QUEENSTOWN BANCORP OF MARYLAND, INC.

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2023 AUDITED FINANCIAL STATEMENTS

AUDITED FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
of Queenstown Bancorp of Maryland, Inc.
and Subsidiary
Queenstown, Maryland

Opinion

We have audited the accompanying consolidated financial statements of Queenstown Bancorp of Maryland, Inc. (a Maryland corporation) and subsidiary, which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Queenstown Bancorp of Maryland, Inc. and subsidiary as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Queenstown Bancorp of Maryland, Inc. and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, effective January 1, 2023, the Bank adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. Our opinion is not modified with respect to this matter.

Prior Period Financial Statements (2021)

The consolidated financial statements of Queenstown Bancorp of Maryland, Inc. and subsidiary as of December 31, 2021 were audited by other auditors whose report dated March 10, 2022 expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Queenstown Bancorp of Maryland, Inc.'s ability to continue as a going concern within one year after the date that the consolidated 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 consolidated 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 generally accepted auditing standards 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 consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 Queenstown Bancorp of Maryland, Inc.'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Queenstown Bancorp of Maryland, Inc.'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.

UHY LLP

Salisbury, Maryland
March 27, 2024

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	December 31	
	2023	**2022**
ASSETS		
Cash and due from banks	$ 6,363	$ 7,077
Interest bearing deposits with banks	48,190	35,112
Total cash and cash equivalents	54,553	42,189
Securities available for sale (at fair value)	136,404	148,141
Securities held to maturity (at amortized cost)	2,999	3,239
Federal Home Loan Bank stock (at cost)	493	579
Loans	457,399	429,306
Less allowance for loan losses	(6,734)	(7,565)
Loans, net	450,665	421,741
Premises and equipment, net	6,205	6,236
Bank owned life insurance	15,637	15,224
Deferred income taxes	8,616	10,284
Accrued interest receivable	2,228	2,059
Prepaid expenses	530	378
Other assets	949	549
TOTAL ASSETS	$679,279	$650,619
LIABILITIES AND STOCKHOLDERS' EQUITY		
Noninterest bearing deposits	$171,032	$179,286
Interest bearing deposits	420,352	406,718
Total deposits	591,384	586,004
Borrowings	20,000	5,000
Accrued expenses and other liabilities	5,246	3,925
Total liabilities	616,630	594,929
Common stock - $10 par value; shares authorized 10,000,000, shares issued and outstanding 1,197,300 and 1,195,223 , respectively	11,973	11,952
Additional paid in capital	463	339
Retained earnings	66,922	63,754
Accumulated other comprehensive (loss)	(16,709)	(20,355)
Total stockholders' equity	62,649	55,690
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$679,279	$650,619

See accompanying notes to consolidated financial statements.

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share information)

	Years Ended		
	2023	**2022**	**2021**
INTEREST INCOME:			
Interest and fees on loans	$ 22,552	$ 18,736	19,378
Interest and dividends on investment securities	3,186	2,890	1,608
Other interest income	2,290	902	288
Total interest income	28,028	22,528	21,274
INTEREST EXPENSE:			
Interest on deposits	7,059	1,550	1,764
Interest on borrowings	776	1	-
Total interest expense	7,835	1,551	1,764
Net interest income	20,193	20,977	19,510
Provision for loan losses, including unfunded commitments	(700)	-	-
Net interest income after provision for loan losses	20,893	20,977	19,510
NONINTEREST INCOME:			
Service charges on deposit accounts	509	470	363
Income on life insurance policies	398	380	404
Other income	876	859	886
Net (loss) gain on sales of securities	(660)	-	6
Total noninterest income	1,123	1,709	1,659
NONINTEREST EXPENSES:			
Salaries and employee benefits	8,295	7,861	7,259
Data processing and electronic banking expenses	1,338	1,172	1,009
Occupancy expense	745	728	669
Equipment expenses	486	496	458
FDIC insurance premiums	305	181	166
Other expenses	2,536	2,761	2,238
Total noninterest expenses	13,705	13,199	11,799
Income before income taxes	8,311	9,487	9,370
Income tax expense	2,150	2,450	2,423
Net income	$ 6,161	$ 7,037	6,947
Basic net income per common share	$ 5.15	$ 5.87	$ 5.79
Diluted net income per common share	$ 5.10	$ 5.81	$ 5.75
Basic weighted average common shares outstanding	1,196,656	1,199,084	1,199,302
Diluted weighted average common shares outstanding	1,207,900	1,211,471	1,208,576

See accompanying notes to consolidated financial statements.

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Dollars in thousands)

	Years Ended		
	2023	2022	2021
Net income	$ 6,161	$ 7,037	$ 6,947
Other comprehensive income (loss), before tax:			
Securities available for sale:			
Net change in unrealized gains (losses)	5,508	(25,061)	(3,211)
Net losses on sales reclassified into earnings	(478)	-	-
Other comprehensive income (loss) , before tax	5,030	(25,061)	(3,211)
Income tax effect	(1,384)	6,896	885
Other comprehensive income (loss), net of tax	3,646	(18,165)	(2,326)
Total comprehensive income (loss)	$ 9,807	$(11,128)	4,621

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2023, 2022 and 2021
(Dollars in thousands, except per share information)

	Common Stock		Additional paid- in	Retained	Accumulated Other Comprehensive	
	Shares	Par Value	capital	Earnings	Income (Loss)	Totals
Balances at January 1, 2021	1,195,786	$ 11,958	460	55,762	136	68,316
Net Income	-	-	-	6,947	-	6,947
Other comprehensive loss, net of tax	-	-	-	-	(2,326)	(2,326)
Restricted stock issued	562	5	28	-	-	33
Stock options exercised	3,900	39	95	-	-	134
Stock option compensation	-	-	32	-	-	32
Cash dividends ($2.50 per share)	-	-	-	(3,001)	-	(3,001)
Balances at December 31, 2021	1,200,248	12,002	615	59,708	(2,190)	70,135
Net Income	-	-	-	7,037	-	7,037
Other comprehensive loss, net of tax	-	-	-	-	(18,165)	(18,165)
Restricted stock issued	1,055	11	55	-	-	66
Stock options exercised	1,920	19	54	-	-	73
Stock option compensation	-	-	15	-	-	15
Stock repurchases	(8,000)	(80)	(400)	-	-	(480)
Cash dividends ($2.50 per share)	-	-	-	(2,991)	-	(2,991)
Balances at December 31, 2022	1,195,223	11,952	339	63,754	(20,355)	55,690
Net Income	-	-	-	6,161	-	6,161
Other comprehensive income, net of tax	-	-	-	-	3,646	3,646
Restricted stock issued	2,066	21	112	-	-	133
Stock options exercised	240	2	6	-	-	8
Stock option compensation	-	-	15	-	-	15
Stock repurchases	(229)	(2)	(9)	-	-	(11)
Cash dividends ($2.50 per share)	-	-	-	(2,993)	-	(2,993)
Balances at December 31, 2023	1,197,300	$ 11,973	463	66,922	(16,709)	62,649

See accompanying notes to consolidated financial statements.

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	Years Ended		
	2023	2022	2021
OPERATING ACTIVITIES:			
Net Income	$ 6,161	7,037	6,947
Adjustments to reconcile net income to net cash provided by operating activities:			
Premium amortization on securities	946	1,200	996
Depreciation and amortization	456	441	446
Provision for loan losses, including unfunded commitments	(700)	-	-
Loss on sales of securities	660	-	-
Deferred tax expense (benefit)	283	(22)	(61)
Stock option compensation	15	15	32
Net changes in:			
Accrued interest receivable	(169)	(318)	499
Accrued expenses and other liabilities	1,253	542	286
Prepaid expenses	(152)	(82)	33
Other operating activities	(583)	107	(392)
Net cash provided by operating activities	8,170	8,920	8,786
INVESTING ACTIVITES:			
Purchases of securities available-for-sale	-	(9,310)	(116,620)
Purchases of securities held-to-maturity	-	(3,336)	-
Proceeds from sales of securities available-for-sale	6,660	-	-
Proceeds from calls and maturities of securities available-for-sale	-	-	5,000
Principal payments received on securities available-for-sale	8,545	12,815	11,509
Principal payments received on securities held-to-maturity	257	108	-
Net (increase) decrease in loans	(28,313)	(44,327)	16,773
Purchases of FHLB stock	-	(277)	-
Proceeds from redemptions of FHLB stock	86	-	137
Purchases of bank owned life insurance	-	-	(3,000)
Purchases of premises and equipment	(426)	(376)	(421)
Proceeds from sales of real estate	-	104	29
Net cash (used) by investing activities	(13,191)	(44,599)	(86,593)
FINANCING ACTIVITIES:			
Net increase (decrease) in deposits	5,380	1,435	79,005
Proceeds from borrowings	20,000	5,000	-
Repayment of borrowings	(5,000)	-	-
Stock options exercised	9	73	134
Stock repurchases	(11)	(480)	-
Dividends paid	(2,993)	(2,991)	(3,001)
Net cash provided by financing activities	17,385	3,037	76,138
Net increase (decrease) in cash and cash equivalents	12,364	(32,642)	(1,669)
Cash and cash equivalents at beginning of year	42,189	74,831	76,500
Cash and cash equivalents at end of year	$54,553	$ 42,189	74,831
Supplemental disclosures:			
Interest payments	$ 6,334	1,490	1,904
Income tax payments	2,061	2,453	2,509
Noncash investing and financing activities:			
Transfers to other real estate	$ -	104	-

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023, 2022 AND 2021

(Dollars in thousands, except per share information)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Company, which includes Queenstown Bancorp of Maryland, Inc. and its wholly owned subsidiary, Queenstown Bank of Maryland (the Bank), conform to accounting principles generally accepted in the United States of America and to general practices in the banking industry. Certain reclassifications have been made to amounts previously reported to conform with the classifications made in 2023.

Basis of Presentations

The consolidated financial statements include the accounts of Queenstown Bancorp of Maryland, Inc. and its subsidiary, Queenstown Bank of Maryland, with all significant intercompany transactions eliminated.

Nature of Operations

The Company provides a full range of banking services to individuals and businesses through its main office and five branches in Queen Anne's County and one branch each in Talbot County and Caroline County Maryland.The Company also operates a loan production office in Dorchester County. Its primary deposit products are certificates of deposit and demand, savings, and money market accounts. Its primary lending products are commercial and consumer loans and real estate mortgages. The Company's loan portfolio has a concentration of residential and commercial real estate loans in Queen Anne's County and the surrounding area.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Securities

At the purchase date, the Company classifies securities as held to maturity or available for sale. Interest and dividend income on securities are recognized in interest income on the accrual basis. Premiums and discounts on securities are amortized as an adjustment to yield using the interest method. Premiums are amortized through the earliest call date. Discounts are accreted through the maturity date.

Debt securities acquired with both the intent and ability to hold to maturity are classified as held to maturity and reported at amortized cost. Federal Home Loan Bank stock is carried at cost and is restricted as to marketability.

Securities classified as available-for-sale are used as part of the Company's asset/liability management strategy. Sales may occur in response to changes in interest rate conditions, balance sheet composition or other economic factors. All debt securities classified as available for sale are reported at estimated fair value, with unrealized gains and losses reported as accumulated other comprehensive income or loss, net of deferred income taxes, in the stockholders' equity section of the Consolidated Balance Sheets. Declines in the fair value of individual available-for-sale securities below their amortized cost due to credit -related factors are recognized as an allowance for credit losses. On any available-for-sale securities with unrealized losses, the Company evaluates its ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value. Gains or losses realized from the sale of securities are determined by specific identification and are included in noninterest income.

Loans

Loans are stated at their principal balance outstanding net of deferred loan fees and costs. Overdrafts are included in loans outstanding. Interest income on loans is accrued at the contractual rate on the principal amount outstanding. The Company places loans, except for consumer, on nonaccrual when any portion of the principal or interest is ninety days past due and collateral is insufficient to discharge the debt in full. Interest accrual may also be discontinued earlier if, in management's opinion, collection is unlikely. Generally, consumer loans are not placed on nonaccrual, but are charged off when they are over 100 days past due. Interest received on impaired loans placed on nonaccrual status is generally applied to reduce the carrying value of the loan or, if principal is considered fully collectible, recognized as interest income. For all other loans, loan balances are charged off when it becomes evident that such balances are not fully collectible. For loans secured by real estate, the excess of the loan balances over the net realizable value of the property collateralizing the loan is charged off. Accrual of interest resumes when the loan is brought current and the borrower demonstrates the ability to service the debt on a current basis. Loan origination fees and certain direct loan origination costs are being deferred and the net amount is amortized over the contractual life of the loan as an adjustment to the loan's yield.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The allowance is determined by management's evaluation of the loan and lease portfolio based on such factors as the differing economic risks associated with each loan category, the current financial condition of specific borrowers, the economic environment in which borrowers operate, the level of delinquent loans, the value of any collateral and, where applicable, the existence of any guarantees or indemnification. As a result, these judgments are inherently subjective and involve material estimates that may be susceptible to significant change. The allowance is increased by the loan loss provision charged to operating expenses and reduced by charge-offs, net of recoveries. The provision for loan losses is based on the ongoing review of the loan portfolios, past loss experience and current economic conditions which could impact the borrowers' repayment performance.

Effective January 1, 2023, the Company applied ASU 2016-13, Financial Instruments - Credit Losses ("ASC 326"), such that the allowance calculation is based on a current expected credit losses (CECL) methodology. ASC 326 requires entities to estimate an allowance for credit losses ("ACL") on certain types of financial instruments measured at amortized cost using a ("CECL") methodology, replacing the incurred loss methodology from prior GAAP. It also applies to unfunded commitments to extend credit, including loan commitments, standby letters of credit, and other similar instruments.Additionally, the measurement principles for modifications of loans to borrowers experiencing financial difficulty were modified, including how the ACL is measured for such loans.

The amendments of ASC 326, upon adoption, were applied on a modified retrospective basis. Results for reporting periods beginning after January 1, 2023 are presented under ASU 2016-13 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The company was not required to record any adjustment to retained earnings as of January 1, 2023.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Land is stated at cost. The Company's policy is to provide for depreciation of physical properties over their estimated useful lives or the lease term (whichever is shorter) as a charge to operations at straight-line rates. Expenditures for maintenance, repairs and minor renewals are charged to operations; expenditures for betterments are charged to the property accounts. Upon retirement or other disposition of properties, the carrying value and the related accumulated depreciation or amortization are removed from the accounts.

Advertising Costs

Advertising costs are expensed as incurred.

Off-Balance Sheet Credit Risk

The Company issues financial or standby letters of credit that represent conditional commitments to fund transactions by the Company, typically to guarantee performance of a customer to a third party related to borrowing arrangements. The credit risk associated with issuing letters of credit is essentially the same as occurs when extending loan facilities to borrowers. The Company monitors the exposure to the letters of credit as part of its credit review process. Extensions of letters of credit, if any, would become part of the loan balance outstanding and would be evaluated in accordance with the Company's credit policies. Potential exposure to loss for unfunded letters of credit if deemed necessary would be recorded in other liabilities.

The Bank records a reserve, reported in other liabilities, for expected credit losses on commitments to extend credit that are not unconditionally cancellable by the Bank. The reserve for unfunded commitments is measured based on the principles utilized in estimating the ACL on loans and an estimate of the amount of unfunded commitments expected to be advanced. Changes in the reserve for unfunded commitments are recorded through the provision for credit losses. During the year ended December 31, 2023, the Bank recorded a $68 thousand provision for credit losses associated with its unfunded commitments.

Other Real Estate

Real estate properties acquired through, or in lieu of, loan foreclosure are held for sale and carried at the lower of fair value minus estimated costs of disposal or cost. Fair value is based on independent appraisals and other relevant factors. At the time of acquisition any excess of loan balance over fair value is charged to the allowance for loan losses.

Income Taxes

Deferred income taxes are calculated by applying enacted statutory tax rates to temporary differences consisting of all significant items which are reported for tax purposes in different years than for accounting purposes. Deferred tax assets are recognized only to the extent that it is more likely than not that such amounts will be realized based on considerations of available evidence. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Per Share Data

Basic net income per share is computed by dividing the net income by the weighted average number of shares of common stock outstanding during the year presented. Diluted net income per share is computed by dividing net income by the weighted average number of shares of common stock plus the assumed conversions of common stock equivalents outstanding using the treasury method.

Subsequent Events

Subsequent events have been evaluated for potential recognition and disclosure through the date of the independent auditors' report, the date these consolidated financial statements were available to be issued. No subsequent events were identified that would affect the presentation of the consolidated financial statements.

Statement of Cash Flows

For purposes of reporting cash flows, cash equivalents are composed of cash and due from banks and interest bearing deposits with banks.

Comprehensive Income

Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains, and losses be included in net income. However, 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 stockholders' equity section of the consolidated balance sheet. Such items, along with net income, are componets of comprehensive income.

Noninterest Income

Service charges on deposit accounts – Service charges on deposit accounts consist of monthly service fees, check orders, and other deposit account related fees. The Company's performance obligation for monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transactional based, and therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or at the end of the month through a direct charge to customers' accounts.

Other noninterest income – Other noninterest income consists of fees, other service charges, safety deposit box rental fees, and other miscellaneous revenue streams. Fees and other service charges are primarily comprised of debit card income, ATM fees, merchant services income, and other service charges. Debit card income is primarily comprised of interchange fees earned whenever the Company's debit cards are processed through card payment networks. ATM fees are primarily generated when a Company cardholder uses a non-Company ATM. Merchant services income mainly represents fees charged to merchants to process their debit card transactions, in addition to account management fees. Other service charges include revenue from processing wire transfers, cashier's checks, and other services. The Company's performance obligation for fees and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month. Safe deposit box rental fees are charged to the customer on an annual basis and recognized upon receipt of payment.

Recent Accounting Pronouncements

During June 2016, the FASB issued ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” The amendments in this ASU, among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The FASB has issued multiple updates to ASU 2016- 13 as codified in Topic 326, including ASU’s 2020-04, 2020-05, 2020-10, 2020-11, 2021-02, and 2021-03. The ASU is effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. The adoption did not have a material impact on the consolidated financial statements.

During December 2020, the FASB issued ASU 2020-12, “Income Taxes (Topic 740) – Simplifying the Accounting for Income Taxes.”, which simplifies the accounting for income taxes by removing multiple exceptions to the general principals in Topic 740. The amendments are effective for fiscal years beginning after December 15,2022 and interim periods within fiscal years beginning after December 15,2023. The adoption did not have a material impact on the consolidated financial statements.

In March 2021, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2021-04 “Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting.” The new standard results from the London Interbank Offered Rate (“LIBOR”) being discontinued as an available benchmark rate. The standard is elective and provides optional expedients and exceptions for applying GAAP to contracts, hedging, or other transactions that reference LIBOR, or another reference rate expected to be discontinued. The amendments in the update are effective for all entities between March 12,2021 and December 31, 2023. The Company has few transactions referencing LIBOR and has begun transitioning to alternative rates, consistent with industry guidelines.

2. SECURITIES

The amortized cost, gross unrealized gains and losses, and fair values of securities are as follows:

	December 31, 2023			
Available for sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasuries and government agencies	$ 23,112	19	2,215	20,916
State and municipal	29,718	-	4,477	25,241
Mortgage backed	101,143	2	15,584	85,561
Corporate debt	5,483	-	797	4,686
Totals	$ 159,456	21	23,073	136,404

	December 31, 2022			
Available for sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasuries and government agencies	$ 24,934	-	2,770	22,164
State and municipal	37,414	-	6,562	30,852
Mortgage backed	108,394	39	18,191	90,242
Corporate debt	5,482	-	599	4,883
Totals	$ 176,224	39	28,122	148,141

	December 31, 2023			
Held to maturity	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage backed	$ 2,999	-	160	2,839

	December 31, 2022			
Held to maturity	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage backed	$ 3,239	-	186	3,053

The table below shows our securities' gross unrealized losses and fair value, aggregated by category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2023 and 2022.

	Less than 12 months		12 months or more		Totals	
As of December 31, 2023	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available for sale						
U.S. treasuries and government agencies	$ 839	1	16,553	2,214	17,392	2,215
State and municipal	148	28	25,093	4,449	25,241	4,477
Mortgage backed	-	-	85,444	15,584	85,444	15,584
Corporate debt	447	30	4,240	767	4,687	797
Totals	$ 1,434	59	131,330	23,014	132,764	23,073
Held to maturity						
Mortgage backed	$ -	-	2,839	160	2,839	160

	Less than 12 months		12 months or more		Totals	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
As of December 31, 2022	Value	Loss	Value	Loss	Value	Loss
Available for sale						
U.S. treasuries and government agencies	$ 633	1	15,725	2,808	16,358	2,809
State and municipal	346	18	30,506	6,544	30,852	6,562
Mortgage backed	7,963	649	82,187	17,503	90,150	18,152
Corporate debt	2,247	226	2,635	373	4,882	599
Totals	$ 11,189	894	131,053	27,228	142,242	28,122
Held to maturity						
Mortgage backed	$ 3,053	186	-	-	3,053	186

The unrealized losses that exist are the result of changes in market interest rates since original purchases. These unrealized losses are considered temporary in nature and will recover over time as these securities approach maturity. The Company has sufficient liquidity to hold these securities for an adequate period of time, to allow for an eventual recovery in fair value.

The amortized cost and fair values of debt securities at December 31, 2023 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale		Held to Maturity	
	Amortized	Fair	Amortized	Fair
	Cost	Value	Cost	Value
As of December 31, 2023				
One to five years	$ 15,571	14,084	$ -	-
Five to ten years	31,044	26,463	-	-
After ten years	11,698	10,296	-	-
	58,313	50,843	-	-
Mortgage backed	101,143	85,561	2,999	2,839
Totals	$ 159,456	136,404	$ 2,999	2,839

	Available for Sale		Held to Maturity	
	Amortized	Fair	Amortized	Fair
	Cost	Value	Cost	Value
As of December 31, 2022				
One to five years	$ 13,734	12,149	$ -	-
Five to ten years	33,227	27,870	-	-
After ten years	20,869	17,880	-	-
	67,830	57,899	-	-
Mortgage backed	108,394	90,242	3,239	3,053
Totals	$ 176,224	148,141	$ 3,239	3,053

In 2023, the Company recognized losses of $ 660 thousand on the sales of securities. There were no sales of securities in 2022 nor 2021.

At December 31, 2023 and 2022, securities with a carrying value of $82,140 thousand and $36,258 thousand respectively, were pledged as collateral for certain government deposits and for other purposes.

3. LOANS

At December 31, 2023 and 2022, loans are as follows:

	2023	2022
Real estate:		
Construction and land development	$ 34,732	39,138
Secured by farmland	29,082	27,214
Commercial	165,520	138,499
Residential	207,466	204,985
Commercial and agricultural	14,736	13,711
Consumer	5,863	5,759
Totals	$ 457,399	429,306

Unammortized net deferred loan costs amounted to $328 thousand and $554 thousand at December 31, 2023 and 2022. A summary of current, past due, and nonaccrual loans as of December 31, 2023 and 2022 was as followed:

	Current	30-89 Days Past Due	90 Days or more Past Due and accruing	Nonaccrual	Total
As of December 31, 2023					
Real estate:					
Construction and land development	$ 34,732	-	-	-	34,732
Secured by farmland	28,970	112	-	-	29,082
Commercial	164,602	-	-	918	165,520
Residential	206,770	474	222	-	207,466
Commercial and agricultural	14,064	-	-	672	14,736
Consumer	5,848	15	-	-	5,863
Totals	$ 454,986	601	222	1,590	457,399

	Current	30-89 Days Past Due	90 Days or more Past Due and accruing	Nonaccrual	Totals
As of December 31, 2022					
Real estate:					
Construction and land development	$ 39,138	-	-	-	39,138
Secured by farmland	27,214	-	-	-	27,214
Commercial	138,484	15	-	-	138,499
Residential	204,375	477	27	106	204,985
Commercial and agricultural	13,640	4	67	-	13,711
Consumer	5,759	-	-	-	5,759
Totals	$ 428,610	496	94	106	429,306

Loans on which the accrual of interest has been discontinued totaled $1,590 thousand and $106 thousand at December 31, 2023 and 2022 respectively. Interest that would have been accrued on these loans totaled $10 thousand and $18 thousand for the years ended December 31, 2023 and 2022 respectively. At December 31, 2023 there were residential mortgages in the process of foreclosure totaling $295 thousand.

4. ALLOWANCE FOR LOAN LOSSES

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

		Real estate construction	Real estate residential	Real estate commercial and farmland	Commercial and agriculture	Consumer	Totals
As of December 31, 2023							
Beginning Balance	$	272	2,889	4,194	190	20	7,565
Provision for loan losses		(45)	(1,223)	-	500	-	(768)
Net charge-offs:							
Charge-offs				(125)	(82)	(14)	(221)
Recoveries		16	58	60	7	17	158
Net (charge-offs) recoveries		16	58	(65)	(75)	3	(63)
Ending balance	$	243	1,724	4,129	615	23	6,734
As of December 31, 2022							
Beginning Balance	$	298	1,056	5,889	138	20	7,401
Provision for loan losses		(43)	1,812	(1,798)	40	(11)	-
Net charge-offs:							
Charge-offs		-	(9)	(3)	-	(9)	(21)
Recoveries		17	30	106	12	20	185
Net (charge-offs) recoveries		17	21	103	12	11	164
Ending balance	$	272	2,889	4,194	190	20	7,565

Although the above allocation is performed, the allowance for loan losses is general in nature and is available to absorb losses from any loan type.

Management has an established methodology to determine the adequacy of the ACL that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the ACL, the Bank segments its loan portfolio by FDIC Call Report codes. For reporting purposes, these loan segments are aggregated by the following product types: Real Estate Loans, Commercial and Industrial, and Consumer. Real estate loans are further divided into the following three classes: Construction (which includes construction, land development, and other land loans), Residential Mortgages, and Commercial Mortgages. Pooled loan segments are reviewed and analyzed quarterly using the Bank's annualized net charge-offs since January 1, 2014, to the most recent quarter-end. The quantitative historical loss rate is then adjusted for reasonable and supportable economic forecasts and the review of the following qualitative factors:

1. Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices.
2. Changes in the experience, depth, and ability of management.
3. Changes in the quality of the loan review system.
4. Changes in the concentrations of credit within the pool.
5. Changes in the nature, volume, and growth rate of the loan portfolio.
6. Trends in past due, non-accrual, and adversely classified loans
7. Changes in the value of the underlying collateral for collateral-dependent loans.
8. Changes in competition, legal, and regulatory factors.
9. Imprecision risk of the economic outlook and model.

In accordance with ASU 2016-13 individually evaluated loans that do not fit within a portfolio segment are specifically identified and individually analyzed to determine the amount of their expected loss. The establishment of a specific reserve does not necessarily mean that the loan with the specific reserve will definitely incur loss at the reserve level. It is only an estimation of potential loss based upon anticipated events. A specific reserve will not be established unless loss elements can be determined and quantified based on known facts. The total ACL reflects management's estimate of loan losses inherent in the loan portfolio as of December 31, 2023 and 2022.

The following table provides information on individually evaluated loans by loan category as of December 31, 2023 and 2022:

		Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment
As of December 31, 2023					
With a related allowance recorded:					
Real estate – residential	$	222	273	68	220
Real estate – commercial & farmland		918	1,043	279	1,068
Commercial & agricultural		672	750	206	764
Totals	$	1,812	2,066	553	2,052
As of December 31, 2022					
With a related allowance recorded:					
Real estate – residential		1,755	1,760	142	1,834
Real estate – commercial & farmland		546	546	41	553
Totals	$	2,301	2,306	183	2,387
As of December 31, 2022					
Without a related allowance recorded:					
Real estate – residential		1,522	1,919	-	1,694
Real estate – commercial & farmland		1,277	1,509	-	1,362
Commercial & Agricultural		67	67	-	118
Totals	$	2,866	3,495	-	3,174

The following table summarizes the loan risk ratings applied to the Company's real estate mortgages and commercial loans as of December 31, 2023 and 2022. Criticized loans are considered inadequately protected by the current paying capacity of the borrower or of the collateral pledged, if any. These loans have weaknesses that jeopardize the liquidation of the debt. Loans not meeting the definition of criticized are considered pass rated loans. Consumer Loans are not risk rated by the Company, so they are excluded from the tables below.

	Real estate construction	Real estate residential	Real estate commercial and farmland	Commercial and agriculture	Totals
As of December 31, 2023					
Pass	$ 34,657	206,107	189,482	14,064	444,310
Criticized accrual	75	1,359	4,202	-	5,636
Criticized nonaccrual	-	-	918	672	1,590
Total	$ 34,732	207,466	194,602	14,736	451,536
As of December 31, 2022					
Pass	$ 39,138	203,788	160,780	13,644	417,350
Criticized accrual	-	1,091	4,933	67	6,091
Criticized nonaccrual	-	106	-	-	106
Totals	$ 39,138	204,985	165,713	13,711	423,547

At December 31, 2023 and 2022 the allocation of the allowance for loan losses summarized on the basis of evaluation methodology was as follows:

	Real estate construction	Real estate residential	Real estate commercial and farmland	Commercial and agriculture	Consumer	Totals
As of December 31, 2023						
Individually evaluated	$ -	68	279	206	-	553
Collectively evaluated	243	1,656	3,850	409	23	6,181
Total	$ 243	1,724	4,129	615	23	6,734
As of December 31, 2022						
Individually evaluated	$ -	142	41	-	-	183
Collectively evaluated	272	2,747	4,153	190	20	7,382
Totals	$ 272	2,889	4,194	190	20	7,565

The recorded investment in loans summarized based on evaluation methodology as of December 31, 2023 and 2022 was as follows:

	Real estate construction	Real estate residential	Real estate commercial and farmland	Commercial and agriculture	Consumer	Total
As of December 31, 2023						
Individually evaluated for impairment	$ -	222	918	672	-	1,812
Collectively evaluated for impairment	34,732	207,244	193,684	14,064	5,863	455,587
Total	$ 34,732	207,466	194,602	14,736	5,863	457,399
As of December 31, 2022						
Individually evaluated for impairment	$ -	3,277	1,823	67	-	5,167
Collectively evaluated for impairment	39,138	201,708	163,890	13,644	5,759	424,139
Total	$ 39,138	204,985	165,713	13,711	5,759	429,306

On January 1, 2023, the Bank adopted ASU 2022-02, Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures, which eliminates Troubled Debt Restructuring (“TDR”) recognition and measurement guidance and instead requires loan refinancing and restructuring guidance to determine whether a modification results in a new loan or a continuation of an existing loan. If a loan is modified for a borrower who is experiencing financial difficulties and the modifications are considered to be more than minor, the loan is subject to certain disclosure requirements outlined in ASU 2022-02. During 2023 the Bank did not modify any loans for borrowers which met the disclosure requirements outlined in ASU 2022-02.

Prior to the adoption of ASU 2022-02, in situations where, for economic or legal reasons related to a borrower's financial difficulties, the Bank may have granted a concession for other than an insignificant period of time to the borrower that would not otherwise be considered, the related loan was classified as a TDR. Under the incurred loss methodology, prior to the adoption of CECL on January 1, 2023, a TDR was considered to be an impaired loan to be individually analyzed for purposes of determining the ACL. For TDRs with interest rates modified below market, the “specific” valuation allowance amounts were determined by comparing the discounted future expected present value of cash flows under the modified agreements against the carrying value of the original loan and a separate reserve in the ACL was established and identified for TDRs. TDRs with principal reductions were individually evaluated for impairment and charged off to their net realizable value through the ACL.

The following table includes the recorded investment and number of modifications for TDRs as of December 31, 2022. The Bank reported the recorded investment in the loans prior to a modification and also the recorded investment in the loans after the loans were restructured.

Information on troubled debt restructurings for the year ended December 31, 2022 is as follows:

	Number of contracts	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment
As of December 31, 2022			
Real estate – residential accrual	17	$ 4,390	$ 3,145
Real estate – commercial accrual	3	1,754	1,282
Real estate – farmland accrual	1	818	541
Totals	21	$ 6,962	$ 4,968

5. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	December 31	
	2023	2022
Land	1,885	1,885
Leasehold improvements	161	161
Buildings and land improvements	7,568	7,507
Furniture and equipment	4,006	3,641
	13,620	13,194
Accumulated depreciation and amortization	(7,415)	(6,958)
Premises and equipment – net	$ 6,205	6,236

Depreciation expense was $456 thousand, $441 thousand and $446 thousand for each of the years ended December 31, 2023, 2022 and 2021, respectively.

Rent expense applicable to operating leases amounted to $72 thousand for 2023, $60 thousand for 2022, and $44 thousand for 2021. The Bank has short-term lease obligations for office locations. Future minimum lease payments subsequent to 2023 are $47 thousand for 2024.

6. DEPOSITS

A breakdown of interest bearing deposits at December 31, 2023 and 2022, by type of account is as follows:

	2023	2022
Savings and money market	$ 155,182	196,709
Interest bearing demand	68,242	74,086
Time deposits through $250,000	152,061	114,869
Time deposits of more than $250,000	44,867	21,054
Total interest bearing deposits	$ 420,352	406,718

At December 31, 2023, the scheduled maturities of time deposits are as follows:

2024	$ 152,201
2025	38,204
2026	2,332
2027	3,130
2028	1,061
	$ 196,928

Interest on deposits for the years ended December 31, 2023, 2022 and 2021 consisted of the following:

	2023	2022	2021
Savings and money market	$ 738	$ 357	245
Interest bearing demand	1,329	473	213
Time deposits more than $ 250,000	1,042	133	325
Other time deposits	3,950	587	981
Total interest on deposits	$ 7,059	1,550	1,764

7. BORROWINGS AND CREDIT FACILITIES

Short-term borrowings consist of advances from the Federal Home Loan Bank of Atlanta with original maturities of up to one year and advances from the Federal Reserve Bank of Richmond Discount Window Bank Term Funding Program (BTFP).There was a $ 20 million advance outstanding under the BTFP at December 31, 2023. The advance matures on April 4, 2024 with an interest rate of 4.66%.There was a $ 5 million daily adjustable rate credit advance from the FHLB of Atlanta outstanding at December 31, 2022. The interest rate on the FHLB advance outstanding at December 31, 2022 was 4.57%.

At December 31, 2023, credit available under the FHLB credit facility approximates $93 million , letters of credit issued for the benefit of public funds depositors of $37 million are outstanding. The Bank is required to maintain an investment in stock of the FHLB in the amount of $579 thousand as a condition for the credit facility. The Bank has also pledged its portfolios of 1-4 family first and second mortgage loans, home equity loans, multi-family mortgages and mortgages secured by farmland as collateral for this credit facility. Certain qualifying commercial mortgages are also pledged as collateral for this credit facility. Principal balances outstanding on these mortgage loans total approximately $285 million at December 31, 2023. Credit available from the Bank Term Funding Program (BTFP) approximates $ 33 million at December 31, 2023. Securities pledged to the BTFP have approximate principal balances of $ 53 million at December 31, 2023.

8. STOCKHOLDERS' EQUITY

The Board of Directors has approved plans authorizing the Company to purchase shares of its common stock. Purchased shares will be used for corporate purposes including issuance under the Company’s stock based compensation plans. The number of shares remaining available for purchase under the plans was 103,412 shares at December 31, 2023.

Cash dividends paid to the holding company by its wholly owned subsidiary, Queenstown Bank of Maryland were $2,993 thousand for 2023.

The Company and the Bank are subject to various regulatory capital requirements. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's financial statements. Regulatory non-objection may be required to pay certian dividends. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance sheet items as calculated under regulatory capital practices. The Company's 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 Company and the Bank to maintain amounts and ratios (as set forth in the following table) of total and Tier I Capital (as defined in the regulations) to risk-weighted assets (as defined). As of December 31, 2023, the capital levels of the Company and the Bank exceed all capital adequacy requirements to which they are subject.

As of December 31, 2023, the most recent notification from the Bank's primary regulators categorized the Bank as well capitalized under the prompt corrective action regulations. To be categorized as well capitalized, a bank must maintain a minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following tables. There are no conditions or events since the last notifications that management believes have changed the Company's and Bank's category. Actual capital amounts and ratios are presented in the following table for the Company and the Bank.

	Amount	Actual Ratio	For Capital Adequacy Purposes	To Be Well Capitalized Under Prompt Corrective Action Provisions
As of December 31, 2023				
Total capital (to risk weighted assets):				
Company (consolidated)	$ 85,318	17.92%	8%	
Bank	84,969	17.85%	8%	10%
Tier I capital (to risk weighted assets):				
Company (consolidated)	79,357	16.67%	6%	
Bank	79,009	16.60%	6%	8%
Common equity tier I				
Company (consolidated)	79,357	16.67%	4.50%	
Bank	79,009	16.60%	4.50%	6.50%
Tier I capital (to average assets):				
Company (consolidated)	79,357	11.42%	4%	
Bank	79,009	11.37%	4%	5%
As of December 31, 2022				
Total capital (to risk weighted assets):				
Company (consolidated)	$ 81,764	17.94%	8%	
Bank	81,546	17.89%	8%	10%
Tier I capital (to risk weighted assets):				
Company (consolidated)	76,044	16.69%	6%	
Bank	75,826	16.64%	6%	8%
Common equity tier I				
Company (consolidated)	76,044	16.69%	4.50%	
Bank	75,826	16.64%	4.50%	6.50%
Tier I capital (to average assets):				
Company (consolidated)	76,044	11.30%	4%	
Bank	75,826	11.27%	4%	5%

9. INCOME TAXES

Applicable income taxes on net income for 2023, 2022 and 2021 consist of the following:

	2023	2022	2021
Current income tax expense:			
Federal	$ 1,325	1,758	1,745
State	542	714	739
	1,867	2,472	2,484
Deferred income tax expense (benefit):			
Federal	200	(24)	(36)
State	83	2	(25)
	283	(22)	(61)
Total income tax expense	$ 2,150	2,450	2,423

Components of deferred income tax expense (benefit) for 2023, 2022 and 2021 consist of the following:

	2023	2022	2021
Provision for loan losses	203	(45)	(64)
Loan fees and costs	14	53	85
Deferred compensation	(36)	(61)	(62)
Depreciation and amortization	23	(7)	36
Interest income	47	52	(57)
Stock based compensation	32	(14)	1
Total deferred income tax (benefit) expense	$ 283	(22)	(61)

A reconciliation of income taxes computed at the maximum statutory federal tax rate to total income taxes for the years ended December 31, 2023, 2022, and 2021 follows:

	2023		2022		2021	
	Amount	Percent	Amount	Percent	Amount	Percent
Tax computed at statutory rate	1,745	21.0%	1,992	21.0%	1,968	21.0%
Increase (decrease) resulting from						
Tax-exempt interest income	(20)	-0.2%	(35)	-0.4%	(36)	-0.4%
Bank owned life insurance income	(84)	-1.0%	(80)	-0.8%	(85)	-0.9%
State income tax, net of federal income tax benefit	494	5.9%	564	5.9%	562	6.0%
Other	15	0.2%	9	0.1%	14	0.2%
Total income taxes	$ 2,150	25.9%	2,450	25.8%	2,423	25.9%

Significant components of the Company's deferred tax assets and liabilities at December 31, 2023 and 2022 are as follows:

	2023	2022
Deferred tax assets:		
Allowances for credit losses	$ 1,878	2,081
Deferred compensation	740	704
Interest income	155	201
Stock based compensation	-	32
Others	3	3
Unrealized loss on securities available-for-sale	6,344	7,730
Total deferred tax assets	9,120	10,751
Deferred tax liabilities:		
Accumulated depreciation and amortization	338	315
Loan fees and costs	166	152
Unrealized gain on securities available-for-sale	-	-
Total deferred tax liabilities	504	467
Net deferred tax assets	8,616	10,284

Management has determined that no valuation allowance is required as it is more likely than not that the net deferred tax assets will be fully realizable in future years. The Company remains subject to examination of income tax returns for the years ending after December 31, 2020.

10. RETIREMENT PLANS AND OTHER EMPLOYEE BENEFIT AGREEMENTS

The Company has a Section 401(k) profit sharing plan which covers substantially all employees who meet certain service requirements. Employer contributions to the plan include a discretionary contribution and matching contributions of a percentage of employee elective salary deferral contributions. Employer contributions included in operating expenses for 2023, 2022 and 2021 were $220 thousand, $196 thousand, and $181 thousand, respectively.

The Company has provided additional retirement benefits as well as pre-retirement death benefits to selective executives through deferred compensation agreements. The deferred compensation plan agreements provide for monthly benefit payments for fifteen years after retirement. Benefit payments were $122 thousand, $120 thousand, and $109 thousand, for 2023, 2022 and 2021, respectively. The Company is accruing the present value of these benefits over the remaining number of years to the employees' retirement dates. Benefit accruals included in operating expenses for 2023, 2022 and 2021 were $333 thousand, $321 thousand, and $292 thousand, respectively. The accrued liability for deferred compensation agreements were $2,375 thousand at December 31, 2023 and $2,164 thousand at December 31, 2022.

The Company provides retirement benefits to directors. The agreements provide for annual benefit payments for ten years after retirement. Benefit payments were $125 thousand, $23 thousand and $23 thousand for 2023, 2022 and 2021, respectively. The Company is accruing the present value of these benefits over the remaining number of years to the directors' retirement dates. Benefit accruals included in operating expenses for 2023, 2022 and 2021, were $44 thousand, $43 thousand and $68 thousand, respectively. The accrued liability for deferred compensation for directors was $312 thousand at December 31, 2023 and $393 thousand at December 31, 2022.

11. STOCK-BASED COMPENSATION

The Company has a qualified incentive stock option plan for officers and employees and a nonqualified stock option plan for directors. The total number of shares of Common Stock that may be granted is 126,000 for the incentive plan and 63,000 for the nonqualified plan. Information with respect to the options granted is as follows:

	2023		2022		2021	
	Options Outstanding	Weighted Average Exercise price	Options Outstanding	Weighted Average Exercise price	Options Outstanding	Weighted Average Exercise price
Balance, January 1	21,405	$ 37.11	23,325	$ 37.19	27,225	$ 36.78
Options granted	-	-	-	-	-	-
Options exercised	(240)	38.26	(1,920)	38.06	(3,900)	34.31
Options forfeited	-	-	-	-	-	-
Options expired	-	-	-	-	-	-
Balance, December 31	21,165	$ 37.12	21,405	$ 37.11	23,325	$ 37.19
Options exercisable, December 31	21,165	$ 37.12	21,405	$ 37.11	20,725	$ 36.84

Stock options outstanding at December 31, 2023 were as follows:

	Issued and Outstanding Options			Exercisable (Vested) Options		
Exercise Price Range	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Remaining Life (years)	Weighted Average Exercise Price
$0.00 through $34.99	10,165	3.34	$ 34.00	10,165	3.34	$ 34.00
$35.00 through $54.99	11,000	4.28	$ 40.00	11,000	4.28	$ 40.00
Totals:	21,165	3.83	$ 37.12	21,165	5.59	$ 37.12

The maximum term of stock options granted under the plans is 10 years.

There were no options granted in 2023, 2022 or 2021.

Additionally, the Company has a restricted stock plan to provide designated employees and directors the opportunity to receive grants of stock awards. The Restricted Stock Plan authorizes the issuance of up to 10,000 shares of common stock, of which 9,438 shares are available for issuance at December 31, 2023. Restricted stock awards are subject to a three year vesting schedule. Restricted shares granted in 2023 were 2,782 shares, shares vested were 926 shares. The fair market value at the date of grant was $64 per share. Compensation costs are recognized on a straight line basis over the vesting period.

Stock based compensation costs for 2023, 2022, and 2021, were $148 thousand, $130 thousand and $99 thousand, respectively. As of December 31, 2023, all compensation cost related to the issuance of stock options has been recognized. The intrinsic value for the stock options exercised was $7 thousand, $47 thousand, and $108 thousand in the years ended December 31, 2023, 2022 and 2021, respectively. The total intrinsic value of outstanding stock options was $569 thousand at December 31, 2023. The total intrinsic value of exercisable stock options was $569 thousand at December 31, 2023.

12. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company makes extensions of credit to its directors and their associates and several of its policy making officers on substantially the same terms, including interest rates and collateral, as those prevailing for comparable transactions with other customers. Extensions of credit outstanding, both direct and indirect, to directors and policy making officers were $2,641 thousand at December 31, 2023 and $3,612 thousand at December 31, 2022. New or additional extensions of credit during 2023 were $31 thousand. Credit reductions and retirements were $1,002 thousand during 2023. Deposit balances of directors and policy making officers were $3,911 thousand and $3,258 thousand at December 31, 2023 and 2022, respectively.

13. OTHER EXPENSES

Additional details on other expenses are as follows:

	2023	2022	2021
Consulting fees	348	528	429
Directors fees	278	312	315
Debit card transaction expenses	218	254	242
Marketing and advertising	235	185	144
Auditing expenses	152	139	139
Postage	108	112	86
Other expenses	1,197	1,231	883
Total other expenses	2,536	2,761	2,238

14. FINANCIAL INSTRUMENTS

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit.

The Company's exposure to credit losses in the event of nonperformance by the other party to these financial instruments are represented by the contractual amount of the instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Included in other liabilities are allowances for losses on unfunded credit commitments of $92 thousand at December 31, 2023 and $24 thousand at December 31, 2022. The provisions for losses on unfunded commitments were $ 68 thousand for 2023. There were no provisions for losses on unfunded commitments in 2022 nor 2021.

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 commitments do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

A summary of the contract amounts of the Company's financial instruments with off-balance sheet risk at December 31, 2023 is as follows:

Commitments to extend credit	$59,624 thousand
Standby letters of credit	$2,654 thousand

15. FAIR VALUE MEASUREMENTS

The Company discloses fair value information about financial instruments for which it is practicable to estimate the value, whether or not such financial instruments are recognized on the balance sheet. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by quoted market price, if one exists.

Quoted market prices, if available, are shown as estimates of fair value. Because no quoted market prices exist for a substantial portion of the Company's financial instuments, the fair value of such instruments has been derived based on management's assumptions with respect to future economic conditions, the amount and timing of future cash flows and estimated discount rates. Different assumptions could significantly affect these estimates. Accordingly, the net realizable value could be materially different from the estimates presented. In addition, the estimates are only indicative of individual financial instrument values and should not be considered an indication of the fair value of the Company taken as a whole.

The following methods and assumptions were used to estimate the fair value of each category of financial instrument for which it is practicable to estimate value:

- Cash and due from banks and federal funds sold: The carrying amounts reported are considered to approximate their fair values. Time deposits fair values are based on quoted market values.
- Investment securities: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.
- Loans: 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 for other 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. The carrying amount of accrued interest receivable approximates its fair value.
- Deposits: The fair value disclosed for deposits with no defined maturity 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. The carrying amount of accrued interest payable approximates fair value.
- Borrowings: The fair value is estimated based on interest rates currently available for debt with similar terms and remaining maturities.

The estimated fair values of the Company's financial instruments as December 31, 2023 and 2022 are as follows:

	2023		2022	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Total Cash and due from banks	$ 6,363	6,363	$ 7,077	7,077
Interest bearing deposits with banks	48,190	47,897	35,112	34,619
Investment securities:				
Available for sale	136,404	136,404	148,141	148,141
Held to maturity	2,999	2,839	3,239	3,053
Federal Home Loan Bank stock	493	493	579	579
Loans, net of allowance	450,665	421,116	421,741	400,486
Accrued interest receivable	2,228	2,228	2,059	2,059
Financial liabilities:				
Deposits	591,384	589,044	586,004	581,543
Borrowings	20,000	20,000	5,000	5,000
Accrued interest payable	977	977	162	162

The Company has adopted the Financial Accounting Standard Board's ("FASB") guidance on *Fair Value Measurements* which provides a framework for measuring and disclosing fair value under generally accepted accounting principles. This guidance requires disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis (for example, available-for-sale investment securities) or on a nonrecurring basis (for example, impaired loans).

FASB's guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an 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. This guidance also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

Fair Value Hierarchy

Level 1 – Quoted prices in active markets for identical assets or liabilities

Level 2 – Other significant observable inputs (including quoted prices in active markets for similar assets or liabilities)

Level 3 – Significant unobservable inputs (including the Company's own assumptions in determining the fair value of assets or liabilities)

The following table presents fair value measurements on a recurring basis as of December 31, 2023 and 2022:

2023

Securities available for sale	**Level 1**	**Level 2**	**Level 3**	**Fair Value**
U.S. treasuries and government agencies	$ 3,621	17,295	-	20,916
State and municipal	-	25,241	-	25,241
Mortgage backed	-	85,561	-	85,561
Corporate debt		4,686		4,686
Total available for sale securities	3,621	132,783	-	136,404
Securities held to maturity				
Mortgage backed	$ -		-	

2022

Securities	**Level 1**	**Level 2**	**Level 3**	**Fair Value**
U.S. treasuries and government agencies	$ -	22,164	-	22,164
State and municipal	-	30,852	-	30,852
Mortgage-backed	-	90,242	-	90,242
Corporate debt		4,883		4,883
Total available for sale securities	$ -	148,141	-	148,141

Securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

The Bank may also be required, from time to time, to measure certain other financial assets and liabilities at fair value on a nonrecurring basis in accordance with accounting principles generally accepted in the United States of America. The following table presents fair value measurements on a non-recurring basis as of December 31, 2023 and 2022:

2023

	Level 1	**Level 2**	**Level 3**	**Fair Value**
Nonperforming loans	-	-	1,812	1,812

2022

	Level 1	**Level 2**	**Level 3**	**Fair Value**
Impaired loans	$ -	-	4,984	4,984

Loans which are deemed to be nonperforming or impaired are primarily valued on a nonrecurring basis at the fair values of the underlying real estate collateral. Such fair values are derived as follows:

Level 3 inputs are independent appraisals and other available market evaluations used by management in estimating fair value.