BANK OF OCEAN CITY

Ocean City, Maryland

FINANCIAL STATEMENTS

December 31, 2022

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, 2022 and 2021, 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, 2022 and 2021, 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.

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 15, 2023

BANK OF OCEAN CITY

Balance Sheets

December 31, 2022 and 2021

Assets

	2022	2021
Cash and due from banks	$ 9,634,073	$ 7,015,723
Interest-bearing deposits	2,564,369	158,573,700
Federal funds sold	4,201,176	17,120,365
Cash and cash equivalents	16,399,618	182,709,788
Certificates of deposit in other financial institutions	2,494,734	3,227,627
Restricted stock at cost	372,800	307,300
Investment securities available for sale	14,355,512	18,398,538
Investment securities held to maturity (approximate fair value of $199,349,921 and $101,830,939)	213,909,918	102,647,809
Loans, less allowance for loan losses of $2,590,632 and $2,414,292	352,034,705	299,807,280
Premises and equipment	8,961,972	8,588,639
Bank owned life insurance	7,222,615	7,039,201
Accrued interest receivable	1,852,969	1,155,334
Deferred income taxes	1,201,989	597,887
Prepaid income taxes	- -	57,342
Other assets	1,029,236	1,028,790
	$619,836,068	$625,565,535

Liabilities and Stockholders' Equity

	2022	2021
Liabilities		
Deposits		
Noninterest-bearing	$201,580,105	$206,230,798
Interest-bearing	362,166,630	369,010,622
Total deposits	563,746,735	575,241,420
Accrued interest payable	66,967	36,510
Dividend payable	580,603	530,837
Deferred compensation payable	477,910	531,649
Income taxes payable	45,121	- -
Other liabilities	393,376	471,741
	565,310,712	576,812,157
Stockholders' equity		
Common stock, par value $1 per share; authorized 2,000,000 shares; issued and outstanding 1,658,865 shares at December 31, 2022 and 552,955 at December 31, 2021	1,658,865	552,955
Surplus	8,383,845	9,489,755
Undivided profits	46,518,610	39,126,177
Accumulated other comprehensive loss	(2,035,964)	(415,509)
	54,525,356	48,753,378
	$619,836,068	$625,565,535

See Notes to Financial Statements.

BANK OF OCEAN CITY

Statements of Income

For the Years Ended December 31, 2022 and 2021

	2022	2021
Interest and dividend revenue		
Loans, including fees	$ 15,445,894	$ 14,772,882
U.S. government agency securities	1,235,601	543,811
U.S. Treasury securities	994,454	92,497
State and municipal securities	195,708	167,475
Federal funds sold and interest-bearing deposits	917,004	302,636
Mortgage-backed securities	811,431	304,852
Equity securities	12,447	10,782
Total interest and dividend revenue	19,612,539	16,194,935
Interest expense		
Deposits	1,922,486	1,671,588
Borrowed funds	5,816	- -
Total interest expense	1,928,302	1,671,588
Net interest income	17,684,237	14,523,347
Provision for (recovery of) loan losses	169,950	(125,700)
Net interest income after provision for (recovery of) loan losses	17,514,287	14,649,047
Noninterest revenue		
Service charges on deposit accounts	406,532	288,040
Card services	447,141	437,896
Gain on disposition of premises and equipment	42,648	- -
Other revenue	402,867	307,486
Total noninterest revenue	1,299,188	1,033,422
Noninterest expenses		
Salaries	3,453,584	3,277,038
Employee benefits	899,855	865,660
Occupancy	478,093	451,126
Furniture and equipment	191,385	208,961
Data processing	1,060,083	974,515
Other operating	1,824,766	1,578,854
Total noninterest expenses	7,907,766	7,356,154
Income before income taxes	10,905,709	8,326,315
Income taxes	2,700,432	2,124,903
Net income	$ 8,205,277	$ 6,201,412
Earnings per common share	$ 4.95	$ 3.74

See Notes to Financial Statements.

BANK OF OCEAN CITY

Statements of Comprehensive Income

For the Years Ended December 31, 2022 and 2021

	2022	2021
Net income	$ 8,205,277	$ 6,201,412
Other comprehensive loss		
Unrealized loss on investment securities available for sale	(2,235,650)	(569,307)
Income tax relating to unrealized loss on investment securities available for sale	615,195	156,659
Other comprehensive loss	(1,620,455)	(412,648)
Total comprehensive income	$ 6,584,822	$ 5,788,764

See Notes to Financial Statements.

BANK OF OCEAN CITY

Statements of Changes in Stockholders' Equity

Years Ended December 31, 2022 and 2021

	Common Stock Shares	Common Stock Par Value	Surplus	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, December 31, 2020	552,955	$ 552,955	$ 9,489,755	$ 33,676,784	$ (2,861)	$ 43,716,633
Net income	--	--	--	6,201,412	--	6,201,412
Unrealized loss on investment securities available for sale, net of income taxes of $156,659	--	--	--	--	(412,648)	(412,648)
Cash dividends, $0.45 per share	--	--	--	(752,019)	--	(752,019)
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

See Notes to Financial Statements.

BANK OF OCEAN CITY

Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Interest received	$ 18,408,318	$ 16,395,749
Fees and commissions received	1,073,126	994,221
Interest paid	(1,897,845)	(1,684,111)
Cash paid to suppliers and employees	(7,676,294)	(7,174,237)
Income taxes paid	(2,644,218)	(2,087,851)
Cash provided by operating activities	7,263,087	6,443,771
Cash Flows from Investing Activities		
Redemptions of certificates of deposit, net	732,893	979,068
Proceeds from matured investment securities held to maturity	47,957,779	17,011,508
Proceeds from matured investment securities available for sale	1,765,780	1,930,033
Purchase of investment securities held to maturity	(159,159,000)	(71,295,411)
Purchase of investment securities available for sale	- -	(13,815,108)
(Purchase) Redemptions of restricted stock, net	(65,500)	78,800
Purchase of bank owned life insurance	- -	(7,000,000)
Loans made, net of principal repayments	(51,910,081)	(10,843,540)
Purchases of premises, equipment, and software	(637,365)	(1,280,464)
Cash used by investing activities	(161,315,494)	(84,235,114)
Cash Flows from Financing Activities		
Net increase (decrease) in		
Time deposits	434,607	1,917,417
Other deposits	(11,929,292)	124,065,910
Dividends paid	(763,078)	(746,489)
Cash (used in) provided by financing activities	(12,257,763)	125,236,838
Net (decrease) increase in cash and cash equivalents	(166,310,170)	47,445,495
Cash and cash equivalents at beginning of year	182,709,788	135,264,293
Cash and cash equivalents at end of year	$ 16,399,618	$ 182,709,788

See Notes to Financial Statements.

BANK OF OCEAN CITY

Statements of Cash Flows (Continued)

For the Years Ended December 31, 2022 and 2021

	2022	2021
Reconciliation of Net Income to Net Cash Provided by Operating Activities		
Net income	$ 8,205,277	$ 6,201,412
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Amortization (accretion) of investment premiums and discounts, net	(19,292)	427,274
Provision for (recovery of) loan losses	169,950	(125,700)
Depreciation and amortization	306,680	312,897
Gain on disposal of premises and equipment	(42,648)	- -
Deferred income taxes	11,093	37,052
Decrease (increase) in		
Accrued interest receivable	(697,635)	(5,663)
Other assets and prepaid income taxes	56,896	(124,366)
Bank owned life insurance	(183,414)	(39,201)
Increase (decrease) in		
Accrued interest payable	30,457	(12,523)
Income taxes payable	45,121	- -
Deferred fees	(487,294)	(220,797)
Other liabilities and deferred compensation payable	(132,104)	(6,614)
Cash provided by operating activities	$ 7,263,087	$ 6,443,771

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 loan 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, 2022, 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 $ 312,800 and $247,300 as of December 31, 2022 and 2021, respectively. As a member of the Federal Home Loan Bank, the Bank is required to purchase stock based on its total assets. 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.

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.

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

Impairment of securities occurs when the fair value of a security is less than its amortized cost. For debt securities, impairment is considered other-than-temporary and recognized in its entirety in net income if either (1) the Bank intends to sell the security or (2) it is more likely than not that the Bank 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-than-likely that the Bank will be required to sell the security before recovery, management must determine what portion of the impairment is attributable to a credit loss, which occurs when the amortized cost of the security exceeds the present value of the cash flows expected to be collected from the security. If there is no credit loss, there is no other-than-temporary impairment. If there is a credit loss, other-than-temporary impairment exists, and the credit loss must be recognized in net income and the remaining portion of impairment must be recognized in other comprehensive income.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis. Consideration is given to: (1) the length of time and the extent to which the fair value has been less than cost; (2) the financial condition and near-term prospects of the issuer; (3) the ability of the issuer to make principal and interest payments, and (4) changes in the regulatory, economic, or technological environment of the issuer. A decline in fair value of any security below cost that is deemed other-than-temporary and related to the creditworthiness of the issuer is charged to earnings, resulting in the establishment of a new cost basis for the security.

Loans and Allowance for Loan Losses

Loans are stated at face value less the allowance for loan 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 Bank maintains an allowance that is adequate to provide for probable loan losses based on management's review and analysis of the loan portfolio as well as prevailing and anticipated economic conditions. The allowance consists of specific and general components. For loans that are classified as impaired, an allowance is established when the collateral value or the discounted cash flows of the impaired loan is lower than the carrying value of that loan. The general component covers pools of nonclassified loans and is based on historical loss experience adjusted for qualitative factors. There may be an unallocated component of the allowance, which reflects the margin of imprecision inherent in the underlying assumptions used in the methods for estimating specific and general losses in the portfolio. If the current economy or real estate market were to suffer a severe downturn, the estimate for uncollectible loans would need to be increased. Loan losses are charged to the allowance when management believes that collectability is unlikely. Collections of loans previously charged off are added to the allowance at the time of recovery.

Loans are considered impaired when, based on current information, management considers it unlikely that collection of principal and interest payments will be made according to contractual terms. Generally, loans are not reviewed for impairment until the accrual of interest has been discontinued, or they have been classified as substandard. Loans that have been modified in a troubled debt restructuring are considered impaired, even if they are on accrual status.

Notes to Financial Statements

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.

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

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 impact of adoption to retained earnings, net of deferred income taxes, as required by the standard is deemed immaterial. The adjustment at adoption was not material to the overall allowance for credit losses or stockholders' equity as compared to December 31, 2022. 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.

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 allowance for credit losses 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. The Bank's CECL implementation process was overseen by the Chief Executive Officer and Chief Financial Officer and included an assessment of the complexity of the loan portfolio, data availability, consideration and analysis of multiple loss estimation methodologies, an assessment of relevant qualitative factors and the Bank's limited historical loss experience.

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. For entities that have adopted ASU 2016-13, ASU 2022-02 is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. For entities that have not yet adopted ASU 2016-13, the effective dates for ASU 2022-02 are the same as the effective dates in ASU 2016-13. Early adoption is permitted if an entity has adopted ASU 2016-13. An entity may elect to early adopt the amendments about TDRs and related disclosure enhancements separately from the amendments related to vintage disclosures. The Bank is currently assessing the impact that ASU 2022-02 will have on its financial statements.

<u>Recently Adopted Accounting Developments</u>

On January 1, 2022, the Bank adopted ASU 2016-02, "Leases (Topic 842)." Among other things, in the amendments in ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. The ASU was initially effective for non-public business entities' financial statements issued for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. In June 2020, the FASB issued ASU 2020-05. Under ASU 2020-05, private companies adopted the new leases standard for fiscal years beginning after December 15, 2021, and to interim periods within fiscal years beginning after December 15, 2022. There was no material impact to the Bank related to the adoption of this standard.

On January 1, 2022, the Bank adopted ASU 2021-09, "Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities." The ASU allows lessees that are not public business entities to make the risk-free rate election by class of underlying asset, rather than at the entity-wide level. It also requires that, when the rate implicit in the lease is readily determinable for any individual lease, a lessee uses that rate (rather than a risk-free rate or an incremental borrowing rate), regardless of whether it has made the risk-free rate election. An entity that has not yet adopted Topic 842 as of November 11, 2021, should apply ASU No. 2021-09 to all new and existing leases when the entity first applies Topic 842. An entity that has adopted Topic 842 as of November 11, 2021, should apply ASU No. 2021-09 for financial statements issued for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Earlier application is permitted as of the beginning of the fiscal year of adoption. There was no material impact to the Bank related to the adoption of this standard.

On January 1, 2022, the Bank adopted ASU 2019-12, "Income Taxes (Topic 740) – Simplifying the Accounting for Income Taxes." The ASU is expected to reduce cost and complexity related to the accounting for income taxes by removing specific exceptions to general principles in Topic 740 (eliminating the need for an organization to analyze whether certain exceptions apply in a given period) and improving financial statement preparers' application of certain income tax-related guidance. This ASU is part of the FASB's simplification initiative to make narrow-scope simplifications and improvements to accounting standards through a series of short-term projects. There was no material impact to the Bank related to the adoption of this standard.

Subsequent Events

The Bank has evaluated subsequent events through March 15, 2023, 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 average balance carried in excess of the limit, including unsecured federal funds sold to the same banks, was approximately $6,355,615 for 2022 and $21,532,106 for 2021.

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, 2022 and 2021, respectively, after giving retroactive effect to the three-for-one stock split of the Bank's common stock effected in the form of a 200% stock dividend that was paid on January 31, 2022. There are no dilutive shares.

Note 4. Investment Securities

Investment securities are summarized as follows:

	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

	December 31, 2021			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale				
Mortgage-backed securities	$ 17,969,220	$ - -	$ 556,542	$ 17,412,678
State and municipal	1,002,572	- -	16,712	985,860
	$ 18,971,792	$ - -	$ 573,254	$ 18,398,538
Held to maturity				
U.S. Treasury	$ 7,929,809	$ 49,811	$ 90,870	$ 7,888,750
U.S. government agency	69,618,453	465,281	966,310	69,117,424
State and municipal	11,996,341	177,675	54,459	12,119,557
Mortgage-backed securities	13,103,206	- -	397,998	12,705,208
	$ 102,647,809	$ 692,767	$ 1,509,637	$ 101,830,939

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

	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

	December 31, 2021					
	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	$ 12,933,930	$ 328,589	$ 4,478,748	$ 227,953	$ 17,412,678	$ 556,542
State and municipal	985,860	16,712	--	--	985,860	16,712
	$ 13,919,790	$ 345,301	$ 4,478,748	$ 227,953	$ 18,398,538	$ 573,254
Held to maturity						
U.S. Treasury	$ 5,845,000	$ 90,870	$ --	$ --	$ 5,845,000	$ 90,870
U.S. government agency	51,752,992	910,075	1,945,566	56,236	53,698,558	966,311
State and municipal	6,636,915	30,544	1,134,100	23,915	7,771,015	54,459
Mortgage-backed securities	6,332,697	201,452	6,372,511	196,545	12,705,208	397,997
	$ 70,567,604	$ 1,232,941	$ 9,452,177	$ 276,696	$ 80,019,781	$ 1,509,637

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.

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, 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

	December 31, 2021			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Maturing				
Within one year	$ 1,002,572	$ 985,860	$ 311,878	$ 312,426
Over one to five years	- -	- -	63,816,295	63,523,828
Over five to ten years	- -	- -	16,289,588	16,029,648
Over ten years	- -	- -	9,126,842	9,259,829
Mortgage-backed securities	17,969,220	17,412,678	13,103,206	12,705,208
	$ 18,971,792	$ 18,398,538	$ 102,647,809	$ 101,830,939
Pledged securities	$ - -	$ - -	$ 18,155,821	$ 18,198,188

Investments are pledged as of December 31, 2022 and 2021, as collateral for government deposits and Federal Reserve Bank borrowings.

There were no sales of investment securities in 2022 or 2021.

Note 5. Loans and Allowance for Loan Losses

Major classifications of loans are as follows:

	2022	2021
Real estate		
Residential	$ 90,080,238	$ 79,704,410
Commercial	190,499,625	162,601,200
Construction, land development, and land	52,221,000	32,760,682
Commercial	20,691,008	15,025,342
Consumer	1,133,466	1,125,908
Paycheck Protection Program	- -	11,004,030
	354,625,337	302,221,572
Allowance for loan losses	2,590,632	2,414,292
Loans, net	$ 352,034,705	$ 299,807,280

The Paycheck Protection Program (PPP) loans were 100% guaranteed by the Small Business Administration (SBA). All of the PPP loans as of December 31, 2021 in the Bank's portfolio were forgiven by the SBA during 2022. During the year ended December 31, 2021, the Bank collected fees of approximately $1,502,900 from the SBA in connection with originations of PPP loans. The fees are being recognized as interest revenue over the term of the loans using the straight-line method, with accelerated recognition when the related loan pays off through SBA forgiveness. The PPP balances in the table above are net of deferred origination fees of $487,294 as of December 31, 2021. All such fees have been recognized during the year ended December 31, 2022.

Transactions in the allowance for loan losses for the years ended December 31, 2022 and 2021, were as follows:

December 31, 2022

	Beginning Balance	Provision for Loan Losses	Charge Offs	Recoveries	Ending Balance	Allowance for Loan Losses Ending Balance Evaluated for Impairment: Individually	Collectively	Outstanding Loan Balances Evaluated for Impairment: 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
Paycheck Protection Program	- -		- -	- -	- -	- -	- -	- -	- -
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, 2021

	Beginning Balance	Provision for Loan Losses	Charge Offs	Recoveries	Ending Balance	Allowance for Loan Losses Ending Balance Evaluated for Impairment: Individually	Collectively	Outstanding Loan Balances Evaluated for Impairment: Individually	Collectively
Real estate									
Residential	$ 724,911	$ (82,614)	$ - -	$ - -	$ 642,297	$ - -	$ 642,297	$ 127,484	$ 79,576,926
Commercial	1,405,556	(89,695)	(2,750)	3,600	1,316,711	- -	1,316,711	- -	162,601,200
Construction, land development, and land	191,849	100,384	- -	159	292,392	- -	292,392	- -	32,760,682
Commercial	167,836	(51,669)	- -	21,929	138,096	- -	138,096	- -	15,025,342
Consumer	9,553	530	(7,349)	4,198	6,932	- -	6,932	- -	1,125,908
Paycheck Protection Program	- -	- -	- -	- -	- -	- -	- -	- -	11,004,030
Unallocated	20,500	(2,636)	- -	- -	17,864	- -	17,864	- -	- -
	$ 2,520,205	$ (125,700)	$ (10,099)	$ 29,886	$ 2,414,292	$ - -	$ 2,414,292	$ 127,484	$ 302,094,088

Past due loans, segregated by age and class of loans, as of December 31, 2022 and 2021 were as follows:

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	$ 89,823,716	$ 90,080,373	$ - -	$ - -	$ - -
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	1,122,587	1,133,331	- -	- -	- -
Paycheck Protection Program	- -	- -	- -	- -	- -	- -	- -	- -	- -
	$ 242,613	$ 239,659	$ - -	$ 482,272	$ 354,143,065	$ 354,625,337	$ - -	$ - -	$ - -

December 31, 2021	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	$ 184,399	$ - -	$ - -	$ 184,399	$ 79,520,011	$ 79,704,410	$ - -	$ - -	$ - -
Commercial	- -	- -	- -	- -	162,601,200	162,601,200	- -	- -	- -
Construction, land development, and land	- -	- -	- -	- -	32,760,682	32,760,682	- -	- -	- -
Commercial	- -	- -	- -	- -	15,025,342	15,025,342	- -	- -	- -
Consumer	- -	- -	- -	- -	1,125,908	1,125,908	- -	- -	- -
Paycheck Protection Program	- -	- -	- -	- -	11,004,030	11,004,030	- -	- -	- -
	$ 184,399	$ - -	$ - -	$ 184,399	$ 302,037,173	$ 302,221,572	$ - -	$ - -	$ - -

Impaired loans as of December 31, 2022 and 2021, 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

	December 31, 2021						
	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	$ 127,484	$ 127,484	$ - -	$ 127,484	$ - -	$ 130,310	$ 4,278
Commercial	- -	- -	- -	- -	- -	- -	- -
Construction, land development, and lanc	- -	- -	- -	- -	- -	- -	- -
Commercial	- -	- -	- -	- -	- -	- -	- -
Consumer	- -	- -	- -	- -	- -	- -	- -
Paycheck Protection Program	- -	- -	- -	- -	- -	- -	- -
	$ 127,484	$ 127,484	$ - -	$ 127,484	$ - -	$ 130,310	$ 4,278

The Bank was not committed to advance any funds in connection with impaired loans at December 31, 2022 or 2021.

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.

The following tables present the December 31, 2022 and 2021, balances of loans by risk grade.

	December 31, 2022				
	Pass/ Watch	Special Mention	Substandard	Doubtful	Total
Real estate					
Residential	$ --	$ --	$ 655,522	$ --	$ 655,522
Commercial	--	--	--	--	--
Construction, land development, and land	--	--	--	--	--
Commercial	--	--	--	--	--
Consumer	--	--	--	--	--
Paycheck Protection Program	--	--	--	--	--
	$ --	$ --	$ 655,522	$ --	$ 655,522

	December 31, 2021				
	Pass/ Watch	Special Mention	Substandard	Doubtful	Total
Real estate					
Residential	$ 80,242	$ --	$ 722,894	$ --	$ 803,136
Commercial	--	--	--	--	--
Construction, land development, and land	--	--	--	--	--
Commercial	--	--	--	--	--
Consumer	--	--	--	--	--
Paycheck Protection Program	--	--	--	--	--
	$ 80,242	$ --	$ 722,894	$ --	$ 803,136

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 and 2021, follows:

		Pre-modification	December 31, 2022		
	Number of	Recorded	Recorded Investment		
	Contracts	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

		Pre-modification	December 31, 2021		
	Number of	Recorded	Recorded Investment		
	Contracts	Investment	Performing	Nonperforming	Total
Real estate					
Residential	2	$ 149,023	$ 127,484	$ - -	$ 127,484
Commercial	- -	- -	- -	- -	- -
Construction, land development, and land	- -	- -	- -	- -	- -
Commercial	- -	- -	- -	- -	- -
Consumer	- -	- -	- -	- -	- -
Paycheck Protection Program	- -	- -	- -	- -	- -
	2	$ 149,023	$ 127,484	$ - -	$ 127,484

The Bank did not modify any loans considered TDRs during the years ended December 31, 2022 or 2021. There were no loans secured by 1-4 family residential properties in the process of foreclosure at December 31, 2022 or 2021.

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:

	2022	2021
Mortgage and other loan commitments	$ 29,232,400	$ 15,914,600
Construction loans	20,275,110	15,329,376
Lines of credit	31,793,574	24,182,083
	$ 81,301,084	$ 55,426,059
Standby letters of credit	$ 1,844,149	$ 2,911,611

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. Management is not aware of any accounting loss the Bank will incur by funding these commitments.

Note 7. Premises and Equipment

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

	Estimated Useful Lives	2022	2021
Land		$ 4,075,773	$ 4,256,240
Buildings and improvements	5 - 40 years	6,916,404	6,239,056
Furniture and equipment	3 - 20 years	2,260,457	2,077,325
		13,252,634	12,572,621
Accumulated depreciation		4,290,662	3,983,982
Net premises and equipment		$ 8,961,972	$ 8,588,639
Depreciation expense		$ 306,680	$ 312,897

Note 8. Interest-Bearing Deposits

Major classifications of interest-bearing deposits are as follows:

	2022	2021
Money market	$188,419,226	$196,946,879
Savings and interest checking	109,380,775	108,131,721
Certificates of deposit, $250,000 or more	27,151,458	18,610,061
Other time deposits	37,215,171	45,321,961
	$362,166,630	$369,010,622

Maturities of time deposits are as follows:

	2022	2021
Within one year	$ 40,344,214	$ 45,533,978
One year to within two years	10,656,934	7,160,727
Two years to within three years	4,822,368	3,701,996
Three years to within four years	2,231,620	4,809,105
Four years to within five years	6,311,493	2,722,731
Greater than five years	- -	3,485
Total	$ 64,366,629	$ 63,932,022

Note 9. Available Lines of Credit

The Bank has available lines of credit of $29,500,000 in overnight federal funds and $8,000,000 in secured federal funds facilities 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 $92,975,400 as of December 31, 2022.

As of December 31, 2022, the Bank has pledged investment securities to the Federal Reserve Bank of Richmond to provide a borrowing capacity totaling approximately $4,285,593 under its discount window program.

There were no outstanding advances under any of these facilities at December 31, 2022.

Note 10. 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:

	2022	2021
Balance at beginning of year	$ 3,601,452	$ 3,034,258
New loans	1,941,813	893,413
Principal payments	(324,517)	(326,219)
Balance at end of year	$ 5,218,748	$ 3,601,452

Deposits from executive officers and directors and their related interests were $ 14,997,603 as of December 31, 2022 and $15,998,204 as of December 31, 2021.

During the years ended December 31, 2022 and 2021, a director's law firm provided professional services to the Bank. The Bank paid $488 and $553 for these services, respectively.

Note 11. Other Operating Expenses

Other operating expenses consist of the following:

	2022	2021
FDIC insurance	$ 253,326	$ 233,076
Professional fees	238,659	210,972
Communications	251,445	187,236
Director fees	198,450	189,000
Charitable contributions	127,034	111,562
Software amortization and licenses	91,265	81,524
Supplies	83,586	91,453
Advertising	80,498	41,221
Insurance	75,328	75,718
Postage and freight	65,030	67,607
Dues and subscriptions	63,885	56,067
Education	42,445	29,051
Correspondent bank fees	40,528	43,986
Armored car and courier	33,715	25,055
Loan processing fees	22,964	17,498
Other	156,608	117,828
	$ 1,824,766	$ 1,578,854

Note 12. 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 $29,261 and $32,396 for the years ended December 31, 2022 and 2021, 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 $182,408 and $171,907 for the years ended December 31, 2022 and 2021, respectively.

Note 13. Income Taxes

The components of income tax expense are as follows:

	2022	2021
Current		
Federal	$ 2,027,944	$ 1,542,220
State	661,395	545,631
	2,689,339	2,087,851
Deferred	11,093	37,052
	$ 2,700,432	$ 2,124,903

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

	2022	2021
Provision for (recovery of) loan losses	$ (77,761)	$ 34,590
Depreciation	74,066	(11,463)
Nonqualified retirement plans	14,788	13,925
	$ 11,093	$ 37,052

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

	2022	2021
Deferred tax assets		
Allowance for loan losses	$ 436,813	$ 359,053
Unrealized loss on investment securities available for sale	772,940	157,745
Nonqualified retirement plans	131,509	146,296
	1,341,262	663,094
Deferred tax liabilities		
Depreciation	139,273	65,207
	139,273	65,207
Net deferred tax asset	$ 1,201,989	$ 597,887

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

	2022	2021
Tax at statutory federal income tax rate	21.0%	21.0%
Tax effect of		
Tax-exempt income	(0.7)%	(0.9)%
State income tax, net of federal benefit	4.7%	5.4%
Income tax expense	25.0%	25.5%

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, 2018.

Note 14. 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, 2022 and 2021, 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, 2022 and 2021, 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, 2022, 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, 2022					
			Minimum		**To Be Well**	
	Actual		**Capital Adequacy**		**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%

	December 31, 2021					
	Actual		Minimum Capital Adequacy		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(in thousands)					
Tier 1 leverage ratio	$49,169	7.72%	$25,472	4.00%	$31,840	5.00%
Tier 1 capital (to risk-weighted assets)	$49,169	15.25%	$27,404	8.50%	$25,792	8.00%
Common equity tier 1 capital ratio (to risk-weighted assets)	$49,169	15.25%	$22,568	7.00%	$20,956	6.50%
Total capital ratio (to risk-weighted assets)	$51,583	16.00%	$33,852	10.50%	$32,240	10.00%

Note 15. 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, 2022 and 2021:

	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	$ - -

	December 31, 2021			
	Total	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Mortgage-backed securities	$ 17,412,678	$ - -	$ 17,412,678	$ - -
State and municipal	985,860	- -	985,860	- -
	$ 18,398,538	$ - -	$ 18,398,538	$ - -

Fair Value Measurements on a Nonrecurring Basis

Impaired 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 impaired loans is not active. As of December 31, 2022 and 2021, the fair values of $121,690 and $127,484 consist of recorded loan balances net of any specific valuation allowances.