UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2022

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)**

For the transition period from to

Commission file number 0-17077

PENNS WOODS BANCORP, INC.
(Exact name of registrant as specified in its charter)

Pennsylvania (State or other jurisdiction of incorporation or organization)	**300 Market Street, P.O. Box 967 Williamsport, Pennsylvania** (Address of principal executive offices)	**23-2226454** (I.R.S. Employer Identification No.) **17703-0967** (Zip Code)

Registrant's telephone number, including area code (570**) 322-1111**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, $5.55 par value	PWOD	The Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☒ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☒ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company, or emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐
Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued

its audit report. [ ]

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No
State the aggregate market value of the voting stock held by non-affiliates of the registrant $162,760,000 at June 30, 2022.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	**Outstanding at March 1, 2023**
Common Stock, $5.55 Par Value	7,059,457 Shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement prepared in connection with its annual meeting of shareholders to be held on May 16, 2023 are incorporated by reference in Part III hereof.

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PART I

ITEM 1 BUSINESS

A. General Development of Business and History

On January 7, 1983, Penns Woods Bancorp, Inc. (the "Corporation") was incorporated under the laws of the Commonwealth of Pennsylvania as a bank holding company. In connection with the organization of the Corporation, Jersey Shore State Bank ("JSSB"), a Pennsylvania state-chartered bank, became a wholly owned subsidiary of the Corporation. On June 1, 2013, the Corporation acquired Luzerne Bank ("Luzerne") with Luzerne operating as a subsidiary of the Corporation (JSSB and Luzerne are collectively referred to as the "Banks"). The Corporation's three other wholly-owned subsidiaries are Woods Real Estate Development Company, Inc., Woods Investment Company, Inc., and United Insurance Solutions, LLC. The Corporation's business has consisted primarily of managing and supervising the Banks, and its principal source of income has been dividends paid by the Banks and Woods Investment Company, Inc.

The Banks are engaged in commercial and retail banking which includes the acceptance of time, savings, and demand deposits, the funding of commercial, consumer, and mortgage loans, and safe deposit services. Utilizing a branch office network, ATMs, Internet, and telephone banking delivery channels, the Banks deliver their products and services to the communities they reside in.

In October 2000, JSSB acquired The M Group, Inc. D/B/A The Comprehensive Financial Group ("The M Group"). The M Group, which operates as a subsidiary of JSSB, offers insurance and securities brokerage services. Securities are offered by The M Group through Cetera Financial Group, a registered broker-dealer.

Neither the Corporation nor the Banks anticipate that compliance with environmental laws and regulations will have any material effect on capital expenditures, earnings, or their competitive position. The Banks are not dependent on a single customer or a few customers, the loss of whom would have a material effect on the business of the Banks.

As of December 31, 2022, JSSB employed 235 persons, Luzerne employed 63 persons, and The M Group employed 4 persons in either a full-time or part-time capacity. The Corporation does not have any employees. The principal officers of the Banks also serve as officers of the Corporation.

Woods Investment Company, Inc., a Delaware holding company, maintains an investment portfolio that is managed for total return and to fund dividend payments by the Corporation.

Woods Real Estate Development Company, Inc. serves the Corporation through its acquisition and ownership of certain properties utilized by the Banks.

United Insurance Solutions, LLC offers property and casualty and auto insurance products within the Corporation's market footprint. The Corporation became the sole owner of United Insurance Solutions, LLC when it purchased the outstanding 20% minority interest on October 1, 2021.

We post publicly available reports required to be filed with the SEC on our website, www.pwod.com, as soon as reasonably practicable after filing such reports with the SEC. The required reports are available free of charge through our website. Information available on our website is not part of or incorporated by reference into this Report or any other report filed by this Corporation with the SEC.

B. Regulation and Supervision

The Corporation is a registered bank holding company and, as such is subject to the provisions of the Bank Holding Company Act of 1956, as amended (the "BHCA") and to supervision and examination by the Board of Governors of the Federal Reserve System (the "FRB"). The Banks are also subject to the supervision and examination by the Federal Deposit Insurance Corporation (the "FDIC"), as their primary federal regulator and as the insurer of the Banks' deposits. The Banks are also regulated and examined by the Pennsylvania Department of Banking and Securities (the "Department").

The insurance activities of The M Group are subject to regulation by the insurance departments of the various states in which The M Group conducts business, including principally the Pennsylvania Department of Insurance. The securities brokerage activities of The M Group are subject to regulation by federal and state securities commissions.

The insurance activities of United Insurance Solutions, LLC are subject to regulation by the Pennsylvania Department of Insurance.

The FRB has issued regulations under the BHCA that require a bank holding company to serve as a source of financial and managerial strength to its subsidiary banks. As a result, the FRB, pursuant to such regulations, may require the Corporation to stand ready to use its resources to provide adequate capital funds to the Banks during periods of financial stress or adversity. The BHCA requires the Corporation to secure the prior approval of the FRB before it can acquire all or substantially all of the assets of any bank, or acquire ownership or control of 5% or more of any voting shares of any bank. Such a transaction would also require approval of the Department.

A bank holding company is prohibited under the BHCA from engaging in, or acquiring direct or indirect control of, more than 5% of the voting shares of any company engaged in non-banking activities unless the FRB, by order or regulation, has found such activities to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Under the BHCA, the FRB has the authority to require a bank holding company to terminate any activity or relinquish control of a non-bank subsidiary (other than a non-bank subsidiary of a bank) upon the FRB's determination that such activity or control constitutes a serious risk to the financial soundness and stability of any bank subsidiary of the bank holding company.

In July 2013, the federal bank regulatory agencies adopted revisions to the agencies' capital adequacy guidelines and prompt corrective action rules, which were designed to enhance such requirements and implement the revised standards of the Basel Committee on Banking Supervision, commonly referred to as Basel III. The final rules generally implement higher minimum capital requirements, add a new common equity tier 1 capital requirement, and establish criteria that instruments must meet to be considered common equity tier 1 capital, additional tier 1 capital or tier 2 capital. The current minimum capital requirements are a common equity tier 1 capital ratio of 4.5% (6.5% to be considered "well capitalized"), a tier 1 capital ratio of 6.0%; (8.0% to be considered "well capitalized"), and a total capital ratio of 8.0% (10.0% to be considered "well capitalized"). In order to avoid limitations on capital distributions (including dividend payments and certain discretionary bonus payments to executive officers), as of January 1, 2019, a banking organization must hold a capital conservation buffer comprised of common equity tier 1 capital above its minimum risk-based capital requirements in an amount greater than 2.5% of total risk-weighted assets.

In addition to the risk-based capital guidelines, the FRB requires each bank holding company to comply with the leverage ratio, under which the bank holding company must maintain a minimum level of Tier 1 capital to average total consolidated assets of 4.0% (5.0% to be considered "well capitalized"). The Banks are subject to similar capital requirements adopted by the FDIC.

During 2018, the FRB raised the threshold of its "small bank holding company" exemption to the application of consolidated capital requirements for qualifying small bank holding companies from $1 billion to $3 billion of consolidated assets. Consequently, qualifying bank holding companies having less than $3 billion of consolidated assets are not subject to the consolidated capital requirements unless otherwise directed by the FRB.

Dividends

Federal and state laws impose limitations on the payment of dividends by the Banks. The Pennsylvania Banking Code and the policies of the FDIC and the Department generally encourage the Banks to pay dividends from current net income and retained earnings. The Pennsylvania Banking Code restricts the availability of capital funds for payment of dividends by the Banks to their accumulated net earnings.

In addition to the dividend restrictions described above, the banking regulators have the authority to prohibit or to limit the payment of dividends by the Banks if, in the banking regulator's opinion, payment of a dividend would constitute an unsafe or unsound practice in light of the financial condition of the Banks.

Under Pennsylvania law, the Corporation may not pay a dividend, if, after giving effect thereto, it would be unable to pay its debts as they become due in the usual course of business and, after giving effect to the dividend, the total assets of the Corporation would be less than the sum of its total liabilities plus the amount that would be needed, if the Corporation were to be dissolved at the time of distribution, to satisfy the preferential rights upon dissolution of shareholders whose rights are superior to those receiving the dividend.

It is also the policy of the FRB that a bank holding company generally may only pay dividends on common stock out of net income available to common shareholders over the past twelve months and only if the prospective rate of earnings retention appears consistent with a bank holding company's capital needs, asset quality, and overall financial condition. A bank holding company also should not maintain a dividend level that places undue pressure on the capital of such institution's subsidiaries, or that may undermine the bank holding company's ability to serve as a source of strength for such subsidiaries.

C. Regulation of the Banks

The Banks are highly regulated by the FDIC and the Department. The laws that such agencies enforce limit the specific types of businesses in which the Banks may engage, and the products and services that the Banks may offer to customers. Generally, these limitations are designed to protect the insurance fund of the FDIC and/or the customers of the Banks, and not the Banks or their shareholders. From time to time, various types of new federal and state legislation have been proposed that could result in additional regulation of, and restrictions on, the business of the Banks. It cannot be predicted whether any such legislation will be adopted or how such legislation would affect business of the Banks. As a consequence of the extensive regulation of commercial banking activities in the United States, the Banks' business is particularly susceptible to being affected by federal legislation and regulations that may increase the costs of doing business. Some of the major regulatory provisions that affect the business of the Banks are discussed briefly below.

Prompt Corrective Action

The FDIC has specified the levels at which an insured institution will be considered “well-capitalized,” “adequately capitalized,” “undercapitalized,” and “critically undercapitalized.” In the event an institution’s capital deteriorates to the “undercapitalized” category or below, the Federal Deposit Insurance Act (the “FDIA”) and FDIC regulations prescribe an increasing amount of regulatory intervention, including: (1) the institution of a capital restoration plan by a bank and a guarantee of the plan by a parent institution and liability for civil money damages for failure to fulfill its commitment on that guarantee; and (2) the placement of a hold on increases in assets, number of branches, or lines of business. If capital has reached the significantly or critically undercapitalized levels, further material restrictions can be imposed, including restrictions on interest payable on accounts, dismissal of management and (in critically undercapitalized situations) appointment of a receiver. For well-capitalized institutions, the FDIA provides authority for regulatory intervention where the institution is deemed to be engaging in unsafe or unsound practices or receives a less than satisfactory examination report rating for asset quality, management, earnings or liquidity.

Deposit Insurance

The FDIC maintains the Deposit Insurance Fund ("DIF") by assessing depository institutions an insurance premium. The FDIC insures deposit accounts up to $250,000 per depositor.

Under the FDIC's risk-based assessment system, deposit insurance assessments are based on each insured institution's total assets less tangible equity, thereby basing deposit insurance assessments on an institution’s total liabilities, not only insured deposits. Small banks (generally, those with less than $10 billion in assets) are assigned an individual rate based on a formula using financial data and CAMELS (capital adequacy, asset quality, management, earnings, liquidity, and sensitivity) ratings. A bank’s assessment is calculated by multiplying its individual assessment rate by its assessment base (average consolidated total assets less average tangible equity), determined quarterly.

Federal Home Loan Bank System

The Banks are members of the Federal Home Loan Bank of Pittsburgh (the “FHLB”), which is one of 12 regional Federal Home Loan Banks. Each Federal Home Loan Bank serves as a reserve or central bank for its members within its assigned region. It is funded primarily from funds deposited by member institutions and proceeds from the sale of consolidated obligations of the Federal Home Loan Bank System. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the board of directors of the Federal Home Loan Bank. At December 31, 2022, the Banks had $243,195,000 in FHLB advances.

As a member, the Banks are required to purchase and maintain stock in the FHLB. The amount of required stock varies based on the FHLB products utilized by the Banks and the amount of the products utilized. At December 31, 2022, the Banks had $18,666,000 in stock of the FHLB, which was in compliance with this requirement.

Other Legislation

The 2010 Dodd-Frank Act made significant changes to the bank regulatory structure and affects the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act, among other things: (i) expands the authority of the FRB to examine bank holding companies and their subsidiaries, including insured depository institutions; (ii) requires a bank holding company to be well capitalized and well managed to receive approval of an interstate bank acquisition; (iii) provides mortgage reform provisions regarding a customer’s ability to pay and making more loans subject to provisions for higher-cost loans and new disclosures; (iv) creates the Consumer Financial Protection Bureau (the "CFPB") that has rule making authority for a wide range of consumer protection laws that apply to all banks and has broad powers to supervise and enforce consumer protection laws; (v) introduces additional corporate governance and executive compensation requirements on public companies subject to the Securities and Exchange Act of 1934, such as the Corporation; (vi) permits FDIC-insured banks to pay interest on business demand deposits; (vii) requires that holding companies and other companies that directly or indirectly control an insured depository institution serve as a source of financial strength to that institution; (viii) makes permanent the $250,000 limit for federal deposit insurance at all insured depository institutions; and (ix) permits national and state banks to establish interstate branches to the same extent as the branch host state allows establishment of in-state branches.

The Dodd-Frank Act also created a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. Banks and savings institutions with $10 billion or less in assets such as the Banks will continue to be examined for compliance with the consumer laws by their primary bank regulators. The Dodd-Frank Act also weakens the federal preemption rules that have been applicable for national banks and federal savings associations, and gives state attorneys general the ability to enforce federal consumer protection laws.

Under the Bank Secrecy Act, a financial institution is required to have systems in place to detect certain types of transactions, based on the size and nature of the transaction. Financial institutions are generally required to report cash transactions involving more than $10,000 to the United States Treasury. In addition, financial institutions are required to file suspicious activity reports for transactions that involve more than $5,000 and that the financial institution knows, suspects or has reason to suspect, involves illegal funds, is designed to evade the requirements of the law, or has no lawful purpose.

Under the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act, commonly referred to as the "USA PATRIOT Act," financial institutions are subject to prohibitions against specified financial transactions and account relationships, as well as enhanced due diligence standards intended to detect, and prevent, the use of the United States financial system for money laundering and terrorist financing activities. The Patriot Act requires financial institutions, including banks, to establish anti-money laundering programs, including employee training and independent audit requirements, meet minimum specified standards, follow minimum standards for customer identification and maintenance of customer identification records.

The Sarbanes-Oxley Act of 2002 was enacted to enhance penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures under the federal securities laws. The Sarbanes-Oxley Act generally applies to all companies, including the Corporation, that file or are required to file periodic reports with the Securities and Exchange Commission under the Securities Exchange Act of 1934, or the Exchange Act. The legislation includes provisions, among other things, governing the services that can be provided by a public company's independent auditors and the procedures for approving such services, requiring the chief executive officer and principal accounting officer to certify certain matters relating to the company's periodic filings under the Exchange Act, requiring expedited filings of reports by insiders of their securities transactions and containing other provisions relating to insider conflicts of interest, increasing disclosure requirements relating to critical financial accounting policies and their application, increasing penalties for securities law violations, and creating a new public accounting oversight board, a regulatory body subject to SEC jurisdiction with broad powers to set auditing, quality control, and ethics standards for accounting firms. In response to the legislation, the national securities exchanges and NASDAQ, adopted new rules relating to certain governance matters, including the independence of members of a company's audit committee as a condition to listing or continued listing.

Congress is often considering financial industry legislation, and the federal banking agencies routinely propose new regulations. The Corporation cannot predict how any new legislation, or new rules adopted by federal or state banking agencies, may affect the business of the Corporation and its subsidiaries in the future.

Environmental Laws

Environmentally related hazards have become a source of high risk and potential liability for financial institutions relating to their loans. Environmentally contaminated properties owned by an institution's borrowers may result in a drastic reduction in the value of the collateral securing the institution's loans to such borrowers, high environmental clean up costs to the borrower affecting its ability to repay the loans, the subordination of any lien in favor of the institution to a state or federal lien securing clean up costs, and liability to the institution for clean up costs if it forecloses on the contaminated property or becomes involved in the management of the borrower. The Corporation is not aware of any borrower who is currently subject to any environmental investigation or clean up proceeding which is likely to have a material adverse effect on the financial condition or results of operations of the Corporation.

Effect of Government Monetary Policies

The earnings of the Corporation are and will be affected by domestic economic conditions and the monetary and fiscal policies of the United States Government and its agencies. The monetary policies of the FRB have had, and will likely continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The FRB has a major effect upon the levels of bank loans, investments, and deposits through its open market operations in the United States Government securities and through its regulation of, among other things, the discount rate on borrowings by member banks and the reserve requirements against member bank deposits. It is not possible to predict the nature and impact of future changes in monetary and fiscal policies.

DESCRIPTION OF THE BANKS

History and Business

JSSB was incorporated under the laws of the Commonwealth of Pennsylvania as a state bank in 1934 and became a wholly owned subsidiary of the Corporation on July 12, 1983. As of December 31, 2022, JSSB had total assets of $1,451,067,000; total shareholders’ equity of $109,758,000; and total deposits of $1,108,794,000. JSSB's deposits are insured by the FDIC for the maximum amount provided under current law.

Luzerne was acquired by the Corporation on June 1, 2013. As of December 31, 2022, Luzerne had total assets of $549,688,000; total shareholders’ equity of $55,708,000; and total deposits of $448,517,000. Luzerne's deposits are insured by the FDIC for the maximum amount provided under current law.

The Banks engage in business as commercial banks, doing business at locations in Lycoming, Clinton, Centre, Montour, Union, Blair, and Luzerne Counties, Pennsylvania. The Banks offer insurance, securities brokerage services, annuity and mutual fund investment products, and financial planning through the M Group.

Services offered by the Banks include accepting time, demand and savings deposits including Super NOW accounts, statement savings accounts, money market accounts, and fixed rate certificates of deposit. Their services also include making secured and unsecured business and consumer loans that include financing commercial transactions as well as construction and residential mortgage loans and revolving credit loans with overdraft protection.

The Banks' loan portfolio mix can be classified into three principal categories: commercial and agricultural, real estate, and consumer. Real estate loans can be further segmented into residential, commercial, and construction. Qualified borrowers are defined by our loan policy and our underwriting standards. Owner provided equity requirements range from 0% to 35%, depending on the collateral offered for the loan. Terms are generally restricted to 30 years or less with the exception of construction and land development, which are generally limited to one and five years, respectively. Real estate appraisals, property construction verifications, and site visitations comply with our loan policy and with industry regulatory standards.

Prospective residential mortgage customer’s repayment ability is determined from information contained in the application and recent income tax returns, or other verified income sources. Emphasis is on credit, employment, income, and residency verification. Broad hazard insurance is always required and flood insurance where applicable. In the case of construction mortgages, builders risk insurance is requested.

Agricultural loans for the purchase or improvement of real estate must meet the Banks' real estate underwriting criteria. Agricultural loans made for the purchase of equipment are usually payable in five years, but never more than ten, depending upon the useful life of the purchased asset. Minimum borrower equity ranges from 0% to 35% depending on the purpose. Livestock financing criteria depends upon the nature of the operation. Agricultural loans are also made for crop production purposes. Such loans are structured to repay within the production cycle and not carried over into a subsequent year.

Commercial loans are made for the acquisition and improvement of real estate, purchase of equipment, and for working capital purposes on a seasonal or revolving basis. General purpose working capital loans are also available with repayment expected within one year. Equipment loans are generally amortized over three to ten years. Insurance coverage with the Banks as loss payee is required, especially in the case where the equipment is rolling stock. It is also a general policy to collateralize non-real estate loans with the asset purchased and, depending upon loan terms, junior liens are filed on other available assets. Financial information required on all commercial mortgages includes the most current three years balance sheets and income statements and projections on income to be developed through the project. In the case of corporations and partnerships, the principals are often asked to personally guaranty the entity's debt.

Seasonal and revolving lines of credit are offered for working capital purposes. Collateral for such a loan may vary but often includes the pledge of inventory and/or receivables. Drawing availability is usually 50% of inventory and 80% of eligible receivables. Eligible receivables are defined as invoices less than 90 days delinquent. Exclusive reliance is very seldom placed on such collateral; therefore, other lienable assets are also taken into the collateral pool. Where reliance is placed on inventory and accounts receivable, the applicant must provide financial information including agings on a specified basis. In addition, the guaranty of the principals is usually obtained.

Letter of credit availability is usually limited to standby or performance letters of credit where the customer is well known to the Banks. The credit criteria is the same as that utilized in making a direct loan. Collateral is obtained in most cases.

Consumer loan products include residential mortgages, home equity loans and lines, automobile financing, personal loans and lines of credit, overdraft and check lines. Our policy includes standards used in the industry on debt service ratios and terms are consistent with prudent underwriting standards and the use of proceeds. Verifications are made of employment and residency, along with credit history.

Second mortgages are confined to equity borrowing and home improvements. Terms are generally fifteen years or less. Loan to collateral value criteria is 90% or less and verifications are made to determine values. Automobile financing is generally restricted to five years and done on both an indirect and direct basis. The Banks, as a practice, do not floor plan and therefore do not discount dealer paper. Small loan requests are to accommodate personal needs such as debt consolidation or the purchase of small appliances. Overdraft check lines are usually limited to $5,000 or less.

The Banks' investment portfolios are analyzed and priced on a monthly basis. Investments are made in U.S. Treasuries, U.S. Agency issues, bank qualified tax-exempt municipal bonds, taxable municipal bonds, corporate bonds, and corporate stocks which consist of Pennsylvania bank stocks. Bonds with BBB or better ratings are used, unless a local issue is purchased that has a lesser or no rating. Factors taken into consideration when investments are purchased include liquidity, the Corporation's tax position, tax equivalent yield, third party investment ratings, and the policies of the Asset/Liability Committee.

The banking environment in Lycoming, Clinton, Centre, Montour, Union, Blair, and Luzerne Counties, Pennsylvania is highly competitive. The Banks operate twenty-five full service offices in these markets and compete for loans and deposits with numerous commercial banks, savings and loan associations, and other financial institutions. The economic base of the region is developed around small business, health care, educational facilities (college and public schools), light manufacturing industries, and agriculture.

The Banks have a relatively stable deposit base and no material amount of deposits is obtained from a single depositor or group of depositors, excluding public entities that account for approximately 11% of total deposits. Although the Banks have regular opportunities to bid on pools of funds of $100,000 or more in the hands of municipalities, hospitals, and others, it does not rely on these monies to fund loans or intermediate or longer-term investments.

The Banks have not experienced any significant seasonal fluctuations in the amount of deposits.

Supervision and Regulation

As referenced elsewhere, the banking business is highly regulated, and the Banks are only able to engage in business activities, and to provide products and services, that are permitted by applicable law and regulation. In addition, the earnings of the Banks are affected by the policies of regulatory authorities including the FDIC and the FRB. An important function of the FRB is to regulate the money supply and interest rates. Among the instruments used to implement these objectives are open market operations in U.S. Government Securities, changes in reserve requirements against member bank deposits, and limitations on interest rates that member banks may pay on time and savings deposits. These instruments are used in varying combinations to influence overall growth and distribution of bank loans, and their use may also affect interest rates charged on loans or paid for deposits.

The policies and regulations of the FRB have had and will probably continue to have a significant effect on the Banks' deposits, loans and investment growth, as well as the rate of interest earned and paid, and are expected to affect the Banks' operation in the future. The effect of such policies and regulations upon the future business and earnings of the Banks cannot accurately be predicted.

ITEM 1A RISK FACTORS

The following sets forth several risk factors that may affect the Corporation's financial condition or results of operations.

Changes in interest rates could reduce our income, cash flows and asset values.

Our income and cash flows and the value of our assets depend to a great extent on the difference between the interest rates we earn on interest-earning assets, such as loans and investment securities, and the interest rates we pay on interest-bearing liabilities such as deposits and borrowings. These rates are highly sensitive to many factors which are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Board of Governors of the Federal Reserve System. Changes in monetary policy, including changes in interest rates, will influence not only the interest we receive on our loans and investment securities and the amount of interest we pay on deposits and borrowings but will also affect our ability to originate loans and obtain deposits and the value of our investment portfolio. If the rate of interest we pay on our deposits and other borrowings increases more than the rate of interest we earn on our loans and other investments, our net interest income, and therefore our earnings, could be adversely affected. Our earnings also could be adversely affected if the rates on our loans and other investments fall more quickly than those on our deposits and other borrowings.

Economic conditions either nationally or locally in areas in which our operations are concentrated may adversely affect our business.

Deterioration in local, regional, national, or global economic conditions could cause us to experience a reduction in deposits and new loans, an increase in the number of borrowers who default on their loans, and a reduction in the value of the collateral securing their loans, all of which could adversely affect our performance and financial condition. Unlike larger banks that are more geographically diversified, we provide banking and financial services locally. Therefore, we are particularly vulnerable to adverse local economic conditions.

Many of our loans are secured, in whole or in part, with real estate collateral which is subject to declines in value.

In addition to considering the financial strength and cash flow characteristics of a borrower, we often secure our loans with real estate collateral. Real estate values and the real estate market are generally affected by, among other things, changes in local, regional or national economic conditions, fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax laws and other governmental statutes, regulations and policies, and acts of nature. The real estate collateral provides an alternate source of repayment in the event of default by the borrower. If real estate prices in our markets decline, the value of the real estate collateral securing our loans could be reduced. If we are required to liquidate real estate collateral securing loans during a period of reduced real estate values to satisfy the debt, our earnings and capital could be adversely affected.

Our information systems may experience an interruption or breach in security.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer-relationship management, general ledger, deposit, loan and other systems. While we have policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of our information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur; or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions or security breaches of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny or expose us to civil litigation and possible financial liability; any of which could have a material adverse effect on our financial condition and results of operations.

We face the risk of cyber-attack to our computer systems.

Our computer systems, software and networks have been and will continue to be vulnerable to unauthorized access, loss or destruction of data (including confidential client information), account takeovers, unavailability of service, computer viruses or other malicious code, cyber-attacks and other events. These threats may derive from human error, fraud or malice on the part of employees or third parties, or may result from accidental technological failure. If one or more of these events occurs, it could result in the disclosure of confidential client information, damage to our reputation with our clients and the market, additional costs to us (such as repairing systems or adding new personnel or protection technologies), regulatory penalties and financial losses, to both us and our clients and customers. Such events could also cause interruptions or malfunctions in our operations (such as the lack of availability of our online banking system), as well as the operations of our clients, customers or other third parties. Although we maintain safeguards to protect against these risks, there can be no assurance that we will not suffer losses in the future that may be material in amount.

Competition may decrease our growth or profits.

We face substantial competition in all phases of our operations from a variety of different competitors, including commercial banks, savings and loan associations, mutual savings banks, credit unions, consumer finance companies, factoring companies, leasing companies, insurance companies, and money market mutual funds. There is very strong competition among financial services providers in our principal service area. Our competitors may have greater resources, higher lending limits, or larger branch systems than we do. Accordingly, they may be able to offer a broader range of products and services as well as better pricing for those products and services than we can.

In addition, some of the financial services organizations with which we compete are not subject to the same degree of regulation as is imposed on federally insured financial institutions. As a result, those non-bank competitors may be able to access funding and provide various services more easily or at less cost than we can, adversely affecting our ability to compete effectively.

The value of certain investment securities is volatile and future declines or other-than-temporary impairments could materially adversely affect our future earnings and regulatory capital.

Continued volatility in the market value for certain of our investment securities, whether caused by changes in market perceptions of credit risk, as reflected in the expected market yield of the security, or actual defaults in the portfolio could result in significant fluctuations in the value of the securities. This could have a material adverse impact on our accumulated other comprehensive income/loss and shareholders' equity depending on the direction of the fluctuations. Furthermore, future downgrades or defaults in these securities could result in future classifications of investment securities as other than temporarily impaired. This could have a material impact on our future earnings.

We may be adversely affected by government regulation.

The banking industry is heavily regulated. Banking regulations are primarily intended to protect the federal deposit insurance funds and depositors, not shareholders. Changes in the laws, regulations, and regulatory practices affecting the banking industry may increase our costs of doing business or otherwise adversely affect us and create competitive advantages for others. Regulations affecting banks and financial services companies undergo continuous change, and we cannot predict the ultimate effect of these changes, which could have a material adverse effect on our profitability or financial condition.

The potential exists for additional federal or state laws and regulations, or changes in policy, affecting many aspects of our operations, including capital levels, lending and funding practices, and liquidity standards. New laws and regulations may increase our costs of regulatory compliance and of doing business and otherwise affect our operations, and may significantly affect the markets in which we do business, the markets for and value of our loans and investments, the fees we can charge and our ongoing operations, costs and profitability.

We rely on our management and other key personnel, and the loss of any of them may adversely affect our operations.

We are and will continue to be dependent upon the services of our executive management team. In addition, we will continue to depend on our ability to retain and recruit key commercial loan officers. The unexpected loss of services of any key management personnel or commercial loan officers could have an adverse effect on our business and financial condition because of their skills, knowledge of our market, years of industry experience, and the difficulty of promptly finding qualified replacement personnel.

Environmental liability associated with lending activities could result in losses.

In the course of our business, we may foreclose on and take title to properties securing our loans. If hazardous substances were discovered on any of these properties, we could be liable to governmental entities or third parties for the costs of remediation of the hazard, as well as for personal injury and property damage. Many environmental laws can impose liability regardless of whether we knew of, or were responsible for, the contamination. In addition, if we arrange for the disposal of hazardous or toxic substances at another site, we may be liable for the costs of cleaning up and removing those substances from the site even if we neither own nor operate the disposal site. Environmental laws may require us to incur substantial expenses and may materially limit use of properties we acquire through foreclosure, reduce their value or limit our ability to sell them in the event of a default on the loans they secure. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability.

Failure to implement new technologies in our operations may adversely affect our growth or profits.

The market for financial services, including banking services and consumer finance services, is increasingly affected by advances in technology, including developments in telecommunications, data processing, computers, automation, Internet-based banking, and telebanking. Our ability to compete successfully in our markets may depend on the extent to which we are able to exploit such technological changes. However, we can provide no assurance that we will be able to properly or timely anticipate or implement such technologies or properly train our staff to use such technologies. Any failure to adapt to new technologies could adversely affect our business, financial condition, or operating results.

The Corporation is required to adopt the FASB's accounting standard which requires measurement of certain financial assets (including loans) using the current expected credit losses (CECL) beginning in calendar year 2023.

Current GAAP requires an incurred loss methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred. The FASB's amendment replaces the current incurred loss methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonableness and supportable information to inform credit loss estimates. The Corporation has evaluated the impact of the adoption of this guidance on the Corporation's financial statements and recorded a reduction in the allowance for loan losses on January 1, 2023 in the amount of $2,291,000 and an increase in a liability for unfunded commitments of $2,222,000.

External events, including natural disasters, national or global health emergencies, and events of armed conflict in other countries, and terrorist threats could impact our ability to do business or otherwise adversely affect our business, operations or financial condition.

Financial institutions, like other businesses, are susceptible to the effects of external events that can compromise operating and communications systems and otherwise have adverse effects. Such events, should they occur, can cause significant damage, impact the stability of our operations or facilities, result in additional expense, or impair the ability of our borrowers to repay their loans. Although we have established and regularly test disaster recovery procedures, the occurrence of any such event could have a material adverse effect on our business, operations, and financial condition. In addition, other external events, including natural disasters, health emergencies and epidemics or pandemics, such as the COVID-19 pandemic, and events of armed conflict in other parts of the world, such as the present armed conflict involving Ukraine and Russia, could adversely affect the global or regional economies resulting in unfavorable economic conditions in the United States. Any such development could have an adverse effect on our business, operations or financial condition.

An investment in our common stock is not an insured deposit.

Our common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund, or by any other public or private entity. Investment in our common stock is subject to the same market forces that affect the price of common stock in any company.

ITEM 1B UNRESOLVED STAFF COMMENTS

None.

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ITEM 2 PROPERTIES

The Corporation owns or leases its properties. Listed herewith are the locations of properties owned or leased as of December 31, 2022, in which the banking offices are located; all properties are in good condition and adequate for the Corporation's purposes:

Jersey Shore State Bank & Subsidiaries

Office	Address	Ownership
Main Street	115 South Main Street, PO Box 5098 Jersey Shore, PA 17740	Owned
Bridge Street	112 Bridge Street Jersey Shore, PA 17740	Owned
DuBoistown	2675 Euclid Avenue Williamsport, PA 17702	Owned
Williamsport	300 Market Street P.O. Box 967 Williamsport, PA 17703-0967	Owned
Montgomery	9094 Rt. 405 Highway Montgomery, PA 17752	Owned
Lock Haven	4 West Main Street Lock Haven, PA 17745	Owned
Mill Hall	(Inside Wal-Mart), 173 Hogan Boulevard Mill Hall, PA 17751	Under Lease
Centre Hall	2842 Earlystown Road Centre Hall, PA 16828	Land Under Lease
Zion	100 Cobblestone Road Bellefonte, PA 16823	Owned
State College	2050 North Atherton Street State College, PA 16803	Land Under Lease
Montoursville	820 Broad Street Montoursville, PA 17754	Owned
Danville	150 Continental Boulevard Danville, PA 17821	Under Lease
Loyalsock	1720 East Third Street Williamsport, PA 17701	Owned
Lewisburg	550 North Derr Drive Lewisburg, PA 17837	Owned
Muncy-Hughesville	3081 Route 405 Highway Muncy, PA 17756	Owned
Altoona	503 East Plank Road Altoona, PA 16602	Under Lease
Bellefonte	835 East Bishop Street Bellefone, PA 16823	Under Lease
The M Group, Inc. D/B/A The Comprehensive Financial Group	1720 East Third Street Williamsport, PA 17701	Owned

Luzerne Bank

Office	Address	Ownership
Dallas	509 Main Road Memorial Highway Dallas, PA 18612	Owned
Lake	Corners of Rt. 118 & 415 Dallas, PA 18612	Owned
Hazle Twp.	10 Dessen Drive Hazle Twp., PA 18202	Owned
Luzerne	118 Main Street Luzerne, PA 18709	Owned
Wilkes-Barre	67 Public Square Wilkes-Barre, PA 18701	Under Lease
Conyngham Valley	669 State Route 93 STE 5 Sugarloaf, PA 18249	Under Lease
Pittston	285 South Main Street Pittston, PA 18640	Under Lease
Forty Fort	1320 Wyoming Avenue Forty Fort, PA 18704	Under Lease

ITEM 3 LEGAL PROCEEDINGS

The Corporation is subject to lawsuits and claims arising out of its business in the ordinary course. In the opinion of management, after review and consultation with counsel, there are no legal proceedings currently pending or threatened that are reasonably likely to have a material adverse effect on the consolidated financial position or results of operations of the Corporation.

ITEM 4 MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5 MARKET FOR THE REGISTRANT'S COMMON STOCK, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

The Corporation's common stock is listed on the NASDAQ Global Select Market under the symbol "PWOD". The following table sets forth (1) the quarterly high and low closing sale prices for a share of the Corporation's common stock during the periods indicated, and (2) quarterly dividends on a share of the common stock with respect to each quarter since January 1, 2020.

	Price Range		Dividends
	High	Low	Declared
2022			
First quarter	$ 24.67	$ 23.64	$ 0.32
Second quarter	24.35	22.34	0.32
Third quarter	24.29	22.02	0.32
Fourth quarter	26.89	23.15	0.32
2021			
First quarter	$ 27.78	$ 20.55	$ 0.32
Second quarter	26.51	23.03	0.32
Third quarter	24.42	22.78	0.32
Fourth quarter	24.65	23.50	0.32
2020			
First quarter	$ 35.36	$ 19.05	$ 0.32
Second quarter	27.75	20.01	0.32
Third quarter	22.83	19.61	0.32
Fourth quarter	27.30	19.61	0.32

The Corporation has paid dividends since the effective date of its formation as a bank holding company. It is the present intention of the Corporation's board of directors to continue the dividend payment policy; however, further dividends must necessarily depend upon earnings, financial condition, appropriate legal restrictions, and other factors relevant at the time the board of directors of the Corporation considers dividend policy. Cash available for dividend distributions to shareholders of the Corporation primarily comes from dividends paid by JSSB and Luzerne to the Corporation. Therefore, the restrictions on the Banks' dividend payments are directly applicable to the Corporation. See also the information appearing in Note 19 to "Notes to Consolidated Financial Statements" for additional information related to dividend restrictions.

Under the Pennsylvania Business Corporation Law of 1988 a corporation may not pay a dividend, if after giving effect thereto, the corporation would be unable to pay its debts as they become due in the usual course of business and after giving effect thereto the total assets of the corporation would be less than the sum of its total liabilities plus the amount that would be needed, if the corporation were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of the shareholders whose preferential rights are superior to those receiving the dividend.

As of March 1, 2023, the Corporation had approximately 3,973 shareholders of record.

Following is a schedule of the shares of the Corporation's common stock purchased by the Corporation during the fourth quarter of 2022.

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Units) Purchased	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
Month #1 (October 1 - October 31, 2022)	—	$ —	—	324,000
Month #2 (November 1 - November 30, 2022)	—	—	—	324,000
Month #3 (December 1 - December 31, 2022)	—	—	—	324,000

ITEM 6 SELECTED FINANCIAL DATA

The following table sets forth certain financial data for each of the years in the five-year period ended December 31, 2022:

(In Thousands, Except Per Share Data Amounts)	2022	2021	2020	2019	2018
Consolidated Statement of Income Data:					
Interest income	$ 64,928	$ 58,414	$ 62,638	$ 66,774	$ 58,746
Interest expense	7,148	8,696	14,415	15,959	10,936
Net interest income	57,780	49,718	48,223	50,815	47,810
Provision for loan losses	1,910	640	2,625	2,735	1,735
Net interest income after provision for loan losses	55,870	49,078	45,598	48,080	46,075
Non-interest income	8,713	11,669	12,168	10,452	9,461
Non-interest expense	42,998	40,905	39,068	39,708	38,007
Income before income tax provision	21,585	19,842	18,698	18,824	17,529
Income tax provision	4,163	3,794	3,474	3,138	2,819
Consolidated net income	17,422	16,048	15,224	15,686	14,710
Earnings attributable to noncontrolling interest	—	15	18	14	6
Net income attributable to Penns Woods Bancorp, Inc.	$ 17,422	$ 16,033	$ 15,206	$ 15,672	$ 14,704
Consolidated Balance Sheet at End of Period:					
Total assets	$ 2,000,080	$ 1,940,809	$ 1,834,643	$ 1,665,323	$ 1,684,771
Loans	1,639,731	1,392,147	1,344,327	1,355,544	1,384,757
Allowance for loan losses	(15,637)	(14,176)	(13,803)	(11,894)	(13,837)
Deposits	1,556,460	1,621,315	1,494,443	1,324,005	1,219,903
Long-term debt	102,783	125,963	153,475	161,920	138,942
Shareholders' equity	167,665	172,274	164,142	154,960	143,536
Per Share Data:					
Earnings per share - basic	$ 2.47	$ 2.27	$ 2.16	$ 2.23	$ 2.09
Earnings per share - diluted	2.47	2.27	2.16	2.20	2.09
Cash dividends declared	1.28	1.28	1.28	1.26	1.25
Book value	23.76	24.37	23.27	22.01	20.39
Number of shares outstanding, at end of period	7,056,585	7,070,047	7,052,351	7,040,515	7,037,322
Weighted average number of shares outstanding - basic	7,059,437	7,061,818	7,044,542	7,038,714	7,035,381
Weighted average number of shares outstanding - diluted	7,059,437	7,061,818	7,044,542	7,113,339	7,035,381
Selected Financial Ratios:					
Return on average shareholders' equity	10.73 %	9.93 %	9.66 %	10.54 %	10.72 %
Return on average total assets	0.90 %	0.85 %	0.85 %	0.94 %	0.94 %
Net interest margin	3.24 %	2.85 %	2.94 %	3.31 %	3.31 %
Dividend payout ratio	51.87 %	56.39 %	59.32 %	56.27 %	59.97 %
Average shareholders' equity to average total assets	8.41 %	8.54 %	8.85 %	8.91 %	8.77 %
Loans to deposits, at end of period	105.35 %	85.87 %	89.96 %	102.38 %	113.51 %

ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

NET INTEREST INCOME

Net interest income is determined by calculating the difference between the yields earned on interest-earning assets and the rates paid on interest-bearing liabilities. To compare the tax-exempt asset yields to taxable yields, amounts are adjusted to taxable equivalents based on the marginal corporate federal tax rate of 21%. The tax equivalent adjustments to net interest income for 2022, 2021, and 2020 were $522,000, $449,000, and $476,000, respectively.

2022 vs. 2021

Reported net interest income increased $8,062,000 to $57,780,000 for the year ended December 31, 2022 compared to the year ended December 31, 2021, as the growth in the earning asset portfolio and decline in rate paid on interest-bearing liabilities more than offset a slight decrease in the yield on the loan portfolio to 3.95% from 3.98%. Total interest income increased $6,514,000 or $6,587,000 on a tax equivalent basis, primarily from growth in the loan portfolio. Tax equivalent interest income on the investment portfolio increased as legacy assets matured with the proceeds reinvested predominately into short and medium term municipal bonds carrying a higher yield than the legacy assets. The overall increase in the yield on the earning asset portfolio was driven by the impact of the rate increases enacted by the Federal Open Market Committee ("FOMC").

Interest expense decreased $1,548,000 to $7,148,000 for the year ended December 31, 2022 compared to 2021. The decrease in interest expense was driven by a 17 bp decrease in the average rate paid on interest-bearing deposits led by a 78 bp decrease in the average rate paid on time deposits coupled with a decrease of $82,359,000 in average time deposit balances. Interest expense on total borrowings increased $307,000 as utilization of short-term borrowings increased during the second half of 2022. The increase in average short-term borrowing balances was due to FHLB long-term borrowings totaling $23,000,000 maturing during the year ended December 31, 2022. In addition, short-term borrowings provided funding for the growth in the loan portfolio.

2021 vs. 2020

Reported net interest income increased $1,495,000 to $49,718,000 for the year ended December 31, 2021 compared to the year ended December 31, 2020, as the growth in the earning asset portfolio and decline in rate paid on interest-bearing liabilities more than offset a decrease in the yield on earning assets to 3.35% from 3.80%. Total interest income decreased $4,224,000 or $4,251,000 on a tax equivalent basis, primarily from a decrease in the tax equivalent yield on the loan portfolio decreasing 28 basis points ("bp"). Tax equivalent interest income on the investment portfolio decreased $541,000 as the yield on the investment portfolio decreased 54 bp. The decrease in the yield on the earning asset portfolio was driven by the impact of the continued low interest rate environment resulting from the COVID-19 pandemic.

Interest expense decreased $5,719,000 to $8,696,000 for the year ended December 31, 2021 compared to 2020. The decrease in interest expense was driven by a 51 bp decrease in the average rate paid on interest-bearing deposits led by a 61 bp decrease in the average rate paid on time deposits. The decrease in the average rate paid on interest-bearing deposits was offset by an increase in the balance of the average interest-bearing deposit portfolio of $51,034,000 while the average balance of the time deposit portfolio decreased $94,554,300. Interest expense on total borrowings decreased $699,000 as the balance of average total borrowings decreased $32,644,000 due to FHLB long-term borrowings totaling $30,000,000 maturing during the year ended December 31, 2021. The decrease in the overall rate paid on interest-bearing liabilities is the result of the continued low interest rate environment.

AVERAGE BALANCES AND INTEREST RATES

The following tables set forth certain information relating to the Corporation's average balance sheet and reflect the average yield on assets and average cost of liabilities for the periods indicated and the average yields earned and rates paid. Such yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods presented.

	2022			2021			2020		
(Dollars In Thousands)	Average Balance (1)	Interest	Average Rate	Average Balance (1)	Interest	Average Rate	Average Balance (1)	Interest	Average Rate
Assets:									
Tax-exempt loans (3)	$ 55,364	$ 1,441	2.60 %	$ 46,312	$ 1,308	2.82 %	$ 45,650	$ 1,441	3.16 %
All other loans (4)	1,439,550	57,544	4.00 %	1,299,321	52,199	4.02 %	1,304,209	56,079	4.30 %
Total loans (2)	1,494,914	58,985	3.95 %	1,345,633	53,507	3.98 %	1,349,859	57,520	4.26 %
Fed funds sold	32,863	465	1.41 %	28,395	202	0.71 %	—	—	— %
Taxable securities	156,584	4,455	2.88 %	148,066	4,083	2.80 %	142,714	4,630	3.30 %
Tax-exempt securities (3)	44,301	1,042	2.38 %	36,993	829	2.27 %	28,973	823	2.89 %
Total securities	200,885	5,497	2.77 %	185,059	4,912	2.69 %	171,687	5,453	3.23 %
Interest-bearing deposits	74,401	503	0.68 %	201,273	242	0.12 %	140,022	141	0.10 %
Total interest-earning assets	1,803,063	65,450	3.63 %	1,760,360	58,863	3.35 %	1,661,568	63,114	3.80 %
Other assets	128,213			129,582			118,536		
Total assets	$ 1,931,276			$ 1,889,942			$ 1,780,104		
Liabilities and shareholders' equity:									
Savings	$ 247,003	138	0.06 %	$ 225,637	116	0.05 %	$ 193,568	256	0.13 %
Super Now deposits	387,370	1,344	0.35 %	307,446	900	0.29 %	254,177	1,755	0.69 %
Money market deposits	289,820	1,105	0.38 %	305,883	972	0.32 %	245,633	1,529	0.62 %
Time deposits	161,982	1,103	0.68 %	244,341	3,557	1.46 %	338,895	7,025	2.07 %
Total interest-bearing deposits	1,086,175	3,690	0.34 %	1,083,307	5,545	0.51 %	1,032,273	10,565	1.02 %
Short-term borrowings	29,315	1,007	3.44 %	7,178	9	0.13 %	12,660	43	0.34 %
Long-term borrowings	110,027	2,451	2.32 %	135,474	3,142	2.32 %	162,636	3,807	2.34 %
Total borrowings	139,342	3,458	2.48 %	142,652	3,151	2.21 %	175,296	3,850	2.20 %
Total interest-bearing liabilities	1,225,517	7,148	0.58 %	1,225,959	8,696	0.71 %	1,207,569	14,415	1.19 %
Demand deposits	519,189			478,984			394,210		
Other liabilities	24,182			23,568			20,858		
Shareholders' equity	162,388			161,431			157,467		
Total liabilities and shareholders' equity	$ 1,931,276			$ 1,889,942			$ 1,780,104		
Interest rate spread			3.05 %			2.64 %			2.61 %
Net interest income/margin		$ 58,302	3.24 %		$ 50,167	2.85 %		$ 48,699	2.94 %

1. Information on this table has been calculated using average daily balance sheets to obtain average balances.
2. Non-accrual loans have been included with loans for the purpose of analyzing net interest earnings.
3. Income and rates on a fully taxable equivalent basis include an adjustment for the difference between annual income from tax-exempt obligations and the taxable equivalent of such income at the standard tax rate of 21% see reconciliation below.
4. Fees on loans are included with interest on loans as follows: 2022 - $529,000; 2021 - $852,000; 2020 - $695,000.

Reconciliation of Taxable Equivalent Net Interest Income

(In Thousands)	2022	2021	2020
Total interest income	$ 64,928	$ 58,414	$ 62,638
Total interest expense	7,148	8,696	14,415
Net interest income	57,780	49,718	48,223
Tax equivalent adjustment	522	449	476
Net interest income (fully taxable equivalent)	$ 58,302	$ 50,167	$ 48,699

Rate/Volume Analysis

The table below sets forth certain information regarding changes in our interest income and interest expense for the periods indicated. For interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (changes in average volume multiplied by old rate) and (ii) changes in rates (changes in rate multiplied by old average volume). Increases and decreases due to both interest rate and volume, which cannot be separated, have been allocated proportionally to the change due to volume and the change due to interest rate. Income and interest rates are on a taxable equivalent basis.

	Year Ended December 31,					
	2022 vs. 2021 Increase (Decrease) Due To			2021 vs. 2020 Increase (Decrease) Due To		
(In Thousands)	Volume	Rate	Net	Volume	Rate	Net
Interest income:						
Loans, tax-exempt	$ 168	$ (35)	$ 133	$ 2	$ (135)	$ (133)
Loans	5,356	(11)	5,345	(211)	(3,669)	(3,880)
Fed funds sold	37	226	263	202	—	202
Taxable investment securities	248	124	372	32	(579)	(547)
Tax-exempt investment securities	171	42	213	104	(98)	6
Interest-bearing deposits	(74)	335	261	30	71	101
Total interest-earning assets	5,906	681	6,587	159	(4,410)	(4,251)
Interest expense:						
Savings deposits	7	15	22	3	(143)	(140)
Super Now deposits	248	196	444	41	(896)	(855)
Money market deposits	(11)	144	133	58	(615)	(557)
Time deposits	(949)	(1,505)	(2,454)	(1,687)	(1,781)	(3,468)
Short-term borrowings	106	892	998	(14)	(20)	(34)
Long-term borrowings	(574)	(117)	(691)	(633)	(32)	(665)
Total interest-bearing liabilities	(1,173)	(375)	(1,548)	(2,232)	(3,487)	(5,719)
Change in net interest income	$ 7,079	$ 1,056	$ 8,135	$ 2,391	$ (923)	$ 1,468

PROVISION FOR LOAN LOSSES

2022 vs. 2021

The provision for loan losses is based upon management's quarterly review of the loan portfolio. The purpose of the review is to assess loan quality, identify impaired loans, analyze delinquencies, ascertain loan growth, evaluate potential charge-offs and recoveries, and assess general economic conditions in the markets served. An external independent loan review is also performed semi-annually for the Corporation. Management remains committed to an aggressive program of problem loan identification and resolution.

The allowance is calculated by applying loss factors to outstanding loans by type, excluding loans for which a specific allowance has been determined. Loss factors are based on management's consideration of the nature of the portfolio segments, changes in mix and volume of the loan portfolio, and historical loan loss experience. In addition, management considers industry standards and trends with respect to nonperforming loans and its knowledge and experience with specific lending segments.

Although management believes that it uses the best information available to make such determinations and that the allowance for loan losses is adequate at December 31, 2022, future adjustments could be necessary if circumstances or economic conditions differ substantially from the assumptions used in making the initial determinations. A downturn in the local economy or employment and delays in receiving financial information from borrowers could result in increased levels of nonperforming assets and charge-offs, increased loan loss provisions and reductions in interest income. Additionally, as an integral part of the examination process, bank regulatory agencies periodically review the Banks' loan loss allowance. The banking regulators could require additions to the loan loss allowance based on their judgment of information available to them at the time of their examination.

When determining the appropriate allowance level, management has attributed the allowance for loan losses to various portfolio segments; however, the allowance is available for the entire portfolio as needed.

The allowance for loan losses increased from $14,176,000 at December 31, 2021 to $15,637,000 at December 31, 2022. At December 31, 2022, the allowance for loan losses was 0.95% of total loans compared to 1.02% of total loans at December 31, 2021.

The provision for loan losses totaled $1,910,000 for the year ended December 31, 2022 compared to $640,000 for the year ended December 31, 2021. The increase in the provision was appropriate when considering gross loan growth of $247,584,000 and negative economic outlook offset by a reduction in non-performing loans and a low level of net charge-offs during 2022. Net charge-offs of $449,000 represented 0.03% of average loans for the year ended December 31, 2022 compared to net charge-offs of $267,000 or 0.02% of average loans for the year ended December 31, 2021. The provision related to the commercial real estate mortgage segment of the loan portfolio decreased as improvement in credit metrics offset the impact of portfolio growth. An increase occurred in the automobile segment of the loan portfolio due to portfolio growth and concerns regarding the impact of inflation on the customer base. Nonperforming loans decreased $1,360,000 due to a payoff of a nonperforming loan during 2022. The majority of the nonperforming loans are centered on several loans that are either in a secured position and have sureties with a strong underlying financial position and/or a specific allowance within the allowance for loan losses. Significant loan portfolio growth, internal loan review and analysis, level of net charge-offs, and decreased level of nonperforming loans noted previously, dictated an increase in the provision for loan losses while the allowance for loan losses as a percentage of gross loans decreased. Utilizing both internal and external resources, as noted, senior management has concluded that the allowance for loan losses remains at a level adequate to provide for probable losses inherent in the loan portfolio.

2021 vs. 2020

The allowance for loan losses increased from $13,803,000 at December 31, 2020 to $14,176,000 at December 31, 2021. At December 31, 2021, the allowance for loan losses was 1.02% of total loans compared to 1.03% of total loans at December 31, 2020.

The provision for loan losses totaled $640,000 for the year ended December 31, 2021 compared to $2,625,000 for the year ended December 31, 2020. The decrease in the provision was appropriate when considering the economic impact of the COVID-19 pandemic, reduction in non-performing loans, and level of net charge-offs during 2021. Net charge-offs of $267,000 represented 0.02% of average loans for the year ended December 31, 2021 compared to net charge-offs of $716,000 or 0.05% of average loans for the year ended December 31, 2020. The impact of the COVID-19 pandemic coupled with supply chain disruptions led to an increase in the provision related to the commercial real estate mortgage segment of the loan portfolio. A decrease occurred in the automobile segment of the loan portfolio which coupled with a lower level of unemployment led to a decreased allowance for loan losses for this segment. Nonperforming loans decreased $4,084,000 as the economic environment improved as COVID-19 restrictions lessened. The majority of the nonperforming loans are centered on several loans that are either in a secured position and have sureties with a strong underlying financial position and/or a specific allowance within the allowance for loan losses. Internal loan review and analysis, level of net charge-offs, decreased level of nonperforming loans noted previously, and the economic impact of the COVID-19 pandemic, dictated an decrease in the provision for loan losses. Utilizing both internal and external resources, as noted, senior management has concluded that the allowance for loan losses remains at a level adequate to provide for probable losses inherent in the loan portfolio.

NON-INTEREST INCOME

2022 vs. 2021

Total non-interest income decreased $2,956,000 from the year ended December 31, 2021 to December 31, 2022. Excluding net security gains, non-interest income decreased $1,932,000 year over year. Bank owned life insurance decreased primarily due to gains recognized on the receipt of death benefits in 2021. Gain on sale of loans and loan broker income decreased significantly as mortgage volume decreased due to the increase in interest rates caused by the rate increases enacted by the FOMC during 2022. Brokerage commissions decreased primarily due to the downturn in the stock market which led to decreased portfolio values and associated fees.

	2022		2021		Change	
(In Thousands)	Amount	% Total	Amount	% Total	Amount	%
Service charges	$ 2,103	24.14 %	$ 1,703	14.59 %	$ 400	23.49 %
Net debt securities (losses) gains, available for sale	(219)	(2.51)	699	5.99	(918)	(131.33)
Net equity securities losses	(146)	(1.68)	(40)	(0.35)	(106)	(265.00)
Bank owned life insurance	664	7.62	916	7.85	(252)	(27.51)
Gain on sale of loans	1,131	12.98	2,474	21.20	(1,343)	(54.28)
Insurance commissions	491	5.64	553	4.74	(62)	(11.21)
Brokerage commissions	620	7.12	851	7.29	(231)	(27.14)
Loan broker income	1,674	19.21	2,164	18.55	(490)	(22.64)
Debit card income	1,464	16.80	1,511	12.95	(47)	(3.11)
Other	931	10.68	838	7.19	93	11.10
Total non-interest income	$ 8,713	100.00 %	$ 11,669	100.00 %	$ (2,956)	(25.33)%

2021 vs. 2020

Total non-interest income decreased $499,000 from the year ended December 31, 2020 to December 31, 2021. Excluding net security gains, non-interest income increased $450,000 year over year. Bank owned life insurance increased primarily due to gains recognized on the receipt of death benefits. Debit card income increased $231,000 primarily due to an increase in debit card usage resulting from a lessening of COVID-19 restrictions and as consumers return to historical purchasing levels. Gain on sale of loans decreased as an increased proportion of secondary market loan originations were conducted in a broker capacity which resulted in other income increasing significantly.

	2021		2020		Change	
(In Thousands)	Amount	% Total	Amount	% Total	Amount	%
Service charges	$ 1,703	14.59 %	$ 1,690	13.89 %	$ 13	0.77 %
Net debt securities gains, available for sale	699	5.99	1,592	13.08	(893)	(56.09)
Net equity securities (losses) gains	(40)	(0.35)	16	0.13	(56)	(350.00)
Bank owned life insurance	916	7.85	653	5.37	263	40.28
Gain on sale of loans	2,474	21.20	4,148	34.09	(1,674)	(40.36)
Insurance commissions	553	4.74	416	3.42	137	32.93
Brokerage commissions	851	7.29	970	7.97	(119)	(12.27)
Loan broker income	2,164	18.55	673	5.53	1,491	221.55
Debit card income	1,511	12.95	1,280	10.52	231	18.05
Other	838	7.19	730	6.00	108	14.79
Total non-interest income	$ 11,669	100.00 %	$ 12,168	100.00 %	$ (499)	(4.10)%

NON-INTEREST EXPENSE

2022 vs. 2021

Total non-interest expenses increased $2,093,000 from the year ended December 31, 2021 to December 31, 2022. The increase in salaries and employee benefits was attributable to routine wage and benefit increases coupled with the hiring of additional commercial lenders. Occupancy and furniture and equipment expense decreased primarily due to a branch closure that occurred during the first quarter of 2022. Marketing expenses increased as loan product advertising levels increased. Other expenses increased primarily due to the proxy solicitation efforts related to an update to the articles of incorporation. The goodwill impairment is related to the wealth management unit (The M Group) as a decline in stock market valuations during 2022 resulted in a decreased level of net income for this entity.

	2022		2021		Change	
(In Thousands)	**Amount**	**% Total**	**Amount**	**% Total**	**Amount**	**%**
Salaries and employee benefits	$ 24,267	56.44 %	$ 23,014	56.26 %	$ 1,253	5.44 %
Occupancy	3,080	7.16	3,209	7.85	(129)	(4.02)
Furniture and equipment	3,288	7.65	3,522	8.61	(234)	(6.64)
Software amortization	840	1.95	868	2.12	(28)	(3.23)
Pennsylvania shares tax	1,452	3.38	1,350	3.30	102	7.56
Professional fees	2,434	5.66	2,432	5.95	2	0.08
Federal Deposit Insurance Corporation deposit insurance	938	2.18	963	2.35	(25)	(2.60)
Marketing	690	1.60	545	1.33	145	26.61
Intangible amortization	154	0.36	191	0.47	(37)	(19.37)
Goodwill impairment	653	1.52	—	—	653	n/a
Other	5,202	12.10	4,811	11.76	391	8.13
Total non-interest expense	$ 42,998	100.00 %	$ 40,905	100.00 %	$ 2,093	5.12 %

2021 vs. 2020

Total non-interest expenses increased $1,837,000 from the year ended December 31, 2020 to December 31, 2021. The increase in salaries and employee benefits was attributable to routine wage and benefit increases in addition to a return to full staffing levels as branch lobbies were temporarily closed during a period of 2020 due to the COVID-19 pandemic. Occupancy expense increased primarily due to increased depreciation and maintenance costs as certain projects were delayed due to the COVID-19 pandemic in 2020. Marketing expenses increased as advertising returned to normal levels after being reduced during 2020 due to the pandemic. Other expenses decreased as general office supply and miscellaneous expenses decreased year over year.

	2021		2020		Change	
(In Thousands)	**Amount**	**% Total**	**Amount**	**% Total**	**Amount**	**%**
Salaries and employee benefits	$ 23,014	56.26 %	$ 21,632	55.37 %	$ 1,382	6.39 %
Occupancy	3,209	7.85	2,650	6.78	559	21.09
Furniture and equipment	3,522	8.61	3,411	8.73	111	3.25
Software amortization	868	2.12	978	2.50	(110)	(11.25)
Pennsylvania shares tax	1,350	3.30	1,289	3.30	61	4.73
Professional fees	2,432	5.95	2,362	6.05	70	2.96
Federal Deposit Insurance Corporation deposit insurance	963	2.35	939	2.40	24	2.56
Marketing	545	1.33	261	0.67	284	108.81
Intangible amortization	191	0.47	227	0.58	(36)	(15.86)
Other	4,811	11.76	5,319	13.62	(508)	(9.55)
Total non-interest expense	$ 40,905	100.00 %	$ 39,068	100.00 %	$ 1,837	4.70 %

INCOME TAXES

2022 vs. 2021

The provision for income taxes for the year ended December 31, 2022 resulted in an effective income tax rate of 19.29% compared to 19.12% for 2021.

2021 vs. 2020

The provision for income taxes for the year ended December 31, 2021 resulted in an effective income tax rate of 19.12% compared to 18.58% for 2020.

FINANCIAL CONDITION

INVESTMENTS

2022

The fair value of the investment portfolio increased $27,117,000 from December 31, 2021 to December 31, 2022. The increase in value is the result of growth in the municipal segment of the portfolio as the investment portfolio continues to be actively managed in order to reduce interest rate and market risk. This strategy is being deployed through selective purchasing of bonds that mature within ten years. The unrealized losses within the debt securities portfolio are the result of market activity, not credit issues/ratings, as approximately 86% of the debt securities portfolio on an amortized cost basis is currently rated A or higher by either S&P or Moody's.

2021

The fair value of the investment portfolio increased $4,109,000 from December 31, 2020 to December 31, 2021. The increase in value is the result of growth in the municipal segment of the portfolio as the investment portfolio continues to be actively managed in order to reduce interest rate and market risk. This strategy is being deployed through selective purchasing of bonds that mature within ten years. The unrealized losses within the debt securities portfolio are the result of market activity, not credit issues/ratings, as approximately 85% of the debt securities portfolio on an amortized cost basis is currently rated A or higher by either S&P or Moody's.

The carrying amounts of investment securities are summarized as follows for the years ended December 31, 2022 and 2021:

	2022		2021	
(In Thousands)	Balance	% Portfolio	Balance	% Portfolio
Available for sale (AFS):				
U.S. Government agency securities	$ 2,896	1.49 %	$ —	— %
Mortgage-backed securities	1,282	0.66	1,747	1.04
State and political securities	142,809	73.30	116,658	69.56
Other debt securities	46,686	23.96	48,005	28.63
Total debt securities	193,673	99.41	166,410	99.23
Investment equity securities:				
Other equity securities	1,142	0.59	1,288	0.77
Total equity securities	1,142	0.59	1,288	0.77
Total	$ 194,815	100.00 %	$ 167,698	100.00 %

The following table shows the maturities and repricing of investment securities, at amortized cost and the weighted average yields (for tax-exempt obligations on a fully taxable basis assuming a 21% tax rate) at December 31, 2022:

(In Thousands)	One Year or Less	Over One Year Through Five Years	Over Five Years Through Ten Years	Over Ten Years	Amortized Cost Total
U.S. Government agency securities:					
Amortized cost	$ —	$ 3,002	$ —	$ —	$ 3,002
Yield	— %	3.00 %	— %	— %	3.00 %
Mortgage-backed securities:					
Amortized cost	—	—	—	1,496	1,496
Yield	— %	— %	— %	2.58 %	2.58 %
State and political securities:					
Amortized cost	16,948	76,051	53,312	5,115	151,426
Yield	1.70 %	2.19 %	3.13 %	4.10 %	2.53 %
Other debt securities:					
Amortized cost	5,286	30,643	14,249	—	50,178
Yield	2.70 %	2.71 %	3.86 %	— %	3.04 %
Total Amount	$ 22,234	$ 109,696	$ 67,561	$ 6,611	206,102
Total Yield	1.94 %	2.36 %	3.28 %	3.76 %	2.66 %
Equity Securities					
Investment equity amortized cost					1,350
Total Investment Portfolio Value					$ 207,452
Total Investment Portfolio Yield					2.64 %

All yields represent weighted average yields expressed on a tax equivalent basis. They are calculated on the basis of the cost, adjusted for amortization of premium and accretion of discount, and effective yields weighted for the scheduled maturity of each security. The taxable equivalent adjustment represents the difference between annual income from tax-exempt obligations and the taxable equivalent of such income at the standard 21% tax rate (derived by dividing tax-exempt interest by 79%).

The distribution of credit ratings by amortized cost and estimated fair value for the debt security portfolio at December 31, 2022 follows:

	A- to AAA		B- to BBB+		C to CCC+		Not Rated		Total	
(In Thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale										
U.S. Government and agency securities	$ 505	$ 478	$ —	$ —	$ —	$ —	$ 2,497	$ 2,418	$ 3,002	$ 2,896
Mortgage-backed securities	1,496	1,282	—	—	—	—	—	—	1,496	1,282
State and political securities	149,132	140,590	80	80	—	—	2,214	2,139	151,426	142,809
Other debt securities	25,441	23,414	6,359	5,832	—	—	18,378	17,440	50,178	46,686
Total debt securities	$ 176,574	$ 165,764	$ 6,439	$ 5,912	$ —	$ —	$ 23,089	$ 21,997	$ 206,102	$ 193,673

LOAN PORTFOLIO

2022

Gross loans of $1,639,731,000 at December 31, 2022 represented an increase of $247,584,000 from December 31, 2021. The residential segment increased primarily due to growth in home equity products. In addition the commercial real estate segment of the loan portfolio increased from the previous year as emphasis remains on this segment of the portfolio coupled with our entrance into the Altoona market during 2020. Indirect auto lending increased as supply chain issues that previously limited dealer activity lessened.

2021

Gross loans of $1,392,147,000 at December 31, 2021 represented an increase of $47,820,000 from December 31, 2020. The commercial real estate segment of the loan portfolio had the largest increase from the previous year as emphasis has been placed on this segment of the portfolio coupled with our entrance into the Altoona market during 2020. Indirect auto lending declined within the portfolio as supply chain issues limited dealer activity. Indirect auto lending and home equity lines are part of the overall strategy to maintain the duration of the earning asset portfolio in preparation for a rising interest rate environment.

The amounts of loans outstanding at the indicated dates are shown in the following table according to type of loan at December 31, 2022 and 2021:

	2022		2021	
(In Thousands)	**Amount**	**% Total**	**Amount**	**% Total**
Commercial, financial, and agricultural	$ 190,461	11.62 %	$ 163,285	11.73 %
Real estate mortgage:				
Residential	708,209	43.19	595,847	42.80
Commercial	500,632	30.53	446,734	32.09
Construction	43,308	2.64	37,295	2.68
Consumer Automobile	186,112	11.35	139,408	10.01
Other consumer installment loans	10,361	0.63	9,277	0.67
Net deferred loan fees and discounts	648	0.04	301	0.02
Gross loans	$ 1,639,731	100.00 %	$ 1,392,147	100.00 %

The amounts of domestic loans at December 31, 2022 are presented below by category and maturity:

		Real Estate					
(In Thousands)	**Commercial, financial, and agricultural**	**Residential**	**Commercial**	**Construction**	**Consumer automobile**	**Other consumer installment**	**Total**
Loans with variable interest rates:							
1 year or less	$ 4	$ 427	$ 2,739	$ 834	$ —	$ 521	$ 4,525
1 through 5 years	3,875	5,331	9,814	538	—	—	19,558
5 through 15 years	49,780	64,796	150,436	2,182	—	99	267,293
After 15 years	48,728	558,669	278,380	23,015	—	2,521	911,313
Total floating interest rate loans	102,387	629,223	441,369	26,569	—	3,141	1,202,689
Loans with fixed interest rates:							
1 year or less	2,077	262	931	178	1,722	571	5,741
1 through 5 years	42,100	3,882	8,213	3,120	88,113	4,237	149,665
5 through 15 years	38,303	12,470	42,175	9,520	96,277	2,412	201,157
After 15 years	5,594	62,372	7,944	3,921	—	—	79,831
Total fixed interest rate loans	88,074	78,986	59,263	16,739	186,112	7,220	436,394
Total	$ 190,461	$ 708,209	$ 500,632	$ 43,308	$ 186,112	$ 10,361	1,639,083
Net deferred loan fees and discounts							648
Total, net							$ 1,639,731

- The loan maturity information is based upon original loan terms and is not adjusted for "rollovers." In the ordinary course of business, loans maturing within one year may be renewed, in whole or in part, at interest rates prevailing at the date of renewal.
- Scheduled repayments are reported in maturity categories in which the payment is due.

The Banks do not make loans that provide for negative amortization, nor do any loans contain conversion features. The Banks did not have any foreign loans outstanding at December 31, 2022.

The following table shows the amount of accrual and nonaccrual TDRs at December 31, 2022 and 2021:

(In Thousands)	2022 Accrual	2022 Nonaccrual	2022 Total	2021 Accrual	2021 Nonaccrual	2021 Total
Commercial, financial, and agricultural	$ 294	$ 403	$ 697	$ 314	$ 574	$ 888
Real estate mortgage:						
Residential	3,668	173	3,841	3,999	178	4,177
Commercial	1,507	1,423	2,930	1,836	2,509	4,345
Construction	—	—	—	—	—	—
Other consumer installment loans	—	—	—	—	—	—
	$ 5,469	$ 1,999	$ 7,468	$ 6,149	$ 3,261	$ 9,410

ALLOWANCE FOR LOAN LOSSES

2022

The allowance for loan losses represents the amount which management estimates is adequate to provide for probable losses inherent in its loan portfolio as of the consolidated balance sheet date. All loan losses are charged to the allowance and all recoveries are credited to it per the allowance method of providing for loan losses. The allowance for loan losses is established through a provision for loan losses charged to operations. The provision for loan losses is based upon management's quarterly review of the loan portfolio. The purpose of the review is to assess loan quality, identify impaired loans, analyze delinquencies, ascertain loan growth, evaluate potential charge-offs and recoveries, and assess general economic conditions in the markets served. An external independent loan review is also performed semi-annually for the Banks. Management remains committed to an aggressive program of problem loan identification and resolution.

The allowance is calculated by applying loss factors to outstanding loans by type, excluding loans for which a specific allowance has been determined. Loss factors are based on management's consideration of the nature of the portfolio segments, changes in mix and volume of the loan portfolio, and historical loan loss experience. In addition, management considers industry standards and trends with respect to nonperforming loans and its knowledge and experience with specific lending segments.

The allowance for loan losses increased from $14,176,000 at December 31, 2021 to $15,637,000 at December 31, 2022. At December 31, 2022 and 2021, the allowance for loan losses to total loans was 0.95% and 1.02%, respectively. Net loan charge-offs of $449,000 or 0.03% of average loans for the year ended December 31, 2022 countered the impact of the provision for loan losses of $1,910,000. The allowance for loan losses increased primarily due to the significant growth in the gross loan portfolio of $247,584,000 or 17.78% from December 31, 2021 to 2022. Management concluded that the allowance for loan losses is adequate to provide for probable losses inherent in its loan portfolio as of the balance sheet date as noted in the provision for loan losses discussion.

Based on management's loan-by-loan review, the past performance of the borrowers, and current economic conditions, including recent business closures and bankruptcy levels, management does not anticipate any current losses related to nonaccrual, nonperforming, or classified loans above those that have already been considered in its overall judgment of the adequacy of the allowance for loan losses.

2021

The allowance for loan losses increased from $13,803,000 at December 31, 2020 to $14,176,000 at December 31, 2021. At December 31, 2021 and 2020, the allowance for loan losses to total loans was 1.02% and 1.03%, respectively. Net loan charge-offs of $267,000 or 0.02% of average loans for the year ended December 31, 2021 countered the impact of the provision for loan losses of $640,000. The allowance for loan losses remained stable as the gross loan portfolio increased 3.56% and the portfolio continued to be impacted by the economic uncertainty that has resulted from the COVID-19 pandemic. The COVID-19 pandemic has resulted in various businesses operating at less than 100% capacity and supply chain issues. Management concluded that the allowance for loan losses is adequate to provide for probable losses inherent in its loan portfolio as of the balance sheet date as noted in the provision for loan losses discussion.

Allocation of the Allowance For Loan Losses

(In Thousands)	December 31, 2022 Amount	December 31, 2022 Percentage of Loans in Each Category to Total Loans	December 31, 2021 Amount	December 31, 2021 Percentage of Loans in Each Category to Total Loans
Balance at end of period applicable to:				
Commercial, financial, and agricultural	$ 1,914	11.62 %	$ 1,946	11.73 %
Real estate mortgage:				
Residential	5,061	43.21	4,701	42.81
Commercial	6,110	30.54	5,336	32.10
Construction	188	2.64	179	2.68
Consumer automobiles	1,617	11.35	1,411	10.02
Other consumer installment loans	109	0.64	111	0.66
Unallocated	638	—	492	—
	$ 15,637	100.00 %	$ 14,176	100.00 %

Additional allowance for loan losses and net (charge-offs) recoveries is presented in the tables below.

(In Thousands)	Amount of Allowance for Loan Losses Allocated	Total loans	Allowance for Loan Losses to Total Loans Ratio	Net (Charge-Offs) Recoveries	Average Loans	Ratio of Net (Charge-Offs) Recoveries to Average Loans
December 31, 2022						
Commercial, financial, and agricultural	$ 1,914	$ 190,461	1.00 %	$ 165	$ 173,433	0.10 %
Real estate mortgage:						
Residential	5,061	708,209	0.71 %	26	649,989	— %
Commercial	6,110	500,632	1.22 %	(150)	466,526	(0.03)%
Construction	188	43,308	0.43 %	29	44,968	0.06 %
Consumer automobiles	1,617	186,112	0.87 %	(328)	150,261	(0.22)%
Other consumer installment loans	109	10,361	1.05 %	(191)	9,737	(1.96)%
Unallocated	638					
	$ 15,637	$ 1,639,083	0.95 %	$ (449)	$ 1,494,914	(0.03)%
Total non-accrual loans outstanding	$ 3,615					
Non-accrual loans to total loans outstanding	0.22 %					
Allowance for loan losses to non-accrual loans	432.56 %					

(In Thousands)	Amount of Allowance Allocated	Total loans	Allowance for Loan Losses to Total Loans Ratio	Net (Charge-Offs) Recoveries	Average Loans	Ratio of Net (Charge-Offs) Recoveries to Average Loans
December 31, 2021						
Commercial, financial, and agricultural	$ 1,946	$ 163,285	1.19 %	$ (10)	$ 175,631	(0.01)%
Real estate mortgage:						
Residential	4,701	595,847	0.79 %	(107)	584,849	(0.02)%
Commercial	5,336	446,734	1.19 %	95	381,306	0.02 %
Construction	179	37,295	0.48 %	10	41,564	0.02 %
Consumer automobiles	1,411	139,408	1.01 %	(143)	152,496	(0.09)%
Other consumer installment loans	111	9,277	1.20 %	(112)	9,787	(1.14)%
Unallocated	492					
	$ 14,176	$ 1,391,846	1.02 %	$ (267)	$ 1,345,633	(0.02)%
Total non-accrual loans outstanding	$ 5,389					
Non-accrual loans to total loans outstanding	0.39 %					
Allowance for loan losses to non-accrual loans	263.05 %					

(In Thousands)	Amount of Allowance Allocated	Total loans	Allowance for Loan Losses to Total Loans Ratio	Net (Charge-Offs) Recoveries	Average Loans	Ratio of Net (Charge-Offs) Recoveries to Average Loans
December 31, 2020						
Commercial, financial, and agricultural	$ 1,936	$ 164,743	1.18 %	$ (28)	$ 164,876	(0.02)%
Real estate mortgage:						
Residential	4,460	589,721	0.76 %	(205)	606,069	(0.03)%
Commercial	3,635	373,188	0.97 %	(64)	359,788	(0.02)%
Construction	134	39,309	0.34 %	11	41,423	0.03 %
Consumer automobiles	1,906	156,403	1.22 %	(321)	156,063	(0.21)%
Other consumer installment loans	261	19,940	1.31 %	(109)	21,640	(0.50)%
Unallocated	1,471					
	$ 13,803	$ 1,343,304	1.03 %	$ (716)	$ 1,349,859	(0.05)%
Total non-accrual loans outstanding	$ 9,122					
Non-accrual loans to total loans outstanding	0.68 %					
Allowance for loan losses to non-accrual loans	151.32 %					

Over the last three years, various quantitative and qualitative factors indicate changes in our provision for loan losses. The provision for commercial and agricultural loans decreased during 2022 due to levels and trends of nonaccrual loans in our portfolio and a decline in net charge-offs. The provision for residential real estate loans remained flat as the portfolio size increased but was offset by a decline in the level of net charge-offs. The provision for this loan type is adjusted by national indices as well as our historical losses. The provision for commercial real estate loans decreased primarily due to an improvement in portfolio credit metrics. The provision for consumer automobiles increased due to increased indirect loan volume and concerns regarding the impact of inflation on the customer base.

The provision for commercial and agricultural loans decreased during 2021 due to levels and trends of nonaccrual loans in our portfolio and a decline in net charge-offs. The provision for residential real estate loans remained flat as the porfolio size increased slightly and the level of net charge-offs declined modestly. The provision for this loan type is adjusted by national indices as well as our historical losses. The provision for commercial and construction real estate loans increased as the economic environment has continued to remain soft as the impact of the COVID-19 pandemic and associated supply chain issues is felt within the markets we serve. The provision for consumer automobiles decreased due to reduction in indirect loan volume and a decrease in portfolio size. The provision for other consumer installment loans has decreased as the portfolio declined to $9,277,000 at December 31, 2021 from $19,940,000 at December 31, 2020. The COVID-19 pandemic and associated supply chain issues has resulted in various businesses operating at less than 100% capacity. This has caused an increase in the risk profile of the commercial segment of the loan portfolio resulting in a provision shift from unallocated to the commercial real estate mortgage segment of the loan portfolio. Average loan amounts are calculated off of end of month balances.

NONPERFORMING LOANS

The decrease in nonperforming loans during 2022 is primarily due to a payoff of a nonaccrual loan. The majority of the nonperforming loans are centered on several loans that are either in a secured position and have sureties with a strong underlying financial position and/or a specific allowance within the allowance for loan losses.

The following table presents information concerning nonperforming loans. The accrual of interest will be discontinued when the principal or interest of a loan is in default for 90 days or more, or as soon as payment is questionable, unless the loan is well secured and in the process of collection. Consumer loans and residential real estate loans secured by 1 to 4 family dwellings are not ordinarily subject to those guidelines. The reversal of previously accrued but uncollected interest applicable to any loan placed in a nonaccrual status and the treatment of subsequent payments of either principal or interest is handled in accordance with GAAP. These principles do not require a write-off of previously accrued interest if principal and interest are ultimately protected by sound collateral values. A nonperforming loan may be restored to accruing status when:

1. Principal and interest is no longer due and unpaid;
2. It becomes well secured and in the process of collection; and
3. Prospects for future contractual payments are no longer in doubt.

	Total Nonperforming Loans		
(In Thousands)	**90 Days Past Due**	**Nonaccrual**	**Total**
2022	$ 1,275	$ 3,615	$ 4,890
2021	861	5,389	6,250

The level of non-accruing loans continues to fluctuate annually and is attributed to the various economic factors experienced both regionally and nationally. Overall, the portfolio is well secured with a majority of the balance making regular payments or scheduled to be satisfied in the near future. Presently, there are no significant loans where serious doubts exist as to the ability of the borrower to comply with the current loan payment terms which are not included in the nonperforming categories as indicated above.

Management’s judgment in determining the amount of the additions to the allowance charged to operating expense considers the following factors with no single factor being determinative:
1. Economic conditions and the impact on the loan portfolio;
2. Analysis of past loan charge-offs experienced by category and comparison to outstanding loans;
3. Effect of problem loans on overall portfolio quality; and
4. Reports of examination of the loan portfolio by the Department and the FDIC.

DEPOSITS

2022 vs. 2021

Total average deposits increased $43,073,000 or 2.76% from 2021 to 2022. Noninterest-bearing deposits average balance increased $40,205,000 as the focus was on core deposit gathering which led to a decrease in average time deposit balances of $82,359,000. The Bank had major deposit customers with a combined outstanding balances of approximately $112,228,000 and $74,874,000 million at December 31, 2022 and 2021, respectively.

2021 vs. 2020

Total average deposits increased $135,808,000 or 9.52% from 2020 to 2021. Noninterest-bearing deposits average balance increased $84,774,000 as customers received funding from various government programs that were designed to combat the effects of the COVID-19 pandemic while seeking safety in bank deposits.

The average amount and the average rate paid on deposits are summarized below for the years ended December 31, 2022, 2021, and 2020:

	2022		2021		2020	
(In Thousands)	Average Amount	Rate	Average Amount	Rate	Average Amount	Rate
Noninterest-bearing	$ 519,189	0.00 %	$ 478,984	0.00 %	$ 394,210	0.00 %
Savings	247,003	0.06	225,637	0.05	193,568	0.13
Super Now	387,370	0.35	307,446	0.29	254,177	0.69
Money Market	289,820	0.38	305,883	0.32	245,633	0.62
Time	161,982	0.68	244,341	1.46	338,895	2.07
Total average deposits	$ 1,605,364	0.23 %	$ 1,562,291	0.36 %	$ 1,426,483	0.74 %

The following table shows the scheduled maturities of time deposits that are in excess of the FDIC insurance limit as of December 31, 2022.

(In Thousands)	2022
Due within 3 months or less	$ 3,511
Due after 3 months and within 6 months	9,420
Due after 6 months and within 12 months	1,745
Due after 12 months	3,825
Total	$ 18,501

As of December 31, 2022 and 2021 the Company had $617,515,000 and $656,484,000, respectively, in uninsured deposits.

SHAREHOLDERS' EQUITY

2022

Shareholders' equity decreased $4,609,000 to $167,665,000 at December 31, 2022 compared to December 31, 2021. Accumulated other comprehensive loss of $13,958,000 at December 31, 2022 increased from a loss of $1,112,000 at December 31, 2021 as a result of a $9,819,000 net unrealized loss on available for sale securities at December 31, 2022 (compared to an unrealized gain of $2,373,000 at December 31, 2021) coupled with an increase in loss of $654,000 in the defined benefit plan obligation. The current level of shareholders' equity equates to a book value per share of $23.76 at December 31, 2022 compared to $24.37 at December 31, 2021, and an equity to asset ratio of 8.40% at December 31, 2022 and 8.88% at December 31, 2021. Dividends declared for the twelve months ended December 31, 2022 and 2021 were $1.28 per share.

2021

Shareholders' equity increased $8,128,000 to $172,274,000 at December 31, 2021 compared to December 31, 2020. Accumulated other comprehensive loss of $1,112,000 at December 31, 2021 increased from a loss of $882,000 at December 31, 2020 as a result of a decrease of $2,341,000 in the net unrealized gain on available for sale securities and a change in the defined benefit plan of $2,111,000. The current level of shareholders' equity equates to a book value per share of $24.37 at December 31, 2021 compared to $23.27 at December 31, 2020, and an equity to asset ratio of 8.88% at December 31, 2021 and 8.95% at December 31, 2020. Dividends declared for the twelve months ended December 31, 2021 and 2020 were $1.28 per share.

Bank regulators have risk based capital guidelines. Under these guidelines the Corporation and each Bank are required to maintain minimum ratios of core capital and total qualifying capital as a percentage of risk weighted assets and certain off-balance sheet items. At December 31, 2022, both the Corporation's and each Bank's required ratios were well above the minimum ratios (and including the current capital conservation buffer where applicable) as follows:

	Corporation	Jersey Shore State Bank	Luzerne Bank	Minimum Standards
Common equity tier 1 capital to risk-weighted assets	9.973 %	9.781 %	9.877 %	7.000 %
Tier 1 capital to risk-weighted assets	9.973 %	9.781 %	9.877 %	8.500 %
Total capital to risk-weighted assets	10.925 %	10.728 %	10.830 %	10.500 %
Tier 1 capital to average assets	8.636 %	8.383 %	8.260 %	4.000 %

For a more comprehensive discussion of these requirements, see "Regulation and Supervision" in Item 1 of the Annual Report on Form 10-K. Management believes that the Corporation and the Banks will continue to exceed regulatory capital requirements.

RETURN ON EQUITY AND ASSETS

The ratio of net income to average total assets and average shareholders' equity, and other certain equity ratios are presented as follows:

	2022	2021	2020
Percentage of net income to:			
Average total assets	0.90 %	0.85 %	0.85 %
Average shareholders' equity	10.73 %	9.93 %	9.66 %
Percentage of dividends declared to net income	51.87 %	56.39 %	59.32 %
Percentage of average shareholders' equity to average total assets	8.41 %	8.54 %	8.85 %

LIQUIDITY, INTEREST RATE SENSITIVITY, AND MARKET RISK

The Asset/Liability Committee addresses the liquidity needs of the Corporation to ensure that sufficient funds are available to meet credit demands and deposit withdrawals as well as to the placement of available funds in the investment portfolio. In assessing liquidity requirements, equal consideration is given to the current position as well as the future outlook.

The following liquidity measures are monitored for compliance and were within the limits cited at December 31, 2022.

1. Net Loans to Total Assets, 85% maximum
2. Net Loans to Total Deposits, 100% maximum
3. Cumulative 90 day Maturity GAP %, +/- 20% maximum
4. Cumulative 1 Year Maturity GAP %, +/- 25% maximum

Fundamental objectives of the Corporation's asset/liability management process are to maintain adequate liquidity while minimizing interest rate risk. The maintenance of adequate liquidity provides the Corporation with the ability to meet its financial obligations to depositors, loan customers, and shareholders. Additionally, it provides funds for normal operating expenditures and business opportunities as they arise. The objective of interest rate sensitivity management is to increase net interest income by managing interest sensitive assets and liabilities in such a way that they can be repriced in response to changes in market interest rates.

The Corporation, like other financial institutions, must have sufficient funds available to meet its liquidity needs for deposit withdrawals, loan commitments, and expenses. In order to control cash flow, the Corporation estimates future flows of cash from deposits and loan payments. The primary sources of funds are deposits, principal and interest payments on loans and mortgage-backed securities, as well as FHLB borrowings. Funds generated are used principally to fund loans and purchase investment securities. Management believes the Corporation has adequate resources to meet its normal funding requirements.

Management monitors the Corporation's liquidity on both a short and long-term basis, thereby providing management necessary information to react to current balance sheet trends. Cash flow needs are assessed and sources of funds are determined. Funding strategies consider both customer needs and economical cost. Both short and long term funding needs are addressed by maturities and sales of available for sale investment securities, loan repayments and maturities, and liquidating money market investments such as federal funds sold. The use of these resources, in conjunction with access to credit, provides core ingredients to satisfy depositor, borrower, and creditor needs.

Management monitors and determines the desirable level of liquidity. Consideration is given to loan demand, investment opportunities, deposit pricing and growth potential, as well as the current cost of borrowing funds. The Corporation has a current borrowing capacity at the FHLB of $761,089,000 with a total credit exposure of $290,288,000 utilized, leaving $470,801,000 available. In addition to this credit arrangement, the Corporation has additional lines of credit with correspondent banks of $100,000,000. The Corporation's management believes that it has sufficient liquidity to satisfy estimated short-term and long-term funding needs.

Interest rate sensitivity, which is closely related to liquidity management, is a function of the repricing characteristics of the Corporation's portfolio of assets and liabilities. Asset/liability management strives to match maturities and rates between loan and investment security assets with the deposit liabilities and borrowings that fund them. Successful asset/liability management results in a balance sheet structure which can cope effectively with market rate fluctuations. The matching process is affected by segmenting both assets and liabilities into future time periods (usually 12 months or less) based upon when repricing can be effected. Repriceable assets are subtracted from repriceable liabilities for a specific time period to determine the "gap" or difference. Once known, the gap is managed based on predictions about future market interest rates. Intentional mismatching, or gapping, can enhance net interest income if market rates move as predicted. However, if market rates behave in a manner contrary to predictions, net interest income will suffer. Gaps, therefore, contain an element of risk and must be prudently managed. In addition to gap management, the Corporation has an asset liability management policy which incorporates a market value at risk calculation which is used to determine the effects of interest rate movements on shareholders' equity and a simulation analysis to monitor the effects of interest rate changes on the Corporation's balance sheet.

The Corporation currently maintains a gap position of being asset sensitive. The Corporation has strategically taken this position as it has decreased the duration of the earning asset portfolio by adding quality short and intermediate term loans such as home equity loans and the selling of long-term municipal bonds. Lengthening of the liability portfolio is being undertaken to build protection in a rising rate environment.

A market value at risk calculation is utilized to monitor the effects of interest rate changes on the Corporation's balance sheet and more specifically shareholders' equity. The Corporation does not manage the balance sheet structure in order to maintain compliance with this calculation. The calculation serves as a guideline with greater emphasis placed on interest rate sensitivity. Changes to calculation results from period to period are reviewed as changes in results could be a signal of future events.

INTEREST RATE SENSITIVITY

In this analysis the Corporation examines the result of various changes in market interest rates in 100 basis point increments and their effect on net interest income. It is assumed that the change is instantaneous and that all rates move in a parallel manner. Assumptions are also made concerning prepayment speeds on mortgage loans and mortgage securities.

The following is a rate shock forecast for the twelve month period ending December 31, 2023 assuming a static balance sheet as of December 31, 2022.

	Parallel Rate Shock in Basis Points							
(In Thousands)	**(300)**	**(200)**	**(100)**	**Static**	**100**	**200**	**300**	**400**
Net interest income	$ 67,193	$ 70,074	$ 72,604	$ 74,427	$ 75,988	$ 77,534	$ 79,022	$ 80,417
Change from static	(7,234)	(4,353)	(1,823)	—	1,561	3,107	4,595	5,990
Percent change from static	-9.72 %	-5.85 %	-2.45 %	—	2.10 %	4.17 %	6.17 %	8.05 %

The model utilized to create the report presented above makes various estimates at each level of interest rate change regarding cash flow from principal repayment on loans and mortgage-backed securities and/or call activity on investment securities. Actual results could differ significantly from these estimates which would result in significant differences in the calculated projected change. In addition, the limits stated above do not necessarily represent the level of change under which management would undertake specific measures to realign its portfolio in order to reduce the projected level of change. Generally, management believes the Corporation is well positioned to respond expeditiously when the market interest rate outlook changes.

INFLATION

The asset and liability structure of a financial institution is primarily monetary in nature; therefore, interest rates rather than inflation have a more significant impact on the Corporation's performance. Interest rates are not always affected in the same direction or magnitude as prices of other goods and services, but are reflective of fiscal policy initiatives or economic factors that are not measured by a price index.

CRITICAL ACCOUNTING POLICIES

The Corporation's accounting policies are integral to understanding the results reported. The accounting policies are described in detail in Note 1 of the "Notes to Consolidated Financial Statements" included in Item 8 of this Annual Report on Form 10-K. Our most complex accounting policies require management's judgment to ascertain the valuation of assets, liabilities, commitments, and contingencies. We have established detailed policies and control procedures that are intended to ensure valuation methods are well controlled and applied consistently from period to period. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. The following is a brief description of our current accounting policies involving significant management valuation judgments.

Other Than Temporary Impairment of Debt Securities

Debt securities are evaluated periodically to determine whether a decline in their value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline, in addition to the reason underlying the decline, to determine whether the loss in value is other than temporary. The term "other than temporary" is not intended to indicate that the decline is permanent. It indicates that the prospects for a near term recovery of value are not necessarily favorable, or that there is a lack of evidence to support fair values equal to, or greater than, the carrying value of the investment. Once a decline in value is determined to be other than temporary, the value of the security is reduced and a corresponding charge to earnings is recognized. For a full discussion of the Corporation's methodology of assessing impairment, refer to Note 4 of the "Notes to Consolidated Financial Statements" included in Item 8 of this Annual Report on Form 10-K.

Allowance for Loan Losses

Arriving at an appropriate level of allowance for loan losses involves a high degree of judgment. The Corporation's allowance for loan losses provides for probable losses based upon evaluations of known and inherent risks in the loan portfolio.

Management uses historical information to assess the adequacy of the allowance for loan losses as well as the prevailing business environment; as it is affected by changing economic conditions and various external factors, which may impact the portfolio in ways currently unforeseen. The allowance is increased by provisions for loan losses and by recoveries of loans previously charged-off and reduced by loans charged-off. For a full discussion of the Corporation's methodology of assessing the adequacy of the reserve for allowance for loan losses, refer to Note 1 of the "Notes to Consolidated Financial Statements" included in Item 8 of this Annual Report on Form 10-K.

Goodwill and Other Intangible Assets

As discussed in Note 8 of the "Notes to Consolidated Financial Statements," the Corporation must assess goodwill and other intangible assets each year for impairment. This assessment involves estimating cash flows for future periods. If the future cash flows were less than the recorded goodwill and other intangible assets balances, we would be required to take a charge against earnings to write down the assets to the lower value.

Deferred Tax Assets

Management uses an estimate of future earnings to support their position that the benefit of their deferred tax assets will be realized. If future income should prove non-existent or less than the amount of the deferred tax assets within the tax years to which they may be applied, the asset may not be realized and the Corporation's net income will be reduced. The Corporation's deferred tax assets are described further in Note 12 of the "Notes to Consolidated Financial Statements" included in Item 8 of this Annual Report on Form 10-K.

Pension Benefits

Pension costs and liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, benefits earned, interest costs, expected return on plan assets, mortality rates, and other factors. In accordance with GAAP, actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect recognized expense and the recorded obligation of future periods. While management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect the Corporation's pension obligations and future expense. Our pension benefits are described further in Note 13 of the "Notes to Consolidated Financial Statements" included in Item 8 of this Annual Report on Form 10-K.

CONTRACTUAL OBLIGATIONS

The Corporation has various financial obligations, including contractual obligations which may require future cash payments. The following table presents, as of December 31, 2022, significant fixed and determinable contractual obligations to third parties by payment date. Further discussion of the nature of each obligation is included in the "Notes to Consolidated Financial Statements" included in Item 8 of this Annual Report on Form 10-K.

	Payments Due In				
(In Thousands)	**One Year or Less**	**One to Three Years**	**Three to Five Years**	**Over Five Years**	**Total**
Deposits without a stated maturity	$ 1,410,178	$ —	$ —	$ —	$ 1,410,178
Time deposits	80,101	55,046	9,767	1,368	146,282
Repurchase agreements	5,153	—	—	—	5,153
Short-term borrowings	148,196	—	—	—	148,196
Long-term borrowings	25,165	70,898	345	6,375	102,783
Operating leases	265	511	528	2,301	3,605

The Corporation's operating lease obligations represent short and long-term lease and rental payments for branch facilities and equipment. The Bank leases certain facilities under operating leases which expire on various dates through 2049. Renewal options are available on the majority of these leases.

CAUTIONARY STATEMENT FOR PURPOSES OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Report contains certain "forward-looking statements" including statements concerning plans, objectives, future events or performance and assumptions and other statements which are other than statements of historical fact. The Corporation cautions readers that the following important factors, among others in addition to the factors discussed in Item 1 - "Business" and in Item 1A - "Risk Factors", may have affected and could in the future affect the Corporation's actual results and could cause the Corporation's actual results for subsequent periods to differ materially from those expressed in any forward-looking statement made by or on behalf of the Corporation herein: (i) the effect of changes in laws and regulations, including federal and state banking laws and regulations, with which the Corporation must comply, and the associated costs of compliance with such laws and regulations either currently or in the future as applicable; (ii) the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies as well as by the Financial Accounting Standards Board; (iii) the effect on the Corporation's competitive position within its market area of the increasing consolidation within the banking and financial services industries, including the increased competition from larger regional and out-of-state banking organizations as well as non-bank providers of various financial services; (iv) the effect of changes in interest rates; (v) the effect of changes in the business cycle and downturns in the local, regional or national economies; and (vi) the effects of health emergencies, including the spread of infectious diseases or pandemics, and other external events, such as armed conflicts in other parts of the world, that could affect regional or global economies.

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk for the Corporation is comprised primarily from interest rate risk exposure and liquidity risk. Interest rate risk and liquidity risk management is performed at the Banks' level as well as the Corporation level. The Corporation's interest rate sensitivity is monitored by management through selected interest rate risk measures produced internally. Additional information and details are provided in the Interest Sensitivity section of Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Generally, management believes the Corporation is well positioned to respond expeditiously when the market interest rate outlook changes.

ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

PENNS WOODS BANCORP, INC.
CONSOLIDATED BALANCE SHEET

(In Thousands, Except Share Data)	December 31, 2022	December 31, 2021
ASSETS:		
Noninterest-bearing balances	$ 27,390	$ 19,233
Interest-bearing deposits in other financial institutions	12,943	194,629
Federal funds sold	—	50,000
Total cash and cash equivalents	40,333	263,862
Investment debt securities, available for sale, at fair value	193,673	166,410
Investment equity securities, at fair value	1,142	1,288
Restricted investment in bank stock, at cost	19,171	14,531
Loans held for sale	3,298	3,725
Loans	1,639,731	1,392,147
Allowance for loan losses	(15,637)	(14,176)
Loans, net	1,624,094	1,377,971
Premises and equipment, net	31,844	34,025
Accrued interest receivable	9,481	8,048
Bank-owned life insurance	34,452	33,768
Investment in limited partnerships	8,656	4,607
Goodwill	16,450	17,104
Intangibles	327	480
Operating lease right of use asset	2,651	2,851
Deferred tax assets	6,868	2,946
Other assets	7,640	9,193
TOTAL ASSETS	$ 2,000,080	$ 1,940,809
LIABILITIES:		
Interest-bearing deposits	$ 1,037,397	$ 1,126,955
Noninterest-bearing deposits	519,063	494,360
Total deposits	1,556,460	1,621,315
Short-term borrowings	153,349	5,747
Long-term borrowings	102,783	125,963
Accrued interest payable	603	651
Operating lease liability	2,708	2,898
Other liabilities	16,512	11,961
TOTAL LIABILITIES	1,832,415	1,768,535
SHAREHOLDERS' EQUITY:		
Preferred stock, no par value, 3,000,000 shares authorized; no shares issued	—	—
Common stock, par value $5.55, 22,500,000 shares authorized; 7,566,810 and 7,550,272 shares issued; 7,056,585 and 7,070,047 shares outstanding	42,039	41,945
Additional paid-in capital	54,252	53,795
Retained earnings	98,147	89,761
Accumulated other comprehensive (loss) gain:		
Net unrealized (loss) gain on available for sale securities	(9,819)	2,373
Defined benefit plan	(4,139)	(3,485)
Treasury stock at cost, 510,225 and 480,225 shares	(12,815)	(12,115)
TOTAL SHAREHOLDERS' EQUITY	167,665	172,274
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 2,000,080	$ 1,940,809

See accompanying notes to the consolidated financial statements.

PENNS WOODS BANCORP, INC.
CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31,		
(In Thousands, Except Per Share Data)	**2022**	**2021**	**2020**
INTEREST AND DIVIDEND INCOME:			
Loans, including fees	$ 58,682	$ 53,232	$ 57,217
Investment securities:			
Taxable	3,634	3,281	3,778
Tax-exempt	823	655	650
Dividend and other interest income	1,789	1,246	993
TOTAL INTEREST AND DIVIDEND INCOME	64,928	58,414	62,638
INTEREST EXPENSE:			
Deposits	3,690	5,545	10,565
Short-term borrowings	1,007	9	43
Long-term borrowings	2,451	3,142	3,807
TOTAL INTEREST EXPENSE	7,148	8,696	14,415
NET INTEREST INCOME	57,780	49,718	48,223
PROVISION FOR LOAN LOSSES	1,910	640	2,625
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	55,870	49,078	45,598
NON-INTEREST INCOME:			
Service charges	2,103	1,703	1,690
Net debt securities (losses) gains, available for sale	(219)	699	1,592
Net equity securities (losses) gains	(146)	(40)	16
Bank-owned life insurance	664	916	653
Gain on sale of loans	1,131	2,474	4,148
Insurance commissions	491	553	416
Brokerage commissions	620	851	970
Loan broker income	1,674	2,164	673
Debit card income	1,464	1,511	1,280
Other	931	838	730
TOTAL NON-INTEREST INCOME	8,713	11,669	12,168
NON-INTEREST EXPENSE:			
Salaries and employee benefits	24,267	23,014	21,632
Occupancy	3,080	3,209	2,650
Furniture and equipment	3,288	3,522	3,411
Software amortization	840	868	978
Pennsylvania shares tax	1,452	1,350	1,289
Professional fees	2,434	2,432	2,362
Federal Deposit Insurance Corporation deposit insurance	938	963	939
Marketing	690	545	261
Intangible amortization	154	191	227
Goodwill impairment	653	—	—
Other	5,202	4,811	5,319
TOTAL NON-INTEREST EXPENSE	42,998	40,905	39,068
INCOME BEFORE INCOME TAX PROVISION	21,585	19,842	18,698
INCOME TAX PROVISION	4,163	3,794	3,474
CONSOLIDATED NET INCOME	$ 17,422	$ 16,048	$ 15,224
Earnings attributable to noncontrolling interest	—	15	18
NET INCOME ATTRIBUTABLE TO PENNS WOODS BANCORP, INC.	$ 17,422	$ 16,033	$ 15,206
EARNINGS PER SHARE - BASIC	$ 2.47	$ 2.27	$ 2.16
EARNINGS PER SHARE - DILUTED	$ 2.47	$ 2.27	$ 2.16
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC	7,059,437	7,061,818	7,044,542
WEIGHTED AVERAGE SHARES OUTSTANDING - DILUTED	7,059,437	7,061,818	7,044,542

See accompanying notes to the consolidated financial statements.

PENNS WOODS BANCORP, INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year Ended December 31,		
(In Thousands)	**2022**	**2021**	**2020**
Net Income	$ 17,422	$ 16,048	$ 15,224
Other comprehensive (loss) income:			
Change in unrealized (loss) gain on available for sale securities	(15,652)	(2,264)	4,452
Tax effect	3,287	475	(935)
Net realized loss (gain) included in net income	219	(699)	(1,592)
Tax effect	(46)	147	334
(Accretion) amortization of unrecognized pension and post-retirement items	(827)	2,674	(461)
Tax effect	173	(563)	97
Total other comprehensive (loss) income	(12,846)	(230)	1,895
Comprehensive income	$ 4,576	$ 15,818	$ 17,119

See accompanying notes to the consolidated financial statements.

PENNS WOODS BANCORP, INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(In Thousands, Except Per Share Data)	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TREASURY STOCK	NON-CONTROLLING INTEREST	TOTAL SHAREHOLDERS' EQUITY
Balance, December 31, 2019	7,520,740	$ 41,782	$ 51,487	$ 76,583	$ (2,777)	$ (12,115)	$ 22	$ 154,982
Net income				15,206			18	15,224
Adoption of ASU 2016-01								—
Other comprehensive income					1,895			1,895
Stock-based compensation recognized in earnings			854					854
Dividends declared, (1.28 per share)				(9,020)				(9,020)
Common shares issued for employee stock purchase plan	3,972	21	65					86
Common shares issued for director compensation plan	7,864	44	117					161
Distributions to noncontrolling interest							(36)	(36)
Balance, December 31, 2020	7,532,576	41,847	52,523	82,769	(882)	(12,115)	4	164,146
Net income				16,033			15	16,048
Other comprehensive loss					(230)			(230)
Stock-based compensation recognized in earnings			960					960
Dividends declared, ($1.28 per share)				(9,041)				(9,041)
Common shares issued for employee stock purchase plan	3,850	21	66					87
Common shares issued for director compensation plan	13,846	77	244					321
Distributions to noncontrolling interest							(17)	(17)
Noncontrolling interest purchase			2				(2)	—
Balance, December 31, 2021	7,550,272	41,945	53,795	89,761	(1,112)	(12,115)	—	172,274
Net income				17,422				17,422
Other comprehensive loss					(12,846)			(12,846)
Cash settlement of options			(1,074)					(1,074)
Stock-based compensation recognized in earnings			1,231					1,231
Dividends declared, ($1.28 per share)				(9,036)				(9,036)
Common shares issued for employee stock purchase plan	3,617	20	62					82
Common shares issued for director compensation plan	12,921	74	238					312
Purchase of treasury stock (30,000 shares)						(700)		(700)
Balance, December 31, 2022	7,566,810	$ 42,039	$ 54,252	$ 98,147	$ (13,958)	$ (12,815)	$ —	$ 167,665

See accompanying notes to the consolidated financial statements.

PENNS WOODS BANCORP, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
(In Thousands)	**2022**	**2021**	**2020**
OPERATING ACTIVITIES:			
Net Income	$ 17,422	$ 16,048	$ 15,224
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,466	3,711	3,076
Goodwill impairment	653	—	—
Loss (gain) on sale of premises and equipment	301	18	(14)
Amortization of intangible assets	154	191	227
Provision for loan losses	1,910	640	2,625
Stock based compensation	1,231	960	854
Amortization of investment security discounts and premiums, net	1,140	1,142	793
Securities losses (gains), available for sale	219	(699)	(1,592)
Originations of loans held for sale	(39,388)	(85,938)	(131,775)
Proceeds of loans held for sale	40,946	89,926	134,916
Gain on sale of loans	(1,131)	(2,474)	(4,148)
Net equity securities losses (gains)	146	40	(16)
Security trades payable	(111)	(1,455)	(1,566)
Earnings on bank-owned life insurance	(664)	(916)	(653)
(Decrease) increase in deferred tax asset	(681)	(359)	309
Other, net	(1,720)	(2,912)	3,740
Net cash provided by operating activities	23,893	17,923	22,000
INVESTING ACTIVITIES:			
Investment debt securities available for sale:			
Proceeds from sales	5,557	17,947	20,767
Proceeds from calls, maturities and repayments	17,372	20,997	23,292
Purchases	(66,984)	(46,499)	(54,043)
Net (increase) decrease in loans	(248,130)	(48,170)	10,269
Acquisition of premises and equipment	(377)	(1,137)	(2,668)
Proceeds from sale of premises and equipment	150	2	336
Proceeds from the sale of foreclosed assets	120	335	226
Purchase of bank-owned life insurance	(22)	(30)	(3,970)
Distribution of non-controlling interest	—	(25)	—
Proceeds from bank-owned life insurance death benefit	2	825	248
Investment in limited partnership	(695)	(1,070)	(3,347)
Proceeds from redemption of regulatory stock	11,282	3,143	3,561
Purchases of regulatory stock	(15,922)	(2,297)	(5,410)
Net cash used for investing activities	(297,647)	(55,979)	(10,739)
FINANCING ACTIVITIES:			
Net (decrease) increase in interest-bearing deposits	(89,558)	81,869	55,827
Net increase in noninterest-bearing deposits	24,703	45,003	114,611
Proceeds from long-term borrowings	—	—	35,000
Repayment of long-term borrowings	(23,000)	(30,000)	(43,333)
Net increase in short-term borrowings	147,602	503	324
Finance lease principal payments	(180)	(165)	(112)
Dividends paid	(9,036)	(9,041)	(9,020)
Distributions to non-controlling interest	—	(17)	(36)
Issuance of common stock	394	408	247
Purchase of treasury stock	(700)	—	—
Net cash provided by financing activities	50,225	88,560	153,508
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(223,529)	50,504	164,769
CASH AND CASH EQUIVALENTS, BEGINNING	263,862	213,358	48,589
CASH AND CASH EQUIVALENTS, ENDING	$ 40,333	$ 263,862	$ 213,358

See accompanying notes to the consolidated financial statements.

	Year Ended December 31,		
(In Thousands)	2022	2021	2020
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Interest paid	$ 7,196	$ 9,157	$ 14,974
Income taxes paid	3,001	4,236	2,945
Transfer of loans to foreclosed real estate	97	83	232

Right of use lease assets obtained in exchange for lessee finance lease liabilities	—	2,653	—
Recognition of low-income housing tax asset	3,873	—	—
Recognition of commitment on low-income housing project	3,873	—	—

See accompanying notes to the consolidated financial statements.

PENNS WOODS BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Penns Woods Bancorp, Inc. and its wholly owned subsidiaries, Jersey Shore State Bank ("JSSB"), Luzerne Bank ("Luzerne" and collectively with JSSB , the "Banks"), Woods Real Estate Development Co., Inc., Woods Investment Company, Inc., United Insurance Solutions, LLC, and The M Group Inc. D/B/A The Comprehensive Financial Group ("The M Group"), a wholly owned subsidiary of JSSB (collectively, the "Corporation"). All significant intercompany balances and transactions have been eliminated.

Nature of Business

The Banks engage in a full-service commercial banking business, making available to the community a wide range of financial services including, but not limited to, installment loans, credit cards, mortgage and home equity loans, lines of credit, construction financing, farm loans, community development loans, loans to non-profit entities and local government, and various types of demand and time deposits including, but not limited to, checking accounts, savings accounts, money market deposit accounts, certificates of deposit, and IRAs. Deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") to the extent provided by law.

The financial services are provided by the Banks to individuals, partnerships, non-profit organizations, and corporations through their twenty-five offices located in Clinton, Lycoming, Centre, Montour, Union, Blair, and Luzerne Counties, Pennsylvania.

Woods Real Estate Development Co., Inc. engages in real estate transactions on behalf of Penns Woods Bancorp, Inc. and the Banks.

Woods Investment Company, Inc., a Delaware holding company, is engaged in investing activities.

The M Group engages in securities brokerage and financial planning services, which include the sale of life insurance products, annuities, and estate planning services.

United Insurance Solutions, LLC offers property and casualty and auto insurance products within the Corporation's market footprint. The Corporation became the sole owner of United Insurance Solutions, LLC when it purchased the outstanding 20% minority interest on October 1, 2021.

Operations are managed and financial performance is evaluated on a corporate-wide basis. Accordingly, all financial service operations are considered by management to be aggregated in one reportable operating segment.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, valuation of net deferred tax assets, impairment of goodwill, other than temporary impairment of debt securities, fair value of financial instruments, and the valuation of real estate acquired through, or in lieu of, foreclosure on settlement of debt.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in banks and federal funds sold. Interest-earning deposits mature within 90 days and are carried at cost. Net cash flows are reported for loan, deposit, and short-term borrowing transactions.

Restrictions on Cash and Cash Equivalents

Based on deposit levels, the Banks must maintain cash and other reserves with the Federal Reserve Bank of Philadelphia ("FRB").

Investment Securities

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

Securities are periodically reviewed for other-than-temporary impairment based upon a number of factors, including, but not limited to, the length of time and extent to which the fair value has been less than cost, the financial condition of the underlying issuer, the ability of the issuer to meet contractual obligations, the likelihood of the security's ability to recover any decline in its fair value, whether it is more likely than not that the Corporation would be required to sell the security before its anticipated recovery in fair value, and a review of the Corporation's capital adequacy, interest rate risk position, and liquidity. The assessment of a security's ability to recover any decline in fair value, the ability of the issuer to meet contractual obligations, and management's intent and ability requires considerable judgment. A decline in value that is considered to be other-than-temporary is recorded as a loss within non-interest income in the Consolidated Statement of Income.

Fair values of investment securities are based on observed market prices. Certain investment securities do not have observed bid prices and their fair value is based on instruments with similar risk elements. Since regulatory stock is redeemable at par, the Corporation carries it at cost.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are stated at the principal amount outstanding, net of deferred fees and discounts, unamortized loan fees and costs, and the allowance for loan losses. Interest on loans is recognized as income when earned on the accrual method. The Corporation's general policy has been to stop accruing interest on loans when it is determined a reasonable doubt exists as to the collectability of additional interest. Income is subsequently recognized only to the extent that cash payments are received provided the loan is not delinquent in payment and, in management's judgment, the borrower has the ability and intent to make future principal payments. Otherwise, payments are applied to the unpaid principal balance of the loan. Loans are restored to accrual status if certain conditions are met, including but not limited to, the repayment of all unpaid interest and scheduled principal due, ongoing performance consistent with the contractual agreement, and the future expectation of continued, timely payments.

Loan origination and commitment fees as well as certain direct loan origination costs are being deferred and amortized as an adjustment to the related loan's yield over the contractual lives of the related loans.

Allowance for Loan Losses

The allowance for loan losses represents the amount which management estimates is adequate to provide for probable losses inherent in its loan portfolio as of the Consolidated Balance Sheet date. The allowance method is used in providing for loan losses. Accordingly, all loan losses are charged to the allowance and all recoveries are credited to it. The allowance for loan losses is established through a provision for loan losses charged to operations. The provision for loan losses is based upon management's quarterly review of the loan portfolio. The purpose of the review is to assess loan quality, identify impaired loans, analyze delinquencies, ascertain loan growth, evaluate potential charge-offs and recoveries, and assess general economic conditions in the markets served. An external independent loan review is also performed semi-annually for the Bank. Management remains committed to an aggressive program of problem loan identification and resolution.

The allowance is calculated by applying loss factors to outstanding loans by type, excluding loans for which a specific allowance has been determined. Loss factors are based on management's consideration of the nature of the portfolio segments, changes in mix and volume of the loan portfolio, historical loan loss experience, and general economic conditions. In addition, management considers industry standards and trends with respect to nonperforming loans and its knowledge and experience with specific lending segments.

Although management believes that it uses the best information available to make such determinations and that the allowance for loan losses is adequate at December 31, 2022, future adjustments could be necessary if circumstances or economic conditions differ substantially from the assumptions used in making the initial determinations. A downturn in the local economy, rising unemployment, or negative performance trends in financial information from borrowers could be indicators of subsequent increased levels of nonperforming assets and possible charge-offs, which would normally require increased loan loss provisions. An integral part of the periodic regulatory examination process is the review of the adequacy of the Banks' loan loss allowance. The regulatory agencies could require the Banks, based on their evaluation of information available at the time of their examination, to provide additional loan loss provisions to further supplement the allowance.

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

Mortgage loans on one-to-four family properties and all consumer loans are large groups of smaller-balance homogeneous loans and are measured for impairment collectively. Loans that experience insignificant payment delays, which are defined as 90 days or less, generally are not classified as impaired. Management determines the significance of payment delays on a case-by-case basis taking into consideration all circumstances surrounding the loan and the borrower including the length of the delay, the borrower's prior payment record, and the amount of shortfall in relation to the principal and interest owed.

Loan Charge-off Policies

Loans are generally fully or partially charged down to the fair value of collateral securing the asset when:

- management judges the asset to be uncollectible;
- repayment is deemed to be protracted beyond reasonable time frames;
- the asset has been classified as a loss by either the internal loan review process or external examiners;
- the borrower has filed bankruptcy and the loss becomes evident due to a lack of assets; or
- the loan is 180 days past due unless both well secured and in the process of collection.

Troubled Debt Restructurings

In situations where, for economic or legal reasons related to a borrower's financial difficulties, management may grant a concession for other than an insignificant period of time to the borrower that would not otherwise be considered, the related loan is classified as a troubled debt restructuring ("TDR"). Management strives to identify borrowers in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance, and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans.

In addition to the allowance for the pooled portfolios, management has developed a separate allowance for loans that are identified as impaired through a TDR. These loans are excluded from pooled loss forecasts and a separate reserve is provided under the accounting guidance for loan impairment. Consumer loans whose terms have been modified in a TDR are also individually analyzed for estimated impairment.

Loans Held for Sale

In general, fixed rate residential mortgage loans originated by the Banks are held for sale and are carried at cost due to their short holding period, which can range from less than two weeks to a maximum of thirty days. Sold loans are not serviced by the Banks. Proceeds from the sale of loans in excess of the carrying value are accounted for as a gain. Total gains on the sale of loans are shown as a component of non-interest income within the Consolidated Statement of Income.

Foreclosed Assets

Foreclosed assets are carried at the lower of cost or fair value less estimated selling costs. Prior to foreclosure, the value of the underlying loan is written down to the fair value of the real estate to be acquired by a charge to the allowance for loan losses, if necessary. Any subsequent write-downs are charged against operating expenses. Net operating expenses and gains and losses realized from disposition are included in non-interest expense and income, respectively, within the Consolidated Statement of Income.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using straight-line and accelerated methods over the estimated useful lives of the related assets, which range from five to ten years for furniture, fixtures, and equipment and fifteen to forty years for buildings and improvements. Costs incurred for routine maintenance and repairs are charged to operations as incurred. Costs of major additions and improvements are capitalized.

Bank-Owned Life Insurance

The Corporation has purchased life insurance policies on certain officers and directors. Bank-owned life insurance is recorded at its cash surrender value, or the amount that can be realized. Increases in the cash surrender value are recognized as a component of non-interest income within the Consolidated Statement of Income.

Goodwill

The Corporation performs an annual impairment analysis of goodwill for its purchased subsidiaries, Luzerne Bank and The M Group. Based on the fair value of these reporting units, estimated using the expected present value of future cash flows, an impairment of goodwill was recognized in 2022 of $653,000 related to The M Group. No impairment of goodwill was recognized in 2021 or 2020.

Intangible Assets

At December 31, 2022, the Corporation had intangible assets of $15,000 as a result of the acquisition of Luzerne National Bank Corporation, which is net of accumulated amortization of $1,999,000. These intangible assets will continue to be amortized using the sum-of-the-years digits method of amortization over ten years. The Corporation also had intangible assets of $312,000, which is net of accumulated amortization of $708,000, as a result of the purchase of two books of business related to investment product sales. The book of business intangible is being amortized using the straight-line method over a period of ten years.

Investments in Limited Partnerships

The Corporation was a limited partner in two partnerships at December 31, 2022 that provides low income elderly housing in the Corporation's geographic market area. The carrying value of the Corporation's investment in the limited partnerships was $8,656,000 at December 31, 2022 and $4,607,000 at December 31, 2021. The investments will be amortized over the ten-year tax credit receipt period. During 2021, one of the partnerships reached the level of occupancy needed to begin the ten year tax credit recognition period with $519,000 and $407,000 in amortization recognized in 2022 and 2021. The Corporation recognized a liability during 2022 in the amount of $3,873,000 for future equity contributions to be made to one of the partnerships.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Corporation enters into off-balance sheet financial instruments. Those instruments consist of commitments to extend credit and standby letters of credit. When those instruments are funded or become payable, the Corporation reports the amounts in its financial statements.

Marketing Cost

Marketing costs are generally expensed as incurred.

Income Taxes

The Corporation 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 fifty 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.

Deferred tax assets and liabilities result from temporary differences in financial and income tax methods of accounting, and are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. The Corporation analyzed its deferred tax asset position and determined that there was not a need for a valuation allowance due to the Corporation’s ability to generate future ordinary and capital taxable income.

The Corporation when applicable recognizes interest and penalties on income taxes as a component of income tax provision.

Earnings Per Share

The Corporation provides dual presentation of basic and diluted earnings per share. Basic earnings per share is calculated utilizing net income as reported in the numerator and weighted average shares outstanding in the denominator. The computation of diluted earnings per share differs in that the dilutive effects of any stock options are adjusted in the denominator.

Employee Benefits

Pension and employee benefits include contributions, determined actuarially, to a defined benefit retirement plan covering the eligible employees of JSSB. The plan is funded on a current basis to the extent that it is deductible under existing federal tax regulations. Pension and other employee benefits also include contributions to a defined contribution Section 401(k) plan covering eligible employees. Contributions matching those made by eligible employees are funded throughout the year. In addition, an elective contribution may be made annually at the discretion of the board of directors.

The M Group Products and Income Recognition

The M Group product line is comprised primarily of annuities, life insurance, and mutual funds. The revenues generated from life insurance sales are commission only, as The M Group does not underwrite the policies. Life insurance sales include permanent and term policies with the majority of the policies written being permanent. Term life insurance policies are written for 10, 15, 20, and 30 year terms with the majority of the policies being written for 20 years. None of these products are offered as an integral part of lending activities.

Commissions from the sale of annuities are recognized at the time notice is received from the third party broker/dealer or an insurance company that the transaction has been accepted and approved, which is also the time when commission income is received.

Life insurance commissions are recognized at varying points based on the payment option chosen by the customer. Commissions from monthly and annual payment plans are recognized at the start of each annual period for the life insurance, while quarterly and semi-annual premium payments are recognized quarterly and semi-annually when the earnings process is complete. For example, semi-annual payments on the first of January and July would result in commission income recognition on the first of January and July, while payments on the first of January, April, July, and October would result in commission income recognition on those dates. The potential for chargebacks only exists for those policies on a monthly payment plan since income is recognized at the beginning of the annual coverage period versus at the time of each monthly payment. No liability is maintained for chargebacks as these are removed from income at the time of the occurrence.

Accumulated Other Comprehensive Income (Loss)

The Corporation is required to present accumulated other comprehensive income (loss) in a full set of general-purpose financial statements for all periods presented. Accumulated other comprehensive income (loss) is comprised of unrealized holding gains (losses) on the available for sale securities portfolio and the unrecognized components of net periodic benefit costs of the defined benefit pension plan.

Segment Reporting

The Corporation has determined that its only reportable segment is Community Banking.

Reclassification of Comparative Amounts

Certain items previously reported have been reclassified to conform to the current year's reporting format. Such reclassifications did not affect net income or shareholders' equity.

Recent Accounting Pronouncements Not Yet Adopted

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments, which changes the impairment model for most financial assets. This standard, along with several other subsequent codification updates, replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses that are expected to occur over the remaining life of a financial asset and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments in this update require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The new current expected credit losses model ("CECL") will apply to the allowance for loan losses, available-for-sale and held-to-maturity debt securities, purchased financial assets with credit deterioration and certain off-balance sheet credit exposures.

Management has completed its implementation plan, segmentation and testing, and model validation. The implementation plan included drafting of additional controls and policies to govern data uploads to its third- party vendor, balancing and reconciling, testing and auditing of inputs, and review and decision-making surrounding segmentation, methodologies, qualitative factor adjustments, and reasonable and supportable forecasts and reversion techniques. Parallel runs were processed during 2022 and the results were consistent with management's expectations. The implementation plan is currently going through the Company's control structure and internal control testing is being performed.

As a result of adopting this standard, the Company has completed the calculation and is in the process of finalizing the review over the January 1, 2023 assumptions and outputs of the model as well as the final qualitative factor adjustments, which will determine the total amount of the allowance for credit losses and the reserves for unfunded commitments. These estimates are subject to refinements based on our final review as well as prevailing economic conditions and forecasts as of the adoption date. While we do expect an adjustment related to the allowance for credit losses on our outstanding loans as well as our off-balance sheet commitments, we do not expect the impact of adoption to have a significant impact on the Company's regulatory capital ratios.

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment*. To simplify the subsequent measurement of goodwill, the FASB eliminated Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in this Update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The Update is effective for smaller reporting companies and all other entities for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. This Update is not expected to have a significant impact on the Company's financial statements.

In January 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, March 2020, to provide temporary optional expedients and exceptions to the U.S. GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens of the expected market transition from LIBOR and other interbank offered rates to alternative reference rates, such as the Secured Overnight Financing Rate. Entities can elect not to apply certain modification accounting requirements to contracts affected by what the guidance calls "reference rate reform" if certain criteria are met. An entity that makes this election would not have to remeasure the contracts at the modification date or reassess a previous accounting determination. Also, entities can elect various optional expedients that would allow them to continue applying hedge accounting for hedging relationships affected by reference rate reform if certain criteria are met, and can make a one- time election to sell and/or reclassify held-to-maturity debt securities that reference an interest rate affected by reference rate reform. The amendments in this ASU are effective for all entities upon issuance through December 31, 2022. In December 2022, the FASB issued ASU 2022-06, Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848, which extends the sunset (or expiration) date of Accounting Standards Codification (ASC) Topic 848 to December 31, 2024. This gives reporting entities two additional years to apply the accounting relief provided under ASC Topic 848 for matters related to reference rate reform. ASU 2022-06 is effective for all reporting entities immediately upon issuance and must be applied on a prospective basis. This Update is not expected to have a significant impact on the Company's financial statements.

In August 2020, the FASB issued ASU 2020-06, Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40), which simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity's own equity. This ASU removes from U.S. GAAP the separation models for (1) convertible debt with a cash conversion feature and (2) convertible instruments with a beneficial conversion feature. As a result, entities will not separately present in equity an embedded conversion feature in such debt. Instead, they will account for a convertible debt instrument wholly as debt, and for convertible preferred stock wholly as preferred stock (i.e., as a single unit of account), unless (1) a convertible instrument contains features that require bifurcation as a derivative under ASC 815 or (2) a convertible debt instrument was issued at a substantial premium. This ASU requires entities to provide expanded disclosures about the terms and features of convertible instruments, how the instruments have been reported in the entity's financial statements, and information about events, conditions, and circumstances that can affect how to assess the amount or timing of an entity's future cash flows related to those instruments. The amendments in this ASU are effective for public business entities that are not smaller reporting companies, for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. For all other entities, this ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. The guidance may be early adopted for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. This Update is not expected to have a significant impact on the Company's financial statements.

NOTE 2 - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The changes in accumulated other comprehensive (loss) income by component shown, net of tax and parenthesis indicating debits to net income, as of December 31, 2022, 2021, and 2020 were as follows:

	Twelve Months Ended December 31, 2022			Twelve Months Ended December 31, 2021			Twelve Months Ended December 31, 2020		
(In Thousands)	**Net Unrealized (Loss) Gain on Available for Sale Securities***	**Defined Benefit Plan***	**Total***	**Net Unrealized Gain (Loss) on Available for Sale Securities***	**Defined Benefit Plan***	**Total***	**Net Unrealized Gain (Loss) on Available for Sale Securities***	**Defined Benefit Plan***	**Total***
Beginning balance	$ 2,373	$ (3,485)	$ (1,112)	$ 4,714	$ (5,596)	$ (882)	$ 2,455	$ (5,232)	$ (2,777)
Other comprehensive (loss) income before reclassifications	(12,365)	(709)	(13,074)	(1,789)	1,965	176	3,517	(510)	3,007
Amounts reclassified from accumulated other comprehensive income (loss)	173	55	228	(552)	146	(406)	(1,258)	146	(1,112)
Net current-period other comprehensive (loss) income	(12,192)	(654)	(12,846)	(2,341)	2,111	(230)	2,259	(364)	1,895
Ending balance	$ (9,819)	$ (4,139)	$ (13,958)	$ 2,373	$ (3,485)	$ (1,112)	$ 4,714	$ (5,596)	$ (882)

*Amounts net of 21% tax rate

The adoption of ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* requires equity securities to run through the income statement and therefore the reclassification of prior accumulated losses are reflected above.

The reclassifications out of accumulated other comprehensive income shown, net of tax and parenthesis indicating debits to net income, as of December 31, 2022, 2021, and 2020 were as follows:

(In Thousands)

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income			Affected Line Item in the Consolidated Statement of Income
	Twelve Months Ended			
	December 31, 2022	December 31, 2021	December 31, 2020	
Net realized (loss) gain on available for sale securities	$ (219)	$ 699	$ 1,592	Net debt securities (losses) gain, net available for sale
Income tax effect	46	(147)	(334)	Income tax provision
	$ (173)	$ 552	$ 1,258	
Net unrecognized pension expense	$ (69)	$ (186)	$ (185)	Other non-interest expense
Income tax effect	14	40	39	Income tax provision
	$ (55)	$ (146)	$ (146)	

NOTE 3 - PER SHARE DATA

There are no convertible securities which would affect the denominator in calculating basic and dilutive earnings per share; therefore, net income as presented on the consolidated statement of income will be used as the numerator. The following table sets forth the composition of the weighted average common shares (denominator) used in the basic and dilutive per share computation.

	Year Ended December 31,		
	2022	2021	2020
Weighted average common shares issued	7,559,306	7,542,043	7,524,767
Average treasury stock shares	(499,869)	(480,225)	(480,225)
Weighted average common shares outstanding - basic	7,059,437	7,061,818	7,044,542
Dilutive effect of outstanding stock options	—	—	—
Weighted average common shares outstanding - diluted	7,059,437	7,061,818	7,044,542

There were a total of 914,000 non-qualified employee stock options (Note 14) outstanding on December 31, 2022 that had a weighted average strike price of \$25.34. Options on December 31, 2021 had an average strike price of \$27.23 with a total of 1,034,525 options outstanding. Grants outstanding at year-end 2020 totaled to 841,275 options with an average strike price of \$28.17. These options were excluded, on a weighted average basis, in the computation of diluted earnings per share for the 2022, 2021, and 2020 periods presented due to the average market price of common shares being less than the strike price of the options.

NOTE 4 - INVESTMENT SECURITIES

The amortized cost, gross gains and losses, and fair values of investment securities at December 31, 2022 and 2021 are as follows:

	2022			
(In Thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Available for sale (AFS):				
U.S. Government and agency securities	$ 3,002	$ —	$ (106)	$ 2,896
Mortgage-backed securities	1,496	—	(214)	1,282
State and political securities	151,426	157	(8,774)	142,809
Other debt securities	50,178	58	(3,550)	46,686
Total debt securities	$ 206,102	$ 215	$ (12,644)	$ 193,673
Investment equity securities:				
Other equity securities	$ 1,350	$ —	$ (208)	$ 1,142
Total equity securities	$ 1,350	$ —	$ (208)	$ 1,142

	2021			
(In Thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Available for sale (AFS):				
Mortgage-backed securities	$ 1,752	$ —	$ (5)	$ 1,747
State and political securities	113,852	3,500	(694)	116,658
Other debt securities	47,802	524	(321)	48,005
Total debt securities	$ 163,406	$ 4,024	$ (1,020)	$ 166,410
Investment equity securities:				
Other equity securities	$ 1,350	$ —	$ (62)	$ 1,288
Total equity securities	$ 1,350	$ —	$ (62)	$ 1,288

The following tables show the Corporation's gross unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position, at December 31, 2022 and 2021.

	2022					
	Less than Twelve Months		**Twelve Months or Greater**		**Total**	
(In Thousands)	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
Available for sale (AFS)						
U.S. Government and agency securities	$ 2,896	$ (106)	$ —	$ —	$ 2,896	$ (106)
Mortgage-backed securities	—	—	1,282	(214)	1,282	(214)
State and political securities	95,444	(4,797)	36,283	(3,977)	131,727	(8,774)
Other debt securities	16,896	(664)	25,144	(2,886)	42,040	(3,550)
Total Debt Securities AFS	$ 115,236	$ (5,567)	$ 62,709	$ (7,077)	$ 177,945	$ (12,644)

(In Thousands)	2021					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available for sale (AFS)						
Mortgage-backed securities	$ 1,747	$ (5)	$ —	$ —	$ 1,747	$ (5)
State and political securities	34,203	(398)	7,408	(296)	41,611	(694)
Other debt securities	21,446	(301)	1,808	(20)	23,254	(321)
Total Debt Securities AFS	$ 57,396	$ (704)	$ 9,216	$ (316)	$ 66,612	$ (1,020)

At December 31, 2022 there were 146 individual securities in a continuous unrealized loss position for less than twelve months and 98 individual securities in a continuous unrealized loss position for greater than twelve months.

The Corporation reviews its position quarterly and has asserted that at December 31, 2022 and 2021, the declines outlined in the above table represent temporary declines and the Corporation does not intend to sell and does not believe they will be required to sell these securities before recovery of their cost basis, which may be at maturity. The Corporation has concluded that any impairment of its investment securities portfolio is not other than temporary but is the result of interest rate changes that are not expected to result in the non-collection of principal and interest during the period.

The amortized cost and fair value of debt securities at December 31, 2022, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities since borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(In Thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 22,234	$ 21,880
Due after one year to five years	109,695	103,436
Due after five years to ten years	67,562	62,078
Due after ten years	6,611	6,279
Total	$ 206,102	$ 193,673

Total gross proceeds from sales of securities available for sale were $5,557,000, $17,947,000, and $20,767,000 for 2022, 2021, and 2020, respectively. The following table represents gross realized gains and losses on those transactions:

(In Thousands)	Year Ended December 31, 2022	2021	2020
Gross realized gains:			
U.S. Government and agency securities	$ —	$ —	$ —
Mortgage-backed securities	—	—	83
State and political securities	14	408	978
Other debt securities	—	323	554
Total gross realized gains	$ 14	$ 731	$ 1,615
Gross realized losses:			
U.S. Government and agency securities	$ —	$ —	$ —
Mortgage-backed securities	—	—	—
State and political securities	233	32	23
Other debt securities	—	—	—
Total gross realized losses	$ 233	$ 32	$ 23

There were no impairment charges included in gross realized losses for the years ended December 31, 2022, 2021, and 2020.

Investment securities with a carrying value of approximately $154,946,000 and $139,435,000 at December 31, 2022 and 2021, respectively, were pledged to secure certain deposits, repurchase agreements, and for other purposes as required by law.

Equity securities consist of Community Reinvestment Act funds along with other smaller investments in other exchange traded equities. At December 31, 2022 and December 31, 2021, we had $1,142,000 and $1,288,000, respectively, in equity securities recorded at fair value. The following is a summary of unrealized and realized gains and losses recognized in net income on equity securities during the years ended December 31, 2022, 2021 and 2020:

(In Thousands)	2022	2021	2020
Net loss recognized in equity securities during the period	$ (146)	$ (40)	$ 16
Less: Net gains realized on the sale of equity securities during the period	—	—	—
Unrealized loss recognized in equity securities held at reporting date	$ (146)	$ (40)	$ 16

There is no concentration of investments that exceed ten percent of shareholders' equity for any individual issuer, excluding those guaranteed by the U.S. Government.

NOTE 5 - FEDERAL HOME LOAN BANK STOCK

The Banks are members of the Federal Home Loan Bank ("FHLB") of Pittsburgh and as such, are 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, new shares of FHLB stock continue to change hands at the $100 par value, and the payment of dividends.

NOTE 6 - LOAN CREDIT QUALITY AND RELATED ALLOWANCE FOR LOAN LOSSES

Management segments the Banks' loan portfolio to a level that enables risk and performance monitoring according to similar risk characteristics. Loans are segmented based on the underlying collateral characteristics. Categories include commercial, financial, and agricultural, real estate, consumer automobile, and other consumer installment loans. Real estate loans are further segmented into three categories: residential, commercial, and construction.

The following table presents the related aging categories of loans, by segment, as of December 31, 2022 and 2021:

	2022				
(In Thousands)	Current	Past Due 30 To 89 Days	Past Due 90 Days Or More & Still Accruing	Non-Accrual	Total
Commercial, financial, and agricultural	$ 189,935	$ 94	$ —	$ 432	$ 190,461
Real estate mortgage:					
Residential	701,093	5,472	1,120	524	708,209
Commercial	495,349	2,564	60	2,659	500,632
Construction	42,797	511	—	—	43,308
Consumer automobile loans	183,943	2,089	80	—	186,112
Other consumer installment loans	10,194	152	15	—	10,361
	1,623,311	$ 10,882	$ 1,275	$ 3,615	1,639,083
Net deferred loan fees and discounts	648				648
Allowance for loan losses	(15,637)				(15,637)
Loans, net	$ 1,608,322				$ 1,624,094

	2021				
(In Thousands)	Current	Past Due 30 To 89 Days	Past Due 90 Days Or More & Still Accruing	Non-Accrual	Total
Commercial, financial, and agricultural	$ 162,571	$ 139	$ —	$ 575	$ 163,285
Real estate mortgage:					
Residential	590,240	4,083	687	837	595,847
Commercial	442,573	224	—	3,937	446,734
Construction	36,701	554	—	40	37,295
Consumer automobile loans	138,775	490	143	—	139,408
Other consumer installment loans	9,199	47	31	—	9,277
	1,380,059	$ 5,537	$ 861	$ 5,389	1,391,846
Net deferred loan fees and discounts	301				301
Allowance for loan losses	(14,176)				(14,176)
Loans, net	$ 1,366,184				$ 1,377,971

Impaired Loans

Impaired loans are loans for which it is probable the Banks will not be able to collect all amounts due according to the contractual terms of the loan agreement. The Banks individually evaluate such loans for impairment and do not aggregate loans by major risk classifications. The definition of “impaired loans” is not the same as the definition of “non-accrual loans,” although the two categories overlap. The Banks may choose to place a loan on non-accrual status due to payment delinquency or uncertain collectability, while not classifying the loan as impaired. Factors considered by management in determining impairment include payment status and collateral value. The amount of impairment for these types of loans is determined by the difference between the present value of the expected cash flows related to the loan, using the original interest rate, and its recorded value, or as a practical expedient in the case of collateralized loans, the difference between the fair value of the collateral and the recorded amount of the loan. When foreclosure is probable, impairment is measured based on the fair value of the collateral.

Management evaluates individual loans in all of the commercial segments for possible impairment if the loan is greater than $100,000 and if the loan is either on non-accrual status or has a risk rating of substandard or worse. Management may also elect to measure an individual loan for impairment if less than $100,000 on a case by case basis.

Mortgage loans on one-to-four family properties and all consumer loans are large groups of smaller-balance homogeneous loans and are measured for impairment collectively with the exception of loans identified as troubled debt restructurings. Loans that experience insignificant payment delays, which are defined as 90 days or less, generally are not classified as impaired. Management determines the significance of payment delays on a case-by-case basis taking into consideration all circumstances surrounding the loan and the borrower including the length of the delay, the borrower's prior payment record, and the amount of shortfall in relation to the principal and interest owed. Interest income for impaired loans is recorded consistent to the Banks' policy.

The following table presents the recorded investment, unpaid principal balance, and related allowance of impaired loans by segment as of December 31, 2022 and 2021:

	2022		
(In Thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**
With no related allowance recorded:			
Commercial, financial, and agricultural	$ 295	$ 295	$ —
Real estate mortgage:			
Residential	3,388	3,388	—
Commercial	2,588	2,588	—
Construction	—	—	—
Consumer automobile loans	—	—	—
Other consumer installment loans	—	—	—
	6,271	6,271	—
With an allowance recorded:			
Commercial, financial, and agricultural	403	403	4
Real estate mortgage:			
Residential	933	933	111
Commercial	3,607	3,607	827
Construction	—	—	—
Consumer automobile loans	—	—	—
Other consumer installment loans	19	—	19
	4,962	4,943	961
Total:			
Commercial, financial, and agricultural	698	698	4
Real estate mortgage:			
Residential	4,321	4,321	111
Commercial	6,195	6,195	827
Construction	—	—	—
Consumer automobile loans	—	—	—
Other consumer installment loans	19	—	19
	$ 11,233	$ 11,214	$ 961

(In Thousands)	2021 Recorded Investment	2021 Unpaid Principal Balance	2021 Related Allowance
With no related allowance recorded:			
Commercial, financial, and agricultural	$ 355	$ 355	$ —
Real estate mortgage:			
Residential	3,874	3,874	—
Commercial	3,105	3,105	—
Construction	105	105	—
Consumer automobile loans	—	—	—
Other consumer installment loans	—	—	—
	7,439	7,439	—
With an allowance recorded:			
Commercial, financial, and agricultural	534	3,321	2
Real estate mortgage:			
Residential	1,178	1,178	201
Commercial	4,814	4,814	800
Construction	—	—	—
Consumer automobile loans	—	—	—
Other consumer installment loans	20	20	20
	6,546	9,333	1,023
Total:			
Commercial, financial, and agricultural	889	3,676	2
Real estate mortgage:			
Residential	5,052	5,052	201
Commercial	7,919	7,919	800
Construction	105	105	—
Consumer automobile loans	—	—	—
Other consumer installment loans	20	20	20
	$ 13,985	$ 16,772	$ 1,023

The following table presents the average recorded investment in impaired loans and related interest income recognized for December 31, 2022, 2021, and 2020:

(In Thousands)	2022 Average Investment in Impaired Loans	2022 Interest Income Recognized on an Accrual Basis on Impaired Loans	2022 Interest Income Recognized on a Cash Basis on Impaired Loans
Commercial, financial, and agricultural	$ 765	$ 20	$ —
Real estate mortgage:			
Residential	4,676	192	3
Commercial	7,233	201	26
Construction	34	1	—
Consumer automobile loans	3	1	—
Other consumer installment loans	16	—	—
	$ 12,727	$ 415	$ 29

(In Thousands)	2021 Average Investment in Impaired Loans	2021 Interest Income Recognized on an Accrual Basis on Impaired Loans	2021 Interest Income Recognized on a Cash Basis on Impaired Loans
Commercial, financial, and agricultural	$ 1,345	$ 13	$ —
Real estate mortgage:			
Residential	5,530	174	—
Commercial	9,462	122	—
Construction	116	2	—
Consumer automobile loans	30	—	—
Other consumer installment loans	12	1	—
	$ 16,495	$ 312	$ —

(In Thousands)	2020 Average Investment in Impaired Loans	2020 Interest Income Recognized on an Accrual Basis on Impaired Loans	2020 Interest Income Recognized on a Cash Basis on Impaired Loans
Commercial, financial, and agricultural	$ 1,653	$ 34	$ —
Real estate mortgage:			
Residential	5,692	234	15
Commercial	7,937	158	—
Construction	72	1	4
Consumer automobile loans	89	—	—
Other consumer installment loans	3	1	—
	$ 15,446	$ 428	$ 19

At December 31, 2022, additional funds totaling $2,000 are committed to be advanced in connection with impaired loans.

Modifications

The loan portfolio also includes certain loans that have been modified in a Troubled Debt Restructuring ("TDR"), where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance, or other actions. Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months.

Loan modifications that are considered TDRs completed during the twelve months ended December 31, 2022, 2021,and 2020 were as follows:

	Year Ended December 31,		
	2022		
(In Thousands, Except Number of Contracts)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial, financial, and agricultural	—	$ —	$ —
Real estate mortgage:			
Residential	1	220	220
Commercial	—	—	—
Construction	—	—	—
Other consumer installment loans	—	—	—
Total	1	$ 220	$ 220

(In Thousands, Except Number of Contracts)	Year Ended December 31, 2021 Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial, financial, and agricultural	1	$ 949	$ 949
Real estate mortgage:			
Residential	3	1,265	1,265
Commercial	2	842	842
Construction	—	—	—
Other consumer installment loans	—	—	—
Total	6	$ 3,056	$ 3,056

(In Thousands, Except Number of Contracts)	Year Ended December 31, 2020 Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial, financial, and agricultural	2	$ 1,028	$ 1,028
Real estate mortgage:			
Residential	—	—	—
Commercial	3	1,263	1,263
Construction	—	—	—
Other consumer installment loans	—	—	—
Total	5	$ 2,291	$ 2,291

Of the one new troubled debt restructurings that were granted for the year ended December 31, 2022, one loans totaling $220,000 was granted rate concessions.

Of the six new troubled debt restructurings that were granted for the year ended December 31, 2021, two loans totaling $842,000 were granted payment concessions and one loan totaling $124,000 was granted a rate concession.

No loan modifications considered troubled debt restructurings made during the twelve months previous to December 31, 2022 defaulted. Loan modifications considered troubled debt restructurings made during the twelve months previous to December 31, 2021, that have defaulted during the corresponding twelve month period were as follows:

(In Thousands, Except Number of Contracts)	Year Ended December 31, 2021 Number of Contracts	Recorded Investment
Commercial, financial, and agricultural	—	$ —
Real estate mortgage:		
Residential	1	687
Commercial	—	—
Total	1	$ 687

Internal Risk Ratings

Management uses a ten point internal risk rating system to monitor the credit quality of the overall loan portfolio. The first six categories are considered not criticized, and are aggregated as "Pass" rated. The criticized rating categories utilized by management generally follow bank regulatory definitions. The Special Mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a Substandard classification. Loans in the Substandard category have well-defined weaknesses that jeopardize the liquidation of the debt, and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. All loans greater than 90 days past due are evaluated for Substandard classification. Loans in the Doubtful category exhibit the same weaknesses found in the Substandard loans, however, the weaknesses are more pronounced. Such loans are static and collection in full is improbable. However, these loans are not yet rated as loss because certain events may occur which would salvage the debt. Loans classified Loss are considered uncollectible and charge-off is imminent.

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Banks have a structured loan rating process with several layers of internal and external oversight. Generally, consumer and residential mortgage loans are included in the pass category unless a specific action, such as bankruptcy, repossession, or death occurs to raise awareness of a possible credit event. An external semi-annual loan review of large commercial relationships is performed, as well as a sample of smaller transactions. The 2022 loan review evaluated 55% of the Bank's average outstanding commercial portfolio which can consist of outstanding loans, commercial real estate mortgages and outstanding commitments. Detailed reviews, including plans for resolution, are performed on loans classified as substandard, doubtful, or loss on a quarterly basis.

The following table presents the credit quality categories identified above as of December 31, 2022 and 2021:

2022							
		Real Estate Mortgages					
(In Thousands)	Commercial, Finance, and Agricultural	Residential	Commercial	Construction	Consumer automobile	Other consumer installment	Totals
Pass	$ 184,783	$ 705,515	$ 488,993	$ 43,209	$ 186,112	$ 10,361	$ 1,618,973
Special Mention	125	266	4,526	—	—	—	4,917
Substandard	5,553	2,428	7,113	99	—	—	15,193
Total	$ 190,461	$ 708,209	$ 500,632	$ 43,308	$ 186,112	$ 10,361	$ 1,639,083

2021							
		Real Estate Mortgages					
(In Thousands)	Commercial, Finance, and Agricultural	Residential	Commercial	Construction	Consumer automobile	Other consumer installment	Totals
Pass	$ 160,899	$ 592,570	$ 432,158	$ 36,511	$ 139,408	$ 9,257	$ 1,370,803
Special Mention	234	284	6,108	676	—	—	7,302
Substandard	2,152	2,993	8,468	108	—	20	13,741
Total	$ 163,285	$ 595,847	$ 446,734	$ 37,295	$ 139,408	$ 9,277	$ 1,391,846

Allowance for Loan Losses

An allowance for loan losses ("ALL") is maintained to absorb losses from the loan portfolio. The ALL is based on management's continuing evaluation of the risk characteristics and credit quality of the loan portfolio, assessment of current economic conditions, diversification and size of the portfolio, adequacy of collateral, past and anticipated future loss experience, and the amount of non-performing loans.

The Banks' methodology for determining the ALL is based on the requirements of ASC Section 310-10-35 for loans individually evaluated for impairment (previously discussed) and ASC Subtopic 450-20 for loans collectively evaluated for impairment, as well as the Interagency Policy Statements on the Allowance for Loan and Lease Losses and other bank regulatory guidance. The total of the two components represents the Banks' ALL.

Loans that are collectively evaluated for impairment are analyzed with general allowances being made as appropriate. Allowances are segmented based on collateral characteristics previously disclosed, and consistent with credit quality monitoring. Loans that are collectively evaluated for impairment are grouped into two classes for evaluation. A general allowance is determined for "Pass" rated credits, while a separate pool allowance is provided for "Criticized" rated credits that are not individually evaluated for impairment.

For the general allowances historical loss trends are used in the estimation of losses in the current portfolio. These historical loss amounts are modified by other qualitative factors. A historical charge-off factor is calculated utilizing a twelve quarter moving average. However, management may adjust the moving average time frame by up to four quarters to adjust for variances in the economic cycle. Management has identified a number of additional qualitative factors which it uses to supplement the historical charge-off factor because these factors are likely to cause estimated credit losses associated with the existing loan pools to differ from historical loss experience. The additional factors that are evaluated quarterly and updated using information obtained from internal, regulatory, and governmental sources are: levels of and trends in delinquency rates and non-accrual loans; trends in volumes and terms of loans; effects of changes in lending policies; experience, ability, and depth of lending staff; national and economic trends and conditions; concentrations of credit from a loan type, industry, and/or geographic standpoint; value of underlying collateral on collateral depended loans; effect of other external factors; and the quality of the loan review system. During 2022, certain qualitative factors were adjusted to account for economic changes and significant loan portfolio growth.

Loans in the criticized pools, which possess certain qualities or characteristics that may lead to collection and loss issues, are closely monitored by management and subject to additional qualitative factors. Management also monitors industry loss factors by loan segment for applicable adjustments to actual loss experience.

Management reviews the loan portfolio on a quarterly basis in order to make appropriate and timely adjustments to the ALL. When information confirms all or part of specific loans to be uncollectible, these amounts are promptly charged off against the ALL.

Over the last three years, various quantitative and qualitative factors indicate changes in our provision for loan losses. The provision for commercial and agricultural loans decreased during 2022 due to levels and trends of nonaccrual loans in our portfolio and a decline in net charge-offs. The provision for residential real estate loans remained flat as the portfolio size increased but was offset by a decline in the level of net charge-offs. The provision for this loan type is adjusted by national indices as well as our historical losses. The provision for commercial real estate loans decreased primarily due to an improvement in portfolio credit metrics. The provision for consumer automobiles increased due to increased indirect loan volume and concerns regarding the impact of inflation on the customer base.

The provision for commercial and agricultural loans decreased during 2021 due to levels and trends of nonaccrual loans in our portfolio and a decline in net charge-offs. The provision for residential real estate loans remained flat as the porfolio size increased slightly and the level of net charge-offs declined modestly. The provision for this loan type is adjusted by national indices as well as our historical losses. The provision for commercial and construction real estate loans increased as the economic environment has continued to remain soft as the impact of the COVID-19 pandemic and associated supply chain issues is felt within the markets we serve. The provision for consumer automobiles decreased due to reduction in indirect loan volume and a decrease in portfolio size. The provision for other consumer installment loans has decreased as the portfolio declined to $9,277,000 at December 31, 2021 from $19,940,000 at December 31, 2020. The COVID-19 pandemic and associated supply chain issues has resulted in various businesses operating at less than 100% capacity. This has caused an increase in the risk profile of the commercial segment of the loan portfolio resulting in a provision shift from unallocated to the commercial real estate mortgage segment of the loan portfolio. Average loan amounts are calculated off of end of month balances.

Activity in the allowance is presented for the twelve months ended December 31, 2022, 2021, and 2020:

	2022							
	Commercial, Finance, and Agricultural	Real Estate Mortgages			Consumer automobile	Other consumer installment	Unallocated	Totals
(In Thousands)		Residential	Commercial	Construction				
Beginning Balance	$ 1,946	$ 4,701	$ 5,336	$ 179	$ 1,411	$ 111	$ 492	$ 14,176
Charge-offs	(21)	(21)	(154)	—	(386)	(267)	—	(849)
Recoveries	186	47	4	29	58	76	—	400
Provision	(197)	334	924	(20)	534	189	146	1,910
Ending Balance	$ 1,914	$ 5,061	$ 6,110	$ 188	$ 1,617	$ 109	$ 638	$ 15,637

(In Thousands)	Commercial, Finance, and Agricultural	Real Estate Mortgages: Residential	Real Estate Mortgages: Commercial	Real Estate Mortgages: Construction	Consumer automobile	Other consumer installment	Unallocated	Totals
2021								
Beginning Balance	$ 1,936	$ 4,460	$ 3,635	$ 134	$ 1,906	$ 261	$ 1,471	$ 13,803
Charge-offs	(37)	(219)	(14)	—	(286)	(173)	—	(729)
Recoveries	27	112	109	10	143	61	—	462
Provision	20	348	1,606	35	(352)	(38)	(979)	640
Ending Balance	$ 1,946	$ 4,701	$ 5,336	$ 179	$ 1,411	$ 111	$ 492	$ 14,176

(In Thousands)	Commercial, Finance, and Agricultural	Real Estate Mortgages: Residential	Real Estate Mortgages: Commercial	Real Estate Mortgages: Construction	Consumer automobile	Other consumer installment	Unallocated	Totals
2020								
Beginning Balance	$ 1,779	$ 4,306	$ 3,210	$ 118	$ 1,780	$ 278	$ 423	$ 11,894
Charge-offs	(64)	(254)	(64)	—	(396)	(193)	—	(971)
Recoveries	36	49	—	11	75	84	—	255
Provision	185	359	489	5	447	92	1,048	2,625
Ending Balance	$ 1,936	$ 4,460	$ 3,635	$ 134	$ 1,906	$ 261	$ 1,471	$ 13,803

The Corporation grants commercial, industrial, residential, and installment loans to customers throughout north-central and north-eastern Pennsylvania. Although the Corporation has a diversified loan portfolio at December 31, 2022 and 2021, a substantial portion of its debtors' ability to honor their contracts is dependent on the economic conditions within this region.

The amount of foreclosed residential real estate held at December 31, 2022 and December 31, 2021, totaled $950,000 and $339,000, respectively. Consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process at December 31, 2022 and December 31, 2021, totaled $890,000 and $193,000, respectively.

The Corporation has a concentration of loans at December 31, 2022 and 2021 as follows:

	2022	2021
Owners of residential rental properties	19.67 %	19.21 %
Owners of commercial rental properties	15.63 %	16.03 %

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2022 and 2021:

(In Thousands)	Commercial, Finance, and Agricultural	Real Estate Mortgages: Residential	Real Estate Mortgages: Commercial	Real Estate Mortgages: Construction	Consumer automobile	Other consumer installment	Unallocated	Totals
2022								
Allowance for Loan Losses:								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ 4	$ 111	$ 827	$ —	$ —	$ 19	$ —	$ 961
Collectively evaluated for impairment	1,910	4,950	5,283	188	1,617	90	638	14,676
Total ending allowance balance	$ 1,914	$ 5,061	$ 6,110	$ 188	$ 1,617	$ 109	$ 638	$ 15,637
Loans:								
Individually evaluated for impairment	$ 698	$ 4,321	$ 6,195	$ —	$ —	$ 19		$ 11,233
Collectively evaluated for impairment	189,763	703,888	494,437	43,308	186,112	10,342		1,627,850
Total ending loans balance	$ 190,461	$ 708,209	$ 500,632	$ 43,308	$ 186,112	$ 10,361		$ 1,639,083

(In Thousands)	2021 Commercial, Finance, and Agricultural	Real Estate Mortgages Residential	Real Estate Mortgages Commercial	Real Estate Mortgages Construction	Consumer automobile	Other consumer installment	Unallocated	Totals
Allowance for Loan Losses:								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ 2	$ 201	$ 800	$ —	$ —	$ 20	$ —	$ 1,023
Collectively evaluated for impairment	1,944	4,500	4,536	179	1,411	91	492	13,153
Total ending allowance balance	$ 1,946	$ 4,701	$ 5,336	$ 179	$ 1,411	$ 111	$ 492	$ 14,176
Loans:								
Individually evaluated for impairment	$ 889	$ 5,052	$ 7,919	$ 105	$ —	$ 20		$ 13,985
Collectively evaluated for impairment	162,396	590,795	438,815	37,190	139,408	9,257		1,377,861
Total ending loans balance	$ 163,285	$ 595,847	$ 446,734	$ 37,295	$ 139,408	$ 9,277		$ 1,391,846

NOTE 7 - PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows at December 31, 2022 and 2021:

(In Thousands)	2022	2021
Land	$ 6,680	$ 6,741
Premises	22,571	22,539
Furniture and equipment	12,732	12,798
Leasehold improvements	4,000	4,214
Finance lease right-of-use assets	7,006	7,435
Total	52,989	53,727
Less accumulated depreciation and amortization	21,145	19,702
Net premises and equipment	$ 31,844	$ 34,025

Depreciation and amortization related to premises and equipment for the years ended 2022, 2021, and 2020 was $2,107,000, $2,436,000, and $2,098,000, respectively.

NOTE 8 - GOODWILL AND OTHER INTANGIBLES

As of December 31, 2022 and 2021, goodwill had a gross carrying value of $17,380,000 and accumulated amortization of $276,000. During 2022 an impairment charge of $653,000 was recognized resulting in a net carrying amount of $16,450,000 at December 31, 2022 compared to $17,104,000 at December 31, 2021. The impairment charge occurred due to a decline in revenue that was experienced during 2022.

The gross carrying amount of goodwill is tested for impairment annually. Based on the fair value of the reporting unit, estimated using the expected present value of future cash flows, there was no evidence of impairment of the carrying amount at December 31, 2022 or 2021.

Identifiable intangibles are amortized to their estimated residual values over the expected useful lives. Such lives are also periodically reassessed to determine if any amortization period adjustments are required. Since the acquisition, no such adjustments were recorded. The identifiable intangible assets consist of a core deposit intangible and a trade name intangible which are being amortized on an accelerated basis, and also book of business intangible that is being amortized on a straight-line basis over the useful life of such assets. The net carrying amount of the core deposit intangible, the trade name intangible, and the book of business intangible at December 31, 2022 was $14,000, $1,000, and $312,000 respectively, with $1,867,000, $132,000, and $708,000 accumulated amortization as of that date.

As of December 31, 2022, the estimated future amortization expense for the core deposit and trade name intangible was:

(In Thousands)	Core Deposit Intangible	Trade Name Intangible	Book of Business Intangible	Total
2023	$ 14	$ 1	$ 102	$ 117
2024	—	—	102	102
2025	—	—	102	102
2026	—	—	6	6
	$ 14	$ 1	$ 312	$ 327

NOTE 9 - DEPOSITS

Time deposits of $250,000 or more totaled approximately $31,501,000 on December 31, 2022 and $54,343,000 on December 31, 2021.

At December 31, 2022, the scheduled maturities on time deposits of $100,000 or more are as follows:

(In Thousands)	2022
Three months or less	$ 14,661
Three months to six months	14,678
Six months to twelve months	18,028
Over twelve months	33,824
Total	$ 81,191

Total time deposit maturities are as follows at December 31, 2022:

(In Thousands)	2022
2023	$ 80,101
2024	39,230
2025	15,816
2026	9,343
2027	424
Thereafter	1,368
Total	$ 146,282

Total deposits at December 31, 2022 and 2021 are as follows:

	2022	2021
(In Thousands)	Amount	Amount
Noninterest-bearing	$ 519,063	$ 494,360
Savings	247,952	236,312
Super Now	372,574	366,399
Money Market	270,589	318,877
Time	146,282	205,367
Total deposits	$ 1,556,460	$ 1,621,315

NOTE 10 - SHORT-TERM BORROWINGS

Short-term borrowings consist of securities sold under agreements to repurchase and primarily FHLB advances, which generally represent overnight or less than six month borrowings. In addition to the outstanding balances noted below, the Banks also have additional lines of credit totaling $100,000,000 available from correspondent banks other than the FHLB. The outstanding balances and related information for short-term borrowings are summarized as follows at December 31, 2022, 2021, and 2020:

(In Thousands)	2022	2021
Repurchase Agreements:		
Balance at year end	$ 5,153	$ 5,747
Maximum amount outstanding at any month end	6,634	9,757
Average balance outstanding during the year	5,216	7,178
Weighted-average interest rate:		
At year end	0.29 %	0.12 %
Paid during the year	0.16 %	0.13 %
Overnight:		
Balance at year end	$ 148,196	$ —
Maximum amount outstanding at any month end	148,196	—
Average balance outstanding during the year	24,099	—
Weighted-average interest rate:		
At year end	4.45 %	— %
Paid during the year	4.14 %	— %

We utilize securities sold under agreements to repurchase to facilitate the needs of our customers and to facilitate secured short-term funding needs. Securities sold under agreements to repurchase are stated at the amount of cash received in connection with the transaction. We monitor collateral levels on a continuous basis. We may be required to provide additional collateral based on the fair value of the underlying securities. Securities pledged as collateral under repurchase agreements are maintained with our safekeeping agents. The remaining contractual maturity of repurchase agreements in the consolidated balance sheets as of December 31, 2022 and December 31, 2021 is presented in the following tables.

	2022	2021
	Remaining Contractual Maturity of the Agreements	
(In Thousands)	Overnight and Continuous	Overnight and Continuous
Repurchase Agreements:		
State and political securities	$ 6,193	$ 7,871
Other debt securities	972	1,010
Total carrying value of collateral pledged	$ 7,165	$ 8,881
Total liability recognized for repurchase agreements	$ 5,153	$ 5,747

NOTE 11 - LONG-TERM BORROWINGS

The following represents outstanding long-term borrowings with the FHLB by contractual maturities at December 31, 2022 and 2021:

(In Thousands)		Weighted Average Interest Rate		Stated Interest Rate Range			
Description	Maturity	2022	2021	From	To	2022	2021
Fixed	2022	— %	2.24 %	1.98 %	2.56 %	$ —	$ 23,000
Fixed	2023	2.60 %	2.60 %	1.84 %	3.10 %	25,000	25,000
Fixed	2024	2.24 %	2.24 %	1.50 %	2.96 %	40,000	40,000
Fixed	2025	1.62 %	1.62 %	1.14 %	1.88 %	30,000	30,000
Total Fixed		2.14 %	2.32 %			95,000	118,000
Total		2.14 %	2.32 %			$ 95,000	$ 118,000

(In Thousands) Year Ending December 31,	Amount	Weighted Average Rate
2023	$ 25,000	2.60 %
2024	40,000	2.24 %
2025	30,000	1.62 %
	$ 95,000	2.14 %

The Banks maintain a credit arrangement which includes a revolving line of credit with the FHLB. Under this credit arrangement, at December 31, 2022, JSSB has a remaining borrowing capacity of $271,247,000 and Luzerne has a remaining capacity of $199,553,000, which are subject to annual renewal and typically incur no service charges. Under terms of a blanket agreement, collateral for the FHLB borrowings must be secured by certain qualifying assets of each Bank which consist principally of first mortgage loans and state and political securities, along with other securities. Total outstanding letters of credit at December 31, 2022 with the FHLB for JSSB are $39,100,000 while Luzerne has $0 outstanding.

NOTE 12 - INCOME TAXES

The following temporary differences gave rise to the net deferred tax asset position at December 31, 2022 and 2021:

(In Thousands)	2022	2021
Deferred tax assets:		
Allowance for loan losses	$ 3,314	$ 2,997
Deferred compensation	1,788	1,655
Lease liability	2,203	2,324
Fair value adjustment on equity securities	40	—
Unrealized loss on available for sale securities	2,610	9
Non-qualified Stock Options	883	—
Capital loss carryforward	380	211
Other	202	961
Total	11,420	8,157
Deferred tax liabilities:		
Lease right of use asset	2,028	2,203
Defined pension	914	872
Unrealized gain on available for sale securities	—	630
Investment security accretion	177	118
Deferred loan fees and discounts	135	63
Depreciation	481	533
Amortization	437	581
Valuation allowance	380	211
Total	4,552	5,211
Deferred tax asset, net	$ 6,868	$ 2,946

A valuation allowance was established on the $1,003,000 of capital loss carryforwards in 2021. The valuation allowance was increased by $807,000 to a total of $1,810,000 due to additional capital losses resulting when the Corporation's federal tax return was filed in October of 2022. There were no other valuation allowances established at December 31, 2021, because of the Corporation’s ability to carry back losses to recover taxes paid in previous years and certain tax strategies, together with the anticipated future taxable income as evidenced by the Corporation’s earning potential. The Corporation is no longer subject to federal, state, and local examinations by tax authorities for years before 2019.

The provision or benefit for income taxes is comprised of the following for the year ended December 31, 2022, 2021, and 2020:

(In Thousands)	2022	2021	2020
Currently payable	$ 4,671	$ 4,153	$ 3,165
Deferred (benefit) expense	(508)	(359)	309
Total provision	$ 4,163	$ 3,794	$ 3,474

A reconciliation between the expected income tax or benefit and the effective income tax rate on income before income tax provision or benefit follows for the year ended December 31, 2022, 2021, and 2020:

	2022		2021		2020	
(In Thousands)	Amount	%	Amount	%	Amount	%
Provision at expected rate	$ 4,532	21.00 %	$ 4,167	21.00 %	$ 3,927	21.00 %
(Decrease) increase in tax resulting from:						
Tax-exempt income	(516)	(2.39)	(520)	(2.62)	(475)	(2.54)
Other, net	147	0.68	147	0.74	22	0.12
Effective income tax provision and rate	$ 4,163	19.29 %	$ 3,794	19.12 %	$ 3,474	18.58 %

NOTE 13 - EMPLOYEE BENEFIT PLANS

Defined Benefit Pension Plan

The Corporation has a noncontributory defined benefit pension plan (the "Plan") for all employees meeting certain age and length of service requirements that were hired prior to January 1, 2004, at which time entrance into the Plan was frozen. The benefit accrual for the Plan was subsequently frozen at December 31, 2014. Benefits are based primarily on years of service and the average annual compensation during the highest five consecutive years within the final ten years of employment, until December 31, 2014 when the benefit accrual was frozen.

The following table sets forth the obligation and funded status as of December 31, 2022 and 2021:

(In Thousands)	2022	2021
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 21,923	$ 23,553
Interest cost	553	509
Actuarial (gain) loss	(209)	(269)
Benefits paid	(904)	(896)
Change in actuarial assumptions	(4,819)	(974)
Benefit obligation at end of year	$ 16,544	$ 21,923
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 26,073	$ 23,484
Actual return on plan assets	(4,272)	2,785
Employer contribution	—	700
Benefits paid	(904)	(896)
Adjustment to fair value of plan assets	(3)	—
Fair value of plan assets at end of year	20,894	26,073
Funded status	$ 4,350	$ 4,150
Accounts recognized on balance sheet as:		
Total assets	$ 4,350	$ 4,150
Amounts not yet recognized as a component of net periodic pension cost:		
Amounts recognized in accumulated other comprehensive income (loss) consist of:		
Net loss	$ 5,240	$ 4,412

The accumulated benefit obligation for the Plan was $16,543,000 and $21,923,000 at December 31, 2022 and 2021, respectively.

Components of Net Periodic Cost and Other Amounts Recognized in Other Comprehensive Income (Loss) as of December 31, 2022, 2021, and 2020 are as follows:

(In Thousands)	2022	2021	2020
Net periodic pension cost:			
Interest cost	$ 553	$ 509	$ 641
Expected return on plan assets	(1,652)	(1,542)	(1,274)
Amortization of unrecognized net loss	69	186	185
Net periodic (benefit) cost	$ (1,030)	$ (847)	$ (448)

Assumptions

Weighted-average assumptions used to determine benefit obligations at December 31, 2022, 2021, and 2020:

	2022	2021	2020
Discount rate	4.93 %	2.61 %	2.24 %
Rate of compensation increase	N/A	N/A	N/A

Weighted-average assumptions used to determine net periodic cost for years ended December 31, 2022, 2021, and 2020:

	2022	2021	2020
Discount rate	2.61 %	2.24 %	3.04 %
Expected long-term return on plan assets	7.00 %	7.00 %	7.00 %

The expected long-term rate of return was estimated using market benchmarks by which the plan assets would outperform the market value in the future, based on historical experience adjusted for changes in asset allocation and expectations for overall lower future returns on similar investments compared to past periods.

Plan Assets

The Plan's weighted-average asset allocations at December 31, 2022 and 2021 by asset category are as follows:

Asset Category	2022	2021
Cash	4.84 %	5.09 %
Fixed income securities	15.05 %	12.29 %
Equity	66.36 %	68.76 %
Inflation Hedges/Real Assets	3.92 %	5.23 %
Hedged Strategies	9.83 %	8.63 %
Total	100.00 %	100.00 %

The investment objective for the Plan is to maximize total return with tolerance for slightly above average risk, meaning the fund is able to tolerate short-term volatility to achieve above-average returns over the long term.

Asset allocation favors equities, with target allocation of approximately 62% equity securities, 15.0% fixed income securities, 10% inflation hedges/real assets, 10% hedged strategies, and 3% cash. Due to volatility in the market, the target allocation is not always desirable and asset allocations will fluctuate between the acceptable ranges. The equity portfolio's exposure is primarily in mid and large capitalization domestic equities with limited exposure to small capitalization and international stocks.

It is management's intent to give the investment managers flexibility, within the overall guidelines, with respect to investment decisions and their timing. However, certain investments require specific review and approval by management. Management is also informed of anticipated, significant modifications of any previously approved investment, or anticipated use of derivatives to execute investment strategies.

The following table sets forth by level, within the fair value hierarchy detailed in Note 21 - Fair Value Measurements, the Plan's assets at fair value as of December 31, 2022 and 2021:

	2022			
(In Thousands)	Level I	Level II	Level III	Total
Assets:				
Cash and cash equivalents	$ 1,012	$ —	$ —	$ 1,012
Mutual funds - taxable fixed income	3,144	—	—	3,144
Mutual funds - domestic equity	8,393	—	—	8,393
Mutual funds - international equity	5,472	—	—	5,472
Inflation Hedges/Real Assets	819	—	—	819
Hedged Strategies	2,054	—	—	2,054
Total assets at fair value	$ 20,894	$ —	$ —	$ 20,894

	2021			
(In Thousands)	Level I	Level II	Level III	Total
Assets:				
Cash and cash equivalents	$ 1,326	$ —	$ —	$ 1,326
Mutual funds - taxable fixed income	3,205	—	—	3,205
Mutual funds - domestic equity	11,422	—	—	11,422
Mutual funds - international equity	6,505	—	—	6,505
Inflation Hedges/Real Assets	1,364	—	—	1,364
Hedged Strategies	2,251	—	—	2,251
Total assets at fair value	$ 26,073	$ —	$ —	$ 26,073

The following future benefit payments are expected to be paid:

(In Thousands)	
2023	$ 1,063
2024	1,067
2025	1,120
2026	1,179
2027	1,193
2028-2032	6,002
	$ 11,624

The Corporation does not expect to contribute to its Pension Plan in 2023.

401(k) Savings Plan

The Corporation also offers a 401(k) savings plan in which eligible participating employees may elect to contribute up to a maximum percentage allowable not to exceed the limits of Code Sections 401(k), 404, and 415. The Corporation may make matching contributions equal to a discretionary percentage that is determined by the Board of Directors. Participants are at all times fully vested in their contributions and vest over a period of five years regarding the employer contribution. Contribution expense was approximately $548,000, $500,000, and $502,000 for the years ended December 31, 2022, 2021, and 2020, respectively.

Deferred Compensation Plan

The Corporation has a deferred compensation plan whereby participating directors elect to forego directors' fees paid in cash. Under this plan, the Corporation will make payments for a ten-year period beginning at the later of age 65 or ceasing to be a director in most cases or at death, if earlier, at which time payments would be made to their designated beneficiaries.

To fund benefits under the deferred compensation plan, the Corporation has acquired bank-owned life insurance policies on the lives of the participating directors for which insurance benefits are payable to the Corporation. The Corporation incurred expenses related to the plan of $588,000, $463,000, and $431,000 for the years ended December 31, 2022, 2021, and 2020, respectively. Benefits paid under the plan were approximately $267,000, $57,000, and $57,000 in 2022, 2021, and 2020, respectively.

NOTE 14 - STOCK OPTIONS

In 2020, the Corporation adopted the 2020 Equity Incentive Plan which replaced the 2014 Equity Incentive Plan. The Equity Incentive Plans are designed to help the Corporation attract, retain, and motivate employees and non-employee directors. Incentive stock options, non-qualified stock options, and restricted stock may be granted as part of the plan.

A summary of stock option activity for the year ended December 31, 2022 is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2022	1,034,525	$ 27.23	7.48	$ —
Granted	234,000	24.10	9.05	
Cash Settlement	(346,725)	30.07		
Forfeited	(7,800)	28.37		
Expired	—	—		
Outstanding at December 31, 2022	914,000	$ 25.34	7.71	$ 1,455,000
Options exercisable at December 31, 2022	105,600	$ 28.01	6.11	$ —

On December 31, 2022, a total of 914,000 options were outstanding. Outstanding options at December 31, 2022 and the related vesting schedules are summarized below:

			Stock Options Granted				
Date	Shares	Forfeited	Cash Settlement	Outstanding	Strike Price	Vesting Period	Expiration
January 18, 2022	156,000	—	—	156,000	$ 24.10	3 years	10 years
January 18, 2022	78,000	—	—	78,000	24.10	5 years	10 years
April 9, 2021	156,500	—	—	156,500	24.23	3 years	10 years
April 9, 2021	78,000	—	—	78,000	24.23	5 years	10 years
March 11, 2020	119,300	—	—	119,300	25.34	3 years	10 years
March 11, 2020	119,200	—	—	119,200	25.34	5 years	10 years
March 15, 2019	120,900	(18,300)	—	102,600	28.01	3 years	10 years
March 15, 2019	119,100	(17,700)	—	101,400	28.01	5 years	10 years
August 27, 2015	58,125	(26,250)	(28,875)	3,000	28.02	5 years	10 years

The fair value of stock options is estimated using the Black-Scholes option pricing model. The following is a summary of the assumptions used in this model for the stock options granted during 2022, 2021, and 2020:

	2022	2021	2020
Risk-free interest rate	1.23 %	0.82 %	1.32 %
Expected volatility	33.50 %	36.56 %	28.29 %
Expected annual dividend	$ 1.28	$ 1.28	$ 1.28
Expected life	6.84 years	6.84 years	7.00 years
Weighted average grant date fair value per option	$ 4.28	$ 4.72	$ 3.80

The estimated fair value of options, including the effect of estimated forfeitures, is recognized as expense on a straightline basis over the options' vesting periods while ensuring that the cumulative amount of compensation cost recognized at least equals the value of the vested portion of the award at that date. The Corporation determines the fair value of options granted using the Black-Scholes option-pricing model. The risk-free interest rate is based on the United States Treasury bond with a similar term to the expected life of the options at the grant date. Expected volatility was estimated based on the adjusted historic volatility of the Corporation's shares. The expected life was estimated to equal the contractual life of the options. The dividend yield rate was based upon recent historical dividends paid on shares.

For the years ended December 31, 2022, 2021, and 2020 there was $1,231,000, $960,000, and $854,000 in total share-based compensation expense, respectively. There was additional compensation expense of $183,000 (after-tax $145,000) associated with the voluntary cash settlement of 346,725 outstanding stock options that occurred in June of 2022. The compensation expense is recorded as part of the non-interest expenses in the Consolidated Statement of Income.

As of December 31, 2022, total unrecognized compensation costs related to non-vested options was $1,615,000 which is expected to be recognized over a period of 2.34 years. Exercisable stock awards at December 31, 2022 were 105,600 with a weighted average remaining exercisable contractual life of 6.11 years.

NOTE 15 - EMPLOYEE STOCK PURCHASE PLAN

The Corporation maintains the Penns Woods Bancorp, Inc. Employee Stock Purchase Plan ("Plan"). The Plan is intended to encourage employee participation in the ownership and economic progress of the Corporation. The Plan allows for up to 1,500,000 shares to be purchased by employees. The purchase price of the shares is 95% of fair value with an employee eligible to purchase up to the lesser of 15% of base compensation or $12,000 in fair value annually. There were 3,617, 3,850 and 3,972 shares issued under the plan for the years ended December 31, 2022, 2021 and 2020 respectively.

NOTE 16 - RELATED PARTY TRANSACTIONS

Certain directors and executive officers of the Corporation and the Banks, including their immediate families and companies in which they are principal owners (more than ten percent), are indebted to the Corporation. Such indebtedness was incurred in the ordinary course of business on the same terms and at those rates prevailing at the time for comparable transactions with others.

A summary of loan activity with executive officers, directors, principal shareholders, and associates of such persons is listed below for the years ended December 31, 2022 and 2021:

(In Thousands)	Beginning Balance	New Loans	Other	Repayments	Ending Balance
2021	$ 16,246	$ 10,546	$ (3,177)	$ (11,249)	$ 12,366
2022	12,366	10,651	(5,266)	(6,206)	11,545

Loan balances that are no longer considered part of a related party relationship are shown as other activity.

Deposits from related parties held by the Banks amounted to $19,694,000 at December 31, 2022 and $27,669,000 at December 31, 2021.

NOTE 17 - OFF-BALANCE SHEET RISK

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit, interest rate, or liquidity risk in excess of the amount recognized in the Consolidated Balance Sheet. The contract amounts of these instruments express the extent of involvement the Corporation has in particular classes of financial instruments.

The Corporation's exposure to credit loss from nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual amount of these instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The Corporation may require collateral or other security to support financial instruments with off-balance sheet credit risk.

Financial instruments whose contract amounts represent credit risk are as follows at December 31, 2022 and 2021:

(In Thousands)	2022	2021
Commitments to extend credit	$ 169,365	$ 184,364
Standby letters of credit	9,915	7,027
Credit exposure from the sale of assets with recourse	7,358	10,248

Commitments to extend credit are legally binding agreements to lend to customers. Commitments generally have fixed expiration dates or other termination clauses and may require payment of fees. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future liquidity requirements. The Corporation evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation, on an extension of credit is based on management's credit assessment of the counterparty.

Standby letters of credit represent conditional commitments issued by the Corporation 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 upon expiration of the coverage period. For secured letters of credit, the collateral is typically Bank deposit instruments or customer business assets.

NOTE 18 - CAPITAL REQUIREMENTS

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

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

As of December 31, 2022 and 2021, the FDIC categorized the Banks as well capitalized under the regulatory framework for prompt corrective action. To be classified as a well capitalized financial institution, common equity tier I risk-based, tier I risked-based, total risk-based, and tier I leverage capital ratios must be at least 6.5%, 8%, 10%, and 5%, respectively.

The Corporation's and the Banks' actual capital ratios (using the definitions from the prompt corrective action rules) are presented in the following tables, which shows that the Corporation and both Banks met all regulatory capital requirements.

Consolidated Corporation

	2022		2021	
(In Thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**
Common Equity Tier I Capital (to Risk-weighted Assets)				
Actual	$ 165,346	9.973 %	$ 156,439	10.791 %
For Capital Adequacy Purposes	74,607	4.500 %	65,237	4.500 %
Minimum To Maintain Capital Conservation Buffer	116,056	7.000 %	101,480	7.000 %
To Be Well Capitalized	107,766	6.500 %	94,232	6.500 %
Total Capital (to Risk-weighted Assets)				
Actual	$ 181,127	10.925 %	$ 170,708	11.776 %
For Capital Adequacy Purposes	132,633	8.000 %	115,970	8.000 %
Minimum To Maintain Capital Conservation Buffer	174,081	10.500 %	152,211	10.500 %
To Be Well Capitalized	165,791	10.000 %	144,963	10.000 %
Tier I Capital (to Risk-weighted Assets)				
Actual	$ 165,346	9.973 %	$ 156,439	10.791 %
For Capital Adequacy Purposes	99,476	6.000 %	86,983	6.000 %
Minimum To Maintain Capital Conservation Buffer	140,925	8.500 %	123,226	8.500 %
To Be Well Capitalized	132,635	8.000 %	115,977	8.000 %
Tier I Capital (to Average Assets)				
Actual	$ 165,346	8.636 %	$ 156,439	8.397 %
For Capital Adequacy Purposes	76,585	4.000 %	74,521	4.000 %
To Be Well Capitalized	95,731	5.000 %	93,152	5.000 %

Jersey Shore State Bank

	2022		2021	
(In Thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**
Common Equity Tier I Capital (to Risk-weighted Assets)				
Actual	$ 119,783	9.781 %	$ 110,682	10.337 %
For Capital Adequacy Purposes	55,109	4.500 %	48,183	4.500 %
Minimum To Maintain Capital Conservation Buffer	85,725	7.000 %	74,952	7.000 %
To Be Well Capitalized	79,602	6.500 %	69,598	6.500 %
Total Capital (to Risk-weighted Assets)				
Actual	$ 131,379	10.728 %	$ 121,094	11.309 %
For Capital Adequacy Purposes	97,971	8.000 %	85,662	8.000 %
Minimum To Maintain Capital Conservation Buffer	128,587	10.500 %	112,431	10.500 %
To Be Well Capitalized	122,464	10.000 %	107,078	10.000 %
Tier I Capital (to Risk-weighted Assets)				
Actual	$ 119,783	9.781 %	$ 110,682	10.337 %
For Capital Adequacy Purposes	73,479	6.000 %	64,244	6.000 %
Minimum To Maintain Capital Conservation Buffer	104,095	8.500 %	91,013	8.500 %
To Be Well Capitalized	97,972	8.000 %	85,659	8.000 %
Tier I Capital (to Average Assets)				
Actual	$ 119,783	8.383 %	$ 110,682	8.326 %
For Capital Adequacy Purposes	57,155	4.000 %	53,174	4.000 %
To Be Well Capitalized	71,444	5.000 %	66,468	5.000 %

Luzerne Bank

(In Thousands)	2022 Amount		2022 Ratio	2021 Amount		2021 Ratio
Common Equity Tier I Capital (to Risk-weighted Assets)						
Actual	$	43,364	9.877 %	$	42,291	11.164 %
For Capital Adequacy Purposes		19,757	4.500 %		17,047	4.500 %
Minimum To Maintain Capital Conservation Buffer		30,733	7.000 %		26,517	7.000 %
To Be Well Capitalized		28,538	6.500 %		24,623	6.500 %
Total Capital (to Risk-weighted Assets)						
Actual	$	47,549	10.830 %	$	46,148	12.182 %
For Capital Adequacy Purposes		35,124	8.000 %		30,306	8.000 %
Minimum To Maintain Capital Conservation Buffer		46,100	10.500 %		39,776	10.500 %
To Be Well Capitalized		43,905	10.000 %		37,882	10.000 %
Tier I Capital (to Risk-weighted Assets)						
Actual	$	43,364	9.877 %	$	42,291	11.164 %
For Capital Adequacy Purposes		26,342	6.000 %		22,729	6.000 %
Minimum To Maintain Capital Conservation Buffer		37,318	8.500 %		32,199	8.500 %
To Be Well Capitalized		35,123	8.000 %		30,305	8.000 %
Tier I Capital (to Average Assets)						
Actual	$	43,364	8.260 %	$	42,291	7.537 %
For Capital Adequacy Purposes		21,000	4.000 %		22,444	4.000 %
To Be Well Capitalized		26,249	5.000 %		28,056	5.000 %

NOTE 19 - REGULATORY RESTRICTIONS

The Pennsylvania Banking Code restricts the availability of capital funds for payment of dividends by all state-chartered banks. Accordingly, at December 31, 2022, the balance in the additional paid in capital account totaling $11,657,000 for JSSB and $42,214,000 for Luzerne is unavailable for dividends.

The Banks are subject to regulatory restrictions, which limit the ability to loan funds to Penns Woods Bancorp, Inc. At December 31, 2022, the regulatory lending limit amounted to approximately $26,839,000.

Cash and Due from Banks

JSSB and Luzerne had no reserve requirements by the district Federal Reserve Bank at December 31, 2022 or 2021; however, if they did they would be reported with cash and due from banks. The required reserves are computed by applying prescribed ratios to the classes of average deposit balances. These are held in the form of cash on hand and a balance maintained directly with the Federal Reserve Bank.

NOTE 20 - FAIR VALUE MEASUREMENTS

The following disclosures show the hierarchical disclosure framework associated with the level of pricing observations utilized in measuring assets and liabilities at fair value. The three broad levels of pricing observations 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 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 table presents the assets reported on the balance sheet at their fair value on a recurring basis as of December 31, 2022 and 2021, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

(In Thousands)	2022 Level I	2022 Level II	2022 Level III	2022 Total
Assets measured on a recurring basis:				
Investment securities, available for sale:				
U.S. Government and agency securities	$ —	$ 2,896	$ —	$ 2,896
Mortgage-backed securities	—	1,282	—	1,282
State and political securities	—	142,809	—	142,809
Other debt securities	—	46,686	—	46,686
Investment equity securities:				
Other equity securities	1,142	—	—	1,142

(In Thousands)	2021 Level I	2021 Level II	2021 Level III	2021 Total
Assets measured on a recurring basis:				
Investment securities, available for sale:				
Mortgage-backed securities	$ —	$ 1,747	$ —	$ 1,747
State and political securities	—	116,658	—	116,658
Other debt securities	—	48,005	—	48,005
Investment equity securities:				
Other equity securities	1,288	—	—	1,288

The following table presents the assets reported on the balance sheet at their fair value on a non-recurring basis as of December 31, 2022 and 2021, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

(In Thousands)	2022 Level I	2022 Level II	2022 Level III	2022 Total
Assets measured on a non-recurring basis:				
Impaired loans	$ —	$ —	$ 1,923	$ 1,923
Other real estate owned	—	—	83	83

(In Thousands)	2021 Level I	2021 Level II	2021 Level III	2021 Total
Assets measured on a non-recurring basis:				
Impaired loans	$ —	$ —	$ 2,360	$ 2,360
Other real estate owned	—	—	83	83

The following table provides a listing of significant unobservable inputs used in the fair value measurement process for items valued utilizing level III techniques as of December 31, 2022 and 2021:

	2022 Quantitative Information About Level III Fair Value Measurements				
(In Thousands)	Fair Value	Valuation Technique(s)	Unobservable Inputs	Range	Weighted Average
Impaired loans	$ 1,923	Appraisal of collateral (1)	Appraisal adjustments (1)	0 to (34)%	(14)%
Other real estate owned	$ 83	Appraisal of collateral (1)	Appraisal adjustments (1)	(20)%	(20)%

	2021				
	Quantitative Information About Level III Fair Value Measurements				
(In Thousands)	**Fair Value**	**Valuation Technique(s)**	**Unobservable Inputs**	**Range**	**Weighted Average**
Impaired loans	$ 2,360	Appraisal of collateral (1)	Appraisal adjustments (1)	0 to (34)%	(15)%
Other real estate owned	$ 83	Appraisal of collateral (1)	Appraisal adjustments (1)	(20)%	(20)%

(1) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses.

The significant unobservable inputs used in the fair value measurement of the Corporation's impaired loans using the discounted cash flow valuation technique include temporary changes in payment amounts and the probability of default. Significant increases (decreases) in payment amounts would result in significantly higher (lower) fair value measurements. The probability of default is 0% for impaired loans using the discounted cash flow valuation technique because all defaulted impaired loans are valued using the appraisal of collateral valuation technique.

The significant unobservable input used in the fair value measurement of the Corporation's impaired loans using the appraisal of collateral valuation technique include appraisal adjustments, which are adjustments to appraisals by management for qualitative factors such as economic conditions and estimated liquidation expenses. The significant unobservable input used in the fair value measurement of the Corporation's other real estate owned are the same inputs used to value impaired loans using the appraisal of collateral valuation technique.

NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Corporation is required to disclose fair values for its financial instruments. Fair values are made at a specific point in time, based on relevant market information and information about the financial instrument. These fair values do not reflect any premium or discount that could result from offering for sale at one time the Corporation's entire holdings of a particular financial instrument. Also, it is the Corporation's general practice and intention to hold most of its financial instruments to maturity and not to engage in trading or sales activities. Because no market exists for a significant portion of the Corporation's financial instruments, fair values are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These fair values are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions can significantly affect the fair values. The carrying amounts for cash and cash equivalents, restricted investments in bank stock, bank-owned life insurance, non-time deposits, accrued interest receivable and payable approximate fair value and are considered Level I measurements.

Fair values have been determined by the Corporation using historical data and an estimation methodology suitable for each category of financial instruments. The Corporation's fair values, methods, and assumptions are set forth below for the Corporation's other financial instruments.

As certain assets and liabilities, such as deferred tax assets, premises and equipment, and many other operational elements of the Corporation, are not considered financial instruments but have value, the fair value of financial instruments would not represent the full fair value of the Corporation.

The fair values of the Corporation's financial instruments not required to be measured or reported at fair value are as follows at December 31, 2022 and 2021:

			Fair Value Measurements at December 31, 2022		
(In Thousands)	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
Financial assets:					
Loans held for sale	$ 3,298	$ 3,298	$ 3,298	$ —	$ —
Loans, net	1,624,094	1,594,073	—	—	1,594,073
Financial liabilities:					
Time deposits	$ 146,282	$ 137,559	$ —	$ —	$ 137,559
Short-term borrowings	153,349	153,349	153,349	—	—
Long-term borrowings	102,783	99,118	—	—	99,118

			Fair Value Measurements at December 31, 2021		
(In Thousands)	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
Financial assets:					
Loans held for sale	$ 3,725	$ 3,725	$ 3,725	$ —	$ —
Loans, net	1,377,971	1,379,787	—	—	1,379,787
Financial liabilities:					
Time deposits	$ 205,367	$ 204,512	$ —	$ —	$ 204,512
Short-term borrowings	5,747	5,747	5,747	—	—
Long-term borrowings	125,963	127,679	—	—	127,679

NOTE 22 - REVENUE RECOGNITION

On January 1, 2018, the Corporation adopted ASU No. 2014-09 "Revenue from Contracts with Customers" (Topic 606) and all subsequent ASUs that modified Topic 606 using the modified retrospective method, and applied the guidance to all contracts in scope that were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts were not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

The core principle of Topic 606, *Revenue from Contracts with Customers*, is that an entity recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. Topic 606 requires entities to exercise more judgment when considering the terms of a contract than under Topic 605, *Revenue Recognition*. Topic 606 applies to all contracts with customers to provide goods or services in the ordinary course of business, except for contracts that are specifically excluded from its scope.

Topic 606 does not apply to revenue associated with interest income on financial instruments, including loans and securities. Additionally, certain noninterest income streams such as certain credit and debit card fees, income from bank owned life insurance, and gain and losses on sales of loans, equity, lending, and investment securities are out of scope of Topic 606.

Topic 606 is applicable to noninterest revenue streams such as service charges on deposit accounts, merchant income, wire transfer income, check cashing fees, check printing fees, safe deposit box rental fees, life insurance, broker fee's, and brokerage commissions. These revenue streams are largely transactional based and revenue is recognized upon completion of transaction.

Principal versus Agent Considerations

When more than one party is involved in providing goods or services to a customer, Topic 606 requires the Corporation to determine whether it is the principal or an agent in these transactions by evaluating the nature of its promise to the customer. An entity is a principal and therefore records revenue on a gross basis if it controls a promised good or service before transferring that good or service to the customer. An entity is an agent and records as revenue the net amount it retains for its agency services if its role is to arrange for another entity to provide the goods or services. The Corporation most commonly acts as a principal and records revenue on a gross basis, except in certain circumstances. As an example, revenues earned from interchange fees, in which the Corporation acts as an agent, are recorded as non-interest income, net of the related expenses paid to the principal. Brokerage and insurance commissions are recognized when The M Group's services to the broker dealer and investment representative are complete.

Debit Card Fees

Interchange fees are one source of debit and credit card income that is comprised of an amount merchants pay card-issuing banks for the processing of their electronic transactions as a form of payment. ATM service charges, check card usage, and POS debit card transactions generate interchange and debit card income. Per Topic 606 interchange and debit card transaction fees are reported net of related network costs. See Note 1 - Recent Accounting Pronouncements. Prior to the adoption of Topic 606, non-interest expense included network costs. Interchange and debit card transaction fees at December 31, 2022, 2021, and 2020 are reported on a net basis of $1,464,000 $1,511,000, and $1,280,000, respectively. The below table compares gross interchange and debit card transaction fees net network costs for 2022, 2021, and 2020:

(In Thousands)	2022	2021	2020
Debit card transaction fees	$ 2,539	$ 2,684	$ 1,775
Other processing service fees	357	236	306
Gross interchange and card based transaction fees	2,896	2,920	2,081
Network costs	1,432	1,409	801
Net interchange and card based transaction fees	$ 1,464	$ 1,511	$ 1,280

NOTE 23 - LEASES

The following table shows finance lease right of use assets and finance lease liabilities as of December 31, 2022:

(In Thousands)	Statement of Financial Condition classification	December 31, 2022	December 31, 2021
Finance lease right of use assets	Premises and equipment, net	$ 7,006	$ 7,435
Finance lease liabilities	Long-term borrowings	7,783	7,963

The following table shows the components of finance and operating lease expense for the year ended December 31, 2022.

(In Thousands)	2022	2021	2020
Finance Lease Cost:			
Amortization of right-of-use asset	$ 429	$ 474	$ 199
Interest expense	244	257	212
Operating lease cost	285	297	318
Total Lease Cost	$ 958	$ 1,028	$ 729

A maturity analysis of operating and finance lease liabilities and reconciliation of the undiscounted cash flows to the total operating lease liability is as follows:

(In Thousands)	Operating	Finance
2023	$ 265	$ 421
2024	255	427
2025	257	929
2026	260	387
2027	268	388
2028 and thereafter	2,300	8,888
Total undiscounted cash flows	3,605	11,440
Discount on cash flows	(897)	(3,657)
Total lease liability	$ 2,708	$ 7,783

The following table shows the weighted average remaining lease term and weighted average discount rate for both operating and finance leases outstanding as of December 31, 2022.

	Operating	Finance
Weighted-average term (years)	17.01	23.44
Weighted-average discount rate	3.54 %	3.20 %

ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A CONTROLS AND PROCEDURES

The Corporation, under the supervision and with the participation of the Corporation’s management, including the Corporation’s Chief Executive Officer along with the Corporation’s President and Chief Financial Officer, conducted an evaluation of the effectiveness as of December 31, 2022 of the design and operation of the Corporation’s disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act. Based upon that evaluation, the Corporation’s Chief Executive Officer along with the Corporation’s President and Chief Financial Officer concluded that the Corporation’s disclosure controls and procedures were effective as of December 31, 2022.

There have been no changes in the Corporation’s internal control over financial reporting during the fourth quarter of 2022 that have materially affected, or are reasonably likely to materially affect, the Corporation’s internal control over financial reporting.

Management’s Report on Internal Control Over Financial Reporting

Management of the Corporation is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Corporation’s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a significant deficiency (as defined in Public Company Accounting Oversight Board Auditing Standard No. 2), or a combination of significant deficiencies, that results in there being more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis by management or employees in the normal course of performing their assigned functions.

Management assessed the effectiveness of the Corporation’s internal control over financial reporting as of December 31, 2022. Management’s assessment did not identify any material weaknesses in the Corporation’s internal control over financial reporting.

In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in "Internal Control-Integrated Framework" issued by COSO in May 2013. Because there were no material weaknesses discovered, management believes that, as of December 31, 2022, the Corporation’s internal control over financial reporting was effective.

S.R. Snodgrass, P.C. (U.S. PCAOB Auditor Firm I.D.:74) an independent registered public accounting firm, has audited the consolidated financial statements included in this Annual Report on Form 10-K.

Date: March 15, 2023	/s/ Richard A. Grafmyre	/s/ Brian L. Knepp
	Chief Executive Officer	President and Chief Financial Officer (Principal Financial Officer)

SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Penns Woods Bancorp, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Penns Woods Bancorp, Inc. and subsidiaries (the "Company") as of December 31, 2022 and 2021; the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2022; and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent, with respect to the Company, in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Basis for Opinion

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the Audit Committee and that: (1) relate to accounts or disclosures that are material to the financial statements; and (2) involve our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter, in any way, our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for Loan Losses (ALL) – Qualitative Factors

Description of the Matter

The Company's loan portfolio totaled $1.6 billion as of December 31, 2022, and the associated ALL was $15.6 million. As discussed in Notes 1 and 6 to the consolidated financial statements, determining the amount of the ALL requires significant judgment about the collectability of loans, which includes an assessment of qualitative adjustments to reflect the inherent losses that exist in the loan portfolio at the balance sheet date that are not reflected in the historical loss experience. Qualitative adjustments are made based upon changes in lending policies and practices, economic conditions, changes in the loan portfolio mix, trends in loan delinquencies and classified loans, collateral values, and concentrations of credit risk for the commercial loan portfolios.

We identified these qualitative adjustments within the ALL as critical audit matters because they involve a high degree of subjectivity. In turn, auditing management's judgments regarding the qualitative factors applied in the ALL calculation involved a high degree of subjectivity.

How We Addressed the Matter in Our Audit

We gained an understanding of the Company's process for establishing the ALL, including the qualitative adjustments made to the ALL. We evaluated the design and tested the operating effectiveness of controls over the Company's ALL process, which included, among others, management's review and approval controls designed to assess the need and level of qualitative adjustments to the ALL, as well as the reliability of the data utilized to support management's assessment. We also tested the clerical accuracy of the formulas and information utilized in the calculations.

To test the qualitative adjustments, we evaluated the appropriateness of management's methodology and assessed whether all relevant risks were reflected in the ALL.

Allowance for Loan Losses (ALL) – Qualitative Factors

How We Addressed the Matter in Our Audit

Regarding the measurement of the qualitative adjustments, we evaluated the completeness, accuracy, and relevance of the data and inputs utilized in management's estimate. Furthermore, we analyzed the changes in the components of the qualitative reserves relative to changes in external market factors, and internal data points that support management's assessment of the reserves, which included the evaluation of management's ability to capture and assess relevant data from both external sources and internal reports. Our testing considered both the directional consistency of the reserves as well as the overall magnitude of the adjustments.

We also utilized internal credit review specialists with knowledge to evaluate the appropriateness of management's risk-rating processes, to ensure that the risk ratings applied to the commercial loan portfolio were reasonable.

We have served as the Company's auditor since 1999.

S. R. Snodgrass, P.C.

Cranberry Township, Pennsylvania
March 15, 2023

ITEM 9B OTHER INFORMATION

None.

PART III

ITEM 10 DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The information appearing under the captions “The Board of Directors and its Committees,” “Election of Directors,” “Information as to Nominees and Directors,” “Delinquent Section 16(a) Reports,” “Principal Officers of the Corporation,” and “Certain Transactions” in the Corporation’s Proxy Statement for the Corporation’s 2023 annual meeting of shareholders (the “Proxy Statement”) is incorporated herein by reference.

ITEM 11 EXECUTIVE COMPENSATION

Information appearing under the captions “Compensation of Directors," “Compensation Discussion and Analysis,” “Compensation Committee Report,” “Executive Compensation,” “Grants of Plan-Based Awards,” “Outstanding Equity Awards,” “Option Exercises and Stock Vested,” “Nonqualified Deferred Compensation,” “Retirement Plan,” “Potential Post-Employment Payments,” and "Compensation Committee Interlocks and Insider Participation" in the Proxy Statement is incorporated herein by reference.

ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information appearing under the caption “Beneficial Ownership and Other Information Regarding Directors, Executive Officers, and Certain Beneficial Owners” in the Proxy Statement is incorporated herein by reference.

Securities Authorized for Issuance Under Equity Compensation Plans

The following tables provide certain information regarding securities issued or issuable under the Corporation’s equity compensation plan as of December 31, 2022:

	Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for issuance under equity plans (excluding securities reflected in first column)
Equity compensation plan approved by security holders	914,000	$ 25.34	281,500
Equity compensation plan not approved by security holders	—	—	—
Total	914,000	$ 25.34	281,500

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information appearing under the captions “Election of Directors” and “Certain Transactions” in the Proxy Statement is incorporated herein by reference.

ITEM 14 PRINCIPAL ACCOUNTING FEES AND SERVICES

The information appearing in the Proxy Statement under the captions, “Audit Fees,” “Audit-Related Fees,” “Tax Fees,” “Other Fees,” and “Pre-Approval of Audit and Permissible Non-Audit Services” is incorporated herein by reference.

PART IV

ITEM 15 EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)1. Financial Statements

The following consolidated financial statements and reports are set forth in Item 8:

2. Financial Statement Schedules

Financial statement schedules are omitted because the required information is either not applicable, not required or is shown in the respective financial statements or in the notes thereto.

(b) Exhibits:

(3)(i)	Articles of Incorporation of the Registrant, as presently in effect.
(3)(ii)	Bylaws of the Registrant (incorporated by reference to Exhibit 3(ii) of the Registrant’s Annual Report on Form 10-K for the year ended December 31, 2020).
(4)(i)	Description of Capital Securities.
(10)(i)	Form of First Amendment to the Jersey Shore State Bank Amendment and Restatement of the Director Fee Agreement, dated as of October 1, 2004 (incorporated by reference to Exhibit 10.7 of the Registrant’s Current Report on Form 8-K filed on June 29, 2006).
(10)(ii)	Amended and Restated Employment Agreement, dated as of March 9,2021, between Penns Woods Bancorp, Inc. and Richard A. Grafmyre (incorporated by reference to Exhibit 10.1 of the Registrant’s Current Report on Form 8-K filed on March 10, 2021).
(10)(iii)	Amended and Restated Employment Agreement, dated as of December 31, 2018, between Penns Woods Bancorp, Inc. and Brian L. Knepp (incorporated by reference to Exhibit 10.1 of the Registrant’s Current Report on Form 8-K filed on December 31, 2018).
(10)(iv)	Amendment to Employment Agreement, dated July 15, 2022, between Penns Woods Bancorp, Inc. and Richard A. Grafmyre (incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed on July 21, 2022).*
(10)(v)	Amendment to Employment Agreement, dated July 15, 2022, between Penns Woods Bancorp, Inc. and Brian L. Knepp (incorporated by reference to Exhibit 10.4 of the Registrant's Current Report on Form 8-K filed on July 21, 2022).*
(10)(vi)	Employment Agreement, dated February 1, 2014, among Penns Woods Bancorp, Inc., Jersey Shore State Bank and Aron M. Carter (incorporated by reference to Exhibit 10.5 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2016).*
(10)(vii)	Employment Agreement, dated February 1, 2014, among Penns Woods Bancorp, Inc., Jersey Shore State Bank and Michelle M. Karas (incorporated by reference to Exhibit 10.6 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2016).*
(10)(viii)	Supplemental Executive Retirement Plan dated as of September 25, 2020, effective September 1, 2020, between Jersey Shore State Bank and Brian Knepp (incorporated by reference to Exhibit 10.1 of the Registrant’s Current Report on Form 8-K filed on October 1, 2020).*
(10)(ix)	Supplemental Executive Retirement Plan dated as of September 25, 2020, effective September 1, 2020, between Jersey Shore State Bank and Aron Carter (incorporated by reference to Exhibit 10.2 of the Registrant’s Current Report on Form 8-K filed on October 1, 2020).*
(10)(x)	Penns Woods Bancorp, Inc. 2020 Equity Incentive Plan (incorporated by reference to Appendix A to the Registrant's definitive proxy statement filed on March 23, 2020).*
(10)(xi)	Penns Woods Bancorp, Inc. 2020 Non-Employee Director Compensation Plan (incorporated by reference to Appendix B to the Registrant's definitive proxy statement filed on March 23, 2020).*
(21)	Subsidiaries of the Registrant.
(23)	Consent of Independent Certified Public Accountants.
(31)(i)	Rule 13a-14(a)/Rule 15d-14(a) Certification of Chief Executive Officer.
(31)(ii)	Rule 13a-14(a)/Rule 15d-14(a) Certification of Principal Financial Officer.
(32)(i)	Section 1350 Certification of Chief Executive Officer.
(32)(ii)	Section 1350 Certification of Principal Financial Officer.
Exhibit 101	Interactive data file containing the following financial statements formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheet at December 31, 2022 and December 31, 2021; (ii) the Consolidated Statement of Income for the years ended December 31, 2022, 2021, and 2020; (iii) the Consolidated Statements of Shareholders’ Equity for the years ended December 31, 2022, 2021, and 2020; (iv) the Consolidated Statement of Comprehensive Income for the years ended December 31, 2022, 2021, and 2020; (v) the Consolidated Statement of Cash Flows for the years ended December 31, 2022, 2021, and 2020; and (vi) the Notes to Consolidated Financial Statements, tagged as blocks of text. As provided in Rule 406T of Regulation S-T, this interactive data file shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, and shall not be deemed “filed” or part of any registration statement or prospectus for purposes of Section 11 or 12 under the Securities Act of 1933, or otherwise subject to liability under those sections.

* Denotes compensatory plan or arrangement.

EXHIBIT INDEX

(3)(i)	Articles of Incorporation of the Registrant, as presently in effect.
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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

March 15, 2023	PENNS WOODS BANCORP, INC.
	/s/ Richard A. Grafmyre
	Chief Executive Officer

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

/s/ Richard A. Grafmyre Richard A. Grafmyre, Chief Executive Officer and Director (Principal Executive Officer)	March 15, 2023
/s/ Brian L. Knepp Brian L. Knepp, President and Chief Financial Officer and Director (Principal Financial and Accounting Officer)	March 15, 2023
/s/ R. Edward Nestlerode, Jr. R. Edward Nestlerode, Jr., Chairman of the Board	March 15, 2023
/s/ Daniel K. Brewer Daniel K. Brewer, Director	March 15, 2023
/s/ Michael J. Casale, Jr. Michael J. Casale, Jr., Director	March 15, 2023
/s/ William J. Edwards William J. Edwards, Director	March 15, 2023
/s/ James M. Furey, II James M. Furey, II, Director	March 15, 2023
/s/ D. Michael Hawbaker D. Michael Hawbaker, Director	March 15, 2023
/s/ Cameron W. Kephart Cameron W. Kephart, Director	March 15, 2023
/s/ Leroy H. Keiler, III Leroy H. Keiler, III, Director	March 15, 2023
/s/ Charles E. Kranich, II Charles E. Kranich, III, Director	March 15, 2023
/s/ Robert Q. Miller Robert Q. Miller, Director	March 15, 2023
/s/ John G. Nackley John G. Nackley, Director	March 15, 2023
/s/ Jill F. Schwartz Jill F. Schwartz, Director	March 15, 2023

Exhibit 3(i)

ARTICLES OF INCORPORATION, AS AMENDED

1. The name of the corporation is Penns Woods Bancorp, Inc.

2. The location and post office address of the initial registered office of the corporation in this Commonwealth is 115 S. Main Street, Jersey Shore, Pennsylvania 17740.

3. The corporation is incorporated under the Business Corporation Law of the Commonwealth of Pennsylvania for the following purpose or purposes: To have unlimited power to engage in and do any lawful act concerning any or all lawful business for which corporations may be incorporated under the provisions of the Business Corporation Law of the Commonwealth of Pennsylvania. The corporation is incorporated under the provisions of the Business Corporation Law of the Commonwealth of Pennsylvania (Act of May 5, 1933, P.L. 364 as amended).

4. The term for which the corporation is to exist is perpetual.

5. The corporation shall have authority to issue (i) twenty-two million, five hundred thousand (22,500,000) shares of common stock, par value $5.55 per share, and (ii) three million (3,000,000) shares of preferred stock, having such par value as the Board of Directors shall fix and determine (the "Preferred Stock"). The Preferred Stock may be issued from time to time as a class without series or, if so determined by the Board of Directors of the corporation, either in whole or in part, in one or more series. There is hereby expressly granted to and vested in the Board of Directors of the corporation authority to fix and determine (except as fixed and determined herein), by resolution, the par value, voting powers, full or limited, or no voting powers, and such designations, preferences and relative, participating, optional or other special rights, if any, and the qualifications, limitations or restrictions thereof, if any, including specifically, but not limited to, the dividend rights, conversion rights, redemption rights and liquidation preferences, if any, of any wholly unissued series of Preferred Stock (or the entire class of Preferred Stock if none of such shares have been issued), the number of shares constituting any such series and the terms and conditions of the issue thereof. Prior to the issuance of any shares of Preferred Stock, a statement setting forth a copy of each such resolution or resolutions and the number of shares of Preferred Stock of each such class or series shall be executed and filed in accordance with the Pennsylvania Business Corporation Law. Unless otherwise provided in any such resolution or resolutions, the number of shares of capital stock of any such class or series so set forth in such resolution or resolutions may thereafter be increased or decreased (but not below the number of shares then outstanding), by a statement likewise executed and filed setting forth a statement that a specified increase or decrease therein had been authorized and directed by a resolution or resolutions likewise adopted by the Board of Directors of the corporation. In case the number of such shares shall be decreased, the number of shares so specified in the statement shall resume the status they had prior to the adoption of the first resolution or resolutions .

5A. Effective at 11:59 p.m. on September 30, 2019 (the "Effective Time"), each share of the corporation's common stock issued at the Effective Time shall be changed into one and one-half shares of common stock of the corporation with a stated par value of $5.55 per share. In lieu of fractional shares, the corporation shall pay to each shareholder of record otherwise entitled to any fractional share an amount equal to such fraction multiplied by the closing sale price of the corporation's common stock on October 1, 2019, as reported on the Nasdaq Stock Market. The number of authorized shares of capital stock and the par value of each share of capital stock immediately following such change shall be as stated above in Article 5.

6. The name(s) and post office address(es) of each incorporator(s) and the number and class of shares subscribed for by such incorporator(s) is (are):

Name	Address	No. and Class of Shares
Theodore H. Reich	226 Front Street, Jersey Shore, PA 17740	1
Raymond D. Eck	R.D. 2 Jersey Shore, PA 17740	1
Howard N. Thompson	P.O. Box 504 Jersey Shore, PA 17740	1

7. Cumulative voting rights shall not exist with respect to the election of directors.

8. A. The Board of Directors may, if it deems it advisable, oppose a tender, or other offer for the corporation's securities, whether the offer is in cash or in securities of a corporation or otherwise. When considering whether to oppose an

offer, the Board of Directors may, but it is not legally obligated to, consider any pertinent issues; by way of illustration, but not of limitation, the Board of Directors may, but shall not be legally obligated to, consider any and all of the following:

(1) Whether the offer price is acceptable based on the historical and present operating results or financial condition of the corporation.

(2) Whether a more favorable price could be obtained for the corporation's securities in the future.

(3) The impact which an acquisition of the corporation would have on its employees, depositors and customers of the corporation and its subsidiaries in the community which they serve.

(4) The reputation and business practices of the offeror and its management and affiliates as they would affect the employees, depositors and customers of the corporation and its subsidiaries and the future value of the corporation's stock.

(5) The value of the securities, if any, which the offeror is offering in exchange for the corporation's securities, based on an analysis of the worth of the corporation as compared to the corporation or other entity whose securities are being offered.

(6) Any antitrust or other legal and regulatory issues that are raised by the offer.

B. If the Board of Directors determines that an offer should be rejected, it may take any lawful action to accomplish its purpose including, but not limited to, any and all of the following: advising shareholders not to accept the offer; litigation against the offeror; filing complaints with all governmental and regulatory authorities; acquiring the authorized but unissued securities or treasury stock or granting options with respect thereto; acquiring a company to create an antitrust or other regulatory problem for the offeror; and obtaining a more favorable offer from another individual or entity.

9. The Board of Directors of the corporation shall be divided into three classes, the respective terms of office of which shall end in successive years. The number of directors in each class shall be specified in the Bylaws and shall be nearly as equal as possible. Unless they are elected to fill vacancies, the directors in each class shall be elected to hold office until the third successive annual meeting of shareholders after their election and until their successors shall have been elected and qualified. At each annual meeting of shareholders the directors of only one class shall be elected, except directors who may be elected to fill vacancies.

10. No holder of shares of any class or of any series of any class shall have any preemptive right to subscribe for, purchase or receive any shares of the corporation, whether now or hereafter authorized, or any obligations or other securities convertible into or carrying options to purchase any such shares of the corporation, or any options or rights to purchase any such shares or securities, issued or sold by the corporation for cash or any other form of consideration, and any such shares, securities or rights may be issued or disposed of by the Board of Directors to such persons and on such terms as the Board in its discretion shall deem advisable.

11. The corporation shall have authority to borrow money and the Board of Directors, without the approval of the shareholders and acting within their sole discretion, shall have the authority to issue debt instruments of the corporation upon such terms and conditions and with such limitation as the Board of Directors deems advisable. The authority of the Board of Directors shall include, but not be limited to, the power to issue convertible debentures.

12. Every person who is or was a director, officer, employee, or agent of the corporation, or of any corporation which he served as such at the request of the corporation, shall be indemnified by the corporation to the fullest extent permitted by law against all expenses and liabilities reasonably incurred by or imposed upon him in connection with any proceeding to which he may be made, or threatened to be made, any party, or in which he may become involved by reason of his being or having been a director, officer, employee or agent of the corporation, or of such other corporation, whether or not he is a director, officer, employee or agent of the corporation or such other corporation at the time the expenses or liabilities are incurred.

13. No merger, consolidation, liquidation or dissolution of the corporation nor any action that would result in the sale or other disposition of all or substantially all of the assets of the corporation shall be valid unless first approved by the affirmative vote of the holders of at least sixty-six and 2/3 percent (66-2/3%) of the outstanding shares of Common Stock. The immediately preceding sentence shall not apply to any merger, consolidation, liquidation or dissolution of the corporation nor any action that would result in the sale or other disposition of all or substantially all of the assets of the corporation if any such transaction or action is approved in advance by the affirmative vote of seventy-five percent (75%) or more of the members of the Board of Directors.

Notwithstanding the foregoing, this Article 13 shall not apply to any merger, consolidation, share exchange or similar transaction involving the Corporation if (i) members of the Board of Directors of the Corporation will constitute at least a majority of the Board of Directors of the surviving or new corporation or entity immediately after the transaction and (ii) shareholders of the Corporation will hold in the aggregate voting shares of the surviving or new corporation or entity to be outstanding immediately after completion of the transaction entitled to cast at least a majority of the votes entitled to be cast generally for the election of directors. This Article may not be amended unless first approved by the affirmative vote of the holders of at least sixty-six and two thirds percent (66-2/3%) of the outstanding shares of Common Stock in addition to any other vote of security holders otherwise required by these Articles of Incorporation or by law.

14. Any and all classes or series of shares of capital stock of the corporation, or any part thereof, may be represented by uncertificated shares to the extent determined by the Board of Directors, except as required by applicable law, including that shares represented by a certificate that is issued and outstanding shall continue to be represented thereby until the certificate is surrendered to the corporation. Within a reasonable time after the issuance or transfer of uncertificated shares, the corporation shall send to the registered owner thereof a written notice containing the information required by applicable law to be set forth or stated on certificates. Except as otherwise expressly provided by law, the rights and obligations of the holders of uncertificated shares of the same class and series shall be identical.

Exhibit 4(i)

DESCRIPTION OF CAPITAL STOCK

As of March 1, 2023, Penns Woods Bancorp, Inc. (the “Corporation”) had one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended: common stock, $5.55 par value per share (the “Common Stock”). The following summarizes the provisions of the Common Stock under the articles of incorporation and bylaws of the Corporation and under the provisions of the Pennsylvania Business Corporation Law of 1988, as amended (the “PBCL”). The summary should be read in conjunction to the complete text of the articles of incorporation and bylaws and the PBCL.

Authorized Shares of Capital Stock

The authorized capital stock consists of 22,500,000 shares of Common Stock and 3,000,000 shares of preferred stock. As of March 1, 2023, there were 7,059,457 shares of Common Stock issued and outstanding. No shares of preferred stock were issued and outstanding as of March 1, 2023.

Common Stock

Voting Rights

Holders of Common Stock are entitled to one vote for every share having voting power on all matters submitted for action by the shareholders. Holders of Common Stock do not have cumulative voting rights in the election of directors. The Corporation’s articles of incorporation provide that a merger, consolidation, liquidation, or dissolution of the Corporation requires the affirmative vote of 66-2/3% of our outstanding shares of Common Stock, in addition to any vote required by law. This provision does not apply to any merger, consolidation, liquidation, or dissolution of the Corporation nor any action that would result in the sale or other disposition of all or substantially all of the assets of the Corporation if any such transaction or action is approved by the affirmative vote of seventy-five percent (75%) or more of the members of the Board of Directors. This provision also does not apply to any merger, consolidation, share exchange or similar transaction if (i) members of the Corporation’s board of directors will constitute at least a majority of the of the board of directors or the surviving or new corporation or entity immediately after the transaction and (ii) shareholders of the Corporation will hold in the aggregate voting shares of the surviving or new corporation or entity to be outstanding immediately after completion of the transaction entitled to cast at least a majority of the votes entitled to be cast generally for the election of directors.

Dividends and Distributions

Holders of Common Stock are entitled to receive dividends ratably if, as and when dividends are declared from time to time by our board of directors out of funds legally available for that purpose, after payment of dividends required to be paid on outstanding preferred stock, if any.

Ranking

Upon liquidation, dissolution or winding up, the holders of Common Stock are entitled to receive ratably the assets available for distribution to the shareholders after payment of liabilities and accumulated and unpaid dividends and liquidation preferences on outstanding preferred stock, if any.

No Conversion Rights; No Preemptive Rights; No Redemption

Holders of Common Stock have no preemptive or conversion rights and are not subject to further calls or assessment by the Corporation. There are no redemption or sinking fund provisions applicable to the Common Stock. The rights, preferences and privileges of holders of Common Stock will be subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock, which our board of directors may designate and issue in the future without further shareholder approval.

Stock Exchange Listing

The Common Stock is listed on the Nasdaq Global Select Market under the symbol, “PWOD.”

Fully Paid and Nonassessable

Outstanding shares of Common Stock are validly issued, fully-paid and nonassessable.

Preferred Stock

The Corporation's articles of incorporation authorize the board of directors to fix by resolution the voting rights, designations and preferences, priorities, qualifications, privileges, limitations, restrictions, options, conversion rights, dividend features, retirement features, liquidation features, redemption features and other special or relative rights of the preferred stock and any series thereof. The board of directors has full authority to issue authorized preferred stock from time to time in one or more series, without further shareholder approval.

Anti-Takeover Provisions

Certain provisions of the Corporation's articles of incorporation, bylaws and the PBCL may have the have the effect of delaying, deferring, or preventing a change in control of the Corporation:

Pennsylvania Anti-Takeover Provisions

Certain anti-takeover provisions of the PBCL apply to Pennsylvania registered corporations (e.g., publicly traded companies) including those relating to (1) control share acquisitions, (2) disgorgement of profits by certain controlling persons, (3) business combination transactions with interested shareholders, and (4) the rights of shareholders to demand fair value for their stock following a control transaction. Pennsylvania law allows corporations to opt-out of these anti-takeover sections under certain circumstances, but the Corporation has not opted out of any of these anti-takeover provisions. A general summary of these applicable anti-takeover provisions is set forth below.

Control Share Acquisitions. Pennsylvania law regarding control share acquisitions relates to the act of acquiring for the first time voting power over voting shares (other than (i) shares owned continuously by the same natural person since January 1, 1988, (ii) shares beneficially owned by any natural person or trust, estate, foundation or similar entity to the extent such shares were acquired solely by gift, inheritance, bequest, device or other testamentary distribution, directly or indirectly, from a natural person who beneficially owned the shares prior to January 1, 1988 or (iii) shares acquired pursuant to a stock split, stock dividend or similar distribution with respect to shares that have been beneficially owned continuously since their issuance by the Corporation by the shareholder that acquired them from the Corporation or that were acquired from such shareholder pursuant to (ii) above) equal to: (a) at least 20% but less than 33 1/3%; (b) at least 33 1/3% but less than 50%; or (c) 50% or more of the voting power of the corporation. Once a control share acquisition has occurred, then all shares in excess of the triggering threshold, plus shares purchased at any time with the intention of acquiring such voting power or shares purchased within 180 days of the date the triggering threshold was exceeded, are considered control shares. Control shares cannot vote either until their voting rights have been restored by two separate votes of the shareholders, as described below, or until they have been transferred to a person who is not an affiliate of the transferor and does not thereby also become the holder of control shares.

The holder of control shares may wait until the next annual or special meeting after the acquisition took place to submit the question of the restoration of voting rights to the shareholders, or the acquiring person may accelerate the process by agreeing to underwrite the cost of a special meeting of shareholders for that purpose. In either case, the acquiring person is required to furnish for distribution to the shareholders an information statement containing a detailed disclosure concerning the acquiring person, its intentions with respect to ownership of securities of the corporation and other matters. As an alternative, a person submitting a bona fide written offer to make a control share acquisition may request prospective approval by the shareholders of the exercise of the voting rights of the shares proposed to be acquired, provided that the control share acquisition is consummated within 90 days after shareholder approval is obtained. Two shareholder votes are required to approve the restoration of voting rights. First, the approval of a majority of all voting power must be obtained. Second, the approval of a majority of all disinterested shareholders must be obtained.

For a period of 24 months after the later of (a) a control share acquisition by an acquiring person who does not properly request consideration of voting rights, or (b) the denial of such a request or lapse of voting rights, the corporation may redeem all the control shares at the average of the high and low public market sales price of the shares on the date notice of the call for redemption is given by the corporation.

Disgorgement of Profits by Certain Controlling Persons. Pennsylvania law regarding disgorgement of profits by certain controlling persons applies in the event that (a) any person or group directly or indirectly publicly discloses or causes to be disclosed that the person or group may seek to acquire control of the corporation, or (b) a person or group acquires, offers to acquire or directly or indirectly publicly discloses or causes to be disclosed an intent to acquire) 20% or more of the voting power of the corporation and, in either case, sells shares within 18 months thereafter. Any profits from sales of equity securities of the corporation received by the person or group during such 18-month period will belong to the corporation if the securities that were sold were acquired during the 18-month period after or within 24 months prior to becoming a controlling person.

Business Combination Transactions with Interested Shareholders. Pennsylvania law regarding business combination transactions with interested shareholders provides that a person who acquires the direct or indirect beneficial ownership of shares entitled to cast at least 20% of the votes entitled to be cast for the election of directors or an affiliate or associate of the corporation who at any time within the prior five years was the beneficial owner, directly or indirectly, of 20% of the voting shares of the corporation is an "interested shareholder." A corporation subject to this provision may not effect mergers or certain other business combinations with the interested shareholder for a period of five years, unless:

- the business combination or the acquisition of stock by means of which the interested shareholder became an interested shareholder is approved by the corporation's board of directors prior to such stock acquisition;
- the business combination is approved by the affirmative vote of the holders of all the outstanding common shares of the corporation; or
- the business combination is approved by the affirmative vote of the holders of a majority of all shares entitled to vote, excluding votes of shares held by the interested shareholders or their affiliates, and at the time of such vote, the interested shareholder is the beneficial owner of at least 80% of the voting shares of the corporation. This exception applies only if the value of the consideration to be paid by the interested shareholder in connection with the business combination satisfies certain fair price requirements.

After the five-year restricted period, an interested shareholder of the corporation may engage in a business combination with the corporation if (a) the business combination is approved by the affirmative vote of a majority of the shares other than those beneficially owned by the interested shareholder and its affiliates, or (b) the merger is approved at a shareholders meeting and certain fair price requirements are met.

Rights of Shareholders to Demand Full Value for their Stock Following Control Transaction. Under Pennsylvania law, a control transaction is an acquisition by a person or group of the voting power over at least 20% of the voting shares of the corporation. Subject to exceptions, if a Pennsylvania registered corporation is subject to a control transaction, the controlling person or group must provide prompt notice of the transaction to the court and each shareholder of record holding voting shares. Any holder of voting shares may make a written demand on the controlling person or group for payment in cash of the fair value of each voting share at the date on which the control transaction occurs. The minimum value that a shareholder can receive is the highest price paid per share by the controlling person or group within the 90-day period ending on and including the date of the control transaction. If any shareholder believes the fair value of her shares is higher than the price offered by the controlling person or group, the shareholder may file a petition with the court seeking appraisal of the shares.

Blank Check Preferred Stock

The articles of incorporation provide for the issuance of preferred stock having terms established by the Corporation's board of directors without shareholder approval.

Staggered Board of Directors

The articles of incorporation provide for the classification of the board of directors into three classes with each class serving a staggered three-year term. As a result of this classification, only one third of the entire board of directors stands for election in any one year and a minimum of two annual meetings would be required to elect a majority of the board of directors.

Calling of Special Meetings of Shareholders

Pursuant to the bylaws, special meetings of shareholders may only be called by the Chairman of the Corporation's board of directors, by the Corporation's board of directors, or by the President of the Corporation.

Advance Notice Requirements for Shareholder Proposals and Director Nominations

The bylaws provide that notice of any proposal by a shareholder which the shareholder desires to submit to a vote at an annual meeting, including any director nominations, must made by notice in writing, delivered or mailed by first class United States mail, postage prepaid, to the Secretary of the Corporation not less than ninety (90) days nor more than one hundred and fifty (150) days prior to any annual meeting of shareholders. The bylaws also specify requirements as to the contents of the shareholder's notice or nomination. If notice is not provided in accordance with these provisions, a shareholder's proposal will not appear on the meeting agenda.

Removal of Directors

Under Pennsylvania law and the Corporation's articles of incorporation, directors can be removed from office by a vote of shareholders only for cause.

Board of Directors May Oppose Any Take-Over Offer

The articles of incorporation provide that the board of directors may, if it deems it advisable, oppose a tender, or other offer for the Corporation's securities, whether the contemplated payment is in cash or in the securities of a corporation, or some other form of consideration. When considering whether to oppose an offer, the board of directors may consider any pertinent issues, including any or all of the following:

- whether the offer price is acceptable based on the historical and present operating results or financial condition of the Corporation;
- whether a more favorable price could be obtained for the Corporation's securities in the future;
- the impact which an acquisition of the Corporation would have on the employees, depositors and customers of the Corporation and its subsidiaries in the community which they serve;
- the reputation and business practices of the offeror and its management and affiliates as they would affect the employees, depositors and customers of the Corporation and its subsidiaries and the future value of the Corporation's stock;
- the value of the securities (if any) which the offeror is offering in exchange for the Corporation's securities, based on an analysis of the worth of the Corporation as compared to the corporation or other entity whose securities are being offered; and
- any antitrust or other legal and regulatory issues that are raised by the offer.

If the board of directors determines that an offer should be rejected, it may take any lawful action to accomplish its purpose including:

- advising shareholders not to accept the offer;
- litigation against the offeror;
- filing complaints with governmental and regulatory authorities;
- acquiring the authorized but unissued securities or treasury stock or granting options with respect thereto;
- acquiring a Corporation to create an antitrust or other regulatory problem for the offeror; and
- obtaining a more favorable offer from another individual or entity.

Amendments to Articles of Incorporation

Under the PBCL, an amendment to the articles of incorporation requires, except in limited cases where a greater vote may be required, the affirmative vote of a majority of the votes cast by all shareholders entitled to vote on the matter and the affirmative vote of a majority of the votes cast by all shareholders within each class or series of shares if such class or series is entitled to vote on the matter as a class. The PBCL also provides that our shareholders are not entitled by statute to propose amendments to the articles of incorporation.

The articles of incorporation provide that, in addition to any affirmative vote required by law, the approval of any amendment to Article 13 (business combinations) of the articles of incorporation requires the affirmative vote of holders of at least 66-2/3% of the outstanding shares of voting stock.

Amendments to Bylaws

The bylaws provide that our bylaws may be amended or repealed, in whole or in part, by the affirmative vote of a majority of the board of directors at any regular or special meeting of the board of directors. The PBCL provides that the ability of our board of directors to adopt, amend or repeal the bylaws is subject to the power of shareholders to change such action. The PBCL also provides that the board of directors does not have the authority to adopt or change a bylaw on specified subjects, including, but not limited to, authorized capital, the personal liability of directors, various matters relating to our board of directors, and matters relating to the voting rights of shareholders.

Exhibit 21

Subsidiaries of the Registrant

	State or Jurisdiction Under the Law of Which Organized
Jersey Shore State Bank	Pennsylvania
Luzerne Bank	Pennsylvania
Woods Real Estate Development Company, Inc.	Pennsylvania
Woods Investment Company, Inc.	Delaware
The M Group (subsidiary of the Jersey Shore State Bank)	Pennsylvania
United Insurance Solutions, LLC	Pennsylvania

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements File No. 333-238749, File No. 333-238748, File No. 333-205722, File No. 333-134585, File No. 333-58682 on Form S-8 of Penns Woods Bancorp, Inc. of our report dated March 15, 2023, relating to our audit of the consolidated financial statements, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K of Penns Woods Bancorp, Inc. for the year ended December 31, 2022.

S. R. Snodgrass, P.C.

Cranberry Township, Pennsylvania
March 15, 2023

Exhibit 31(i)

Rule 13a-14(a)/Rule 15d-14(a) Certification of Chief Executive Officer

I, Richard A. Grafmyre, certify that:

1. I have reviewed this annual report on Form 10-K of Penns Woods Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):

   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2023	/s/ Richard A. Grafmyre
	Richard A. Grafmyre Chief Executive Officer (Principal Executive Officer)

Exhibit 31(ii)

Rule 13a-14(a)/Rule 15d-14(a) Certification of Chief Financial Officer

I, Brian L. Knepp, certify that:

1. I have reviewed this annual report on Form 10-K of Penns Woods Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):

    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2023

/s/ Brian L. Knepp

Brian L. Knepp
President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Exhibit 32 (i)

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Penns Woods Bancorp, Inc. (the “Company”) on Form 10-K for the period ended December 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Richard A. Grafmyre, Chief Executive Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Richard A. Grafmyre

Richard A. Grafmyre
Chief Executive Officer
March 15, 2023

Exhibit 32 (ii)

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Penns Woods Bancorp, Inc. (the “Company”) on Form 10-K for the period ended December 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Brian L. Knepp, Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Brian L. Knepp

Brian L. Knepp
President and Chief Financial Officer
March 15, 2023