest) that materially alters the Bank's position or significantly extends the note's maturity date, such that the present value of cash flows to be received is materially less than those contractually established at the loan's origination. When principal forgiveness is provided, the amount forgiven is charged off against the allowance for credit losses on loans.

There were no loan modifications to borrowers experiencing financial difficulty during the year ended December 31, 2023 or 2022. During the year ended December 31, 2023 and 2022, no modified loans defaulted within 12 months of restructuring. There were no charge-offs on modified loans during the years ended December 31, 2023 or 2022.

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows:

	2023	2022
Land and improvements	\$ 708,544	\$ 708,544
Buildings and improvements	5,923,512	5,907,932
Furniture, fixtures, and equipment	3,052,164	3,190,080
Right of use asset	100,679	112,523
Construction in process	3,404,828	545,512
	13,189,727	10,464,591
Less accumulated depreciation	6,859,022	6,868,769
Total	\$ 6,330,705	\$ 3,595,822

Depreciation charged to operations was \$185,230 in 2023 and \$195,952 in 2022.

7. DEPOSITS

Time deposits at December 31, 2023, mature \$53,360,031, \$3,117,362, and \$2,001,387 during 2024, 2025, and 2026, respectively.

The aggregate of all time deposit accounts of \$250,000 or more amounted to \$18,169,131 and \$5,979,454 at December 31, 2023 and 2022, respectively.

Maturities on time deposits of \$250,000 or more at December 31, 2023, are as follows:

Three months or less	\$ 10,380,665
Three to six months	7,788,466
Six to 12 months	-
Over one year	-
Total	\$ 18,169,131

8. SHORT-TERM BORROWINGS

Federal Home Loan Bank Advances

The Bank has entered into a borrowing agreement with a revolving line-of-credit agreement on April 6, 2018, whereby it can borrow up to \$158,444,600 million from the FHLB. All borrowings from the FHLB are secured by a blanket lien on qualified collateral, defined principally as investment securities and mortgage loans which are owned by the Bank, free and clear of any liens or encumbrances. At December 31, 2023, the outstanding balance was \$23,000,000 with a rate of 5.72 percent. The average balance during the year was \$7,364,110 with a weighted-average rate during the year of 5.65 percent. The maximum month-end balance for the year was \$23,000,000. The maturity date on the revolving line of credit is January 2, 2024. During 2022, there were no outstanding balances with the FHLB.

The Bank also has a federal funds borrowing facility with Atlantic Community Bankers Bank (ACBB) in the amount of \$5,000,000. Borrowings of up to \$5,000,000 are available on an unsecured basis for a period of 14 calendar days. ACBB may request that the facility be fully secured if the Bank extends beyond the 14-day period permitted. ACBB reserves the right to discontinue the federal funds borrowing facility at their discretion without notice. If no notice is given, the facility will expire on June 30, 2024. The Bank had no outstanding balances on the federal funds borrowing facility as of December 31, 2023 or 2022.

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. LEASE

The Bank accounts for its leases in accordance with ASC Topic 842, *Leases*. The Bank has one financing lease.

	December 31,	
	2023	2022
Financing lease cost:		
Amortization of right-of-use asset	\$ 11,844	\$ 11,844
Interest expense	2,781	3,035
Total lease cost	\$ <u>14,625</u>	\$ <u>14,879</u>

The following table presents the weighted-average remaining lease term and discount rate for the lease outstanding at December 31, 2023.

	Financing
Weighted-average remaining term (months)	102
Weighted-average discount rate	2.37%

The following table presents the undiscounted cash flows due related to the financing lease as of December 31, 2023.

Undiscounted cash flows due within:	
2024	\$ 13,800
2025	13,800
2026	13,800
2027	14,400
2028	14,400
2029 and thereafter	52,500
Total undiscounted cash flows	122,700
Discount on cash flows	(11,351)
Total lease liability	\$ <u>111,349</u>

10. INCOME TAXES

The provision for income taxes consists of:

	2023	2022
Current	\$ 1,021,573	\$ 1,280,779
Deferred	(253,989)	(765,862)
Total provision	\$ <u>767,584</u>	\$ <u>514,917</u>

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. INCOME TAXES (Continued)

The following temporary differences gave rise to the net deferred tax liabilities:

	2023	2022
Deferred tax assets:		
Allowance for credit losses	\$ 589,330	\$ 592,023
Impairment of investment securities	108,338	108,338
Defined pension benefit plan	-	42,342
Other employee benefits	97,430	65,194
Net unrealized losses on investment securities	1,557,530	2,121,654
Other	5,292	14,667
Total gross deferred tax assets	<u>2,357,920</u>	<u>2,944,218</u>
Equity securities fair market value adjustment	(3,392,299)	(3,623,155)
Investment securities basis adjustments	(1,183,235)	(1,183,235)
Defined pension benefit plan	(159,534)	-
Premises and equipment	(86,695)	(95,594)
Total gross deferred tax liabilities	<u>(4,821,763)</u>	<u>(4,901,984)</u>
Net deferred tax liabilities	<u>\$ (2,463,843)</u>	<u>\$ (1,957,766)</u>

No valuation allowance was established at December 31, 2023 and 2022, in view of the Bank's ability to carry-back to taxes paid in previous years and certain tax strategies, coupled with the anticipated future taxable income, as evidenced by the Bank's earnings potential.

The reconciliation of the federal statutory rate and the Bank's effective income tax rate is as follows:

	2023		2022	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Provision at statutory rate	\$ 959,778	21.0 %	\$ 767,985	21.0 %
Effect of tax-free income	(106,064)	(2.3)	(104,514)	(2.9)
Nondeductible interest expense	5,782	0.1	2,319	0.1
Dividend received deduction	(141,379)	(3.1)	(137,145)	(3.8)
Other, net	49,467	1.1	(13,728)	(0.4)
Actual tax expense and effective rate	<u>\$ 767,584</u>	<u>16.8 %</u>	<u>\$ 514,917</u>	<u>14.0 %</u>

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. INCOME TAXES (Continued)

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

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

11. EMPLOYEE BENEFITS

The Bank sponsors a trusted, noncontributory defined benefit pension plan covering substantially all employees and officers. The plan calls for benefits to be paid to eligible employees at retirement based primarily upon years of service with the Bank and compensation rates near retirement. The Bank's funding policy is to make annual contributions, if needed, based upon the funding formula developed by the plan's actuary.

The Bank also sponsors a defined postretirement life insurance plan covering all employees and retirees. The plan provides for life insurance upon retirement for life. The benefit is based on a percentage of annual compensation immediately preceding retirement, and the benefit is reduced annually by 10 percent of compensation until the benefit reaches a minimum of \$6,000.

Obligations and Funded Status

The following table sets forth the change in the plan assets and the projected benefit obligations at December 31:

	Pension Benefits		Other Benefits	
	2023	2022	2023	2022
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 23,248,293	\$ 30,020,524	\$ 453,231	\$ 820,984
Service cost	525,517	806,566	13,935	31,417
Interest cost	1,130,992	880,896	22,093	24,416
Actuarial loss (gain)	1,555,000	(7,485,859)	(12,140)	(411,223)
Benefits paid	(1,064,745)	(973,834)	(13,166)	(12,363)
Benefit obligation at end of year	<u>25,395,057</u>	<u>23,248,293</u>	<u>463,953</u>	<u>453,231</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	23,046,667	28,657,120	-	-
Actual return gain on plan assets	3,972,821	(4,836,619)	-	-
Employer contribution	200,000	200,000	13,166	12,363
Benefits paid	(1,064,745)	(973,834)	(13,166)	(12,363)
Fair value of plan assets at end of year	<u>26,154,743</u>	<u>23,046,667</u>	<u>-</u>	<u>-</u>
Funded status	<u>\$ 759,686</u>	<u>\$ (201,626)</u>	<u>\$ (463,953)</u>	<u>\$ (453,231)</u>
Amounts recognized in accumulated other comprehensive income consist of:				
Net loss (gain)	<u>\$ 2,617,213</u>	<u>\$ 3,555,131</u>	<u>\$ (438,735)</u>	<u>\$ (456,759)</u>
Total	<u>\$ 2,617,213</u>	<u>\$ 3,555,131</u>	<u>\$ (438,735)</u>	<u>\$ (456,759)</u>

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. EMPLOYEE BENEFITS (Continued)

Obligations and Funded Status (Continued)

The accumulated benefit obligation for the defined benefit pension plan was \$22,513,524 and \$20,862,965 at December 31, 2023 and 2022, respectively.

Components of Net Periodic Benefit Cost

	Pension Benefits		Other Benefits	
	2023	2022	2023	2022
Service cost	\$ 525,517	\$ 806,566	\$ 13,935	\$ 31,417
Interest cost	1,130,992	880,896	22,093	24,416
Expected return on plan assets	(1,575,275)	(1,965,985)	-	-
Amortization of net loss	95,372	103,286	(30,164)	-
Net periodic (benefit) cost	<u>\$ 176,606</u>	<u>\$ (175,237)</u>	<u>\$ 5,864</u>	<u>\$ 55,833</u>

The estimated net loss that will be amortized from accumulated other comprehensive loss into the net periodic (benefit) cost in 2024 is as follows:

	Pension Benefits	Other Benefits
Net loss	\$ 124	\$ (26,332)
Total	<u>\$ 124</u>	<u>\$ (26,332)</u>

Assumptions

The weighted-average assumptions used to determine benefit obligations at December 31 are as follows:

	Pension Benefits		Other Benefits	
	2023	2022	2023	2022
Discount rate	4.75 %	5.00 %	5.00 %	3.00 %
Expected long-term return on plan assets	7.00	7.00	7.00	7.00
Rate of compensation increase	4.00	4.00	4.00	4.00

The weighted-average assumptions used to determine net periodic benefit cost for years ended December 31 are as follows:

	Pension Benefits		Other Benefits	
	2023	2022	2023	2022
Discount rate	5.00 %	3.00 %	3.00 %	3.00 %
Expected long-term return on plan assets	7.00	7.00	7.00	7.00
Rate of compensation increase	4.00	3.00	3.00	3.00

The long-term rate of return on plan assets gives consideration to returns currently being earned on plan assets, as well as future rates expected to be earned.

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. EMPLOYEE BENEFITS (Continued)

Plan Assets

The Bank's defined benefit pension plan weighted-average asset allocations at December 31 by asset category are as follows:

<u>Asset Category</u>	<u>2023</u>	<u>2022</u>
Balanced Funds	100 %	100 %

The Plan holds balanced funds that aim for 60 percent investment in stocks and 40 percent in bonds, which provides diversification by investing in both growth and income securities.

The following tables set forth by level, within the fair value hierarchy, the plan's assets at fair value as of December 31, 2023 and 2022:

		December 31, 2023			
		Level I	Level II	Level III	Total
Assets:					
Vanguard Balanced Index Fund #869	\$	13,476,153	-	-	\$ 13,476,153
Vanguard Wellington Fund #521		8,835,690	-	-	8,835,690
Vanguard Star Fund #56		3,842,900	-	-	3,842,900
Total assets at fair value	\$	<u>26,154,743</u>	<u>-</u>	<u>-</u>	<u>\$ 26,154,743</u>

		December 31, 2022			
		Level I	Level II	Level III	Total
Assets:					
Vanguard Balanced Index Fund #869	\$	11,928,439	-	-	\$ 11,928,439
Vanguard Wellington Fund #521		3,105,861	-	-	3,105,861
Vanguard Star Fund #56		8,012,367	-	-	8,012,367
Total assets at fair value	\$	<u>23,046,667</u>	<u>-</u>	<u>-</u>	<u>\$ 23,046,667</u>

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2023.

Mutual Funds

Mutual funds are valued at the net asset value (NAV) of shares held by the plan at year-end.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. EMPLOYEE BENEFITS (Continued)

Cash Flows

The Bank expects to contribute \$200,000 to its defined benefit pension plan in 2024.

The following benefit payments that reflect expected future service, as appropriate, are expected to be paid:

	Plan Benefits
2024	\$ 1,493,000
2025	1,489,000
2026	1,503,000
2027	1,565,000
2028	1,544,000
2029-2033	7,408,000
Total	<u>\$ 15,002,000</u>

12. COMMITMENTS

In the normal course of business, there are outstanding commitments and contingent liabilities, such as commitments to extend credit, financial guarantees, and letters of credit, which are not reflected in the accompanying consolidated financial statements. The Bank does not anticipate any losses as a result of these transactions. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Consolidated Balance Sheet. The contract or notional amounts of these instruments reflect the extent of involvement the Bank has in the particular classes of financial instruments.

The off-balance-sheet commitments at December 31 comprise the following:

	2023	2022
Commitments to extend credit	\$ 9,565,368	\$ 6,962,242
Standby letters of credit	<u>1,700,008</u>	<u>1,610,268</u>
Total	<u>\$ 11,265,376</u>	<u>\$ 8,572,510</u>

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

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

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. REGULATORY RESTRICTIONS

Cash and Due From Banks

Effective, March 26, 2020, the Federal Reserve reduced reserve requirements to zero for all depository institutions. There were no required federal reserves included in “Cash and due from banks” at December 31, 2023 or December 31, 2022. The required reserves are used to facilitate the implementation of monetary policy by the Federal Reserve System. The required reserves are computed by applying prescribed ratios to the classes of average deposit balances. These are held in the form of vault cash and a depository amount held with the Federal Reserve Bank.

Dividends

The Pennsylvania Banking Code restricts the availability of surplus for dividend purposes. At December 31, 2023, surplus funds of \$8,313,322 were not available for dividends.

14. REGULATORY CAPITAL REQUIREMENTS

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, under-capitalized, significantly under-capitalized, and critically under-capitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If under-capitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. As of December 31, 2023 and 2022, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank’s category.

In November 2019, federal bank regulatory agencies finalized a rule that simplifies capital requirements for community banks by allowing them to optionally adopt a simple leverage ratio to measure capital adequacy, which removes requirements for calculating and reporting risk-based capital ratios for a qualifying community bank that have less than \$10 billion in total consolidated assets, limited amounts of off-balance-sheet exposures and trading assets and liabilities, and a leverage ratio greater than 9 percent. The community bank leverage ratio framework was effective on January 1, 2020. The Bank elected to adopt the optional community bank leverage ratio framework in the first quarter of 2020.

In April 2020, the federal banking regulatory agencies modified the original community bank leverage ratio (CBLR) framework and provided that, as of the second quarter 2020, a banking organization with a leverage ratio of 8 percent or greater and that meets the other existing qualifying criteria may elect to use the community bank leverage ratio framework. The modified rule also states that the community bank leverage ratio requirement will be greater than 8 percent for the second through fourth quarters of calendar year 2020, greater than 8.5 percent for calendar year 2021, and greater than 9 percent thereafter. The transition rule also maintains a two-quarter grace period for a qualifying community banking organization whose leverage ratio falls no more than 100 basis points below the applicable community bank leverage ratio requirement.

The leverage ratios of the Bank at December 31, 2023 and 2022, are as follows:

	2023			2022	
	Amount	Ratio		Amount	Ratio
Tier 1 capital <u>(to average assets)</u>					
Actual	\$ 90,850,773	21.24	% \$	91,121,692	19.21
For capital adequacy purposes	17,110,882	4.00		18,974,238	4.00
To be well capitalized	21,388,602	5.00		23,717,797	5.00

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. FAIR VALUE MEASUREMENTS

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

- Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.
- Level II: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.
- Level III: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

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

The following tables present the assets measured on a recurring basis on the Consolidated Balance Sheet at their fair value as of December 31, 2023 and 2022, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

		December 31, 2023			
		Level I	Level II	Level III	Total
Investment securities available for sale:					
U.S. government agencies	\$	-	\$ 64,319,342	\$ -	\$ 64,319,342
Obligations of states and political subdivisions		-	18,709,310	-	18,709,310
Corporate securities		-	35,417,375	-	35,417,375
Equity securities in financial institutions		31,569,430	-	-	31,569,430
Total	\$	<u>31,569,430</u>	<u>\$ 118,446,027</u>	<u>\$ -</u>	<u>\$ 150,015,457</u>
		December 31, 2022			
		Level I	Level II	Level III	Total
Investment securities available for sale:					
U.S. government agencies	\$	-	\$ 65,618,450	\$ -	\$ 65,618,450
Obligations of states and political subdivisions		-	19,739,572	-	19,739,572
Corporate securities		-	41,016,777	-	41,016,777
Equity securities in financial institutions		32,668,750	-	-	32,668,750
Total	\$	<u>32,668,750</u>	<u>\$ 126,374,799</u>	<u>\$ -</u>	<u>\$ 159,043,549</u>

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. FAIR VALUE MEASUREMENTS (Continued)

The following tables present the assets measured on a nonrecurring basis on the Consolidated Balance Sheet at their fair value as of December 31, 2023 and 2022, by level within the fair value hierarchy. Individually evaluated loans that are collateral-dependent are written down to fair value. Techniques used to value the collateral that secure the impaired loan include quoted market prices for identical assets classified as Level I inputs and observable inputs, employed by certified appraisers, and in-house appraisers, for similar assets classified as Level II inputs. In cases where valuation techniques included inputs that are unobservable and are based on estimates and assumptions developed by management based on the best information available under each circumstance, the asset valuation is classified as Level III inputs.

OREO is measured at fair value, less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value, less cost to sell.

		December 31, 2023			
		Level I	Level II	Level III	Total
Collateral-dependent loans		-	-	1,598,834	1,598,834
Other real estate owned		-	-	204,111	204,111
Total	\$	-	-	1,802,945	1,802,945

		December 31, 2022			
		Level I	Level II	Level III	Total
Impaired loans	\$	-	-	1,425,192	1,425,192
Other real estate owned		-	-	385,509	385,509
Total	\$	-	-	1,810,701	1,810,701

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. FAIR VALUE MEASUREMENTS (Continued)

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which the Bank uses Level III inputs to determine fair value:

		December 31, 2023			
	<u>Fair Value</u>	<u>Valuation Techniques</u>	<u>Unobservable Input</u>	<u>Range (Weighted Average)</u>	
Collateral-dependent loans	\$ 1,598,834	Appraisal of collateral (1)	Appraisal adjustments (2)	0%–10% (9.2%)	
Other real estate owned	204,111	Appraisal of collateral (1), (2)			

		December 31, 2022			
	<u>Fair Value</u>	<u>Valuation Techniques</u>	<u>Unobservable Input</u>	<u>Range (Weighted Average)</u>	
Impaired loans	\$ 1,425,192	Appraisal of collateral (1)	Appraisal adjustments (2)	7.0%–10.0% (9.8%)	
Other real estate owned	385,509	Appraisal of collateral (1), (2)			

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

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	Unrealized Gains on Available-for-Sale Securities	Unrecognized Pension Costs	Total
Balance as of January 1, 2022	\$ 865,126	\$ (3,393,969)	\$ (2,528,843)
Other comprehensive (loss) income before reclassification	(8,846,566)	1,027,830	(7,818,736)
Amount reclassified from accumulated other comprehensive loss	-	(81,596)	(81,596)
Total other comprehensive income (loss)	(8,846,566)	946,234	(7,900,332)
Balance as of December 31, 2022	(7,981,440)	(2,447,735)	(10,429,175)
Other comprehensive income before reclassification	2,122,183	802,061	2,924,244
Amount reclassified from accumulated other comprehensive loss	-	(75,344)	(75,344)
Total other comprehensive income	2,122,183	726,717	2,848,900
Balance as of December 31, 2023	<u>\$ (5,859,257)</u>	<u>\$ (1,721,018)</u>	<u>\$ (7,580,275)</u>

The following tables present significant amounts reclassified out of each component of accumulated other comprehensive income (loss) for the years ended December 31, 2023 and 2022:

	Amount Reclassified from Accumulated Other Comprehensive Income (1)	Affected Line Item in the Consolidated Statement of Income
December 31, 2023		
Net unrecognized pension costs	\$ 95,372	Salaries and employee benefits
	(20,028)	Income taxes
	<u>\$ 75,344</u>	

(1) All amounts are net of tax. Related income taxes are calculated using an income tax rate of 21 percent.

	Amount Reclassified from Accumulated Other Comprehensive Income (2)	Affected Line Item in the Consolidated Statement of Income
December 31, 2022		
Net unrecognized pension costs	\$ 103,286	Salaries and employee benefits
	(21,690)	Income taxes
	<u>\$ 81,596</u>	

(2) Amounts in parenthesis indicate debits.

17. SUBSEQUENT EVENTS

Management has reviewed events occurring through March 11, 2024, the date the financial statements were issued, and no subsequent events occurred requiring accrual or disclosure.

BOARD OF DIRECTORS

T. Charles Chambers
Martin J. Digel
Daniel J. Hartle

Andrew O. Kane
Kenneth C. Kane
Douglas E. Kuntz

John W. Pierotti
Jeffrey A. Wilson
John H. Yoder

ADVISORY BOARDS

Kane

Jonathan H. Benedict
Martin J. Digel

Kenneth C. Kane
David J. Malone

Jon R. Peterson

Eldred

Gregory C. Bell
Jonathan H. Benedict

Martin J. Digel
Shannon M. Johnston

David J. Malone

Bradford

Jonathan H. Benedict
Martin J. Digel
Daniel J. Hartle

Douglas E. Kuntz
David J. Malone

Margaret C. Tornatela
Beth A. Tingley

Olean

Jonathan H. Benedict
Martin J. Digel

Daniel J. Hartle
Kenneth C. Kane

John W. Pierotti
Lance L. Ours

OFFICERS

Martin J. Digel Executive Chairman and Investment Officer
Jeffrey A. Wilson President and CEO; Information Security Officer
Jonathan H. Benedict Vice President and Senior Loan Officer
Mischelle G. Heffner Secretary Treasurer and Personnel Administrator
David C. Yoder Vice President and Information Technology Officer
Jon R. Peterson Manager - Kane Office and Mortgage Loan Officer
Lance L. Ours Manager - Olean Office and Mortgage Loan Officer
Tammy L. Alexis Manager - Mt. Jewett Office and Mortgage Loan Officer
Shannon M. Johnston Manager - Eldred Office and Mortgage Loan Officer
Beth A. Tingley Manager - Bradford Office and Mortgage Loan Officer
W. Graham Nannen Mortgage Loan Officer, Security Officer,
Manager Bank Security Program
Jeanmarie A. McClure Trust Officer
Kimberley A. Conn Compliance Officer; BSA Officer and Manager, Loan Credit Review
Tammy L. Johnson Mortgage Loan Officer
Nancy S. Wolfe Manager - Electronic Banking
Julia G. VanGorder Manager - Customer Service
Brian P. Bailey Manager - Technology
Kelly J. Brinley Loan Officer
Jennifer J. Southard Loan Officer; Assistant Manager - Eldred Office
Christine A. Burdick Mortgage Loan Officer
Drew A. Shaffer Mortgage Loan Office
Kyle J. Messerole Loan Office, Collections Officer
Lisa M. Clark Assistant Treasurer
Julie A. Blint Loan Officer

EMPLOYEES

Smethport

Shirley J. Bigley	Jennifer M. Gault	Ashley K. Nolte	Sandra K. Swanson
Dianna L. Chapman	Casandra L. Gee	Katelin E. Rooke	Daniel L. Thompson
Crystal D. Connor	Erica L. Geitner	Jessica M. Seipp	Wendy E. Whitsell
Cory M. Craig	Julie B. Graves	Caitlin A. Shay	Cindi L. Wymer
Joseph E. Crisman	Kerry D. Green	Daisy M. Smith	
Paula J. Dodge	Sarah E. Irons	Haley M. Snyder	
Regena D. Dudley	Melissa A. Keech	Laurie J. Strang	

Mt. Jewett

Elizabeth J. Mishler	Linda I. Motts	Tammy M. Nolte	Shelby R. Stuart
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Kane

Jadilyne M. Baca	Melody D. Gatewood	Denice M. Klaiber
Joseph R. Bernhard	Hannah J. Gregory	Karen M. Lawton
Nia M. Bush	Deborah L. Kilmer	Kim Y. Maze

Eldred

Katy C. Baker	Jo Anne Crandell	Laurie J. Knapp
Tina M. Burford	Amy S. Gray	Josie A. Lamont
Morgan J. Burrows	Collene M. Green	Tamala L. Vaughn

Bradford

Sarah N. Blauser	Judy A. Gilmore	Makayla R. Pope	Amy L. Spitler
Lori L. Darrow	Theresa B. Gray	Kaleigh M. Sanderson	Randi M. Vangor
Elizabeth J. Eck	Kancie L. Orris	Jenny L. Schoonmaker	

Olean

Abbie N. Aloï	Terri L. Howard	Alisha M. Raineri	Brooke M. Taggart
Kimberly M. Greene	Deanna J. Langworthy	Stacey L. Saltsman	

St. Marys

Casey L. Cousins	Toni E. Harlan	Karin M. Stong
Jesse T. DeWald	Sophia R. McManus	

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THE BANK THAT TAKES CARE
OF ITS CUSTOMERS



MEMBER FDIC