UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

☒ **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 FOR THE TRANSITION PERIOD FROM TO**

Commission File Number 001-41505

LINKBANCORP, Inc.
(Exact name of registrant as specified in its charter)

Pennsylvania **(State or other jurisdiction of incorporation or organization)**	**82-5130531** **(I.R.S. Employer Identification No.)**

1250 Camp Hill Bypass, Suite 202
Camp Hill, PA 17011
(Address of principal executive offices)

Registrant's telephone number, including area code: (855) 569-2265

Former name, former address, and former fiscal year, if changed since last report: NA

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, $0.01 par value per share	**LNKB**	**The NASDAQ Stock Market LLC**

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 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 pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the 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 the 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 financial 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 ☒

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, based on the closing price of the shares of common stock as reported on NASDAQ as of June 30, 2022 was $91,595,830. For this purpose, executive officers and directors of the Registrant are considered affiliates.

The number of shares of Registrant's Common Stock outstanding as of March 28, 2023 was 16,221,692.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2023 Annual Meeting of Shareholders are incorporated by reference in Part III of this Form 10-K

LINKBANCORP, Inc.

ANNUAL REPORT ON FORM 10-K

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Forward Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 ("Securities Act") and Section 21E of the Securities Exchange Act of 1934 ("Exchange Act"), which can be identified by the use of words such as “estimate,” “project,” “believe,” “intend,” “anticipate,” “plan,” “seek,” “expect” or words of similar meaning, or future or conditional verbs, such as “will,” “would,” “should,” “could,” or “may.” A forward-looking statement is neither a prediction nor a guarantee of future events. These forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are based on current beliefs and expectations of our management and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- general economic conditions, either nationally or in our market area, that are worse than expected;
- competition within our market area that is stronger than expected;
- changes in the level and direction of loan delinquencies and charge-offs and changes in estimates of the adequacy of the allowance for loan losses;
- our ability to access cost-effective funding;
- fluctuations in real estate values and both residential and commercial real estate market conditions;
- demand for loans and deposits in our market area;
- our ability to continue to implement our business strategies;
- competition among depository and other financial institutions;
- inflation and changes in market interest rates that reduce our margins and yields, reduce the fair value of financial instruments or reduce our volume of loan originations, or increase the level of defaults, losses and prepayments on loans we have made and make, whether held in portfolio or sold in the secondary market;
- adverse changes in the securities markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- our ability to manage market risk, credit risk and operational risk;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- the imposition of tariffs or other domestic or international governmental polices impacting the value of the products of our borrowers;
- our ability to successfully complete our merger with Partners Bancorp by receiving shareholder and regulatory approvals and integrate into our operations Partners Bancorp's assets, liabilities or systems we acquired, as well as new management personnel or customers, and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto;
- changes in consumer spending, borrowing and savings habits;
- our ability to maintain our reputation;
- our ability to prevent or mitigate fraudulent activity;

- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission or the Public Company Accounting Oversight Board;
- our ability to retain key employees and our existing customers;
- a breach in security of our information systems, including the occurrence of a cyber incident or a deficiency in cyber security;
- risks that COVID-19 may adversely impact our customers and lead to continued labor shortages and supply chain disruptions causing a severe disruption in the U.S. economy, and could potentially create business continuity issues for us;
- political instability or civil unrest;
- our ability to evaluate the amount and timing of recognition of future tax assets and liabilities;
- our compensation expense associated with equity benefits allocated or awarded to our employees; and
- changes in the financial condition, results of operations or future prospects of issuers of securities that we own.

Because of these and other uncertainties, including the Risk Factors described below, our actual future results may be materially different from the results indicated by these forward-looking statements. We disclaim any obligation to revise or update any forward-looking statements contained in this Annual Report on Form 10-K to reflect future events or developments.

Item 1. Business.

Description of Business

LINKBANCORP, Inc. (“LINKBANCORP” or the “Company”) was incorporated under the laws of the Commonwealth of Pennsylvania on April 6, 2018 and is a bank holding company under the Bank Holding Company Act of 1956, as amended. In October 2018, LINKBANCORP became a bank holding company when it completed the acquisition of Stonebridge Bank, which was subsequently renamed LINKBANK.

On February 22, 2023, LINKBANCORP and Partners Bancorp entered into a merger agreement (the “Merger Agreement”) that provides that Partners Bancorp will merge with and into LINKBANCORP, with LINKBANCORP as the surviving corporation (the “Partners Merger”). Partners Bancorp shareholders will receive 1.15 shares of LINKBANCORP common stock for each Partners Bancorp share they own. Following the Partners Merger, Partners Bancorp’s two bank subsidiaries, The Bank of Delmarva and Virginia Partners Bank, will merge with and into LINKBANK, with LINKBANK remaining as the surviving bank (the “Bank Mergers”). The completion of the Partners Merger and the Bank Mergers are subject to customary closing conditions, including approval by both LINKBANCORP and Partners Bancorp shareholders and the receipt of regulatory approvals. The Partners Merger is expected to close in the third quarter of 2023. In connection with the announcement of the Partners Merger, LINKBANCORP completed a private placement of $10.0 million with certain directors of LINKBANCORP as well as other accredited investors.

On September 18, 2021, the Company completed its merger with GNB Financial Services, Inc. (“GNBF”) and its wholly owned subsidiary, The Gratz Bank pursuant to which GNBF merged with and into the Company with the Company as the surviving corporation and LINKBANK merged with and into The Gratz Bank, with The Gratz Bank as the surviving institution (collectively, the "Gratz Merger"). Effective November 4, 2022, The Gratz Bank legally changed its name and began to operate under one brand under the name LINKBANK (the "Bank").

LINKBANCORP has no material operations and conducts no business on its own other than owning the Bank and GNB Investment Corp., a Delaware investment company subsidiary.

LINKBANCORP common stock is traded on the Nasdaq Capital Market under the trading symbol “LNKB” and is subject to Nasdaq's rules for listed companies.

LINKBANK, a Pennsylvania-chartered, non-Federal Reserve member bank, is subject to regulation by the Pennsylvania Department of Banking and Securities ("PADOBS") and the Federal Deposit Insurance Corporation ("FDIC"). LINKBANCORP is the Bank’s sole shareholder.

The Bank is a full-service commercial bank providing personal and business lending and deposit services to individuals, families, nonprofit and business clients throughout Central and Southeastern Pennsylvania, primarily through its digital presence on the internet and ten client solutions centers in Chester, Cumberland, Dauphin, Lancaster, Northumberland and Schuylkill counties, and loan production offices in Chester and York Counties.

As of December 31, 2022, the Company had total consolidated assets of approximately $1.16 billion, total loans of approximately $927.9 million, total deposits of approximately $946.8 million and total consolidated shareholders’ equity of approximately $138.6 million.

LINKBANCORP’s principal executive offices are located at 1250 Camp Hill Bypass, Suite 202, Camp Hill, PA 17011, its phone number is 855-569-2265 and its website is ir.linkbancorp.com.

The Company is subject to the disclosure and regulatory requirements of the Securities Act and Exchange Act and, in accordance with the Exchange Act, it files annual, quarterly, and current reports, proxy statements, and other information with the SEC. The SEC maintains an Internet web site that contains reports, proxy statements, and other information about issuers, like us, who file electronically with the SEC. The address of the site is www.sec.gov.

Strategy and Recent Growth

Our core strategy is to further our mission of “positively impacting lives” through community banking by building strong relationships that bring value to our customers, employees, the communities we serve and our shareholders. In pursuing this mission, the Company specifically seeks to invest in the development of strong future leaders for the banking industry and our communities, to contribute to economically and socially flourishing communities, and to demonstrate the continued viability and integral role of community banking for our economic and social development. As one example of these efforts, in 2019 we launched and continue to support The LINK Foundation, established as a separate legal entity and governed by a distinct board of directors, but fully aligned with the Company’s mission. The LINK Foundation provides financial support to organizations within our markets focused on three funding priorities - developing future leaders, promoting financial literacy and fortifying personal growth.

Our business strategy seeks to provide our customers with personal service, financial sophistication and the full array of product offerings of a larger regional bank, focusing on developing local lending relationships funded by the generation of local retail and business deposits. We believe our culture of highly engaged employees enhances productivity and results in lower employee turnover, ultimately leading to greater operational efficiencies and customer loyalty. We differentiate ourselves based on high touch relationship building service, supported by the convenience of technology. We are committed to increasing our market share in the communities we serve by continuing to leverage available technology, existing branch locations, and new branch locations, and by considering other strategic growth opportunities throughout Central and Southeastern Pennsylvania and surrounding areas.

The Bank provides traditional lending, deposit gathering and cash services to retail customers, small businesses and nonprofit organizations. We offer a full array of technology solutions to our clients and continually evaluate new technologies that enhance the customer experience and allow the Bank to operate more efficiently.

The Bank does not rely on robust noninterest income growth. The management team has experience running many different product sets and subsidiaries but is focused on core deposit and loan growth.

During the year ended December 31, 2022, the Company achieved the following accomplishments:

- net income of $5.6 million for 2022 compared to $289 thousand for the year ended December 31, 2021. As adjusted, net income totaled $6.4 million for 2022 compared to $4.1 million in 2021, when adding back one-time merger and system conversion-related expenses on a tax-effected basis of $770 thousand and $3.6 million, respectively. This adjusted net income equates to a 56% growth in 2022 compared to 2021;
- net interest margin for 2022 was 3.39% compared to 3.07% for the year ended December 31, 2021;
- total deposits grew from $771.7 million at December 31, 2021 to $946.8 million at December 31, 2022, resulting in a growth rate of 22.7%;
- total loans grew 29.1% from $718.7 million at December 31, 2021 to $927.9 million at December 31, 2022;
- completed our initial public offering and listed on the Nasdaq Capital Market during September 2022;
- successfully completed a migration to a new core technology platform, allowing for implementation of innovative technology solutions and improved data analytics; and
- maintained strong credit quality, with total nonperforming assets at 0.23% of total assets at December 31, 2022.

As noted above, in September 2022, the Company completed its initial public offering ("IPO") whereby it issued and sold 5,101,205 shares of common stock at a public offering price of $7.50 per share and thereafter the Company's common shares began trading on the Nasdaq Capital Market. The Company received net proceeds of $34.7 million after deducting underwriting discounts and commissions of $2.5 million and other offering expenses of $1.1 million. The Company contributed $20.0 million in capital to the Bank in October 2022. The Company plans to use the proceeds to support the Bank's current growth, its future growth initiatives, and for general corporate purposes.

The Company's management team has significant experience in successfully executing bank growth strategies, including through bank mergers and acquisitions. Accordingly, as opportunities arise, we will consider growth through acquisition including whole institutions, branches or additional lines of business that are aligned with our strategy and mission, as demonstrated by our recent agreement to merge with Partners Bancorp.

Current Market Area

We currently conduct our business principally through ten Customer Solutions Centers in Chester, Cumberland, Dauphin, Lancaster, Northumberland and Schuylkill Counties, Pennsylvania. In 2021 and 2022 respectively, we established loan production offices in York and Chester Counties, and will continue to consider other strategic locations in Central and Southeastern Pennsylvania to further our objective to become the bank of choice in the markets we serve. We occasionally make loans secured by properties located outside of our primary lending market, usually to borrowers with whom we have an existing relationship and who have a presence within our primary market.

While we manage our banking operations as separate regions, we operate in only one segment. Our regions are based on geographic markets, which allows each region to retain flexibility and local leadership in the unique communities we serve. We believe that this approach gives our Bank greater flexibility to better serve our markets and increases responsiveness to the needs of local customers.

Lending Activities

Our principal lending activity has been the origination of commercial real estate loans, commercial business loans, and to a lesser extent, commercial real estate construction and land development loans, residential real estate loans, home equity loans, consumer loans and agriculture loans. The Bank is predominantly oriented towards commercial customers, with approximately 71.3% of the portfolio in various types of commercial loans and 28.7% in residential real estate, consumer and other loans at December 31, 2022. Our commercial customers are primarily small- and medium-sized businesses. Approximately 40.6% of the loan portfolio earns interest at a fixed rate and the remaining approximately 59.4% of the loan portfolio earns interest at a rate that varies or adjusts based on an underlying index at December 31, 2022.

The following table sets forth the composition of the Bank's loan portfolio by type of loan as of December 31, 2022:

(In Thousands)		December 31, 2022	Percent
Agriculture loans	$	15,591	1.68%
Commercial loans		103,874	11.20
Paycheck Protection Program ("PPP") loans		881	0.09
Commercial real estate loans		540,914	58.31
Residential real estate loans		250,832	27.04
Consumer and other loans		10,057	1.08
Municipal loans		5,466	0.59
		927,615	**100%**
Deferred fees		256	
Allowance for loan losses		(4,666)	
Total	**$**	**923,205**	

Commercial Business (C&I) Lending. As of December 31, 2022, we had $103.9 million in commercial business loans (excluding PPP loans), representing 11.2% of total loans. Our business strategy is to increase our originations of commercial business loans. We offer commercial term loans, lines of credit, agricultural production, equipment financing, and revolving lines of credit with a target loan size of $100,000 to $5.0 million to small businesses in our market area to finance short-term working capital needs such as accounts receivable and inventory. Our commercial lines of credit are typically adjustable-rate and are generally priced on a floating rate basis utilizing the prime rate. We generally obtain personal guarantees with respect to all commercial business lines of credit.

We typically originate commercial business loans on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business, the experience and stability of the borrower's management team, earnings projections and the underlying assumptions, and the value and marketability of any collateral securing the loan. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself and the general economic environment in our market area. Therefore, commercial business loans that we originate generally have greater credit risk than one-to-four family residential real estate loans or consumer loans. In addition, commercial business loans often result in larger outstanding balances to single borrowers, or related groups of borrowers, and also generally require substantially greater evaluation and oversight efforts.

As a result of the Gratz Merger, we acquired loans made through the Paycheck Protection Program ("PPP"), administered directly by the U.S. Small Business Administration ("SBA"). The PPP provides loans to small businesses who were affected by economic conditions as a result of COVID-19 to provide cash-flow assistance to employers who maintain their payroll (including healthcare and certain related expenses), mortgage interest, rent, leases, utilities and interest on existing debt during the COVID-19 emergency. As of December 31, 2022, we had outstanding principal balance of $881 thousand of PPP loans.

Commercial Real Estate Lending. As of December 31, 2022, we had $540.9 million in commercial real estate and multi-family loans, representing 58.3% of total loans. Our commercial real estate and multi-family loans generally have amortization terms of 15 to 25 years and have adjustable interest rates. The adjustable rate loans are typically fixed for the first five years and either adjust annually thereafter or have a balloon payment due at the end of the fixed term. Our commercial real estate and multi-family loans are generally tied to a margin at or above the appropriate three or five year treasury or the Prime Rate. The maximum loan-to-value ratio of our commercial real estate and multifamily loans is generally 80% of the lower of cost or appraised value of the property securing the loan. Our commercial real estate loans are typically secured by multi-family, hotel, agricultural, medical, retail, churches or other commercial properties. At December 31, 2022, our commercial real estate loans were 45.3% non-owner occupied, 25.8% owner-occupied, 19.5% multi-family, and 9.4% construction and land development.

We consider a number of factors in originating commercial real estate and multi-family loans. We evaluate the qualifications and financial condition of the borrower, including project-level and global cash flows, credit history, and management expertise, as well as the value and condition of the property securing the loan. When evaluating the qualifications of the borrower, we consider the financial resources of the borrower, the borrower's experience in owning or managing similar property and the borrower's payment history with us and other financial institutions. In evaluating the property securing the loan, the factors we consider include the net operating income of the mortgaged property before debt service and depreciation, the ratio of the loan amount to the appraised value of the mortgaged property and the debt service coverage ratio (the ratio of net operating income to debt service). We generally require a debt service ratio of at least 1.25x.

Personal guarantees are generally obtained from the principals of commercial real estate and multi-family loan borrowers, although this requirement may be waived in limited circumstances depending upon the loan-to-value ratio and the debt service ratio associated with the loan. We require property and casualty insurance and flood insurance if the property is in a flood zone area. In addition, borrowers are required to obtain title insurance unless the balance of the loan is less than $250,000. In such cases, we will require an ownership and encumbrance report relating to the title of the property.

Construction and Land Development Lending. At December 31, 2022, $57.7 million, or 6.2% of our total loan portfolio, consisted of construction and land loans. Of these, $50.7 million were for commercial development and land loans and are included within our Commercial Real Estate loans and $7.0 million were for residential development and reported within our Residential Real Estate loan category. We offer both fixed-rate and adjustable-rate construction and land loans, although most of these loans have fixed interest rates. The maximum loan-to-value of these loans is generally 80% of the lesser of the appraised value or the purchase price of the property.

Construction and land lending generally involves greater credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction or land loan depends largely upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost (including interest) of construction and other assumptions. If the estimate of construction cost is inaccurate, we may be required to advance additional funds beyond the amount originally committed in order to protect the value of the property. Moreover, if the estimated value of the completed project is inaccurate, the borrower may hold a property with a value that is insufficient to assure full repayment of the construction loan upon the sale of the property. Construction and land loans also expose us to the risk that improvements will not be completed on time in accordance with specifications and projected costs. In addition, the ultimate sale or rental of the property may not occur as anticipated. Land loans pose additional risk because the property generally does not produce income and may be relatively illiquid.

One-to-four family Residential Real Estate Lending. At December 31, 2022, we had $250.8 million in residential real estate loans, representing 27.0% of total loans. These loans are originated by the Bank and underwritten by the correspondent lender in accordance with secondary market standards and The Federal National Mortgage Association, commonly known as Fannie Mae, underwriting guidelines to comply with ability to repay and qualified mortgage rules. Certain mortgage loans such as adjustable rate jumbo loans may be retained in the Bank's loan portfolio. Based on the nature of the borrower and the related size of the loan, we may choose to retain these loans as part of our loan portfolio or sell these loans to the secondary market, which could include sales to the Federal Home Loan Bank of Pittsburgh.

In underwriting residential real estate loans, we evaluate both the borrower's ability to make monthly payments and the value of the property securing the loan. Properties securing real estate loans we make are appraised by independent appraisers. We generally require borrowers to obtain an attorney's title opinion or title insurance, and fire and property insurance (including flood insurance, if necessary) in an amount not less than the amount of the loan.

Home Equity Loans. At December 31, 2022, we had $35.6 million of home equity loans reported within residential real estate loans, representing 3.8% of our total loan portfolio. Home equity loans consists of either revolving lines of credit, term, or second mortgage loans secured by one-to-four family residential real estate. These loans are underwritten based on repayment capacity and source, value of the underlying property, and credit history. Home equity loans are generally considered to have more credit risk than traditional one-to-four family residential loans because the Bank tends to have a subordinate lien position. Our home equity loans are secured by a first or second mortgage on the borrower's principal residence or their second/vacation home (excluding investment/rental property) generally at a maximum current loan-to-value of 80%. There are minimum credit score standards, maximum debt to income ratios and credit requirements on each home equity product that is defined in the Bank's credit policy. All credit decisions for home equity loans are made centrally by the Bank's consumer lending department.

Consumer Lending. To a much lesser extent, we offer a variety of consumer loans to individuals who reside or work in our market area. At December 31, 2022, our consumer loan portfolio totaled $10.1 million, or 1.1% of our total loan portfolio, and $6.7 million of our consumer loans were unsecured (excluding overdraft accounts).

Consumer loans can have either a variable rate based on the index of Wall Street Journal Prime rate or a fixed-rate of interest for a term of up to 10 years, depending on the type of collateral, product and the creditworthiness of the borrower. Our lending policy allows for unsecured, non- real estate secured, and real estate secured loan products that are either installment or open end credit. Our consumer loans may be secured with deposits, automobiles, motorcycles, or real property.

Our consumer loan policy sets forth our underwriting guidelines overall for all loan applications and addresses specific guidelines such as acceptable loan amounts, credit score, debt-to-income ratios, loan-to-value ratios, and collateral allowable by product type. The policy guidelines address applications, structuring, stability, credit standards, collateral, consumer compliance, insurance requirements and appraisal requirements.

Other Loans. In addition to the loan types discussed above, the Company also originates agricultural loans and municipal loans. At December 31, 2022, our agricultural loan portfolio totaled $15.6 million or 1.7% of our total loan portfolio and municipal loans totaled $5.5 million or 0.6% of our total loan portfolio. The agricultural loan portfolio consists of loans to local farmers and agricultural businesses that are generally secured by farmland and equipment. The municipal loan portfolio consists of loans to qualified local municipalities, which are generally supported by the taxing authority of the borrowing municipality, and is frequently secured by collateral.

Credit Risk Management

Loan Approval Procedures and Authority. Pursuant to applicable law, the aggregate amount of loans that we are permitted to make to any one borrower or a group of related borrowers is generally limited to 15% of the Bank's unimpaired capital and surplus (25% if the amount in excess of 15% is secured by "readily marketable highly liquid collateral" or 30% for certain residential development loans). Our legal lending limit was $18.8 million at December 31, 2022. In addition, we have established an in-house target that is less than the legal limits on loans to one borrower. Our in-house target was $10 million at December 31, 2022. At December 31, 2022, our largest credit relationship totaled $14.4 million, comprised of four separate facilities each secured by real estate. Each of these loans was performing in accordance with its terms at December 31, 2022.

Our lending activities follow written, nondiscriminatory underwriting standards and loan origination procedures established by our board of directors and management. The Bank has established the Officers' Loan Committee (OLC) to be able to more efficiently service our commercial customers, prudently manage credit risks, and effectively insure that credit policies are followed. The OLC requires a quorum of the Chief Executive Officer, President, Chief Credit Officer, Senior Credit Officer, Chief Risk Officer, and the Regional Presidents. Each of these individuals have extensive experience in the approval of commercial loans. The OLC has authority to approve loans beginning over $3 million up to and including $8 million. In addition, the Director's Loan Committee (DLC) has authority to approve loans over $8 million up to the legal lending limit of the Bank (with the exception of Regulation O (insider) loans which need to be approved by the Board of Directors).

The loan approval structure prohibits any single signature loan authority. Dual signatures are in effect up to $3 million. The Chief Executive Officer and Chief Credit Officer have been given dual signature authority up to $8 million in situations where timing is essential. These approvals must be ratified by OLC at the next meeting.

Ongoing Credit Risk Management. In addition to the underwriting process referenced above, we perform ongoing risk monitoring and review processes for all credit exposures. Although we grade and classify our loans internally, we have an independent third-party professional firm perform regular loan reviews to confirm loan classifications. We strive to identify potential problem loans early in an effort to aggressively seek resolution of these situations before the loans create a loss, record any necessary charge-offs promptly and maintain adequate allowance levels for probable loan losses incurred in the loan portfolio.

Although we maintain a cautious credit outlook due to continued uncertainty in the economic environment, we believe the Bank is very well positioned for the months ahead given a strong loan loss reserve, application of prudent underwriting standards and a diverse loan portfolio, which does not include a significant concentration of loans in restaurants, lodging or other industries that are perceived to be at higher risk in the current economic environment.

Allowance for Loan and Lease Losses. The allowance for loan losses is evaluated on a quarterly basis by management and is based upon management's periodic review of the collectability of the loans considering historical experience, the size and composition of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. As of December 31, 2022, the allowance for loan losses measured 0.50% of total loans, or approximately 0.78% of the non-purchased portfolio. The total reserve when including the allowance for loan losses and the credit fair value adjustment made to loans acquired in the Gratz Merger totaled $9.7 million or approximately 1.04% of total gross loans outstanding at December 31, 2022.

Investments

The Company's board of directors is responsible for approving and overseeing the investment policy. The investment policy is reviewed at least annually by management and any changes to the policy are recommended to the board of directors and are subject to its approval. This policy dictates that investment decisions be made based on the safety of the investment, regulatory standards, liquidity requirements, potential returns and consistency with our interest rate risk management strategy. The Company also uses the investment portfolio to collateralize municipal deposits. The asset liability management committee, which consists of our President and Chief Risk Officer, Chief Executive Officer, Bank President, Chief Financial Officer and Chief Credit Officer, oversees the Company's investing activities and strategies.

The current investment policy authorizes the Company to invest in debt securities issued by the U.S. government and its agencies or government sponsored enterprises. In addition, management is authorized to invest in investment grade state and municipal obligations. The policy also permits investments in mortgage-backed securities, including pass-through securities, issued and guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae, as well as investments in corporate debentures, federal funds and deposits in other insured institutions. The Company also is required to maintain an investment in FHLB stock, which investment is based primarily on the level of the Company's FHLB borrowings. Additionally, the Company is required to maintain an investment in Federal Reserve Bank of Philadelphia stock equal to six percent of its capital and surplus. The Company does not engage in any investment hedging activities or trading activities, nor does it purchase any high-risk mortgage derivative products, corporate junk bonds, and certain types of structured notes.

At December 31, 2022, the Company had a portfolio of investment securities available for sale which is reported at fair value and a portfolio of held to maturity investment securities that were not carried at fair value through earnings.

Source of Funds

Generally, deposits are the Company's primary source of funds for use in lending and investment activities. We may also use borrowings, primarily Federal Home Loan Bank of Pittsburgh advances, to supplement cash flow needs, as necessary. In addition, we receive funds from scheduled loan payments, loan prepayments, and income on interest-earning assets. While scheduled loan payments and income on interest-earning assets are a relatively stable source of funds, deposit inflows and outflows can vary widely and are influenced by prevailing interest rates, market conditions and levels of competition.

Deposits. We obtain most of our deposits from small- and medium-sized businesses, retail customers, and non-profit customers within our market area. We solicit deposits through our relationship-driven team of dedicated and accessible bankers and through community-focused marketing. We emphasize obtaining deposit relationships at loan origination. We have invested in personnel, business and compliance processes and technology that enable us to acquire, and efficiently and effectively serve, a wide array of business deposit accounts, while continuing to provide the level of customer service for which we are known. We currently offer a comprehensive range of business deposit products and services to assist with the banking needs of our business customers, including a variety of remote deposit and cash management products along with commercial transaction accounts. We also provide online banking, mobile banking, and direct deposit services.

We offer a selection of deposit accounts, including demand accounts (interest-bearing and noninterest-bearing), money market deposit accounts, savings accounts and certificates of deposit. Deposit account terms vary, with the principal differences being the minimum balance required, the amount of time the funds must remain on deposit and the interest rate. At December 31, 2022, our core deposits (which includes all deposits except for time deposit accounts greater than $250,000 and brokered deposits) totaled $831.2 million, or 87.8% of our total deposits, and our cost of funds for 2022 on this stable funding source was 0.61%. At December 31, 2022, we had $70.0 million in brokered deposits, all maturing in the first quarter 2023. Our reciprocal CDARS and ICS deposits totaled $12.8 million at December 31, 2022. Management utilizes brokered deposits as a supplement to core deposit funding from time to time and does not consider brokered deposits to be a primary source of funding.

The following table sets forth the distribution of total deposits for the Bank by account type as of December 31, 2022.

	December 31, 2022	
(In Thousands)	Amount	%
Demand, noninterest-bearing	$ 192,773	20.36%
Demand, interest-bearing	254,478	26.88
Money market and savings	228,048	24.09
Time deposits, $250 and over	45,616	4.82
Time deposits, other	225,857	23.86
Total Deposits	**$ 946,772**	**100.00%**

All deposits are generated from in-market relationships through our Client Solutions Centers.

Borrowings. We obtain advances from the Federal Home Loan Bank of Pittsburgh upon the security of our capital stock in the Federal Home Loan Bank of Pittsburgh and certain of our loans. Such advances may be made pursuant to several different credit programs, each of which has its own interest rate and range of maturities. As of December 31, 2022 we had $20.9 million in outstanding FHLB advances. At December 31, 2022, we had remaining available capacity with FHLB, subject to certain collateral restrictions, of approximately $301.4 million.

At December 31, 2022, the Company had subordinated notes outstanding of $40.5 million. Of this amount, $20.5 million was acquired in the Gratz Merger and bear interest at a fixed interest rate of 5.0% per year for five years and then float at an index tied to the Secured Overnight Finance Rate ("SOFR"). The notes have a term of ten years, with a maturity date of October 1, 2030. The notes are redeemable at the option of the Company, in whole or in part, subject to any required regulatory approvals after five years.

The remaining $20.0 million bear interest at a fixed interest rate of 4.5% per year for five years and then float at an index tied to the Secured Overnight Finance Rate ("SOFR"). The notes have a term of ten years, with a maturity date of April 15, 2032. The notes are redeemable at the option of the Company, in whole or in part, subject to any required regulatory approvals after five years.

Competition

Commercial banking in Pennsylvania is extremely competitive. For example, as of June 30, 2022 (the most recent date for which data is available), data provided by the FDIC Deposit Market Share Report indicated that within the Company’s Central and Southeastern Pennsylvania market area, there were 54 different FDIC-insured institutions operating a total of 603 offices.

The Company’s market areas are served by branches of the largest banks in the Northeast, some of which are among the largest institutions in the United States. We must compete in our current and future growth market areas with large regional and nationwide banking organizations, other federally and state-chartered financial institutions such as savings and loan institutions and credit unions, mortgage companies, and other lenders engaged in the business of extending commercial credit. Many of the Company’s competitors have broader geographic markets and higher lending limits than we do and are also able to provide more services and make greater use of media advertising. Competitive threats also continue to emerge from in- and out-of-market providers and entities with powerful non-traditional and sometimes unregulated products, services, and technology, including numerous new fintech firms. The Bank’s comparatively small branch network will be a competitive disadvantage in attracting retail customers since a number of large national bank and regional state bank franchises have significant branch office coverage in the Bank’s market area.

Human Capital

We believe our employees are our most valuable asset. We are committed to building a culture of integrity and excellence and seek to provide a challenging and rewarding work environment in which employees are supported professionally. Our team members receive benefits including competitive compensation, comprehensive medical, dental and vision coverage, 401(k) plan with employer contributions and short-term and long-term disability coverage.

As of December 31, 2022, the Company had 132 full-time and 10 part time employees.

REGULATION AND SUPERVISION

LINKBANCORP, is a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended (the “BHC Act”). As such, it is registered with, subject to examination and supervision by, and otherwise required to comply with the rules and regulations of the Board of Governors of the Federal Reserve System (the “Federal Reserve”).

The Bank is a Pennsylvania-chartered commercial bank subject to extensive regulation by the PADOBS and the FDIC. The Bank’s deposit accounts are insured up to applicable limits by the FDIC. The Bank must file reports with the PADOBS and the FDIC concerning its activities and financial condition, in addition to obtaining regulatory approvals prior to entering into certain transactions, such as mergers or acquisitions with other depository institutions. There are periodic examinations of the Bank by the PADOBS and the FDIC to review the Bank’s compliance with various regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities in which a commercial bank can engage and is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such regulation, whether by the PADOBS, the FDIC, the Federal Reserve Board or Congress could have a material impact on the operations of the Bank.

Set forth below is a brief description of material regulatory requirements that are or will be applicable to LINKBANCORP, and the Bank. The description is limited to certain material aspects of the statutes and regulations addressed, is not intended to be a complete description of such statutes and regulations and their effects on LINKBANCORP and the Bank, and is qualified in its entirety by reference to the actual statutes and regulations involved.

Bank Regulation

Capital Requirements

Federal regulations require FDIC-insured depository institutions to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio of 4.5%, a Tier 1 capital to risk-based assets ratio of 6.0%, a total capital to risk-based assets of 8%, and a 4% Tier 1 capital to total assets leverage ratio.

For purposes of the regulatory capital requirements, common equity Tier 1 capital is generally defined as common shareholders' equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and additional Tier 1 capital. Additional Tier 1 capital includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus, meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions such as the Bank, that have exercised an opt-out election regarding the treatment of Accumulated Other Comprehensive Income ("AOCI"), up to 45% of net unrealized gains on available for sale equity securities with readily determinable fair market values. Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations.

In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, all assets, including certain off-balance sheet assets (e.g., recourse obligations, direct credit substitutes, residual interests) are multiplied by a risk weight factor assigned by the regulations based on the risks believed inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. For example, a risk weight of 0% is assigned to cash and U.S. government securities, a risk weight of 50% is generally assigned to prudently underwritten first lien one-to four-family residential mortgages, a risk weight of 100% is assigned to commercial and consumer loans, a risk weight of 150% is assigned to certain past due loans and a risk weight of between 0% to 600% is assigned to permissible equity interests, depending on certain specified factors.
In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements.

In assessing an institution's capital adequacy, the FDIC takes into consideration, not only these numeric factors, but qualitative factors as well, and has the authority to establish higher capital requirements for individual institutions where deemed necessary.

Notwithstanding the foregoing, the FDIC finalized a rule, effective January 1, 2020, that established a community bank leverage ratio (tier 1 capital to average consolidated assets) at 9% for institutions under $10 billion in assets that such institutions may elect to utilize in lieu of the general applicable risk-based capital requirements under Basel III. Such institutions that meet the community bank leverage ratio and certain other qualifying criteria will automatically be deemed to be well-capitalized. Eligible institutions may opt into and out of the community bank ratio framework on their quarterly call report. The Bank did not elect to follow the community bank leverage ratio as of December 31, 2022.

In 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which requires financial institutions to estimate and establish an allowance for credit losses using a current expected credit loss ("CECL") model. The CECL model will estimate credit losses over the lifetime of our financial assets measured at amortized cost at the date of origination or acquisition, as opposed to reserving for incurred or probable losses through the balance sheet date. The Company adopted ASU 2016-13 on January 1, 2023, and recognized a one-time cumulative effect adjustment to the allowance through retained earnings as a result of applying this ASU. The Federal Reserve and FDIC have adopted a rule providing for an optional three-year phase-in period for the day-one adverse regulatory capital effects upon adopting the standard. See Note 1. "Summary of Significant Accounting Policies" within the audited consolidated financial statements for further information regarding the implementation of CECL.

At December 31, 2022, the Bank exceeded all regulatory capital requirements and was considered to be well-capitalized based on FDIC guidelines.

Loans-to-One Borrower

Generally, a Pennsylvania-chartered commercial bank may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of capital. An additional amount may be loaned, equal to 10% of unimpaired capital and surplus, if the loan is secured by readily marketable collateral, which generally does not include real estate. As of December 31, 2022, the Bank was in compliance with the loans-to-one borrower limitations.

Capital Distributions

The Pennsylvania Banking Code states, in part, that dividends may be declared and paid only out of accumulated net earnings and may not be declared or paid unless surplus is at least equal to capital. Dividends may not reduce surplus without the prior consent of the PADOBS. In addition, the Federal Deposit Insurance Act provides that an insured depository institution may not make any capital distribution if, after making such distribution, the institution would fail to meet any applicable regulatory capital requirement.

Community Reinvestment Act and Fair Lending Laws

All insured institutions have a responsibility under the Community Reinvestment Act and related regulations to help meet the credit needs of their communities, including low- and moderate-income borrowers. The FDIC is required to assess the Bank's record of compliance with the Community Reinvestment Act. Failure to comply with the provisions of the Community Reinvestment Act could, at a minimum, result in denial of certain corporate applications, such as branches or mergers, or in restrictions on its activities. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. The failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the FDIC, as well as other federal regulatory agencies and the Department of Justice.

The Community Reinvestment Act requires all institutions insured by the FDIC to publicly disclose their rating. The Bank received a "satisfactory" rating in its most recent federal examination.

Transactions with Related Parties

A state-chartered bank's authority to engage in transactions with its affiliates is limited by Sections 23A and 23B of the Federal Reserve Act and federal regulation. An affiliate is generally a company that controls or is under common control with an insured depository institution, such as the Bank. The Company is an affiliate of the Bank because of its control of the Bank. In general, transactions between an insured depository institution and its affiliates are subject to certain quantitative limits and collateral requirements. In addition, federal regulations prohibit a state-chartered bank from lending to any of its affiliates that are engaged in activities that are not permissible for bank holding companies and from purchasing the securities of any affiliate, other than a subsidiary. Finally, transactions with affiliates must be consistent with safe and sound banking practices, not involve the purchase of low-quality assets and be on terms that are as favorable to the institution as comparable transactions with non-affiliates.

The Bank's authority to extend credit to its directors, executive officers and 10% shareholders, as well as to entities controlled by such persons, is currently governed by the requirements of Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O of the Federal Reserve. Among other things, these provisions generally require that extensions of credit to insiders be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features; and not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the Bank's capital. In addition, extensions of credit in excess of certain limits must be approved by the Bank's Board. Extensions of credit to executive officers are subject to additional limits based on the type of extension involved.

Standards for Safety and Soundness

Federal law requires each federal banking agency to prescribe certain standards for all insured depository institutions. These standards relate to, among other things, internal controls, information systems and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, compensation, and other operational and managerial standards as the agency deems appropriate. Interagency guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard. If an institution fails to meet these standards, the appropriate federal banking agency may require the institution to implement an acceptable compliance plan. Failure to implement such a plan can result in further enforcement action, including the issuance of a cease and desist order or the imposition of civil money penalties.

Prompt Corrective Regulatory Action

Federal law requires, among other things, that federal bank regulatory authorities take "prompt corrective action" with respect to banks that do not meet minimum capital requirements. For these purposes, the law establishes five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized.

An institution is deemed to be "well capitalized" if it has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a leverage ratio of 5.0% or greater and a common equity Tier 1 ratio of 6.5% or greater. An institution is "adequately capitalized" if it has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a leverage ratio of 4.0% or greater and a common equity Tier 1 ratio of 4.5% or greater. An institution is "undercapitalized" if it has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a leverage ratio of less than 4.0% or a common equity Tier 1 ratio of less than 4.5%. An institution is deemed to be "significantly undercapitalized" if it has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a leverage ratio of less than 3.0% or a common equity Tier 1 ratio of less than 3.0%. An institution is considered to be "critically undercapitalized" if it has a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2.0%.

Generally, the PADOBS is required to appoint a receiver or conservator for a state-chartered bank that is "critically undercapitalized" within specific time frames. The regulations also provide that a capital restoration plan must be filed with the FDIC within 45 days of the date that an institution is deemed to have received notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." Any bank holding company of an institution that is required to submit a capital restoration plan must guarantee performance under the plan in an amount of up to the lesser of 5% of the institution's assets at the time it was deemed to be undercapitalized by the FDIC or the amount necessary to restore the institution to adequately capitalized status. This guarantee remains in place until the FDIC notifies the institution that it has maintained adequately capitalized status for each of four consecutive calendar quarters. Institutions that are undercapitalized become subject to certain mandatory measures, such as restrictions on capital distributions and asset growth. The PADOBS may also take any one of a number of discretionary supervisory actions against undercapitalized institutions, including the issuance of a capital directive and the replacement of senior executive officers and directors.

At December 31, 2022, the Bank met the criteria for being considered "well capitalized."

Enforcement

The PADOBS maintains enforcement authority over the Bank, including the power to issue cease and desist orders and civil money penalties and to remove directors, officers or employees. It also has the power to appoint a conservator or receiver for a bank upon insolvency, imminent insolvency, unsafe or unsound condition or certain other situations. The FDIC has primary federal enforcement responsibility over non-member state banks and has authority to bring actions against the institution and all institution-affiliated parties, including shareholders, and any attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful actions likely to have an adverse effect on the bank. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors. Civil penalties cover a wide range of violations and can amount to $25,000 per day, or even $1 million per day in especially egregious cases. In general, regulatory enforcement actions occur with respect to situations involving unsafe or unsound practices or conditions, violations of law or regulation or breaches of fiduciary duty. Federal and Pennsylvania laws also establish criminal penalties for certain violations.

Federal Insurance of Deposit Accounts

The maximum amount of deposit insurance for banks, savings institutions and credit unions is $250,000 per depositor. Assessments for most insured depository institutions are now based on financial measures and supervisory ratings derived from statistical modeling estimating the probability of failure within three years. The assessment range (inclusive of possible adjustments) is for institutions of the Bank's size 1.5 basis points to 30 basis points through December 31, 2022. The FDIC has authority to increase insurance assessments and adopted a final rule in October 2022 to increase initial base deposit insurance assessment rates by 2 basis points beginning in the first quarterly assessment period of 2023. As a result, effective January 1, 2023, assessment rates for institutions of the Bank's size will range from 3.5 to 32 basis points.

Insurance of deposits may be terminated by the FDIC upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. We do not currently know of any practice, condition or violation that may lead to termination of our deposit insurance.

Prohibitions Against Tying Arrangements

State-chartered banks are prohibited, subject to some exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the institution or its affiliates or not obtain services of a competitor of the institution.

FHLB System

The Bank is a member of the FHLB System, which consists of 11 regional FHLBs. The FHLB System provides a central credit facility primarily for member institutions as well as other entities involved in home mortgage lending. As a member of the FHLB of Pittsburgh, the Bank is required to acquire and hold shares of capital stock in the FHLB. As of December 31, 2022, the Bank was in compliance with this requirement. The Bank also is able to borrow from the FHLB of Pittsburgh, which provides an additional source of liquidity for the Bank.

Other Regulations
Interest and other charges collected or contracted for by the Bank are subject to state usury laws and federal laws concerning interest rates. The Bank's operations are also subject to federal laws applicable to credit transactions, such as the:

- Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Real Estate Settlement Procedures Act, requiring that borrowers for mortgage loans for one-to four-family residential real estate receive various disclosures, including good faith estimates of settlement costs, lender servicing and escrow account practices, and prohibiting certain practices that increase the cost of settlement services;
- Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act, governing the use and provision of information to credit reporting agencies;
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies;
- Truth in Savings Act; and
- Rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

The operations of the Bank also are subject to the:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services;
- Check Clearing for the 21st Century Act (also known as "Check 21"), which gives "substitute checks," such as digital check images and copies made from that image, the same legal standing as the original paper check;
- USA PATRIOT Act, which requires banks operating to, among other things, establish broadened anti-money laundering compliance programs, due diligence policies and controls to ensure the detection and reporting of money laundering. Such required compliance programs are intended to supplement existing compliance requirements, also applicable to financial institutions, under the Bank Secrecy Act and the Office of Foreign Assets Control regulations; and
- Gramm-Leach-Bliley Act, which places limitations on the sharing of consumer financial information by financial institutions with unaffiliated third parties. Specifically, the Gramm-Leach-Bliley Act requires all financial institutions offering financial products or services to retail customers to provide such customers with the financial institution's privacy policy and provide such customers the opportunity to "opt out" of the sharing of certain personal financial information with unaffiliated third parties.

<u>Bank Holding Company Regulation</u>

General
The Company, as a bank holding company controlling the Bank, is subject to regulation and supervision by the Federal Reserve under the BHC Act. The Company is periodically examined by and required to submit reports to the Federal Reserve and must comply with the Federal Reserve’s rules and regulations. Among other things, the Federal Reserve has authority to restrict activities by a bank holding company that are deemed to pose a serious risk to the subsidiary bank.

Permissible Activities

A bank holding company is generally prohibited from engaging in non-banking activities, or acquiring direct or indirect control of more than 5% of the voting securities of any company engaged in non-banking activities. One of the principal exceptions to this prohibition is for activities found by the Federal Reserve to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Some of the principal activities that the Federal Reserve has determined by regulation to be so closely related to banking are: (i) making or servicing loans; (ii) performing certain data processing services; (iii) providing discount brokerage services; (iv) acting as fiduciary, investment or financial advisor; (v) leasing personal or real property; (vi) making investments in corporations or projects designed primarily to promote community welfare; and (vii) acquiring a savings and loan association whose direct and indirect activities are limited to those permitted for bank holding companies.

The Gramm-Leach-Bliley Act of 1999 authorized a bank holding company that meets specified conditions, including being "well capitalized" and "well managed," to opt to become a "financial holding company" and thereby engage in a broader array of financial activities than previously permitted. Such activities can include insurance underwriting and investment banking. A "financial holding company" may engage in a broader array of financial activities than permitted a typical bank holding company. Such activities can include insurance underwriting and investment banking. The Company has not elected "financial holding company" status.

Capital

Bank holding companies are subject to consolidated regulatory capital requirements, which have historically been similar to, though less stringent than, those of the for the Bank. The Dodd Frank Act, however, required the Federal Reserve to promulgate consolidated capital requirements for depository institution holding companies that are no less stringent, both quantitatively and in terms of components of capital, than those applicable to institutions themselves. As a result, consolidated regulatory capital requirements identical to those applicable to the subsidiary banks generally apply to bank holding companies. However, the Federal Reserve has provided a "Small Bank Holding Company" exception to its consolidated capital requirements, and subsequent legislation and the related issuance of regulations by the Federal Reserve have increased the threshold for the exception to $3.0 billion of consolidated assets. Consequently, bank holding companies such as the Company with less than $3.0 billion of consolidated assets are not subject to the consolidated holding company capital requirements unless otherwise directed by the Federal Reserve.

Source of Strength

The Federal Reserve has issued regulations requiring that all bank holding companies serve as a source of strength to their subsidiary depository institutions by providing financial, managerial and other support in times of an institution's distress.

Dividends and Stock Repurchases

The Federal Reserve has issued a policy statement regarding the payment of dividends by holding companies. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization's capital needs, asset quality and overall supervisory financial condition. Separate regulatory guidance provides for prior consultation with Federal Reserve staff concerning dividends in certain circumstances such as where the company's net income for the past four quarters, net of dividends previously paid over that period, is insufficient to fully fund the dividend or the company's overall rate or earnings retention is inconsistent with the company's capital needs and overall financial condition. The ability of a bank holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized.

The regulatory guidance also states that a bank holding company should consult with Federal Reserve supervisory staff prior to redeeming or repurchasing common stock or perpetual preferred stock if the bank holding company is experiencing financial weaknesses or the repurchase or redemption would result in a net reduction, at the end of a quarter, in the amount of such equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurred.
There is a separate requirement that a bank holding company give the Federal Reserve prior written notice of any purchase or redemption of then outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of the company's consolidated net worth. The Federal Reserve may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe and unsound practice, or would violate any law, regulation, Federal Reserve order or directive, or any condition imposed by, or written agreement with, the Federal Reserve. There is an exception to this approval requirement for well-capitalized bank holding companies that meet certain other conditions.

These regulatory policies may affect the ability of the Company to pay dividends, repurchase shares of common stock or otherwise engage in capital distributions.

Acquisition of Control of the Company

Under the Change in Bank Control Act, no person may acquire control of a bank holding company such as the Company unless the Federal Reserve has prior written notice and has not issued a notice disapproving the proposed acquisition. In evaluating such notices, the Federal Reserve takes into consideration such factors as the financial resources, competence, experience and integrity of the acquirer, the future prospects the bank holding company involved and its subsidiary bank and the competitive effects of the acquisition. Control, as defined under federal law, means ownership, control of or holding irrevocable proxies representing more than 25% of any class of voting stock, control in any manner of the election of a majority of the company's directors, or a determination by the regulator that the acquirer has the power to direct, or directly or indirectly to exercise a controlling influence over, the management or policies of the institution. Acquisition of more than 10% of any class of a bank holding company's voting stock constitutes a rebuttable presumption of control under the regulations under certain circumstances.

Emerging Growth Company Status

The Jumpstart Our Business Startups Act (the "JOBS Act"), which was enacted in April 2012, has made numerous changes to the federal securities laws to facilitate access to capital markets. Under the JOBS Act, a company with total annual gross revenues of less than $1.235 billion during its most recently completed fiscal year qualifies as an "emerging growth company." The Company qualifies as an emerging growth company under the JOBS Act.

An "emerging growth company" may choose not to hold shareholder votes to approve annual executive compensation (more frequently referred to as "say-on-pay" votes) or executive compensation payable in connection with a merger (more frequently referred to as "say-on-golden parachute" votes). An emerging growth company also is not subject to the requirement that its auditors attest to the effectiveness of the company's internal control over financial reporting, and can provide scaled disclosure regarding executive compensation; however, the Company will also not be subject to the auditor attestation requirement or additional executive compensation disclosure so long as it remains a "non-accelerated filer" and a "smaller reporting company," respectively, under Securities and Exchange Commission regulations (generally less than $75 million and $250 million, respectively, of voting and non-voting equity held by non-affiliates or less than $100.0 million in annual revenue). Finally, an emerging growth company may elect to comply with new or amended accounting pronouncements in the same manner as a private company, but must make such election when the company is first required to file a registration statement. The Company has elected to comply with new or amended accounting pronouncements in the same manner as a private company.

A company loses emerging growth company status on the earlier of: (i) the last day of the fiscal year of the company during which it had total annual gross revenues of $1.235 billion or more; (ii) the last day of the fiscal year of the issuer following the fifth anniversary of the date of the first sale of common equity securities of the company pursuant to an effective registration statement under the Securities Act of 1933; (iii) the date on which such company has, during the previous three-year period, issued more than $1.0 billion in non-convertible debt; or (iv) the date on which such company is deemed to be a "large accelerated filer" under Securities and Exchange Commission regulations (generally, at least $700 million of voting and non- voting equity held by non-affiliates).

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 is intended to improve corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. The Company has policies, procedures and systems designed to comply with these regulations, and will review and document such policies, procedures and systems to ensure continued compliance with these regulations.

Item 1A. Risk Factors.

An investment in our common stock is subject to risks inherent in our business. The material risks and uncertainties that management believes affect us are described below. You should carefully consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this report and our other filings with the Securities and Exchange Commission. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair our business operations. This report is qualified in its entirety by these risk factors.

Risks Related to Our Business

The Company may be unable to effectively manage its rapid growth.

The Company's business strategy anticipates the rapid expansion of its business to pursue existing and potential market opportunities. On February 22, 2023, the Company announced the entry into a Merger Agreement with Partners Bancorp that if approved will more than double the size of the Company. This high pace of growth places significant demands on the Company's management and operational resources. In order to manage such growth effectively, the Company must implement effective operational systems, procedures and internal controls. Failure to implement these systems, procedures and controls on a timely basis could materially and adversely affect the Company's results of operation or financial condition. Further, the Company's continued expansion of its business may include entering new lines of business or introducing new products and services. We cannot assure you that the Company will be successful in such expansion efforts and any failure could materially and adversely affect the Company's results of operation or financial condition.

The merger with Partners Bancorp and any future acquisitions could disrupt the Company's business and adversely affect our results of operations, financial condition and cash flows.

On February 22, 2023, the Company announced the entry into a Merger Agreement with Partners Bancorp. The Company may choose to expand in the future by making additional acquisitions, including other financial institutions, branches or fee- based businesses, that could be material to its business, results of operations, financial condition and cash flows. Acquisitions, including the merger with Partners Bancorp, involve many risks, including the following:

- an acquisition may negatively affect the Company's results of operations, financial condition or cash flows because it may require us to incur charges or assume substantial debt or other liabilities, may cause adverse tax consequences or unfavorable accounting treatment, may expose us to claims and disputes by third parties, or may not generate sufficient financial return to offset additional costs and expenses related to the acquisition;
- the Company may encounter difficulties or unforeseen expenditures in integrating the operations of any company that it acquires, particularly if key personnel of the acquired company decide not to work for us;
- an acquisition may disrupt our ongoing business, divert resources, increase our expenses and distract our management;
- an acquisition, and in particular the Partners Merger, will involve the entry into geographic or business markets in which the Company has little or no prior experience or where competitors have stronger market positions;
- if the Company incurs debt to fund such acquisition, such debt may subject us to material restrictions on our ability to conduct our business as well as financial maintenance covenants; and
- the Company will issue a significant amount of equity securities in connection with the Partners Merger, such that existing shareholders will be diluted and earnings per share may decrease.

The occurrence of any of these risks could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

A significant portion of the Company's loan portfolio is secured by real estate, and events that negatively impact the real estate market could hurt its business.

The vast majority of the Company's loans have real estate as a primary or secondary component of collateral. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. A weakening of the real estate market in the Company's primary market areas could result in an increase in the number of borrowers who default on their loans and a reduction in the value of the collateral securing their loans, which in turn could have an adverse effect on the Company's profitability and asset quality. If the Company is required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, the Company's earnings and capital could be adversely affected. Acts of nature, including hurricanes, tornadoes, earthquakes, fires and floods, which may cause uninsured damage and other loss of value to real estate that secures these loans, may also negatively impact the Company's financial condition.

The Company's loan portfolio contains a number of real estate loans with relatively large balances.

The Company's loan portfolio contains a number of real estate loans with relatively large balances. The deterioration of one or a few of these loans could cause a significant increase in nonperforming loans, which could result in a net loss of earnings, an increase in the provision for loan losses and an increase in loan charge-offs, all of which could have a material adverse effect on the Company's financial condition and results of operations.

Commercial real estate loans may increase the Company's exposure to credit risk.

At December 31, 2022, the Company's commercial real estate loans totaled $540.9 million, or 58.3%, of our total loan portfolio. Loans secured by commercial real estate are generally viewed as having more risk of default than loans secured by residential real estate or consumer loans because repayment of the loans often depends on the successful operation of the property, the income stream of the borrowers, the accuracy of the estimate of the property's value at completion of construction, and the estimated cost of construction. Such loans are generally more risky than loans secured by residential real estate or consumer loans because those loans are typically not secured by real estate collateral. An adverse development with respect to one lending relationship can expose the Company to a significantly greater risk of loss compared with a single-family residential mortgage loan because the Company typically has more than one loan with such borrowers. Additionally, these loans typically involve larger loan balances to single borrowers or groups of related borrowers compared with single-family residential mortgage loans. Therefore, the deterioration of one or a few of these loans could cause a significant decline in the related asset quality. If the Company's primary market areas experience an economic slowdown, these loans represent higher risk and could result in a sharp increase in loans charged off and could require the Company to significantly increase its allowance for loan losses, which could have a material adverse impact on its business, financial condition, results of operations, and cash flows.

Repayment of commercial business loans is often dependent on the cash flows of the borrower, which may be unpredictable, and the collateral securing these loans may fluctuate in value.

At December 31, 2022, $103.8 million, or 11.2% of our total loan portfolio, consisted of commercial business loans (excluding PPP loans, which are expected to be fully guaranteed by the SBA). The Company's commercial business loans are originated primarily based on the identified cash flow and general liquidity of the borrower and secondarily on the underlying collateral provided by the borrower and/or repayment capacity of any guarantor. The borrower's cash flow may be unpredictable, and collateral securing these loans may fluctuate in value. Although commercial business loans are often collateralized by equipment, inventory, accounts receivable, or other business assets, the liquidation of collateral in the event of default is often an insufficient source of repayment because accounts receivable may be uncollectible and inventories may be obsolete or of limited use. In addition, business assets may depreciate over time, may be difficult to appraise, and may fluctuate in value based on the success of the business. Accordingly, the repayment of commercial business loans depends primarily on the cash flow and credit worthiness of the borrower and secondarily on the underlying collateral value provided by the borrower and liquidity of the guarantor.

A portion of the Bank's loan portfolio consists of loan participations. Loan participations may have a higher risk of loss than loans the Bank originates because it is not the lead lender, and the Bank has limited control over credit monitoring.

The Bank participates in commercial real estate loans and commercial business loans with other financial institutions from time to time in which it is not the lead lender. The Bank's commercial real estate loan participations are generally located in Pennsylvania although the Bank has from time to time participated in loans located in the states of Maryland and Virginia. The Bank also occasionally participates in commercial business loans with other financial institutions in which it is not the lead lender. These loans are limited to our geographic lending market and are generally secured by blanket UCC liens. At December 31, 2022, commercial real estate loan participations for which the Bank was not the lead lender totaled $48.7 million, or 9.0% of our commercial real estate loan portfolio, and commercial business loan participations for which the Bank was not the lead lender totaled $8.5 million, or 1.6% of our commercial business loan portfolio.

The Bank underwrites each commercial real estate loan and commercial business loan that it participates in and establishes the loan classification and loan provision using the same criteria it uses for loans the Bank originates. Loan participations may have a higher risk of loss than loans the Bank originates because the Bank relies on the lead lender to service and to monitor the performance of the loan. Moreover, decisions regarding the classification of a loan participation and loan loss provisions associated with a loan participation are made in part based upon information provided by the lead lender. A lead lender also may not monitor a participation loan in the same manner as the Bank would for loans that it originates. At December 31, 2022, no loan participations were delinquent

60 days or more. If the Bank underwriting of these participation loans is not sufficient, non-performing loans may increase, and earnings may decrease.

The Company may be exposed to risk of environmental liabilities with respect to properties to which it takes title.

In the course of the Company's business, it may foreclose and take title to real estate, potentially becoming subject to environmental liabilities associated with the properties. The Company may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs or the Company may be required to investigate or clean up hazardous or toxic substances or chemical releases at a property. Costs associated with investigation or remediation activities can be substantial. If the Company is the owner or former owner of a contaminated site, the Company may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. These costs and claims could adversely affect the Company's business, results of operations, financial condition, and the value of its securities.

The Company's decisions regarding allowance for loan losses and credit risk may materially and adversely affect its business.

Making loans and other extensions of credit is an essential element of the Company's business. Although the Company seeks to mitigate risks inherent in lending by adhering to specific underwriting practices, the Company's loans and other extensions of credit may not be repaid. The risk of nonpayment is affected by a number of factors, including:

- the duration of the credit;
- credit risks of a particular customer;
- changes in economic and industry conditions; and
- in the case of a collateralized loan, risks resulting from uncertainties about the future value of the collateral.

The Company attempts to maintain an appropriate allowance for loan losses to provide for probable losses in its loan portfolio. The Company periodically determines the amount of the allowance based on consideration of several factors, including but not limited to:

- an ongoing review of the quality, mix, and size of the Company's overall loan portfolio;
- the Company's historical loan loss experience;
- evaluation of economic conditions;
- regular reviews of loan delinquencies and loan portfolio quality;
- ongoing review of financial information provided by borrowers; and
- the amount and quality of collateral, including guarantees, securing the loans.

The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires the Company to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of the Company's control, may require an increase in the allowance for loan losses. In addition, regulatory agencies periodically review the Company's allowance for loan losses and may require an increase in the provision for loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. In addition, if charge-offs in future periods exceed the allowance for loan losses, the Company will need additional provisions to increase the allowance for loan losses. Any increases in the allowance for loan losses will result in a decrease in net income and, possibly, capital, and may have a material adverse effect on the Company's financial condition and results of operations.

If the Company's non-performing assets increase, earnings will be adversely affected.

At December 31, 2022, non-performing assets, which consist of non-performing loans and other real estate owned, were $2.7 million, or 0.23% of total assets. The Company's non-performing assets adversely affect net income in various ways:

- the Company records interest income only on the cash basis or cost-recovery method for nonaccrual loans and it does not record interest income for other real estate owned;
- the Company must provide for probable loan losses through a current period charge to the provision for loan losses;
- noninterest expense increases when the Company writes down the value of properties in its other real estate owned portfolio to reflect changing market values;
- there are legal fees associated with the resolution of problem assets, as well as carrying costs, such as taxes, insurance, and maintenance fees; and
- the resolution of non-performing assets requires the active involvement of management, which can distract them from more profitable activity.

If additional borrowers become delinquent and do not pay their loans and the Company is unable to successfully manage its non-performing assets, losses and troubled assets could increase significantly, which could have a material adverse effect on the Company's financial condition and results of operations.

The Company may have higher loan losses than it has allowed for in its allowance for loan losses.

The Company's actual loans losses could exceed its allowance for loan losses and therefore its allowance for loan losses may not be adequate. A significant portion of the Company's loan portfolio is secured by commercial real estate. Repayment of such loans is generally considered more subject to market risk than residential mortgage loans. Industry experience shows that a portion of loans will become delinquent and a portion of loans will require partial or entire charge-off. Regardless of the underwriting criteria utilized, losses may be experienced as a result of various factors beyond the Company's control, including among other things, changes in market conditions affecting the value of loan collateral and problems affecting borrower credit.

Inflation can have an adverse impact on our business and on our customers.

The national economy continues to experience elevated levels of inflation. As of December 31, 2022, the year over year consumer price index ("CPI") increase was 6.5%, primarily driven by increases in food and energy prices. As a result, the Federal Reserve raised interest rates by 425 basis points in 2022 to combat rising inflation. High inflation, if sustained, could have an adverse effect on our business. The recent increase in interest rates in response to elevated levels of inflation has decreased the value of our securities portfolio, resulting in an increase in unrealized losses recorded in accumulated other comprehensive income on the shareholders' equity section of our balance sheet. In addition, inflation-driven increases in our levels of non-interest expense could negatively impact our results of operations. High inflation and increasing interest rates could also cause increased volatility in the business environment, which could adversely affect loan demand and borrowers' ability to repay loans.

The Company relies heavily on its senior management team and the unexpected loss of any of those personnel could adversely affect its operations.

The Company is a customer-focused and relationship-driven organization. The Company expects its future growth to be driven in a large part by the relationships maintained with its customers by its chief executive officer and by other senior officers. The unexpected loss of any of the Company's key employees could have a material adverse effect on its business and operations, which would have an adverse effect on its business, results of operations, financial condition, and the value of its securities.

The success of the Company's strategy depends on its ability to identify and retain individuals with experience and relationships in its markets.

In order to be successful, the Company must identify and retain experienced key management members with local expertise and relationships. Competition for qualified personnel is intense and there are a limited number of qualified persons with knowledge of and experience in the community banking industry in the Company's chosen geographic markets. Even if the Company identifies individuals that it believes could assist the Company in building its franchise, the Company may be unable to recruit these individuals away from more established banks. In addition, the process of identifying and recruiting individuals with the combination of skills and attributes required to carry out the Company's strategy is often lengthy. The Company's inability to identify, recruit, and retain talented personnel could limit its growth and could materially adversely affect its business, results of operations, financial condition, and the value of its securities.

Changes in economic conditions, in particular an economic slowdown in Pennsylvania, could materially and negatively affect the Company's business.

The Company primarily serve individuals, businesses and municipalities located in Chester, Cumberland, Dauphin, Lancaster, Northumberland, Schuylkill, and York Counties, Pennsylvania. As of December 31, 2022, a majority of our loan portfolio was secured by real estate and other assets located in these areas in Pennsylvania. The Company's business is directly impacted by factors such as economic, political and market conditions, broad trends in industry and finance, legislative and regulatory changes, changes in government monetary and fiscal policies and inflation, all of which are beyond the Company's control. Any deterioration in economic conditions, whether caused by national or local concerns, in particular any further economic slowdown in Pennsylvania, could result in the following consequences, any of which could hurt the Company's business materially: loan delinquencies may increase; problem assets and foreclosures may increase; demand for the Company's products and services may decrease; low cost or noninterest bearing deposits may decrease; and collateral for loans made by the Company, especially real estate, may decline in value, in turn reducing customers' borrowing power, and reducing the value of assets and collateral associated with the Company's existing loans.

The Company's success significantly depends upon the growth in population, income levels, deposits, and housing starts in the Company's markets. If the communities in which the Company operates do not grow or if prevailing economic conditions locally or nationally are unfavorable, the Company's business may not succeed. An economic downturn or prolonged recession would likely result in further deterioration of the quality of the Company's loan portfolio and reduce the Company's level of deposits, which in turn would hurt its business. If the Company experiences an economic downturn or a prolonged economic recession occurs in the economy as a whole, borrowers will be less likely to repay their loans as scheduled. Moreover, in many cases the value of the real estate or other collateral that secures the Company's loans was adversely affected by the economic conditions over the past few years, and an economic downtown or a prolonged economic recession could further negatively affect such values. Unlike many larger institutions, the Company is not able to spread the risks of unfavorable local economic conditions across a large number of diversified economies. An economic downturn could, therefore, result in losses that materially and adversely affect the Company's business.

The small- and medium-sized business target market may have fewer financial resources to weather a downturn in the economy.

The Company targets its commercial development and marketing strategy to serve the banking and financial services needs of small- and medium-sized businesses. These businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities. If general economic conditions negatively impact this major economic sector in the markets in which the Company operates, its results of operations and financial condition, as well as the value of its securities, may be adversely affected.

Higher FDIC deposit insurance premiums or special assessments could adversely impact the Company's financial condition.

The Company's deposits are insured up to applicable limits by the Deposit Insurance Fund ("DIF") of the FDIC and are subject to deposit insurance assessments to maintain deposit insurance. As an FDIC-insured institution, the Company is required to pay quarterly deposit insurance premium assessments to the FDIC. The FDIC issued a final rule in October 2022 to increase initial base deposit insurance assessment rates by 2 basis points beginning in the first quarterly assessment period of 2023. Additionally, promptly following the recent failures of Silicon Valley Bank ("SVB") and Signature Bank in March of 2023, the federal banking regulators announced that the FDIC will use funds from the DIF to ensure that all depositors in SVB and Signature Bank are made whole at no cost to taxpayers. We anticipate that the FDIC will impose special assessments on all banks to replenish the DIF. Although the Company cannot predict if there will be future increases to insurance assessment rates or special assessments, either a deterioration in its risk-based capital ratios or further adjustments to the base assessment rates could have a material adverse impact on its business, financial condition, results of operations, and cash flows.

The Company depends on the accuracy and completeness of information about clients and counterparties and its financial condition could be adversely affected if it relies on misleading information.

In deciding whether to extend credit or to enter into other transactions with clients and counterparties, the Company may rely on information furnished to it by or on behalf of clients and counterparties, including financial statements and other financial information, which it does not independently verify. The Company also may rely on representations of clients and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, in deciding whether to extend credit to clients, the Company may assume that a customer's audited financial statements conform with GAAP and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. The Company's financial condition and results of operations could be negatively impacted to the extent it relies on financial statements that do not comply with GAAP or are materially misleading.

Changes in prevailing interest rates may reduce the Company's profitability.

The Company's results of operations depend in large part upon the level of its net interest income, which is the difference between interest income from interest-earning assets, such as loans and investment securities, and interest expense on interest-bearing liabilities, such as deposits and other borrowings. Depending on the terms and maturities of the Company's assets and liabilities, a significant change in interest rates could have a material adverse effect on its profitability. Many factors cause changes in interest rates, including governmental monetary policies and domestic and international economic and political conditions. While the Company intends to manage the effects of changes in interest rates by adjusting the terms, maturities, and pricing of its assets and liabilities, its efforts may not be effective and its financial condition and results of operations could suffer.

The Company is subject to interest rate risk, and fluctuations in market interest rates may affect its interest margin and income, demand for products, defaults on loans, loan prepayments and the fair value of its financial instruments.

The Company's earnings and cash flows depend largely upon its net interest income. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of governmental and regulatory agencies, particularly the Federal Reserve. Changes in monetary policy, including changes in interest rates, could influence the interest the Company receives on loans and investments and the amount of interest it pays on deposits and borrowings, which may affect net interest margin. Such changes could also affect (i) demand for products and services and price competition, in turn affecting our ability to originate loans and obtain deposits; (ii) the fair value of the Company's financial assets and liabilities; (iii) the average duration of its mortgage-backed securities portfolio and other interest-earning assets; (iv) levels of defaults on loans; and (v) loan prepayments.

During 2022, in response to accelerated inflation, the Federal Reserve implemented monetary tightening policies, resulting in significantly increased interest rates. The Federal Reserve has signaled that further tightening is anticipated. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, net interest income, and therefore earnings, could be adversely affected. In addition, the Company's net interest margin may contract in a rising rate environment because its funding costs may increase faster than the yield earned on its interest-earning assets. In a rising rate environment, demand for loans may decrease and loans with adjustable interest rates are more likely to experience a higher rate of default. Additionally, changes in interest rates also affect the fair value of the securities portfolio. Generally, the value of securities moves inversely with changes in interest rates. The combination of these events may adversely affect the Company's financial condition and results of operations.

Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings. In addition, in a falling rate environment or the recent pandemic-related environment where the Federal Reserve held the federal reference rate near 0.00%, loans may be prepaid sooner than the Company expects, which could result in a delay between when the Company receives the prepayment and when it is able to redeploy the funds into new interest-earning assets and in a decrease in the amount of interest income the Company is able to earn on those assets. If the Company is unable to manage these risks effectively, its financial condition and results of operations could be materially adversely affected.

Any substantial, unexpected or prolonged change in market interest rates could have a material adverse effect on the Company's financial condition and results of operations. Also, the Company's interest rate risk modeling techniques and assumptions likely may not fully predict or capture the impact of actual interest rate changes on its balance sheet.

The Company may be adversely affected by the soundness of other financial institutions.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. The Company has exposure to many different industries and counterparties, and routinely execute transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks, and other institutional clients. Many of these transactions expose the Company to credit risk in the event of a default by a counterparty or client. In addition, the Company's credit risk may be exacerbated when the collateral held by the Bank cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due to the Bank. Any such losses could have a material adverse effect on the Company's financial condition and results of operations.

Competition with other financial institutions may have an adverse effect on the Company's ability to retain and grow its client base, which could have a negative effect on its financial condition or results of operations.

The banking and financial services industry is very competitive and includes services offered from other banks, savings and loan associations, credit unions, mortgage companies, other lenders, and institutions offering uninsured investment alternatives. Legal and regulatory developments have made it easier for new and sometimes unregulated competitors to compete with the Company. The financial services industry has and is experiencing an ongoing trend towards consolidation in which fewer large national and regional banks and other financial institutions are replacing many smaller and more local banks. These larger banks and other financial institutions hold a large accumulation of assets and have significantly greater resources and a wider geographic presence or greater accessibility. In some instances, these larger entities operate without the traditional brick and mortar facilities that restrict geographic presence. Some competitors have more aggressive marketing campaigns and better brand recognition, and are able to offer more services, more favorable pricing or greater customer convenience than the Bank. In addition, competition has increased from new banks and other financial services providers that target the Company's existing or potential customers. As consolidation continues among large banks, the Company expects other smaller institutions to try to compete in the markets the Company plans to serve. This competition could reduce the Company's net income by decreasing the number and size of the loans that it originates and the interest rates it charges on these loans. Additionally, these competitors may offer higher interest rates, which could decrease the deposits the Company attracts or require it to increase rates to retain existing deposits or attract new deposits. Increased deposit competition could adversely affect the Company's ability to generate the funds necessary for lending operations which could increase its cost of funds.

The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Banks, securities firms and insurance companies can merge as part of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Technological developments have allowed competitors, including some non-depository institutions, to compete more effectively in local markets and have expanded the range of financial products, services and capital available to the Company's target customers. If the Company is unable to implement, maintain and use such technologies effectively, it may not be able to offer products or achieve cost-efficiencies necessary to compete in the industry. In addition, some of these competitors have fewer regulatory constraints and lower cost structures.

Liquidity needs could adversely affect the Company's financial condition and results of operation.

The primary sources of funds of the Bank are customer deposits and loan repayments. While scheduled loan repayments are a relatively stable source of funds, they are subject to the ability of borrowers to repay the loans. The ability of borrowers to repay loans can be adversely affected by a number of factors, including changes in economic conditions, adverse trends or events affecting business industry groups, reductions in real estate values or markets, business closings or lay-offs, inclement weather, which could be exacerbated by potential climate change, natural disasters and international instability.

Market conditions may impact the competitive landscape for deposits in the banking industry. The rising interest rate environment and future actions the Federal Reserve may take may impact pricing and demand for deposits in the banking industry. Additionally, deposit levels may be affected by a number of factors, including rates paid by competitors, general interest rate levels, regulatory capital requirements, returns available to customers on alternative investments and general economic conditions. The withdrawal of more deposits than the Company anticipates could have an adverse impact on profitability as the Company may be required from time to time to rely on secondary sources of liquidity to meet withdrawal demands or otherwise fund operations. Such sources include proceeds from Federal Home Loan Bank advances, sales of investment securities and loans, and federal funds lines of credit from correspondent banks, as well as out-of-market time deposits which could cause the Company's overall cost of funding to increase. While the Company believes that these sources are currently adequate, there can be no assurance they will be sufficient to meet future liquidity demands, particularly if the Company continues to grow and experience increasing loan demand. The Company may be required to slow or discontinue loan growth, capital expenditures or other investments or liquidate assets should such sources not be adequate.

Technological advances impact the Company's business; its information systems may experience an interruption or breach in security.

To conduct the Company's business, it relies heavily on new technology-driven products and services and on communications and information systems. the Company's future success will depend, in part, on its ability to address the needs of the Bank's customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in operations. Furthermore, any failure, interruption or breach of the security of the Company's information systems could result in failures or disruptions in its customer relationship management, general ledger, deposit, loan and other systems. While the Company has policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of the Company's information systems, there can be no assurance that the Company can prevent any such failures, interruptions or security breaches or, if they do occur, that they will be adequately addressed. During the normal course of the

Company’s business, it has experienced and it expects to continue to experience attempts to breach its systems, none of which has been material to the Company to date, and it may be unable to protect sensitive data and the integrity of its systems. The occurrence of any failures, interruptions or security breaches of the Company’s information systems could damage its reputation, result in a loss of customer business, subject it to additional regulatory scrutiny, or expose it to civil litigation and possible financial liability, any of which could have a material adverse effect on its financial condition and results of operations as well as the value of its securities.

The Company’s controls and procedures may fail or be circumvented.

The Company regularly reviews and updates its internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well-designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the Company’s controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on its business, results of operations and financial condition.

Negative public opinion surrounding the Company and the financial institutions industry generally could damage its reputation and adversely impact its earnings.

Reputation risk, or the risk to the Company’s business, earnings and capital from negative public opinion surrounding the Company and the financial institutions industry generally, is inherent in its business. Negative public opinion can result from the Company’s actual or alleged conduct in any number of activities, including lending practices, corporate governance and acquisitions, and from actions taken by government regulators and community organizations in response to those activities. Negative public opinion can adversely affect the Company’s ability to keep and attract clients and employees and can expose it to litigation and regulatory action. Although the Company takes steps to minimize reputation risk in dealing with its clients and communities, this risk will always be present given the nature of its business.

The COVID-19 pandemic could adversely affect the Company’s financial condition and results of operations.

The COVID-19 pandemic had a significant economic impact on the communities in which the Company operates, its borrowers and depositors, and the national economy generally. Although the domestic and global economies have significantly recovered from the COVID-19 pandemic as health and safety restrictions have been lifted and vaccine distribution has increased, certain adverse consequences of the pandemic remain and may persist for some time. Specifically, despite growth in economic activity and the demand for goods and services as COVID-19 restrictions were lifted, labor shortages and supply chain disruptions have contributed to an increase in inflation, and the risk of a recession. The ongoing and dynamic nature of COVID-19 makes it difficult to predict future developments.

The Company expects the impact of COVID-19 to continue to be present, and last for an undetermined amount of time. The expected impact of COVID-19 on the Company’s business, results of operations, financial condition and capital levels, cannot be determined and is uncertain.

Adverse weather events could negatively affect the Company’s local economies or disrupt it operations, which would have an adverse effect on its business or results of operations.

Adverse weather events can disrupt the Company’s operations, result in damage to its properties and negatively affect the local economies in which it operates. In addition, these weather events may result in a decline in value or destruction of properties securing the Company’s loans and an increase in delinquencies, foreclosures and loan losses.

<u>Regulatory and Legal Risks</u>

The Company and the Bank are subject to extensive government regulation and supervision that could interfere with their ability to conduct their business and may negatively impact their financial results, restrict their activities, have an adverse impact on their operations, and impose financial requirements or limitations on the conduct of their business.

The Company, primarily through the Bank, is subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors’ funds, the Federal Deposit Insurance Fund and the safety and soundness of the banking system as a whole, not shareholders. These regulations affect the Company’s lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect the Company in substantial and unpredictable ways. Such changes could subject the Company to additional costs, limit the types of financial services and products it may offer, and/or limit the pricing it may charge on certain banking services, among other things. The Company will have to apply resources to ensure that it is in compliance with any changes to statutes, regulations or regulatory policies, including changes in interpretations or implementation, which may increase its costs of operations and adversely impact its earnings.

Imposition of limits by bank regulators on commercial real estate lending activities could curtail our growth and adversely affect our earnings.

In 2006, the Office of the Comptroller of the Currency, the FDIC and the FRB (collectively, the "Agencies") issued joint guidance entitled "Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices" (the "CRE Guidance"). Although the CRE Guidance did not establish specific lending limits, it provides that a bank's commercial real estate lending exposure could receive increased supervisory scrutiny where total non-owner-occupied commercial real estate loans, including loans secured by apartment buildings, investor commercial real estate, and construction and land loans, represent 300% or more of an institution's total risk-based capital, and the outstanding balance of the commercial real estate loan portfolio has increased by 50% or more during the preceding 36 months. Commercial real estate loans represent 324.9% of our risk-based capital at December 31, 2022 and the outstanding balance of our commercial real estate loan portfolio has increased by greater than 50% during the 36 months preceding December 31, 2022.

In December 2015, the Agencies released a new statement on prudent risk management for commercial real estate lending (the "2015 Statement"). In the 2015 Statement, the Agencies, among other things, indicate the intent to continue "to pay special attention" to commercial real estate lending activities and concentrations going forward. If the Bank's regulators were to impose restrictions on the amount of such loans it can hold in its portfolio or require it to implement additional compliance measures, for reasons noted above or otherwise, the Company's earnings would be adversely affected as would earnings per share.

The Bank faces a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The Bank Secrecy Act, as amended by the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "Patriot Act"), and other laws and regulations require financial institutions, among other duties, to institute and maintain effective anti-money laundering programs and file suspicious activity and currency transaction reports as appropriate. The Financial Crimes Enforcement Network, established by the U.S. Treasury to administer the Bank Secrecy Act, is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration and Internal Revenue Service. There is also increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control (the "OFAC"). Federal and state bank regulators also have begun to increase focus on compliance with Bank Secrecy Act and anti-money laundering regulations. If the Company's policies, procedures and systems are deemed deficient or the policies, procedures and systems of the financial institutions that it has already acquired or may acquire in the future are deficient, it would be subject to liability, including fines and regulatory actions such as restrictions on its ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of its business plan, including its acquisition plans, which would negatively impact its business, financial condition and results of operations. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for the Company.

Regulations relating to privacy, information security and data protection could increase the Company's and the Bank's costs, affect or limit how they collect and use personal information and adversely affect their business opportunities.

The Company is subject to various privacy, information security and data protection laws, including requirements concerning security breach notification, and it could be negatively impacted by these laws. For example, the Company's business is subject to the Financial Services Modernization Act of 1999, also known as the Gramm-Leach-Bliley Act, which, among other things: (i) imposes certain limitations on its ability to share nonpublic personal information about its customers with nonaffiliated third parties; (ii) requires that it provide certain disclosures to customers about its information collection, sharing and security practices and afford customers the right to "opt out" of any information sharing by the Company with nonaffiliated third parties (with certain exceptions) and (iii) requires it develop, implement and maintain a written comprehensive information security program containing safeguards appropriate based on its size and complexity, the nature and scope of its activities, and the sensitivity of customer information it processes, as well as plans for responding to data security breaches. Various state and federal banking regulators and states have also enacted data security breach notification requirements with varying levels of individual, consumer, regulatory or law enforcement notification in certain circumstances in the event of a security breach. Moreover, legislators and regulators in the United States are increasingly adopting or revising privacy, information security and data protection laws that potentially could have a significant impact on the Company's current and planned privacy, data protection and information security-related practices, the Company's collection, use, sharing, retention and safeguarding of consumer or employee information, and some of its current or planned business activities. This could also increase the Company's costs of compliance and business operations and could reduce income from certain business initiatives. This includes increased privacy-related enforcement activity at the federal level, by the Federal Trade Commission, as well as at the state level, such as with regard to mobile applications.

Compliance with current or future privacy, data protection and information security laws (including those regarding security breach notification) affecting customer or employee data to which the Company is subject could result in higher compliance and technology costs and could restrict its ability to provide certain products and services, which could have a material adverse effect on its business, financial conditions or results of operations. The Company's failure to comply with privacy, data protection and information security laws could result in potentially significant regulatory or governmental investigations or actions, litigation, fines, sanctions and damage to its reputation, which could have a material adverse effect on its business, results of operations, financial condition, and the value of its securities.

The Company's and the Bank's use of third party vendors and their other ongoing third party business relationships are subject to increasing regulatory requirements and attention.

The Company regularly uses third party vendors as part of its business. The Bank also has substantial ongoing business relationships with other third parties. These types of third party relationships are subject to increasingly demanding regulatory requirements and attention by the Company's federal bank regulators. Regulatory guidance requires all banking organizations to enhance due diligence, ongoing monitoring and control over organizations' third party vendors and other ongoing third party business relationships. The Company expects that its regulators will hold it responsible for any deficiencies in its oversight and control of its third party relationships and in the performance of the parties with which it has these relationships. As a result, if the Company's regulators conclude that it has not exercised adequate oversight and control over its third party vendors or other ongoing third party business relationships or that such third parties have not performed appropriately, the Company could be subject to enforcement actions, including civil money penalties or other administrative or judicial penalties or fines as well as requirements for customer remediation, any of which could have a material adverse effect on its business, results of operations, financial condition, and the value of its securities.

The Bank is limited in the amount it can lend to one borrower.

The Bank is limited in the amount it can lend to a single borrower. The legal lending limit is 15% of such bank's capital and surplus with an additional 10% available for certain loans meeting heightened collateral requirements. However, the Company generally imposes an internal limit that is more conservative than the legal maximum. The Bank's lending limit is significantly less than the limit for most of its competitors and may affect its ability to seek relationships with larger businesses in its market area. From time to time, the Company attempts to accommodate larger loans by selling participations in those loans to other financial institutions. However, the Company cannot assure you that it will be able to attract or maintain customers seeking larger loans or that it will be able to sell participations in such loans on terms it considers favorable. The Company's inability to attract and maintain these customers or its inability to sell loan participations on favorable terms could adversely impact its business, financial condition, results of operation, and the value of its securities.

Federal, state and local consumer lending laws may restrict the Bank's ability to originate certain mortgage loans or increase its risk of liability with respect to such loans and could increase its cost of doing business.

Federal, state and local laws have been adopted that are intended to eliminate certain lending practices considered "predatory." These laws prohibit practices such as steering borrowers away from more affordable products, selling unnecessary insurance to borrowers, repeatedly refinancing loans and making loans without a reasonable expectation that the borrowers will be able to repay the loans irrespective of the value of the underlying property. Loans with certain terms and conditions and that otherwise meet the definition of a "qualified mortgage" may be protected from liability to a borrower for failing to make the necessary determinations. The Company may find it necessary to tighten its mortgage loan underwriting standards in response to these rules, which may constrain its ability to make loans consistent with its business strategies. It is the Company's policy not to make predatory loans and to determine borrowers' ability to repay, but the law and related rules create the potential for increased liability with respect to the Company's lending and loan investment activities. They increase the Company's cost of doing business and, ultimately, may prevent it from making certain loans and cause it to reduce the average percentage rate or the points and fees on loans that it does make.

The Bank is subject to federal and state fair lending laws, and failure to comply with these laws could lead to material penalties.

Federal and state fair lending laws and regulations, such as the Equal Credit Opportunity Act and the Fair Housing Act, impose nondiscriminatory lending requirements on financial institutions. The Department of Justice, Consumer Financial Protection Bureau ("CFPB") and other federal and state agencies are responsible for enforcing these laws and regulations. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. A successful challenge to the Company's performance under the fair lending laws and regulations could adversely impact its rating under the Community Reinvestment Act and result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, imposition of restrictions on merger and acquisition activity and restrictions on expansion activity, which could negatively impact its reputation, business, financial condition and results of operations. The Bank's current Community Reinvestment Act rating is "Satisfactory."

The Federal Reserve may require the Company to commit capital resources to support the Bank.

The Federal Reserve requires a bank holding company to act as a source of financial and managerial strength to a subsidiary bank and to commit resources to support such subsidiary bank. Under the "source of strength" doctrine, the Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank and may charge the bank holding company with engaging in unsafe and unsound practices for failure to commit resources to such a subsidiary bank. In addition, the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") directs the federal bank regulators to require that all companies that directly or indirectly control an insured depository institution serve as a source of financial strength for the institution. Under these requirements, in the future, the Company could be required to provide financial assistance to the Bank, if it experiences financial distress.

A capital injection may be required at times when the Company does not have the resources to provide it, and therefore the Company may be required to borrow the funds. In the event of a bank holding company's bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the holding company's general unsecured creditors, including the holders of its note obligations. Thus, any borrowing that must be done by the holding company in order to make the required capital injection becomes more difficult and expensive and will adversely impact the holding company's cash flows, financial condition, results of operations and prospects.

The Company may be subject to more stringent capital requirements in the future.

From time to time, the Company's banking regulators change the regulatory capital adequacy guidelines applicable to it and its banking subsidiary. In December 2010 and January 2011, the Basel Committee on Banking Supervision published the final texts of reforms on capital and liquidity generally referred to as "Basel III." The federal regulatory agencies adopted capital rules implementing the Basel III capital framework in the United States. Under these rules, the Bank is required to satisfy additional, more stringent, capital adequacy standards than it has in the past. If the Company's consolidated assets were to exceed $3.0 billion or larger, the Company would be subject to consolidated holding company capital requirements similar to those applicable to the Bank. The Bank has met all of the requirements of the Basel III-based capital rules to date, but the Bank may fail to do so in the future. In addition, these requirements could have a negative impact on the Bank's ability to lend, grow deposit balances, make acquisitions or make capital distributions in the form of dividends or share repurchases. Higher capital levels could also lower the Company's return on equity, which may negatively impact its business, results of operations, financial condition, and the value of its securities.

The Bank may be a party to various lawsuits. Litigation is subject to many uncertainties such that the expenses and ultimate exposure with respect to many of these matters cannot be ascertained.

From time to time, customers and others make claims and take legal action pertaining to the Company's performance of fiduciary responsibilities or other matters. Whether customer claims and legal action are legitimate or unfounded, if such claims and legal actions are not resolved in the Company's favor they may result in significant financial liability and/or adversely affect the market perception of it and its products and services as well as impact customer demand for those products and services. Any financial liability or reputation damage could have a material adverse effect on the Company's business, which, in turn, could have a material adverse effect on its financial condition and results of operations.

Risks Related to an Investment in the Company's Securities

There is a limited trading market in the Company's common stock, which will hinder your ability to sell our common stock and may lower the market price of the stock.

Although the Company's common stock is traded on the Nasdaq Capital Market, there is currently a limited trading market for the Company's common stock. An active trading market for shares of the Company's common stock may never develop or be sustained. This limited trading market for the Company's common stock may reduce the market value of our common stock. Before investing in shares of the Company's common stock you should consider the limited trading market for our common stock and be financially prepared and able to hold your shares for an indefinite period.

The Company can provide no assurance regarding whether it will continue to make dividend payments in the future.

The Company currently pays a quarterly dividend of $0.075 per share. All future dividends will be dependent on the Company's financial condition, results of operations, and cash flows, as well as capital regulations and dividend restrictions from the PADOBS, the FDIC, and the Federal Reserve. The Federal Reserve and the FDIC have issued policy statements, which provide that bank holding companies and insured banks should generally only pay dividends out of current operating earnings. The FDIC also has the authority under federal law to enjoin a bank from engaging in what in its opinion constitutes an unsafe or unsound practice in conducting its business, including the payment of a dividend under certain circumstances. The Company can provide no assurance regarding whether it will continue to make dividend payments in the future.

The Company may issue additional shares of common stock, and this would result in dilution of a shareholder's ownership percentage and potentially the per share book value of the common stock.

The Company may, in the future, determine that it is advisable, or it may encounter circumstances where it determines it is necessary, to issue additional shares of common stock, preferred stock, securities convertible into, exchangeable for or that represent an interest in common stock, or common stock-equivalent securities to fund strategic initiatives or other business needs or to build additional capital. In September 2022, the Company completed its IPO whereby it issued and sold 5,101,205 shares of common stock. In February 2023, the Company completed a private placement of $10.0 million in common stock. These issuances diluted and future issuances may dilute the ownership interests of shareholders and could potentially dilute the per share book value of the common stock if the issuances are done at a lower per share offering price.

Furthermore, in recognition of the financial risk and efforts undertook in organizing the Company, certain founding investors were granted warrants to purchase four shares of common stock at a purchase price of $10 per share for every one share the individual purchased during the Company's initial offering in 2018-2019. In the aggregate, warrants to purchase 1,537,484 shares of common stock were granted to these individuals, which are exercisable for ten years from the date of grant. The exercise of such warrants would dilute the ownership interests of the Company's shareholders.

The Company's securities are not FDIC insured and may lose value.

Shares of the Company's common stock are not savings accounts or deposits and are not insured or guaranteed by the FDIC, or any other governmental agency, and involve investment risk, including the possible loss of principal.

The Company's common stock is subordinate to existing and future indebtedness.

Shares of the Company's common stock are equity interests and do not constitute indebtedness. As such, the Company's common stock ranks junior to all our customer deposits and indebtedness, and other non-equity claims on the Company, with respect to assets available to satisfy claims. In addition, the shares of common stock rank junior to the $20.0 million in subordinated debt that the Company assumed in connection with the Gratz Merger and the $20.0 million of subordinated debt that the Company issued in April 2022.

Other Risks

Adverse developments affecting the financial services industry, such as bank failures or concerns involving liquidity, may have a material effect on the Company's operations.

Recent events relating to the failures of certain banking entities in March 2023, i.e. Silicon Valley Bank and Signature Bank, have caused general uncertainty and concern regarding the liquidity adequacy of the banking sector as a whole. Uncertainty may be compounded by the reach and depth of media attention, including social media, and its ability to disseminate concerns or rumors about any events of these kinds or other similar risks, and have in the past and may in the future lead to market-wide liquidity problems. These failures underscore the importance of maintaining diversified sources of funding as key measures to ensure the safety and soundness of a financial institution. As a result, market conditions and other external factors may impact the competitive landscape for deposits in the banking industry in an unpredictable manner. The rising interest rate environment has increased competition for liquidity and the premium at which liquidity is available to meet funding needs.

The use of estimates and valuations may be different from actual results, which could have a material adverse effect on the Company's consolidated financial statements.

The Company makes various estimates that affect reported amounts and disclosures. Broadly, those estimates are used in measuring the fair value of certain financial instruments, establishing provision for loan losses and potential litigation liability. Market volatility may make it difficult to determine the fair value for certain of the Company's assets and liabilities. Subsequent valuations, in light of factors then prevailing, may result in significant changes in the values of these financial instruments in future periods. In addition, at the time of any sales and settlements of these assets and liabilities, the price the Company ultimately realizes will depend on the demand and liquidity in the market at that time for that particular type of asset or liability and may be materially lower than its estimate of their current fair value. Estimates are based on available information and judgment. Therefore, actual values and results could differ from the Company's estimates and that difference could have a material adverse effect on its consolidated financial statements.

The Company's shareholders have limited control over changes in the Company's policies and operations, which increases the uncertainty and risks that shareholders face.

The Board of Directors of the Company determine the major policies of the Company, including its policies regarding growth and distributions. The Board of Directors may amend or revise these and other policies without a vote of the shareholders. The Board of Directors' broad discretion in setting policies and shareholders' inability to exert control over those policies increases the uncertainty and risks the shareholders face.

The Company's articles of incorporation permit the Board of Directors to issue stock with terms that may subordinate the rights of the holders of the Company's common stock or discourage a third party from acquiring the Company in a manner that could result in a premium price to shareholders.

The Board of Directors may classify or reclassify any unissued shares of the Company's common stock, classify any unissued shares of the Company's preferred stock and reclassify any previously classified but unissued shares of the Company's preferred stock into other classes or series of stock and set the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms and conditions of redemption of any such stock. Thus, the Board of Directors could authorize the issuance of preferred stock with priority as to distributions and amounts payable upon liquidation over the rights of the holders of the Company's common stock. Such preferred stock could also have the effect of delaying, deferring or preventing a change in control of the Company, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of the Company's assets) that might provide a premium price to holders of the Company's common stock.

The Company's articles of incorporation and bylaws, and certain banking laws applicable to us, could have an anti-takeover effect that decreases the Company's chances of being acquired, even if an acquisition is in the shareholders' best interests.

Certain provisions of the Company's articles of incorporation and bylaws, and federal and state banking laws, including regulatory approval requirements, could make it more difficult for a third party to acquire control of our organization or conduct a proxy contest, even if those events were perceived by many of the Company's shareholders as beneficial to their interests. These provisions, and the corporate and banking laws and regulations applicable to us:

- enable the board of directors to increase the size of the board and fill the vacancies created by the increase;
- provide that directors may only be removed for cause and by a majority of the votes entitled to be cast;
- enable the board of directors to amend our bylaws without shareholder approval, subject, however, to any provision of the articles of incorporation, bylaws, or the Pennsylvania Business Corporation Law that requires action to be taken by the shareholders and the general power of the shareholders to change such action in accordance with the Bylaws and Pennsylvania Business Corporation Law;
- require advance notice for shareholder proposals and director nominations;
- require a supermajority vote of the shareholders to approve a merger that has not been approved by the board of directors, and to amend certain provisions in the articles of incorporation and the bylaws; and
- require prior regulatory approval of any transaction involving control of our organization.

The foregoing may discourage potential acquisition proposals and could delay or prevent a change in control.

The Company is an “emerging growth company” under the JOBS Act, and the Company cannot be certain whether the reduced disclosure requirements applicable to emerging growth companies will make the Company’s common stock less attractive to investors.

The Company is an “emerging growth company” under the Jumpstart Our Business Startups Act (the “JOBS Act”), and is, therefore, permitted to, and intends to, take advantage of certain exemptions from certain disclosure requirements. The Company will be an “emerging growth company” until the earliest of: (i) the last day of the fiscal year during which the Company had total annual gross revenues of $1.235 billion or more, (ii) December 31, 2026, (iii) the date on which the Company has, during the previous three-year period, issued more than $1.0 billion in non-convertible debt or (iv) the date on which the Company is deemed a “large accelerated filer,” as defined under the federal securities laws. For so long as the Company remains an “emerging growth company,” the Company may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not “emerging growth companies,” including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, as amended, reduced disclosure obligations regarding executive compensation in the Company’s periodic reports and proxy statements and exemptions from the requirements of holding a nonbinding advisory vote on certain executive compensation matters, such as “say on pay” and “say on frequency.” As a result, the Company’s shareholders may not have access to certain information that they may deem important. Although the Company intends to rely on the exemptions provided in the JOBS Act, the exact implications of the JOBS Act for the Company are still subject to interpretations and guidance by the SEC and other regulatory agencies.

In addition, Section 107 of the JOBS Act provides that an “emerging growth company” can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised financial accounting standards. The Company has elected to delay the adoption of certain accounting standards until those standards would otherwise apply to private companies.

The Company cannot predict whether investors will find its common stock less attractive as a result of the Company taking advantage of these exemptions. If some investors find the Company’s common stock less attractive as a result of these choices, there may be a less active trading market for the Company’s common stock, and the Company’s stock price may be more volatile.

Item 1B. Unresolved Staff Comments.

None

Item 2. Properties.

The Company's principal offices are located at 1250 Camp Hill Bypass, Suite 202, Camp Hill, Pennsylvania. The Company owns and leases other premises for use as Solutions Centers in Dauphin, Chester, Cumberland, Lancaster, Northumberland, Schuylkill, and York counties within Pennsylvania. The following table sets forth the locations of Bank facilities.

Description	Address	Owned / Leased
Camp Hill Headquarters	1250 Camp Hill Bypass, Suite 202 Camp Hill, PA 17011	Leased
Camp Hill Solutions Center	3045 Market Street Camp Hill, PA 17011	Leased
Gratz Solutions Center	32 West Market Street Gratz, PA 17030	Owned
Harrisburg Solutions Center	2057 EG Drive Harrisburg, PA 17110	Leased
Herndon Solutions Center	4231 State Route 147 Herndon, PA 17830	Owned
Lancaster Solutions Center	2010 Fruitville Pike Lancaster, PA 17601	Leased
Minersville Solutions Center	260 West Sunbury Street Minersville, PA 17954	Owned
Pottsville Solutions Center	2221 West Market Street Pottsville, PA 17901	Leased
Treverton Solutions Center	450 West Shamokin Street Trevorton, PA 17881	Owned
Valley View Solutions Center	1625 West Main Street Valley View, PA 17983	Owned
West Chester Solutions Center	1436 Pottstown Pike West Chester, PA 19380	Leased
West Chester Loan Production Office	535 N. Church Street, Suite 350 West Chester, PA 19380	Leased
York Loan Production Office	155 North George Street, Suite 201 York, PA 17401	Leased

Item 3. Legal Proceedings.

At December 31, 2022, the Company is not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business, which involve amounts in the aggregate believed by management to be immaterial to the financial condition and operating results of the Company.

Item 4. Mine Safety Disclosures.

Not applicable

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

<u>Market Information</u>
The common stock of LINKBANCORP, Inc. is traded under the symbol "LNKB" on the Nasdaq Capital Market. As of the close of business on March 28, 2023, there were 525 shareholders of record.

The Company declared and paid cash dividends equal to $0.30 and $0.205 per share of common stock for the years ended December 31, 2022 and 2021, respectively. The merger agreement with GNBF provides that, for three years following the effective time of the Gratz Merger, the Company will pay a quarterly cash dividend in an amount equal to or greater than $0.30 per share per year, provided sufficient funds are legally available therefore and that the Company and the Bank remain “well-capitalized” in accordance with applicable regulatory guidelines. The Company anticipates that it will continue to pay cash dividends on a quarterly basis in an amount equal to or greater than $0.30 per share per year. The payment and amount of any dividend payments will be subject to statutory and regulatory limitations, and will depend upon a number of factors, including the following: regulatory capital requirements; our financial condition and results of operations; our other uses of funds for the long-term value of shareholders; tax considerations; and general economic conditions.

During the quarter ended December 31, 2022, the Company repurchased no shares of its common stock.

Item 6.

Reserved.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

This discussion and analysis reflects the Company’s audited consolidated financial statements and other relevant statistical data and is intended to enhance your understanding of the Company’s consolidated financial condition and results of operations. This Management’s Discussion and Analysis is presented in the following sections:

- Partners Merger
- Completion of Gratz Merger
- Completion of Initial Public Offering
- Overview and Strategy
- Recent Market Conditions
- Comparison of Financial Condition at December 31, 2022 and 2021
- Comparison of Operating Results for the Year Ended December 31, 2022 and 2021
- Liquidity, Commitments, and Capital Resources
- Off-Balance Sheet Arrangements
- Critical Accounting Estimates
- Recently Issued Accounting Standards

Partners Merger

On February 22, 2023, LINKBANCORP and Partners Bancorp entered into the Merger Agreement that provides that Partners Bancorp will merge with and into LINKBANCORP, with LINKBANCORP as the surviving corporation (the “Partners Merger”). Partners Bancorp shareholders will receive 1.15 shares of LINKBANCORP common stock for each Partners Bancorp share they own. Following the Partners Merger, Partners Bancorp’s two bank subsidiaries, The Bank of Delmarva and Virginia Partners Bank, will merge with and into LINKBANK, with LINKBANK remaining as the surviving bank (the “Bank Mergers”). The completion of the Partners Merger and the Bank Mergers is subject to customary closing conditions, including approval by both LINKBANCORP and Partners Bancorp shareholders and the receipt of regulatory approvals. The Partners Merger is expected to close in the third quarter of 2023. In connection with the announcement of the Partners Merger, LINKBANCORP completed a private placement of $10.0 million with certain directors of LINKBANCORP as well as other accredited investors.

Completion of Gratz Merger

On September 18, 2021, LINKBANCORP completed its merger with GNB Financial Services, Inc. (the “Gratz Merger”), with LINKBANCORP as the surviving corporation. Immediately following the Gratz Merger, LINKBANK, a wholly-owned subsidiary of LINKBANCORP, merged with and into The Gratz Bank, a wholly-owned subsidiary of GNBF, with The Gratz Bank as the surviving bank. Effective November 4, 2022, The Gratz Bank legally changed its name and began to operate under one brand under the name LINKBANK.

As described in Note 2. "Merger" in the Notes to the Audited Consolidated Financial Statements, the Gratz Merger has been accounted for as a reverse acquisition and, accordingly, the historical financial information of the Company for all periods prior to September 18, 2021 is that of GNBF and Subsidiaries. For all periods beginning on September 18, 2021 and thereafter, the financial information is that of the combined company. See Note 2. “Merger” in the Notes to the Audited Consolidated Financial Statements for further information.

Completion of Initial Public Offering

In September 2022, the Company completed its initial public offering ("IPO") whereby it issued and sold 5,101,205 shares of common stock at a public offering price of $7.50 per share. The Company received net proceeds of $34.7 million after deducting underwriting discounts and commissions of $2.5 million and other offering expenses of $1.1 million. The Company plans to use the proceeds to support the Bank's current growth, its future growth initiatives, and for general corporate purposes. The Company's common stock now trades on the Nasdaq Capital Market under the symbol "LNKB."

Overview and Strategy

The Company’s core strategy is to further its mission of “positively impacting lives” through community banking by building strong relationships that bring value to its customers, employees, the communities it serves and its shareholders. In pursuing this mission, the Company specifically desires to invest in the development of strong future leaders for the banking industry and our communities, to contribute to economically and socially flourishing communities, and to demonstrate the continued viability and integral role of community banking for our economic and social development.

The Company operates primarily through its sole subsidiary, LINKBANK (the "Bank"), which provides traditional lending, deposit gathering and cash services to retail customers, small businesses and nonprofit organizations. The Bank focuses its lending activities on small businesses, targeted to create a diverse loan portfolio in relation to its underlying collateral and different business segments with unique cash flow generation and varied interest rate sensitivity. The Bank offers a full suite of deposit products and cash management services focused on the small business and nonprofit segments.

Our revenues consist primarily of interest income earned on loans and investments. Interest income is partially offset by interest expense incurred on deposits, borrowings and other interest-bearing liabilities. Net interest income is affected by the balances of interest-earning assets and interest-bearing liabilities and their relative interest rates. Net interest income is typically further reduced by a provision for loan losses.

Non-interest income also contributes to our operating results, consisting of service charges on deposit accounts, earnings on bank-owned life insurance, revenue from the sale of residential mortgage loans to the secondary market and related servicing fees and gains on sales of securities. Non-interest expenses, which include salaries and employee benefits, occupancy and equipment costs, data processing, professional fees, FDIC insurance and other general and administrative expenses, are the Company's primary expenditures incurred as a result of operations.

Financial institutions, in general, are significantly affected by economic conditions, competition, and the monetary and fiscal policies of the federal government. Lending activities are influenced by the demand for and supply of housing and commercial real estate, competition among lenders, interest rate conditions, and funds availability. Our operations and lending are concentrated in South Central Pennsylvania in Dauphin, Chester, Cumberland, Lancaster, Northumberland, and Schuylkill Counties, and are influenced by local economic conditions. Deposit balances and cost of funds are influenced by prevailing market rates on competing investments, customer preferences, and levels of personal income and savings in our primary market area. Operations are also significantly impacted by government policies and actions of regulatory authorities. Future changes in applicable law, regulations or government policies may materially impact the Company.

Recent Market Conditions

The Company's financial condition and performance are all highly dependent on the business environment in the market area in which we operate and in the United States as a whole. During the first quarter of 2020, there was an outbreak of a novel strain of coronavirus (COVID-19) which spread to numerous countries around the world, including the United States, while becoming a global pandemic. As the spread of COVID-19 increased during the first and second quarters of 2020, federal, state, and local governments implemented various restrictive measures such as quarantines, restrictions on travel, school closings, "stay at home" rules and restrictions on certain business operations. These restrictions were lifted as people had begun to gain access to vaccines during the fourth quarter of 2020. Throughout the first half of 2021, the COVID-19 pandemic continued to negatively affect our economy but started to wane towards the end of the second quarter only to see a national resurgence in cases during July 2021 and December 2021 as a result of variant strains of COVID-19. Primarily throughout 2020, the aforementioned restrictions had adversely affected the economy on a national, state, and local level, including the geographical areas in which the Company operates. As we progressed through 2021, especially during the second half of 2021, our economy benefited from reduced business and travel restrictions as the national and local impact of COVID-19 lessened. The impact of COVID-19 has continued to decrease throughout 2022, with even fewer restrictions and an increasing demand for travel.

The US GDP expanded by 2.1% in 2022, slowing from a 5.9% expansion in 2021 as the economy returned to a more normal pace of growth after pandemic-related disruptions in the previous two years. In 2022, the positive contributions came from consumer spending, exports, private inventory investment, and nonresidential fixed investment that were partly offset by decreases in residential fixed investment and federal government spending. 2022 was in many ways another year of upheaval not seen in decades. The impact of the COVID-19 pandemic may be fading, however challenges to the macroeconomic environment continue to persist for example, continuing global supply-chain disruptions, global central bank tightening, and geopolitical concerns such as the ongoing Russia-Ukraine war. These challenges can be coupled with internal matters affecting companies, such as employee retention, employee working arrangements, and cost management related to inflation at 40-year highs.

In response to four-decade-high inflation, the Federal Reserve raised its key benchmark rate by 425 basis points during 2022. CPI inflation reached 9.1% in June 2022, before slowing to 6.5% near the end of the year. The Russian invasion of Ukraine elevated commodity prices and exacerbated global supply chain problems in the first six months of the year. By the end of the year, while headline inflation momentum was slowing, core service inflation was not, suggesting the Fed's inflation fight is not yet over. The labor market showed remarkable resilience in 2022, remaining historically tight even in the face of high inflation and rising interest rates. Job growth slowed throughout 2022 but remains very strong by pre-pandemic standards. Robust job gains and elevated wage pressures kept consumer spending high, underpinning stubborn service inflation.

Mortgage rates rose on Fed tightening, reaching 7.1% in October 2022 before falling to 6.3% at year-end. Rising mortgage rates and elevated pandemic driven house prices caused home sales to fall significantly in 2022. Nonetheless, pent-up demand for new homes and other consumer products such as automobiles kept aggregate spending relatively high.

The S&P 500 fell 19.4% during 2022 and the 10-year UST yield rose 237 basis points. The increase in bond yields have caused large unrealized losses and negative effects on equity through accumulated other comprehensive income ("AOCI") as the banking industry has an estimated $310 billion of negative AOCI. Deposits and liquid assets declined for the first time since 2019 while the cost of funding increased. Declining liquidity in a period of rising rates could have an impact on earnings and capital if a bank needs to liquidate securities.

During March 2023, the FDIC placed both Silicon Valley Bank and Signature Bank under receivership marking the second and third largest bank failures in U.S. history. These failures underscore the importance of proper risk management programs and liquidity planning within the banking industry. The heightened focus on liquidity across the banking industry will continue to add to the already increasing competition for deposits as a source of core balance sheet funding, which is expected to cause the cost of funds at banks to continue to rise in the near term. Should financial institutions experience shortfalls in core funding, alternative sources of liquidity would most likely cause a further increase in funding costs, placing additional pressure on overall bank profitability across the sector.

Comparison of Financial Condition at December 31, 2022 and December 31, 2021

Total assets at December 31, 2022, were $1.16 billion, an increase of $230.9 million, or 24.8%, from $932.8 million at December 31, 2021. The increase in total assets was primarily due to the increases in loans receivable of $213.1 million, from $714.8 million at December 31, 2021 to $927.9 million at December 31, 2022 and securities held to maturity of $31.8 million, from zero at December 31, 2021 to $31.8 million at December 31, 2022. These increases were offset by a decrease in securities available for sale of $25.0 million.

Cash and cash equivalents increased $7.4 million, or 32.9%, from $22.6 million at December 31, 2021 to $30.0 million at December 31, 2022. The increase was primarily due to:

Primary Cash Inflows

- Cash provided by operating activities of $2.3 million;
- Net increase in deposits of $175.1 million;
- Proceeds from the IPO of $34.7 million;
- Proceeds from the issuance of subordinated debt of $20.0 million;
- Net cash from investment securities (sales, calls, maturities, and principal repayments) of $16.2 million; and
- Proceeds from redemption of certificates of deposits with other banks of $7.2 million.

Primary Cash Outflows

- Net increase in loans receivable of $206.4 million;
- Purchase of investment securities held to maturity of $34.4 million; and
- Payment of dividends of $3.3 million.

Securities available-for-sale decreased by $25.0 million, or 24.1%, to $78.8 million at December 31, 2022 from $103.8 million at December 31, 2021. The decrease was primarily due to return of principal of $11.9 million and the changes in fair value. The securities available-for-sale portfolio had a net unrealized loss of $8.1 million at December 31, 2022 compared with a net unrealized gain of $2.3 million at December 31, 2021. Also contributing to the decrease in securities available-for-sale were proceeds from calls and maturities of $1.2 million, and proceeds from sales of $513 thousand. The proceeds from available-for-sale securities sales and the net return of principal repayments were reinvested in 2022 into investment securities classified as held to maturity.

The following table summarizes the maturity distribution schedule with corresponding weighted-average yields of securities available for sale and held-to-maturity as of December 31, 2022. Weighted average yields have been computed on a fully taxable-equivalent basis using a tax rate of 21%. Mortgage-backed securities are included in maturity categories based on their contractual maturity date. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations.

	Within 1 Year		1-5 Years		5-10 Years		After 10 Years		Total	
(in thousands)	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
Available for Sale:										
Small Business Administration loan pools	$ —	—	$ —	—	$ 519	3.73%	$ 324	1.82%	$ 843	3.00%
Obligations of state and political subdivisions	50	3.00%	5,792	2.90%	11,635	2.94%	22,692	3.44%	40,169	3.22%
Mortgage-backed securities in government-sponsored entities	—	—	663	2.03%	9,734	1.58%	27,404	1.54%	37,801	1.56%
	$ 50	3.00%	$6,455	2.81%	$21,888	2.35%	$50,420	2.38%	$78,813	2.41%
Held to Maturity:										
Corporate debentures	$ —	—	$3,000	4.38%	$11,993	5.02%	$ —	—	$14,993	4.89%
Structured mortgage-backed securities	—	—	—	—	—	—	16,829	4.14%	16,829	4.14%
Total	$ —	—	$3,000	4.38%	$11,993	5.02%	$16,829	4.14%	$31,822	4.49%

In 2022, the Company purchased investment securities classified as held to maturity of $34.4 million. During 2022, return of principal on held to maturity securities totaled $2.6 million.

Net loans receivable increased during the year ended December 31, 2022 as shown in the table below:

(dollars in thousands)	December 31, 2022	December 31, 2021	Change	%
Agriculture loans	$ 15,591	$ 9,341	$ 6,250	66.91%
Commercial loans	103,874	98,604	5,270	5.34
Paycheck Protection Program ("PPP") loans	881	23,774	(22,893)	(96.29)
Commercial real estate loans	540,914	338,749	202,165	59.68
Residential real estate loans	250,832	231,302	19,530	8.44
Consumer loans	10,057	7,087	2,970	41.91
Municipal loans	5,466	6,182	(716)	(11.58)
Total Loans	**927,615**	**715,039**	**212,576**	**29.73**
Deferred costs (fees)	256	(223)	479	(214.80)
Allowance for loan losses	(4,666)	(3,152)	(1,514)	48.03
Net Loans	**$ 923,205**	**$ 711,664**	**$ 211,541**	**29.72%**

The majority of the loan growth in net loans resulted from a $202.2 million increase in commercial real estate loans, a 59.7% increase, from $338.7 million at December 31, 2021 to $540.9 million at December 31, 2022.

The following table presents the maturity distribution of our loan portfolio at December 31, 2022. The table further presents the breakdown of our loans between those loans that earn interest at a fixed interest rate and those loans that earn an interest rate that currently fluctuates in accordance with changes to a specific interest rate index.

(In Thousands)	Due in One Year or Less	After One but Within Five Years	After Five but Within Fifteen Years	After Fifteen Years	Total due after One Year	Total
Agriculture loans	$ 567	$ 1,164	$ 7,539	$ 6,322	$ 15,025	$ 15,591
Commercial loans	12,591	28,939	16,172	46,172	91,283	103,874
Paycheck Protection Program ("PPP") loans	—	881	—	—	881	881
Commercial real estate loans	16,411	89,376	386,314	48,813	524,503	540,914
Residential real estate loans	11,063	60,917	93,872	84,980	239,769	250,832
Consumer and other loans	111	556	8,983	407	9,946	10,057
Municipal loans	223	859	2,685	1,699	5,243	5,466
Total	$ 40,966	$ 182,692	$ 515,565	$ 188,393	$ 886,650	$ 927,615
Loans with fixed interest rates						
Agriculture loans	$ 89	$ 734	$ 6,862	$ —	$ 7,596	$ 7,685
Commercial loans	504	23,649	10,378	607	34,634	35,138
Paycheck Protection Program ("PPP") loans	—	881	—	—	881	881
Commercial real estate loans	2,828	48,712	166,141	10,953	225,806	228,634
Residential real estate loans	6,433	28,748	41,567	21,078	91,393	97,826
Consumer and other loans	62	523	2,434	407	3,364	3,426
Municipal loans	223	483	2,455	—	2,938	3,161
Total	$ 10,139	$ 103,730	$ 229,837	$ 33,045	$ 366,612	$ 376,751
Loans with floating interest rates						
Agriculture loans	$ 478	$ 430	$ 677	$ 6,322	$ 7,429	$ 7,906
Commercial loans	12,087	5,290	5,794	45,565	56,649	68,736
Paycheck Protection Program ("PPP") loans	—	—	—	—	—	—
Commercial real estate loans	13,583	40,664	220,173	37,860	298,697	312,280
Residential real estate loans	4,630	32,169	52,305	63,902	148,376	153,006
Consumer and other loans	49	33	6,549	—	6,582	6,631
Municipal loans	—	376	230	1,699	2,305	2,305
Total	$ 30,827	$ 78,962	$ 285,728	$ 155,348	$ 520,038	$ 550,864

Non-accrual loans are presented in the table below. Also see Note 6 - Allowance for Loan Losses in the accompanying notes to the consolidated financial statements included elsewhere in this report.

	December 31, 2022			December 31, 2021		
		Non-Accrual Loans			Non-Accrual Loans	
(In Thousands)	Total Loans	Amount	Percent of Loans in Category	Total Loans	Amount	Percent of Loans in Category
Agriculture loans	$ 15,591	$ —	—	$ 9,341	$ —	—
Commercial loans	103,874	35	0.03%	98,604	39	0.04%
Paycheck Protection Program ("PPP") loans	881	—	—	23,774	—	—
Commercial real estate loans	540,914	231	0.04%	338,749	144	0.04%
Residential real estate loans	250,832	1,652	0.66%	231,302	449	0.19%
Consumer and other loans	10,057	—	—	7,087	2	0.03%
Municipal loans	5,466	—	—	6,182	—	—
Total	$ 927,615	$ 1,918	0.21%	$ 715,039	$ 634	0.09%
Excluding PPP loans	$ 926,734	$ 1,918	0.21%	$ 691,265	$ 634	0.09%
Allowance for credit losses on loans		$ 4,666			$ 3,152	
Ratio of allowance for loan losses to total loans		0.50%			0.44%	
Ratio of non-accrual loans to total loans		0.21%			0.09%	
Ratio of allowance for loan losses to non-accrual loans		243.27%			497.16%	

The table below provides an allocation of the allowance for loan losses by loan category at December 31, 2022 and 2021.

(In Thousands)	Amount of Allowance Allocated	Percent of Loans in Each Category to Total Loans	Total Loans	Ratio of Allowance Allocated to Loans in Each Category
December 31, 2022				
Agriculture loans	$ 33	1.68%	$ 15,591	0.21%
Commercial loans	583	11.20%	103,874	0.56%
Paycheck Protection Program ("PPP") loans	—	0.09%	881	—
Commercial real estate loans	2,462	58.31%	540,914	0.46%
Residential real estate loans	1,536	27.04%	250,832	0.61%
Consumer and other loans	40	1.08%	10,057	0.40%
Municipal loans	12	0.59%	5,466	0.22%
Unallocated Allowance	—			
Total	$ 4,666	100.00%	$ 927,615	0.50%
December 31, 2021				
Agriculture loans	$ 23	1.31%	$ 9,341	0.25%
Commercial loans	582	13.79%	98,604	0.59%
Paycheck Protection Program ("PPP") loans	—	3.32%	23,774	—
Commercial real estate loans	799	47.37%	338,749	0.24%
Residential real estate loans	1,634	32.35%	231,302	0.71%
Consumer and other loans	22	0.99%	7,087	0.31%
Municipal loans	15	0.86%	6,182	0.24%
Unallocated Allowance	77			
Total	$ 3,152	100.00%	$ 715,039	0.44%

The allowance for loan losses increased $1.5 million from $3.2 million at December 31, 2021 to $4.7 million at December 31, 2022. The primary driver of the increased allowance for loan losses was a provision for loan losses recognized during the year ended December 31, 2022 of $1.3 million, and net recoveries of $224 thousand. The increase in the allowance for loan losses during 2022 when compared to 2021 can be attributed to a few factors. Management noted that the Company experienced an overall increase in criticized loans, defined as loans rated as Special Mention and Substandard, which increased $1.2 million from December 31, 2021 to December 31, 2022. Additionally, management noted that the balance of loans greater than 60 days past due increased $839 thousand at December 31, 2022 when compared to December 31, 2021. Finally, management noted that total loans increased $212.6 million at December 31, 2022 when compared to December 31, 2021, which adds an inherent increased risk of loss based on our allowance methodology. All of these factors contributed to the need to increase the allowance for loan losses at December 31, 2022 when compared to December 31, 2021. One item that did not materially contribute to an increase in the allowance for loan losses was the $1.3 million increase in non-accrual loans at December 31, 2022 when compared to December 31, 2021. These loans were individually assessed for impairment and those impairment tests showed the need for a specific reserve of only $20 thousand. Not included in the table above is the remaining unamortized credit fair value adjustment on loans acquired through the Gratz Merger which totaled $5.0 million at December 31, 2022.

Asset quality remained strong at December 31, 2022 with non-performing assets, which is defined as non-accrual loans, loans delinquent greater than 90 days and still accruing interest, and other real estate owned, was $2.7 million or 0.29% of total gross loans. This is compared to $1.8 million of non-performing assets at December 31, 2021, which equated to 0.25% of gross loans. Additionally, to compare our allowance for loan losses as a percentage of our gross loans outstanding, the Company also considers the credit fair value adjustment that was made to the loans acquired through the Gratz Merger, which totaled $5.0 million and $7.1 million at December 31, 2022 and 2021, respectively, in order to capture a truer picture of our overall coverage related to potential loan losses. Our allowance for loan losses and our credit fair value adjustment totaled $9.7 million and $10.2 million at December 31, 2022 and 2021, respectively, and represented 1.04% and 1.41% of our total gross loans, respectively.

Additional information related to the provision for loan losses and net (charge-offs) recoveries is presented in the table below. Also see Note 6 - Allowance for Loan Losses in the accompanying notes to the consolidated financial statements included elsewhere in this report.

(In Thousands)	Provision Expense (Benefit)	Net (Charge-Offs) Recoveries	Average Loans	Ratio of Annualized Net (Charge-Offs) Recoveries to Average Loans
2022				
Agriculture loans	$ 10	$ —	$ 10,946	0.00%
Commercial loans	(30)	31	96,517	0.03
Paycheck Protection Program ("PPP") loans	—	—	7,740	—
Commercial real estate loans	1,663	—	430,235	—
Residential real estate loans	(292)	194	245,505	0.08
Consumer and other loans	19	(1)	8,824	(0.01)
Municipal loans	(3)	—	5,812	—
Unallocated	(77)	—		—
Total	$ 1,290	$ 224	$ 805,580	0.03%
Excluding PPP loans	$ 1,290	$ 224	$ 797,840	0.03%
2021				
Agriculture loans	$ (97)	$ —	$ 9,386	0.00%
Commercial loans	294	(2)	43,102	(0.00)
Paycheck Protection Program ("PPP") loans	—	—	6,523	—
Commercial real estate loans	503	(18)	119,217	(0.02)
Residential real estate loans	197	(265)	181,494	(0.15)
Consumer and other loans	(13)	—	3,550	—
Municipal loans	(3)	—	6,577	—
Unallocated	(233)	—		—
Total	$ 648	$ (285)	$ 369,849	(0.08)%
Excluding PPP loans	$ 648	$ (285)	$ 363,326	(0.08)%

Total deposits grew by $175.1 million or 22.7%, from $771.7 million at December 31, 2021 to $946.8 million at December 31, 2022. Changes in the deposit types are presented in the table below:

(in thousands)	December 31, 2022	December 31, 2021	Change	%
Demand, noninterest-bearing	$ 192,773	$ 129,243	$ 63,530	49.2%
Demand, interest-bearing	254,478	256,258	(1,780)	(0.7)
Money market and savings	228,048	205,843	22,205	10.8
Time deposits, $250,000 and over	45,616	56,266	(10,650)	(18.9)
Time deposits, other	225,857	124,055	101,802	82.1
Total deposits	**$ 946,772**	**$ 771,665**	**$ 175,107**	**22.7%**

Of the increase in total deposits of $175.1 million, brokered deposits of $70.0 million are included within time deposits, other, at December 31, 2022, compared to $0 at December 31, 2021. These brokered deposits mature in 2023. Management utilizes brokered deposits as a supplement to core deposit funding from time to time and does not consider brokered deposits to be a primary source of funding.

The table below presents the daily average balances by deposit type and weighted average rates paid thereon for the years ended December 31, 2022 and 2021.

	December 31, 2022		December 31, 2021	
(In Thousands)	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
Demand, noninterest-bearing	$ 173,938	0.00%	$ 99,747	0.00%
Demand, interest-bearing	271,681	0.63%	175,133	0.59%
Money market and savings	229,979	0.83%	112,511	0.18%
Time deposits, other	205,636	0.83%	110,928	0.77%
Total Deposits	**$ 881,234**	**0.61%**	**$ 498,319**	**0.42%**

The Company has deposits that exceed the FDIC insurance limit of $250,000 of $408.4 million and $317.2 million at December 31, 2022 and 2021, respectively. Total uninsured deposits is calculated based on regulatory reporting requirements and reflects the portion of any deposit of a customer at an insured depository institution that exceeds the applicable FDIC insurance coverage for that depositor at that institution and amounts in any other uninsured investment or deposit accounts that are classified as deposits and not subject to any federal or state deposit insurance regime. As of December 31, 2022, the total uninsured deposits includes $36.8 million of municipal deposits that exceed the FDIC insurance limits. These municipal deposits are fully secured with pledged securities from our available for sale securities portfolio. At December 31, 2022, the scheduled maturities of time deposits that meet or exceed the FDIC insurance limit or otherwise uninsured were as follows:

(In Thousands)	December 31, 2022
Due within 3 months or less	$ 617
Due after 3 months and within 6 months	564
Due after 6 months and within 12 months	34,828
Due after 12 months	9,607
	$ 45,616

At December 31, 2022 and 2021, other borrowings consisted of $0 and $19.8 million in borrowings under the Paycheck Protection Program Liquidity Facility (“PPPLF”), which were assumed as part of the Gratz Merger. The PPPLF was a program designated to facilitate lending by financial institutions to small businesses under the PPP provision of the CARES Act. At December 31, 2022, other borrowings consisted of $20.9 million in short-term FHLB Advances, scheduled to mature in 2023.

Subordinated debt with a fair value of $20.7 million was assumed as part of the Gratz Merger. These notes bear interest at a fixed interest rate of 5.0% per year for five years and then float at an index tied to the Secured Overnight Finance Rate ("SOFR"). The notes have a term of ten years, with a maturity date of October 1, 2030. The notes are redeemable at the option of the Company, in whole or in part, subject to any required regulatory approvals after five years. Additionally, on April 8, 2022, LINKBANCORP issued subordinated debt with a carrying value of $20.0 million. These notes bear interest at a fixed annual rate of 4.50% per year up to April 15, 2027 and then float to an index tied to the three-month SOFR, plus 203 basis points. Subject to limited exceptions, the Company cannot redeem the notes before the fifth anniversary of the issuance date. The balance of subordinated debt was $40.5 million and $20.7 million at December 31, 2022 and 2021, respectively.

Total shareholders’ equity increased by $28.9 million, or 26.4%, from $109.6 million at December 31, 2021, to $138.6 million at December 31, 2022. The increase was primarily attributable to net proceeds from the IPO of $34.7 million and net income of $5.6 million. This addition to equity was partially offset by dividends paid of $3.3 million and other comprehensive loss of $8.2 million which was due to the increase in market interest rates.

Comparison of Results of Operations for the Years Ended December 31, 2022 and 2021

General: Net income was $5.6 million for the year ended December 31, 2022, or $0.49 per diluted share, an increase of $5.3 million compared to net income of $289 thousand, or $0.04 per diluted share, for the year ended December 31, 2021.

Net income for the year ended December 31, 2022 reflected the results of the combined company following the completion of the Gratz Merger on September 18, 2021 whereas net income for the year ended December 31, 2021 reflected the results of GNBF for the period from January 1, 2021 through September 17, 2021 and the results of the combined company following the completion of the Gratz Merger on September 18, 2021 through December 31, 2021.

The increase in net income for the year ended December 31, 2022 as compared to the prior year was the result of an increase in interest and dividend income of $21.8 million, and an increase in noninterest income of $818 thousand. These were partially offset by an increase in interest expense of $4.9 million, an increase in the provision for loan losses of $642 thousand, and an increase in noninterest expense of $10.3 million.

Analysis of Net Interest Income

Net interest income represents the difference between the interest the Company earns on its interest-earning assets, such as loans and investment securities, and the expense the Company pays on interest-bearing liabilities, such as deposits and borrowings. Net interest income depends on both the volume of our interest-earning assets and interest-bearing liabilities and the interest rates the Company earns or pays on them.

Average Balances, Interest and Average Yields: The following table sets forth certain information relating to average balance sheets and reflects the average annualized yield on interest-earning assets and average annualized cost of interest-bearing liabilities, interest earned and interest paid for the years indicated. Such yields and costs are derived by dividing income or expense by the average balance of interest-earning assets or interest-bearing liabilities, respectively, for the years presented. Average balances are derived from daily balances over the years indicated. The average balances for loans are net of allowance for loan losses, but include non-accrual loans. The loan yields include net amortization of certain deferred fees and costs that are considered adjustments to yields, but were not material adjustments to the yields. Yields on earning assets are shown on a fully taxable-equivalent basis assuming a tax rate of 21%.

	For the Year Ended December 31,					
	2022			2021		
(Dollars in thousands)	Avg Bal	Interest [2]	Yield/Rate	Avg Bal	Interest [2]	Yield/Rate
Int. Earn. Cash	$ 56,783	$ 533	0.94%	$ 35,279	$ 381	1.08%
Securities						
Taxable [1]	78,629	2,175	2.77%	73,960	939	1.27%
Tax-Exempt	40,388	1,468	3.63%	44,719	1,585	3.54%
Total Securities	119,017	3,643	3.06%	118,679	2,524	2.13%
Total Cash Equiv. and Investments	175,800	4,176	2.38%	153,958	2,905	1.89%
Total Loans [3]	795,908	36,396	4.57%	369,849	15,924	4.31%
Total Interest-Earning Assets	**971,708**	**40,572**	**4.18%**	**523,807**	**18,829**	**3.59%**
Other Assets	88,485			46,615		
Total Assets	**$ 1,060,193**			**$ 570,422**		
Interest bearing demand	$ 271,681	$ 1,713	0.63%	$ 175,133	$ 1,034	0.59%
Money market demand	229,979	1,911	0.83%	112,511	198	0.18%
Time deposits	205,636	1,713	0.83%	110,928	859	0.77%
Total Borrowings	55,980	1,942	3.47%	14,881	299	2.01%
Total Interest-Bearing Liabilities	763,276	7,279	0.95%	413,453	2,390	0.58%
Non Int Bearing Deposits	173,938			99,747		
Total Cost of Funds	**$ 937,214**	**$ 7,279**	**0.78%**	**$ 513,200**	**$ 2,390**	**0.47%**
Other Liabilities	15,806			5,965		
Total Liabilities	**$ 953,020**			**$ 519,165**		
Shareholders' Equity	**$ 107,173**			**$ 51,257**		
Total Liabilities & Shareholders' Equity	**$ 1,060,193**			**$ 570,422**		
Net Interest Income/Spread (FTE)		**33,293**	**3.22%**		**16,439**	**3.01%**
Tax-Equivalent Basis Adjustment		**(308)**			**(333)**	
Net Interest Income		**$ 32,985**			**$ 16,106**	
Net Interest Margin			**3.39%**			**3.07%**

(1) Taxable income on securities includes income from available for sale securities and income from certificates of deposits with other banks.

(2) Income stated on a tax equivalent basis which is non-GAAP and is reconciled to GAAP at the bottom of the table.

(3) Includes the balances of nonaccrual loans.

Rate/Volume Analysis

The following table reflects the sensitivity of the Company's interest income and interest expense to changes in volume and in yields on interest-earning assets and costs of interest-bearing liabilities during the years indicated.

	Year Ended December 31, 2022 vs. 2021 Increase (Decrease) Due To:		
(Dollars in thousands)	Rate	Volume	Net
Interest Income:			
Int. Earn. Cash	$ (79)	$ 231	$ 152
Securities			
Taxable	1,179	57	1,236
Tax-Exempt	36	(153)	(117)
Total Securities	1,215	(96)	1,119
Total Loans	2,069	18,403	20,472
Total Interest-Earning Assets	3,205	18,538	21,743
Interest Expense:			
Interest bearing demand	109	570	679
Money market demand	1,502	211	1,713
Time deposits	123	731	854
Total Borrowings	817	826	1,643
Total Interest-Bearing Liabilities	2,551	2,338	4,889
Change in Net Interest Income	$ 654	$ 16,200	$ 16,854

Net Interest Income: Net interest income before provision for loan losses increased by $16.9 million, or 104.8%, to $33.0 million for the year ended December 31, 2022, compared to $16.1 million for the year ended December 31, 2021. This increase can be mostly attributed to an increase in interest income resulting from a higher average balance in loans as a result of the completion of the Gratz Merger, as well as a 59 basis points increase in the average yield on interest-earning assets. This increase was partially offset by an increase in interest expense resulting from increased average rates paid on interest-bearing liabilities as a result of the rising interest rate environment and an increase in the average balance of deposits as a result of the completion of the Gratz Merger. The net interest margin increased 32 basis points to 3.39% for the year ended December 31, 2022 from 3.07% for the year ended December 31, 2021. Given the overall interest rate and economic environment, the Company expects to experience net interest margin compression during the upcoming year.

Interest Income: Interest income increased to $40.3 million for the year ended December 31, 2022, compared with $18.5 million for the year ended December 31, 2021 primarily due to an increase in interest income on loans as a result of the growth in average loans, following the completion of the Gratz Merger. The growth in the average balance of interest earning assets which increased $447.9 million to $971.7 million for the year ended December 31, 2022 compared to $523.8 million for the year ended December 31, 2021 contributed $18.6 million in growth of interest income. The average balance of loans increased $426.1 million during the year ended December 31, 2022 as compared to the prior year primarily as a result of the loan growth that the Company achieved since the closing of the Gratz Merger. This growth included an increase in average yield on interest earning assets which increased 59 basis points from 3.59% for the year ended December 31, 2021 to 4.18% for the year ended December 31, 2022. In general, the Company began to experience an increase in rates on interest earning assets as a result of the Federal Reserve's decisions in 2022 that increased the Fed Funds target rate from 0% to 0.25% at the beginning of 2022 to 4.25% to 4.50% at December 31, 2022. These rate increases coupled with new loan originations in 2022 resulted in the higher average yield on loans compared to 2021.

Interest Expense: Interest expense increased by $4.9 million or 204.6% to $7.3 million for the year ended December 31, 2022, compared to $2.4 million for the year ended December 31, 2021. The increase in interest expense was due to the increase in the average rates paid on interest bearing liabilities, which increased 37 basis points from 0.58% for the year ended December 31, 2021 to 0.95% for the year ended December 31, 2022 primarily as a result of the increase in rates of our money market demand deposits and borrowings. This increase in rates was also impacted by an increase in the average balances of interest bearing liabilities, which increased $349.8 million to $763.3 million for the year ended December 31, 2022 compared to $413.5 million for the year ended December 31, 2021 as a result of the increase in the average balance of our deposits and borrowings. The increase in the rates paid on interest-bearing liabilities during 2022 was directly correlated to the increase in the Federal Reserve's benchmark borrowing rate which increased a total of 425 basis points during 2022. Management expects that the current economic environment will continue to increase competition for deposits, which may create additional upward pressure on the Company's cost of funds in the coming quarters.

Provision for Loan Losses: The provision for loan losses increased by $642 thousand from $648 thousand for the year ended December 31, 2021 to $1.3 million for the year ended December 31, 2022. The amount of the provision for loans losses recognized during 2022 can be attributed to a few factors. The Company experienced an overall increase in criticized loans, defined as loans rated as Special Mention and Substandard, which increased $1.2 million from December 31, 2021 to December 31, 2022. Additionally, management noted that the balance of loans greater than 60 days past due increased $839 thousand at December 31, 2022 when compared to December 31, 2021. Finally, total loans increased $212.6 million at December 31, 2022 when compared to December 31, 2021, which adds an inherent increased risk of loss based on our allowance methodology. All of these factors contributed to the need to increase the allowance for loan losses through provisioning at December 31, 2022 when compared to December 31, 2021. One item that did not materially contribute to an increase in the provision for loan losses was the $1.3 million increase in non-accrual loans at December 31, 2022 when compared to December 31, 2021. These loans were individually assessed for impairment and those impairment tests showed the need for a specific reserve of only $20 thousand.

The Company completes a comprehensive quarterly evaluation to determine its provision for loan losses. The evaluation reflects analyses of individual borrowers and historical loss experience, and changes in net loan balances, supplemented as necessary by credit judgment that considers observable trends, conditions, and other relevant environmental and economic factors.

Refer to Note 6 of the Notes to the Consolidated Financial Statements for additional details on the provision for loan losses.

Non-interest Income: Non-interest income increased by $818 thousand to $3.0 million for the year ended December 31, 2022, from the $2.1 million recognized during 2021. The increase was primarily due to an increase in gain on sale of loans of $437 thousand, and an increase in earnings on bank owned life insurance of $244 thousand for the year ended December 31, 2022 compared to 2021.

Non-interest Expenses: Non-interest expenses increased $10.3 million or 59.1%, from $17.5 million for the year ended December 31, 2021, to $27.8 million for the year ended December 31, 2022. The increase was primarily due to the full-year impact of the Gratz Merger, resulting in increases in (1) salaries and employee benefits of $9.2 million due to increased employee headcount from the combined company and also due to an increase in employees to facilitate loan growth and foster deposit relationships, (2) equipment and data processing of $1.6 million, and (3) FDIC insurance of $409 thousand, and (4) other expenses of $593 thousand. These increases were offset by a decrease of $3.6 million in merger & system conversion related expenses, from $4.6 million for the year ended December 31, 2021 to $973 thousand for the year ended December 31, 2022.

Income Tax Benefit/Expense: Income tax expense for the year ended December 31, 2022 totaled $1.2 million compared to income tax benefit of $189 thousand for 2021 as a result of an increase in income before income tax expense. The income tax expense recognized for the year ended December 31, 2022 was the direct result of our net income adjusted for tax free income and non-deductible expenses. We recognized income tax expense for the year ended December 31, 2022 at an effective tax rate of 17.9% which is less than our statutory tax rate of 21%.

Liquidity, Commitments, and Capital Resources

The Company's liquidity, represented by cash and due from banks, is a product of our operating, investing and financing activities. The Company's primary sources of funds are deposits, principal repayments of securities and outstanding loans, and funds provided from operations. In addition, the Company invests excess funds in short-term interest-earnings assets such as overnight deposits or U.S. agency securities, which provide liquidity to meet lending requirements. While scheduled payments from the amortization of loans and securities and short-term investments are relatively predictable sources of funds, general interest rates, economic conditions and competition greatly influence deposit flows and repayments on loans and mortgage-backed securities.

The Company strives to maintain sufficient liquidity to fund operations, loan demand and to satisfy fluctuations in deposit levels. The Company is required to have enough investments that qualify as liquid assets in order to maintain sufficient liquidity to ensure safe and sound banking operations. Liquidity may increase or decrease depending upon the availability of funds and comparative yields on investments in relation to the return on loans. Our attempts to maintain adequate but not excessive liquidity, and liquidity management is both a daily and long-term function of the Company's business management. We manages our liquidity in accordance with a board of directors-approved asset liability policy, which is administered by the Company's asset-liability committee ("ALCO"). ALCO reports interest rate sensitivity, liquidity, capital and investment-related matters on a quarterly basis to the Company's board of directors.

The Company reviews cash flow projections regularly and updates them in order to maintain liquid assets at levels believed to meet the requirements of normal operations, including loan commitments and potential deposit outflows from maturing certificates of deposit and savings withdrawals. Certificates of deposit due within one year of December 31, 2022 totaled $206.2 million, or 76% of our certificates of deposit, and 22% of total deposits. Of these certificates of deposits, $70 million are brokered deposits. If these deposits do not remain with us, we will be required to seek other sources of funds, including other deposits and FHLB advances. Depending on market conditions, we may be required to pay higher rates on such deposits or borrowings than we currently pay. We believe, however, based on past experience that a significant portion of such deposits will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered. While deposits are the Company's primary source of funds, when needed the Company is also able to generate cash through borrowings from the Federal Home Loan Bank of Pittsburgh ("FHLB"). At December 31, 2022, the Company had remaining available capacity with FHLB, subject to certain collateral restrictions, of approximately $301.4 million. There were $20.9 million in short-term FHLB advances outstanding at December 31, 2022.

In addition to our available borrowing capacity at the FHLB, the Company has bank-level lines of credit with multiple financial institutions that provide an available $51.0 million of additional liquidity at December 31, 2022. During the first quarter of 2023, the Company also established $8.3 million of available credit at the Federal Reserve Bank's Discount Window.

Consistent with the Company's goals to operate as a sound and profitable financial institution, the Company actively seeks to maintain the Bank's status as a well-capitalized institution in accordance with regulatory standards. As of December 31, 2022 and 2021, the Bank met the capital requirements to be considered "well capitalized." See Note 17 within the Notes to the Consolidated Financial Statements for more information regarding our capital resources.

Off-Balance Sheet Arrangements and Contractual Obligations

See Note 18 within the Notes to the Consolidated Financial Statements beginning for more information regarding the Company's off-balance sheet arrangements.

For disclosures of the Company's future obligations under operating leases, please see Note 8 within the Notes to the Consolidated Financial Statements. For disclosures of the Company's contractual obligations related to certificates of deposits, please see Note 10 within the Notes to the Consolidated Financial Statements.

Critical Accounting Estimates

It is management's opinion that accounting estimates covering certain aspects of the Company's business have more significance than others due to the relative importance of those areas to overall performance, or the level of subjectivity required in making such estimate, which have a material impact on the carrying value of certain assets and liabilities. The judgments and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances. The more significant areas in which the Company's management applies critical assumptions and estimates include the following:

Allowance for loan losses: The loan portfolio is the biggest asset on the Company's balance sheet. The allowance for loan losses represents management's estimate of probable incurred losses in the loan portfolio at the balance sheet date. A provision for loan losses is recorded to adjust the level of the allowance for loan losses as deemed necessary by management. The allowance for loan losses consists of general, allocated, and unallocated components. In estimating losses inherent in the loan portfolio for the general component, assumptions and judgment are applied related to estimated losses on pools of homogeneous loans based on the Company's historical loss experience, peer loss experience, consideration of current economic trends and conditions, industry trends, portfolio trends, borrower specific data, and other qualitative and quantitative factors, all of which may be subject to significant change. The allocated component relates to loans that are classified as impaired. Generally, our impaired loans are collateral-dependent and impairment is measured through the collateral method. When the measurement of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through the allowance for loan losses.

Loans acquired at a discount, that is, in part, attributable to credit quality, are initially recorded at fair value with no carry-over of an acquired entity's previously established allowance for loan losses. Cash flows expected at acquisition, in excess of estimated fair value, are recognized as interest income over the remaining lives of the loans. Subsequent decreases in the expected principal cash flows require the Company to evaluate the need for additions to the allowance for loan losses. Subsequent improvements in expected cash flows result, first, in the recovery of any applicable allowance for loan losses and, then, in the recognition of additional interest income over the remaining lives of the loans. Changes in the circumstances considered when determining management's estimates and assumptions could result in changes to those estimates and assumptions and also in adjustment of the allowance for loan losses, or, in the case of loans acquired at a discount, increases in interest income in future periods.

Business Combinations: The Company accounts for acquisitions under the acquisition method of accounting. Assets acquired and liabilities assumed in a business combination are recorded at their estimated fair value on their purchase date. As provided for under accounting principles generally accepted in the United States of America, management has up to 12 months following the date of the acquisition to finalize the fair values of acquired assets and assumed liabilities. Management finalized the fair values of acquired assets and assumed liabilities within this 12-month period and management considers such values to be the Day 1 Fair Values for the acquisition transactions. In particular, the valuation of acquired loans involves significant estimates, assumptions and judgment based on information available as of the acquisition date. Loans acquired in a business combination transaction are evaluated either individually or in pools of loans with similar characteristics; including consideration of a credit component. A number of factors are considered in determining the estimated fair value of purchased loans including, among other things, the remaining life of the acquired loans, estimated prepayments, estimated loss ratios, estimated value of the underlying collateral, estimated holding periods, contractual interest rates compared to market interest rates, and net present value of cash flows expected to be received.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Not required for smaller reporting companies.

Item 8. Financial Statements and Supplementary Data.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of LINKBANCORP, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of LINKBANCORP, Inc. and subsidiaries (the "Company") as of December 31, 2022 and 2021; the related consolidated statements of operations, comprehensive loss, changes in shareholders' equity, and cash flows for the years then ended; and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended, in 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.

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 $927.9 million as of December 31, 2022, and the associated ALL was $4.7 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 quantitative factors such as historical loss experience within each risk category of loans and testing of certain commercial loans for impairment. Management applies additional 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.

Allowance for Loan Losses (ALL) – Qualitative Factors (Continued)

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.

To test the qualitative adjustments, we evaluated the appropriateness of management's methodology and assessed whether all relevant risks were reflected in the ALL and the need to consider qualitative adjustments, including the potential effect of COVID-19 on the adjustments.

Regarding the measurement of the qualitative adjustments, we evaluated the completeness, accuracy, and relevance of the data and inputs utilized in management's estimate. For example, we compared the inputs and data to the Company's historical loan performance data, third-party macroeconomic data, and peer bank data and considered the existence of new or contrary information. We also compared the ALL to a range of historical losses to evaluate the ALL, including the reasonableness of qualitative adjustments. Furthermore, we analyzed the changes in the components of the qualitative reserves relative to changes in external market factors, the Company's loan portfolio, and asset quality trends, which included the evaluation of management's ability to capture and assess relevant data from both external sources and internal reports on loan customers affected by the COVID-19 pandemic and the supporting documentation for substantiating revisions to qualitative factors.

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.

Accounting for Acquisitions

Description of the Matter
During 2021, the Company completed the reverse acquisition of GNB Financial Services, Inc. (GNBF) for net consideration of $71.5 million, as disclosed in Note 2 to the consolidated financial statements. The transaction was accounted for by applying the acquisition method.

Auditing the Company's accounting for the reverse acquisition was complex due to the significant estimation required by management to determine the fair value of the loans acquired and intangible assets, which includes core deposit intangibles, of $9.1 million and $1.2 million, respectively. The Company determined the fair value of the acquired loans by estimating the principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest. Management considered a number of factors in evaluating the acquisition-date fair value, including the remaining life of the acquired loans, delinquency status, estimated prepayments, payment options and other loan features, internal risk grade, estimated value of the underlying collateral, and interest rate environment. The Company determined the fair value of the core deposit intangibles by using a discounted cash flow model based on various factors, including discount rate, attrition rate, interest rate, cost of alternative funds, and net maintenance costs. The significant estimation was primarily due to the judgment involved in determining the discount rate used to discount the expected cash flows for acquired loans and core deposit intangibles, along with other factors described above, to establish the acquisition-date fair value of the loans and core deposit intangibles. These factors are forward-looking and could be affected by future economic and market conditions.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls over the Company's accounting for the acquisition. Our tests included testing controls over the completeness and accuracy of the data and the estimation process supporting the fair value of loans acquired and core deposit intangibles. We also tested management's review of factors used in the valuation models.

To test the estimated fair value of the loans acquired and intangible assets, which include core deposit intangibles, we performed audit procedures that included, among others, evaluating the Company's valuation methodology, evaluating the factors used by the Company's valuation specialist, and evaluating the completeness and accuracy of the underlying data supporting the factors and estimates. For example, when evaluating the discount rate and other factors noted above, we compared the factors to current industry, market, and economic information, in addition to factors used in historical acquisitions.

We have served as the Company's auditor since 2020.

/s/ S.R. Snodgrass, P.C.

Cranberry Township, Pennsylvania
March 30, 2023

LINKBANCORP, Inc. and Subsidiaries
Consolidated Balance Sheets

(In Thousands, except share and per share data)	December 31, 2022	December 31, 2021
ASSETS		
Noninterest-bearing cash equivalents	$ 4,209	$ 8,620
Interest-bearing deposits with other institutions	25,802	13,970
Cash and cash equivalents	30,011	22,590
Certificates of deposit with other banks	5,623	12,828
Securities available for sale, at fair value	78,813	103,783
Securities held to maturity (Fair value of $30,080 and $0, respectively)	31,822	—
Loans held for sale	—	3,860
Loans receivable	927,871	714,816
Less: Allowance for loan losses	(4,666)	(3,152)
Net loans	923,205	711,664
Investments in restricted bank stock	3,377	2,685
Premises and equipment, net	6,743	5,289
Right-of-Use Asset – Premises	10,219	4,680
Bank-owned life insurance	19,244	18,787
Goodwill and other intangible assets	36,894	37,152
Deferred tax asset	5,619	4,038
Accrued interest receivable and other assets	12,084	5,407
TOTAL ASSETS	**$ 1,163,654**	**$ 932,763**
LIABILITIES		
Deposits:		
Demand, noninterest bearing	$ 192,773	$ 129,243
Interest bearing	753,999	642,422
Total deposits	946,772	771,665
Other borrowings	20,938	19,814
Subordinated debt	40,484	20,696
Operating lease liabilities	10,219	4,680
Accrued interest payable and other liabilities	6,688	6,285
TOTAL LIABILITIES	**1,025,101**	**823,140**
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 1, 8, and 18)		
SHAREHOLDERS' EQUITY		
Preferred stock (At December 31, 2022 and 2021: no par value; 5,000,000 shares authorized; no shares issued and outstanding.)	—	—
Common stock (At December 31, 2022 and 2021: $0.01 par value; 25,000,000 shares authorized; 14,939,640 and 9,826,435 shares issued and outstanding, respectively.)	149	99
Surplus	117,709	82,910
Retained earnings	27,100	24,836
Accumulated other comprehensive (loss) income	(6,405)	1,778
TOTAL SHAREHOLDERS' EQUITY	**138,553**	**109,623**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 1,163,654**	**$ 932,763**

See accompanying notes to the consolidated financial statements.

LINKBANCORP, Inc. and Subsidiaries
Consolidated Statements of Operations

	Year Ended December 31,	
(In Thousands, except share and per share data)	**2022**	**2021**
INTEREST AND DIVIDEND INCOME		
Loans receivable, including fees	$ 36,396	$ 15,924
Investment securities and certificates of deposit:		
Taxable	2,175	873
Exempt from federal income tax	1,160	1,252
Other	533	447
Total interest and dividend income	**40,264**	**18,496**
INTEREST EXPENSE		
Deposits	5,337	2,091
Other borrowings	441	50
Subordinated debt	1,501	249
Total interest expense	**7,279**	**2,390**
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	32,985	16,106
Provision for loan losses	1,290	648
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	**31,695**	**15,458**
NONINTEREST INCOME		
Service charges on deposit accounts	832	733
Bank-owned life insurance	497	253
Net realized gains on the sales of debt securities, available for sale	13	74
Gain on sale of loans	753	316
Other	862	763
Total noninterest income	**2,957**	**2,139**
NONINTEREST EXPENSE		
Salaries and employee benefits	16,224	6,999
Occupancy	2,119	913
Equipment and data processing	3,047	1,437
Professional fees	1,236	685
FDIC insurance	640	231
Bank shares tax	786	434
Merger & system conversion related expenses	973	4,584
Other	2,807	2,214
Total noninterest expense	**27,832**	**17,497**
Income before income tax expense (benefit)	6,820	100
Income tax expense (benefit)	1,222	(189)
NET INCOME	**$ 5,598**	**$ 289**
EARNINGS PER SHARE, BASIC	**$ 0.49**	**0.04**
EARNINGS PER SHARE, DILUTED	**$ 0.49**	**0.04**
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING,		
BASIC	11,310,386	6,879,658
DILUTED	11,310,386	7,250,463

See accompanying notes to the consolidated financial statements.

LINKBANCORP, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Loss

	Year Ended December 31,	
	2022	2021
(In Thousands)		
Net income	$ 5,598	$ 289
Components of other comprehensive loss:		
Unrealized loss on available-for-sale securities	(10,346)	(1,716)
Tax effect	2,173	360
Net of tax amount	(8,173)	(1,356)
Reclassification adjustment for debt securities gains realized in net income	(13)	(74)
Tax effect	3	16
Net of tax amount	(10)	(58)
Total other comprehensive loss	(8,183)	(1,414)
Total comprehensive loss	**$ (2,585)**	**$ (1,125)**

See accompanying notes to the consolidated financial statements.

LINKBANCORP, Inc. and Subsidiaries
Consolidated Statements of Shareholders' Equity

(In Thousands, except share data)	Common Stock Shares	Common Stock Amount	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2021	**9,826,435**	**$ 99**	**$ 82,910**	**$ 24,836**	**$ 1,778**	**$ 109,623**
Net income	—	—	—	5,598	—	5,598
Dividends declared ($0.30 per share)	—	—	—	(3,334)	—	(3,334)
Issuance of shares of common stock, net proceeds	5,101,205	50	34,600	—	—	34,650
Exercise of stock options	12,000	—	120	—	—	120
Stock option expense	—	—	79	—	—	79
Other comprehensive loss	—	—	—	—	(8,183)	(8,183)
Balance, December 31, 2022	**14,939,640**	**$ 149**	**$ 117,709**	**$ 27,100**	**$ (6,405)**	**$ 138,553**

(In Thousands, except share data)	Common Stock Shares	Common Stock Amount	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, December 31, 2020 *	**5,715,950**	**$ 57**	**$ 21,604**	**$ 26,009**	**$ 3,192**	**$ (188)**	**$ 50,674**
Net income	—	—	—	289	—	—	289
Dividends declared ($0.205 per share)	—	—	—	(1,462)	—	—	(1,462)
Impact of merger with GNB Financial Services, Inc.	4,098,485	41	61,167	—	—	188	61,396
Exercise of stock options	12,000	1	119	—	—	—	120
Stock option expense	—	—	20	—	—	—	20
Other comprehensive loss	—	—	—	—	(1,414)	—	(1,414)
Balance, December 31, 2021	**9,826,435**	**$ 99**	**$ 82,910**	**$ 24,836**	**$ 1,778**	**$ —**	**$ 109,623**

* Common Stock Shares, Common Stock Amount, Surplus, and Dividends per share amount have been retrospectively adjusted to reflect the effect of the recapitalization due to the Gratz Merger, which has been accounted for as a reverse acquisition.

See accompanying notes to the consolidated financial statements.

LINKBANCORP, Inc. and Subsidiaries
Consolidated Statement of Cash Flows

(In Thousands)	For the Twelve Months Ended December 31, 2022	2021
OPERATING ACTIVITIES		
Net income	$ 5,598	$ 289
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,290	648
Depreciation	850	355
Amortization of intangible assets	258	125
(Accretion) amortization of premiums and (discounts), net	(1,947)	1,379
Origination of loans to be sold	(9,362)	(12,079)
Proceeds from loan sales	10,115	13,410
Gain on sale of loans	(753)	(316)
Share-based and deferred compensation	656	292
Capitalized mortgage servicing rights	(71)	(169)
Bank-owned life insurance income	(497)	(253)
Gain on sale of debt securities, available for sale	(13)	(74)
Change in accrued interest receivable and other assets	(3,605)	(165)
Change in accrued interest payable and other liabilities	(175)	1,332
Net cash provided by operating activities	**2,344**	**4,774**
INVESTING ACTIVITIES		
Investment securities available for sale:		
Proceeds from sales	513	11,371
Proceeds from calls and maturities	1,245	2,900
Proceeds from principal repayments	11,903	21,592
Purchases	-	(14,192)
Investment securities held to maturity		
Proceeds from principal repayments	2,585	—
Purchases	(34,389)	—
Purchase of certificates of deposit with other banks	-	(249)
Proceeds from redemptions of certificates of deposit with other banks	7,205	4,472
Purchase of restricted investment in bank stocks	(7,996)	(536)
Redemption of restricted investment in bank stocks	7,304	1,122
Increase in loans, net	(206,406)	(66,472)
Purchase of bank-owned life insurance	-	(5,000)
Proceeds from death benefit under bank-owned life insurance	41	191
Proceeds from disposal of premises and equipment	-	131
Purchase of premises and equipment	(2,304)	(260)
Purchase of computer software	(2,291)	-
Net cash acquired through merger and acquisition	-	39,885
Net cash used in investing activities	**(222,590)**	**(5,045)**
FINANCING ACTIVITIES		
Increase in deposits, net	175,107	5,381
Change in short-term borrowings, net	1,124	—
Proceeds from issuance of subordinated debt	20,000	—
Repayments of other borrowings	—	(14,340)
Issuance of shares from exercise of stock options	120	120
Dividends paid	(3,334)	(1,462)
Net proceeds from issuance of common stock	34,650	—
Net cash provided by (used in) financing activities	**227,667**	**(10,301)**
Increase (decrease) in cash and cash equivalents	7,421	(10,572)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	22,590	33,162
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 30,011**	**$ 22,590**

See accompanying notes to the consolidated financial statements.

LINKBANCORP, Inc. and Subsidiaries
Consolidated Statement of Cash Flows

	For the Twelve Months Ended December 31,	
	2022	2021
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash paid during the period for:		
Interest	$ 6,585	$ 2,520
Income taxes	$ 395	$ 560
MERGER AND ACQUISITION CASH FLOW DISCLOSURES		
Non-cash assets acquired:		
Securities available for sale	$ —	$ 3,111
Loans	—	415,905
Investments in restricted bank stock	—	1,039
Premises and equipment	—	2,087
Right-of-Use Asset	—	4,544
Bank-owned life insurance	—	4,784
Goodwill	—	33,508
Intangible assets	—	1,246
Deferred tax assets	—	3,675
Accrued interest receivable and other assets	—	3,295
Liabilities assumed:		
Deposits	—	391,160
Other borrowings	—	33,034
Subordinated debt	—	20,740
Operating lease liabilities	—	4,544
Accrued interest payable and other liabilities	—	2,026
Net non-cash assets acquired	—	61,396
Cash and cash equivalents acquired	$ —	$ 49,962

See accompanying notes to the consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Nature of Operations

LINKBANCORP, Inc. (the “Company” or "LINKBANCORP") was incorporated on April 6, 2018, under the laws of the Commonwealth of Pennsylvania. The Company was formed with the intent of becoming a bank holding company through acquisition of a bank.

On September 17, 2018, the Pennsylvania Department of Banking and Securities (the "PADOBS") approved the acquisition of 100 percent of the shares of Stonebridge Bank, subject to recapitalization of the bank and continued compliance with capital ratios outlined in Note 17. On October 5, 2018, LINKBANCORP, Inc. purchased 100 percent of the outstanding shares of Stonebridge Bank, from its former parent company Stonebridge Financial Corp. under section 363 of the Bankruptcy Code. LINKBANCORP subsequently renamed the bank LINKBANK.

On December 10, 2020, the Company and its wholly owned subsidiary, LINKBANK, and GNB Financial Services, Inc. (“GNBF”), and its wholly owned subsidiary, The Gratz Bank (the "Bank”) entered into an Agreement and Plan of Merger (the “Gratz Merger Agreement”) pursuant to which GNBF merged with and into the Company, with the Company as the surviving corporation. LINKBANK merged with and into The Gratz Bank, with The Gratz Bank as the surviving institution. The merger was consummated effective September 18, 2021. In markets other than the pre-merger Gratz Bank areas, the Bank operated as "LINKBANK, a division of The Gratz Bank." Effective November 4, 2022, the Bank began to operate under one brand under the name LINKBANK.

The Bank is a full-service commercial bank providing personal and business lending and deposit services. The Bank’s operations are conducted from its ten Solutions Centers located in Dauphin, Chester, Cumberland, Lancaster, Northumberland, and Schuylkill Counties, and loan production offices located in Chester and York Counties, all within Pennsylvania. The Company’s corporate office resides in Camp Hill, Pennsylvania. As a state chartered, non-Federal Reserve member bank, the Bank is subject to regulation and supervision by the PADOBS and the Federal Deposit Insurance Corporation (the "FDIC"). The Company is regulated by the Federal Reserve Bank of Philadelphia. The Bank’s deposits are insured up to the applicable limits by the FDIC.

Basis of Presentation

The merger of GNBF with and into the Company was accounted for as a reverse acquisition using the acquisition method of accounting, in accordance with the provisions of FASB ASC 805 Business Combinations. As such, GNBF was the accounting acquirer and LINKBANCORP was the accounting acquiree. Factors considered within this guidance included, but were not limited to the following:

- the relative voting interests of GNB shareholders and LINK shareholders in the resulting company after the merger was completed;
- the composition of the board of directors of the Company after the merger was completed;
- the composition of executive and senior management of the resulting company after the merger was completed;
- the terms of the exchange of equity securities in the merger; and
- the relative size of GNB and LINK at the time of the merger.

Accordingly, GNBF's historical financial statements are the historical financial statements of the combined company for all periods prior to September 18, 2021 (the "Merger Date").

The Company’s results of operations for 2021 and 2022 include the results of operations of the combined company on and after the Merger Date. Results for periods before the Merger Date reflect only those consolidated results of GNBF and do not include the results of operations of LINKBANCORP. The number of shares issued and outstanding, earnings per share, additional paid-in capital, dividends paid and all references to share quantities of the Company have been retrospectively adjusted to reflect the equivalent number of shares issued to holders of GNBF common stock in the Gratz Merger. The assets and liabilities of LINKBANCORP as of the Merger Date have been recorded at their estimated fair value and added to those of GNBF. See Note 2. Merger for further information.

The accompanying consolidated financial statements include the accounts of the Company and the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation. The accounting and reporting practices of the Company conform to accounting principles generally accepted in the United States of America (GAAP) and to general practices within the banking industry. The following summarizes the more significant of these policies and practices.

Initial Public Offering

In September 2022, the Company completed its initial public offering ("IPO") whereby it issued and sold 5,101,205 shares of common stock at a public offering price of $7.50 per share. The Company received net proceeds of $34,650 after deducting underwriting discounts and commissions of $2,487 and other offering expenses of $1,114. The Company plans to use the proceeds to support the Bank's current growth, its future growth initiatives, and for general corporate purposes. The Company's common stock now trades on the Nasdaq Capital Market under the symbol "LNKB."

Reclassification of Prior Period Financial Statements

Certain previously reported items have been reclassified to conform to the current year's classifications. Reclassifications had no effect on prior year net income or shareholders' equity.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the allowance for loan losses and the valuation of deferred tax assets.

Acquisition Method of Accounting

The Company accounts for acquisitions using the acquisition method of accounting. The acquisition method of accounting requires the Company to estimate the fair value of the tangible assets and identifiable intangible assets acquired and liabilities assumed. The estimated fair values are based on available information and current economic conditions at the date of acquisition. Fair value may be obtained from independent appraisers, discounted cash flow present value techniques, management valuation models, quoted prices on national markets or quoted market prices from brokers. These fair value estimates will affect future earnings through the disposition or amortization of the underlying assets and liabilities. Accounting for business combination under GAAP acquisition method prohibits “carrying over” valuation allowances, such as the allowance for loan losses. Uncertainties relating to the expected future cash flows are reflected in the fair value measurement of the acquired loans and reflected in the purchase price. The Company will establish loan loss allowances for the acquired loans in periods after the acquisition, but only for losses incurred on these loans due to credit deterioration after acquisition.

For business acquisitions, whereby the Company acquires loans that have shown evidence of credit deterioration since origination, the Company will classify these loans as purchased credit-impaired (“PCI”) loans. The Company will determine which loans will be classified as PCI loans based on borrower payment history, past due status, loan credit grading, value of underlying collateral and other factors that affect the collectability of contractual cash flows. Under GAAP, purchasers are permitted to individually evaluate or collectively aggregate PCI loans into pools. PCI loans acquired in the same fiscal quarter may be assembled into one or more pools with common risk characteristics. Once pooled, a single composite interest rate is used to determine aggregate expected cash flows for each respective pool. PCI loans are recorded on the acquisition date at fair value. The Company estimates the amount and timing of expected cash flows for each individually analyzed loan. Estimated cash flows in excess of the amount paid is recorded as interest income over the remaining life of the loan.

On a quarterly basis, the Company will update the amount of loan principal and interest cash flows expected to be collected, incorporating assumptions regarding default rates, loss severities, the amounts and timing of prepayments and other factors that are reflective of current market conditions. Probable decreases in expected loan principal cash flows trigger the recognition of impairment, which is then measured as the present value of the expected principal loss plus any related foregone interest cash flows discounted at the loan’s effective interest rate. Impairments that occur after the acquisition date are recognized through the allowance for loan losses. Probable and significant increases in expected cash flows would first reverse any previously recorded allowance for loan losses; any remaining increases are recognized prospectively as interest income. The impacts of (i) prepayments, (ii) changes in variable interest rates, and (iii) any other changes in the timing of expected cash flows are recognized prospectively as adjustments to interest income. Disposals of loans, which may include sales of loans, receipt of payments in full by the borrower, or foreclosure, result in removal of the loan from the PCI portfolio.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the acquisition cost over the fair value of the net assets acquired in the acquisition. GAAP requires goodwill to be tested for impairment on an annual basis and between annual tests in certain circumstances and written down when impaired. There can be no assurance that future goodwill impairment tests will not result in a charge to income. Core deposit intangible assets ("CDI") are initially measured at fair value and then amortized over the expected life on an accelerated basis using projected decay rates of the underlying core deposits. The expected life is generally ten years. The principal factors considered when valuing the CDI consist of the following: (1) the rate and maturity structure of the interest-bearing liabilities, (2) estimated retention rates for each deposit liability category, (3) the current interest rate environment, and (4) estimated noninterest income potential of the acquired relationship. The CDI is evaluated periodically for impairment.

Goodwill and other intangible assets are reviewed for impairment annually as of December 31 and between annual tests when events and circumstances indicate that impairment may have occurred. If there is a goodwill impairment charge, it will be the amount by which the reporting unit's carrying amount exceeds its fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The same one-step impairment test is applied to goodwill at all reporting units.

The determination of the fair value of the Company incorporates assumptions that marketplace participants would use in their estimates of fair value of the Company in a change of control transaction, as prescribed by ASC Topic 820.

To arrive at a conclusion of fair value, we utilize both the Income and Market Approach and then apply weighting factors to each result. Weighting factors represent our best business judgment of the weightings a market participant would utilize in arriving at a fair value for the Company. In performing our analyses, we also made numerous assumptions with respect to industry performance, business, economic and market conditions, and various other matters, many of which cannot be predicted and are beyond our control. With respect to financial projections, projections reflect the best currently available estimates and judgments as to the expected future financial performance of the Company.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and amounts due from banks. Generally, federal funds are purchased and sold for one-day periods. Short-term investments include interest bearing-deposits with banks with an original maturity of less than 90 days.

Investment Securities

Investment securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Investment securities that will be held for indefinite periods of time, including securities that may be sold in response to changes in market interest or prepayment rates, needs for liquidity, and changes in the availability of and in the yield of alternative investments, are classified as available for sale. These investment securities are carried at fair value. Fair values of securities available for sale are determined by using Level 2 fair value measures calculated through the use of matrix pricing. Matrix pricing is a common mathematical technique that does not rely exclusively on quoted market prices for specific securities but rather utilizes the security's relationship to other benchmark quoted prices in determining fair value. The Company uses independent service providers to calculate our Level 2 fair value measures. Unrealized gains and losses are excluded from operations and are reported net of tax as a separate component of other comprehensive income until realized. Realized gains and losses on the sale of investment securities are reported in the consolidated statements of income and determined using the adjusted cost of the specific security sold on the trade date. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Investment securities are evaluated on at least a quarterly basis, and more frequently when market conditions warrant such an evaluation, to determine whether a decline in their value is other-than-temporary. To determine whether a loss in value is other-than-temporary, management utilizes criteria such as the reasons underlying the decline, the magnitude and duration of the decline, the intent to hold the security and the likelihood of the Company not being required to sell the security prior to an anticipated recovery in the fair value. The term "other-than-temporary" is not intended to indicate that the decline is permanent but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other-than-temporary, the portion of the decline related to credit impairment is charged to earnings, and any other-than-temporary impairment related to other factors is recognized in other comprehensive income.

Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Bank is generally amortizing these amounts over the contractual life of the loan. Premiums and discounts on purchased loans are amortized as adjustments to interest income using the effective yield method.

The loans receivable portfolio is segmented into commercial and consumer loans. Commercial loans consist of the following classes: agriculture, commercial and industrial, commercial real estate, and municipal. Consumer loans consist of the following classes: residential real estate, and other consumer. The loan segments are based on collateral type.

The accrual of interest on all portfolio classes, including troubled debt restructurings, is discontinued at the time the loan is more than ninety days delinquent unless the loan is well collateralized and in process of collection. Nonaccrual loans are reviewed for charge-off if more than ninety-days past due, except for residential loans and consumer loans. Residential loans are reviewed at 180 days and consumer loans are reviewed at 120 days past due. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered unlikely.

All interest accrued but not collected for loans placed on nonaccrual or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. In addition, a loan should be in accordance with the contractual terms for a reasonable period, usually requiring a payment history of six months.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the collectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. There were no material changes in the Bank's accounting policies or methodology related to the allowance for loan losses during the year ended December 31, 2022.

The allowance for loan losses is evaluated on a quarterly basis by management and is based upon management's periodic review of the collectability of the loans considering historical experience, the size and composition of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. For such loans, an allowance is established when the discounted cash flows, collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers all other loans and is based on historical loss experience adjusted for qualitative factors.

The historical loss component of the allowance is determined by losses recognized by portfolio segment over the preceding sixteen quarters. This is supplemented by the risks for each portfolio segment. Risk factors impacting loans in each of the portfolio segments include broad deterioration of property values, reduced consumer, and business spending as a result of unemployment and reduced credit availability and lack of confidence in the economy. The historical experience is adjusted for the following qualitative factors: (a) the existence and effect of any concentrations of credit and changes in the level of such concentrations; (b) changes in national, regional and local economic conditions that affect the collectability of the loan portfolio; (c) changes in levels or trends in charge-offs and recoveries; (d) changes in the volume and severity of past due loans, nonaccrual loans or loans classified special mention, substandard, doubtful or loss; (e) changes in the nature and volume of the loan portfolio and terms of loans; (f) changes in lending policies and procedures, risk selection and underwriting standards; (g) changes in the experience, ability and depth of lending management and other relevant staff; (h) quality of loan review; (i) the effect of other external factors, trends or uncertainties that could affect management's estimate of probable losses, such as competition and industry conditions. The Company uses peer data when they have insufficient history to use their own loss data. The peer group is made up of various Bank's with similar size and geographical location to obtain comparable data.

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

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer loans for impairment disclosures.

Purchased Credit Impaired Loans

The Company purchased loans in connection with the Gratz Merger. These purchased credit impaired ("PCI") loans were recorded at the amount paid, such that there is no carryover of the seller's allowance for loan losses. After acquisition, losses are recognized by an increase in the allowance for loan losses. Over the life of the loan, expected cash flows continue to be estimated. If this subsequent estimate indicated that the present value of expected cash flows is less than the carrying amount, a charge to the allowance for loan loss is made through a provision. If the estimate indicates that the present value of the expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

Such PCI loans are accounted for individually, and the Company estimates the amount and timing of expected cash flows for each loan. The expected cash flows in excess of the amount paid is recorded as interest income over the remaining life of the loan (accretable yield). The excess of the loan's contractual principal and interest over expected cash flows is not amortized over the remaining life of the loan (nonaccretable difference).

For loans purchased that did not show evidence of credit deterioration, the difference between the fair value of the loan at the acquisition date and the loan's face value is being amortized as a yield adjustment over the estimated remaining life of the loan using the effective interest method.

Investment in Restricted Stock, at Cost

The Company holds restricted stock in the Federal Home Loan Bank ("FHLB") of Pittsburgh and the Atlantic Community Bancshares, Inc. ("ACBB") which is carried at cost. The Company holds $194 of ACBB stock at both December 31, 2022 and 2021. The Company holds $3,183 and $2,491 of FHLB stock at December 31, 2022 and 2021, respectively. The FHLB 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.

Bank-Owned Life Insurance

The Company invests in bank-owned life insurance ("BOLI") as a source of funding for employee benefit expenses. BOLI involves the purchasing of life insurance by the Company on a chosen group of employees. The Company is the owner and beneficiary of the policies. This life insurance investment is carried at the cash surrender value of the underlying policies. Income from the increase in cash surrender value of the policies is included in non-interest income in the Consolidated Statement of Operations, net of expenses.

Premises and Equipment

Leasehold improvements and furniture and equipment are stated at cost, less accumulated depreciation. Depreciation and amortization expense is computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives for furniture and equipment are three to ten years; leasehold improvements are amortized over the shorter of their respective lease term or estimated life of the improvement.

Other Real Estate Owned

Foreclosed assets acquired in settlement of loans are carried at fair value, less estimated costs to sell. Prior to foreclosure, as the value of the underlying loan is written down to fair value of the real estate or other assets to be acquired by a charge to the allowance for loan losses, if necessary. Any subsequent write-downs are charged against operating expenses. Operating expenses of such properties, net of related income and losses on disposition, are included in other expenses and gains and losses are included in other noninterest income or other noninterest expense. As of December 31, 2022 and 2021, the Company had no other real estate owned. As of December 31, 2022, the Company has initiated formal foreclosure proceedings on no consumer residential mortgages, which have not yet been transferred into foreclosed assets.

Transfers of Financial Assets

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

Income Taxes

The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Bank determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of the evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company accounts for uncertain tax positions if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. The Bank recognizes interest and penalties on income taxes as a component of income tax expense.

Off-balance Sheet Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded in the consolidated balance sheets when they are funded.

Share-based Compensation

The Bank follows the provisions of ASC 718-10, Compensation – Stock Compensation. This standard requires the Bank to recognize the cost of employee and organizer services received in share-based payment transactions and measure the cost based on the grant-date fair value of the award. The cost will be recognized over the period during which the employee or organizer is required to provide service in exchange for the award.

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employee's service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. A Black-Scholes model is used to estimate the fair value of stock options, while the fair value of the Company's common stock as the date of grant is used for restricted stock awards.

Stock Warrants

The Company issued stock purchase warrants in connection with its initial stock offering via private placement, giving organizers the right to purchase shares of common stock at the initial offering price of $10 per share. For organizers, the warrants serve as a reward for bearing the financial risk of the Company's organization by advancing "seed money" for its organizational and pre-opening expenses. The organizers' warrants are non-voting and are exercisable for a period of ten years from the date of grant. All grants were issued during 2019. These warrants are transferable in accordance with the warrant agreement, but are not puttable to the Company. These shares may be issued from previously authorized but unissued shares of stock. The Board has made no additional authorization to issue any further warrants as of December 31, 2022 and has no current plans for future issuance of warrants. To date, organizers have not exercised any warrants since their issuance.

Based on the contractual terms, the warrants do not fall within the scope of ASC 480-10, *Distinguishing Liabilities from Equity*, and they meet the requirements within ASC 815, *Derivatives and Hedging*, to be classified within shareholders' equity. The fair value of these shares upon issuance using the Black-Scholes model was zero, based on the fair value for the stock on the date of grant.

Comprehensive Income

Comprehensive Income consists of net income and other comprehensive (loss) income. Other comprehensive (loss) income includes unrealized gains and losses on securities available for sale, which is also recognized as a separate component of equity.

Treasury Stock

Common stock shares repurchased are recorded as treasury stock, at cost on the consolidated balance sheets, on a settlement date basis. Gains and losses on subsequent reissuance of shares are credited or charged to surplus using the average cost method.

Earnings Per Share

Basic earnings per share (EPS) represents net income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share includes the dilutive effect of additional potential common shares issuable under stock options. Potential common shares that may be issued related to outstanding stock options are determined using the treasury stock method.

Operating Segments

While the chief decision maker monitors the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Discrete financial information is not available other than on a Company-wide basis, as management does not separately allocate expenses between the various operations of the Company.

Advertising Expenses

The Company expenses advertising costs as incurred. Advertising costs for the years ended December 31, 2022 and 2021 were $370 and $171, respectively, and were included within Other Expenses within the Consolidated Statements of Operations.

Recent Accounting Pronouncements

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.* This standard simplifies the test for goodwill impairment by eliminating the requirement to calculate the implied fair value of goodwill, which currently is Step 2 of the goodwill impairment test. Instead the goodwill impairment test will consist of a single quantitative step comparing the fair value of the reporting unit with its carrying amount. An entity should recognize a goodwill impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. The new standard is effective for annual and any interim goodwill impairment tests in reporting periods beginning after December 15, 2022. The adoption of this standard did not have a material effect on the Company's operating results or financial condition upon adoption at January 1, 2023.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments*, which changes the impairment model for most financial assets measured at amortized cost, including loan receivables and held to maturity debt securities. This model is also applicable to off-balance sheet credit exposures not accounted for as insurance, such as loan commitments, standby letters of credit, financial guarantees, and other similar instruments. In addition, the amendments in ASU 2016-03 require credit losses on available-for-sale debt securities to be presented as a valuation rather than as a direct write down. This Update is intended to improve financial reporting by requiring more timely recording of credit losses on these financial instruments. The underlying premise of the Update is that financial assets measured at amortized cost should be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The allowance for credit losses should reflect management's current estimate of credit losses ("CECL") that are expected to occur over the remaining life of a financial asset. The income statement will be affected for the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period.

The Company adopted ASU 2016-13 effective January 1, 2023. The impact of adoption resulted in an estimated increase to the allowance for credit losses between $5,500 and $7,500. Existing PCI assets were grandfathered and classified as purchased credit deteriorated ("PCD") assets at the date of adoption. The assets were grossed up for the allowance for expected losses for all PCD assets at the date of adoption and will continue to recognize the noncredit discount in interest income based on the yield of such assets as of the adoption date. Separate from the estimated increase in the allowance for credit losses disclosed above, the required liability for unfunded commitments at January 1, 2023 is estimated to fall within the range of $800 to $1,100 as commitments that are not unconditionally cancelable require an allowance for credit losses utilizing the same loss factors as loans. This allowance was recorded within other liabilities. The resulting impact of these allowances will be a decrease to retained earnings on the Company's Consolidated Balance Sheets, equal to the qual to the after-tax impact of the increase in allowance balances, with the tax impact being recorded as a deferred tax asset on the Company's Consolidated Balance Sheets. The Company did not identify any available-for-sale debt securities requiring allowances to be established upon adoption of the standard on January 1, 2023. The Company evaluated its corporate debentures and structured mortgage-backed securities within its held to maturity debt securities and determined that as of January 1, 2023, the risk of loss within both pools was remote. As such, the allowance for debt securities held to maturity established upon adoption of the standard on January 1, 2023 was immaterial. The Company is continuing to validate our CECL model, estimates and adoption methodologies and the estimated impacts described above are subject to change based on our continuing refinement of our model.

The Federal Reserve and the FDIC have adopted a rule that provides a banking organization the option to phase-in over a three-year period the effects of CECL on its regulatory capital upon the adoption of the CECL standard. The Company does expect to exercise the phase-in option.

In January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting,* which added to ASU 2020-04 on 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 onetime election to sell and/or reclassify held-to-maturity debt securities that reference an interest rate affected by reference rate reform. ASU 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848* deferred the sunset date of Topic 848 from December 31, 2022 to December 31, 2024. The amendments in this ASU are effective for all entities upon issuance through December 31, 2024. The Company has identified our loan receivables that have an interest rate indexed to LIBOR and is currently assessing the appropriate transition path. As such, the Company does not have an estimate of the financial impact of this update but does not expect the impact to be material to the financial statements of the Company.

In March 2022, the FASB issued ASU 2022-02, Financial Instruments - Credit Losses: Troubled Debt Restructurings and Vintage Disclosures, which eliminates accounting guidance for troubled debt restructurings ("TDRs") by creditors that have adopted ASU 2016-13 and its related amendments. The amendments require that an entity evaluate whether the loan modification represents a new loan or a continuation of an existing loan, and introduce new requirements related to modifications made to borrowers experiencing financial difficulty. The amendments also require public business entities to disclose current-period gross write-offs for financing receivables by year of origination in the vintage disclosures. For entities that have adopted ASU 2016-13, the amendments in this ASU are effective for fiscal years beginning after December 15, 2022. For entities that have not adopted ASU 2016-13, the amendments in this update are effective at the time the entity adopts ASU 2016-13. The adoption of this standard is not expected to have a material effect on the Company's operating results or financial condition.

2. MERGERS AND ACQUISITIONS

Partners Bancorp

On February 22, 2023, the Company entered into an Agreement and Plan of Merger (the "Partners Merger Agreement") with Partners Bancorp ("Partners"), a Maryland corporation, and the holding company for Bank of Delmarva and Virginia Partners Bank, based in Seaford, Delaware and Fredericksburg, Virginia, respectively. At December 31, 2022, Partners had total assets of $1.57 billion, total loans of $1.23 billion, total deposits of $1.34 billion, and 17,973,724 shares outstanding. The Partners Merger Agreement provides that, subject to the terms and conditions thereof, Partners will merge with and into the Company, with the Company as the surviving corporation, and that Bank of Delmarva and Virginia Partners Bank will merge with and into LINKBANK, with LINKBANK as the surviving bank. The Partners Merger is expected to close in the third quarter of 2023, subject to the satisfaction of closing conditions, including receipt of regulatory approvals and approval by the shareholders of each company. The acquisition will introduce the Company's operations into northern Virginia, eastern Maryland, Delaware, and southern New Jersey.

Pursuant to the Partners Merger Agreement as of the effective date, each share of Partners common stock outstanding will be converted into the right to receive 1.150 of shares of the Company, par value $0.01 per share. Holders of Partners common stock will receive cash in lieu of fractional shares.

GNB Financial Services, Inc.

As described in Note 1. Summary of Significant Accounting Policies, effective September 18, 2021 the Company completed its merger with GNBF by acquiring 100% of the outstanding common shares of GNBF.

Pursuant to the Merger Agreement, GNBF merged with and into LINKBANCORP with LINKBANCORP as the surviving corporation. Additionally, LINKBANK, the wholly owned subsidiary of LINKBANCORP merged with and into The Gratz Bank, a wholly owned subsidiary of GNBF with The Gratz Bank as the surviving bank subsidiary of the Company. This transaction, in total, is herein referred to as the Merger.

The Merger constituted a business combination and was accounted for as a reverse acquisition using the acquisition method of accounting, in accordance with the provisions of FASB ASC 805 Business Combinations. As such, GNBF was the accounting acquirer and LINKBANCORP was the accounting acquiree and the historical financial statements of the combined company are the historical financial statements of GNBF.

Under the Gratz Merger Agreement, GNBF shareholders had the opportunity to elect to receive $87.68 per share in cash or 7.3064 of LINKBANCORP common shares for each share they own. The agreement provided for proration procedures intended to ensure that, in the aggregate, at least 80% of the GNBF common shares outstanding will be exchanged for LINKBANCORP common stock. The Gratz Merger was effective on September 18, 2021, with the GNBF shareholders collectively electing to receive cash for 14.865% of their shares and LINKBANCORP common shares for 85.135% of existing GNBF shares. These elections resulted in LINKBANCORP issuing 4.85 million common shares to GNBF shareholders which represented approximately 49.4% of the post-merger outstanding common shares of the Company.

In accordance with FASB ASC 805-40-30-2, the fair value consideration of a reverse acquisition is determined based on a number of hypothetical equity interest the legal acquiree would have had to issue to give the owners of the legal acquirer the same percentage equity interest in the combined entity that results from the reverse acquisition.

The total fair value consideration was $71.5 million which consisted of $54.0 million for the fair value of common stock issued, $10.1 million in cash consideration and $7.4 million for the fair value of LINKBANCORP options and warrants. The consideration assigned to cash and common stock in this reverse acquisition was determined based on the hypothetical number of equity interests that GNBF would have had to issue to give LINK shareholders a 50.62% ownership, the same percentage equity interest in the combined entity that results from the reverse acquisition. The allocation of the consideration assigned to cash and common stock was allocated between the actual cash to be paid by the legal acquirer with the resultant amount being assigned to common equity.

The following table summarizes the fair value consideration paid for GNBF as of the date of acquisition:

(Dollars in thousands except per share amounts)		
Total GNBF common shares outstanding		779,000
GNBF shares outstanding exchanged for LINKBANCORP, Inc. common stock		663,240
GNBF shares outstanding exchanged for cash		115,760
Exchange Ratio		7.3064
LINKBANCORP, Inc. shares to be issued to GNBF shareholders		4,845,897
LINKBANCORP, Inc. Shares currently outstanding		4,968,550
Total LINKBANCORP, Inc. shares to be outstanding		9,814,447
GNBF pro forma common share % ownership		49.38%
LINKBANCORP, Inc. pro forma common share % ownership		50.62%
Reverse Acquisition Hypothetical Purchase Price Consideration		
GNBF shares outstanding exchanged for LINKBANCORP, Inc. common stock		663,240
Ownership % to be owned by current GNBF shareholders		49.38%
Hypothetical GNBF shares outstanding based on GNBF % ownership		1,343,267
Ownership % by legacy LINKBANCORP, Inc. shareholders		50.62%
Hypothetical GNBF shares to be issued as consideration		680,027
Fair value of GNBF shares (LINKBANCORP, Inc. fair value per share of $12.90 as of 9/17/2021 multiplied by the exchange rate)	$	94.25
Purchase price assigned to hypothetical GNBF shares issued to LINKBANCORP, Inc. shareholders	$	64,094
LINKBANCORP, Inc. options and warrants		1,962,484
Fair value per options and warrants	$	3.76
Purchase price assigned to LINKBANCORP, Inc. options and warrants		7,379
Total purchase price consideration	$	71,473
Pro Forma Purchase Price Allocation Between Stock & Cash:		
Cash consideration	$	10,077
Common Stock		61,396
Total Purchase Price For Accounting Purposes	$	71,473

The Company accounts for business combinations under the acquisition method in accordance with ASC Topic 805, Business Combinations. Accordingly, for each transaction, the purchase price is allocated to the fair value of the assets acquired and liabilities assumed as of the date of the acquisition. In conjunction with the adoption of ASU 2015-16, upon receipt of final fair value estimates during the measurement period, which must be within one year of the acquisition date, the Company records any adjustments to the preliminary fair value estimates in the reporting period in which the adjustments are determined. The Company is continuing to finalize the fair values of loans, intangible assets, and income taxes. The Company finalized the fair values of loans, intangible assets, other assets, income taxes, and liabilities as of September 18, 2022. The purchase price for the Gratz Merger is allocated in the table below.

Total Consideration in the Merger		$ 71,473
Calculated Fair Value of Assets Acquired		
Cash and cash equivalents	$ 49,962	
Securities available for sale	3,111	
Loans	415,905	
Premises and equipment	2,087	
Right-of-use asset	4,544	
Intangible assets	1,246	
Investment in bank owned life insurance	4,784	
Deferred taxes	3,675	
Other assets	4,394	
Total Assets Acquired	489,708	
Calculated Fair Value of Liabilities Assumed		
Deposits	391,160	
Long term borrowings	33,034	
Subordinated debt	20,740	
Operating lease liabilities	4,544	
Other liabilities	2,265	
Total Liabilities Assumed	451,743	
Net Assets Acquired		37,965
Goodwill From the Merger		$ 33,508

The following table summarizes the Gratz Merger as of September 18, 2021:

Total Consideration in the Merger		$ 71,473
LINKBANCORP, Inc. shareholders' equity	$ 43,124	
LINKBANCORP, Inc. goodwill and intangibles	(1,353)	
Fair Value Adjustments:		
Loans		
Interest rate	(1,521)	
General credit	(6,346)	
Credit adjustment for loans acquired with deteriorated credit quality	(1,243)	
Remove existing deferred loan fees, net at acquisition	1,192	
Remove the allowance for loan losses present at acquisition	4,953	
Intangible assets	1,146	
Other assets	(991)	
Time deposits	(231)	
Subordinated debt	(765)	
		37,965
Goodwill From the Merger		$ 33,508

Pursuant to the accounting requirements, the Company assigned a fair value to the assets acquired and liabilities assumed of LINKBANCORP ASC 820 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

The assets acquired and liabilities assumed in the acquisition of LINKBANCORP were recorded at their estimated fair values based on management's best estimates using information available at the date of the acquisition and are subject to adjustment for up to one year after the closing date of the acquisition. While the fair values are not expected to be materially different from the estimates, any material adjustments to the estimates will be reflected, retroactively, as of the date of the acquisition. The items most susceptible to adjustment are the fair value adjustments on loans, core deposit intangible and the deferred income tax assets resulting from the acquisition.

Goodwill represents consideration transferred in excess of the fair value of the net assets acquired. The goodwill resulting from the acquisition represents the value expected from the expansion of the Company's market and enhancement of operations and efficiencies. Goodwill acquired in the acquisition is not deductible for tax purposes.

Fair values of the major categories of assets acquired and liabilities assumed were determined as follows:

Investment securities available-for-sale

The estimated fair values of the investment securities available for sale, primarily comprised of U.S. Government agency mortgage-backed securities were determined using Level 1 and Level 2 inputs in the fair value hierarchy. A fair value premium of $96 was recorded and will be amortized over the estimated life of the investments using the interest rate method.

Loans

Acquired loans (performing and non-performing) are initially recorded at their acquisition-date fair values using Level 3 inputs. Fair values are based on a discounted cash flow methodology that involves assumptions and judgments as to credit risk, expected lifetime losses, environmental factors, collateral values, discount rates, expected payments and expected prepayments. Specifically, the Company has prepared three separate loan fair value adjustments that it believed a market participant might employ in estimating the entire fair value adjustment for the acquired loan portfolio. The three fair value adjustments employed were for loans acquired without evidence of credit quality deterioration, the Company prepared the interest rate loan fair value and credit fair value adjustments and for ASC 310-30 purchased credit impaired loans a specific credit fair value adjustment was made. The acquired loans were recorded at fair value at the acquisition date without carryover of LINKBANCORP's previously established allowance for loan losses. The fair value of the financial assets acquired included loans receivable with an unpaid principal balance of $425.0 million.

The table below illustrates the fair value adjustments made to the amortized cost basis in order to present the fair value of the loans acquired.

Unpaid principal balance at Merger	$	425,015
Interest rate fair value adjustment on pools of homogeneous loans		(1,520)
Credit fair value adjustment on pools of homogeneous loans		(6,347)
Credit fair value adjustment on purchased credit impaired loans		(1,243)
Fair value of acquired loans	$	415,905

For loans acquired without evidence of credit quality deterioration were grouped into homogeneous pools by characteristics such as loan type, term, collateral, and rate. Market rates for similar loans were obtained from various internal and external data sources. From each pool a monthly expected cash flow was prepared that incorporated expected monthly payments, impact of prepayments and expected monthly net charge-offs. A discounted cash flow was calculated for each pool to estimate the fair value. In this analysis the fair value adjustment was bifurcated into two components an interest rate fair value adjustment and a general credit fair value adjustment. Additionally, it is noted the credit fair value adjustment incorporated assumptions for: 1) expected lifetime credit migration losses; and 2) estimated fair value adjustment for certain qualitative factors. Both the interest rate and credit fair value adjustments relate to loans acquired with evidence of credit quality deterioration will be substantially recognized as interest income on a level yield amortization method over the expected life of the loans.

For loans acquired with evidence of credit quality deterioration, ASC 310-30 loans, the fair value was calculated with a non-accretable fair value discount based on an adjusted collateral value and if there was a collateral shortfall a non-accretable discount was established. This non-accretable discount would not be amortized for GAAP purposes. In additional an accretable yield fair value discount was created to reflect the time value of money a market participant would discount the loan for the time it would take to recover the adjusted collateral value. The accretable yield fair value will be recognized over the workout period of the loan on a level yield basis as a component of interest income.

The following table presents the acquired purchased credit impaired loans receivable at the merger date:

Contractual principal and interest at Merger	$	8,509
Nonaccretable difference		(2,716)
Expected cash flows at Merger		5,793
Accretable yield		(409)
Fair value of purchased credit impaired loans	$	5,384

Facilities Leases

The Company assumed leases on four facilities of LINKBANCORP. The Company believed that the current lease costs were at market terms therefore no fair value adjustment is needed. LINKBANCORP did not operate any owned facilities.

Core Deposit Intangible

The fair value of the core deposit intangible was determined based on a discounted cash flow analysis using a discount rate commensurate with market participants. To calculate cash flows, deposit account servicing costs (net of deposit fee income) and interest expense on deposits were compared to the higher cost of alternative funding sources available through national brokered CD offering rates and FHLB advance rates. The projected cash flows were developed using expected deposit attrition. The core deposit intangible will be amortized over ten years using the sum-of-years digits method.

Time Deposits

The fair value adjustment for time deposits was based on a discounted cash flow methodology of the contract rates and contractual repayments of fixed maturity deposits using prevailing market interest rates for similar-term time deposits. The time deposit fair value adjustment will be amortized into income on a level yield amortization method over the contractual life of the deposits.

Long Term Borrowings

The Company reviewed the cost of the borrowings to market interest rates for similar instruments and believed that the rates were comparable and that no fair value adjustment was recorded.

Subordinated Debt

The fair value of the subordinated debt was determined using a discounted cash flow method using a market participant discount rate for similar instruments. The subordinated debt fair value adjustment will be amortized into income on a level yield amortization method based upon the assumed market rate and the term of the subordinated debt.

Pro Forma Combined Results of Operations (Unaudited)

The following pro forma financial information as of December 31, 2021 presents the consolidated results of operations of GNBF and LINKBANCORP as if the Gratz Merger occurred as of January 1, 2020 with pro forma adjustments. The pro forma adjustments give effect to any change in interest income due to the accretion of discounts (premiums) associated with the fair value adjustments of acquired loans, any change in interest expense due to estimated premium amortization/discount accretion associated with the fair value adjustments to acquired time deposits and other debt, and the amortization of the core deposit intangible that would have resulted had the deposits been acquired as of January 1, 2020. Merger related expenses incurred by the Company during the year ended December 31, 2021 are not reflected in the pro forma amounts. The pro forma information does not necessarily reflect the results of operations that would have occurred had GNBF merged with LINKBANCORP, Inc. at the beginning of 2020. The pro forma amounts for the years ended December 31, 2021 do not reflect the anticipated cost savings that had not yet been realized.

(Dollars in thousands)		
Net interest income	$	28,075
Non-interest income		2,551
Net income (loss)		8,159
Basic earnings (loss) per common share	$	0.83
Diluted earnings (loss) per common share	$	0.80

3. INVESTMENT SECURITIES

The amortized cost, gross unrealized gains and losses, and fair value of investment securities available for sale are summarized as follows:

	December 31, 2022			
(In Thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Available for Sale:				
Small Business Administration loan pools	$ 858	$ —	$ (15)	$ 843
Obligations of state and political subdivisions	44,189	14	(4,034)	40,169
Mortgage-backed securities in government-sponsored entities	41,873	—	(4,072)	37,801
	$ 86,920	**$ 14**	**$ (8,121)**	**$ 78,813**
Held to Maturity:				
Corporate debentures	$ 14,993	$ —	$ (994)	$ 13,999
Structured mortgage-backed securities	16,829	—	(748)	16,081
	$ 31,822	$ —	**$ (1,742)**	**$ 30,080**

	December 31, 2021			
(In Thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Available for Sale:				
Small Business Administration loan pools	$ 1,099	$ —	$ (15)	$ 1,084
Obligations of state and political subdivisions	46,115	2,405	(38)	48,482
Mortgage-backed securities in government-sponsored entities	54,239	382	(404)	54,217
	$ 101,453	**$ 2,787**	**$ (457)**	**$ 103,783**

The following tables show the Company's gross unrealized losses and fair value, aggregated by investment category and length of time the individual debt securities have been in a continuous unrealized loss position.

	December 31, 2022					
	Less Than Twelve Months		Twelve Months or Greater		Total	
(In Thousands)	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Available for Sale:						
Small Business Administration loan pools	$ 334	$ (1)	$ 509	$ (14)	$ 843	$ (15)
Obligations of state and political subdivisions	34,836	(3,372)	2,559	(662)	37,395	(4,034)
Mortgage-backed securities in government-sponsored entities	18,052	(1,538)	19,749	(2,534)	37,801	(4,072)
	$ 53,222	**$ (4,911)**	**$ 22,817**	**$ (3,210)**	**$ 76,039**	**$ (8,121)**
Held to Maturity:						
Corporate debentures	$ 13,999	$ (994)	$ —	$ —	$ 13,999	$ (994)
Structured mortgage-backed securities	16,081	(748)	—	—	16,081	(748)
	$ 30,080	**$ (1,742)**	**$ —**	**$ —**	**$ 30,080**	**$ (1,742)**

	December 31, 2021					
	Less Than Twelve Months		Twelve Months or Greater		Total	
(In Thousands)	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Available for Sale:						
Small Business Administration loan pools	$ —	$ —	$ 1,084	$ (15)	$ 1,084	$ (15)
Obligations of state and political subdivisions	3,189	(38)	—	—	3,189	(38)
Mortgage-backed securities in government-sponsored entities	23,420	(266)	4,687	(102)	28,107	(368)
	$ 26,609	**$ (304)**	**$ 5,771**	**$ (117)**	**$ 32,380**	**$ (421)**

The Company reviews its position quarterly and believes that as of December 31, 2022 and 2021, the declines outlined in the above tables represent temporary declines, and the Company does not intend to sell, and does not believe it will be required to sell, these debt securities before recovery of their cost basis, which may be at maturity. There were 175 and 41 available for sale debt securities with unrealized losses at December 31, 2022 and 2021, respectively. There were ten and zero held-to-maturity debt securities with unrealized losses at December 31, 2022 and 2021, respectively. The Company has concluded that the unrealized losses disclosed above are not other than temporary, but are the result of interest rate changes that are not expected to result in the noncollection of principal and interest during the year.

Our corporate debenture portfolio as of December 31, 2022 contained $3,000 of an investment in subordinated notes issued by Signature Bank. As a result of and subsequent to the failure of Signature Bank during the first quarter of 2023, the Company sold its investment in the Signature Bank subordinated notes and incurred a pre-tax gross loss of approximately $2,445 before applying the CECL reserve allocated to this security.

As of December 31, 2022, amortized cost and fair value by contractual maturity, where applicable, are shown below. Actual maturities may differ from contractual maturities because the borrower may have the right to prepay obligations with or without penalty.

	Available for Sale Securities		Held to Maturity Securities	
(In Thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year	$ 314	$ 314	$ —	$ —
Due after one year through five years	6,480	6,340	3,000	2,888
Due after five years through ten years	12,701	11,949	11,993	11,111
Due after ten years	25,552	22,408	—	—
Mortgage-backed securities and Collateralized mortgage obligations	41,873	37,802	16,829	16,081
	$ 86,920	**$ 78,813**	**$ 31,822**	**$ 30,080**

The following table summarizes sales of debt securities:

(In Thousands)	For the Year Ended December 31, 2022	2021
Proceeds	$ 513	$ 11,371
Gross gains	13	127
Gross losses	—	(53)
Net gain	$ 13	$ 74

The Company had pledged debt securities with a carrying value of $47,418 and $45,300 to secure public monies as of December 31, 2022 and 2021, respectively.

4. CERTIFICATES OF DEPOSIT WITH OTHER BANKS

Interest-earning certificates of deposit with other banks are held at cost. The contractual maturity of these certificates of deposit as of December 31, 2022 and 2021 is as follows:

(in Thousands)	December 31, 2022	2021
Due in one year or less	$ 3,382	$ 7,205
Due after one year through five years	2,241	5,623
	$ 5,623	$ 12,828

5. LOANS RECEIVABLE

The portfolio segments and classes of loans are as follows:

(In Thousands)	December 31, 2022	December 31, 2021
Agriculture loans	$ 15,591	$ 9,341
Commercial loans	103,874	98,604
Paycheck Protection Program ("PPP") loans	881	23,774
Commercial real estate loans	540,914	338,749
Residential real estate loans	250,832	231,302
Consumer and other loans	10,057	7,087
Municipal loans	5,466	6,182
	927,615	**715,039**
Deferred costs (fees)	256	(223)
Allowance for loan losses	(4,666)	(3,152)
Total	**$ 923,205**	**$ 711,664**

The Company originates commercial, residential, and consumer loans within its primary market areas of southcentral and southeastern Pennsylvania. A significant portion of the loan portfolio is secured by real estate.

At December 31, 2022 and 2021, the Company serviced residential mortgage loans for the Federal Home Loan Bank of Pittsburgh in the amount of $47,356 and $51,101, respectively.

6. ALLOWANCE FOR LOAN LOSSES

The segments of the Company's loan portfolio are disaggregated to a level that allows management to monitor risk and performance. The loan segments used are consistent with the internal reports evaluated by the Company's management and Board of Directors to monitor risk and performance within various segments of its loan portfolio and, therefore, no further disaggregation is considered necessary. The Company's loan portfolio consists primarily of real estate loans on commercial and residential property. The portfolio also includes agricultural loans, commercial loans, municipal loans, and consumer loans.

The Company's primary lending activity is the origination of commercial loans extended to small and mid-sized commercial and industrial entities.

Commercial loans are primarily underwritten on the basis of the borrowers' ability to service such debt from income. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. As a general practice, the Company takes as collateral a security interest in any equipment, or other chattel, although loans may also be made on an unsecured basis. Collateralized working capital loans typically are secured by short-term assets whereas long-term loans are primarily secured by long-term assets.

Construction and Land loans are to finance the construction of owner-occupied and income producing properties. These loans are categorized within commercial or one-to-four family residential loans based upon the underlying collateral and intended use following the completion of the construction period. Real estate development and construction loans are approved based on an analysis of the borrower and guarantor, the viability of the project and on an acceptable percentage of the appraised value of the property securing the loan. Construction loan funds are disbursed periodically based on the percentage of construction or development completed. The Company carefully monitors these loans with on-site inspections and requires the receipt of lien waivers on funds advanced. The Company considers the market conditions and feasibility of proposed projects, the financial condition and reputation of the borrower and guarantors, the amount of the borrower's equity in the project, independent appraisals, cost estimates and pre-construction sale information. The Company also makes loans on occasion for the purchase of land for future development by the borrower. Land loans are extended for the future development for either commercial or residential use by the borrower. The Company carefully analyzes the intended use of the property and the viability thereof.

The Company's commercial real estate loans consist of mortgage loans secured by nonresidential real estate, such as by apartment buildings, small office buildings, and owner-occupied properties. Commercial real estate loans are secured by the subject property and are underwritten based on loan to value limits, cash flow coverage and general creditworthiness of the obligors. These loans tend to involve larger loan balances and their repayment is typically dependent upon the successful operation and management of the underlying real estate.

Residential real estate loans are underwritten based on the borrower's repayment capacity and source, value of the underlying property, credit history and stability. These loans are secured by a first or second mortgage on the borrower's principal residence or their second/vacation home (excluding investment/rental property).

In addition to the main types of loans discussed above, the Company also originates agricultural loans, consumer loans, and municipal loans. The agricultural loan portfolio consists of loans to local farmers and agricultural businesses that are generally secured by farmland and equipment. The consumer loan portfolio consists of lending in the form of home equity loans secured by financed property and personal consumer loans, which may be secured or unsecured. The municipal loan portfolio consists of loans to qualified local municipalities, which are generally supported by the taxing authority of the borrowing municipality, and is frequently secured by collateral.

Management has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for loan losses the Company has segmented certain loans in the portfolio by product type. Loans are segmented into the following pools: agriculture loans, commercial real estate loans, commercial loans, residential real estate loans, consumer loans, and municipal loans. Historical loss percentages for each risk category are calculated and used as the basis for calculating allowance allocations. These historical loss percentages are calculated over a four-year period for all portfolio segments.

Certain qualitative factors are then added to the historical allocation percentage to get the adjusted factor to be applied to non-classified loans. The following qualitative factors are analyzed for each portfolio segment:

- Levels of and trends in delinquencies
- Trends in volume and terms
- Changes in collateral
- Changes in management and lending staff
- Economic trends
- Concentrations of credit
- Changes in lending policies
- External factors
- Changes in underwriting process
- Trends in credit quality ratings

These qualitative factors are reviewed each quarter and adjusted based upon relevant changes within the portfolio.

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the Consolidated Balance Sheet date. The Company considers the allowance for loan losses adequate to cover loan losses inherent in the loan portfolio at December 31, 2022 and 2021.

The following table summarizes the activity in the allowance for loan losses by loan class for the years ended December 31, 2022 and 2021.

(In Thousands)	Agriculture Loans	Commercial and PPP Loans	Commercial Real Estate Loans	Residential Real Estate Loan	Consumer Loans	Municipal Loans	Unallocated Loans	Total
	For the Year Ended December 31, 2022							
Allowance for loan losses:								
Beginning balance	**$ 23**	**$ 582**	**$ 799**	**$ 1,634**	**$ 22**	**$ 15**	**$ 77**	**$ 3,152**
Charge-offs	—	(1)	—	(3)	(3)	—	—	(7)
Recoveries	—	32	—	197	2	—	—	231
Provision	10	(30)	1,663	(292)	19	(3)	(77)	1,290
Ending balance	**$ 33**	**$ 583**	**$ 2,462**	**$ 1,536**	**$ 40**	**$ 12**	**$ 0**	**$ 4,666**
	For the Year Ended December 31, 2021							
Allowance for loan losses:								
Beginning balance	$ 120	$ 290	$ 314	$ 1,702	$ 35	$ 18	$ 310	$ 2,789
Charge-offs	—	(24)	(18)	(297)	—	—	—	(339)
Recoveries	—	22	—	32	—	—	—	54
Provision	(97)	294	503	197	(13)	(3)	(233)	648
Ending balance	**$ 23**	**$ 582**	**$ 799**	**$ 1,634**	**$ 22**	**$ 15**	**$ 77**	**$ 3,152**

The increase in the allowance for loan losses allocated to the commercial loans and commercial real estate loans can be attributed to loan growth in both loan portfolios, and for commercial real estate loans, the increase in the carrying value of loans that have been risk rated as Special Mention and Substandard as of December 31, 2022. Please see the "Credit Quality Information" section below for further details.

The following table illustrates the balance of loans individually evaluated vs. collectively evaluated for impairment at December 31, 2022 and 2021.

(In Thousands)	Agriculture Loans	Commercial and PPP Loans	Commercial Real Estate Loans	Residential Real Estate Loan	Consumer Loans	Municipal Loans	Unallocated Loans	Total
	As of December 31, 2022							
Allowance for loan losses:								
Ending balance	$ 33	$ 583	$ 2,462	$ 1,536	$ 40	$ 12	$ —	$ 4,666
Ending balance: individually evaluated for impairment	$ —	$ 20	$ —	$ —	$ —	$ —	$ —	$ 20
Ending balance: collectively evaluated for impairment	$ 33	$ 563	$ 2,462	$ 1,536	$ 40	$ 12	$ —	$ 4,646
Loans:								
Ending balance	$ 15,591	$ 104,755	$ 540,914	$ 250,832	$ 10,057	$ 5,466		$ 927,615
Ending balance: individually evaluated for impairment	$ 300	$ 55	$ 2,306	$ 4,652	$ —	$ —		$ 7,313
Ending balance: loans acquired with deteriorated credit quality	$ —	$ —	$ 2,227	$ 182	$ —	$ —		$ 2,409
Ending balance: collectively evaluated for impairment	$ 15,291	$ 104,700	$ 536,381	$ 245,998	$ 10,057	$ 5,466		$ 917,893

(In Thousands)	Agriculture Loans	Commercial and PPP Loans	Commercial Real Estate Loans	Residential Real Estate Loan	Consumer Loans	Municipal Loans	Unallocated Loans	Total
	As of December 31, 2021							
Allowance for loan losses:								
Ending balance	$ 23	$ 582	$ 799	$ 1,634	$ 22	$ 15	$ 77	$ 3,152
Ending balance: individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Ending balance: collectively evaluated for impairment	$ 23	$ 582	$ 799	$ 1,634	$ 22	$ 15	$ 77	$ 3,152
Loans:								
Ending balance	$ 9,341	$ 122,378	$ 338,749	$ 231,302	$ 7,087	$ 6,182		$ 715,039
Ending balance: individually evaluated for impairment	$ —	$ 42	$ —	$ 709	$ —	$ —		$ 751
Ending balance: loans acquired with deteriorated credit quality	$ —	$ 512	$ 4,394	$ 650	$ —	$ —		$ 5,556
Ending balance: collectively evaluated for impairment	$ 9,341	$ 121,824	$ 334,355	$ 229,943	$ 7,087	$ 6,182		$ 708,732

The Company evaluated whether loans acquired in the Merger were within the scope of ASC 310-30, Receivables - Loans and Debt Securities Acquired with Deteriorated Credit Quality. Purchased credit-impaired loans ("PCI") are loans that have evidence of credit deterioration since origination and it is probable at the date of acquisition that the Company will not collect all contractually required principal and interest payments. The fair value of purchased credit-impaired loans, on the acquisition date, was determined, primarily based on the fair value of loan collateral. The carrying value of purchased loans acquired with deteriorated credit quality as a result of the Merger was $2,409 at December 31, 2022.

On the acquisition date, the preliminary estimate of the unpaid principal balance for all PCI loans acquired through the Merger was $6,627 and the estimated fair value of the loans was $5,384. Total contractually required payments on these loans, including interest, at acquisition was $8,509. The Company's estimate of expected cash flows was $5,793 at the acquisition date. The Company established a credit risk related non-accretable discount of $2,716 relating to these PCI loans, reflected in the recorded net fair value. The Company further estimated the timing and amount of expected cash flows in excess of the estimated fair value and established an accretable discount of $409 relating to these PCI loans. The remaining unamortized accretable discount at December 31, 2022 totaled $0.

The following table provides activity for the accretable yield of PCI loans for the year ended December 31, 2022.

(In Thousands)	December 31, 2022	December 31, 2021
Accretable yield, beginning of period	$ 307	$ —
Additions	—	409
Accretion of income	(151)	(102)
Reclassifications from nonaccretable difference due to improvement in expected cash flows	—	—
Other changes, net	(156)	—
Accretable yield, end of period	**$ —**	**$ 307**

Credit Quality Information

The following tables represent credit exposures by internally assigned grades as of December 31, 2022 and 2021. The grading analysis estimates the capability of the borrower to repay the contractual obligations of the loan agreements as scheduled or at all.

The Company's internally assigned grades are as follows:

Pass – loans that are protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral. There are four sub-grades within the Pass category to further distinguish the loan.

Special Mention – loans where a potential weakness or risk exists, which could cause a more serious problem if not corrected.

Substandard – loans that have a well-defined weakness based on objective evidence and are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful – loans classified as Doubtful have all the weaknesses inherent in a Substandard asset. In addition, these weaknesses make collection or liquidation in full highly questionable and improbable, based on existing circumstances.

Loss – loans classified as a Loss are considered uncollectible and are immediately charged against allowances.

The following table presents the classes of the loan portfolio summarized by the internal risk rating system as of December 31, 2022 and 2021:

(In Thousands) **As of December 31, 2022**	Pass	Special Mention	Substandard	Doubtful	Total
Agriculture loans	$ 15,291	$ —	$ 300	$ —	$ 15,591
Commercial and PPP loans	101,980	2,721	54	—	104,755
Commercial real estate loans	533,864	2,516	4,534	—	540,914
Residential real estate loans	246,028	207	4,597	—	250,832
Consumer loans	10,057	—	—	—	10,057
Municipal loans	5,466	—	—	—	5,466
Total	$ 912,686	$ 5,444	$ 9,485	$ —	$ 927,615

(In Thousands) **As of December 31, 2021**	Pass	Special Mention	Substandard	Doubtful	Total
Agriculture loans	$ 9,341	$ —	$ —	$ —	$ 9,341
Commercial and PPP	117,918	3,757	703	—	122,378
Commercial real estate loans	332,156	2,077	4,516	—	338,749
Residential real estate loans	228,664	1,657	981	—	231,302
Consumer loans	7,087	—	—	—	7,087
Municipal loans	6,182	—	—	—	6,182
Total	$ 701,348	$ 7,491	$ 6,200	$ —	$ 715,039

The following tables present an aging analysis of the recorded investment of past-due loans.

	December 31, 2022							
(In Thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Purchased Credit Impaired Loans	Total Loans	Total > 90 Days and Accruing
Agriculture loans	$ 193	$ 48	$ 149	$ 390	$ 15,201	$ —	$ 15,591	$ 149
Commercial and PPP loans	111	21	54	186	104,569	—	104,755	54
Commercial real estate loans	863	88	190	1,141	537,546	2,227	540,914	—
Residential real estate loans	2,474	137	1,176	3,787	246,863	182	250,832	540
Consumer loans	254	58	—	312	9,745	—	10,057	—
Municipal loans	—	—	—	—	5,466	—	5,466	—
Total	**$ 3,895**	**$ 352**	**$ 1,569**	**$ 5,816**	**$919,390**	**$ 2,409**	**$927,615**	**$ 743**

	December 31, 2021							
(In Thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Purchased Credit Impaired Loans	Total Loans	Total > 90 Days and Accruing
Agriculture loans	$ 83	$ —	$ —	$ 83	$ 9,258	$ —	$ 9,341	$ —
Commercial and PPP loans	66	—	—	66	121,800	512	122,378	—
Commercial real estate loans	245	—	—	245	334,110	4,394	338,749	—
Residential real estate loans	1,427	211	869	2,507	228,145	650	231,302	762
Consumer loans	31	2	—	33	7,054	—	7,087	—
Municipal loans	—	—	—	—	6,182	—	6,182	—
Total	**$ 1,852**	**$ 213**	**$ 869**	**$ 2,934**	**$706,549**	**$ 5,556**	**$715,039**	**$ 762**

Impaired Loans

The following tables present the recorded investment and unpaid principal balances for impaired loans and related allowance, if applicable. Also presented are the average recorded investments and the related amount of interest recognized during the time within the period that the impaired loans were impaired.

	As of December 31, 2022		
(In Thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Agriculture loans	$ 300	$ 300	$ —
Commercial loans	35	55	—
Commercial real estate loans	2,306	2,312	—
Residential real estate loans	4,652	4,683	—
Consumer loans	—	—	—
Municipal loans	—	—	—
With an allowance recorded:			
Agriculture loans	$ —	$ —	$ —
Commercial loans	20	20	20
Commercial real estate loans	—	—	—
Residential real estate loans	—	—	—
Consumer loans	—	—	—
Municipal loans	—	—	—
Total			
Agriculture loans	$ 300	$ 300	$ —
Commercial loans	55	75	20
Commercial real estate loans	2,306	2,312	—
Residential real estate loans	4,652	4,683	—
Consumer loans	—	—	—
Municipal loans	—	—	—
	$ 7,313	**$ 7,370**	**$ 20**

(In Thousands)	As of December 31, 2021 Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Agriculture loans	$ —	$ —	$ —
Commercial loans	42	61	—
Commercial real estate loans	—	—	—
Residential real estate loans	709	779	—
Consumer loans	—	—	—
Municipal loans	—	—	—
With an allowance recorded:			
Agriculture loans	$ —	$ —	$ —
Commercial loans	—	—	—
Commercial real estate loans	—	—	—
Residential real estate loans	—	—	—
Consumer loans	—	—	—
Municipal loans	—	—	—
	—	—	—
Total			
Agriculture loans	$ —	$ —	$ —
Commercial loans	42	61	—
Commercial real estate loans	—	—	—
Residential real estate loans	709	779	—
Consumer loans	—	—	—
Municipal loans	—	—	—
	$ 751	$ 840	$ —

	For the Year Ended December 31,			
	2022		2021	
(In Thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Agriculture loans	$ 200	$ 9	$ —	$ —
Commercial loans	39	—	—	—
Commercial real estate loans	2,365	125	—	—
Residential real estate loans	4,772	159	759	20
Consumer loans	—	—	—	—
Municipal loans	—	—	—	—
	7,376	293	759	20
With an allowance recorded:				
Agriculture loans	$ —	$ —	$ —	$ —
Commercial loans	23	1	—	—
Commercial real estate loans	—	—	—	—
Residential real estate loans	—	—	—	—
Consumer loans	—	—	—	—
Municipal loans	—	—	—	—
	23	1	—	—
Total	$ 7,399	$ 294	$ 759	$ 20

The following table present nonaccrual loans by classes of the loan portfolio:

(In Thousands)	December 31, 2022	December 31, 2021
Commercial and PPP loans	$ 35	$ 39
Commercial real estate loans	231	144
Residential real estate loans	1,652	449
Consumer loans	—	2
Total	**$ 1,918**	**$ 634**

The above nonaccrual loans as of December 31, 2022 and 2021 exclude PCI loans with balances of $2,409 and $5,556, respectively. Management does not consider these loans to be non-performing as they are accounted for under the accretable yield method and are performing in line with expectations as of December 31, 2022 and 2021.

Approximately $540,914 or 58.3% of the Bank's loan portfolio was in commercial real estate loans at December 31, 2022. While the Bank does not have a concentration of credit risk with any single borrower or industry, repayments on loans in these portfolios can be negatively influenced by decreases in real estate values. The Bank mitigates this risk through conservative underwriting policies and procedures. In addition, $139,555 of real estate-commercial loans were owner occupied properties as of December 31, 2022. These types of loans are generally considered to involve less risk than nonowner-occupied mortgages.

At December 31, 2022 and 2021, the carrying amount of borrowings secured by loans pledged to the FHLB under its blanket lien was $0 and $1,120, respectively.

Loan Modifications and Troubled Debt Restructurings (TDRs)

A loan is considered to be a TDR loan when the Company grants a concession to the borrower because of the borrower's financial condition that it would not otherwise consider. Such concessions include the reduction of interest rates, forgiveness of principal or interest, or other modifications of interest rates that are less than the current market rate for new obligations with similar risk.

The Bank may grant a concession or modification for economic or legal reasons related to a borrower's financial condition that it would not otherwise consider resulting in a modified loan which is then identified as a troubled debt restructuring (TDR). The Bank may modify loans through rate reductions, extensions of maturity, interest only payments, or payment modifications to better match the timing of cash flows due under the modified terms with the cash flows from the borrowers' operations. Loan modifications are intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. TDRs are considered impaired loans for purposes of calculating the Bank's allowance for loan losses.

The Bank identifies loans for potential restructure primarily through direct communication with the borrower and evaluation of the borrower's financial statements, revenue projections, tax returns, and credit reports. Even if the borrower is not presently in default, management will consider the likelihood that cash flow shortages, adverse economic conditions, and negative trends may result in a payment default in the near future. As of December 31, 2022 and 2021, the Company had no loans identified as TDRs. There were also no new loan modifications during the periods that were considered TDRs.

COVID-19 Loan Forbearance Programs

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

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

According to the Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised) issued by the federal bank regulatory agencies on April 7, 2020, short-term loan modifications not otherwise eligible under Section 4013 that are made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief are not TDRs. This includes short-term (e.g., six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant. As of December 31, 2022, the Company had no loans that remain on a CARES Act modification.

In addition, the risk-rating on COVID-19 modified loans did not change, and these loans will not be considered past due until after the deferral period is over and scheduled payments resume. The credit quality of these loans will be reevaluated after the deferral period ends.

7. PROPERTY, PLANT, AND EQUIPMENT

Year-end premises and equipment owned and utilized in the operations of the Company were as follows:

	December 31,	
(In Thousands)	**2022**	**2021**
Land	$ 689	$ 689
Buildings and improvements	4,170	4,190
Furniture, fixtures, and equipment	4,651	2,939
Leasehold Improvements	2,489	941
	11,999	8,759
Accumulated Depreciation	(5,256)	(3,470)
Total	$ 6,743	$ 5,289

Depreciation expense was $850 and $355 for 2022 and 2021, respectively.

8. LEASE COMMITMENTS

The following table presents information associated with our obligations under leases for the years ended December 31, 2022 and 2021:

	2022	2021
Weighted-average remaining term (years)	11.0	12.9
Weighted-average discount rate	5.1%	4.9%

Total lease expense recorded during the years ended December 31, 2022 and 2021 was $805 and $206, respectively. The Company leases its administration and operating facility and six offices under lease agreements with various expirations through 2039.

Certain of the Company's leases contain options to renew the lease after the initial term. Management considers the Company's historical pattern of exercising renewal options on leases and the positive performance of the leased locations, when determining whether it is reasonably certain that the leases will be renewed. If management concludes that there is reasonable certainty about the renewal option, it is included in the calculation of the remaining term of each applicable lease.

The following table presents the undiscounted cash flows due related to operating leases as of December 31, 2022:

(In Thousands)		Amount
2023	$	1,167
2024		1,179
2025		1,170
2026		1,205
2027 and thereafter		8,897
Total Undiscounted Cash Flows	$	13,618
Discount on Cash Flows		(3,399)
Total lease liabilities	**$**	**10,219**

9. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The change in goodwill during the years ended December 31, 2022 and 2021 is as follows:

		2022		2021
Beginning of year	$	35,842	$	2,333
Acquired Goodwill		—		33,509
Impairment		—		—
End of year	$	35,842	$	35,842

Impairment exists when a reporting unit's carrying value of goodwill exceeds its fair value. At December 31, 2022, the Company's reporting unit had positive equity and the Company elected to perform a qualitative assessment to determine if it was more likely than not that the fair value of the reporting unit exceeded its carrying value, including goodwill. The qualitative assessment indicated that it was more likely than not that the fair value of the reporting unit exceeded its carrying value, resulting in no impairment of goodwill.

Acquired Intangible Assets

Acquired intangible assets were as follows at year-end:

	2022				2021			
		Gross Carrying Amount		Accumulated Amortization		Gross Carrying Amount		Accumulated Amortization
Amortized intangible assets:								
Core deposit intangibles	$	1,566	$	787	$	1,566	$	589
Trade name intangibles		348		75		348		15
Total	$	1,914	$	862	$	1,914	$	604

Aggregate amortization expense for the years ended December 31, 2022 and 2021 was $258 and $125, respectively.

Expected aggregate annual amortization expense for the next five years assuming no new acquisitions or impairments is as follows:

(In Thousands)		
2023	$	233
2024		208
2025		181
2026		162
2027		129
2028 and thereafter		139
	$	1,052

10. DEPOSITS

Deposit accounts are summarized as follows:

	December 31, 2022			December 31, 2021		
(In Thousands)		**Amount**	**%**		**Amount**	**%**
Demand, noninterest-bearing	$	192,773	20.36%	$	129,243	16.75%
Demand, interest-bearing		254,478	26.88		256,258	33.21
Money market and savings		228,048	24.09		205,843	26.68
Time deposits, $250 and over		45,616	4.82		56,266	7.29
Time deposits, other		225,857	23.86		124,055	16.08
	$	**946,772**	**100.0%**	**$**	**771,665**	**100.0%**

The scheduled maturities of time deposits are as follows:

(In Thousands)		**December 31, 2022**
One year or less	$	206,176
More than one year to two years		51,327
More than two years to three years		7,879
More than three years to four years		3,952
More than four years to five years		1,100
More than five years		1,039
Total	**$**	**271,473**

Within time deposits other, there were $70,000 and $0 in brokered deposits outstanding at December 31, 2022 and 2021, respectively.

11. BORROWINGS AND SUBORDINATED DEBENTURES

Other borrowings and subordinated debt was as follows:

(in Thousands)		December 31, 2022		December 31, 2021
Subordinated Debt	$	40,484	$	20,696
Federal Reserve PPPLF		—		19,814
Short-term borrowings		20,938		—
Total	**$**	**61,422**	**$**	**40,510**

Subordinated Notes Sale - 2022

On April 8, 2022, LINKBANCORP entered into Subordinated Note Purchase Agreements (the "Agreements") with certain institutional accredited investors (the "Purchasers") and, pursuant to the Agreements, issued to the Purchasers $20,000 in aggregate principal amount of its 4.50% Fixed-to-Floating Rate Subordinated Notes due 2032 (the "Notes"). The investors included a related party entity that is controlled by a member of the Board of Directors of the Company, which purchased $7,000 in principal amount of the note. During the year ended December 31, 2022, the Company contributed $15,000 of the subordinated note proceeds to the Bank as equity capital, the impact of which can be seen within Note 17 Regulatory Capital Requirements later in this document.

The Notes, which mature on April 15, 2032, bear interest at a fixed annual rate of 4.50% for the period up to but excluding April 15, 2027 (the "Fixed Interest Rate Period"). From April 15, 2027 until maturity or redemption (the "Floating Interest Rate Period"), the interest rate will adjust to a floating rate equal to a benchmark rate, which is expected to be the then-current three-month Secured Overnight Financing Rate (SOFR), plus 203 basis points. The Company will pay interest in arrears semi-annually during the Fixed Interest Rate Period and quarterly during the Floating Interest Rate Period. The Notes constitute unsecured and subordinated obligations of the Company and rank junior in right of payment to any senior indebtedness and obligations to general and secured creditors. Subject to limited exceptions, the Company cannot redeem the Notes before the fifth anniversary of the issuance date.

The Notes are intended to qualify at the holding company level as Tier 2 capital under the capital guidelines of the Federal Reserve Board. The Agreements and Notes contain customary subordination provisions, representations and warranties, covenants, and events of default.

Subordinated Notes - Merger

As part of the Merger, the Company assumed $20.0 million of Fixed-to-Floating Rate Subordinated Notes. The notes (the "Merger Subordinated Notes") mature October 1, 2030 and will initially bear interest at a fixed rate of 5.0% until October 1, 2025. From October 1, 2025 to the stated maturity date or early redemption date, the interest rate will reset semi-annually to an annual floating rate equal to the then-current three-month term Secured Overnight Financing Rate (SOFR) plus a spread of 475 basis points, but no less than 5.0%. The Company may redeem the the Subordinated Notes, in whole or in part, on or after October 1, 2025, plus accrued and unpaid interest. The Merger Subordinated Notes are also redeemable in whole or in part upon the occurrence of specific events defined within the indenture.

The Merger Subordinated Notes may be included in Tier I capital (subject to certain limitations) under current regulatory guidelines and interpretations.

Short-Term Debt - FHLB Advances

At December 31, 2022, the Company had $20.9 million in short-term FHLB Advances outstanding. These advances are scheduled to mature in 2023. There were no short-term borrowings at December 31, 2021.

At December 31, 2022, the Company had remaining available capacity with FHLB, subject to certain collateral restrictions, of approximately $301.4 million.

Available Lines of Credit

The Bank has available unsecured lines of credit, with interest based on the daily Federal Funds rate, with four correspondent banks totaling $51,000 at December 31, 2022. There were no borrowings under these lines of credit at December 31, 2022 and 2021.

12. EMPLOYEE BENEFITS

Retirement Plan

The Company maintains a 401(k) Plan for its eligible employees. The Plan allows employee contributions from their compensation as defined in the 401(k) Plan, subject to Internal Revenue Code limitations. For the year ended December 31, 2021, the Company made a 3 percent non-elective contribution to all eligible participants as of the end of the plan year, based on W-2 wages for that period. The Company also made a discretionary contribution of 6 percent of W-2 wages for the year ended December 31, 2021. Effective January 1, 2021 until September 30, 2021, the Company made a non-elective contribution of 4 percent of W-2 wages to all participants. Effective October 1, 2021, the Company matches 50 percent of the first 6 percent of the employee's contribution, and this match is immediately vested. Matching contributions to the 401(k) Plan recognized in Compensation expense for the year ended December 31, 2022 and 2021, was $278 and $65, respectively.

Deferred Compensation Plans

The Company has a deferred compensation plan for the benefit of members of the Board of Directors and certain officers. The plan provides all directors and certain officers with the ability to defer receipt of some or all of their director fees or salary and bonuses. The deferrals, along with accumulated earnings, are payable at retirement. The Bank has purchased life insurance policies that are actuarially designed to offset the annual expenses associated with the deferred compensation and the supplemental executive retirement plan (“SERP”). The Bank is the sole owner and beneficiary of all policies. The Bank accrues the estimated annual costs of the deferred amounts that will be payable at retirement. At December 31, 2022 and 2021, the accumulated liability was approximately $1,216 and $1,240, respectively. For the years ended December 31, 2022 and 2021, the Company recognized deferred compensation cost in noninterest expense of $128 and $57. Benefit payments amounted to $121 and $119 for the years ended December 31, 2022 and 2021, respectively.

Supplemental Executive Retirement Plan

The Company maintains a SERP for certain executives. At December 31, 2022 and 2021, the accumulated liability was $1,650 and $953, respectively, and is included in other liabilities on the accompanying Consolidated Balance Sheets. The expense for the years ended December 31, 2022 and 2021, was $469 and $206, respectively.

13. INCOME TAXES

The provision for income taxes consists of:

	For the Year Ended December 31,	
(In Thousands)	**2022**	**2021**
Current tax expense (benefit)	$ 38	$ (265)
Deferred tax expense	1,184	76
Total	$ 1,222	$ (189)

The tax effects of deductible and taxable temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities, respectively, are as follows:

(In Thousands)	December 31, 2022	December 31, 2021
Deferred tax assets:		
Allowance for loan losses	$ 970	$ 706
Deferred compensation	602	295
Net fair value adjustment on acquired net assets	1,250	1,700
Net unrealized loss on debt securities	1,703	—
Net operating loss carryforwards	1,740	2,263
Other	379	8
Total deferred tax assets	$ 6,644	$ 4,972
Deferred tax liabilities:		
Premises and equipment	$ (1,025)	$ (350)
Net unrealized gain on debt securities	—	(491)
Mortgage servicing rights	—	(93)
Total deferred tax liabilities	(1,025)	(934)
Net deferred tax asset	**$ 5,619**	**$ 4,038**

The Company also has a $8,288 net operating loss carryforward at December 31, 2022 of which $450 will begin to expire in 2030. The remaining $7,838 of net operating loss carryforward does not expire. The Company had no valuation allowance against its deferred tax assets in view of the Company's ability to realize the net deferred tax assets against future anticipated taxable income.

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

	For the Year Ended December 31,			
	2022		2021	
(In Thousands)	Amount	% of Pretax Income	Amount	% of Pretax Income
Provision at statutory rate	$ 1,432	21.0 %	$ 21	21.0 %
Tax-exempt income on debt securities	(253)	(3.7)	(291)	(291.3)
Bank-owned life insurance	(104)	(1.5)	(53)	(53.0)
Non-deductible merger expenses	—	—	149	(149.2)
Other	147	2.1	(15)	(14.6)
Actual tax expense and effective rate	$ 1,222	17.9 %	$ (189)	(188.6) %

The Company recognized no adjustment for uncertain tax positions or unrecognized income tax benefits for the years ended December 31, 2022 and 2021. The Company's policy is to recognize interest and penalties on unrecognized tax benefits in the provision for income tax expense in the consolidated statements of operation. The Company did not recognize any interest and penalties for the years ended December 31, 2022 and 2021. With few exceptions, the Company is no longer subject to U.S. federal, state, or local income tax examinations by tax authorities for years before 2019.

14. FAIR VALUE MEASUREMENTS

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in an estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts The Company could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year-ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the fair value measurements accounting guidance (FASB ASC 820, *Fair Value Measurements*), the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The Company uses a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value guidance establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

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 are as follows:

Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level II: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.

Level III: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

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

The estimated fair values of the Company's financial instruments that are not required to be measured or reported at fair value are as follows:

	At December 31, 2022		At December 31, 2021	
(In Thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents (Level 1)	$ 30,011	$ 30,011	$ 22,590	$ 22,590
Certificates of deposit with other banks (Level 3)	5,623	5,590	12,828	12,828
Securities held to maturity (Level 2)	31,822	30,080	—	—
Loans (Level 3)	927,871	886,944	711,664	705,706
Accrued interest receivable (Level 1)	4,661	4,661	3,022	3,022
Restricted investments in bank stock (Level 1)	3,377	3,377	2,685	2,685
Cash surrender value of life insurance (Level 1)	19,244	19,244	18,787	18,787
Financial liabilities:				
Non-maturity deposits (Level 1)	675,299	675,299	591,344	591,344
Time Deposits (Level 3)	271,473	266,775	180,321	180,485
Other borrowings (Level 3)	20,938	20,938	19,814	19,819
Subordinated Notes (Level 3)	40,484	35,966	20,696	20,696
Accrued interest payable (Level 1)	797	797	103	103

The following tables present the assets reported on the Consolidated 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.

The Company's available-for-sale investment securities are reported at fair value. These securities are valued by an independent third party. The valuations are based on market data. They utilize evaluated pricing models that vary by asset and incorporate available trade, bid and other market information. For securities that do not trade on a daily basis, their evaluated pricing applications apply available information such as benchmarking and matrix pricing. The market inputs normally sought in the evaluation of securities include benchmark yields, reported trades, broker/dealer quotes (only obtained from market makers or broker/dealers recognized as market participants), issuer spreads, two-sided markets, benchmark securities, bid, offers and reference data. For certain securities additional inputs may be used or some market inputs may not be applicable. Inputs are prioritized differently on any given day based on market conditions.

	December 31, 2022			
(In Thousands)	Level I	Level II	Level III	Total
Assets:				
Small Business Administration loan pools	$ —	$ 843	$ —	$ 843
Obligations of state and political subdivisions	—	40,169	—	40,169
Mortgage backed securities in government-sponsored entities	—	37,801	—	37,801
Total	**$ —**	**$ 78,813**	**$ —**	**$ 78,813**

	December 31, 2021			
(In Thousands)	Level I	Level II	Level III	Total
Assets:				
Small Business Administration loan pools	$ —	$ 1,084	$ —	$ 1,084
Obligations of state and political subdivisions	—	48,482	—	48,482
Mortgage backed securities in government-sponsored entities	—	54,217	—	54,217
Total	**$ —**	**$ 103,783**	**$ —**	**$ 103,783**

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used as of December 31, 2022 and 2021are presented in the table below.

	December 31, 2022							
(In Thousands)	Level I		Level II		Level III		Total	
Impaired loans	$	—	$	—	$	7,313	$	7,313

	December 31, 2021							
(In Thousands)	Level I		Level II		Level III		Total	
Impaired loans	$	—	$	—	$	751	$	751
Loans Held for Sale	$	—	$	—	$	3,860	$	3,860

The following tables provide information describing the valuation processes used to determine nonrecurring fair value measurements categorized within Level III of the fair value hierarchy:

	December 31, 2022					
	Quantitative Information About Level III Fair Value Measurements					
(In Thousands)	Fair Value		Valuation Techniques		Unobservable Input	Range (Weighted Average)
Impaired loans	$	7,313	Appraisal of collateral	*(1)*	Liquidation expenses	10%

	December 31, 2021					
	Quantitative Information About Level III Fair Value Measurements					
(In Thousands)	Fair Value		Valuation Techniques		Unobservable Input	Range (Weighted Average)
Impaired loans	$	751	Appraisal of collateral	*(1)*	Liquidation expenses	10%
Loans Held for Sale	$	3,860	Appraisal of collateral	*(1)*	Liquidation of collateral	15%

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

Appraisals may be adjusted by management for qualitative factors, such as economic conditions, aging, and/or estimated liquidation expenses incurred when selling the collateral. The range and weighted average of appraisal adjustments and liquidation expenses are presented as a percentage of the appraisal.

15. RELATED PARTY TRANSACTIONS

Loans to principal officers, directors, and their affiliates during 2022 and 2021 were as follows:

	2022		2021	
Beginning balance	$	6,376	$	325
New loans		407		1,305
Effect of changes in composition of related parties		(4,654)		4,774
Net repayments in existing accounts		(276)		(28)
Ending balance	$	1,853	$	6,376

Deposits from principal officers, directors, and their affiliates as of December 31, 2022 and 2021 were $65,326 and $34,211, respectively.

Two companies owned by a Director of the Company invested in the subordinated debentures issued by the Company. Refer to Note 11 for further information.

16. STOCK-BASED COMPENSATION

As a result of the Merger, the Company assumed the LINKBANCORP, Inc. 2019 Equity Incentive Plan (the "2019 Plan"). The 2019 Plan authorizes the issuance or delivery to participants of up to 450,000 shares of LINKBANCORP common stock pursuant to grants of incentive and non-statutory stock options. The Plan is administered by the members of LINKBANCORP's Compensation Committee (the "Committee"). Unless the Committee specifies a different vesting schedule, awards under the Plan shall be granted with a vesting rate of 20 percent per year. Vesting may be accelerated under certain conditions or at the discretion of the Committee at any time. Employees and directors of LINKBANCORP or its subsidiaries are eligible to receive awards under the plan, except that nonemployees may not be granted incentive stock options. Stock options are either "incentive" stock options or "nonqualified" stock options. Incentive stock options have certain tax advantages and must comply with the requirements of Section 422 of the Internal Revenue Code. The 2019 Plan was frozen such that no new awards would be granted under the 2019 Plan following receipt of shareholder approval of the LINKBANCORP, Inc. 2022 Equity Incentive Plan described within this footnote.

On May 26, 2022, the Company's shareholders approved the LINKBANCORP, Inc. 2022 Equity Incentive Plan (the "2022 Plan"). The 2022 Plan authorizes the issuance or delivery to participants of up to 475,000 shares of the Company's common stock pursuant to grants of restricted stock, restricted stock units, stock options, and non-qualified stock options. The 2022 Plan is administered by the members of LINKBANCORP's Compensation Committee (the "Committee"). At least 95% of the awards under the 2022 Plan will vest no earlier than one year after the grant date.

The table below provides details of the Company's stock options at December 31, 2022.

	Number of Stock Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term in Years	Aggregate Intrinsic Value (in '000s)
Outstanding, December 31, 2021	421,500	$ 10.46	7.9	$ 780
Granted	94,500	9.00	9.3	33
Expired/terminated	(14,000)	11.00	8.1	
Exercised	(12,000)	10.00	—	
Outstanding, December 31, 2022	490,000	$ 10.11	7.1	$ 33
Exercisable at period end	208,700	$ 10.15	6.5	$ —

The exercise prices for options outstanding as of December 31, 2022 ranged from $9.00 to $14.50.

The Company determined the expected life of the stock options using a simplified method approach allowed for plain-vanilla share options. The risk-free interest rate is based on the U.S. treasury yield curve in effect as of the grant date. Expected volatility was determined using the calculated value method of an option pricing model that substitutes the historical volatility of an appropriate industry/sector index for the expected volatility.

	December 31, 2022	December 31, 2021
Weighted average fair value of options granted	$ 2.37	$ 1.13
Dividend yield	3.70%	0.00%
Expected volatility	34.20%	4.36%
Risk-free interest rate	3.81%	0.08%
Expected life (in years)	6.2	7.0
Assumed forfeiture rate	8.00%	8.00%

Additional information related to the stock option plan during each year follows:

	December 31, 2022	December 31, 2021
Stock-based compensation expense recognized	$ 80	$ 25
Number of unvested stock options	281,300	276,300
Fair value of unvested stock options	$ 393	$ 210
Amount remaining to be recognized as expense	$ 291	$ 218

The remaining amount of $291 will be recognized ratably as expense through December 31, 2027.

17. REGULATORY CAPITAL REQUIREMENTS

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

The Bank and Company are subject to regulatory capital requirements administered by banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings, and other factors and the regulators can lower classifications in certain cases. Failure to meet various capital requirements can initiate regulatory action that could have a direct material effect on the financial statements. As of December 31, 2022, the Bank has met all capital adequacy requirements to which it is subject.

The prompt corrective action regulations provide five classifications, including well capitalized, adequately capitalized, under-capitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If an institution is adequately capitalized, regulatory approval is required before the institution may accept brokered deposits. If an institution is undercapitalized, capital distributions are limited, as is asset growth and expansion, and plans for capital restoration are required.

The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of Common Equity Tier 1 capital to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face limitations on dividends, stock repurchases and certain discretionary bonus payments to management based on the amount of the shortfall. Under Basel III rules, banks must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The required capital conservation buffer is 2.50%.

The following tables present actual and required capital ratios as of December 31, 2022 and 2021 under the Basel III Capital Rules. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations:

	December 31, 2022		December 31, 2021	
(In Thousands)	Amount	Ratio	Amount	Ratio
Total capital				
(to risk-weighted assets)				
Actual	$ 125,632	12.89%	$ 81,355	11.50%
For capital adequacy purposes	77,953	8.00	56,578	8.00
To be well capitalized	97,441	10.00	70,722	10.00
Tier 1 capital				
(to risk-weighted assets)				
Actual	$ 120,912	12.41%	$ 77,904	11.02%
For capital adequacy purposes	58,465	6.00	42,433	6.00
To be well capitalized	77,953	8.00	56,578	8.00
Common equity				
(to risk-weighted assets)				
Actual	$ 120,912	12.41%	$ 77,904	11.02%
For capital adequacy purposes	43,848	4.50	31,825	4.50
To be well capitalized	63,337	6.50	45,969	6.50
Tier 1 capital				
(to average assets)				
Actual	$ 120,912	10.93%	$ 77,904	8.85%
For capital adequacy purposes	44,248	4.00	35,230	4.00
To be well capitalized	55,311	5.00	44,038	5.00

The federal banking agencies, including the FDIC, issued a rule pursuant to The Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 to establish for institutions with assets of less than $10 billion a "community bank leverage ratio" (the ratio of a bank's tier 1 capital to average total consolidated assets) of 9% that qualifying institutions may elect to use in lieu of the generally applicable leverage and risk-based capital requirements under Basel III. Pursuant to the CARES Act, the federal banking agencies issued a final rule in August 2020 to lower the community bank leverage ratio to 8% beginning in the second calendar quarter of 2020 through the end of 2020. In 2021, the community bank leverage ratio increased to 8.5% for the calendar year. The community bank leverage ratio requirement returned to 9% effective January 1, 2022. If an election to use the community bank leverage ratio capital framework is made, a qualifying bank with less than $10 billion in assets with capital exceeding the specified community bank leverage ratio is considered compliant with all applicable regulatory capital and leverage requirements, including the requirement to be "well capitalized." As of December 31, 2022, the Bank had not elected to be subject to the alternative framework.

Federal and state banking regulations place certain restrictions on dividends paid by the Bank. The Pennsylvania Banking Code provides that cash dividends may be declared and paid out of accumulated net earnings. In addition, dividends paid by the Bank would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements. Loans or advances by the Bank to the Company are limited to 10 percent of the Bank's capital stock and surplus and must have collateral securing the loans or advances.

18. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Company 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. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making and monitoring commitments and conditional obligations as it does for on-balance sheet instruments. At both December 31, 2022 and 2021, the Company has a reserve related to credit losses for off-balance sheet instruments totaling $54, which is included in other liabilities.

At December 31, 2022 and 2021, the following financial instruments were outstanding whose contract amounts represent credit risk:

(In Thousands)	**December 31, 2022**	**December 31, 2021**
Unfunded commitments under lines of credit:		
Home equity loans	$ 43,798	$ 17,774
Commercial real estate, construction, and land development	62,146	20,609
Commercial and industrial	125,205	100,440
Other	—	6,244
Total	**$ 231,149**	**$ 145,067**

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory, and equipment.

19. EARNINGS PER SHARE

The following table sets forth the composition of earnings per share:

(In Thousands, except share and per share data)	**Year Ended December 31, 2022**	**2021**
Net income (loss)	$ 5,598	$ 289
Basic weighted average common shares outstanding	11,310,386	6,879,658
Net effect of dilutive stock options and warrants	—	370,805
Diluted weighted average common shares outstanding	11,310,386	7,250,463
Net income (loss) per common share:		
Basic	$ 0.49	$ 0.04
Diluted	$ 0.49	$ 0.04

The following is a summary of securities that could potentially dilute basic earnings per common share in future periods that were included in the computation of diluted earnings per common share for the years ended December 31, 2022 and 2021.

	Year Ended December 31,	
	2022	2021
Share-based compensation awards	—	161,100
Warrants	—	1,537,484
Total dilutive securities	—	**1,698,584**

The following is a summary of securities that could potentially dilute basic earnings per share in future periods that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive for the periods presented.

	Year Ended December 31,	
	2022	2021
Share-based compensation awards	195,700	—
Warrants	1,537,484	—
Total anti-dilutive securities	**1,733,184**	—

20. CONCENTRATION OF CREDIT RISK

The Company grants commercial, residential and consumer loans to customers primarily located in the South Central and Greater Delaware Valley of Pennsylvania. The concentration of credit by type of collateral is set forth in Note 5. The debtors' ability to honor their contracts is influenced by the region's economy.

There are numerous risks associated with commercial loans that could impact the borrower's ability to repay on a timely basis. They include but are not limited to, the owner's business expertise, changes in local economies, competition, government regulation, and the general financial stability of the borrowing entity.

The Company attempts to mitigate these risks by making an analysis of the borrower's business and industry history, its financial position, as well as that of the business owner. The Company will also require the borrower to provide financial information on the operations of the business periodically over the life of the loan. In addition, most commercial loans are secured by assets of the business or those of the business owner, which can be liquidated if the borrower defaults, along with the personal surety of the business owner.

From time to time, the Company will maintain balances with its correspondent banks that exceed the $250,000 federally insured deposit limits. Management routinely evaluates the credit worthiness of these correspondent banks and does not feel they pose significant risk to the Company.

21. **REVENUE RECOGNITION**

All of the Company's revenue within the scope of Accounting Standards Codification (ASC) 606 is recognized within Non-Interest Income on the Consolidated Statements of Operations. ASC 606 is applicable to certain non-interest income streams, which are discussed below.

Service Charges and Activity Fees on Deposits

Service charges on deposit accounts consist of monthly ATM Income, Wire Transfer Fees, Non-Sufficient Funds Charges, and other deposit related fees. The Company's performance obligation for monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transactional based, and, therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts. The Company's performance obligation for wire transfers and returned deposit fees, are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month.

Fees on loan related activity

Fees from loan related activity is comprised mostly of upfront fees recognized on Assumable Rate Conversion Agreements, where Bank originates a floating rate loan. The borrower concurrently signs an addendum to the promissory note with a third party permitting the borrower to pay a fixed rate of interest. The Bank through a master servicing agreement services the Assumable Rate Conversion between the third party and borrower.

Other

Other fees are primarily comprised of Remote/Mobile Deposit Fees and other service charges. Other noninterest income consists primarily of other nonrecurring revenue which is not recorded in the categories listed above. This revenue is miscellaneous in nature and is recognized as income upon receipt.

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the years ended December 31, 2022 and 2021.

	For the Year Ended December 31,	
	2022	2021
Non-interest income in-scope of Topic 606		
Service charges and activity fees on deposits	$ 995	$ 733
Fees on loan related activity	191	227
Other	488	367
Non-interest income (in-scope of Topic 606)	1,674	1,327
Non-interest income (out-of-scope of Topic 606)	1,283	812
Total non-interest income	$ 2,957	$ 2,139

22. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

Condensed financial information of LINKBANCORP follows:

Balance Sheets

	December 31,	
(In thousands)	2022	2021
ASSETS		
Noninterest-bearing cash equivalents	$ 15,486	$ 276
Securities available for sale, at fair value	—	517
Investment in subsidiaries	162,029	129,181
Other Assets	1,712	365
TOTAL ASSETS	**$ 179,227**	**$ 130,339**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Subordinated debt	$ 40,484	$ 20,696
Other liabilities	190	20
Shareholders' equity	138,553	109,623
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 179,227**	**$ 130,339**

Condensed Statements of Operations and Comprehensive Income

	Years Ended December 31,	
(in thousands)	2022	2021
Income:		
Interest income	$ 11	$ 18
Dividend income from subsidiaries	—	724
Expenses:		
Interest expense	1,501	249
Other noninterest expenses	564	794
Income before income tax	(2,054)	(301)
Income tax benefit	(407)	(199)
	(1,647)	(102)
Equity in undistributed subsidiary income	7,245	391
Net income	**$ 5,598**	**$ 289**
Comprehensive Loss	**$ (2,585)**	**$ (1,125)**

Condensed Statements of Cash Flows

	Years Ended December 31,	
	2022	2021
(in thousands)		
OPERATING ACTIVITIES		
Net income	$ 5,598	$ 289
Adjustments:		
Undistributed earnings of subsidiaries	(7,245)	(391)
Amortization of premiums and discounts	(212)	—
Other, net	(1,171)	(72)
Net cash used in operating activities	**(3,030)**	**(174)**
INVESTING ACTIVITIES		
Net cash acquired through merger and acquisition	—	3,080
Investments in subsidiaries	(35,000)	(1,300)
Cash dividends from subsidiaries	1,300	—
Sales of securities	504	—
Net cash (used in) provided by investing activities	**(33,196)**	**1,780**
FINANCING ACTIVITIES		
Proceeds from issuance of common stock, net	34,650	—
Proceeds from issuance of subordinated notes	20,000	—
Issuance of shares from exercise of stock options	120	120
Dividends paid	(3,334)	(1,462)
Net cash provided by (used in) financing activities	**51,436**	**(1,342)**
Increase in cash and cash equivalents	15,210	264
Cash and cash equivalents at the beginning of the period	276	12
Cash and cash equivalents at the end of the period	**$ 15,486**	**$ 276**

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of disclosure controls and procedures.

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its reports filed or submitted pursuant to the Securities Exchange Act of 1934, as amended ("Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that information required to be disclosed by the Company in its Exchange Act reports is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of its management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e) and 15d-15(e) as of December 31, 2022. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of such date.

Management's report on internal control over financial reporting.

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) of the Exchange Act. The Company's internal control system is a process designed to provide reasonable assurance to the Company's management, Board of Directors and shareholders regarding the reliability of financial reporting and the preparation and fair presentation of financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on our financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. 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.

As part of the Company's program to comply with Section 404 of the Sarbanes-Oxley Act of 2002, our management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2022 (the "Assessment"). In making this Assessment, management used the control criteria framework of the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission published in its report entitled Internal Control - Integrated Framework (2013). Management's Assessment included an evaluation of the design of the Company's internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Management reviewed the results of its Assessment with the Audit Committee.

Based on this Assessment, management determined that, as of December 31, 2022, the Company's internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

There has been no change in the Company's internal control over financial reporting during the quarter ended December 31, 2022, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

This Annual Report does not include an attestation report of the independent registered public accounting firm because LINKBANCORP, Inc. is an emerging growth company.

Item 9B. Other Information.

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.

Not applicable

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information regarding Directors, Executive Officers and Corporate Governance will be set forth in the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 25, 2023 and is incorporated herein by reference thereto.

Item 11. Executive Compensation.

The information regarding Executive Compensation will be set forth in the Registrant's Proxy Statement for the Annual Meeting of Shareholders to be held on May 25, 2023 and is incorporated herein by reference thereto.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information regarding Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters will be set forth in the Registrant's Proxy Statement for the Annual Meeting of Shareholders to be held on May 25, 2023 and is incorporated herein by reference thereto.

The following table provides information with respect to the equity securities that are authorized for issuance under the Company's equity compensation plans as of December 31, 2022.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants, and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders			
2019 Equity Incentive Plan	395,500	$ 10.46	-
2022 Equity Incentive Plan	94,500	$ 9.00	380,500
Equity compensation plans not approved by security holders	-	$ -	-
Total	490,000	$ 10.11	380,500

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information regarding Certain Relationships and Related Transactions, and Director Independence will be set forth in the Registrant's Proxy Statement for the Annual Meeting of Shareholders to be held on May 25, 2023 and is incorporated herein by reference thereto.

Item 14. Principal Accounting Fees and Services.

The information regarding the Company's independent registered public accounting firm's fees and services will be set forth in the Registrant's Proxy Statement for the Annual Meeting of Shareholders to be held on May 25, 2023 and is incorporated herein by reference thereto.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) (1) Financial Statements

The following documents are filed as part of this Annual Report on Form 10-K

(A) Report of Independent Registered Public Accounting Firm

(B) Consolidated Balance Sheets at December 31, 2022 and 2021

(C) Consolidated Statements of Operations for the years ended December 31, 2022 and 2021

(D) Consolidated Statements of Comprehensive Income for the years ended December 31, 2022 and 2021

(E) Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2022 and 2021

(F) Consolidated Statements of Cash Flows for the years ended December 31, 2022 and 2021

(G) Notes to the Consolidated Financial Statements

(a) (2) Financial Statement Schedules

None.

(a) (3)

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated February 22, 2023, by and between LINKBANCORP, Inc. and Partners Bancorp., incorporated by reference to Exhibit 2.1 to Form 8-K, filed February 22, 2023
3.1	Articles of Incorporation, as amended, incorporated by reference to Exhibit 3.1 to Form S-4 Registration Statement, filed May 7, 2021
3.2	Amended and Restated Bylaws, incorporated by reference to Exhibit 3.2 to Form S-4 Registration Statement, filed May 7, 2021
4.1	Specimen stock certificate, incorporated by reference to Exhibit 4.1 to Form S-4 Registration Statement, filed May 6, 2021
4.2.	LINKBANCORP, inc. 5.00% Fixed to Floating Rate Subordinated Note Due October 1, 2030, incorporated by reference to Exhibit 4.2 to Form S-4 Registration Statement, filed May 7, 2021
4.3	Form of Warrant, incorporated by reference to Exhibit 4.3 to Form S-4 Registration Statement, filed May 7, 2021
4.4	Form of 4.50% Fixed to Floating Rate Subordinated Note due 2032 of LINKBANCORP, Inc., incorporated by reference to Exhibit 4.1 to Form 8-K, filed on April 11, 2022
4.5	Description of Common Stock
10.1*	LINKBANCORP 2019 Equity Incentive Plan, incorporated by reference to Exhibit 10.7 to Form S-4 Registration Statement, filed May 7, 2021
10.2*	Form of Incentive Stock Option (ISO) Agreement, incorporated by reference to Exhibit 10.8 to Form S-4 Registration Statement, filed May 7, 2021
10.3*	Form of Non-Qualified Stock Option Agreement, incorporated by reference to Exhibit 10.9 to Form S-4 Registration Statement, filed May 7, 2021

10.4*	Form of Amendment to the Executive Employment Agreement, incorporated by reference to Exhibit 10.1 to Form 8-K, filed on February 22, 2023
10.5*	Form of Waiver of Accelerated Vesting Upon Change in Control, incorporated by reference to Exhibit 10.2 to Form 8-K, filed on February 22, 2023
10.6*	Amendment to the Supplemental Retirement Plan Agreement for Andrew Samuel, incorporated by reference to Exhibit 10.3 to Form 8-K, filed on February 22, 2023
10.7*	LINKBANK Split Dollar Life Insurance Plan, dated January 24, 2019, incorporated by reference to Exhibit 10.13 to Form S-4 Registration Statement, filed May 7, 2021
10.8*	[Reserved]
10.9*	Employment Agreement between LINKBANCORP, Inc., The Gratz Bank and Andrew S. Samuel dated October 28, 2021, incorporated by reference to Exhibit 10.1 to Form 8-K filed November 3, 2021
10.10*	Employment Agreement between LINKBANCORP, Inc., The Gratz Bank and Carl Lundblad dated October 28, 2021, incorporated by reference to Exhibit 10.2 to Form 8-K filed November 3, 2021
10.11*	Employment Agreement between LINKBANCORP, Inc., The Gratz Bank and Brent Smith dated October 28, 2021, incorporated by reference to Exhibit 10.3 to Form 8-K filed November 3, 2021
10.12*	Change in Control Agreement between LINKBANCORP, Inc., The Gratz Bank and Kristofer Paul dated October 28, 2021, incorporated by reference to Exhibit 10.4 to Form 8-K filed November 3, 2021
10.13*	Supplemental Executive Retirement Plan Agreement between The Gratz Bank and Andrew S. Samuel dated October 28, 2021, incorporated by reference to Exhibit 10.5 to Form 8-K filed November 3, 2021
10.14*	Deferred Compensation Agreement between The Gratz Bank and Carl Lundblad dated October 28, 2021, incorporated by reference to Exhibit 10.6 to Form 8-K filed November 3, 2021
10.15*	Deferred Compensation Agreement between The Gratz Bank and Kristofer Paul dated October 28, 2021, incorporated by reference to Exhibit 10.7 to Form 8-K filed November 3, 2021
10.16*	Deferred Compensation Agreement between The Gratz Bank and Brent Smith dated October 28, 2021, incorporated by reference to Exhibit 10.8 to Form 8-K filed November 3, 2021
10.17*	LINKBANCORP, Inc. Executive Incentive Plan, incorporated by reference to Exhibit 10.1 to Form 8-K filed February 1, 2022
10.18*	Supplemental Executive Retirement Plan Agreement with Wesley M. Weymers, incorporated by reference to Exhibit 10.18 to Form 10-K filed March 31, 2022
10.19*	Director Deferred Compensation Agreement with Wesley M. Weymers, incorporated by reference to Exhibit 10.19 to Form 10-K filed March 31, 2022
10.20*	Director Deferred Compensation Agreement with David H. Koppenhaver, incorporated by reference to Exhibit 10.20 to Form 10-K filed March 31, 2022
10.21*	Director Deferred Compensation Agreement with Timothy J. Allison, incorporated by reference to Exhibit 10.21 to Form 10-K, filed March 31, 2022
10.22*	Executive Deferred Compensation Agreement with Timothy J. Allison, incorporated by reference to Exhibit 10.22 to Form 10-K, filed March 31, 2022
10.23*	Director Deferred Compensation Agreement with Joseph Michetti, Jr., incorporated by reference to Exhibit 10.23 to Form 10-K filed March 31, 2022

10.24*	Retirement Separation Agreement for Wesley M. Weymers, incorporated by reference to Exhibit 10.1 to Form 8-K filed February 22, 2023
10.25	Form of Subordinated Note Purchase Agreement, dated April 8, 2022, by and between LINKBANCORP, Inc. and the several Purchasers, incorporated by reference to Exhibit 10.1 to Form 8-K filed April, 11, 2022
10.26*	LINKBANCORP, Inc. 2022 Equity Incentive Plan, incorporated by reference to Exhibit 10.1 to Form 8-K filed June 2, 2022
10.27*	LINKBANCORP, Inc. 2022 Employee Stock Purchase Plan, incorporated by reference to Exhibit 10.2 to Form 8-K filed June 2, 2022
14.1	Code of Ethics for Senior Officers
16.1	Letter of Hacker, Johnson & Smith PA, incorporated by reference to Exhibit 16.1 to Form 8-K filed March 31, 2022
16.2	Letter of S.R. Snodgrass P.C., incorporated by reference to Exhibit 16.2 to Form 8-K filed March 31, 2022
21.1	Subsidiaries of LINKBANCORP, Inc.
23.1	Consent of Snodgrass P.C.
31.1	Certification of Principal Executive Officer as required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Principal Financial Officer as required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32	Section 1350 Certification
101 INS**	The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document
101 SCH**	Inline XBRL Taxonomy Extension Schema Document
101 CAL**	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101 DEF**	Inline XBRL Taxonomy Extension Definition Linkbase Document
101 LAB**	Inline XBRL Taxonomy Extension Label Linkbase Document
101 PRE**	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File - the cover page interactive data file does not appear in the interactive date file because its XBRL tags are embedded with the inline XBRL document.

* Indicates a management or compensatory plan.

** Attached as Exhibit 101 to this report are the following formatted in Inline XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Condition as of December 31, 2022 and December 31, 2021; (ii) Consolidated Statements of Income for the years ended December 31, 2022 and 2021; (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2022 and 2021; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2022 and 2021; (v) Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2022 and 2021; and (vi) Notes to Unaudited Consolidated Financial Statements.

Item 16. Form 10-K Summary

None.

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, on March 30, 2023.

LINKBANCORP, INC.

By: /s/ Andrew Samuel
Andrew Samuel
Chief Executive Officer

Pursuant to the requirements of Section 13 or 15(d) of the Securities 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.

Signature	**Title**	**Date**
/s/ Andrew Samuel Andrew Samuel	Chief Executive Officer (Principal Executive Officer) and Director	March 30, 2023
/s/ Kristofer Paul Kristofer Paul	Chief Financial Officer (Principal Financial Officer) (Principal Accounting Officer)	March 30, 2023
/s/ Jennifer Delaye Jennifer Delaye	Director	March 30, 2023
/s/ Anson Flake Anson Flake	Director	March 30, 2023
/s/ George Parmer George Parmer	Director	March 30, 2023
/s/ Debra Pierson Debra Pierson	Director	March 30, 2023
/s/ Diane Poillon Diane Poillon	Director	March 30, 2023
/s/ William Pommerening William Pommerening	Director	March 30, 2023
/s/ Brent Smith Brent Smith	Executive Vice President and Director	March 30, 2023
/s/ Joseph C. Michetti, Jr. Joseph C. Michetti, Jr.	Chairman and Director	March 30, 2023
/s/ Timothy Allison Timothy Allison	Director	March 30, 2023
/s/ Kristen Snyder Kristen Snyder	Director	March 30, 2023
/s/ David Koppenhaver David Koppenhaver	Director	March 30, 2023
/s/ Steven Tressler Steven Tressler	Director	March 30, 2023
/s/ William Jones William Jones	Director	March 30, 2023