BANK OF OCEAN CITY

Ocean City, Maryland

FINANCIAL STATEMENTS

December 31, 2023

C O N T E N T S

Independent Auditor's Report

The Board of Directors and Stockholders
Bank of Ocean City
Ocean City, Maryland

Opinion
We have audited the financial statements of Bank of Ocean City, which comprise the balance sheets as of December 31, 2023 and 2022, the related statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Emphasis of Matter
As discussed in Note 1 to the financial statements, the Bank has changed its method of accounting for credit losses in 2023 due to the adoption of Accounting Standards Update 2016-13, *Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments.* Our opinion is not modified with respect to this matter.

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

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

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

In performing an audit in accordance with GAAS, we:

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

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

Yount, Hyde & Barbour, P.C.

Richmond, Virginia
March 20, 2024

BANK OF OCEAN CITY

Balance Sheets
December 31, 2023 and 2022

Assets

	2023	2022
Cash and due from banks	$ 3,892,946	$ 9,634,073
Interest-bearing deposits	4,080,188	2,564,369
Federal funds sold	1,098,114	4,201,176
Cash and cash equivalents	9,071,248	16,399,618
Certificates of deposit in other financial institutions	531,039	2,494,734
Restricted stock at cost	731,400	372,800
Investment securities available for sale, at fair value	13,009,102	14,355,512
Investment securities held to maturity, at amortized cost (approximate fair value of $154,659,368 and $199,349,921)	166,337,634	213,909,918
Loans, less allowance for credit losses of $2,759,830 and $2,590,632	409,778,692	352,034,705
Premises and equipment	9,484,815	8,961,972
Operating lease right-of-use asset	794,258	- -
Bank owned life insurance	7,427,519	7,222,615
Accrued interest receivable	1,990,232	1,852,969
Deferred income taxes	1,348,114	1,201,989
Prepaid income taxes	294,776	- -
Other assets	1,128,625	1,029,236
	$ 621,927,454	$ 619,836,068

Liabilities and Stockholders' Equity

	2023	2022
Liabilities		
Deposits		
Noninterest-bearing	$ 189,197,357	$ 201,580,105
Interest-bearing	364,747,393	362,166,630
Total deposits	553,944,750	563,746,735
Accrued interest payable	398,223	66,967
Dividend payable	613,780	580,603
Deferred compensation payable	420,842	477,910
Income taxes payable	- -	45,121
Operating lease liability	808,545	- -
Federal Home Loan Bank advances	5,000,000	- -
Other liabilities	537,241	393,376
	561,723,381	565,310,712
Stockholders' equity		
Common stock, par value $1 per share; authorized 2,000,000 shares; issued and outstanding 1,658,865 shares	1,658,865	1,658,865
Surplus	8,383,845	8,383,845
Undivided profits	52,282,191	46,518,610
Accumulated other comprehensive loss	(2,120,828)	(2,035,964)
	60,204,073	54,525,356
	$ 621,927,454	$ 619,836,068

See Notes to Financial Statements.

BANK OF OCEAN CITY

Statements of Income

For the Years Ended December 31, 2023 and 2022

	2023	2022
Interest and dividend revenue		
Loans, including fees	$ 19,177,288	$ 15,445,894
U.S. government agency securities	1,267,557	1,235,601
U.S. Treasury securities	1,138,266	994,454
State and municipal securities	201,174	195,708
Federal funds sold and interest-bearing deposits	763,017	917,004
Mortgage-backed securities	776,702	811,431
Equity securities	36,058	12,447
Total interest and dividend revenue	23,360,062	19,612,539
Interest expense		
Deposits	6,064,363	1,922,486
Borrowed funds	294,555	5,816
Total interest expense	6,358,918	1,928,302
Net interest income	17,001,144	17,684,237
Provision for credit losses	349,700	169,950
Net interest income after provision for credit losses	16,651,444	17,514,287
Noninterest revenue		
Service charges on deposit accounts	503,864	406,532
Card services	415,567	447,141
Gain on disposition of premises and equipment	- -	42,648
Other revenue	278,274	402,867
Total noninterest revenue	1,197,705	1,299,188
Noninterest expenses		
Salaries	3,980,284	3,453,584
Employee benefits	1,011,373	899,855
Occupancy	606,624	478,093
Furniture and equipment	208,105	191,385
Data processing	1,103,000	1,060,083
Other operating	2,218,243	1,824,766
Total noninterest expenses	9,127,629	7,907,766
Income before income taxes	8,721,520	10,905,709
Income taxes	2,062,152	2,700,432
Net income	$ 6,659,368	$ 8,205,277
Earnings per common share	$ 4.01	$ 4.95

See Notes to Financial Statements.

BANK OF OCEAN CITY

Statements of Comprehensive Income

For the Years Ended December 31, 2023 and 2022

	2023	2022
Net income	$ 6,659,368	$ 8,205,277
Other comprehensive loss		
Unrealized loss on investment securities available for sale	(117,082)	(2,235,650)
Income tax relating to unrealized loss on investment securities available for sale	32,218	615,195
Other comprehensive loss	(84,864)	(1,620,455)
Total comprehensive income	$ 6,574,504	$ 6,584,822

See Notes to Financial Statements.

BANK OF OCEAN CITY

Statements of Changes in Stockholders' Equity
Years Ended December 31, 2023 and 2022

	Common Stock Shares	Common Stock Par Value	Surplus	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, December 31, 2021	552,955	$ 552,955	$ 9,489,755	$ 39,126,177	$ (415,509)	$ 48,753,378
Net income	--	--	--	8,205,277	--	8,205,277
Stock split - 3 for 1	1,105,910	1,105,910	(1,105,910)	--	--	--
Unrealized loss on investment securities available for sale, net of income taxes of $615,195	--	--	--	--	(1,620,455)	(1,620,455)
Cash dividends, $0.49 per share	--	--	--	(812,844)	--	(812,844)
Balance, December 31, 2022	1,658,865	1,658,865	8,383,845	46,518,610	(2,035,964)	54,525,356
Net income	--	--	--	6,659,368	--	6,659,368
Unrealized loss on investment securities available for sale, net of income taxes of $32,218	--	--	--	--	(84,864)	(84,864)
Cash dividends, $0.54 per share	--	--	--	(895,787)	--	(895,787)
Balance, December 31, 2023	1,658,865	1,658,865	8,383,845	52,282,191	(2,120,828)	60,204,073

See Notes to Financial Statements.

BANK OF OCEAN CITY

Statements of Cash Flows

For the Years Ended December 31, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities		
Interest received	$ 23,040,164	$ 18,408,318
Fees and commissions received	992,801	1,073,126
Interest paid	(6,027,662)	(1,897,845)
Cash paid to suppliers and employees	(8,757,928)	(7,676,294)
Income taxes paid	(2,515,956)	(2,644,218)
Cash provided by operating activities	6,731,419	7,263,087
Cash Flows from Investing Activities		
Redemptions of certificates of deposit, net	1,963,695	732,893
Proceeds from matured investment securities held to maturity	82,199,610	47,957,779
Proceeds from matured investment securities available for sale	1,199,761	1,765,780
Purchase of investment securities held to maturity	(34,415,124)	(159,159,000)
(Purchase) Redemptions of restricted stock, net	(358,600)	(65,500)
Loans made, net of principal repayments	(58,093,687)	(51,910,081)
Purchases of premises, equipment, and software	(890,849)	(637,365)
Cash used by investing activities	(8,395,194)	(161,315,494)
Cash Flows from Financing Activities		
Net increase (decrease) in :		
Time deposits	63,542,058	434,607
Other deposits	(73,344,043)	(11,929,292)
FHLB advances	5,000,000	- -
Dividends paid	(862,610)	(763,078)
Cash (used in) financing activities	(5,664,595)	(12,257,763)
Net (decrease) in cash and cash equivalents	(7,328,370)	(166,310,170)
Cash and cash equivalents at beginning of year	16,399,618	182,709,788
Cash and cash equivalents at end of year	$ 9,071,248	$ 16,399,618

See Notes to Financial Statements.

BANK OF OCEAN CITY

Statements of Cash Flows (Continued)

For the Years Ended December 31, 2023 and 2022

	2023	2022
Reconciliation of Net Income to Net Cash Provided by Operating Activities		
Net income	$ 6,659,368	$ 8,205,277
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Amortization (accretion) of investment premiums and discounts, net	(182,635)	(19,292)
Provision for credit losses	349,700	169,950
Depreciation and amortization	368,006	306,680
Gain on disposal of premises and equipment	- -	(42,648)
Non-cash lease expense	14,287	- -
Deferred income taxes	(113,907)	11,093
Decrease (increase) in		
Accrued interest receivable	(137,263)	(697,635)
Other assets and prepaid income taxes	(394,165)	56,896
Bank owned life insurance	(204,904)	(183,414)
Increase (decrease) in		
Accrued interest payable	331,256	30,457
Income taxes payable	(45,121)	45,121
Deferred fees	- -	(487,294)
Other liabilities and deferred compensation payable	86,797	(132,104)
Cash provided by operating activities	$ 6,731,419	$ 7,263,087
Supplemental Schedule of Noncash Activities:		
Lease liabilities arising from right-of-use assets	$ 808,545	$ - -
Unrealized (loss) on securities available for sale	(117,082)	(2,235,650)

See Notes to Financial Statements.

Note 1. Summary of Significant Accounting Policies

The accounting and reporting policies reflected in the financial statements conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. Management makes 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. These estimates and assumptions may affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses.

Business

Bank of Ocean City provides a full range of banking services to customers located primarily in Worcester County, Maryland, Sussex County, Delaware, and the surrounding areas.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, money market funds, and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

Certificates of Deposit in Other Financial Institutions

Certificates of deposit in other financial institutions are carried at cost. As of December 31, 2023, these certificates of deposit all mature within one year.

Restricted Stock

Restricted stock includes the Bank's investment in Federal Home Loan Bank of Atlanta stock, in the amount of $671,400 and $312,800 as of December 31, 2023 and 2022, respectively. As a member of the Federal Home Loan Bank, the Bank is required to purchase stock based on its total assets. Additional stock is purchased and redeemed based on the outstanding Federal Home Loan Bank advances to the Bank. The stock is recorded at cost on the balance sheet. The remaining balance of restricted stock represents an investment in the common stock of a bankers' bank in the amount of $60,000 as of December 31, 2023 and 2022.

Investment Securities

As securities are purchased, management determines if the securities should be classified as held to maturity or available for sale. Securities which management has the intent and ability to hold to maturity are recorded at amortized cost, which is cost adjusted for amortization of premiums and accretion of discounts to maturity. Available for sale securities are recorded at fair value with unrealized gains and losses included in stockholders' equity on an after-tax basis. Premiums are amortized and discounts are accreted using the interest method. Premiums are amortized through the earliest call date. Discounts are accreted through maturity. The Bank has elected to exclude accrued interest receivable from the amortized cost basis. The adoption of ASC 326 did not affect the carrying value of debt securities or the amount of unrealized gains and losses recorded in accumulated other comprehensive income.

Gains and losses on disposal are determined using the specific-identification method.

For debt securities classified as available-for-sale, impairment is recognized in its entirety in net income if either (i) we intend to sell the security or (ii) it is more-likely-than-not that we will be required to sell the security before recovery of its amortized cost basis. If, however, the Bank does not intend to sell the security and it is not more-likely-than-not that the Bank will be required to sell the security before recovery, the Bank evaluates unrealized losses to determine whether a decline in fair value below amortized cost basis is a result of a credit loss, which occurs when the amortized cost basis of the security exceeds the present value of the cash flows expected to be collected from the security, or other factors such as changes in market interest rates. If a credit loss exists, an allowance for credit losses is recorded that reflects the amount of the impairment related to credit losses, limited by the amount by which the security's amortized cost basis exceeds its fair value. Changes in the allowance for credit losses are recorded in net income in the period of change and are included in provision for credit losses. Changes in the fair value of debt securities available-for-sale not resulting from credit losses are recorded in other comprehensive income (loss). The Bank regularly reviews unrealized losses in its investments in securities and cash flows expected to be collected from impaired securities based on criteria including the extent to which market value is below amortized cost, the financial health of and specific prospects for the issuer, the Bank's intention with regard to holding the security to maturity and the likelihood that the Bank would be required to sell the security before recovery.

The Bank measures expected credit losses on held-to-maturity securities. The held-to-maturity investment portfolio consists of U.S. Treasury securities, Government Sponsored Agency securities, and agency mortgage backed securities that are backed by the full faith and credit of the Federal Government and implied to carry no risk. The state and municipal securities owned by the Bank are general obligation bonds, highly rated by major agencies and have a long history of no credit losses.

Loans and Allowance for Credit Losses

Loans are stated at face value less the allowance for credit losses. Interest on loans is accrued based on the principal amounts outstanding. A loan’s past due status is based on the contractual due date of the most delinquent payment due. The accrual of interest is discontinued when any portion of the principal or interest is 90 days past due and collateral is insufficient to discharge the debt in full. If collection of principal is evaluated as doubtful, all payments are applied to principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with contractual terms for a reasonable period of time, and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

The allowance for credit losses (ACL) represents an estimate of the expected credit losses in the Bank held for investment loan portfolio as of the valuation date. Accounting Standards Codification ("ASC") 326 replaced the incurred loss allowance model that recognized losses when it became probable that a credit loss had been incurred, with a requirement to recognize lifetime expected credit losses immediately when a financial asset is originated or purchased. The ACL is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the held for investment loan portfolio. Loans, or portions thereof, are charged off against the allowance for credit losses when they are deemed uncollectible. Expected recoveries are recorded to the extent they do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

The adoption of CECL did not result in a significant change to any other credit risk management and monitoring processes, including identification of past due or delinquent borrowers, nonaccrual practices or charge-off policy.

In accordance with ASC 326, the Bank has segmented its loan portfolio based on similar risk characteristics which included Call Report Codes. Loans that do not share risk characteristics are evaluated on an individual basis. The Bank designates individually evaluated loans on nonaccrual status as collateral dependent loans, as well as other loans that management of the Bank designates as having higher risk and loans for which the repayment is expected to be provided substantially through the operation or sale of the collateral. These loans do not share common risk characteristics and are not included within the collectively evaluated loans for determining the allowance for credit losses. Under CECL, for collateral dependent loans, the allowance for credit losses is calculated on an individual loan basis based on the shortfall between the fair value of the loan's collateral, which is adjusted for liquidation costs/discounts, and amortized cost. If the fair value of the collateral exceeds the amortized cost, no allowance is required. The ACL may be zero if the fair value of the collateral at the measurement date exceeds amortized cost basis of the financial asset.

The ACL represents an amount which, in management's judgement, reflects the lifetime expected losses that may be sustained on outstanding loans at the balance sheet date based on the evaluation of the size and current risk characteristics of the loan portfolio, past events, current conditions, reasonable and supportable forecasts for future economic conditions and prepayment experience. The allowance is measured and recorded upon the initial recognition of a financial asset.

The Bank is utilizing a third-party model to tabulate its estimate of current expected credit losses, using the WARM or Weighted Average Remaining Maturity methodology. In accordance with ASC 326, the Bank has segmented its loan portfolio based on call report classifications. The Bank primarily utilizes the Federal Open Market Committee (FOMC) projections and local unemployment rates for its reasonable and supportable forecasting of current expected credit losses. To further adjust the ACL for expected losses not already included within the quantitative component of the calculation, the Bank may consider the following qualitative adjustment factors: lending policies and procedures; economic trends and business conditions; loan concentrations; regulatory changes; seasonality; competition; and other qualitative adjustment factors as deemed necessary.

Premises and Equipment

Land is recorded at cost. Premises and equipment are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance, repairs, and minor replacements are charged to operating expenses as incurred.

Bank owned life insurance

The Bank owns life insurance policies through two carriers on officers of the Bank. The policies are recorded at their cash surrender values. Increases in cash surrender value are reported in noninterest revenue.

Reserve for Unfunded Commitments

The reserve for unfunded commitments is established through a provision for unfunded commitments charged to provision for credit losses. The reserve is calculated by utilizing the same factor as the allowance for credit losses. The reserve is an amount that management believes will be adequate to absorb expected losses on unfunded commitments (off-balance sheet financial instruments) that may become uncollectible in the future. The reserve for unfunded commitments is included in other liabilities on the Bank's Balance Sheet.

Income Taxes

The provision for income taxes includes taxes payable for the current year and deferred income taxes. Deferred income taxes are provided to account for temporary differences between financial and taxable income. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse.

Reclassification

Certain amounts in the financial statements of prior years have been reclassified to conform with the current classifications. Reclassifications had no effect on prior year's net income or stockholders' equity.

Recent Accounting Pronouncements

In December 2023, the Financial Accounting Standards Board (FASB) issued ASU 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures." The amendments in this ASU require an entity to disclose specific categories in the rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold, which is greater than five percent of the amount computed by multiplying pretax income by the entity's applicable statutory rate, on an annual basis. Additionally, the amendments in this ASU require an entity to disclose the amount of income taxes paid (net of refunds received) disaggregated by federal, state, and foreign taxes and the amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions that are equal to or greater than five percent of total income taxes paid (net of refunds received). Lastly, the amendments in this ASU require an entity to disclose income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign and income tax expense (or benefit) from continuing operations disaggregated by federal, state, and foreign. This ASU is effective for annual periods beginning after December 15, 2024. Early adoption is permitted. The amendments should be applied on a prospective basis; however, retrospective application is permitted. The Bank does not expect the adoption of ASU 2023-09 to have a material impact on its financial statements.

In October 2023, the Financial Accounting Standards Board (FASB) issued ASU 2023-06, "Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative." This ASU incorporates certain U.S. Securities and Exchange Commission (SEC) disclosure requirements into the FASB Accounting Standards Codification. The amendments in the ASU are expected to clarify or improve disclosure and presentation requirements of a variety of Codification Topics, allow users to more easily compare entities subject to the SEC's existing disclosures with those entities that were not previously subject to the requirements, and align the requirements in the Codification with the SEC's regulations. For entities subject to the SEC's existing disclosure requirements and for entities required to file or furnish financial statements with or to the SEC in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer, the effective date for each amendment will be the date on which the SEC removes that related disclosure from its rules. For all other entities, the amendments will be effective two years later. However, if by June 30, 2027, the SEC has not removed the related disclosure from its regulations, the amendments will be removed from the Codification and not become effective for any entity. The Bank does not expect the adoption of ASU 2023-06 to have a material impact on its financial statements.

In December 2022, the Financial Accounting Standards Board (FASB) issued ASU 2022-06, "Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848." ASU 2022-06 extends the period of time preparers can utilize the reference rate reform relief guidance in Topic 848. The objective of the guidance in Topic 848 is to provide relief during the temporary transition period, so the FASB included a sunset provision within Topic 848 based on expectations of when the London Interbank Offered Rate (LIBOR) would cease being published. In 2021, the UK Financial Conduct Authority (FCA) delayed the intended cessation date of certain tenors of USD LIBOR to June 30, 2023.

To ensure the relief in Topic 848 covers the period of time during which a significant number of modifications may take place, the ASU defers the sunset date of Topic 848 from December 31, 2022, to December 31, 2024, after which entities will no longer be permitted to apply the relief in Topic 848. The ASU is effective for all entities upon issuance. The Bank is assessing ASU 2022-06 and its impact on the Company's transition away from LIBOR for its loan and other financial instruments.

In March 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2020-04 "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." These amendments provide temporary optional guidance to ease the potential burden in accounting for reference rate reform. The ASU provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. It is intended to help stakeholders during the global market-wide reference rate transition period. The guidance is effective for all entities as of March 12, 2020 through December 31, 2022. Subsequently, in January 2021, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2021-01 "Reference Rate Reform (Topic 848): Scope." This ASU clarifies that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. The ASU also amends the expedients and exceptions in Topic 848 to capture the incremental consequences of the scope clarification and to tailor the existing guidance to derivative instruments affected by the discounting transition. An entity may elect to apply ASU No. 2021-01 on contract modifications that change the interest rate used for margining, discounting, or contract price alignment retrospectively as of any date from the beginning of the interim period that includes March 12, 2020, or prospectively to new modifications from any date within the interim period that includes or is subsequent to January 7, 2021, up to the date that financial statements are available to be issued. An entity may elect to apply ASU No. 2021-01 to eligible hedging relationships existing as of the beginning of the interim period that includes March 12, 2020, and to new eligible hedging relationships entered into after the beginning of the interim period that includes March 12, 2020. The Company is assessing ASU 2020-04 and its impact on the Company's transition away from LIBOR for its loan and other financial instruments.

<u>Recently Adopted Accounting Developments</u>

During June 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." The ASU, as amended, requires an entity to measure expected credit losses for financial assets carried at amortized cost based on historical experience, current conditions, and reasonable and supportable forecasts. Among other things, the ASU also amended the impairment model for available for sale securities and addressed purchased financial assets with deterioration. The Bank adopted ASU 2016-13 as of January 1, 2023 in accordance with the required implementation date. The adjustment at adoption was not material to the overall allowance for credit losses or stockholders' equity as compared to December 31, 2022 and an opening adjustment to Undivided Profits was not recorded. Subsequent to adoption, the Bank will record adjustments to its allowance for credit losses and reserves for unfunded commitments through the provision for credit losses in the statements of income.

In March 2022, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2022-02, "Financial Instruments-Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures." ASU 2022-02 addresses areas identified by the FASB as part of its post-implementation review of the credit losses standard (ASU 2016-13) that introduced the CECL model. The amendments eliminate the accounting guidance for troubled debt restructurings by creditors that have adopted the CECL model and enhance the disclosure requirements for loan refinancings and restructurings made with borrowers experiencing financial difficulty. In addition, the amendments require a public business entity to disclose current-period gross write-offs for financing receivables and net investment in leases by year of origination in the vintage disclosures. The amendments in this ASU should be applied prospectively, except for the transition method related to the recognition and measurement of TDRs, an entity has the option to apply a modified retrospective transition method, resulting in a cumulative-effect adjustment to retained earnings in the period of adoption. ASU 2022-02 was effective for the Bank on January 1, 2023. There has been no material impact from the adoption.

Subsequent Events

The Bank has evaluated subsequent events through March 20, 2024, the date these financial statements were available to be issued. No significant subsequent events were identified that would affect the presentation of the financial statements.

Note 2. Cash and Due From Banks

The Bank normally carries balances with other banks that exceed the federally insured limit. The balance carried in excess of the limit, including unsecured federal funds sold to the same banks, was approximately $1,266,112 for 2023 and $6,355,615 for 2022.

Deposits held in noninterest-bearing transaction accounts are aggregated with any interest-bearing deposits the owner may hold in the same ownership category. The combined total is insured up to $250,000.

Banks are required to carry noninterest-bearing cash reserves at specified percentages of deposit balances. The Bank's normal amount of cash on hand and on deposit with other banks is sufficient to satisfy the reserve requirements.

Note 3. Earnings Per Common Share

Earnings per common share are determined by dividing net income by the average number of shares outstanding. There were 1,658,865 average shares outstanding during the years ended December 31, 2023 and 2022, respectively. There are no dilutive shares.

Note 4. Investment Securities

Investment securities are summarized as follows:

	December 31, 2023			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale				
Mortgage-backed securities	$ 14,933,626	$ - -	$ (2,842,734)	$ 12,090,892
State and municipal	1,001,462	- -	(83,252)	918,210
	$ 15,935,088	$ - -	$ (2,925,986)	$ 13,009,102
Held to maturity				
U.S. Treasury	$ 35,914,689	$ - -	$ (877,612)	$ 35,037,077
U.S. government agency	84,930,658	- -	(5,048,296)	79,882,362
State and municipal	11,661,978	9,095	(1,046,252)	10,624,821
Mortgage-backed securities	33,830,309	- -	(4,715,201)	29,115,108
	$ 166,337,634	$ 9,095	$ (11,687,361)	$ 154,659,368

	December 31, 2022			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale				
Mortgage-backed securities	$ 16,162,397	$ - -	$ (2,696,405)	$ 13,465,992
State and municipal	1,002,020	- -	(112,500)	889,520
	$ 17,164,417	$ - -	$ (2,808,905)	$ 14,355,512
Held to maturity				
U.S. Treasury	$ 51,384,038	$ - -	$ (1,604,958)	$ 49,779,080
U.S. government agency	112,010,051	- -	(6,884,195)	105,125,856
State and municipal	12,362,730	- -	(1,449,876)	10,912,854
Mortgage-backed securities	38,153,099	- -	(4,620,968)	33,532,131
	$ 213,909,918	$ - -	$ (14,559,997)	$ 199,349,921

Investment securities with unrealized losses for continuous periods of less than 12 months and 12 months or longer are as follows:

	December 31, 2023					
	Continuous Periods of Unrealized Losses					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale						
Mortgage-backed securities	$ - -	$ - -	$ 12,090,892	$ 2,842,734	$ 12,090,892	$ 2,842,734
State and municipal	- -	- -	918,210	83,252	918,210	83,252
	$ - -	$ - -	$ 13,009,102	$ 2,925,986	$ 13,009,102	$ 2,925,986
Held to maturity						
U.S. Treasury	$ 4,989,889	$ 7,870	$ 30,047,188	$ 869,742	$ 35,037,077	$ 877,612
U.S. government agency	- -	- -	79,882,362	5,048,296	79,882,362	5,048,296
State and municipal	1,210,658	3,928	8,522,685	1,042,324	9,733,343	1,046,252
Mortgage-backed securities	- -	- -	29,115,108	4,715,201	29,115,108	4,715,201
	$ 6,200,547	$ 11,798	$147,567,343	$11,675,563	$153,767,890	$11,687,361

	December 31, 2022					
	Continuous Periods of Unrealized Losses					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale						
Mortgage-backed securities	$ - -	$ - -	$ 13,465,992	$ 2,696,405	$ 13,465,992	$ 2,696,405
State and municipal	- -	- -	889,520	112,500	889,520	112,500
	$ - -	$ - -	$ 14,355,512	$ 2,808,905	$ 14,355,512	$ 2,808,905
Held to maturity						
U.S. Treasury	$ 35,022,908	$ 445,735	$ 14,756,172	$ 1,159,223	$ 49,779,080	$ 1,604,958
U.S. government agency	44,862,030	609,102	60,263,826	6,275,093	105,125,856	6,884,195
State and municipal	2,432,091	105,745	8,480,763	1,344,131	10,912,854	1,449,876
Mortgage-backed securities	12,103,080	1,306,245	21,429,051	3,314,723	33,532,131	4,620,968
	$ 94,420,109	$ 2,466,827	$104,929,812	$12,093,170	$199,349,921	$14,559,997

Management has the ability and intent to hold these investments until maturity. The decline in fair value is the result of changes in interest rates, not a deterioration of the credit standing of the issuers. The Bank determined that no allowance for credit losses was required on the Bank's held-to-maturity investment portfolio as of December 31, 2023. The held-to-maturity investment portfolio consists of U.S. Treasury securities, Government Sponsored Agency securities, and agency mortgage backed securities that are backed by the full faith and credit of the Federal Government and implied to carry no risk. The state and municipal securities owned by the Bank are general obligation bonds, highly rated by major agencies and have a long history of no credit losses.

The primary indicators of credit quality for the Bank's held-to-maturity portfolio are security type and credit rating, which is influenced by a number of factors including obligor cash flow, geography, seniority, and others. The Bank's held-to-maturity securities with credit risk were comprised of state and municipal bonds and had a credit rating of AA or better as of December 31, 2023.

Contractual maturities and the amount of pledged securities are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities are due in monthly installments.

	December 31, 2023			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Maturing				
Within one year	$ - -	$ - -	$ 42,794,735	$ 42,252,160
Over one to five years	1,001,462	918,210	78,714,016	73,302,274
Over five to ten years	- -	- -	6,388,480	5,931,811
Over ten years	- -	- -	4,610,094	4,058,015
Mortgage-backed securities	14,933,626	12,090,892	33,830,309	29,115,108
	$ 15,935,088	$ 13,009,102	$ 166,337,634	$ 154,659,368
Pledged securities			$ 106,847,941	$ 101,190,650

	December 31, 2022			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Maturing				
Within one year	$ - -	$ - -	$ 47,975,584	$ 47,835,058
Over one to five years	1,002,020	889,520	116,628,673	108,225,118
Over five to ten years	- -	- -	6,400,710	5,778,932
Over ten years	- -	- -	4,751,852	3,978,682
Mortgage-backed securities	16,162,397	13,465,992	38,153,099	33,532,131
	$ 17,164,417	$ 14,355,512	$ 213,909,918	$ 199,349,921
Pledged securities			$ 23,242,389	$ 21,640,377

Investments are pledged as of December 31, 2023 and 2022, as collateral for government deposits and Federal Reserve Bank borrowings.

There were no sales of investment securities in 2023 or 2022.

Note 5. Loans and Allowance for Credit Losses

Major classifications of loans are as follows:

	2023	2022
Real estate		
Residential	$ 110,778,910	$ 90,080,238
Commercial	214,691,069	190,499,625
Construction, land development, and land	62,208,909	52,221,000
Commercial	23,782,806	20,691,008
Consumer	1,076,828	1,133,466
	412,538,522	354,625,337
Allowance for credit losses	2,759,830	2,590,632
Loans, net	$ 409,778,692	$ 352,034,705

Transactions in the allowance for credit losses for the years ended December 31, 2023 and 2022, were as follows:

	December 31, 2023				
	Beginning Balance	Provision for Credit Losses	Charge Offs	Recoveries	Ending Balance
Real estate					
Residential	$ 690,054	$ (157,278)	$ - -	$ - -	$ 532,776
Commercial	1,421,306	209,090	- -	3,600	1,633,996
Construction, land development, and land	320,077	172,386	- -	- -	492,463
Commercial	156,065	(86,499)	- -	8,400	77,966
Consumer	3,323	43,478	(27,789)	3,787	22,799
Unallocated	(193)	23	- -	- -	(170)
	$ 2,590,632	$ 181,200	$ (27,789)	$ 15,787	$ 2,759,830

Notes to Financial Statements

	December 31, 2022								
						Allowance for Credit Losses Ending Balance Evaluated for Impairment:		Outstanding Loan Balances Evaluated for Impairment:	
	Beginning Balance	Provision for Loan Losses	Charge Offs	Recoveries	Ending Balance	Individually	Collectively	Individually	Collectively
Real estate									
Residential	$ 642,297	$ 47,757	$ - -	$ - -	$ 690,054	$ - -	$ 673,922	$ 121,690	$ 89,958,548
Commercial	1,316,711	100,995	- -	3,600	1,421,306	- -	1,390,648	- -	190,499,625
Construction, land development, and land	292,392	27,685	- -	- -	320,077	- -	381,213	- -	52,221,000
Commercial	138,096	10,969	- -	7,000	156,065	- -	134,327	- -	20,691,008
Consumer	6,932	601	(9,855)	5,645	3,323	- -	10,715	- -	1,133,466
Unallocated	17,864	(18,057)	- -	- -	(193)	- -	(193)	- -	- -
	$ 2,414,292	$ 169,950	$ (9,855)	$ 16,245	$ 2,590,632	$ - -	$ 2,590,632	$ 121,690	$ 354,503,647

	December 31, 2023		
	Nonaccrual Loans with No Allowance for Credit Losses	Nonaccrual Loans with Allowance for Credit Losses	Total Nonaccrual Loans
Real estate			
Residential	$ - -	$ - -	$ - -
Commercial	- -	- -	- -
Construction, land development, and land	- -	- -	- -
Commercial	- -	- -	- -
Consumer	- -	2,191	2,191
	$ - -	$ 2,191	$ 2,191

Past due loans, segregated by age and class of loans, as of December 31, 2023 and 2022 were as follows:

	December 31, 2023								
	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due	Nonaccrual Loans	Nonaccrual Interest Not Accrued
Real estate									
Residential	$ 386,509	$ - -	$ 237,024	$ 623,533	$ 110,155,377	$ 110,778,910	$ 237,024	$ - -	$ - -
Commercial	1,364,693	- -	- -	1,364,693	213,326,376	214,691,069	- -	- -	- -
Construction, land development, and land	177,771	- -	- -	177,771	62,031,138	62,208,909	- -	- -	- -
Commercial	273,918	7,000	- -	280,918	23,501,888	23,782,806	- -	- -	- -
Consumer	3,518	- -	853	4,371	1,072,457	1,076,828	853	2,191	139
	$ 2,206,409	$ 7,000	$ 237,877	$ 2,451,286	$ 410,087,236	$ 412,538,522	$ 237,877	$ 2,191	$ 139

	December 31, 2022								
	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due	Nonaccrual Loans	Nonaccrual Interest Not Accrued
Real estate									
Residential	$ 23,749	$ 232,908	$ - -	$ 256,657	$ 89,823,581	$ 90,080,238	$ - -	$ - -	$ - -
Commercial	214,871	- -	- -	214,871	190,284,754	190,499,625	- -	- -	- -
Construction, land development, and land	- -	- -	- -	- -	52,221,000	52,221,000	- -	- -	- -
Commercial	- -	- -	- -	- -	20,691,008	20,691,008	- -	- -	- -
Consumer	3,993	6,751	- -	10,744	1,122,722	1,133,466	- -	- -	- -
	$ 242,613	$ 239,659	$ - -	$ 482,272	$ 354,143,065	$ 354,625,337	$ - -	$ - -	$ - -

Impaired loans as of December 31, 2022, were as follows:

	December 31, 2022						
	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Recognized
Real estate							
Residential	$ 121,690	$ 121,690	$ - -	$ 121,690	$ - -	$ 124,394	$ 4,043
Commercial	- -	- -	- -	- -	- -	- -	- -
Construction, land development, and lanc	- -	- -	- -	- -	- -	- -	- -
Commercial	- -	- -	- -	- -	- -	- -	- -
Consumer	- -	- -	- -	- -	- -	- -	- -
Paycheck Protection Program	- -	- -	- -	- -	- -	- -	- -
	$ 121,690	$ 121,690	$ - -	$ 121,690	$ - -	$ 124,394	$ 4,043

The Bank was not committed to advance any funds in connection with individually evaluated loans at December 31, 2023 or 2022.

Credit Quality Indicators

As part of the ongoing monitoring of the credit quality of the Bank's loan portfolio, management tracks certain credit quality indicators including trends related to the risk grade of loans, the level of classified loans, net charge-offs, nonperforming loans, and the general economic conditions in the Bank's market.

The Bank utilizes a risk grading matrix to assign a risk grade to each of its loans. A description of the general characteristics of loans characterized as watch list or classified is as follows:

Pass/Watch

Loans graded as Pass/Watch are secured by generally acceptable assets which reflect above-average risk. The loans warrant closer scrutiny by management than is routine, due to circumstances affecting the borrower, the borrower's industry, or the overall economic environment. Borrowers may reflect weaknesses such as inconsistent or weak earnings, break even or moderately deficit cash flow, thin liquidity, minimal capacity to increase leverage, or volatile market fundamentals or other industry risks. Such loans are typically secured by acceptable collateral, at or near appropriate margins, with realizable liquidation values.

Special Mention

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

Borrowers may exhibit poor liquidity and leverage positions resulting from generally negative cash flow or negative trends in earnings. Access to alternative financing may be limited to finance companies for business borrowers and may be unavailable for commercial real estate borrowers.

Substandard

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

Borrowers may exhibit recent or unexpected unprofitable operations, an inadequate debt service coverage ratio, or marginal liquidity and capitalization. These loans require more intense supervision by Bank management.

Doubtful

A doubtful loan has all the weaknesses inherent as a substandard loan with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Notes to Financial Statements

The following tables present the December 31, 2023 and 2022, balances of loans by risk grade.

	December 31, 2023				
	Pass	Special Mention	Substandard	Doubtful	Total Loans
Real estate					
Residential	$ 110,291,014	$ - -	$ 487,896	$ - -	$ 110,778,910
Commercial	214,691,069	- -	- -	- -	214,691,069
Construction, land development, and land	62,138,700	- -	70,209	- -	62,208,909
Commercial	23,702,905	- -	79,901	- -	23,782,806
Consumer	1,073,784	- -	3,044	- -	1,076,828
	$ 411,897,472	$ - -	$ 641,050	$ - -	$ 412,538,522

	December 31, 2022				
	Pass	Special Mention	Substandard	Doubtful	Total Loans
Real estate					
Residential	$ 89,424,716	$ - -	$ 655,522	$ - -	$ 90,080,238
Commercial	190,499,625	- -	- -	- -	190,499,625
Construction, land development, and land	52,221,000	- -	- -	- -	52,221,000
Commercial	20,691,008	- -	- -	- -	20,691,008
Consumer	1,133,466	- -	- -	- -	1,133,466
	$ 353,969,815	$ - -	$ 655,522	$ - -	$ 354,625,337

From time to time, the Bank may modify certain loans to borrowers who are experiencing financial difficulty. In some cases, these modifications may result in new loans. Loan modifications to borrowers experiencing financial difficulty may be in the form of a principal forgiveness, an interest rate reduction, an other-than-insignificant payment delay, or a term extension or a combination thereof, among other things. There were no such modifications during the year-ended December 31, 2023.

Prior to the adoption of ASU 2022-02, impaired loans also include certain loans that have been modified in troubled debt restructurings (TDRs) where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Bank's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance, or other actions. Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months.

The status of TDRs as of December 31, 2022, follows:

	Number of Contracts	Pre-modification Recorded Investment	December 31, 2022 Recorded Investment Performing	Nonperforming	Total
Real estate					
Residential	2	$ 149,023	$ 121,690	$ --	$ 121,690
Commercial	--	--	--	--	--
Construction, land development, and land	--	--	--	--	--
Commercial	--	--	--	--	--
Consumer	--	--	--	--	--
Paycheck Protection Program	--	--	--	--	--
	2	$ 149,023	$ 121,690	$ --	$ 121,690

None of the loans classified as TDRs as of December 31, 2022 defaulted within the 12 months following the modification.

There were no loans secured by 1-4 family residential properties in the process of foreclosure at December 31, 2023 or 2022.

The Bank lends to customers located primarily in the Delmarva region. Although the loan portfolio is diversified, its performance will be influenced by the economy of the region.

Note 6. Credit Commitments

The following credit commitments are outstanding as of December 31:

	2023	2022
Mortgage and other loan commitments	$ 16,844,925	$ 29,232,400
Construction loans	17,316,185	20,275,110
Lines of credit	37,491,019	31,793,574
	$ 71,652,129	$ 81,301,084
Standby letters of credit	$ 1,711,317	$ 1,844,149

Loan commitments and lines of credit are agreements to lend to a customer as long as there is no violation of any condition to the contract. Loan commitments generally have fixed interest at current market rates, fixed expiration dates, and may require payment of a fee. Construction loan commitments represent funding the Bank will provide to borrowers as the related project progresses. The construction loans generally have fixed rates. Lines of credit generally have variable interest rates. Such lines do not represent future cash requirements because it is unlikely that all customers will draw upon their lines in full at any time. Letters of credit are commitments issued to guarantee the performance of a customer to a third party.

Loan commitments, lines of credit, and letters of credit are made on the same terms, including collateral, as outstanding loans. The Bank's exposure to credit loss in the event of nonperformance by the borrower is represented by the contract amount of the commitment. As part of implementing ASU 2016-13 on January 1, 2023, the Bank created an allowance for credit losses on off-balance sheet items related to these financial instruments with off-balance sheet risk, which is reported as a liability on the Bank’s Balance Sheet. The liability excludes commitments for which the Bank can, at any time and for any reason, cancel its commitment to lend, as unconditionally cancellable commitments do not require an allowance. The allowance for credit losses on off-balance sheet items was $168,500 as of December 31, 2023, which was recorded through the provision for credit losses on the Bank’s Statement of Income for the year-ended December 31, 2023.

Note 7. Premises and Equipment

A summary of premises and equipment and the related depreciation is as follows:

	Estimated Useful Lives	2023	2022
Land		$ 4,075,773	$ 4,075,773
Buildings and improvements	5 - 40 years	7,553,152	6,916,404
Furniture and equipment	3 - 20 years	2,349,371	2,260,457
		13,978,296	13,252,634
Accumulated depreciation		4,493,481	4,290,662
Net premises and equipment		$ 9,484,815	$ 8,961,972
Depreciation expense		$ 368,006	$ 306,680

Note 8. Lease Commitments

On January 1, 2022, the Bank adopted ASU 2016-02, “Leases (Topic 842)” and all subsequent ASUs that modified Topic 842. The Bank elected the optional transition method and did not adjust prior periods. The Bank also elected the package of practical expedients permitted under the transition guidance within the new standard, and consistent with such elections did not reassess whether any expired or existing contracts and/or contain leases, did not reassess the lease classifications of any existing leases, and did not reassess any initial direct costs for existing leases.

The Bank leases the land on which one of the Bank’s branch facilities resides. The lease is classified as an operating lease. There are options to extend the lease term beyond the initial term of 20 years, however, the Bank has not included any extensions in its calculations of the lease liabilities.

The following table presents information about the Bank's lease as of December 31, 2023:

Balance Sheet		
Operating Lease Amounts		
Right-of-use asset	$	794,258
Lease liability	$	808,545
Income Statement		
Operating lease cost classifed as occupancy	$	50,287
Weighted average remaining lease term (years)		19.25
Weighted average discount rate		0.41%

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

Period		
2024	$	48,000
2025		48,000
2026		52,500
2027		54,000
2028		54,000
2029 and thereafter		1,048,500
Total undiscounted cash flows		1,305,000
Discount		(496,455)
Lease liabilities	$	808,545

Note 9. Interest-Bearing Deposits

Major classifications of interest-bearing deposits are as follows:

	2023	2022
Money market	$144,749,014	$188,419,226
Savings and interest checking	92,091,468	109,380,775
Certificates of deposit,		
$250,000 or more	37,566,080	27,151,458
Other time deposits	90,340,831	37,215,171
	$364,747,393	$362,166,630

Maturities of time deposits are as follows:

	2023	2022
Within one year	$ 117,765,514	$ 40,344,214
One year to within two years	3,405,008	10,656,934
Two years to within three years	1,626,664	4,822,368
Three years to within four years	3,754,484	2,231,620
Four years to within five years	1,355,241	6,311,493
Greater than five years	- -	- -
Total	$ 127,906,911	$ 64,366,629

Note 10. Available Lines of Credit

The Bank has available lines of credit of $27,500,000 in overnight federal funds from other banks. The Bank also has access to certificate of deposit funding through a financial network. The funding is limited to 15% of the Bank's assets, or approximately $93,289,118 as of December 31, 2023.

As of December 31, 2023, the Bank has pledged investment securities to the Federal Reserve Bank of Richmond to provide a borrowing capacity totaling approximately $4,569,840 under its discount window program.

The Bank also has borrowing capability with the Federal Home Loan Bank (FHLB) which is secured by select bonds in the investment portfolio. Total par value of investments pledged as of December 31, 2023 was $74,800,000. Total lendable collateral available under this line as of December 31, 2023 was $68,475,346 of which $5,000,000 was outstanding. All borrowings are overnight or short term.

Note 11. Related-Party Transactions

In the normal course of banking business, loans are made to executive officers and directors of the Bank. The terms of these transactions are substantially the same as the terms provided to other borrowers entering into similar loan transactions. In the opinion of management, these loans are consistent with sound banking practices, are within regulatory lending limitations, and do not involve more than normal credit risk.

A summary of these loans is as follows:

	2023	2022
Balance at beginning of year	$ 5,218,748	$ 3,601,452
New loans	1,654,477	1,941,813
Principal payments	(264,455)	(324,517)
Balance at end of year	$ 6,608,770	$ 5,218,748

Deposits from executive officers and directors and their related interests were $ 16,021,885 as of December 31, 2023 and $14,997,603 as of December 31, 2022.

During the years ended December 31, 2023 and 2022, a director's law firm provided professional services to the Bank. The Bank paid $0 and $488 for these services, respectively.

Note 12. Other Operating Expenses

Other operating expenses consist of the following:

	2023	2022
FDIC insurance	$ 358,109	$ 253,326
Professional fees	306,580	238,659
Communications	258,325	251,445
Director fees	229,596	198,450
Charitable contributions	123,994	127,034
Software amortization and licenses	92,014	91,265
Supplies	103,772	83,586
Advertising	47,984	80,498
Insurance	85,689	75,328
Postage and freight	77,749	65,030
Dues and subscriptions	88,246	63,885
Education	70,762	42,445
Correspondent bank fees	37,496	40,528
Armored car and courier	38,757	33,715
Loan processing fees	22,450	22,964
Other	276,720	156,608
	$ 2,218,243	$ 1,824,766

Note 13. Retirement Plans

The Bank has a nonqualified retirement plan for a retired executive. The plan specified an annual salary deferral of $70,099 through retirement, plus interest of 6% annually on the balance deferred. The expense related to the plan was $25,932 and $29,261 for the years ended December 31, 2023 and 2022, respectively.

The Bank has a 401(k) plan, which covers essentially all employees. The Bank matches participant contributions up to 6% of eligible compensation, plus an additional 1% of eligible compensation for contributing participants. The contributions to the Plan were $205,441 and $182,408 for the years ended December 31, 2023 and 2022, respectively.

Note 14. Income Taxes

The components of income tax expense are as follows:

	2023	2022
Current		
Federal	$ 1,716,362	$ 2,027,944
State	459,697	661,395
	2,176,059	2,689,339
Deferred	(113,907)	11,093
	$ 2,062,152	$ 2,700,432

The components of the deferred tax expense (benefits) are as follows:

	2023	2022
Provision for (recovery of) credit losses	$ (154,273)	$ (77,761)
Lease	(3,932)	- -
Depreciation	28,595	74,066
Nonqualified retirement plans	15,703	14,788
	$ (113,907)	$ 11,093

The components of the net deferred tax asset are as follows:

	2023	2022
Deferred tax assets		
Allowance for credit losses	$ 591,086	$ 436,813
Lease Liability, net of right-of-use asset	3,932	- -
Unrealized loss on investment securities available for sale	805,158	772,940
Nonqualified retirement plans	115,806	131,509
	1,515,982	1,341,262
Deferred tax liabilities		
Depreciation	167,868	139,273
	167,868	139,273
Net deferred tax asset	$ 1,348,114	$ 1,201,989

A reconciliation of the provision for income taxes from the statutory federal income tax rate to the effective income tax rates follows:

	2023	2022
Tax at statutory federal income tax rate	21.0%	21.0%
Tax effect of		
Tax-exempt income	(1.1)%	(0.7)%
State income tax, net of federal benefit	3.8%	4.7%
Income tax expense	23.7%	25.0%

The Bank does not have material uncertain tax positions and did not recognize any adjustments for unrecognized tax benefits. The Bank remains subject to examination for income tax returns for the years ending after December 31, 2020.

Note 15. Capital Standards

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

The Basel III Capital Rules became effective for the Bank on January 1, 2015 (subject to a phase-in period for certain provisions). Quantitative measures established by the Basel III Capital Rules to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the table below) of Common Equity Tier 1 capital, Tier 1 capital, and Total capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to adjusted quarterly average assets (as defined).

In connection with the adoption of the Basel III Capital Rules, the Bank elected to opt-out of the requirement to include accumulated other comprehensive income in Common Equity Tier 1 capital. Common Equity Tier 1 capital for the Bank is reduced by goodwill and other intangible assets, if any, net of associated deferred tax liabilities and subject to transition provisions.

Under the revised prompt corrective action requirements, as of January 1, 2015, insured depository institutions are required to meet the following in order to qualify as "well capitalized:" (1) a Common Equity Tier 1 risk-based capital ratio of 6.5%; (2) a Tier 1 risk-based capital ratio of 8%; (3) a total risk-based capital ratio of 10%; and (4) a Tier 1 leverage ratio of 5%.

The implementation of the capital conservation buffer began on January 1, 2016, at the 0.625% level and was phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reached 2.5% on January 1, 2019). The Basel III Capital Rules also provide for a "countercyclical capital buffer" that is applicable to only certain covered institutions and does not have any current applicability to the Bank.

The aforementioned 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 constraints on dividends, equity repurchases, and compensation based on the amount of the shortfall.

The following table presents actual and required capital ratios as of December 31, 2023 and 2022, for the Bank under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels as of December 31, 2023 and 2022, based on the phase-in provisions of the Basel III Capital Rules. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

As of December 31, 2023, the most recent notification from the FDIC has categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain ratios as set forth in the table. There have been no conditions or events since that notification that management believes have changed the Bank's category.

The FDIC, through formal or informal agreement, has the authority to require an institution to maintain higher capital ratios than those provided by statute, to be categorized as well capitalized under the regulatory framework for prompt corrective action.

	December 31, 2023					
	Actual		Minimum Capital Adequacy		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(in thousands)					
Tier 1 leverage ratio	$62,325	9.74%	$25,599	4.00%	$31,998	5.00%
Tier 1 capital (to risk-weighted assets)	$62,325	13.95%	$37,973	8.50%	$35,740	8.00%
Common equity tier 1 capital ratio (to risk-weighted assets)	$62,325	13.95%	$31,272	7.00%	$29,039	6.50%
Total capital ratio (to risk-weighted assets)	$65,252	14.61%	$46,908	10.50%	$44,675	10.00%

	December 31, 2022					
	Actual		Minimum Capital Adequacy		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(in thousands)					
Tier 1 leverage ratio	$56,561	8.82%	$25,649	4.00%	$32,062	5.00%
Tier 1 capital (to risk-weighted assets)	$56,561	13.92%	$34,534	8.50%	$32,503	8.00%
Common equity tier 1 capital ratio (to risk-weighted assets)	$56,561	13.92%	$28,440	7.00%	$26,409	6.50%
Total capital ratio (to risk-weighted assets)	$59,152	14.56%	$42,660	10.50%	$40,629	10.00%

Note 16. Fair Value Measurements

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, expand disclosures about fair value, and establish a hierarchy for determining fair value measurement. The hierarchy includes three levels and is based upon the valuation techniques used to measure assets and liabilities. The three levels are as follows:

Level 1 – Inputs to the valuation method are quoted prices (unadjusted) for identical assets or liabilities in active markets;

Level 2 – Inputs to the valuation method include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument; and

Level 3 – Inputs to the valuation method are unobservable and significant to the fair value measurement.

Fair Value Measurements on a Recurring Basis

Investment securities available for sale are the only instruments that are measured at fair value on a recurring basis. The Bank has categorized its investment securities available for sale as follows as of December 31, 2023 and 2022:

	December 31, 2023			
	Total	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Mortgage-backed securities	$ 12,090,892	$ - -	$ 12,090,892	$ - -
State and municipal	918,210	- -	918,210	- -
	$ 13,009,102	$ - -	$ 13,009,102	$ - -

	December 31, 2022			
	Total	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Mortgage-backed securities	$ 13,465,992	$ - -	$ 13,465,992	$ - -
State and municipal	889,520	- -	889,520	- -
	$ 14,355,512	$ - -	$ 14,355,512	$ - -

Fair Value Measurements on a Nonrecurring Basis

Individually evaluated loans are generally measured based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are classified as Level 3 fair values since the market for collateral dependent loans is not active. As of December 31, 2023 and 2022, the fair values of $0 and $121,690 consist of recorded loan balances net of any specific valuation allowances.