BANK OF Bird-in-Hand

a full service community bank

Financial Statements • December 31, 2023

SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Contents

SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Bank of Bird-in-Hand
Bird-in-Hand, Pennsylvania

Opinion

We have audited the accompanying financial statements of Bank of Bird-in-Hand (the "Bank"), which comprise the balance sheets as of December 31, 2023 and 2022; the related statement of operations, shareholders' 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.

We have also audited, in accordance with auditing standards generally accepted in the United States of America (GAAS), the Bank's internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 29, 2024, expressed an unmodified opinion on the effectiveness of the Bank's internal control over financial reporting.

Basis for Opinion

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

Change in Accounting Principle

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

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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 for a period of within one year after the date 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.
- 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.

S.R. Snodgrass P.C.

King of Prussia, Pennsylvania
March 29, 2024

BANK OF BIRD-IN-HAND
BALANCE SHEETS
DECEMBER 31, 2023 AND 2022
(in thousands, except share and per-share data)

	2023	2022
ASSETS		
Cash and due from banks	$ 20,126	$ 18,787
Interest-bearing deposits with other banks	109,993	104,183
Total cash and cash equivalents	130,119	122,970
Loans receivable, net of allowance for credit losses of $7,038 at December 31, 2023, and $7,822 at December 31, 2022	1,181,836	975,003
Bank premises and equipment, net	10,457	9,514
Operating lease right of use asset	3,336	3,655
Accrued interest receivable	4,364	3,148
Restricted investment in bank stock	5,924	5,332
Bank owned life insurance	24,966	10,958
Other assets	2,449	1,879
TOTAL ASSETS	$ 1,363,451	$ 1,132,459
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 102,031	$ 92,428
Interest-bearing demand	539,517	461,851
Time deposits	447,835	339,666
Total deposits	1,089,383	893,945
FHLB advances	118,000	112,000
Accrued interest payable	1,052	788
Finance lease obligation	6,069	5,252
Operating lease obligation	3,398	3,684
Other liabilities	4,296	2,116
TOTAL LIABILITIES	1,222,198	1,017,785
SHAREHOLDERS' EQUITY		
Preferred stock, $1.00 par value, 2,000,000 shares authorized, and no outstanding shares at December 31, 2023 and 2022.	-	-
Common stock, $1.00 par value, 50,000,000 shares authorized, and 7,976,150 and 7,257,622 shares issued and outstanding at December 31, 2023 and 2022, respectively.	7,976	7,258
Additional paid-in capital	107,142	88,420
Accumulated earnings	26,135	18,996
TOTAL SHAREHOLDERS' EQUITY	141,253	114,674
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,363,451	$ 1,132,459

See accompanying notes to financial statements.

BANK OF BIRD-IN-HAND
STATEMENTS OF OPERATIONS
DECEMBER 31, 2023 AND 2022
(in thousands, except share data)

	2023	2022
INTEREST INCOME		
Loans, including fees	$ 51,653	$ 32,580
Deposits with banks and other	5,987	1,910
Total interest income	57,640	34,490
INTEREST EXPENSE		
Deposits	23,452	5,011
FHLB advances	3,049	2,045
Total interest expense	26,501	7,056
NET INTEREST INCOME	31,139	27,434
Provision for credit losses	1,048	2,564
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	30,091	24,870
NONINTEREST INCOME		
Service fees	1,383	1,250
ATM and debit card fees	711	508
Earnings on bank-owned life insurance	538	278
Other	94	91
Total other income	2,726	2,127
NONINTEREST EXPENSES		
Salaries and employee benefits	13,064	8,969
Occupancy	2,393	2,068
Data processing	1,485	1,059
Professional services	1,398	1,038
Advertising	269	265
Other operating expenses	4,127	2,910
Total noninterest expenses	22,736	16,309
INCOME BEFORE INCOME TAXES	10,081	10,688
Income taxes	2,395	2,646
NET INCOME	$ 7,686	$ 8,042
EARNINGS PER SHARE, BASIC	$ 1.04	$ 1.11
EARNINGS PER SHARE, DILUTED	$ 1.04	$ 1.11

See accompanying notes to financial statements.

BANK OF BIRD-IN-HAND
STATEMENTS OF SHAREHOLDERS' EQUITY
FOR YEARS ENDED DECEMBER 31, 2023 AND 2022
(in thousands, except share data)

	Common Stock	Additional Paid-in Capital	Accumulated Earnings	Total
Balance, December 31, 2021	$ 7,214	$ 88,114	$ 12,767	$ 108,095
Issuance of 43,750 shares of common stock for exercise of organizer stock warrant	44	306	-	350
Common stock dividend ($0.25 per share)	-	-	(1,813)	(1,813)
Net income	-	-	8,042	8,042
Balance, December 31, 2022	7,258	88,420	18,996	114,674
Cumulative effect of adoption of ASU 2016-13	-	-	1,419	1,419
Issuance of 23,125 shares of common stock for exercise of organizer stock warrants	23	162	-	185
Net proceeds from the issuance of 695,403 shares of common stock, net of issuance costs of $216,000	695	18,560	-	19,255
Common stock dividend ($0.27 per share)	-	-	(1,966)	(1,966)
Net income	-	-	7,686	7,686
Balance, December 31, 2023	$ 7,976	$ 107,142	$ 26,135	$ 141,253

See accompanying notes to financial statements.

BANK OF BIRD-IN-HAND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
(in thousands)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 7,686	$ 8,042
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	1,048	2,564
Deferred income tax	(190)	120
Amortization of net loan fees	1,471	1,304
Depreciation of premises and equipment	1,323	1,168
Amortization of operating lease right of use asset	33	29
Earnings on bank-owned life insurance	(538)	(278)
Increase in accrued interest receivable and other assets	(1,784)	(1,325)
Increase in accrued interest payable and other liabilities	2,224	1,162
Net cash provided by operating activities	11,273	12,786
CASH FLOWS FROM INVESTING ACTIVITIES		
Net increase in loans	(207,525)	(275,614)
Purchases of restricted investment in bank stock	(1,752)	(2,600)
Redemption of restricted investment in bank stock	1,160	1,081
Purchase of bank-owned life insurance	(13,470)	-
Purchases of premises and equipment	(1,123)	(1,607)
Net cash used in investing activities	(222,710)	(278,740)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	195,438	299,910
Repayments on finance lease obligations	(326)	(268)
Net (decrease) in short-term FHLB advances	(5,000)	(35,000)
Repayment of long-term FHLB advances	(19,000)	-
Proceeds from long-term FHLB advances	30,000	60,000
Issuance of common stock, net of offering costs	19,255	-
Issuance of common stock from the exercise of stock warrants	185	350
Payment of cash dividend	(1,966)	(1,813)
Net cash provided by financing activities	218,586	323,179
Increase in cash and cash equivalents	7,149	57,225
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	122,970	65,745
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 130,119	$ 122,970

See accompanying notes to financial statements.

BANK OF BIRD-IN-HAND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
(in thousands)

	2023	2022
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	$ 26,237	$ 6,314
Income taxes	$ 2,545	$ 2.570
Supplemental disclosure of non-cash cash flow information:		
Finance lease right of use asset and lease liability	$ 1,143	$ 390
Operating lease right of use asset	$ -	$ 3,947
Operating lease liability	$ -	$ 3,947

See accompanying notes to financial statements.

1. Summary of Significant Accounting Policies

Organization and Nature of Operations

Bank of Bird-in-Hand (the "Bank") was incorporated on May 31, 2013 (date of inception), under the laws of the Commonwealth of Pennsylvania and is a Pennsylvania state-chartered bank. The Bank obtained its certificate of authorization to do business on November 29, 2013, commenced operations on December 2, 2013, and is a full-service bank providing personal and business lending and deposit services.

On December 1, 2015, the Bank, in accordance with Section 1609 of the Pennsylvania Banking Code of 1965, effected a conversion from a Pennsylvania state-chartered bank into a Pennsylvania state-chartered stock savings bank. The Plan of Conversion was approved and adopted by a unanimous vote of the directors and by at least a two-thirds vote of shareholders at a special meeting on October 27, 2015. As a state-chartered stock savings bank, the Bank is subject to regulation by the Pennsylvania Department of Banking and Securities and the Federal Deposit Insurance Corporation (FDIC). The Bank maintains its principal office in Bird-in-Hand, Pennsylvania, and provides financial services primarily to Lancaster County and the surrounding Pennsylvania counties.

Basis of Presentation

The accounting and financial reporting policies of the Bank conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. The policies that materially affect the determination of financial position, results of operations, and cash flow are summarized below.

Estimates

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

In accordance with ASC Topic 825, *Financial Instruments*, entities other than public business entities are not required to disclose the fair values of financial assets and financial liabilities measured in the financial statements at amortized costs.

Concentrations of Credit Risk

The Bank grants commercial loans, commercial mortgages, agricultural loans and mortgages, residential mortgages, home equity, and consumer loans to businesses and individuals located in Lancaster County and the surrounding Pennsylvania counties. The concentration of credit by type of loan is set forth in Note 2. Its debtors' ability to honor their contracts is influenced by the region's economy.

Cash and Cash Equivalents

Cash and cash equivalents consisted of cash on hand, cash in banks, and overnight deposits with original maturities of three months or less.

1. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents (Continued)

The Bank maintains cash deposits in other depository institutions that occasionally exceed the amount of deposit insurance available. Management periodically assesses the financial condition of these institutions and believes that the risk of any possible credit loss is minimal.

Presentation of Cash Flows

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

Comprehensive Income

Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income. Other than net income, the Bank had no components of comprehensive income at December 31, 2023 and 2022.

Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for credit losses and any deferred fees or costs. Accrued interest receivable totaled $4,220,000 at December 31, 2023, as reported on the balance sheet, and is excluded from the estimate of credit losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Bank is generally amortizing these amounts over the contractual life of the loan.

The loans receivable portfolio is segmented into commercial and consumer loans. Commercial loans consist of the following classes: commercial and industrial, agricultural, and commercial real estate. Consumer loans consist of the following classes: residential mortgages, home equity loans, and other consumer loans.

A majority of the Bank's loan assets are loans to business owners of many types, such as entrepreneurs, proprietors, professionals, partnerships, LLPs, LLCs, and corporations. The Bank makes commercial loans for purchases and refinances, equipment financing, accounts receivable and inventory financing, and other purposes, as required by the customer base. The assets financed are used within the business for its ongoing operation. Repayment of these kinds of loans generally comes from the cash flow of the business or the ongoing conversions of assets, such as accounts receivable and inventory, to cash.

The Bank's credit policies determine advance rates against the different forms of collateral that can be pledged against commercial loans. Typically, the majority of loans will be limited to a percentage of their underlying collateral values such as real estate values, equipment, eligible accounts receivable, and finished inventory or raw material. Individual loan advance rates may be higher or lower, depending upon the financial strength of the borrower and/or the term of the loan.

Non-real estate secured commercial-term loans may have maturities up to ten years and generally have fixed interest rates for up to five years. Commercial lines of credit are renewed annually and generally carry variable interest rates. Typical collateral for commercial loans includes the borrower's accounts receivable, inventory,

1. Summary of Significant Accounting Policies (Continued)

Loans Receivable (Continued)

and machinery and equipment. Included in commercial loans are agricultural loans. Agricultural loans are secured by properties such as farmland, agricultural-related properties, or equipment. These loans are highly dependent on the business operations for repayment.

Commercial real estate loans include long-term loans financing commercial properties. Repayment of this kind of loan is dependent upon either the ongoing cash flow of the borrowing entity or the resale or lease of the subject property. Commercial real estate loans require a loan-to-value ratio of not greater than 80 percent. The maximum loan amortization is 25 years. Interest rates can be either floating or adjustable periods of up to five years with a rate reset provision.

Commercial construction loans include loans to finance the construction or rehabilitation of commercial properties, multi-family properties, or one-to-four family residential structures.

Consumer home equity lines of credit and residential mortgages are secured by the borrower's residential real estate in either a first or second lien position. Consumer home equity lines require a loan-to-value ratio of not greater than 80 percent, with limited exceptions. Consumer home equity lines of credit have variable rates and a 15-year draw period followed by a 15-year repayment period. Residential mortgages have adjustable rates with terms and amortization up to 30 years. The Bank also offers 3/1, 5/1, 7/1, and 10/1 adjustable-rate mortgages.

Other consumer loans include personal lines of credit and personal term loans. The majority of these loans are unsecured.

The majority of commercial and consumer loans are located in the Lancaster County and surrounding areas.

For all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed, and unpaid interest accrued in prior years is charged against the allowance for credit losses. Interest received on nonaccrual loans, including impaired loans, generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past-due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

Allowance for Credit Losses - Loans

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

The ACL is an estimate of expected credit losses, measured over the contractual life of a loan. Determination of an appropriate ACL is inherently subjective and may have significant changes from period to period.

1. Summary of Significant Accounting Policies (Continued)

Allowance for Credit Losses – Loans (Continued)

The ACL methodology described in FASB ASC Topic 326 applies to loans held for investment and off balance-sheet credit exposures. The expected loss estimate is made up of historical lookback of actual losses applied over the life of the loan portfolio and adjusted for qualitative factors and forecasted losses based on economic and forward-looking data applied over a reasonable and supportable forecast period.

The ACL is measured on a collective (pool) basis when similar risk characteristics exist. The Bank measures the ACL using the following methods. Historical credit loss experience is the basis for the estimation of expected credit losses. The Bank utilizes its own internal average loss ratio if it is greater than a Management determined peer group ratio. The Bank applies historical loss rates to pools of loans with similar risk characteristics. After consideration of the historic loss calculation, management applies qualitative adjustments to reflect the current conditions and reasonable and supportable forecasts not already reflected in the historical loss information at the balance sheet date. A reasonable and supportable forecast adjustment is based on the unemployment forecast and GDP from the Federal Open Market Committee (FOMC) relative to the average of these metrics over a +20-year period. The reasonable and supportable forecast is over a 12-month period. The qualitative adjustments for current conditions are based upon changes in lending policies and procedures, nature and volume of loan portfolio, experience and ability of lending management and staff, volume and severity of past due, classified, and nonaccrual loans, quality of the Bank's loan review, underlying value of collateral, and national, regional, and local economic conditions and other external factors. These modified historical loss rates are multiplied by the outstanding principal balance of each loan, over the life of the loan, to calculate a required reserve.

The ACL for individual loans begins with the use of normal credit review procedures to identify whether a loan no longer shares similar risk characteristics with other pooled loans and therefore should be individually assessed. Commercial loans are evaluated if they meet the following criteria: 1) when it is determined that foreclosure is probable, 2) substandard, doubtful and nonperforming loans when repayment is expected to be provided substantially through the operation or sale of the collateral, 3) the fair value of the collateral when the loan is collateral dependent. Individual loan evaluations consist primarily of the fair value of collateral method because most of the Bank's loans are collateral dependent. Collateral values are discounted to consider disposition costs when appropriate. A specific reserve is established or a charge-off is taken if the fair value of the loan is less than the loan balance.

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

In addition, federal regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses and may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

1. Summary of Significant Accounting Policies (Continued)

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures - The Bank estimates expected credit losses over the contractual period in which the Bank is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Bank. The allowance for credit losses on off-balance sheet credit exposures is adjusted through provision expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The allowance is carried as a liability and is included in other liabilities on the Bank's Balance Sheets. The liability was $53,000 as of December 31, 2023. As the unadvanced portion of lines of credit increases, this allowance will increase.

Allowance for Loan Losses (ALL) – Prior to adopting ASU 2016-13

Prior to the adoption of ASU 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, the Bank calculated its ALL using an incurred loan loss methodology. The following policy related to the ALL in prior periods.

The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable is charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on utilization of peer group statistics, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class, including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as home equity and other consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These qualitative risk factors include:

1. Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices.

2. National, regional, and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral-dependent loans.

3. Nature and volume of the portfolio and terms of loans, existence and effect of any concentrations of credit, and changes in the level of such concentrations.

4. Experience, ability, and depth of lending management and staff.

5. Volume and severity of past due, classified, and nonaccrual loans and other loan modifications.

6. Quality of the Bank's loan review system and the degree of oversight by the Bank's Board of Directors.

1. Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (ALL) – Prior to adopting ASU 2016-13 (Continued)

7. Changes in underlying value of collateral.

8. Effect of external factors, such as competition and legal and regulatory requirements.

Each factor is assigned a value to reflect improving, stable, or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and industrial loans, and commercial real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral-dependent. An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The Bank had three impaired loans and the impairment was measured using the fair value of the collateral. For commercial loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When a real-estate-secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal, and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For commercial and industrial loans secured by non-real-estate collateral, such as accounts receivable, inventory, and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable aging or equipment appraisals, or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

Loans whose terms are modified are classified as troubled debt restructurings if the Bank grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate or an extension of a loan's stated maturity date. Nonaccrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as troubled debt restructurings are designated as impaired.

1. Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (ALL) – Prior to adopting ASU 2016-13 (Continued)

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures

The Bank estimates expected credit losses over the contractual period in which the Bank is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Bank. The allowance for credit losses on off-balance sheet credit exposures is adjusted through credit loss expense.

The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funding over its estimated life.

Accounting Pronouncements Adopted in 2023

In June 2016, FASB issued an accounting standard update ("ASU") entitled "Financial Instruments-Credit Losses (Topic 326), or ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments," which replaces the current "incurred loss" model for recognizing credit losses with an "expected loss" model referred to as the Current Expected Credit Loss ("CECL") model. Under the CECL model, banks are required to present certain financial assets carried at amortized cost, such as loans held for investment and held-to-maturity debt securities, at the net amount expected to be collected. The measurement of expected credit losses is based on information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This measurement takes place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the "incurred loss" model required under previous generally accepted accounting principles ("GAAP"), which delays recognition until it is probable a loss has been incurred. This guidance became effective on January 1, 2023 for the Bank. The results reported for periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable accounting standards.

1. Summary of Significant Accounting Policies (Continued)

Allowance for Credit Losses - Accounting Pronouncements Adopted in 2023 (Continued)

The Bank adopted this guidance and subsequent related updates, using the modified retrospective approach for all financial assets measured at amortized cost, including loans and held-to-maturity debt securities, and unfunded commitments. On January 1, 2023, the Bank recorded a cumulative effect decrease of $1,796,000 to the ACL as a result of the adoption of CECL. Retained earnings increased $1,419,000 and deferred tax assets increased by $377,000. The impact of the change, by loan class, from the incurred loss model to the expected credit loss model is detailed below (in thousands).

	January 1, 2023		
	Pre-adoption	Adoption Impact	As Reported
Assets			
ACL on loans			
Commercial and industrial	$ 4,266	$ 66	$ 4,332
Agricultural	2,549	(1,570)	979
Commercial real estate	156	3	159
Residential mortgage	671	(267)	404
Home equity	168	(48)	120
Consumer, other	12	(10)	2
Total ACL on loans	7,822	(1,826)	5,996
Liabilities			
ACL for unfunded commitments	19	30	49
Total ACL	$ 7,841	$ (1,796)	$ 6,045

Transfers of Financial Assets

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

Bank-Owned Life Insurance

The Bank invests in bank-owned life insurance (BOLI) as a source of funding for employee benefit expenses. BOLI involves the purchasing of life insurance by the Bank on a chosen group of officers. The Bank is the owner and beneficiary of the policies. The life insurance investment is carried at the cash surrender value of the underlying policies. Increases in cash surrender value are recorded in other income.

Restricted Investment in Bank Stock

Restricted stock at December 31, 2023 and 2022, is comprised of stock in the Federal Home Loan Bank of Pittsburgh (FHLB) in the amount of $5,854,200 and $5,262,100, respectively, and Atlantic Community Bankers Bank (ACBB) in the amount of $70,000 for December 31, 2023 and 2022. All restricted stock is carried at cost. Management's determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of the cost rather than by recognizing temporary declines in value.

Management believes no impairment charge is necessary related to the restricted stock as of December 31, 2023 and 2022.

1. Summary of Significant Accounting Policies (Continued)

Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets.

Leasehold improvements are amortized to expense over the shorter of the term of the respective lease or the estimated useful life of the improvements.

Advertising Costs

The Bank follows the policy of charging the costs of advertising to expense as incurred.

Income Taxes

Current income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the current period taxable income. The Bank determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax basis of assets and liabilities, net operating loss carryforwards, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense (benefit) results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of the evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Bank accounts for uncertain tax positions if it is “more likely than not” based on the technical merits, that the tax position will be realized or sustained upon examination. The term “more likely than not” means a likelihood of more than 50 percent; the terms “examined” and “upon examination” also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management’s judgment. The Bank had no uncertain tax positions at December 31, 2023 and 2022.

The Bank recognizes interest and penalties on income taxes, if any, as a component of the provision for income taxes. There was no interest or penalties recognized during 2023 and 2022.

Federal and state tax returns from 2020 through 2022 are open for examination as of December 31, 2023.

Off-Balance-Sheet Financial Instruments

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

1. Summary of Significant Accounting Policies (Continued)

Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Bank relate to outstanding stock warrants.

(In thousands, except share and per-share data)	2023	2022
Net income	$ 7,686	$ 8,042
Weighted-average number of shares outstanding (basic)	7,412,996	7,242,348
Effect of dilutive securities	-	16,958
Weighted-average number of shares outstanding (diluted)	$ 7,412,996	$ 7,259,306
Per share information:		
Basic earnings per share	$ 1.04	$ 1.11
Diluted earnings per share	$ 1.04	$ 1.11

As of December 31, 2023, there were no remaining options to purchase shares of common stock. As of December 31, 2022, there were 23,125 options to purchase shares of common stock at a weighted-average price of $8, which were included in dilutive earnings per share. At December 31, 2023 and 2022, there were no awards excluded from the computation of diluted earnings per share, as there were no awards outstanding with an anti-dilutive impact.

Revenue Recognition

The Bank accounts for applicable revenue in accordance with ASC Topic 606-Revenue from contracts with customers. Under ASC Topic 606, management determined that the primary sources of revenue emanating from interest and dividend income on loans and investments, along with noninterest revenue resulting from loans servicing and earnings on bank-owned life insurance, are not within scope of this Topic. The main sources of noninterest income within the scope of the standard are as follows:

- Insufficient fund fees and other service charges– Revenue from service charges on deposit accounts is earned through cash management, wire transfer, and other deposit-related services; as well as overdraft, non-sufficient funds, account management, and other deposit-related fees. Revenue is recognized for these services either over time, corresponding with deposit accounts' monthly cycle, or at a point in time for transactional related services and fees.

- ATM interchange and fee income – ATM fees are primarily generated when a Bank cardholder uses a non-Bank ATM or a non-Bank cardholder used a Bank's ATM. The Bank's performance obligation for ATM fee income is largely satisfied, and related revenue recognized, when the services are rendered or upon completion.

The Bank determined that the level of disaggregation of revenue, as reported on the Statements of Operations, provided a sufficient level of detail in order to properly analyze the significant revenue streams of the Bank and, therefore, no further disaggregation of any revenue streams within the scope of ASC 606 was considered to be necessary.

2. Loans Receivable

The composition of loans receivable at December 31, 2023 and 2022, is as follows (in thousands):

	2023	2022
Commercial and industrial	$ 656,508	$ 543,141
Agricultural	411,026	325,924
Commercial real estate	18,942	19,853
Residential mortgage	76,636	71,839
Home equity	20,669	18,038
Consumer, other	1,088	703
Total	$ 1,184,869	$ 979,498
Unearned net loan origination fees and costs	4,005	3,327
Allowance for credit losses	(7,038)	(7,822)
Net loans	$ 1,181,836	$ 975,003

3. Allowance for Credit Losses

The following table presents the activity in the allowance for credit losses by loan class for the year ended December 31, 2023 (in thousands):

December 31, 2023	Beginning Balance	Impact of adopting ASC 326	Charge-offs	Recoveries	Provisions (Reductions)	Ending Balance
Commercial and industrial	$ 4,266	$ 66	$ -	$ -	$ 768	$ 5,100
Agricultural	2,549	(1,570)	-	-	234	1,213
Commercial real estate	156	3	-	-	13	172
Residential mortgage	671	(267)	-	-	12	416
Home equity	168	(48)	-	-	14	134
Consumer, other	12	(10)	(4)	1	4	3
Total	$ 7,822	$ (1,826)	$ (4)	$ 1	$ 1,045	$ 7,038

For the year ended December 31, 2023, management charged off $4,000 in loans while recovering $1,000 and added $1,045,000 to the provision for credit losses related to loans and added $3,000 to the provision for off-balance sheet credit exposures for a combined provision of $1,048,000.

3. Allowance for Credit Losses (Continued)

The following tables summarize, under the incurred loss model, the activity in the allowance for loan losses by loan class for the year ended December 31, 2022, and information in regard to the allowance for loan losses and the recorded investment in loans receivable by loan class as of December 31, 2022 (in thousands):

December 31, 2022	Beginning Balance	Charge-offs	Recoveries	Provisions	Ending Balance
Commercial and industrial	$ 3,001	$ (401)	$ 12	$ 1,654	$ 4,266
Agricultural	1,821	-	-	728	2,549
Commercial real estate	137	-	-	19	156
Residential mortgage	541	-	-	130	671
Home equity	152	-	-	16	168
Consumer, other	9	(15)	1	17	12
Total	$ 5,661	$ (416)	$ 13	$ 2,564	$ 7,822

	Allowance for Loan Losses:			Loans:		
December 31, 2022	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial and industrial	$ 4,266	$ -	$ 4,266	$ 543,141	$ -	$ 543,141
Agricultural	2,549	-	2,549	325,924	816	325,108
Commercial real estate	156	-	156	19,853	-	19,853
Residential mortgage	671	-	671	71,839	-	71,839
Home equity	168	-	168	18,038	-	18,038
Consumer, other	12	-	12	703	-	703
Total	$ 7,822	$ -	$ 7,822	$ 979,498	$ 816	$ 978,682

The following table includes the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount as of December 31, 2022 (in thousands), as required by the incurred loss model:

December 31, 2022	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Commercial and industrial	$ -	$ -	$ -	$ -	$ -
Agricultural	818	816	-	827	4
Commercial real estate	-	-	-	-	-
Residential mortgage	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer, other	-	-	-	-	-
Total	$ 818	$ 816	$ -	$ 827	$ 4

3. Allowance for Credit Losses (Continued)

Credit Quality Indicators

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Bank analyzes loans individually to classify the loans as to credit risk. This analysis includes loans with a relationship outstanding balance greater than $450,000 and non-homogeneous loans, such as commercial real estate, agricultural, and commercial and industrial loans. This analysis is performed on a yearly basis.

The Bank uses the following definitions for loan (asset) risk ratings:

Pass - Assets in this category are currently protected by verifiable repayment sources, both primary and secondary. Weaknesses or adverse trends may exist, but these will not inordinately jeopardize the credit position and/or the ability to repay the loan on a timely basis. These constitute only acceptable credit risks in light of the circumstances surrounding the credit.

Special Mention - Assets in this category have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special mention assets are not adversely classified and do not expose the institution to enough risk to warrant adverse classification.

Substandard - Assets so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are further characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Assets in this category may be inadequately protected by the current sound worth of the obligor or by the collateral pledged, if any. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in the individual assets classified substandard. All non-accrual loans will be classified substandard; however, a loan that begins performing again after being on non-accrual will not be upgraded until evidence that the underlying situation that caused the non-accrual status has been rectified.

Doubtful - Doubtful assets have all the weaknesses inherent in substandard assets 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 possibility of loss is well defined, but because of certain important and reasonably specific pending factors that may work to strengthen the asset, a further classification is deferred until its most exact status may be determined. Pending factors include merger, acquisition, or liquidation procedures, capital injection, perfecting liens or additional collateral and refinancing plans.

3. Allowance for Credit Losses (Continued)

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard, and doubtful within the Bank's internal risk rating system as of December 31, 2023 (in thousands), in accordance with ASC 326:

	Term Loans Amortized Costs Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
	2023	2022	2021	2020	2019	Prior			
December 31, 2023									
Commercial and industrial									
Pass	$ 145,415	$ 190,356	$ 130,825	$ 50,757	$ 28,045	$ 41,464	$ 68,756	$ 890	$ 656,508
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total	$ 145,415	$ 190,356	$ 130,825	$ 50,757	$ 28,045	$ 41,464	$ 68,756	$ 890	$ 656,508
Commercial and industrial									
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Agricultural									
Pass	$ 98,231	$ 115,569	$ 69,136	$ 42,743	$ 17,593	$ 47,159	$ 20,421	$ -	$ 410,852
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	174	-	-	174
Doubtful	-	-	-	-	-	-	-	-	-
Total	$ 98,231	$ 115,569	$ 69,136	$ 42,743	$ 17,593	$ 47,333	$ 20,421	$ -	$ 411,026
Agricultural									
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial Real Estate									
Pass	$ -	$ 3,597	$ 9,005	$ 310	$ 3,514	$ 2,516	$ -	$ -	$ 18,942
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total	$ -	$ 3,597	$ 9,005	$ 310	$ 3,514	$ 2,516	$ -	$ -	$ 18,942
Commercial Real Estate									
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

3. Allowance for Credit Losses (Continued)

	Term Loans Amortized Costs Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	
	2023	2022	2021	2020	2019	Prior			Total
December 31, 2023									
Residential mortgage									
Pass	$ 9,381	$ 18,713	$ 22,956	$ 23,456	$ 1,090	$ 1,040	$ -	$ -	$ 76,636
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total	$ 9,381	$ 18,713	$ 22,956	$ 23,456	$ 1,090	$ 1,040	$ -	$ -	$ 76,636
Residential mortgage									
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Home equity									
Pass	$ -	$ -	$ -	$ -	$ -	$ -	$ 20,669	$ -	$ 20,669
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total	$ -	$ -	$ -	$ -	$ -	$ -	$ 20,669	$ -	$ 20,669
Home equity									
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Consumer, other									
Pass	$ 406	$ 68	$ 17	$ -	$ -	$ -	$ 597	$ -	$ 1,088
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total	$ 406	$ 68	$ 17	$ -	$ -	$ -	$ 597	$ -	$ 1,088
Consumer, other									
Current period gross charge-offs	$ 4	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 4

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard, and doubtful within the Bank's internal risk rating system as of December 31, 2022 in accordance with ASC 310 (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2022					
Commercial and industrial	$ 543,141	$ -	$ -	$ -	$ 543,141
Agricultural	325,924	-	-	-	325,924
Commercial real estate	19,853	-	-	-	19,853
Residential mortgage	71,839	-	-	-	71,839
Home equity	18,038	-	-	-	18,038
Consumer, other	703	-	-	-	703
Total	$ 979,498	$ -	$ -	$ -	$ 979,498

3. Allowance for Credit Losses (Continued)

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by the past due status as of December 31, 2023 and 2022 (in thousands):

	December 31, 2023						
	Current	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Loans Receivable	Recorded Investment >90 Days and Accruing
Commercial and industrial	$ 656,508	$ -	$ -	$ -	$ -	$ 656,508	$ -
Agricultural	411,026	-	-	-	-	411,026	-
Commercial real estate	18,942	-	-	-	-	18,942	-
Residential mortgage	76,636	-	-	-	-	76,636	-
Home equity	20,494	175	-	-	175	20,669	-
Consumer, other	1,088	-	-	-	-	1,088	-
Total	$ 1,184,694	$ 175	$ -	$ -	$ 175	$ 1,184,869	$ -

	December 31, 2022						
	Current	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Loans Receivable	Recorded Investment >90 Days and Accruing
Commercial and industrial	$ 541,451	$ 1,690	$ -	$ -	$ 1,690	$ 543,141	$ -
Agricultural	325,314	610	-	-	610	325,924	-
Commercial real estate	19,853	-	-	-	-	19,853	-
Residential mortgage	71,839	-	-	-	-	71,839	-
Home equity	18,038	-	-	-	-	18,038	-
Consumer, other	703	-	-	-	-	703	-
Total	$ 977,198	$ 2,300	$ -	$ -	$ 2,300	$ 979,498	$ -

3. Allowance for Credit Losses (Continued)

The following table includes the amortized cost basis of loans on nonaccrual status and loans past due over 90 days still accruing interest as of December 31, 2023 (in thousands), in accordance with ASC 326:

December 31, 2023	Nonaccrual with no ACL	Nonaccrual with ACL	Total Nonaccrual	Loans Past Due over 90 Days and Accruing Interest	Total
Commercial and industrial	$ -	$ -	$ -	$ -	$ -
Agricultural	174	-	174	-	174
Commercial real estate	-	-	-	-	-
Residential mortgage	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer, other	-	-	-	-	-
Total	$ 174	$ -	$ 174	$ -	$ 174

Non-accrual loans are collateral dependent and secured by real estate as of December 31, 2023.

The following table includes the loan balances on nonaccrual status as of December 31, 2022 in accordance with ASC 310 (in thousands):

	2022
Commercial and industrial	$ -
Agricultural	717
Commercial real estate	-
Residential mortgage	-
Home equity	-
Consumer, other	-
Total	$ 717

Loans Modified to Borrowers Experiencing Financial Difficulty

The Company may grant a modification to borrowers in financial distress by providing a temporary reduction in interest rate, or an extension of a loan’s stated maturity date. Loan modifications are intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral.

The Company identifies loans for potential restructure primarily through direct communication with the borrower and evaluation of the borrower's financial statements, revenue projections, tax returns, and credit reports. Even if the borrower is not presently in default, management will consider the likelihood that cash flow shortages, adverse economic conditions, and negative trends may result in a payment default in the near future. There were no modifications of loans to borrowers experiencing financial difficulty during the year ended December 31, 2023.

There were no payment defaults for loan granted modifications due to a borrower experiencing financial difficulty within twelve months of the modification date, during the year ended December 31, 2023.

As described in Note 1, the Company adopted ASU 2022-02 on January 1, 2023, which eliminated the recognition and measurement of troubled debt restructurings (TDRs). As of December 31, 2022, there was one troubled debt restructuring that defaulted within the past 12 months of 2022. This TDR had a recorded

3. Allowance for Credit Losses (Continued)

investment and unpaid principal balance of $106,000, with no allowance recorded, as it was collateral dependent and fair value exceeded the carrying value.

4. Bank Premises and Equipment

The components of premises and equipment at December 31, 2023 and 2022, are as follows (in thousands):

	Estimated Useful Lives	2023	2022
Leasehold improvements	15	$ 2,460	$ 1,882
Finance lease right of use assets	3-20	6,733	5,590
Furniture, fixtures, and equipment	3-10	5,217	4,688
Fixed asset suspense		213	197
		14,623	12,357
Less accumulated depreciation and amortization		(4,166)	(2,843)
Total		$ 10,457	$ 9,514

Depreciation expense charged to operations amounted to $1,323,000 and $1,168,000 for the years ended December 31, 2023 and 2022, respectively.

5. Deposits

The components of deposits at December 31, 2023 and 2022, are as follows (in thousands):

	2023	2022
Demand, noninterest-bearing	$ 102,031	$ 92,428
Demand, interest-bearing	116,630	143,626
Savings deposits	284,766	219,301
Money market accounts	138,121	98,924
Time deposits over $250,000	93,463	74,923
Other time deposits	354,372	264,743
	$ 1,089,383	$ 893,945

At December 31, 2023, the scheduled maturities of time deposits are as follows (in thousands):

Years ending December 31:	
2024	$ 285,998
2025	136,089
2026	10,291
2027	5,457
2028	10,000
Total	$ 447,835

The Bank had brokered deposits of $35,125,000 and $48,000,000 as of December 31, 2023 and December 31, 2022, respectively.

6. FHLB Advances

Short-term debt was as follows:

All short-term borrowings consist of fixed rate advances from the Federal Home Loan Bank "FHLB." Short-term borrowings of $10,000,000, with a weighted average rate of 5.60%, were outstanding as of December 31, 2023 and maturing in January 2024. Short-term borrowings of $15,000,000, with a weighted average rate of 5.16%, were outstanding as of December 31, 2022 and matured in August 2023.

Long-term debt was as follows:

All long-term borrowings consist of fixed rate advances from the FHLB as of December 31, 2023 and December 31, 2022. The following table presents a summary of long-term debt as of December 31, 2023 and December 31, 2022 (in thousands).

Year ending December 31, 2023:			Year ending December 31, 2022:		
Maturity Year	Amount	Weighted Average Rate	Maturity Year	Amount	Weighted Average Rate
2024	$ 20,000	2.46 %	2023	$ 19,000	0.92 %
2025	73,000	3.09 %	2024	20,000	2.46 %
2026	15,000	4.38 %	2025	58,000	2.70 %
Total	$ 108,000	3.15 %		$ 97,000	2.30 %

The Bank has borrowing capacity with the FHLB of approximately $638,000,000, of which $118,000,000 of borrowings and $15,000 of letters of credit were outstanding as of December 31, 2023. Advances from the FHLB are secured by a blanket lien on qualified collateral, defined principally as mortgage loans, which are owned by the Bank free and clear of any liens or encumbrances.

The Bank has a $7,500,000 federal funds overnight line of credit with Atlantic Community Bankers Bank ($3,500,000 on an unsecured basis and $4,000,000 secured by investments). The Bank also has a $20,000,000 unsecured federal funds line of credit with Pacific Coast Bankers' Bank. Borrowings on each line of credit at December 31, 2023 and 2022, were $0.

The Bank also has access to borrowings from the Federal Reserve Bank Discount Window of $4,174,000 as of December 31, 2023. All borrowings through this facility are secured by a specific pledge of loans. There were no borrowings outstanding under this facility at December 31, 2023 and 2022.

7. Income Taxes

The provision for income taxes consists of (in thousands):

	2023	2022
Current	$ 2,585	$ 2,526
Deferred	(190)	120
Income taxes	$ 2,395	$ 2,646

7. Income Taxes (Continued)

The components of the net deferred liabilities as of December 31, 2023 and 2022, are as follows (in thousands):

	2023	2022
Deferred tax assets:		
Organizational costs	$ 49	$ 59
Deferred Comp	468	225
Allowance for credit losses	1,478	1,600
Leases	111	72
Accrued bonus	157	-
Other	20	8
Total deferred tax assets	2,283	1,964
Deferred tax liabilities:		
Depreciation	833	695
Loan origination costs	978	822
Prepaid expenses	122	126
Other	750	531
Total deferred tax liabilities	2,683	2,174
Net deferred tax liabilities	$ (400)	$ (210)

In assessing the realizability of deferred tax assets (liabilities) at December 31, 2023, management considers whether it is more likely than not that some portion or all of the deferred tax assets (liabilities) will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and prudent, feasible, and permissible, as well as available, tax planning strategies in making this assessment.

Income tax as reported differs from the amount computed by applying the statutory federal income tax rate to income before taxes. A reconciliation of the differences by amount and percentage is as follows (in thousands):

	For the Years Ended December 31,			
	2023		2022	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Provision at statutory rate	$ 2,117	21.0 %	$ 2,244	21.0 %
Effect of permanent items	(119)	(1.1)	(39)	(0.4)
Current state tax	397	3.9	441	4.1
Actual tax expense and effective rate	$ 2,395	23.8 %	$ 2,646	24.7 %

8. Employee Benefit Plans

401(k) Retirement Plan

The Bank established a 401(k) Plan (the Plan) that covers employees who meet the eligibility requirements of having worked 1,000 hours in a plan year. Participants are permitted to contribute up to the maximum percentage allowable by law of their compensation to the Plan. The Bank elected to make a 4 percent matching contribution for all employees' contributions up to 5 percent as part of its Safe Harbor Plan. This contribution is vested immediately. The Bank's contribution to the Plan for the years ended December 31, 2023 and 2022, was $396,000 and $309,000, respectively.

Supplemental Executive Retirement Plan

The Bank maintains deferred compensation agreements with certain members of executive management, which provide benefits payable beginning at age 65, or upon subsequent retirement from the Bank, or if the executive(s) becomes totally disabled. Under certain circumstances, benefits are payable to designated beneficiaries. The present value of the estimated liability under the agreement is being accrued using a discount rate of 4.0 percent ratably over the remaining years to the date when the executives are first eligible for benefits. The deferred compensation charged to expense totaled $1,154,000 and $276,000 for the years ended December 31, 2023 and 2022, respectively. The benefit obligation associated with the Supplemental Plan was $2,227,000 and $1,073,000 at December 31, 2023 and 2022, respectively.

9. Leases

During 2022 the Bank adopted ASC 842, Leases, which requires the Bank to recognize on the balance sheet the assets and liabilities that arise from leases. The Bank has three finance leases. Two leases consist of real estate property, and one relates to information technology equipment. Various operating leases are all comprised of real estate property. The finance lease agreements consist of initial lease terms ranging between 3 and 20 years, with options to renew leases or extend the terms. The real estate property finance leases have remaining lease terms ranging from 12.5 years to 19.9 years, and the equipment finance lease has a remaining lease term of one year. The payment structure of all leases is fixed rental payments with lease payments increasing on predetermined dates at either a predetermined amount or change in the consumer price index.

In accordance with ASC 842, the Bank recognized operating and financing lease assets and corresponding lease liabilities related to office facilities, certain equipment, and retail branches. The operating and financing lease assets represent the Bank's right to us an underlying asset for the lease term, and the lease liability represents the Bank's obligation to make lease payments over the lease term. The Bank has elected that any short-term leases would be expensed as incurred.

The operating and financing lease assets and lease liabilities are determined at the commencement date of the lease based on the present value of the lease payments. The Bank's leases do not provide an implicit interest rate; therefore, the Bank used its incremental borrowing rate, the rate of interest to borrow on a collateralized basis for a similar term, at the lease commencement date.

Each of the leases are net leases and therefore, do not contain non-lease components. The Bank either pays a third party directly or reimburses the lessor for property and casualty insurance costs and the property taxes assessed on the property, as well as a portion of the common-area maintenance associated with the property which are categorized as non-components as outlined in the applicable guidance.

9. Leases (Continued)

The following quantitative data relates to the Bank's leases (in thousands):

	2023	2022
Finance Lease Amounts:		
Right of use (ROU) assets	$ 5,602	$ 4,940
Lease liability	$ 6,069	$ 5,252
Operating Lease Amounts:		
ROU assets	$ 3,336	$ 3,655
Lease liabilities	$ 3,398	$ 3,684
Finance Lease Cost		
Amortization of ROU asset	$ 481	$ 477
Interest on lease liability	$ 259	$ 265
Operating Lease Costs	$ 409	$ 374
Cash paid for amounts in the measurement of lease liabilities		
Finance leases	$ 586	$ 533
Operating leases	$ 377	$ 344
Weighted-average remaining lease term (in years)		
Finance leases	13.4	13.0
Operating leases	10.4	11.4
Weighted-average discount rate:		
Finance leases	4.99%	4.95%
Operating leases	2.56%	2.56%

Undiscounted cash flows of lease obligations are as follows (in thousands):

	Operating Leases	Finance Leases
Years ended December 31:		
2024	$ 380	$ 692
2025	385	563
2026	383	584
2027	405	606
2028	393	607
Thereafter	1,984	5,499
Total lease payments	3,930	8,551
Impact of present value discount	(532)	(2,482)
Lease liability	$ 3,398	$ 6,069

10. Employment Agreements

The Bank has employment agreements with its chief executive officer and chief lending officer. The agreements include minimum annual salary commitments and change of control provisions. The change in control provisions in these agreements provide that upon resignation after a change in the control of the Bank, as defined in the agreement, the individuals will receive monetary compensation in the amount set forth in the agreement.

11. Transactions with Executive Officers, Directors, and Principal Shareholders

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, principal shareholders, their immediate families, and affiliated companies (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. During 2023 and 2022, a member of the Board provided business development services to the Bank that totaled approximately $5,000 and $22,000, respectively. Loans receivable from related parties totaled $3,298,000 and $2,003,000 at December 31, 2023 and 2022, respectively. During 2023 and 2022, new loans and advances to such related parties totaled $1,755,000 and $418,000 and repayments aggregated $460,000 and $2,398,000, respectively. Deposits of related parties totaled $9,754,000 and $10,573,000 at December 31, 2023 and 2022, respectively.

The Bank leased three branches and its limited purpose office from three separate related parties, as described in Note 9. Rent expense for those properties during the years ended December 31, 2023 and 2022, was $229,000 and $214,000, respectively.

12. Financial Instruments with Off-Balance-Sheet Risk

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments.

The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

A summary of the Bank's financial instrument commitments at December 31, 2023 and 2022, is as follows (in thousands):

	Contract Amount December 31,	
	2023	2022
Commitments to extend credit	$ 266,860	$ 231,015
Letters of credit	12,382	11,798

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral

12. Financial Instruments with Off-Balance-Sheet Risk (Continued)

obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory, and equipment.

Outstanding letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next 12 months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Bank requires collateral supporting these letters of credit as deemed necessary. The current amount of the liability as of December 31, 2023 and 2022, for guarantees under standby and commercial letters of credit issued is not material.

13. Contingent Liabilities

The Bank is subject to legal proceedings, claims, and litigation arising in the ordinary course of business. The Bank defends itself vigorously against any such claims. Although the outcome of these matters is currently not determinable, management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

14. Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements.

Information presented for December 31, 2023 and 2022, reflects the Basel III capital requirements that are effective for the Bank. Under these capital requirements 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 regulators about components, risk-weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth below) of total, Tier 1, and common equity Tier 1 capital (as defined in the regulations) to risk-weighted assets, and of Tier 1 capital to average assets.

The Bank is under additional regulatory requirements in order to maintain federal deposit insurance. Management believes, as of December 31, 2023 and 2022, that the Bank meets all capital adequacy requirements to which it is subject.

14. Regulatory Matters (Continued)

The Bank's actual capital amounts and ratios at December 31, 2023 and 2022, are presented in the following tables (in thousands):

	Actual		For Capital Adequacy Purposes with Capital Conservative Buffer		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2023						
Total capital (to risk-weighted assets)	$ 148,344	12.37 %	$ 125,932	10.50 %	$ 119,936	10.00 %
Tier 1 capital (to risk-weighted assets)	$ 141,253	11.78 %	$ 101,945	8.50 %	$ 95,948	8.00 %
Common equity Tier 1 capital (to risk-weighted assets)	$ 141,253	11.78 %	$ 83,955	7.00 %	$ 77,958	6.50 %
Tier 1 capital (to average assets)	$ 141,253	10.77 %	$ 52,447	4.00 %	$ 65,558	5.00 %

	Actual		For Capital Adequacy Purposes with Capital Conservative Buffer		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2022						
Total capital (to risk-weighted assets)	$ 122,515	12.41 %	$ 103,679	10.50 %	$ 98,742	10.00 %
Tier 1 capital (to risk-weighted assets)	$ 114,674	11.61 %	$ 83,931	8.50 %	$ 78,994	8.00 %
Common equity Tier 1 capital (to risk-weighted assets)	$ 114,674	11.61 %	$ 69,119	7.00 %	$ 64,182	6.50 %
Tier 1 capital (to average assets)	$ 114,674	10.60 %	$ 43,277	4.00 %	$ 54,097	5.00 %

The risk-based capital rules require that banks maintain a capital conservation buffer of 250 basis points in excess of the minimum capital ratio. The minimum capital ratio is equal to the prompt corrective action adequately capitalized threshold ratio. Failure to maintain the required capital conservation buffer will result in limitations on capital distributions and on discretionary bonuses to executive officers.

15. Shareholders' Equity

Stock Offering

In 2023, the Bank sold 695,403 shares of common stock at $28 per share, which resulted in net proceeds of approximately $19,255,000, after offering costs of approximately $216,000.

Common Stock Cash Dividend

On June 21, 2023, the Bank declared a cash dividend of $0.27 per share to shareholders of record as of August 11, 2023, and payable on September 5, 2023. On July 27, 2022, the Bank declared a cash dividend of $0.25 per share to shareholders of record as of September 16, 2022, and payable October 5, 2022.

Stock Warrants

The Bank issued stock purchase warrants in connection with its initial public offering, giving certain organizers and directors the right to purchase shares of common stock at the initial offering price of $10 per share. The offering price was adjusted to $8 per share for a five-for-four stock split, effected in the form of a 25 percent stock dividend paid July 31, 2018. For organizers, the warrants serve as a reward and compensation for bearing the financial risk of the Bank's organization by advancing "seed money" for its organizational and pre-opening expenses. For the initial directors, the warrants serve as an incentive for them to build the Bank's business.

The organizers' warrants are exercisable for a period of ten years from the date of grant of November 29, 2013, and are transferable in accordance with the warrant agreement. The initial directors' warrants are exercisable for a period of ten years from the date of grant of November 29, 2013, are nontransferable, except upon the holder's death, and are subject to a three-year vesting schedule. Under a three-year vesting schedule, the holder of an initial director warrant may exercise his warrant for one-third of the shares under the warrant after the first anniversary of the grant date, two-thirds of the shares after the second anniversary, and, finally, all of the shares after the third anniversary. The initial directors' warrants will terminate within 30 days of the termination of the warrant holder's service as a director of the Bank.

Both the organizers' warrants, and the initial directors' warrants, are subject to a forfeiture clause, which the FDIC or the Pennsylvania Department of Banking and Securities may invoke if the Bank's capital falls below minimum requirements and would require the warrant holders to exercise the warrants immediately or forfeit all rights under the warrants. These shares may be issued from previously authorized but unissued shares of stock.

During 2023, organizers and directors exercised 23,125 warrants at the price of $8 per share, and during 2022, organizers and directors exercised 43,750 warrants at the price of $8 per share.

The fair value of these shares using the Black-Scholes model was zero, based on the fair value for the stock on the date of grant. Accordingly, no compensation expense was recognized on these warrants.

15. Shareholders' Equity (Continued)

A summary of the Bank's stock warrant activity for the year ended December 31, 2023 follows:

	Number of Stock Options	Weighted-Average Exercise Price
Outstanding, December 31, 2022	23,125	$ 8.00
Granted	-	-
Expired/terminated	-	-
Exercised	23,125	8.00
Outstanding, December 31, 2023	-	$ -
Exercisable at year-end	-	$ -

As of December 31, 2023, all granted warrants were exercised, with none remaining unexercised.

16. Subsequent Events

The Bank has evaluated events and transactions occurring subsequent to the balance sheet as of December 31, 2023, for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through March 29, 2024, the date these financial statements were available to be issued.

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