2023
ANNUAL REPORT

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PEOPLES TRUST *Company*

The bank with a *heart*

SINCE 1886

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2023

ANNUAL REPORT

Looking to the future.

PEOPLES TRUST
Company
The bank with a *heart*

Photography by David Bruekner

2023

BRANCH LOCATIONS

Main Office
25 Kingman Street
St. Albans, VT

Enosburg Falls
140 Main Street
Enosburg Falls, VT

Franklin Park West
59 Franklin Park West
St. Albans, VT

PEOPLES TRUST
Company
The bank with a *heart*

2023 BRANCH LOCATIONS

Georgia
1127 Ethan Allen Highway
Georgia, VT

Swanton
123 First Street
Swanton, VT

Customer Service
Local:
(802) 524-2196
Toll Free:
(800) 479-2196
Telephone Banking:
(802) 524-5054
(800) 203-9575

PEOPLES TRUST Company
The bank with a *heart*

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PEOPLES TRUST Company
The bank with a *heart*

March 10, 2024

Dear Peoples Trust Company Shareholder:

I am pleased to provide you with this copy of the 2023 Peoples Trust Company Audited Financial Report. Your bank has enjoyed another successful year, and we appreciate your investment in our organization. I trust you will review this financial report and look favorably on the results.

As I sit in the lobby and converse with customers, weather is often an ordinary topic of discussion on any given day. However, for much of 2023 and the start of 2024, weather events have become anything but ordinary. The State saw significant flooding in July and again in December last year. Luckily, our market area footprint fared well but many Vermonters were not as fortunate. Our area farmers were heavily affected by one of the wettest summers in recent memory, impacting feed quality. The maple sugaring season kicked off in December for those that had taps in the trees, but strong winds in early January caused significant tree fall damage and complications in the woods. I am not sure if one can define what a normal weather year looks like, but it sure feels like we are due for one!

On the business side, you will notice a considerable increase in earnings for 2023, which is largely the result of our ability to grow interest income from new loan growth while appropriately managing interest expense. We have benefitted from the rising rate environment with our balance sheet management practices, and especially from maintaining strong core deposits. Our liquidity position is strong. The team at Peoples Trust is proud to report record net income for the organization in 2023. We were able to accomplish this strong earnings year while maintaining the favorable fundamental attributes of strong liquidity, capital, and asset quality.

Below are a few of the financial highlights of the year ending December 31, 2023, compared to year ending December 31, 2022. You will find more detail in the accompanying pages of this report:

- ***Net Income increased by $769,379 from $2,071,953 at year-end 2022 to $2,841,332 as of 12/31/2023.***
- ***Net Loans in the owned portfolio increased by $29,379,278 to $235,098,474 as of 12/31/2023.***
- ***Total Assets decreased by $11,085,103 from $368,789,821 at year-end 2022 to $357,704,718 as of 12/31/2023.***
- ***Non-performing loans decreased from 0.55% to 0.46% as of 12/31/2023.***

We continue to watch and be mindful of the effects that inflation and higher interest rates have on our local economy and our customer base. While the loan portfolio has seen minimal delinquency over the past few years and remains strong, the bank funded the loan loss reserve (CECL) as required in 2023 to appropriately reserve for the nearly $30 million in net new loan growth. We also took the opportunity to assess current and predicted economic data and trends, and with this information reserved an additional $200,000. We believe this is appropriate and will better prepare your organization for any economic headwinds in 2024 and beyond.

The Board of Directors and I continue to focus on increasing tangible benefits to our shareholder base and are pleased to announce that at the February 2024 Board meeting, Board members voted to again increase the annual dividend payout to its shareholders from $1.05 per share to $1.10 per share. This marks the third dividend increase in 18 months for a total increase of $0.15 over that time period. Peoples Trust Company was able to purchase and retire 6,550 shares in 2023, which adds value by increasing the ownership percentage of the remaining shareholders.

None of the accomplishments noted could have been possible without a highly talented and motivated staff. I have the benefit of leading an outstanding group of individuals, committed to the mission and success of the bank.

This year our Annual Shareholders meeting will be held on Tuesday, April 16th at 10:00am, in the Boardroom of our Main Office at 25 Kingman Street in St. Albans. We had a strong turnout last year, and I hope you will join us for this in-person meeting in 2024.

Thank you for placing your trust and your investment in the "Bank with a Heart".

Sincerely,

Thomas J. Gallagher

Thomas J. Gallagher
President/CEO
Peoples Trust Company

BerryDunn

Peoples Trust Company of St. Albans

FINANCIAL STATEMENTS

December 31, 2023 and 2022

With Independent Auditor's Report

BerryDunn

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Peoples Trust Company of St. Albans

Opinion

We have audited the accompanying financial statements of Peoples Trust Company of St. Albans (the Bank), which comprise the balance sheets as of December 31, 2023, and the related statements of income, comprehensive income (loss), changes in stockholders' equity and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Peoples Trust Company of St. Albans as of December 31, 2023, and the results of its operations and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles (U.S. GAAP).

Basis for Opinion

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

Emphasis of Matter

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

Prior Period Financial Statements

The financial statements of the Bank as of December 31, 2022 were audited by other auditors whose report dated February 6, 2023 expressed an unmodified opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP, 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 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 U.S. 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 U.S. 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.

Berry Dunn McNeil & Parker, LLC

Manchester, New Hampshire
February 21, 2024
Vermont Registration No. 92-0000278

PEOPLES TRUST COMPANY OF ST. ALBANS

Balance Sheets

December 31, 2023 and 2022

ASSETS

	2023	2022
Cash and due from banks	**$ 7,452,591**	$ 6,260,862
Federal funds sold	**8,089,000**	-
Cash and cash equivalents	**15,541,591**	6,260,862
Interest bearing deposits with banks	**16,666,552**	59,165,826
Certificates of deposit	-	750,000
Securities available-for-sale	**72,743,687**	79,163,768
Nonmarketable equity securities	**323,700**	223,700
Loans held for sale	**291,367**	224,791
Loans receivable, net of allowance for credit losses	**235,098,474**	205,719,196
Bank premises and equipment, net	**5,145,865**	5,401,108
Accrued interest receivable	**1,230,313**	998,427
Bank owned life insurance	**7,143,043**	6,959,248
Other assets	**3,520,126**	3,922,895
Total assets	**$ 357,704,718**	$ 368,789,821

LIABILITIES AND STOCKHOLDERS' EQUITY

	2023	2022
Liabilities		
Deposits		
Demand deposits	**$ 109,935,418**	$ 121,146,682
Savings, NOW, and money market deposits	**150,005,677**	164,123,861
Time deposits $250,000 and over	**10,754,008**	8,682,024
Other time deposits	**46,892,622**	38,194,554
Total deposits	**317,587,725**	332,147,121
Repurchase agreements	**3,250,000**	3,250,000
Accrued interest payable and other liabilities	**1,565,637**	1,562,188
Total liabilities	**322,403,362**	336,959,309
Stockholders' equity		
Common stock, $0.50 par value; 2,000,000 shares authorized, 545,626 and 552,176 shares issued and outstanding in 2023 and 2022, respectively	**272,813**	276,088
Additional paid-in capital	**8,381,685**	8,381,685
Retained earnings	**30,316,639**	28,577,530
Accumulated other comprehensive loss	**(3,669,781)**	(5,404,791)
Total stockholders' equity	**35,301,356**	31,830,512
Total liabilities and stockholders' equity	**$ 357,704,718**	$ 368,789,821

The accompanying notes are an integral part of these financial statements.

Statements of Income

Years Ended December 31, 2023 and 2022

	2023	2022
Interest and dividend income		
Loans	$ 10,635,917	$ 8,744,876
Investment securities	1,918,894	1,578,708
Federal funds sold and other interest bearing deposits	2,216,574	1,196,760
Total interest income	14,771,385	11,520,344
Interest expense		
Deposits	1,410,102	747,909
Repurchase agreements	11,356	8,792
Total interest expense	1,421,458	756,701
Net interest income	13,349,927	10,763,643
Credit loss expense – loans	775,000	75,000
Credit loss expense – off-balance sheet credit exposures	9,300	-
Credit loss expense	784,300	75,000
Net interest income after credit loss expense	12,565,627	10,688,643
Other income		
Service charges on deposit accounts	679,054	689,192
Other service charges and fees	337,447	377,325
Interchange fees	1,071,961	1,045,559
Gain on sale of loans	210,000	215,945
Loss on sale of securities, net	-	(5)
Other income	691,904	625,828
Total other income	2,990,366	2,953,844
Other expenses		
Salaries and employee benefits	7,132,619	6,615,067
Occupancy and equipment expense	1,132,490	1,080,653
Software maintenance	716,129	674,046
Interchange expense	573,684	489,814
State franchise tax	380,523	375,980
Other expense	2,344,216	2,048,170
Total other expenses	12,279,661	11,283,730
Income before income taxes	3,276,332	2,358,757
Income tax expense	435,000	286,804
Net income	$ 2,841,332	$ 2,071,953
Earnings per common share	$ 5.19	$ 3.71

The accompanying notes are an integral part of these financial statements.

Statements of Comprehensive Income (Loss)

Years Ended December 31, 2023 and 2022

	2023	2022
Net income	$ 2,841,332	$ 2,071,953
Other comprehensive income (loss), net of tax		
Unrealized gain (loss) on securities available-for-sale		
Unrealized holding gains (losses) arising during period	2,196,216	(7,800,958)
Less: reclassification adjustment for losses included in net income	-	5
Other comprehensive income (loss), before income tax effect	2,196,216	(7,800,953)
Tax effect	461,206	1,638,202
Other comprehensive income (loss), net of tax	1,735,010	(6,162,751)
Total comprehensive income (loss)	$ 4,576,342	$ (4,090,798)

The accompanying notes are an integral part of these financial statements.

PEOPLES TRUST COMPANY OF ST. ALBANS

Statements of Changes in Stockholders' Equity

Years Ended December 31, 2023 and 2022

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, January 1, 2022	$ 284,737	$ 8,381,685	$ 28,062,694	$ 757,960	$ 37,487,076
Net income	-	-	2,071,953	-	2,071,953
Other comprehensive loss	-	-	-	(6,162,751)	(6,162,751)
Stock buyback	(8,649)	-	(1,026,855)	-	(1,035,504)
Cash dividends paid	-	-	(530,262)	-	(530,262)
Balance, December 31, 2022	276,088	8,381,685	28,577,530	(5,404,791)	31,830,512
Net income	**-**	**-**	**2,841,332**	**-**	**2,841,332**
Other comprehensive income	**-**	**-**	**-**	**1,735,010**	**1,735,010**
Impact of adoption of ASU No. 2016-13	**-**	**-**	**(145,567)**	**-**	**(145,567)**
Stock buyback	**(3,275)**	**-**	**(395,570)**	**-**	**(398,845)**
Cash dividends paid	**-**	**-**	**(561,086)**	**-**	**(561,086)**
Balance, December 31, 2023	**$ 272,813**	**$ 8,381,685**	**$ 30,316,639**	**$ (3,669,781)**	**$ 35,301,356**

The accompanying notes are an integral part of these financial statements.

PEOPLES TRUST COMPANY OF ST. ALBANS

Statements of Cash Flows

Years Ended December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Net income	**$ 2,841,332**	$ 2,071,953
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation	**495,810**	448,537
Credit loss expense	**784,300**	75,000
Deferred income taxes	**(282,890)**	(45,647)
Gain on sale of loans	**(210,000)**	(215,945)
Loss on sale of securities, net	**-**	5
Net amortization of premiums and discounts on securities	**392,112**	494,250
Decrease (increase) in loans held for sale	**143,424**	(224,791)
Net increase in deferred loan origination costs	**(71,105)**	(112,358)
Increase in accrued interest receivable	**(231,886)**	(146,816)
Increase in cash surrender value of life insurance	**(183,795)**	(2,782,076)
Decrease (increase) in other assets	**263,148**	(235,431)
(Decrease) increase in accrued expenses and other liabilities	**(5,851)**	445,203
Net cash provided (used) by operating activities	**3,934,599**	(228,116)
Cash flows from investing activities		
Decrease in interest bearing deposits with banks	**42,499,274**	62,603,507
Proceeds from sales, calls and maturities of securities available-for-sale	**25,545,871**	6,639,612
Proceeds from maturities on certificates of deposit	**750,000**	2,244,000
Purchase of securities available-for-sale	**(17,321,686)**	(32,751,401)
Net change in loans	**(30,267,435)**	(26,390,851)
Additions to premises and equipment	**(240,567)**	(226,290)
Purchase of nonmarketable equity securities	**(100,000)**	-
Net cash provided by investing activities	**20,865,457**	12,118,577
Cash flows from financing activities		
Net change in deposits	**(14,559,396)**	(7,803,197)
Repurchase of common stock	**(398,845)**	(1,035,504)
Dividends paid	**(561,086)**	(530,262)
Net cash used by financing activities	**(15,519,327)**	(9,368,963)
Net increase in cash	**9,280,729**	2,521,498
Cash and cash equivalents, beginning of year	**$ 6,260,862**	$ 3,739,364
Cash and cash equivalents, end of year	**$ 15,541,591**	$ 6,260,862
Supplementary cash flow information		
Cash payment for interest	**$ 1,421,458**	$ 761,759
Cash payment for income taxes	**$ 783,400**	$ 165,000
Non-cash transactions:		
Impact of adoption of ASU No. 2016-13	**$ 184,262**	$ -

The accompanying notes are an integral part of these financial statements.

1. **Significant Accounting Policies**

The accounting policies of Peoples Trust Company of St. Albans (the Bank) are in conformity with U.S. generally accepted accounting principles (U.S. GAAP). The following is a description of the more significant policies.

Nature of Operations

The Bank provides a variety of financial services to individuals, municipalities, commercial, and non-profit customers through its branches in northwestern Vermont, which is primarily a small business and agricultural area. The Bank's primary deposit products are checking and savings accounts and certificates of deposit. Its primary lending products are commercial, real estate, agricultural, agricultural real estate, equity, municipal and consumer loans.

Concentration of Risk

The Bank's operations are affected by various risk factors, including interest-rate risk, credit risk, and risk from geographic concentration of lending activities. Management attempts to manage interest rate risk through various asset/liability management techniques designed to match maturities of assets and liabilities. Loan policies and administration are designed to provide assurance that loans will only be granted to credit-worthy borrowers, although credit losses are expected to occur because of subjective factors and factors beyond the control of the Bank. In addition, the Bank is a community bank and, as such, is mandated by the Community Reinvestment Act and other regulations to conduct most of its lending activities within the geographic area where it is located. Although the Bank has a diversified loan portfolio, a substantial portion of its loan portfolio is secured by real estate and most of its lending activities are conducted in northern Vermont. As a result, the Bank and its borrowers may be especially vulnerable to the consequences of changes in the local economy and real estate market conditions. Note 3 discusses the types of investments the Bank invests in, and Note 5 discusses the type of lending the Bank engages in.

Use of Estimates

In preparing financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and 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, accumulated depreciation based on estimated useful lives of assets, the valuation of foreclosed real estate, and deferred tax assets. In connection with the determination of the allowance for loan losses and the carrying value of other real estate owned, management obtains independent appraisals for significant properties.

PEOPLES TRUST COMPANY OF ST. ALBANS

Notes to Financial Statements

December 31, 2023 and 2022

Presentation of Cash Flows

For purposes of presentation in the statements of cash flows, cash and cash equivalents includes cash on hand and amounts due from banks, including cash items in process of clearing.

Investment Securities

Debt securities are classified as available-for-sale and recorded at fair value with unrealized gains and losses excluded from earnings and reported in other comprehensive income net of tax. Purchase premiums and discounts are recognized in interest income using methods approximating the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Allowance for Credit Losses – Available-For-Sale Debt Securities

For available-for-sale debt securities in an unrealized loss position, the Bank first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security’s amortized cost basis is written down to fair value through income. For available-for-sale debt securities that do not meet the aforementioned criteria, the Bank evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit loss (ACL) is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an ACL is recognized in other comprehensive income.

Changes in the ACL are recorded as credit loss expense (or reversal). Losses are charged against the allowance when management believes the uncollectibility of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable on available-for-sale debt securities totaled $532,000 at December 31, 2023 and was reported in accrued interest receivable on the balance sheets and is excluded from the estimate of credit losses.

Nonmarketable Equity Securities

As a member of the Federal Home Loan Bank (FHLB), the Bank is required to invest in $100 par value stock of FHLB. The carrying amount of the investment, at cost, was $223,700 at December 31, 2023 and 2022. The stock is nonmarketable and, when redeemed, the Bank will receive from the FHLB an amount equal to the par value of the stock.

As a member of Atlantic Community Banker's Bank (ACBB), the Bank is required to invest in $250 par value stock of ACBB. The carrying amount of the investment, at cost, was $100,000 at December 31, 2023. The stock is nonmarketable and, when redeemed, the Bank will receive from ACBB an amount equal to the par value of the stock.

Bank Owned Life Insurance

The Bank has purchased life insurance policies on certain key employees. The Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at amortized cost, net of the ACL. Amortized cost is the principal balance outstanding, net of deferred loan fees and costs. Accrued interest receivable on loans totaled $630,523 and $486,689 at December 31, 2023 and 2022, respectively and was reported in accrued interest receivable on the balance sheets and is excluded from the estimate of credit losses. Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate.

Loan interest income is accrued daily on the unpaid principal balance. Accrual of interest is discontinued when a loan is delinquent 90 days and management believes that, after considering collection efforts and other factors, the borrower's financial condition is such that collection of interest is doubtful. Any unpaid interest previously accrued on those loans is reversed from income. Interest income generally is not recognized on non-accrual loans unless the likelihood of further loss is remote. Interest payments received on such loans are generally applied as a reduction of the loan principal balance. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Loans are charged off when collection of principal is considered doubtful. Past due status is determined on a contractual basis.

Loan origination and commitment fees and certain direct loan origination costs are deferred and amortized as an adjustment of the related loan's yield using methods that approximate the interest method. The Bank amortizes these amounts over the contractual life.

Allowance for Credit Losses - Loans

The ACL is a valuation account that is deducted from the loans amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Management evaluates the appropriateness of the ACL on loans quarterly. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant change from period-to-period.

Effective January 1, 2023, management estimates the ACL balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. A reversion methodology is applied beyond the reasonable and supportable forecasts. Qualitative adjustments are then considered for differences in current loan-specific risk characteristics, such as differences in underwriting standards, portfolio mix, delinquency level, or term, as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors, that may include, but are not limited to, results of internal loan reviews, examinations by bank regulatory agencies, or other such events such as a natural disaster.

The ACL on loans represents the Bank's estimated credit losses within its loan portfolio as of the reporting date. To estimate expected credit losses, management disaggregates the loan portfolio into pools of similar risk characteristics. The Bank's loan portfolio is segmented as follows based on the various risk profiles of the Bank's loans:

- The commercial loan portfolio is segmented into two categories: (i) commercial, which is typically utilized for general business purposes and (ii) commercial real estate, which is collateralized by real estate.
- Retail loans are a homogenous group, generally consisting of standardized products that are smaller in amount and distributed over a larger number of individual borrowers. Retail loans are segmented into eight categories: (i) agricultural real estate, (ii) agricultural other, (iii) residential real estate, (iv) home equity, (v) municipal, (vi) Small Business Association (SBA) non real estate secured, (vii) SBA real estate secured, and (viii) consumer.

The Bank uses the weighted average remaining maturity (WARM) method to estimate expected credit losses for all but two portfolio segments, which use the vintage and static pool analysis. Under the WARM method, the Bank establishes a historical loss rate for each portfolio segment, utilizing either its own historical loss data, peer loss data, or a combination of the two data sources. This historical loss rate is then adjusted for management's reasonable and supportable forecast. For all portfolio segments utilizing the WARM method, management utilizes and forecasts national unemployment as a loss driver. Management monitors and assesses its macroeconomic driver regularly to determine if or that it continues to be the most predictive indicator of losses within the Bank's loan portfolio, and this macroeconomic driver may change from time to time.

Management has determined that 14 quarters represents a reasonable and supportable forecast period and reverts back to its historical loss rate over eight quarters on a straight-line basis. This determination is based on the facts and circumstances of the current state of the economy, portfolio segment, and management's judgement of what can be reasonably supported. Management leverages economic projections from a reputable and independent third party to inform its loss driver forecasts over the 14-quarter forecast period. Management monitors and assesses the forecast and reversion techniques regularly.

The resulting loss rate is then applied to the portfolio segment over its estimated remaining life. A portfolio segment's estimated remaining life is determined by calculating an annual attrition rate on a quarterly basis using the Bank's loan-level data. The estimated remaining life is then calculated as the average of the quarterly annual attrition rates. The principal balance of the portfolio segment is then paid down on a straight-line basis over the estimated remaining life. Any qualitative adjustments, as described above, are then applied to the portfolio segment, to derive the Bank's expected credit losses for the portfolio segment.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. In general, loans individually evaluated for estimated credit losses include those (i) greater than $100,000 that are classified as substandard or doubtful, (ii) greater than $50,000 that are on non-accrual or (iii) have other unique characteristics. Specific reserves are established when appropriate for such loans based on the present value of expected future cash flows of the loan. However, when management determines that foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

Management may also adjust its assumptions to account for differences between expected and actual losses from period-to-period. The variability of management's assumptions could alter the ACL on loans materially and impact future results of operations and financial condition. The loss estimation models and methods used to determine the ACL are continually refined and enhanced.

In the ordinary course of business, the Bank enters into commitments to extend credit, including commercial letters of credit and standby letters of credit. Such financial instruments are recorded as loans when they are funded.

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 ACL on off-balance sheet credit exposures is adjusted through credit loss expense. To appropriately measure expected credit losses, management disaggregates the off-balance sheet credit exposures into similar risk characteristics, identical to those determined for the loan portfolio. Once the expected funded amount for each portfolio segment is determined, the loss rate, which is the calculated expected loan loss as a percent of the amortized cost basis for each portfolio segment, is applied to calculate the ACL on off-balance sheet credit exposures as of the reporting date. As of December 31, 2023, the Bank had recognized an ACL on off-balance sheet credit exposures of $53,605, which is recorded in accrued expenses and other liabilities on the balance sheets.

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. The cost of assets sold or otherwise disposed of and the related allowance for depreciation is eliminated from the accounts and the resulting gains or losses are reflected in the income statement. Maintenance and repairs are charged to current expense as incurred and the cost of major renewals and betterments are capitalized.

Other Real Estate Owned

Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at the lower of the Bank's carrying amount or fair value less estimated selling costs at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for credit losses. After foreclosure, these assets are carried at the lower of their new cost basis or fair value less cost to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its costs or fair value less cost to sell.

Mortgage Servicing

Servicing assets are recognized as separate assets when rights are acquired through purchase or sale of financial assets. When the Bank acquires mortgage servicing rights through either the purchase or origination of mortgage loans (originated mortgage servicing rights) and sells or securitizes those loans with servicing rights retained, it allocates the total cost of the mortgage loans to the mortgage servicing rights and the loans (without the mortgage servicing rights) based on their relative fair values. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. The cost of mortgage servicing rights is amortized in proportion to, and over the period of, estimated net servicing revenues. Impairment of mortgage servicing rights is assessed annually based on the fair value of those rights. Fair values are estimated using discounted cash flows based on a current market interest rate.

Pension Plan

Pension costs relating to the Bank's defined contribution plan are charged to employee benefits expense and are funded as accrued.

Advertising Costs

The Bank expenses advertising costs as incurred.

Income Taxes

The Bank recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are established for the temporary differences between the accounting basis and the tax basis of the Bank's assets and liabilities at enacted tax rates expected to be in effect when the amounts related to such temporary differences are realized or settled. Adjustments to the Bank's deferred tax assets are recognized as deferred income tax expense or benefit based on management's judgments relating to the realizability of such assets. Historic rehabilitation, low income housing, and new markets tax credits are recognized as a reduction of income tax expense in the years they are earned.

U.S. GAAP prescribe a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Management reviews the inventory of tax positions taken at each reporting period to assess the more-likely-than-not recognition threshold. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold are derecognized in the first subsequent financial reporting period in which that threshold is no longer met.

Off-Balance-Sheet Financial Instruments

In the ordinary course of business, the Bank is party to off-balance-sheet financial instruments consisting of commitments to extend credit, unused lines of credit, commercial letters of credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they become payable.

Earnings Per Common Share

Earnings per common share are computed based on the weighted average number of shares of common stock outstanding during the period, retroactively adjusted for stock splits. The weighted average shares outstanding were 547,473 and 558,912 for the years ended December 31, 2023 and 2022, respectively.

Transfer and Servicing of Financial Assets

Transfers of financial assets 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.

Revenue Recognition

The Bank recognizes revenue from contracts with customers when it satisfies its performance obligations. The Bank's performance obligations are generally satisfied as services are rendered and can either be satisfied at a point in time or over time. The majority of the Bank's revenue-generating transactions are not subject to Accounting Standards Codification (ASC) 606, including revenue generated from financial instruments, such as loans, derivatives and investment securities, and revenue related to mortgage servicing activities.

Revenues for the Bank subject to ASC 606 include customer service fees in the statements of income. These fees are made up of service charges and fees on deposit accounts that are recognized at a point in time, including non-sufficient funds fees, overdraft charge fees and stop-payment fees. Such revenue is derived from transactional information and is recognized as revenue immediately as the transactions occur or upon providing the service to complete the customer's transaction. Payment is generally received at the time the performance obligations are satisfied.

Comprehensive Income

Accounting principles generally 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.

Reclassifications

Certain amounts in the 2022 financial statements have been reclassified to conform to the 2023 presentation.

Recent Accounting Pronouncements

On January 1, 2023, the Bank adopted Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments). In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will not be required to sell.

The Bank adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable U.S. GAAP. The Bank recorded a net decrease to retained earnings of $145,567 as of January 1, 2023 for the cumulative effect of adopting ASC 326. The transition adjustment includes an increase of $184,262 to the allowance for loan losses (now called the ACL on loans) and an increase of $38,695 to deferred tax asset.

The following table illustrates the impact of ASC 326 at January 1, 2023.

	As Reported Under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Assets			
Loans			
Residential real estate	$ 55,783,658	$ 67,229,418	$ (11,445,760)
Commercial real estate	86,640,633	89,074,234	(2,433,601)
Commercial	10,558,890	10,970,215	(411,325)
Agricultural real estate	16,446,424	16,446,424	-
Agricultural	904,107	904,107	-
Equity	11,445,760	-	11,445,760
Consumer	2,038,797	2,038,797	-
Municipal	14,992,623	14,992,623	-
SBA non real estate secured	411,325	-	411,325
SBA real estate secured	2,433,601	-	2,433,601
Allowance for credit losses on loans	3,165,166	2,980,904	184,262

In March 2022, the Financial Accounting Standards Board issued ASU 2022-02, *Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. The amendments in the Update eliminate the existing accounting guidance for troubled debt restructures (TDRs) by creditors in Subtopic 310- 40, Receivables - Troubled Debt Restructurings by Creditors and instead requires that an entity evaluate whether a modification represents a new loan or a continuation of an existing loan. The amendments also enhance disclosure requirements for certain loan refinancing and restructuring by creditors when a borrower is experiencing financial difficulty. All amendments in this update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Adoption of this ASU did not have a material impact on the financial statements of the Bank.

2. Restrictions on Cash and Cash Equivalents

The Bank is required to maintain reserve and clearing balances in cash with ACBB. The totals of the reserve balances were approximately $500,000 and $250,000 at December 31, 2023 and 2022, respectively.

The nature of the Bank's business requires that it maintain amounts due from banks, which, at times, may exceed federally insured limits.

3. Investment Securities

Securities available-for-sale (AFS) consists of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2023				
U.S. Government and Federal Agencies	**$ 21,702,134**	**$ 73,743**	**$ (798,346)**	**$ 20,977,531**
Mortgage-backed securities	**24,422,548**	**85,829**	**(1,674,883)**	**22,833,494**
State and municipal securities	**31,264,297**	**94,290**	**(2,425,925)**	**28,932,662**
	$ 77,388,979	**$ 253,862**	**$ (4,899,154)**	**$ 72,743,687**
December 31, 2022				
U.S. Government and Federal Agencies	$ 37,331,690	$ 8,754	$ (1,341,227)	$ 35,999,217
Mortgage-backed securities	20,662,381	17,788	(2,128,107)	18,552,062
State and municipal securities	28,011,206	361	(3,399,078)	24,612,489
	$ 86,005,277	$ 26,903	$ (6,868,412)	$ 79,163,768

There were no sales of securities available-for-sale in 2023. There were no proceeds from the sale of securities available-for-sale in 2023 or 2022. Gross realized losses on sales of investments available-for-sale were $5 in 2022.

The scheduled maturities of securities available-for-sale at December 31, 2023 were as follows:

	Amortized Cost	Fair Value
Due within one year	$ 1,834,240	$ 1,810,700
Due from one to five years	18,251,418	17,526,479
Due from five to ten years	5,852,136	5,471,547
Due in greater than ten years	27,028,637	25,101,467
Mortgage-backed securities	24,422,548	22,833,494
	$ 77,388,979	$ 72,743,687

Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Assets, principally securities, with amortized cost of $5,471,237 and $8,663,026 and with fair values of $5,144,092 and $8,109,290 at December 31, 2023 and 2022, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

The following table summarizes AFS debt securities in an unrealized loss position for which an ACL has not been recorded at December 31, 2023, aggregated by major security type and length of time in a continuous unrealized loss position:

	Less Than 12 Months Fair Value	Less Than 12 Months Gross Unrealized Losses	12 Months or Greater Fair Value	12 Months or Greater Gross Unrealized Losses	Total Fair Value	Total Gross Unrealized Losses
December 31, 2023						
U.S. Government and Federal Agencies	$ **493,650**	$ **(1,269)**	$ **12,597,111**	$ **(797,077)**	$ **13,090,761**	$ **(798,346)**
Mortgage-backed securities	**1,923,074**	**(1,107)**	**15,470,819**	**(1,673,776)**	**17,393,893**	**(1,674,883)**
State and municipal securities	**-**	**-**	**23,720,799**	**(2,425,925)**	**23,720,799**	**(2,425,925)**
Total	$ **2,416,724**	$ **(2,376)**	$ **51,788,729**	$ **(4,896,778)**	$ **54,205,453**	$ **(4,899,154)**

The unrealized losses on the Bank's available-for-sale debt securities at December 31, 2023 have not been recognized into income because management does not intend to sell and it is not more-likely-than-not it will be required to sell any of the available-for-sale debt securities before recovery of its amortized cost basis. Furthermore, the unrealized losses were due to changes in interest rates and other market conditions, were not reflective of credit events and the issuers continue to make timely principal and interest payments on the bonds. Agency-backed and government-sponsored enterprise securities have a long history with no credit losses, including during times of severe stress. The principal and interest payments on agency-guaranteed debt is backed by the U.S. government. Government-sponsored enterprises similarly guarantee principal and interest payments and carry an implicit guarantee from the U.S. Department of the Treasury. Additionally, government-sponsored enterprise securities are exceptionally liquid, readily marketable, and provide a substantial amount of price transparency and price parity, indicating a perception of zero credit losses.

Information pertaining to securities with gross unrealized losses at December 31, 2022, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than 12 Months Fair Value	Less Than 12 Months Gross Unrealized Losses	12 Months or Greater Fair Value	12 Months or Greater Gross Unrealized Losses	Total Fair Value	Total Gross Unrealized Losses
December 31, 2022						
U.S. Government and Federal Agencies	$ 30,743,327	$ (707,302)	$ 4,295,280	$ (633,925)	$ 35,038,607	$ (1,341,227)
Mortgage-backed securities	9,348,178	(591,905)	8,243,795	(1,536,202)	17,591,973	(2,128,107)
State and municipal securities	17,474,575	(1,846,308)	6,727,553	(1,552,770)	24,202,128	(3,399,078)
Total	$ 57,566,080	$ (3,145,515)	$ 19,266,628	$ (3,722,897)	$ 76,832,708	$ (6,868,412)

Prior to January 1, 2023, management evaluated securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warranted such evaluation. Consideration was 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, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2022, the eighty-one debt securities and sixty-one municipal bonds with unrealized losses have depreciated approximately 8% from the Bank's amortized cost basis. These securities are guaranteed by the U. S. or State and municipal governments or other Federal Agencies. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the Federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

4. Loan Servicing

Mortgage loans serviced for others are not included in the accompanying balance sheets. The unpaid principal balances of mortgage loans serviced for others were $137,695,808 and $141,538,933 at December 31, 2023 and 2022, respectively. The carrying value of mortgage servicing rights was $590,130 and $706,514, at December 31, 2023 and 2022, respectively. Mortgage service rights of $61,602 and $88,805 were capitalized in 2023 and 2022, respectively. Amortization of capitalized mortgage servicing rights was $177,986 and $185,553 in 2023 and 2022, respectively.

5. Loans

The composition of net loans at December 31 is as follows:

	2023	2022
Residential real estate	**$ 57,403,612**	$ 67,229,418
Commercial real estate	**106,140,987**	89,074,234
Commercial	**10,482,324**	10,970,215
Agricultural real estate	**17,354,246**	16,446,424
Agricultural	**1,992,728**	904,107
Equity	**17,775,413**	-
Consumer	**10,138,186**	9,108,701
Municipal	**14,827,061**	14,992,623
SBA non-real estate secured	**435,880**	-
SBA real estate secured	**2,502,309**	-
Gross loans	**239,052,746**	208,725,722
Net deferred loan fees (costs)	**45,483**	(25,622)
Allowance for credit losses	**(3,999,755)**	(2,980,904)
Net loans	**$ 235,098,474**	$205,719,196

For purposes of determining the ACL on loans, the Bank disaggregates its loans into portfolio segments. Each portfolio segment possesses unique risk characteristics that are considered when determining the appropriate level of allowance. As of December 31, 2023, the Bank's loan portfolio segments, as determined based on the unique risk characteristics of each, included the following:

Agricultural Real Estate - Loans in this segment are collateralized by land owned by an income producing agricultural business. The underlining cash flows generated by the business are impacted by the price of the product (milk or syrup) produced by the business.

Agricultural – Loans in this segment are made to agricultural businesses, primarily dairy farm and maple operations, and are generally secured by assets of the entity. For these loans, repayment is expected from the cash flows of the business.

Commercial - Loans in this segment are made to businesses and are generally secured by assets of the entity. For loans made to businesses, repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer spending, will have an effect on the credit quality of these loans.

Commercial Real Estate – Loans in this segment are primarily income-producing properties or properties occupied by businesses. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy as evidence by increased vacancy rates or a general slowdown in business which, in, turn will have an effect on the credit quality of this segment.

Equity - Equity loans and lines of credit are made to qualified individuals and are secured by senior or junior mortgage liens on owner-occupied one-to-four family homes, condominiums, or vacation homes. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality of this segment.

Consumer – Consumer loan products include personal lines of credit and amortizing loans made to qualified individuals for various purposes such as education, auto loans, debt consolidation, personal expenses, or overdraft protection. Repayment of loans in this segment is generally dependent on the credit quality of the individual borrower.

Municipal - Loans in this segment are made to local cities, towns, villages, school districts and other small government entities such as water districts, sewer districts and volunteer fire departments. These loans are made to primarily cover operating and capital expenses of the municipality. For these loans, repayment is primarily dependent on taxes or other funds collected by the municipalities. Management considers there to be minimal risk surrounding the credit quality of these loans.

Residential Real Estate – Loans in this segment are collateralized by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality of this segment.

SBA Non-Real Estate Secured - Loans in this segment are made to small businesses and are generally secured by assets of the entity. Repayment is expected from the cash flows of the business. Loans in this segment carry a government guarantee from the SBA at generally no less than 50% of the outstanding principal balance.

SBA Real Estate Secured - Loans in this segment are primarily income-producing properties or properties occupied by businesses. Repayment is expected from the cash flows of the business. Loans in this segment carry a government guarantee from the SBA at generally no less than 50% of the outstanding principal balance.

6. Allowance for Credit Losses

The following table summarizes changes in the ACL, by portfolio segment, for the year ended December 31 2023:

	Residential Real Estate	Commercial Real Estate	Commercial	Agricultural Real Estate	Agricultural	Equity	Consumer	Municipal	SBA Non Real Estate Secured	SBA Real Estate Secured	Unallocated	Total
Allowance for credit losses												
Beginning balance prior to adoption of ASU 2016-13	$ 754,615	$ 1,029,950	$ 196,535	$ 489,717	$ 72,781	$ -	$ 261,463	$ 142,430	$ -	$ -	$ 33,413	$2,980,904
Impact of adopting ASU 2016-13	(144,401)	59,359	(813)	814	-	259,876	8,373	-	1,717	32,750	(33,413)	184,262
Credit loss expense	145,767	226,652	39,280	36,481	7,924	196,777	59,212	(1,573)	13,765	(754)	51,469	775,000
Loans charged off	-	-	-	-	-	-	(37,561)	-	-	-	-	(37,561)
Recoveries	-	14,655	-	1,956	-	38,574	8,568	-	-	33,397	-	97,150
Balance December 31, 2023	$ 755,981	$ 1,330,616	$ 235,002	$ 528,968	$ 80,705	$ 495,227	$ 300,055	$ 140,857	$ 15,482	$ 65,393	$ 51,469	$ 3,999,755

Changes in the allowance for loan losses for the year ended December 31, 2022 was as follows:

	Residential Real Estate	Commercial Real Estate	Commercial	Agricultural Real Estate	Agricultural Consumer and Municipal	Unallocated	Total
Balance December 31, 2021	$ 622,899	$ 936,130	$ 160,154	$ 512,290	$ 402,820	$ 330,001	$2,964,294
Provision for loan losses	194,310	117,620	35,671	(55,387)	108,020	(325,234)	75,000
Loans charged off	(62,594)	(27,067)	-	-	(37,282)	-	(126,943)
Recoveries	-	3,267	710	32,814	3,116	28,646	68,553
Balance December 31, 2022	$ 754,615	$ 1,029,950	$ 196,535	$ 489,717	$ 476,674	$ 33,413	$2,980,904

At December 31, 2022, the allocation of the allowance for loan losses summarized on the basis of the Bank's impairment methodology was as follows:

December 31, 2022	Residential Real Estate	Commercial Real Estate	Commercial	Agricultural Real Estate	Agricultural Consumer and Municipal	Unallocated	Total
Allowance for loan losses:							
Individually evaluated for impairment	$ 1,247	$ 10,286	$ -	$ 21,204	$ -	$ -	$ 32,737
Collectively evaluated for impairment	753,368	1,019,664	196,535	468,513	476,674	33,413	2,948,167
Total	$ 754,615	$ 1,029,950	$ 196,535	$ 489,717	$ 476,674	$ 33,413	$ 2,980,904
Loans:							
Individually evaluated for impairment	$ 559,250	$ 316,052	$ 12,532	$ 304,584	$ -	$ -	$ 1,192,418
Collectively evaluated for impairment	66,670,168	88,758,182	10,957,673	16,141,840	25,005,431	-	207,533,304
Total	$67,229,418	$89,074,234	$ 10,970,215	$16,446,424	$25,005,431	$ -	$208,725,722

Credit Quality Indicators

To further identify loans with similar risk profiles, the Bank categorizes each portfolio segment into classes by credit risk characteristic and applies a credit quality indicator to each portfolio segment. In general, risk ratings are adjusted periodically throughout the year as updated analysis and review warrants. This process may include, but is not limited to, annual credit and loan reviews, periodic reviews of loan performance metrics, such as delinquency rates, and quarterly reviews of adversely risk rated loans. The Bank uses the following definitions when assessing grades for the purpose of evaluating the risk and adequacy of the ACL on loans:

1-3 Rating - Satisfactory

Risk-rating grades "1" through "3" comprise those loans ranging from lower than average credit risk which indicates borrowers with high liquidity, excellent financial condition, strong management, favorable industry trends or loans secured by highly liquid assets through marginal credit risk, which while credit worthy, exhibit some characteristics which require special attention by the account officer.

4 Rating - Watch

These loans are characterized by adequate collateral but recent declining financial, reporting or management trends such as marginal cash flow, marginal profitability, etc.

5 Rating - Other Assets Especially Mentioned (OAEM)

Special mention assets have potential weaknesses that deserve management's close attention and monitoring until resolved. OAEMs are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification currently but might warrant adverse classification if correction of the weakness does not take place in the short term.

6 Rating - Substandard

Loans rated substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged. Assets 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 deficiencies are not corrected.

7 Rating - Doubtful

An asset classified doubtful has all the weaknesses inherent in one classified substandard, with the added characteristic that weaknesses make collection or liquidation in full, on the basis of existing facts, conditions and values, highly questionable and improbable.

Based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Term Loans Amortized Cost Basis by Origination Year				Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	
Agricultural real estate	2023	2022	2021	Prior			Total
Satisfactory	$ 959,957	$ 2,085,191	$ 1,539,323	$ 11,893,037	$ -	$ -	$ 16,477,508
Watch	-	-	-	597,296	-	-	597,296
OAEM	-	-	-	-	-	-	-
Substandard	-	-	-	279,442	-	-	279,442
Doubtful	-	-	-	-	-	-	-
Total	$ 959,957	$ 2,085,191	$ 1,539,323	$ 12,769,775	$ -	$ -	$ 17,354,246
Agricultural real estate Current period gross write offs	$ –	$ -	$ -	$ -	$ -	$ -	$ -

	Term Loans Amortized Cost Basis by Origination Year				Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	
Agricultural	2023	2022	2021	Prior			Total
Satisfactory	$ 1,177,751	$ 208,241	$ 191,087	$ 269,348	$ -	$ -	$ 1,846,427
Watch	-	-	-	146,301	-	-	146,301
OAEM	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-
Total	$ 1,177,751	$ 208,241	$ 191,087	$ 415,649	$ -	$ -	$ 1,992,728
Agricultural Current period gross write offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -

	Term Loans Amortized Cost Basis by Origination Year				Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	
Commercial	2023	2022	2021	Prior			Total
Satisfactory	$ 2,251,252	$ 2,615,386	$ 1,983,099	$ 1,330,187	$ 2,009,843	$ -	$ 10,189,767
Watch	31,571	-	80,014	20,651	90,698	-	222,934
OAEM	-	69,623	-	-	-	-	69,623
Substandard	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-
Total	$ 2,282,823	$ 2,685,009	$ 2,063,113	$ 1,350,838	$ 2,100,541	$ -	$ 10,482,324
Commercial Current period gross write offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -

	Term Loans Amortized Cost Basis by Origination Year				Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	
Commercial real estate	2023	2022	2021	Prior			Total
Satisfactory	$ 18,350,729	$ 23,029,214	$ 17,994,904	$ 37,618,947	$ 5,333,891	$ -	$102,327,685
Watch	-	-	181,728	920,657	2,558,352	-	3,660,737
OAEM	-	16,532	-	-	-	-	16,532
Substandard	-	-	-	136,033	-	-	136,033
Doubtful	-	-	-	-	-	-	-
Total	$ 18,350,729	$ 23,045,746	$ 18,176,632	$ 38,675,637	$ 7,892,243	$ -	$106,140,987
Commercial real estate Current period gross write offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Residential real estate	Term Loans Amortized Cost Basis by Origination Year 2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
Satisfactory	$ 14,973,394	$ 15,052,615	$ 8,623,781	$ 18,117,472	$ -	$ -	$ 56,767,262
Watch	-	-	-	601,921	-	-	601,921
OAEM	-	-	-	-	-	-	-
Substandard	-	-	-	34,429	-	-	34,429
Doubtful	-	-	-	-	-	-	-
Total	$ 14,973,394	$ 15,052,615	$ 8,623,781	$ 18,753,822	$ -	$ -	$ 57,403,612
Residential real estate Current period gross write offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Equity	Term Loans Amortized Cost Basis by Origination Year 2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
Satisfactory	$ -	$ -	$ -	$ -	$17,758,348	$ -	$ 17,758,348
Watch	-	-	-	-	-	-	-
OAEM	-	-	-	-	-	-	-
Substandard	-	-	-	-	17,065	-	17,065
Doubtful	-	-	-	-	-	-	-
Total	$ -	$ -	$ -	$ -	$17,775,413	$ -	$ 17,775,413
Equity Current period gross write offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Consumer	Term Loans Amortized Cost Basis by Origination Year 2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
Satisfactory	$ 1,984,038	$ 615,832	$ 256,766	$ 7,147,576	$ 133,974	$ -	$ 10,138,186
Substandard	-	-	-	-	-	-	-
Total	$ 1,984,038	$ 615,832	$ 256,766	$ 7,147,576	$ 133,974	$ -	$ 10,138,186
Consumer Current period gross write offs	$ -	$ 8,574	$ 4,926	$ 1,639	$ -	$ -	$ 15,139

Municipal	Term Loans Amortized Cost Basis by Origination Year 2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
Satisfactory	$ 3,339,834	$ 4,107,008	$ 4,843,830	$ 2,536,389	$ -	$ -	$ 14,827,061
Substandard	-	-	-	-	-	-	-
Total	$ 3,339,834	$ 4,107,008	$ 4,843,830	$ 2,536,389	$ -	$ -	$ 14,827,061
Municipal Current period gross write offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -

SBA non-real estate secured	Term Loans Amortized Cost Basis by Origination Year 2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
Satisfactory	$ 8,821	$ 71,115	$ 36,990	$ 318,954	$ -	$ -	$ 435,880
Substandard	-	-	-	-	-	-	-
Total	$ 8,821	$ 71,115	$ 36,990	$ 318,954	$ -	$ -	$ 435,880
SBA non-real estate secured Current period gross write offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -

SBA real estate secured	Term Loans Amortized Cost Basis by Origination Year 2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
Satisfactory	$ 286,209	$ 645,605	$ 166,125	$ 1,328,431	$ -	$ -	$ 2,426,370
OAEM	-	-	-	75,939	-	-	75,939
Total	$ 286,209	$ 645,605	$ 166,125	$ 1,404,370	$ -	$ -	$ 2,502,309
SBA real estate secured Current period gross write offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -

The following table summarizes the loan ratings applied to the Bank's loan types as of December 31, 2022:

December 31, 2022	Residential Real Estate	Commercial Real Estate	Commercial	Agricultural Real Estate	Agricultural	Consumer and Municipal	Total
Satisfactory	$66,378,967	$ 84,709,269	$10,635,655	$15,204,390	$ 749,677	$24,099,624	$201,777,582
Watch	557,620	4,073,630	334,560	664,837	154,430	993	5,786,070
OAEM	-	-	-	-	-	-	-
Substandard	292,831	291,335	-	577,197	-	707	1,162,070
Doubtful	-	-	-	-	-	-	-
Total	$67,229,418	$ 89,074,234	$10,970,215	$16,446,424	$ 904,107	$24,101,324	$208,725,722

The following table presents the amortized cost basis of loans on nonaccrual status as of December 31, 2023:

	Nonaccrual with No Allowance for Credit Loss	Nonaccrual	Past Due 90 Days or Greater and Accruing
Agricultural real estate	$ 74,128	$ 74,128	$ -
Agricultural	-	-	-
Commercial	46,171	46,171	-
Commercial real estate	309,774	309,774	-
Equity	17,065	17,065	-
Consumer	-	-	-
Municipal	-	-	-
Residential real estate	368,308	368,308	-
SBA non-real estate secured	-	-	-
SBA real estate secured	-	-	-
Total	$ 815,446	$ 815,446	$ -

The Bank did not recognize any interest income on nonaccrual loans during the year ended December 31, 2023.

A loan is considered to be past due once it is 30 days contractually past due under the terms of the agreement. The following table presents an aging of loans as of December 31, 2023:

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans
Agricultural real estate	$ -	$ -	$ 74,128	$ 74,128	$17,280,118	$ 17,354,246
Agricultural	36,522	-	-	36,522	1,956,206	1,992,728
Commercial	61,163	69,623	-	130,786	10,351,537	10,482,324
Commercial real estate	-	-	-	-	106,140,987	106,140,987
Equity	-	-	-	-	17,775,413	17,775,413
Consumer	-	12,438	-	12,438	10,125,748	10,138,186
Municipal	-	-	-	-	14,827,061	14,827,061
Residential real estate	395,469	-	44,510	439,979	56,963,634	57,403,612
SBA non-real estate secured	-	-	-	-	435,880	435,880
SBA real estate secured	-	-	-	-	2,502,309	2,502,309
Total	$ 493,154	$ 82,061	$ 118,638	$693,853	$238,358,893	$239,052,746

A summary of current, past due, and nonaccrual loans as of December 31, 2022 were as follows:

December 31, 2022	Current	30-89 days	Over 90 days and accruing	Nonaccrual	Total
Residential real estate	$ 66,699,700	$ 101,724	$ -	$ 427,994	$ 67,229,418
Commercial real estate	88,796,307	59,287	-	218,640	89,074,234
Commercial	10,910,242	-	-	59,973	10,970,215
Agricultural real estate	16,357,351	-	-	89,073	16,446,424
Agricultural	863,682	40,425	-	-	904,107
Consumer	9,103,170	3,892	-	1,639	9,108,701
Municipal	14,992,623	-	-	-	14,992,623
Total	$207,723,075	$ 205,328	$ -	$ 797,319	$208,725,722

The following table presents the amortized cost basis of collateral-dependent loans as of December 31, 2023:

	Real Estate	Other	Total
Agricultural real estate	$ -	$ -	$ -
Agricultural other	-	-	-
Commercial	70,902	-	70,902
Commercial real estate	144,594	-	144,594
Equity	16,896	-	16,896
Consumer	-	-	-
Residential real estate	-	-	-
Total	$ 232,392	$ -	$ 232,392

Collateral-dependent loans are loans for which the repayment is expected to be provided substantially by the underlying collateral and there are no other available and reliable sources of repayment.

Occasionally, the Bank modifies loans to borrowers in financial distress by providing principal forgiveness, term extension, an other-than-insignificant payment delay or interest rate reduction. When principal forgiveness is provided, the amount of forgiveness is charged-off against the ACL.

In some cases, the Bank provides multiple types of concessions on one loan. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted.

There were no new loans modifications during 2023.

The Bank closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. No borrowers that were modified in the last 12 months were past due as of December 31, 2023 and there have been no payment defaults.

Upon the Bank's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the ACL is adjusted by the same amount.

The Bank takes a conservative approach in credit risk management and remains focused on community lending and reinvesting, working closely with borrowers experiencing credit problems to assist in loan repayment or term modifications when appropriate. Prior to the adoption of ASU No. 2022-02, TDRs consisted of loans where the Bank, for economic or legal reasons related to the borrower's financial difficulties, granted a concession to the borrower that it would not otherwise consider. TDRs involved term modifications or a reduction of either interest or principal that the Bank would not normally make for other borrowers with similar risk characteristics. Once such an obligation had been restructured, it continued to remain in restructured status until paid in full. Current balances of loan modifications qualifying as TDRs during the year ended December 31, 2022 were $677,691. Loans restructured due to credit difficulties that are now performing were $640,890 at December 31, 2022.

At December 31, 2022, the allowance related to TDRs was $32,737. The specific reserve component was determined by using the fair value of the underlying collateral, which was obtained through independent appraisals and internal evaluations, or by discounting the total expected future cash flows from the borrower. There were no commitments to lend additional funds to borrowers with loans classified as TDRs at December 31, 2022.

A loan is considered to be in payment default once it is greater than 30 days contractually past due under the modified terms. There were no TDRs restructured within the previous twelve months that subsequently defaulted during the year ended December 31, 2022.

There were no new TDRs during 2022.

Prior to the adoption of ASU No. 2016-13, impaired loans mainly consisted of non-accrual loans and TDRs. All impaired loans were allocated a portion of the allowance to cover potential losses.

The following table presents a summary of information pertaining to impaired loans by loan category as of December 31, 2022:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Received
With an allowance recorded:					
Residential real estate	$ 119,310	$ 120,017	$ 1,247		
Commercial real estate	32,208	52,794	10,286		
Commercial	-	-	-		
Agricultural real estate	304,584	304,584	21,204		
Agricultural	-	-	-		
	456,102	477,395	32,737		
With no allowance recorded:					
Residential real estate	$ 439,940	$ 753,674	$ -		
Commercial real estate	283,844	913,957	-		
Commercial	12,532	89,333	-		
Agricultural real estate	-	-	-		
Agricultural	-	-	-		
	736,316	1,756,964	-		
Total:					
Residential real estate	$ 559,250	$ 873,691	$ 1,247	$ 567,031	$ 14,659
Commercial real estate	316,052	966,751	10,286	448,783	82,314
Commercial	12,532	89,333	-	13,990	5,488
Agricultural real estate	304,584	304,584	21,204	366,551	24,434
Agricultural	-	-	-	83,736	-
Total	$ 1,192,418	$ 2,234,359	$ 32,737	$ 1,480,091	$ 126,895

The following is a summary of information pertaining to impaired loans as of December 31, 2022:

Impaired loans without a valuation allowance	$ 736,316
Impaired loans with a valuation allowance	456,102
Total	$ 1,192,418
Valuation allowance related to impaired loans	$ 32,737
Average investment in impaired loans	$ 1,480,091

As of December 31, 2023 there were two mortgage loans collateralized by residential real estate in the process of foreclosure with a total balance of $25,411. As of December 31, 2022, there were three mortgage loans collateralized by residential real estate in the process of foreclosure with a total balance of $56,873.

7. Bank Premises and Equipment

The major classes of bank premises and equipment and the total accumulated depreciation at December 31 are as follows:

	2023	2022
Land and land improvements	**$ 1,888,366**	$ 1,888,366
Building and improvements	**6,298,969**	6,293,913
Furniture and equipment	**4,422,391**	4,509,185
	12,609,726	12,691,464
Less accumulated depreciation	**7,463,861**	7,290,356
	$ 5,145,865	$ 5,401,108

Depreciation included in occupancy and equipment expense amounted to $495,810 and $448,537 for the years ended December 31, 2023 and 2022, respectively.

8. Other Real Estate Owned

At December 31, 2023 and 2022, the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure procedures are in process is $17,424 and $25,333, respectively.

9. Deposits

The scheduled maturity of time deposits at December 31, 2023 are as follows:

2024	$ 43,809,136
2025	4,819,458
2026	2,576,978
2027	4,352,318
2028 and thereafter	2,088,740
	$ 57,646,630

U.S. government and federal agency securities with a cost of $1,844,408 and $5,005,872 and a fair value of $1,687,574 and $4,672,076 were pledged to collateralize certain municipal deposits at December 31, 2023 and 2022, respectively.

10. Repurchase Agreements

Securities sold under agreements to repurchase amounted to $3,250,000 as of December 31, 2023 and 2022, respectively. These agreements are collateralized by U.S. government and federal agency securities with an amortized cost of $3,626,829 and $3,657,154 and a fair value of $3,456,517 and $3,437,214 at December 31, 2023 and 2022, respectively.

The average daily balance of these repurchase agreements approximated $3,244,552 and $3,249,756 during 2023 and 2022, respectively. The maximum borrowings outstanding on these agreements at any month-end reporting period of the Bank was $3,250,000 in 2023 and 2022, respectively. The weighted average rate for repurchase agreements was .35% at December 31, 2023 and 2022.

11. Borrowed Funds

The Bank maintains an unsecured $3,000,000 federal funds line of credit with ACBB which was unused at December 31, 2023 and 2022.

12. Income Taxes

Income tax expense included in the Statements of Income for the years ended December 31 were as follows:

	2023	2022
Current tax provision:		
Federal	**$ 717,890**	$ 332,451
Deferred tax benefit:		
Federal	**(282,890)**	(45,647)
	$ 435,000	$ 286,804

Total income tax expense differed from the amounts computed by applying the U.S. Federal income tax rate of 21% for 2023 and 2022 to income before income taxes as a result of the following at December 31:

	2023	2022
Computed expected tax expense	**$ 688,030**	$ 495,339
Disallowed interest expense	**7,435**	3,383
Municipal income	**(227,752)**	(193,068)
Bank-owned life insurance income	**(38,597)**	(27,743)
Other, net	**5,884**	8,893
	$ 435,000	$ 286,803

The deferred income tax provision consisted of the following items at December 31:

	2023	2022
Nonaccrual loan interest	**$ (104,837)**	$ (2,803)
Depreciation	**52,663**	(3,231)
Bad debts	**(218,159)**	(15,750)
Off balance sheet accrual	**(2,898)**	(2,205)
Deferred directors fees	**(29,831)**	(27,319)
Mortgage servicing rights	**(24,441)**	(20,317)
Limited partnerships	**44,613**	25,978
	$ (282,890)	$ (45,647)

The significant components of the net deferred tax asset consisted of the following items at December 31:

	2023	2022
Components of deferred tax assets		
Bad debts	**$ 603,186**	$ 385,027
Off balance sheet accrual	**11,257**	8,359
Nonaccrual loan interest	**322,633**	217,795
Branch impairment	**8,672**	8,672
Deferred directors fees	**191,342**	161,511
Unrealized loss on securities available-for-sale	**975,511**	1,436,717
Total deferred tax asset	**2,112,601**	2,218,081
Components of deferred tax liability		
Depreciation	**(101,327)**	(48,663)
Mortgage servicing rights	**(123,927)**	(148,368)
Limited partnerships	**(107,414)**	62,801)
Other	**(110,000)**	(110,000)
Total deferred tax liability	**(442,668)**	(369,832)
Net deferred tax asset	**$ 1,669,933**	$ 1,848,249

Net deferred tax asset is included in the caption "other assets" on the balance sheets at December 31, 2023 and 2022, respectively.

Deferred tax assets are recognized subject to management's judgment that realization is more likely than not as U.S. GAAP allows for the recognition and measurement of deductible temporary differences to the extent that it is more likely than not that the deferred tax asset will be realized. Based on the temporary taxable items, historical taxable income and estimates of future taxable income, the Bank believes that it is more likely than not that the deferred tax assets at December 31, 2023 will be realized.

Based on management's evaluation, management has concluded that there were no significant uncertain tax positions requiring recognition in the Bank's financial statements at December 31, 2023. Although the Bank is not currently the subject of tax examination by the Internal Revenue Service (IRS), the Bank's tax years ended December 31, 2020 through 2023 are open to examination by the IRS under the applicable statute of limitations.

13. Pension Plan

The Bank maintains a contributory 401(k) pension plan covering all employees who meet certain age and service requirements. Contributions to the plan are voluntary by the eligible participants up to certain limits. Employee contributions are matched dollar for dollar for every dollar contributed up to six percent of the participant's salary. Contributions to the plan by the Bank for the years ended December 31, 2023 and 2022 amounted to $262,394 and $251,930, respectively.

14. Commitments and Contingencies

In the normal course of business, the Bank is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the Bank's financial statements.

15. 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 and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby letters of credit, interest rate caps and floors written on adjustable rate loans, and commitments to sell loans. Such instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

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, standby letters of credit, and commercial letters of credit is represented by the contractual notional 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. The Bank generally requires collateral or other security to support financial instruments with credit risk.

	Contract or Notional Amount 2023	2022
Financial instruments whose contract amount represent credit risk:		
Commitments to extend credit and available line of credit	**$ 63,020,000**	$ 52,036,000
Stand by letters of credit and commercial letters of credit	**$ 510,000**	$ 651,000

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. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. At December 31, 2023, the Bank had binding loan commitments at fixed rates totaling $10,468,257 that are included in commitments to extend credit.

The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies but may include real estate, accounts receivable, inventory, property, plant, and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

16. Transactions with Related Parties

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, principal officers, their immediate families and affiliated companies in which they are principal shareholders (commonly referred to as related parties), all which have been, in the opinion of management, on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others.

Aggregate loan transactions with related parties as of December 31 were as follows:

	2023	2022
Balance, beginning	**$ 2,967,441**	$ 3,317,075
New loans	**558,763**	478,838
Repayments	**(674,772)**	(828,472)
Balance, ending	**$ 2,851,432**	$ 2,967,441

Deposit accounts with related parties were $4,539,970 and $4,969,136 at December 31, 2023 and 2022, respectively.

The Bank utilizes an appraisal company owned by a director for loan appraisal services. Appraisal fees are reimbursed to the Bank from the respective borrowers.

The Bank has instituted a split dollar deferred compensation plan for certain officers. The vehicle is funded through Bank Owned Life Insurance (BOLI). The BOLI had a balance of $7,143,043 and $6,959,248 as of December 31, 2023 and 2022, respectively. The accrued deferred compensation was $192,536 and $167,178 as of December 31, 2023 and 2022, respectively and included in other liabilities in the balance sheets.

Amounts due to officers and directors under non-qualified deferred compensation agreements were $911,153 and $769,100 at December 31, 2023 and 2022, respectively and included in other liabilities in the balance sheets.

17. Fair Value Measurement

Fair values of financial instruments are estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

There are three levels of inputs that may be used to measure fair values:

- Level 1 - Valuation is based on quoted prices in active markets for identical assets or liabilities that the Bank has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities;
- Level 2 - Valuation is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability;
- Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

The following methods and assumptions were used by the Bank in estimating fair value disclosures for financial instruments:

Cash and due from banks: The carrying amounts reported in the balance sheet for cash and due from banks, including certificates of deposit, approximate those assets' fair values.

Investment securities: Fair values for investment securities are based on quoted market prices, where available (level one valuation). If quoted market prices are not available, fair values are calculated based on a formula which uses matrices which interpolate prices according to observable inputs for similar items such as sector, credit spread, rating, maturity, and option premium (level two valuations).

Federal Home Loan Bank stock: The carrying amount of this stock approximates its fair value.

Loans receivable and loans held for sale: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values of other loans (for example, fixed rate commercial real estate and rental property mortgage loans and commercial and industrial loans) are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics. Collateral values are estimated using Level 2 inputs based on appraisals of similar properties obtained from a third-party valuation service. Fair values for individually analyzed loans are estimated using Level 3 inputs based on appraisals of similar properties obtained from a third-party valuation service discounted by management based on historical losses for similar collateral and discounted cash flow analysis.

Other real estate owned: Other real estate owned is reported at the fair value of the underlying collateral. Collateral values are estimated using Level 3 inputs based on appraisals of similar properties obtained from a third-party valuation service discounted by management based on updated information.

Deposits: The fair values disclosed for demand deposits (for example, checking and savings accounts) are, by definition, equal to the amount payable on demand at the reporting date (that is,their carrying amounts). The fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated contractual maturities on such time deposits (Level 2).

Repurchase agreements and borrowed funds: For repurchase agreements and borrowed funds (including Federal funds purchased) that reprice frequently, fair values are based on carrying amounts. The fair values for other borrowings are estimated using a discounted cash flow calculation that applies interest rates currently being offered on such debt to a schedule of aggregated contractual maturities on such debt (Level 2).

Accrued interest: The carrying amount of accrued interest receivable and payable approximates fair value.

Other liabilities: Commitments to extend credit were evaluated and fair value was estimated using the fees currently charged to enter into similar agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair market value for off balance sheet financial instruments was immaterial at December 31, 2023 and 2022.

Fair values of assets measured on a recurring basis at December 31, 2023 and 2022 are as follows:

	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2023				
Loans held for sale	**$ 291,367**	**$ -**	**$ 291,367**	**$ -**
Investments - AFS				
U.S. Government and Federal Agencies	**20,977,531**	**-**	**20,977,531**	**-**
Mortgage-backed securities	**22,833,494**	**-**	**22,833,494**	**-**
State and municipal securities	**28,932,663**	**-**	**28,932,663**	**-**
	$ 73,035,055	**$ -**	**$ 73,035,055**	**$ -**

	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2022				
Loans held for sale	$ 224,791	$ -	$ 224,791	$ -
Investments - AFS				
U.S. Government and Federal Agencies	35,999,217	-	35,999,217	-
Mortgage-backed securities	18,552,061	-	18,552,061	-
State and municipal securities	24,612,489	-	24,612,489	-
	$ 79,388,558	$ -	$ 79,388,558	$ -

Fair values of assets measured on a non-recurring basis at December 31, 2023 and 2022 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2023				
Individually analyzed loans	**$ 212,111**	**$ -**	**$ -**	**$ 212,111**
December 31, 2022				
Impaired loans	$ 1,159,681	$ -	$ -	$ 1,159,681

Certain impaired loans were written down to their value of $212,111 and $1,159,681 at December 31, 2023 and 2022, respectively, resulting in an impairment charge through the ACL on loans.

There were no transfers between levels for both recurring and non-recurring assets for the years ended December 31, 2023 and 2022.

Fair Value of Financial Instruments

The carrying amounts and estimated fair values of financial instruments, at December 31, 2023 and 2022 are as follows:

	2023 Carrying Amount	2023 Estimated Value
Financial assets		
Cash and cash equivalents	**$ 15,541,591**	**$ 15,541,591**
Interest bearing deposits with banks	**16,666,552**	**16,666,552**
Securities available-for-sale	**72,743,687**	**72,743,687**
Nonmarketable equity securities	**323,700**	**323,700**
Loans receivable and loans held-for-sale, net (Level 2)	**235,177,730**	**208,154,140**
Individually analyzed loans (Level 3)	**212,111**	**212,111**
Accrued interest receivable	**1,230,313**	**1,230,313**
Financial liabilities		
Deposits (Level 2)	**317,587,725**	**315,512,817**
Repurchase agreements (Level 2)	**3,250,000**	**3,250,000**
Accrued interest payable	**65,212**	**65,212**

	2022 Carrying Amount	2022 Estimated Value
Financial assets		
Cash and cash equivalents	$ 6,260,862	$ 6,260,862
Interest bearing deposits with banks	59,165,826	59,165,826
Certificates of deposit	750,000	750,000
Securities available-for-sale	79,163,768	79,163,768
Nonmarketable equity securities	223,700	223,700
Loans receivable and loans held-for-sale, net (Level 2)	204,784,306	184,943,800
Impaired loans (Level 3)	1,159,681	1,159,681
Accrued interest receivable	998,427	998,427
Financial liabilities		
Deposits (Level 2)	332,147,121	332,423,280
Repurchase agreements (Level 2)	3,250,000	3,250,000
Accrued interest payable	14,749	14,749

The carrying amounts in the preceding table are included in the balance sheets under the applicable captions.

18. Regulatory Capital Matters

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 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 their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the 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 in the following table) of total, Tier 1 capital, and Common Equity Tier 1 (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital and tangible capital (as defined) to average tangible assets (as defined). Management believes, as of December 31, 2023 and 2022, that the Bank meets all capital adequacy requirements to which it is subject.

Regulatory capital requirements limit a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a “capital conservation buffer” consisting of 2.5% above its minimum risk-based capital requirements. As of December 31, 2023, the Bank had a capital conservation buffer of 8.74% of risk-weighted assets, which was in excess of the regulatory requirement of 2.5%.

As of December 31, 2023, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, common equity Tier 1 risk-based, Tier 1 risk-based and Tier 1 leverage rations as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category. Management believes that the Bank meets all capital adequacy requirements to which they are subject.

The Bank's actual capital amounts and ratios are also presented in the table.

(In thousands)	Actual Amount	Actual Ratio	Minimums for Capital Adequacy Purposes Amount	Minimums for Capital Adequacy Purposes Ratio	Minimums to be Well Capitalized Under Prompt Corrective Action Provisions Amount	Minimums to be Well Capitalized Under Prompt Corrective Action Provisions Ratio
As of December 31, 2023						
Total capital (to risk weighted assets)	**$ 42,126**	**16.74%**	**$ 20,126**	**8.00%**	**$ 25,158**	**10.00%**
Tier 1 (core) capital (to risk weighted assets)	**$ 38,970**	**15.49%**	**$ 15,095**	**6.00%**	**$ 20,126**	**8.00%**
Common Tier 1 (CET1) (to risk weighted assets)	**$ 38,970**	**15.49%**	**$ 11,321**	**4.50%**	**$ 16,352**	**6.50%**
Tier 1 (core) capital (to average assets)	**$ 38,970**	**10.92%**	**$ 14,270**	**4.00%**	**$ 17,837**	**5.00%**
(In thousands)						
As of December 31, 2022						
Total capital (to risk weighted assets)	$ 39,963	18.34%	$ 17,433	8.00%	$ 21,791	10.00%
Tier 1 (core) capital (to risk weighted assets)	$ 37,236	17.09%	$ 13,074	6.00%	$ 17,433	8.00%
Common Tier 1 (CET1) (to risk weighted assets)	$ 37,236	17.09%	$ 9,806	4.50%	$ 14,164	6.50%
Tier 1 (core) capital (to average assets)	$ 37,236	10.34%	$ 14,558	4.00%	$ 18,198	5.00%

19. Subsequent Events

The Bank has evaluated subsequent events through February 21, 2024, the date with the financial statements were available to be issued.

BOARD OF DIRECTORS
EXECUTIVE/ OTHER OFFICERS

Board of Directors

Frank J. Cioffi, *Member of Board of Directors of Peoples Trust Company of St. Albans since 2009*
Chairman of the Board and President of GBIC (Greater Burlington Industrial Corp.)

John T. Gallagher, *Member of Board of Directors of Peoples Trust Company of St. Albans since 1991* Owner and President, Gallagher Inc.

Mark E. Lareau, *Member of Board of Directors of Peoples Trust Company of St. Albans since 2001*
Owner, Lareau Appraisal Service

Linda M. LeBlanc, *Member of Board of Directors of Peoples Trust Company of St. Albans since 2005 Current Secretary of the Board*
Retired Senior Executive Officer/Chief Operations Officer of Peoples Trust Company of St. Albans

Leon J. Berthiaume, *Member of Board of Directors of Peoples Trust Company of St. Albans since 2008*
Senior Advisor for Dairy Farmers of America

Thomas J. Gallagher, *Member of Board of Directors of Peoples Trust Company of St. Albans since 2011*
President/CEO of Peoples Trust Company of St. Albans

John P. Casavant, *Member of Board of Directors of Peoples Trust Company 2016*
Part owner and Vice President at NFP, Inc. (formerly Hackett, Valine and McDonald)

David J. Handy, *Member of Board of Directors of Peoples Trust Company 2016*
Co-owner of Handy Buick, Cadillac, GMC, Inc.

Gordon A. Winters, *Member of Board of Directors of Peoples Trust Company 2016*
Owner, ACE Hardware stores in Milton, Jericho, St. Albans, Burlington VT and Champlain, NY

Kevin J. Manahan, *Member of Board of Directors of Peoples Trust Company 2023*
Retired Partner at A.M. Peisch & Company, LLP

Executive Officers

Thomas J. Gallagher *President/CEO*

Aaron A. Reynolds *Senior Executive Vice President/CFO*

Other Officers

Michael J. Elmore *Senior Vice President, CIO*

Angela M. Poirier *Senior Vice President, CLS*

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Giving BACK to our People.

PEOPLES TRUST Company
The bank with a heart

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EQUAL HOUSING LENDER

Member FDIC

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