2022 ANNUAL REPORT

JEFFERSON SECURITY BANK

JSB

BUILDING COMMUNITY

2022
TOP 200
COMMUNITY BANKS
BY
AMERICAN BANKER
THIRD YEAR IN A ROW

BANKING FOR LIFE'S JOURNEY

We are a community bank that partners with our customers to enhance their lives and enrich our communities through local decision-making.

VISION:

Be the bank of choice in the communities we serve.

As a community bank, we play an important and unique role in the banking industry as a key provider of funding for many local families and small businesses. Our customer base is diverse with a wide array of retail and business customers that are within our local market. Our bank operates with a constant focus on proactive management of the balance sheet, which includes maintaining strong risk management practices for asset quality, liquidity monitoring and capital planning. We believe that these foundational efforts allow us to remain resilient amid uncertainty. While the banking industry has experienced some recent turbulence, it is important to remember that community banking is strong. In our more than 153 year history, we have endured the challenges of many economic environments and financial crises.

As I reflect on last year's financial performance, and look forward to the future of Jefferson Security Bank, it is imperative to acknowledge some of the changes that we have experienced over the last several years which led us to where we are today. First and foremost, it is with extreme pride that I report that in 2022, Jefferson Security Bank achieved record earnings for the 5th consecutive year. This success was attained through the hard work and determination of our team, and their commitment to excellence with each customer experience. Our board of directors is equally dedicated to our success, and brings to our bank their knowledge, insights, experiences and extraordinary efforts, which further strengthens our institution. I am grateful to each member of our team who has contributed to the growth of the bank, allowing us to continually enhance our financial and volunteer support throughout our communities. Growing the bank to better support our local areas, and doing so in a way that sustains long-term shareholder value, in my opinion, is at the forefront of community banking and Jefferson Security Bank.

For the year ended 2022, net income totaled $3.9 million, an increase of 8% over net income of $3.6 million for 2021. In part, this increase resulted from the overall growth of our balance sheet, as total assets increased to $461 million as of December 31, 2022 from $427 million as of December 31, 2021. Additionally, we experienced notable improvement in our net loan to deposit ratio which grew to 73% for the year ended 2022 from 63% as of the year ended 2021. This shift was the result of tremendous growth in our loan portfolio of over $60 million or 24% when comparing the year ended 2022 to 2021. During the same period, we also saw deposit growth of $24 million or 6%. These changes in our balance sheet structure, along with a one-time adjustment for the recovery of income from a previous problem loan, resulted in an improvement in our total income. Total expenses also increased in 2022 when compared to 2021. The primary increases were related to the provision for loan losses resulting from significant loan growth, and salaries and employee benefits due primarily to increased wage pressure and cost of benefits.

Maintaining strong underwriting standards to ensure high asset quality of our loan portfolio is always a major focus. This is even more important during times of rapid growth such as what we experienced in loans over the last year. As of the end of 2022, past due and nonaccruals were at the lowest level in decades, with a balance of $72 thousand, an improvement when compared to the year ended 2021 balance of $922 thousand. To further support the strength of our loan portfolio, we had net recoveries of charged off loans totaling $3 thousand compared to net charge offs of $35 thousand for 2021.

Since I became President and CEO, it has been a top strategic priority to build our loan portfolio and shift assets from our investment portfolio to improve the overall profitability of the bank. Prior to the pandemic, the loan to deposit ratio was approaching nearly 80%, up significantly from 55% as of March 2016 when I began in this position. With added stimulus funding and a decline in business activity in 2020 and 2021, our deposit growth outpaced our loan growth. This was a trend seen across the financial services industry, and caused a decline in our loan to deposit ratio. This led to an increase in our investment portfolio as of the end of 2021. The unprecedented market adjustments during 2022 had a larger than expected impact on the market value of our investments as reflected by the decline in our total investment portfolio and the related impact to accumulated other comprehensive loss as reflected on our balance sheet. It is important to understand that the losses shown in our investment portfolio are temporary and not reflective of the credit quality of the investments. In other words, for the most part, these losses are expected to reverse over time, with no impact to net income. Additionally, the bank maintains ample liquidity with no plan or requirement to sell investment securities at a loss.

Understanding the market adjustments in our investment portfolio is key to understanding the decline in total shareholders' equity when comparing the year ended 2022 to 2021. While an increase was shown in retained earnings as a result of strong income performance, the adjustments in accumulated other comprehensive loss, related to the market adjustments of our investment portfolio, led to a decline in total shareholders' equity. This also led to a decline in book value per share to $81.64 as of December 31, 2022 compared to $119.52 as of December 31, 2021. It is noteworthy to mention that while these temporary adjustments impact total capital, there is no impact to regulatory capital. As of December 31, 2022, the bank remained well capitalized. The board of directors and management carefully monitor capital levels when considering strategic initiatives, stock repurchase activity and other capital distributions.

Our industry faces many ongoing challenges related to regulatory and compliance requirements, competitive advancements in technology, protection of customer data and sophisticated fraud schemes, just to name a few. Throughout the past year, we also encountered market shifts at an unexpected pace and staffing changes consistent with those seen throughout the country. Much effort was put into managing through these and other challenges to ensure that we delivered strong financial performance. However, to maintain the growth and progress that we have demonstrated will require thoughtful strategy under our current corporate structure. We hope our shareholders recognize that the world around us is ever-changing, and our ability to change with it as we grow and evolve will allow us to remain a strong independent community bank. Our efforts are focused on providing value to our shareholders, serving our customers with personalized service and supporting our communities with the same intention shown by many of our strong leaders for over 150 years. I want to thank our shareholders for your continued support and appreciate your investment in Jefferson Security Bank.

Cindy A. Kitner

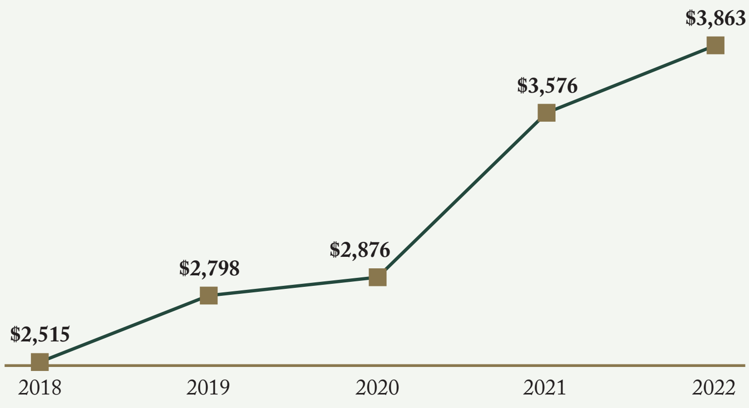
Cindy A. Kitner, CPA
President and CEO

Left to Right, Back Row: Kelvin L. Upson; Christian E. Asam; Archibald R. (Rob) Hoxton, IV, CFP; R. Andrew McMillan, Jr., PhD; Brant M. Lowe; Dennis L. Barron; Suellen D. Myers; *Front Row:* Frederick K. Parsons, Chair; Cindy A. Kitner, CPA, President and CEO; Eric J. Lewis, CPA, Vice Chair; Monica W. Lingenfelter, Corporate Secretary

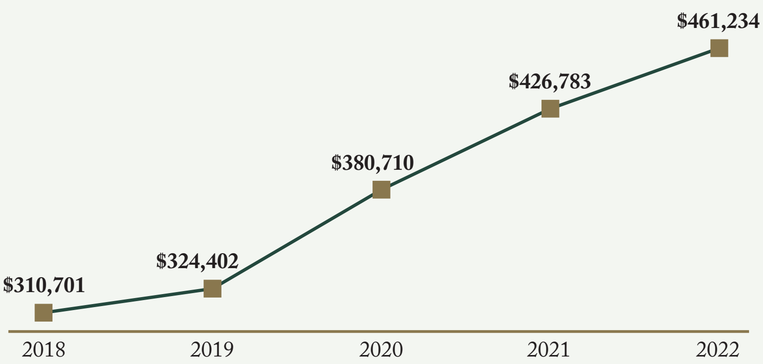
EXECUTIVE OFFICERS

Karl J. "Jeff" Keller	Cindy A. Kitner, CPA	Jenna L. Kesecker, CPA
Executive Vice President of Lending	*President and Chief Executive Officer*	*Executive Vice President and Chief Financial Officer*

NET INCOME
(in thousands)



TOTAL ASSETS
(in thousands)

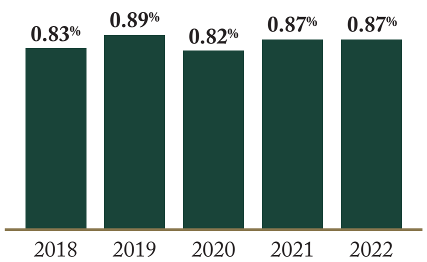


GROWTH RATIOS
(compared to 2021)

24.28%	8.07%	6.16%
Loans (net)	Assets	Deposits

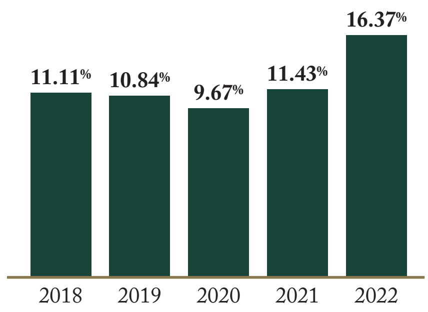
SELECT RATIOS
(2018–2022)

0.87%



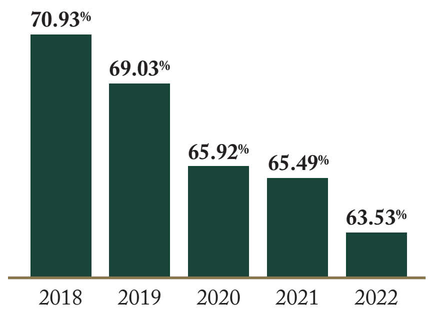
Return on Average Assets

16.37%



Return on Average Equity

63.53%



Efficiency Ratio

COMMUNITY CONNECTIONS

300+ HOURS

SPENT IN THE COMMUNITY FOR THE YEAR 2022

Empowering local students through education, "Get A Life" Program

Over two days, eight JSB employees spoke with middle school students about personal finance during the "Get A Life" financial education program. This program is sponsored by Jefferson County Chamber of Commerce, Jefferson County Schools, and the West Virginia State Treasurer's Office.

UNITED WAY DAY OF CARING

JSB employees volunteered to paint the pool shed, pull weeds on the grounds and pressure wash the pool house at Lambert Pool in Berkeley County, WV.

EMPLOYEE JEANS DAYS

raised over **$3,600** for 19 local charities

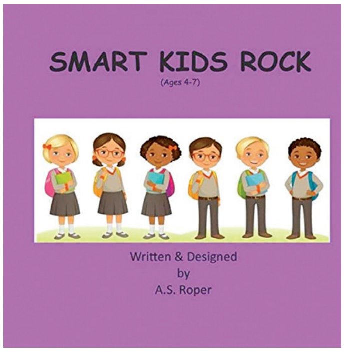
RAISED $5,000

for the Shepherdstown Volunteer Fire Department

5 SCHOOLS SPONSORED

across the Eastern Panhandle enabling access to premium online financial education for the classroom.

601 JEFFERSON COUNTY SECOND GRADERS



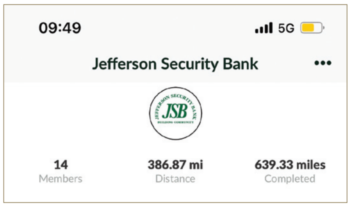
JEFFERSON COUNTY SECOND GRADERS received a copy of "Smart Kids Rock" as part of a collaborative reading initiative between Jefferson Security Bank, Shepherd University, Jefferson County Schools and Delta Sigma Theta.

DONATIONS

$5,000 Kidz Power Pacs

This organization is a weekend, holiday break and summer feeding program for school-aged children in Jefferson and Berkeley Counties. On average, KPP serves 1,025+ children and 42 schools. JSB employees regularly volunteer to help pack and deliver the "pacs" to the schools.

$5,000 CASA-EP



JSB employees, together with community members, formed a team for the CASA of the Eastern Panhandle Superhero Challenge fundraiser. The fundraiser challenges the community to get active for youth affected by abuse and neglect across the Eastern Panhandle. JSB donated $5,000 and recorded over 630 miles during the month long challenge.

$5,000 Streetfest

In 2022, JSB became the lead community sponsor as Shepherdstown welcomed back StreetFest. The Shepherdstown economy benefited from the thousands that attended the event and $10,000 was donated to two local charities. $5,000 to Shepherdstown Shares and $5,000 to the Eastern Panhandle Empowerment Center; doubling JSB's investment in the community.

Awarded $2,000 in scholarships to high school seniors

Independent Auditor's Report

To the Board of Directors and Shareholders
Jefferson Security Bank
Shepherdstown, West Virginia

Opinion
We have audited the consolidated financial statements of Jefferson Security Bank and its subsidiary (the Bank), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, the related consolidated statements of income, comprehensive (loss) income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

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

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

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

In performing an audit in accordance with GAAS, we:

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

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

Other Information Included in the Annual Report
Management is responsible for the other information included in the annual report. The other information comprises the president's letter but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
March 20, 2023

JEFFERSON SECURITY BANK AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2022 and 2021

	2022	2021
ASSETS		
Cash and due from financial institutions	$ 4,237,734	$ 2,604,542
Interest bearing deposits with depository institutions	46,571	13,347,690
Cash and cash equivalents	4,284,305	15,952,232
Securities available for sale, at fair value	80,538,785	147,000,252
Securities held to maturity, at amortized cost (fair value of $44,051,303 - 2022; $1,372,706 - 2021)	47,914,134	1,305,286
Restricted securities, at cost	1,221,100	279,500
Loans, net of allowance for loan losses of $3,459,889 - 2022; $2,826,549 - 2021	304,244,564	244,808,343
Accrued interest receivable	1,267,495	1,096,969
Premises and equipment, net	5,155,653	5,197,389
Bank owned life insurance	7,474,372	7,295,233
Other assets	9,133,475	3,848,175
Total assets	$ 461,233,883	$ 426,783,379
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Interest bearing	$ 283,985,390	$ 275,837,545
Noninterest bearing	130,777,238	114,843,869
Total deposits	414,762,628	390,681,414
Federal funds purchased	9,000	- -
Federal Home Loan Bank advances	21,389,600	- -
Accrued interest payable	60,985	68,281
Other accrued expenses and other liabilities	2,500,862	3,077,106
Total liabilities	438,723,075	393,826,801
Shareholders' Equity		
Common stock, $10 par value; 300,000 shares authorized; issued and outstanding, 275,746 shares at December 31, 2022 and 2021	2,757,460	2,757,460
Additional paid-in capital	2,757,460	2,757,460
Retained earnings	32,984,068	29,728,121
Accumulated other comprehensive (loss), net	(15,988,180)	(2,286,463)
Total shareholders' equity	22,510,808	32,956,578
Total liabilities and shareholders' equity	$ 461,233,883	$ 426,783,379

See accompanying notes to consolidated financial statements

JEFFERSON SECURITY BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2022 and 2021

	2022	2021
Interest and dividend income		
Loans, including fees	$ 12,337,855	$ 10,659,189
Securities:		
Taxable	1,681,154	1,316,677
Nontaxable	1,097,800	837,515
Dividends and other interest	115,633	38,070
Total interest and dividend income	15,232,442	12,851,451
Interest expense		
Deposits	2,177,593	1,562,260
Borrowings	84,787	1,981
Total interest expense	2,262,380	1,564,241
Net interest income	12,970,062	11,287,210
Provision for loan losses	630,000	80,000
Net interest income after provision for loan losses	12,340,062	11,207,210
Noninterest income		
Service charges on deposit accounts	490,991	466,459
ATM and debit card fees and other service charges	1,453,695	1,348,621
Realized gain on securities, net	- -	335
Income from bank owned life insurance	179,139	180,674
Other	97,416	110,111
Total noninterest income	2,221,241	2,106,200
Noninterest expense		
Salaries and employee benefits	5,040,910	4,322,467
Occupancy	1,193,604	1,255,226
Advertising and marketing	224,200	191,691
ATM and debit card expense	518,207	461,828
Data processing	1,101,738	1,098,452
Postage and stationery supplies	222,540	196,569
Professional services	394,324	362,385
FDIC and state assessments	233,142	201,746
Other real estate owned income, net	- -	(4,186)
Director fees	159,500	132,500
Other	773,759	720,956
Total noninterest expense	9,861,924	8,939,634
Income before income tax expense	4,699,379	4,373,776
Income tax expense	836,791	797,658
Net income	$ 3,862,588	$ 3,576,118
Basic and diluted earnings per common share	$ 14.01	$ 12.93

See accompanying notes to consolidated financial statements

JEFFERSON SECURITY BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
For the Years Ended December 31, 2022 and 2021

	2022	2021
Net income	$ 3,862,588	$ 3,576,118
Other comprehensive loss, net of tax:		
Unrealized holding losses on securities available for sale arising during period	(7,578,621)	(1,771,030)
Reclassification adjustment for securities gains included in net income	- -	(251)
Unrealized holding losses on securities prior to transfer to held to maturity	(7,107,644)	- -
Amortization of unrealized holding losses on securities transferred to held to maturity	172,727	- -
Change in pension benefits	99,099	897,260
Reclassification adjustment for change in pension benefits included in net income	82,080	108,279
Change in supplemental executive retirement benefits	559,295	(58,250)
Reclassification adjustment for change in supplemental executive retirement benefits included in net income	71,347	69,502
Total other comprehensive loss	(13,701,717)	(754,490)
Comprehensive (loss) income	$ (9,839,129)	$ 2,821,628

See accompanying notes to consolidated financial statements

JEFFERSON SECURITY BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2022 and 2021

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)	Total Shareholders' Equity
Balance at December 31, 2020	$ 2,792,460	$ 2,792,460	$ 26,948,282	$ (1,531,973)	$ 31,001,229
Net income	- -	- -	3,576,118	- -	3,576,118
Other comprehensive loss	- -	- -	- -	(754,490)	(754,490)
Repurchase of common stock (3,500 shares)	(35,000)	(35,000)	(227,500)	- -	(297,500)
Cash dividends - $2.05 per share	- -	- -	(568,779)	- -	(568,779)
Balance at December 31, 2021	$ 2,757,460	$ 2,757,460	$ 29,728,121	$ (2,286,463)	$ 32,956,578
Net income	- -	- -	3,862,588	- -	3,862,588
Other comprehensive loss	- -	- -	- -	(13,701,717)	(13,701,717)
Cash dividends - $2.20 per share	- -	- -	(606,641)	- -	(606,641)
Balance at December 31, 2022	$ 2,757,460	$ 2,757,460	$ 32,984,068	$ (15,988,180)	$ 22,510,808

See accompanying notes to consolidated financial statements

JEFFERSON SECURITY BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Net income	$ 3,862,588	$ 3,576,118
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	425,275	482,577
Provision for loan losses	630,000	80,000
Deferred income tax expense (benefit)	48,714	(110,879)
Net amortization of securities	612,037	855,416
Net gain on sale of securities available for sale	- -	(198)
Net gain on call of securities available for sale	- -	(137)
Net gain on sale of other real estate owned	- -	(6,825)
Income from bank owned life insurance	(179,139)	(180,674)
Net change in:		
Accrued interest receivable	(170,526)	(1,054)
Accrued interest payable	(7,296)	(5,338)
Other assets	(496,167)	(1,178,784)
Other accrued expenses and other liabilities	235,576	1,193,743
Net cash provided by operating activities	4,961,062	4,703,965
Cash flows from investing activities		
Net increase in loans	(60,066,221)	(5,021,798)
Purchase of securities available for sale	(18,270,689)	(69,529,663)
Proceeds from the sale of securities available for sale	- -	4,732,530
Proceeds from calls, maturities and principal paydowns of securities available for sale	18,033,239	24,842,237
Proceeds from calls, maturities and principal paydowns of securities held to maturity	126,648	430,879
Proceeds from sale of other real estate owned	- -	352,351
Net increase in Federal Home Loan Bank stock	(941,600)	(9,700)
Property and equipment expenditures, net	(383,539)	(189,753)
Net cash used in investing activities	(61,502,162)	(44,392,917)
Cash flows from financing activities		
Net increase in interest bearing deposits	8,147,845	32,742,238
Net increase in noninterest bearing deposits	15,933,369	11,542,814
Net decrease in securities sold under an agreement to repurchase	- -	(338,628)
Net increase in federal funds purchased	9,000	- -
Net increase in Federal Home Loan Bank advances	21,389,600	- -
Repurchase of common stock	- -	(297,500)
Dividends paid	(606,641)	(568,779)
Net cash provided by financing activities	44,873,173	43,080,145
Net change in cash and cash equivalents	(11,667,927)	3,391,193
Cash and cash equivalents at beginning of year	15,952,232	12,561,039
Cash and cash equivalents at end of year	$ 4,284,305	$ 15,952,232

See accompanying notes to consolidated financial statements

JEFFERSON SECURITY BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2022 and 2021
(Continued)

	2022	2021
Supplemental disclosures:		
Interest paid	$ 2,269,677	$ 1,569,579
Income taxes paid	781,053	1,070,372
Supplementary Disclosures Noncash Activities:		
Change in unrealized holding losses on available for sale securities	(10,104,827)	(2,361,709)
Securities transferred from available for sale to held to maturity, at fair value	46,548,904	- -
Unrealized holding losses as of transfer date on securities transferred from available for sale to held to maturity	(9,476,859)	- -
Amortization of unrealized holding losses on securities transferred from available for sale to held to maturity	230,303	- -
Change in pension benefits	241,571	1,340,719
Change in supplemental executive retirement benefits	840,856	15,003

See accompanying notes to consolidated financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Jefferson Security Bank and subsidiary conform to accounting principles generally accepted in the United States of America and to general practice within the banking industry. The following describes the significant accounting and reporting policies which are employed in the preparation of the consolidated financial statements.

Basis of Presentation: The consolidated financial statements include the accounts of Jefferson Security Bank and its wholly-owned limited liability company, JSB Financial Services, LLC. JSB Financial Services, LLC is an inactive subsidiary previously used for offering financial services; therefore, no elimination entries were needed for consolidation.

Nature of Operations, Business Segments: Jefferson Security Bank (the Bank) is a West Virginia state-charted bank that was formed and opened for business in 1869. The main office is located in Shepherdstown, West Virginia. The principal markets for the Bank's financial services are the eastern panhandle region of West Virginia in Jefferson and Berkeley Counties and in adjacent Washington County, Maryland including the areas immediately surrounding these communities.

The Bank provides a full range of banking services and products to individuals, agricultural businesses, small and medium-sized businesses, local government entities and non-profit organizations through its main office and four full-service retail banking offices and one drive-thru banking office located throughout its market area. It maintains a diversified loan portfolio, including loans to individuals for home mortgages, automobiles and personal expenditures, and loans to business enterprises for current operations and expansion.

The Bank offers a variety of deposit products, including checking, savings, money market, individual retirement accounts and certificates of deposit. While the Bank's management monitors the revenue stream of various products and services, operations are managed and financial performance is evaluated on a Bank wide basis. Accordingly, all of the Bank's operations are considered by management to be aggregated into one operating segment.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the consolidated financial statements and the disclosures provided, and future results could differ. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the determination of the pension and supplemental executive retirement plan benefits and obligations.

Cash and Cash Equivalents: For purposes of the consolidated balance sheets and the consolidated statements of cash flows, cash and cash equivalents includes cash on hand, cash items, amounts due from financial institutions with original maturities less than 90 days, interest bearing deposits with depository institutions with maturities within 90 days and federal funds sold. Amounts due from financial institutions may, at times, exceed federally insured limits and are carried at cost.

Debt Securities: Investments in debt securities with readily determinable fair values are classified as either held to maturity, available for sale or trading. The Bank accounts for debt securities as either held to maturity or available for sale. Investments in debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and are accounted for at amortized cost. Securities classified as available for sale are accounted for at fair value, with unrealized gains and losses excluded from earnings and reported net of the related tax effect in accumulated other comprehensive loss. Purchase premiums and discounts on debt securities are deferred and recognized in interest income using the effective interest method over the contractual life 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.

The Bank follows relevant accounting guidance related to recognition and presentation of other than temporary impairment. This accounting guidance specifies that (*a*) if a company does not have the intent to sell the debt security prior to recovery and (*b*) it is more likely than not that it will not have to sell the debt security prior to recovery, then the security would not be considered other than temporarily impaired unless there is a credit loss. When the Bank does not intend to sell the security, and it is more likely than not the Bank will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other than temporary impairment of a debt security in earnings and the remaining portion in other comprehensive loss.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Transfers of debt securities into held to maturity classification from the available for sale classification are made at fair value on the date of transfer. The unrealized holding gain or loss on the date of transfer is reported in accumulated other comprehensive loss and in the carrying value of the held to maturity securities. Such amounts are amortized over the remaining contractual lives of the securities. The net impact from amortization and accretion of the unrealized loss at date of transfer is zero.

Restricted Securities: The Bank, as a member of the Federal Home Loan Bank (FHLB) of Pittsburgh, is required to maintain an investment in capital stock of the FHLB. Based on redemption provisions of the FHLB, the stock has no quoted market value and is carried at cost. The redemption of FHLB stock is subject to certain limitations and conditions. At its discretion, the FHLB may declare dividends on the stock. The Bank also holds an equity investment in Community Bankers Bank. The stock is generally viewed as a long-term investment and as restricted securities carried at cost because there is a minimal market for the stock. Management reviews restricted securities for impairment based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until payoff or maturity are reported at their recorded investment, which is the principal balance outstanding less the allowance for loan losses and any deferred fees or costs. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using either the interest method or straight-line method.

Interest income is reported using the interest method and includes amortization of net deferred loan fees and costs over the estimated loan term. Interest income is not recorded when full loan repayment is in doubt, typically when the loan is impaired or payments are past due over 90 days based upon the loan's contractual terms, unless the loan is both well secured and in the process of collection. When management doubts the collection in full of the principal and interest, the loan is placed on nonaccrual status. If a loan is fully secured and in the process of collection and resolution of collection is expected in the near term, then the loan will not be placed on nonaccrual status. All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income for unpaid interest recognized in net income in the current year and unpaid interest accrued from prior years is charged to the allowance for loan losses. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured to meet the contractual provisions of the note.

When a loan is not fully collateralized and is in the process of collection, the Bank may charge off the account balance or some portion thereof as a loss. Generally, a delinquency over 120 days past due will be charged off unless the loan is well secured and an acceptable collection plan is in place with the exception of personal residential property which may be charged off at 150 days. All charge offs are approved by the Loan Committee and reported to the Board of Directors.

Risk characteristics associated with specific segments of the loan portfolio are detailed below:

Commercial loans not secured by real estate carry risks associated with the successful operation of a business, and the repayments of these loans depend on the profitability and cash flows of the business. Commercial loans are considered to contain a higher level of risk than other loan types although care is taken to minimize these risk. Risk factors impacting the portfolio include industry specific risks such as the economy, technology, increasing material and production costs, labor rates and cyclicality. Customer risk factors include cash flow, financial structure, operating controls and asset quality. Interest rate increases could have an adverse impact on the profitability of the business.

Commercial loans secured by real estate are generally secured by nonresidential, non-owner occupied one-to-four family rental and multi-family residential properties. Commercial real estate loans carry risks associated with the profitability of the business and the ability to generate positive cash flows sufficient to service debts. Real estate security diminishes risks only to the extent that a market exists for the collateral. Real estate secured construction loans carry risks that a project will not be completed as scheduled and budgeted and that the value of the collateral may, at any point, be less than the principal amount of the loan. Additional risks may occur if the general contractor, who may not be a loan customer, is unable to finish the project as planned due to financial pressures unrelated to the project.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Residential real estate loans carry risks associated with the continued credit worthiness of the borrower and changes in the value of collateral. These loans are subject to adverse employment conditions in the local economy leading to an increase in default rates. Residential real estate loans are traditional one-to-four family residential mortgages and are mainly comprised of adjustable rate mortgages. In the event of incremental rate increases, the borrowers' ability to maintain payments may be impacted.

Consumer loans carry risks associated with the continued credit worthiness of the borrower and the value of the underlying collateral. In addition, these loans may be unsecured or secured by automobiles, recreational vehicles and other personal property. Consumer loans are further segmented into credit cards and all other consumer loans. The consumer loan portfolio is more likely to be immediately affected by adverse economic conditions. The risks associated with these loans are monitored and mitigated through lending policies and underwriting standards.

<u>Allowance for Loan Losses</u>: The allowance for loan losses is an estimate of probable incurred losses inherent in the loan portfolio. The allowance for loan losses is increased by the provision for loan losses and decreased by charged off loans less recoveries. Management's evaluation of the adequacy of the allowance for loan losses is based on a quarterly evaluation of the loan portfolio. Management estimates the allowance balance required using historical experience, the nature and volume of the portfolio, information about specific borrower situations, estimated collateral values, economic conditions and other factors. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that in management's judgment should be charged off. Loan losses are charged against the allowance when management believes the loan to be uncollectible. Subsequent recoveries, if any, are credited to the allowance for loan losses.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment history, and the amount of the shortfall in relation to the principal and interest owed. The recorded investment in impaired loans is defined as the unpaid principal balance less any partial charge offs and/or net of any interest payments made by the borrower during the nonaccrual period.

For purposes of computing the specific loss component of the allowance, impairment is evaluated in total for smaller balance loans of similar nature such as consumer loans using historical experience and on an individual loan basis for other loans. For impaired loans individually evaluated, specific allocations are based on the present value of expected future cash flows from the loan discounted at the loan's original effective interest rate or the fair value of collateral less estimated costs to sell if the loan is collateral dependent.

The general component covers non-classified loans and is based on historical loss experience adjusted for nine qualitative factors. The historical loss experience is calculated based on losses in the portfolio over the previous five years. For the qualitative factors, the first factor is comprised of delinquent loans, accruing substandard loans, nonaccrual loans and net charge offs. The factor is applied to each loan segment. The second factor is assigned by management based on economic and industry conditions that impact the underlying collateral value. The assigned factor values are then applied to the loan segment balances. The other seven factors are based on economic and business conditions, lending policy and procedures, the experience of management and lending staff, quality of the loan review system, the composition of the loan portfolio, concentrations of credit and external factors such as competition, legal issues and regulatory requirements. These factors are subjective and the Bank's management provides input on these factors to determine the factor value to be equally applied to each loan segment.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Troubled Debt Restructurings: In situations where, for economic or legal reasons related to a borrower's financial condition, management may grant a concession to the borrower that it would not otherwise consider, the related loan is classified as a troubled debt restructuring (TDR). Management strives to identify borrowers in financial difficulty early and work with them to modify their loan to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted previously for impaired loans. TDRs are individually evaluated for impairment.

Other Real Estate Owned: Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value, less estimated selling costs, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in noninterest expense.

Concentrations of Credit Risk: Most of the Bank's activities are with customers located within Berkeley and Jefferson counties of West Virginia and in areas of Washington County, Maryland. Note 4, Loans, details the types of lending in which the Bank engages. The Bank does not have any significant concentrations in any one industry or customer.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method with useful lives ranging from 5 to 40 years for buildings and improvements and 3 to 35 years for furniture and equipment. Maintenance, repairs and minor alterations are charged to current operations as expenditures are incurred. Major improvements are capitalized.

Employee Benefits: As of December 31, 2013, the Bank froze the defined benefit pension plan. A 401(k) benefit plan is available to employees age 21 and over who have worked at least one year with 1,000 hours of service. The plan allows employee contributions, with matching contributions, to be allocated based on a percentage of the employee salary deferral. The Bank contributed a percentage of each eligible employees' salary to their 401(k) plan account during 2022 and 2021 and intends to continue this practice. The Bank provides a supplemental executive retirement plan to members of senior management.

Income Taxes: When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits, if any, are classified as additional income taxes in the consolidated statements of income. As of December 31, 2022 and 2021, there was no liability for unrecognized tax benefits.

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

Comprehensive Income (Loss): Comprehensive income (loss) consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized holding gains and losses on securities available for sale, unrealized holding losses on securities transferred from available for sale to held to maturity and pension and postretirement benefits.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Values of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions (exit price notion). 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 the estimates.

Bank Owned Life Insurance: The Bank has purchased life insurance policies on certain key employees. 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.

Stock Repurchase Plan: In July 2021, the Federal Deposit Insurance Corporation (FDIC) approved the open market repurchase of up to 15,000 shares of the issued and outstanding shares of Jefferson Security Bank's common stock. There were no shares purchased either as part of a publicly announced plan or otherwise. In June 2022, the FDIC approved the purchase of up to 10,000 shares under similar terms. The approval will expire in 12 months unless a request for an extension is approved. The timing and quantity of purchases under this stock repurchase program will be at the discretion of the Board of Directors, and the program may be discontinued, or suspended and reinitiated, at any time. Under this approval, there were no purchases of the Bank's common stock, either as part of a publicly announced plan or otherwise.

Dividend Restriction: Bank regulatory agencies restrict, without prior approval, the total dividend payments of a bank in any calendar year to the bank's retained net income of that year to date, as defined, combined with its retained net income of the preceding two years, less any required transfers to surplus. At December 31, 2022, retained net income, which was free of such restriction, amounted to approximately $8,608,475.

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation. Such reclassifications had no material effect on prior year net income or shareholders' equity.

Financial Instruments with Off-Balance Sheet Risk: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and standby letters of credit issued to meet customer needs. The face amount for these items represents the exposure to loss before considering customer collateral or repayment ability. Such financial instruments are recorded when they are funded.

Advertising Costs: The Bank follows the policy of charging the costs of advertising to expense as incurred. Total advertising expense incurred for 2022 and 2021 was $24,486 and $20,613, respectively.

Transfers 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 – put presumptively beyond reach of the transferor and its creditors, even in bankruptcy or other receivership, (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 or the ability to unilaterally cause the holder to return specific assets.

Recent Accounting Pronouncements

Recently Adopted Accounting Developments

During June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The ASU, as amended, requires an entity to measure expected credit losses for financial assets carried at amortized cost based on historical experience, current conditions, and reasonable and supportable forecasts. Among other things, the ASU also amended the impairment model for available for sale securities and addressed purchased financial assets with deterioration. The Bank adopted ASU 2016-13 as of January 1, 2023 in accordance with the required implementation date and recorded the impact of adoption to retained earnings, net of deferred income taxes, as required by the standard. The adjustment recorded at adoption was not significant to the overall allowance for credit losses or shareholders' equity as compared to December 31, 2022 and consisted of adjustments to the allowance for credit losses on loans and held to maturity securities. Subsequent to adoption, the Bank will record adjustments to its allowance(s) for credit losses and reserves for unfunded commitments through the provision for credit losses in the consolidated statements of income.

The Bank is utilizing a third-party model to tabulate its estimate of current expected credit losses, using weighted average remaining maturity (“WARM”). In accordance with ASC 326, the Bank has segmented its loan portfolio based on similar risk characteristics which included categories as identified by the regulatory Call Report codes. The reasonable and supportable forecasting of current expected credit losses is determined primarily utilizes a regression analysis based on various national economic indices and leading indicators compared against loan category loss rates of a bank-specified peer group. The Bank’s economic forecast period is up to two years, and afterwards reverts to a historical loss rate. To further adjust the allowance for credit losses for expected losses not already included within the quantitative component of the calculation, the Bank may consider qualitative adjustments made for differences in current loan-specific risk characteristics such as portfolio mix, delinquency levels and terms, value of the underlying collateral, lending policies and procedures and underwriting standards, quality of the credit review system, experience, ability and depth of relevant management and staff, as well as external factors such as economic and business conditions and changes in regulation, legislation and competition. The Bank’s CECL implementation process was overseen by the Finance Department and the Allowance for Loan Losses Committee and included an assessment of data availability and gap analysis, data collection, consideration and analysis of multiple loss estimation methodologies, an assessment of relevant qualitative factors and correlation analysis of multiple potential loss drivers and their impact on the Bank’s historical loss experience. During 2022, the Bank calculated its current expected credit losses model in parallel to its incurred loss model in order to further refine the methodology and model. In addition, the Bank utilized its internal audit firm to perform a comprehensive model validation.

Accounting Developments Pending Adoption

In June 2022, the FASB issued ASU 2022-03, “Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions”. ASU 2022-03 clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The ASU is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2023. Early adoption is permitted. The Bank does not expect the adoption of ASU 2022-03 to have a material impact on its consolidated financial statements.

In March 2022, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2022-02, “Financial Instruments-Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures.” ASU 2022-02 addresses areas identified by the FASB as part of its post-implementation review of the credit losses standard (ASU 2016-13) that introduced the CECL model. The amendments eliminate the accounting guidance for troubled debt restructurings by creditors that have adopted the CECL model and enhance the disclosure requirements for loan refinancings and restructurings made with borrowers experiencing financial difficulty. In addition, the amendments require a public business entity to disclose current-period gross write-offs for financing receivables and net investment in leases by year of origination in the vintage disclosures. The amendments in this ASU should be applied prospectively, except for the transition method related to the recognition and measurement of TDRs, an entity has the option to apply a modified retrospective transition method, resulting in a cumulative-effect adjustment to retained earnings in the period of adoption. For entities that have adopted ASU 2016-13, ASU 2022-02 is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. For entities that have not yet adopted ASU 2016-13, the effective dates for ASU 2022-02 are the same as the effective dates in ASU 2016-13. Early adoption is permitted if an entity has adopted ASU 2016-13. An entity may elect to early adopt the amendments about TDRs and related disclosure enhancements separately from the amendments related to vintage disclosures. The Bank is currently assessing the impact that ASU 2022-02 will have on its consolidated financial statements.

NOTE 2 – EARNINGS PER SHARE

Basic and diluted earnings per common share are calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share include the dilutive effects of additional potential common shares, if present. No such items exist as of December 31, 2022 and 2021. Therefore, diluted earnings per share equals basic earnings per share for both years. Basic and diluted earnings per share are calculated based on weighted average common shares outstanding of 275,746 and 276,481 for 2022 and 2021, respectively. Basic and diluted earnings per common share was $14.01 and $12.93 for the years ended December 31, 2022 and 2021, respectively.

NOTE 3 – SECURITIES

The primary purposes of the securities portfolio are to generate income, supply collateral for public funds on deposit and meet liquidity needs of the Bank through readily saleable financial instruments. The portfolio is made up of fixed rate bonds, whose prices move inversely with interest rates, as well as variable rate bonds, whose prices correspond directly with interest rates. At the end of any accounting period, the securities portfolio may have both unrealized gains and losses. The Bank monitors the portfolio which is subject to liquidity needs, market rate changes and credit risk changes to determine if adjustments are needed.

The amortized cost and fair value of securities, with unrealized gains and losses, for the available for sale portfolio is shown in the following table.

Available for Sale	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
December 31, 2022				
U.S. agency and mortgage-backed securities	$ 77,982,306	$ 2,590	$ (8,680,384)	$ 69,304,512
State and municipal obligations	11,185,418	3,871	(1,109,251)	10,080,038
Corporate securities	1,151,446	5,856	(3,067)	1,154,235
	$ 90,319,170	$ 12,317	$ (9,792,702)	$ 80,538,785
December 31, 2021				
U.S. agency and mortgage-backed securities	$ 79,530,866	$ 854,047	$ (616,177)	$ 79,768,736
State and municipal obligations	67,144,944	701,100	(614,528)	67,231,516
	$ 146,675,810	$ 1,555,147	$ (1,230,705)	$ 147,000,252

The amortized cost and fair value of securities, with unrealized gains and losses, for the held to maturity portfolio is shown in the following table.

Held to Maturity	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
December 31, 2022				
U.S. agency and mortgage-backed securities	$ 113,365	$ - -	$ (5,248)	$ 108,117
State and municipal obligations	47,800,769	- -	(3,857,583)	43,943,186
	$ 47,914,134	$ - -	$ (3,862,831)	$ 44,051,303
December 31, 2021				
U.S. agency and mortgage-backed securities	$ 238,357	$ 5,577	$ - -	$ 243,934
State and municipal obligations	1,066,929	61,843	- -	1,128,772
	$ 1,305,286	$ 67,420	$ - -	$ 1,372,706

NOTE 3 – SECURITIES (Continued)

During the third quarter of 2022, the Bank transferred ninety-three municipal securities designated as available for sale with a combined book value of $56,025,763 and a market value of $46,548,904 to securities designated as held to maturity. The unrealized losses at the time of transfer totaled $9,476,859 and are being amortized monthly over the life of the securities with an increase to the carrying value of securities and a decrease to the related accumulated other comprehensive loss impacting total shareholders' equity. The amortization of the unrealized losses from the transferred securities totaled $230,303, or $172,727 net of tax, respectively. The net effect of the amortization has no impact on the Bank's reported net income. The transfer of securities mitigates the further decline in carrying value of these securities and the related impact on accumulated other comprehensive loss in shareholders' equity resulting from higher market interest rates.

At December 31, 2022 and 2021, securities were pledged to secure public deposits and for other purposes required or permitted by law. These securities had a fair value of $61,616,745 and $66,765,258, and an amortized cost of $67,772,249 and $65,972,333, at December 31, 2022 and 2021, respectively. At December 31, 2022 and 2021, the Bank had no securities sold under an agreement to repurchase with no collateral requirements for pledged securities.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2022 follows:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in less than one year	$ 151,222	$ 150,899	$ - -	$ - -
Due from one to five years	3,585,428	3,453,008	524,827	515,018
Due from five to ten years	15,056,852	13,593,089	1,059,288	1,021,250
Due after ten years	71,525,668	63,341,789	46,330,019	42,515,035
	$ 90,319,170	$ 80,538,785	$ 47,914,134	$ 44,051,303

For the year ended December 31, 2022, there were no proceeds from the sale of securities available for sale and proceeds from the call of securities available for sale were $225,000. There were no gross realized gains or losses on the call of securities. For the year ended December 31, 2021, proceeds from sale and call of securities available for sale were $6,477,530. Gross realized gains on sales and calls on available for sale securities were $72,274, while gross realized losses were $71,939. The tax provision applicable to these net realized gains was $84.

For the years ended December 31 2022 and December 31, 2021, there were no proceeds from the sale or call of securities held to maturity.

An impairment is considered "other than temporary" if any of the following conditions are met: the Bank intends to sell the security, it is more likely than not that the Bank will be required to sell the security before the recovery of its cost basis, or the Bank does not expect to recover the security's entire cost basis, even if the Bank does not intend to sell. On at least a quarterly basis, the Bank reviews available for sale and held to maturity securities for other than temporary impairment based on the severity and duration to which the cost basis exceeds the market value, changes related to credit quality factors of the issuer including economic and financial conditions, the present value of cash flows expected to be collected on the securities and the Bank's ability and intent to hold the security until maturity.

NOTE 3 – SECURITIES (Continued)

The Bank does not have any securities that are considered "other than temporarily impaired" at December 31, 2022 and 2021. Based on market prices at the respective dates, the Bank had two hundred thirty-four securities at December 31, 2022 and eighty-seven securities at December 31, 2021 with unrealized losses. These unrealized losses were caused by interest rate fluctuations and not due to credit deterioration of the issuers. The following tables detail securities with unrealized losses at December 31, 2022 and 2021.

	Duration of Unrealized Losses at December 31, 2022					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. agency and mortgage-backed securities	$ 37,076,777	$ (2,879,235)	$ 31,684,956	$ (5,806,397)	$ 68,761,733	$ (8,685,632)
State and municipal obligations	32,086,891	(2,448,323)	21,161,115	(2,518,511)	53,248,006	(4,966,834)
Corporate securities	217,015	(3,067)	- -	- -	217,015	(3,067)
	$ 69,380,683	$ (5,330,625)	$ 52,846,071	$ (8,324,908)	$ 122,226,754	$ (13,655,533)

	Duration of Unrealized Losses at December 31, 2021					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. agency and mortgage-backed securities	$ 43,882,201	$ (553,569)	$ 2,250,369	$ (62,608)	$ 46,132,570	$ (616,177)
State and municipal obligations	25,012,991	(539,788)	3,256,298	(74,740)	28,269,289	(614,528)
	$ 68,895,192	$ (1,093,357)	$ 5,506,667	$ (137,348)	$ 74,401,859	$ (1,230,705)

NOTE 4 – LOANS

Loans are shown on the consolidated balance sheets net of the allowance for loan losses and deferred loan fees and costs. Interest is computed by methods that result in level rates of return on principal. Loans are charged off when, in the opinion of management, they are deemed to be uncollectible after taking into consideration such factors as the current financial condition of the customer and the underlying collateral and guarantees.

The following table presents a summary of the balances of loans at December 31, 2022 and 2021.

	2022	2021
Loans secured by real estate:		
Commercial real estate:		
Construction	$ 10,441,890	$ 8,633,366
Owner occupied	12,345,363	10,605,819
Non-owner occupied	39,612,242	31,822,645
Residential real estate:		
Construction	29,257,034	14,901,117
Home equity	14,854,539	11,647,077
Other	188,182,556	149,877,193
Total loans secured by real estate	294,693,624	227,487,217
Commercial	8,825,255	17,672,046
Consumer:		
Credit cards	388,865	345,561
Revolving credit plans	154,001	200,255
Other	4,334,766	3,000,342
	308,396,511	248,705,421
Net deferred loan fees and costs	(692,058)	(1,070,529)
Allowance for loan losses	(3,459,889)	(2,826,549)
Loans, net	$ 304,244,564	$ 244,808,343

Overdrafts totaling $49,427 and $33,535 at December 31, 2022 and 2021, respectively, were reclassified from deposits to loans.

NOTE 5 – ALLOWANCE FOR LOAN LOSSES

Management's evaluation of the adequacy of the allowance for loan losses is based on many factors including historical experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and current economic conditions.

An analysis of the allowance for loan losses follows for the years ended December 31, 2022 and 2021:

	2022	2021
Beginning balance	$ 2,826,549	$ 2,781,292
Loans charged off	(11,123)	(67,619)
Recoveries	14,463	32,876
Provision for loan losses	630,000	80,000
Ending balance	$ 3,459,889	$ 2,826,549

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (Continued)

	Commercial Real Estate	Residential Real Estate	Commercial	Consumer	Total
December 31, 2022					
Allowance for loan losses:					
Beginning balance	$ 572,946	$ 2,018,043	$ 196,070	$ 39,490	$ 2,826,549
Loans charged off	(6,000)	- -	- -	(5,123)	(11,123)
Recoveries	2,396	1,547	9,270	1,250	14,463
Provision for (recovery of) loan losses	123,856	595,037	(107,389)	18,496	630,000
Ending balance	$ 693,198	$ 2,614,627	$ 97,951	$ 54,113	$ 3,459,889
Ending balance: individually evaluated for impairment	$ - -	$ 35,000	$ - -	$ - -	$ 35,000
Ending balance: collectively evaluated for impairment	$ 693,198	$ 2,579,627	$ 97,951	$ 54,113	$ 3,424,889
Loans:					
Ending balance	$ 62,399,495	$ 232,294,129	$ 8,825,255	$ 4,877,632	$ 308,396,511
Ending balance: individually evaluated for impairment	$ 2,766,792	$ 666,635	$ - -	$ - -	$ 3,433,427
Ending balance: collectively evaluated for impairment	$ 59,632,703	$ 231,627,494	$ 8,825,255	$ 4,877,632	$ 304,963,084

	Commercial Real Estate	Residential Real Estate	Commercial	Consumer	Total
December 31, 2021					
Allowance for loan losses:					
Beginning balance	$ 702,875	$ 1,810,459	$ 226,130	$ 41,828	$ 2,781,292
Loans charged off	(41,000)	(773)	(13,870)	(11,976)	(67,619)
Recoveries	2,396	18,953	4,600	6,927	32,876
Provision for (recovery of) loan losses	(91,325)	189,404	(20,790)	2,711	80,000
Ending balance	$ 572,946	$ 2,018,043	$ 196,070	$ 39,490	$ 2,826,549
Ending balance: individually evaluated for impairment	$ 6,000	$ 59,000	$ - -	$ - -	$ 65,000
Ending balance: collectively evaluated for impairment	$ 566,946	$ 1,959,043	$ 196,070	$ 39,490	$ 2,761,549
Loans:					
Ending balance	$ 51,061,830	$ 176,425,387	$ 17,672,046	$ 3,546,158	$ 248,705,421
Ending balance: individually evaluated for impairment	$ 3,406,125	$ 696,393	$ - -	$ - -	$ 4,102,518
Ending balance: collectively evaluated for impairment	$ 47,655,705	$ 175,728,994	$ 17,672,046	$ 3,546,158	$ 244,602,903

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (Continued)

For the impaired loans in the tables below, the recorded investment represents the outstanding principal balance for each loan. The unpaid principal balance represents the outstanding principal balance plus any amount that has been charged off and/or any payments that have been applied towards principal on nonaccrual loans.

Impaired loans at December 31, 2022 were as follows:

December 31, 2022	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial real estate:					
Construction	$ 620,748	$ 620,748	$ - -	$ 646,110	$ 33,520
Owner occupied	587,779	587,779	- -	693,247	30,183
Non-owner occupied	1,558,266	1,605,266	- -	1,799,172	317,369
Residential real estate:					
Construction	- -	- -	- -	- -	- -
Home equity	- -	- -	- -	- -	- -
Other	336,994	360,446	- -	345,485	14,327
Commercial	- -	- -	- -	- -	- -
Consumer:					
Credit cards	- -	- -	- -	- -	- -
Revolving credit plans	- -	- -	- -	- -	- -
Other	- -	- -	- -	- -	- -
With an allowance recorded:					
Commercial real estate:					
Construction	- -	- -	- -	- -	- -
Owner occupied	- -	- -	- -	- -	- -
Non-owner occupied	- -	- -	- -	- -	- -
Residential real estate:					
Construction	- -	- -	- -	- -	- -
Home equity	- -	- -	- -	- -	- -
Other	329,640	351,436	35,000	335,133	16,208
Commercial	- -	- -	- -	- -	- -
Consumer:					
Credit cards	- -	- -	- -	- -	- -
Revolving credit plans	- -	- -	- -	- -	- -
Other	- -	- -	- -	- -	- -
Total	$ 3,433,427	$ 3,525,675	$ 35,000	$ 3,819,147	$ 411,607

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (Continued)

Impaired loans at December 31, 2021 were as follows:

December 31, 2021	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial real estate:					
Construction	$ 681,196	$ 681,196	$ - -	$ 1,493,505	$ 87,936
Owner occupied	836,820	910,245	- -	956,079	40,018
Non-owner occupied	323,224	730,664	- -	2,176,843	1,644
Residential real estate:					
Construction	- -	- -	- -	- -	- -
Home equity	- -	- -	- -	- -	- -
Other	190,879	210,991	- -	150,296	3,194
Commercial	- -	- -	- -	3,925	129
Consumer:					
Credit cards	- -	- -	- -	- -	- -
Revolving credit plans	- -	- -	- -	- -	- -
Other	- -	- -	- -	3,941	272
With an allowance recorded:					
Commercial real estate:					
Construction	- -	- -	- -	- -	- -
Owner occupied	- -	- -	- -	- -	- -
Non-owner occupied	1,564,885	1,605,885	6,000	1,570,219	49,595
Residential real estate:					
Construction	- -	- -	- -	- -	- -
Home equity	- -	- -	- -	- -	- -
Other	505,514	526,281	59,000	511,471	25,976
Commercial	- -	- -	- -	- -	- -
Consumer:					
Credit cards	- -	- -	- -	- -	- -
Revolving credit plans	- -	- -	- -	- -	- -
Other	- -	- -	- -	- -	- -
Total	$ 4,102,518	$ 4,665,262	$ 65,000	$ 6,866,279	$ 208,764

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (Continued)

The following tables present the aging of past due loans including nonaccrual loans as of December 31, 2022 and 2021 by class of loans:

December 31, 2022	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Commercial real estate:							
Construction	$ --	$ --	$ --	$ --	$ 10,441,890	$ 10,441,890	$ --
Owner occupied	--	--	--	--	12,345,363	12,345,363	--
Non-owner occupied	--	--	--	--	39,612,242	39,612,242	--
Residential real estate:							
Construction	--	--	--	--	29,257,034	29,257,034	--
Home equity	--	--	--	--	14,854,539	14,854,539	--
Other	6,220	6,184	55,136	67,540	188,115,016	188,182,556	--
Commercial	--	--	--	--	8,825,255	8,825,255	--
Consumer:							
Credit cards	716	534	--	1,250	387,615	388,865	--
Revolving credit plans	--	--	--	--	154,001	154,001	--
Other	--	3,350	--	3,350	4,331,416	4,334,766	--
Total	$ 6,936	$ 10,068	$ 55,136	$ 72,140	$ 308,324,371	$ 308,396,511	$ --

December 31, 2021	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Commercial real estate:							
Construction	$ --	$ --	$ --	$ --	$ 8,633,366	$ 8,633,366	$ --
Owner occupied	--	--	--	--	10,605,819	10,605,819	--
Non-owner occupied	--	--	--	--	31,822,645	31,822,645	--
Residential real estate:							
Construction	--	--	--	--	14,901,117	14,901,117	--
Home equity	--	--	--	--	11,647,077	11,647,077	--
Other	12,351	68,424	273,735	354,510	149,522,683	149,877,193	273,735
Commercial	--	--	--	--	17,672,046	17,672,046	--
Consumer:							
Credit cards	--	--	--	--	345,561	345,561	--
Revolving credit plans	--	--	--	--	200,255	200,255	--
Other	10,009	--	--	10,009	2,990,333	3,000,342	--
Total	$ 22,360	$ 68,424	$ 273,735	$ 364,519	$ 248,340,902	$ 248,705,421	$ 273,735

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (Continued)

The following table displays the types of loans that comprised nonaccruals at December 31, 2022 and 2021:

	2022	2021
Commercial real estate:		
Construction	$ - -	$ - -
Owner occupied	- -	233,937
Non-owner occupied	- -	323,224
Residential real estate:		
Construction	- -	- -
Home equity	- -	- -
Other	55,136	61,186
Commercial	- -	- -
Consumer:		
Credit cards	- -	- -
Revolving credit plans	- -	- -
Other	- -	- -
Total	$ 55,136	$ 618,347

Credit Quality Indicators

The Bank monitors credit quality indicators including risk ratings on loans to determine trends in credit quality of the loan portfolio. Every loan is assessed and assigned a risk rating by the loan officer prior to approval of the credit and monitored on an ongoing basis. The loan review policy dictates which portions of the loan portfolio will be periodically reassessed, which includes a review of the accuracy of the assigned risk ratings.

Loans are rated on a scale from pass to doubtful. The grade considers and reflects the credit worthiness, documentation and credit file completeness as well as legal and policy compliance. Each grade is described below.

Pass: Loans graded as pass are strong borrowers. The Bank will likely not incur a loss on loans graded as pass. Any inadequacies evident in financial performance and/or management sufficiency are offset by other features such as adequate collateral, good guarantors with liquid assets and/or cash flow capacity to repay the debt. Generally, loans classified as pass meet the terms of repayment but may be susceptible to deterioration if adverse factors are encountered.

Special Mention: Loans are graded as special mention when the borrower's character, credit, capacity or collateral is questionable. These weaknesses may, if not checked or corrected, weaken the asset or inadequately protect the Bank's credit position at some future date. Circumstances warrant more than normal monitoring, as these borrowers reflect the risks described in the following categories. These loans should be placed on the Bank's watch list, and are considered adversely classified. These credits are considered bankable assets with no apparent loss of principal or interest envisioned but may require a higher level of management attention. Assets are currently protected but potentially weak. Potential weaknesses include declining trends in operating earnings and cash flows and/or reliance on the secondary source of repayment. Credits subject to economic, industry, or management factors having an adverse impact upon the credit's prospects for timely payment may also be classified as special mention.

Substandard: Loans graded as substandard are inadequately protected by the net worth and/or cash flow capacity of the borrower or of the collateral pledged. Loans graded as substandard have a borrower whose character has become suspect. The source of repayment is considered conditional, problematic or marginal. Substandard loans would include unsecured or partially secured loans to financially weak borrowers with a strong guarantor or endorser who did not benefit from the loan and without a curtailment in over one year. Some of the loans are workout loans with potential loss consideration. The credit risk in this situation relates to the possibility of some loss of principal and/or interest if the deficiencies are not corrected.

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (Continued)

Doubtful: Loans graded as doubtful are inadequately protected by the net worth of the borrower or by the collateral pledged and repayment in full is improbable on the basis of existing facts, values and conditions. These loans may include those over two months past due that are not adequately secured or are in the process of collection. The probability of some loss is high, but because of certain important and reasonably specific pending factors, which may work to the advantage and strengthening of the facility, its classification as an estimated loss is deferred until a more exact status may be determined.

Loss: Loans graded as loss are considered uncollectible and continuance as an acceptable asset is not warranted. A loan classified as a loss is generally charged off.

The following tables display loans by credit quality indicators at December 31, 2022 and 2021:

December 31, 2022	Pass	Special Mention	Substandard	Doubtful	Total
Commercial real estate:					
Construction	$ 9,777,824	$ 482,666	$ 181,400	$ - -	$ 10,441,890
Owner occupied	11,442,380	315,204	587,779	- -	12,345,363
Non-owner occupied	35,592,398	2,461,578	1,558,266	- -	39,612,242
Residential real estate:					
Construction	29,257,034	- -	- -	- -	29,257,034
Home equity	14,661,863	192,676	- -	- -	14,854,539
Other	185,103,375	3,024,045	55,136	- -	188,182,556
Commercial	6,476,248	2,349,007	- -	- -	8,825,255
Consumer:					
Credit cards	388,865	- -	- -	- -	388,865
Revolving credit plans	108,618	- -	45,383	- -	154,001
Other	4,331,416	3,350	- -	- -	4,334,766
Total	$ 297,140,021	$ 8,828,526	$ 2,427,964	$ - -	$ 308,396,511

December 31, 2021	Pass	Special Mention	Substandard	Doubtful	Total
Commercial real estate:					
Construction	$ 7,623,720	$ 328,450	$ 681,196	$ - -	$ 8,633,366
Owner occupied	9,266,714	502,285	836,820	- -	10,605,819
Non-owner occupied	29,062,253	872,283	1,888,109	- -	31,822,645
Residential real estate:					
Construction	14,901,117	- -	- -	- -	14,901,117
Home equity	11,299,964	347,113	- -	- -	11,647,077
Other	145,610,000	3,683,982	583,211	- -	149,877,193
Commercial	15,194,359	2,477,687	- -	- -	17,672,046
Consumer:					
Credit cards	345,561	- -	- -	- -	345,561
Revolving credit plans	154,873	- -	45,382	- -	200,255
Other	2,998,165	2,177	- -	- -	3,000,342
Total	$ 236,456,726	$ 8,213,977	$ 4,034,718	$ - -	$ 248,705,421

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (Continued)

Loans are classified as troubled debt restructurings (TDR) when there is a deterioration in the financial condition of the borrower and management grants a concession that would not have otherwise been considered. At December 31, 2022 and 2021, the Bank had $2,664,248 and $3,079,259, respectively, in loans classified as TDRs. During the year ended December 31, 2022, the Bank had no loans modified that were classified as TDR. The following table details TDRs that were restructured during the year ended December 31, 2021.

December 31, 2021	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial real estate:			
Owner Occupied	1	$ 106,916	$ 106,916
Residential real estate:			
Other	1	114,674	114,674
Total	2	$ 221,590	$ 221,590

The loans were classified as TDRs because the loans had modified payments with extended terms and below market rates based on the credit worthiness of the borrower. The loans were individually evaluated for impairment for the allowance for loan losses with no specific reserve allocation.

TDRs are considered subsequently defaulted once the loan is past due over 90 days or the foreclosure and repossession of collateral or subsequent charge off of the loan. For the years ended December 31, 2022 and 2021, there were no loans that subsequently defaulted during the period within twelve months of the loan modification.

NOTE 6 – OTHER REAL ESTATE OWNED

There was no other real estate owned as of December 31, 2022 and December 31, 2021. As of December 31, 2022 and 2021, there were no consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process.

NOTE 7 – PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation of premises and equipment for December 31, 2022 and 2021 follows:

	2022	2021
Land	$ 1,580,761	$ 1,580,761
Buildings and improvements	8,520,923	8,635,662
Furniture and equipment	4,299,899	4,170,404
Total cost	14,401,583	14,386,827
Less accumulated depreciation	(9,245,930)	(9,189,438)
Premises and equipment, net	$ 5,155,653	$ 5,197,389

Depreciation expense for the years ended December 31, 2022 and 2021 totaled $425,275 and $482,577, respectively.

NOTE 8 – DEPOSITS

The Bank makes every effort to obtain deposits to fund loan growth or the growth of the securities portfolio. The Bank had two deposit relationships that, collectively, represented 21.42% and 20.46% of total deposits at December 31, 2022 and 2021, respectively.

The aggregate amount of time deposit accounts in denominations of $250,000 or more at December 31, 2022 and 2021 was $4,649,496 and $7,119,579, respectively. There were no brokered deposits as of December 31, 2022 and 2021.

At December 31, 2022, the scheduled maturities of time deposits were as follows:

2023	$ 18,009,122
2024	5,877,983
2025	6,680,157
2026	2,396,728
2027	2,310,205
	$ 35,274,195

NOTE 9 – BORROWINGS

Federal Home Loan Bank Advances

The Bank is a member of the Federal Home Loan Bank (FHLB) of Pittsburgh which allows for participation in FHLB borrowing programs. At December 31, 2022, the Bank had a maximum borrowing capacity with the FHLB of $146,186,450 which is unrestricted. Under the terms of the blanket lien agreement, advances from the FHLB are collateralized by residential and commercial real estate loans totaling approximately $201,097,000 and $157,564,000 at December 31, 2022 and 2021, respectively, and Federal Home Loan Bank stock with a book value of $1,140,600 and $199,000, respectively. The FHLB borrowing capacity has no scheduled maturity date. As of December 31, 2022, the outstanding advances with FHLB were overnight borrowings totaling $21,389,600 at a rate of 4.45%. There were no outstanding advances from the FHLB at December 31, 2021.

Available Lines of Credit

At December 31, 2022, the Bank had lines of credit available from its correspondent banks in the aggregate amount of $12,000,000 for the purchase of federal funds. These lines of credit permit the Bank to borrow funds in the overnight market and bear interest at the prevailing market rate and are renewable annually. The Bank had $9,000 in outstanding borrowings against these lines at December 31, 2022 at a rate of 4.55%. The Bank had no borrowings against these lines at December 31, 2021. The Bank has an agreement with the Federal Reserve Bank to borrow from the discount window, which is classified as a short term borrowing. In order to borrow funds under this agreement, the Bank must pledge securities to the Federal Reserve Bank. As of December 31, 2022 and 2021, the Bank had no borrowings from the discount window.

Securities Sold Under an Agreement to Repurchase

Securities sold under an agreement to repurchase, which are classified as secured borrowings, generally mature within one to four days from the transaction date. Securities sold under an agreement to repurchase are reflected as the amount of cash received in connection with the transaction. The Bank may be required to provide additional collateral based on the fair value of the underlying securities. At December 31, 2022 and 2021, there were no securities sold under an agreement to repurchase.

NOTE 10 – EMPLOYEE BENEFIT PLANS

Pension Plan

As of December 31, 2013, the defined benefit pension plan was frozen. The pension plan's funded status as of December 31, 2022 and 2021 follows. The amounts shown below are recognized in the Bank's consolidated balance sheets as of December 31, 2022 and 2021.

	2022	2021
Change in benefit obligation:		
Beginning benefit obligation	$ 10,193,806	$ 10,715,981
Interest cost	293,931	277,039
Actuarial gain	(2,191,542)	(292,130)
Benefits paid	(514,921)	(507,084)
Ending benefit obligation	$ 7,781,274	$ 10,193,806
Change in plan assets, at fair value:		
Beginning plan assets	$ 12,503,478	$ 11,572,917
Actual return on plan assets	(1,493,879)	1,437,645
Employer contribution	- -	- -
Benefits paid	(514,921)	(507,084)
Ending plan assets	$ 10,494,678	$ 12,503,478
Funded status	$ 2,713,404	$ 2,309,672
Accrued benefit asset recognized on the consolidated balance sheets at December 31	$ 2,713,404	$ 2,309,672
Amounts recognized in accumulated other comprehensive loss:		
Net actuarial loss	$ 2,240,786	$ 2,482,357
Deferred tax asset	(560,196)	(620,589)
Net amount recognized	$ 1,680,590	$ 1,861,768

The accumulated benefit obligation for the defined benefit plan was $7,781,274 and $10,193,806 at December 31, 2022 and 2021, respectively.

At December 31, 2022 and 2021, the assumptions used to determine the benefit obligation are as follows:

	2022	2021
Discount rate	5.20%	2.96%
Expected rate of return on plan assets	6.20%	5.09%

NOTE 10 – EMPLOYEE BENEFIT PLANS (Continued)

The components of net periodic benefit income, other amounts recognized in other comprehensive (loss) and the assumptions used to determine net periodic pension benefit cost are as follows:

	2022	2021
Components of net periodic benefit income:		
Interest cost	$ 293,931	$ 277,039
Expected return on plan assets	(565,532)	(533,428)
Amortization of net loss	109,440	144,372
Net periodic benefit income	(162,161)	(112,017)
Other changes in plan assets and benefit obligations recognized in other comprehensive (loss):		
Net actuarial gain at December 31	(132,131)	(1,196,347)
Amortization of actuarial loss	(109,440)	(144,372)
Total recognized in other comprehensive (loss)	(241,571)	(1,340,719)
Total recognized in net periodic benefit income and other comprehensive (loss)	$ (403,732)	$ (1,452,736)

The assumptions used to determine the benefit income at the beginning of the year are as follows:

	2022	2021
Discount rate	2.96%	2.65%
Expected rate of return on plan assets	5.09%	4.99%

The total gain for 2022 was primarily driven by a gain on the benefit obligation due to the increase in the discount rate. This gain was significantly offset by a loss on the plan assets due to unfavorable investment experience with a smaller offset due to demographic experience.

Determination of Expected Long-term Rate of Return

The expected long-term rate of return for the plan's total assets is based on the expected return of each of the below categories, weighted based on the median of the target allocation for each class.

The Bank's pension plan weighted average asset allocations at December 31, 2022 and 2021 are as follows:

	Percentage of Plan Assets at December 31,	
Asset Category	**2022**	**2021**
Equity Securities	59%	59%
Debt Securities	38%	35%
Cash	3%	6%
Total	100%	100%

NOTE 10 – EMPLOYEE BENEFIT PLANS (Continued)

The following tables present the balance of plan assets measured at fair value on a recurring basis as of December 31, 2022 and 2021:

Description	Balance as of December 31, 2022	Fair Value Measurements at Report Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	$ 298,831	$ 298,831	$ - -	$ - -
Equity Securities				
U.S. Large cap	3,253,170	3,253,170	- -	- -
U.S. Mid cap	1,318,556	1,318,556	- -	- -
U.S. Small cap	699,552	699,552	- -	- -
International	891,362	891,362	- -	- -
Fixed Income Securities				
Core fixed income	3,865,901	- -	3,865,901	- -
International	167,306	- -	167,306	- -
Total	$ 10,494,678	$ 6,461,471	$ 4,033,207	$ - -

Description	Balance as of December 31, 2021	Fair Value Measurements at Report Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	$ 791,073	$ 791,073	$ - -	$ - -
Equity Securities				
U.S. Large cap	3,811,634	3,811,634	- -	- -
U.S. Mid cap	1,655,621	1,655,621	- -	- -
U.S. Small cap	925,892	925,892	- -	- -
International	1,026,171	1,026,171	- -	- -
Fixed Income Securities				
Core fixed income	3,950,522	- -	3,950,522	- -
International	342,565	- -	342,565	- -
Total	$ 12,503,478	$ 8,210,391	$ 4,293,087	$ - -

NOTE 10 – EMPLOYEE BENEFIT PLANS (Continued)

Investment Policy and Strategy

The policy, as established by the Pension Committee, is to invest assets in a diversified portfolio per target allocations. The assets will be reallocated periodically to meet the target allocations of 60% equity securities and 40% debt securities. The investment policy will be reviewed periodically, under the advisement of a registered investment advisor.

The overall investment objective is to provide for long-term growth of capital through participation in the equity markets with a moderate level of income. The investment time horizon is estimated at five to ten years. The investment return objective is to achieve a return greater than a blended mix of stated indices tailored to the same asset mix of the plan assets by 0.5% after fees over a rolling five-year moving average basis.

Allowable assets include cash equivalents, taxable bonds, U.S. equity securities, international equity securities, institutional mutual funds and guaranteed investment contracts (GICs).

In order to achieve a prudent level of portfolio diversification, the securities of any one company should not exceed more than 10% of the total plan assets, and no more than 25% of total plan assets should be invested in any one industry (other than securities of the U.S. Government or Agencies). Additionally, no more than 20% of the plan assets shall be invested in foreign securities (both equity and fixed).

The Bank does not expect to make any contributions to the plan in 2023.

Estimated future benefit payments are as follows:

2023	$ 547,000
2024	554,000
2025	552,000
2026	559,000
2027	562,000
2028 to 2032	2,731,000

NOTE 10 – EMPLOYEE BENEFIT PLANS (Continued)

Supplemental Executive Retirement Plan

In 2014, the Bank provided a supplemental executive retirement plan for senior management. The plan was expanded in 2018. The plan's funded status as of December 31, 2022 and 2021 follows. The amounts shown below are recognized in the Bank's consolidated balance sheets as of December 31, 2022 and 2021.

	2022	2021
Change in benefit obligation:		
Beginning benefit obligation	$ 2,070,444	$ 1,822,874
Service cost	134,389	124,530
Interest cost	69,148	58,129
Actuarial (gain) loss	(745,726)	77,667
Benefits paid	(12,756)	(12,756)
Ending benefit obligation	$ 1,515,499	$ 2,070,444
Change in plan assets, at fair value:		
Beginning plan assets	$ - -	$ - -
Employer contributions	12,756	12,756
Benefits paid	(12,756)	(12,756)
Ending plan assets	$ - -	$ - -
Funded status	$ (1,515,499)	$ (2,070,444)
Accrued benefit liability recognized on the consolidated balance sheets at December 31	$ (1,515,499)	$ (2,070,444)
Amounts recognized in accumulated other comprehensive loss:		
Net (gain) loss	$ (124,589)	$ 664,182
Prior service cost	174,436	226,521
Deferred tax asset	(12,462)	(222,676)
Net amount recognized	$ 37,385	$ 668,027

The accumulated benefit obligation for the supplemental executive retirement plan was $1,515,499 and $2,070,444 at December 31, 2022 and 2021, respectively.

At December 31, 2022 and 2021, the assumptions used to determine the benefit obligation are as follows:

	2022	2021
Discount rate	5.37%	3.35%
Rate of compensation increase	3.00%	3.00%

NOTE 10 – EMPLOYEE BENEFIT PLANS (Continued)

The components of net periodic benefit cost, other amounts recognized in other comprehensive (loss) and the assumptions used to determine net periodic benefit cost are as follows:

	2022	2021
Components of net periodic benefit cost:		
Service cost	$ 134,389	$ 124,530
Interest cost	69,148	58,129
Amortization of prior service cost	52,085	52,085
Amortization of net loss	43,045	40,585
Net periodic benefit cost	298,667	275,329
Other changes in plan assets and benefit obligations recognized in other comprehensive (loss):		
Net actuarial (gain) loss at December 31	(745,726)	77,667
Amortization of prior service cost	(52,085)	(52,085)
Amortization of net actuarial loss	(43,045)	(40,585)
Total recognized in other comprehensive (loss)	(840,856)	(15,003)
Total recognized in net periodic benefit cost and other comprehensive (loss)	$ (542,189)	$ 260,326

The assumptions used to determine the benefit income at the beginning of the year are as follows:

	2022	2021
Discount rate	3.35%	3.20%
Rate of compensation increase	3.00%	3.00%

The total gain for 2022 was primarily driven by a gain on the benefit obligation due to the increase in the discount rate. This gain was significantly offset by a loss on plan assets due to unfavorable investment experience with a smaller offset due to demographic experience.

The Bank will make a contribution to the plan of $12,756 in 2023.

Estimated future benefit payments are as follows:

2023	$ 12,756
2024	14,908
2025	15,008
2026	55,235
2027	55,401
2028 to 2032	279,830

401(k) Plan

The Bank has a 401(k) Plan whereby employees age 21 and over who have worked at least one year with 1,000 hours of service may participate in the Plan. The Bank makes matching contributions equal to 25 percent of the first five percent of an employee's compensation contributed to the Plan. Matching contributions vest to the employee over a five-year period based on a tiered schedule. The Bank contributed a percentage of each eligible employees' salary to their 401(k) Plan account in addition to matching contributions. For the years ended December 31, 2022 and 2021, the matching contribution expense attributable to the Plan amounted to $27,276 and $24,296, respectively.

NOTE 11 – INCOME TAXES

The Bank files income tax returns in the U.S. federal jurisdiction and the states of West Virginia and Maryland. With few exceptions, the Bank is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years prior to 2019.

Allocation of federal and state income taxes between current and deferred portions is as follows for the years ended December 31, 2022 and 2021:

	2022	2021
Federal		
Current	$ 678,745	$ 766,034
Deferred	40,919	(93,219)
	719,664	672,815
State		
Current	109,332	142,503
Deferred	7,795	(17,660)
	117,127	124,843
Income tax expense	$ 836,791	$ 797,658

Effective tax rates differ from the statutory federal income tax rate due to the following:

	2022	2021
Federal statutory rate	21.0%	21.0%
Increase (decrease) resulting from:		
Tax-exempt income	(5.3)	(4.6)
State taxes, net of federal income tax effect	0.5	0.6
Nondeductible expenses and other, net	1.6	1.2
	17.8%	18.2%

NOTE 11 – INCOME TAXES (Continued)

The components of the net deferred tax asset, included in other assets for December 31, 2022 and 2021, are as follows:

	2022	2021
Deferred tax assets:		
Allowance for loan losses	$ 671,751	$ 514,251
Deferred loan fees	173,014	267,632
Nonaccrual loan income	323,085	436,503
Supplemental executive retirement benefits, net	458,908	603,738
Net unrealized loss on available for sale securities	2,445,097	- -
Net unrealized loss on available for sale securities transferred to held to maturity	2,311,640	- -
Home equity expenses	8	579
	6,383,503	1,822,703
Deferred tax liabilities:		
Fixed assets, net	(87,949)	(73,064)
Pension benefits, net	(678,352)	(577,418)
Net unrealized gain on available for sale securities	- -	(81,110)
Accretion on investment securities	(14,637)	(7,071)
	(780,938)	(738,663)
Net deferred tax asset	$ 5,602,565	$ 1,084,040

The net deferred tax asset is included in "Other assets" in the consolidated balance sheets at December 31, 2022 and 2021.

NOTE 12 – RELATED PARTY TRANSACTIONS

The Bank had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, executive officers, their immediate families and affiliated companies in which they are principal shareholders (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. Loans to these parties totaled $6,850,714 and $5,049,956 at December 31, 2022 and 2021, respectively. During 2022, total principal additions were $3,068,747 and total principal payments were $1,267,989. Deposits from related parties held by the Bank at December 31, 2022 and 2021 amounted to $6,063,628 and $9,319,739, respectively.

NOTE 13 – COMMITMENTS, OFF-BALANCE SHEET RISK AND CONTINGENCIES

There are various contingent liabilities that are not reflected in the consolidated financial statements, including claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material effect on the financial condition or results of operations of the Bank.

Some financial instruments are used in the normal course of business to meet the financing needs of customers and to reduce exposure to interest rate changes. These financial instruments include commitments to extend credit and standby letters of credit, which involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated financial statements.

Exposure to credit loss, if the other party does not perform, is represented by the contractual amount of these commitments to extend credit and standby letters of credit. The same credit policies are used for commitments and conditional obligations as are used for loans.

NOTE 13 – COMMITMENTS, OFF-BALANCE SHEET RISK AND CONTINGENCIES (Continued)

A summary of the notional or contractual amounts of financial instruments with off-balance sheet risk at December 31, 2022 and 2021 follows:

	2022	2021
Commitments to extend credit	$ 13,045,000	$ 12,684,000
Unfunded commitments	69,388,000	52,438,000
Standby letters of credit	2,256,000	1,298,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the commitment. 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 used, the total commitments do not necessarily represent future cash requirements.

Unfunded commitments under commercial lines-of-credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are collateralized as deemed necessary and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Bank is committed.

Standby letters of credit are conditional lending commitments issued by the Bank to guarantee the performance of a customer to a third party. Letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds collateral supporting these commitments. The amount of collateral obtained, if deemed necessary, is based upon management's credit evaluation of the customer.

NOTE 14 – FAIR VALUE MEASUREMENTS

The Bank follows Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. ASC 820 clarifies that fair value of certain assets and liabilities is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market and in an orderly transaction between market participants on the measurement date.

ASC 820 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Bank's market assumptions. The three levels of the fair value hierarchy under ASC 820 based on these two types of inputs are as follows:

Level 1 – Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2 – Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.

Level 3 – Valuation is based on prices, inputs and model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

In accordance with ASC 820, the following describes the valuation techniques used by the Bank to measure certain assets recorded at fair value on a recurring basis in the consolidated financial statements.

NOTE 14 – FAIR VALUE MEASUREMENTS (Continued)

Securities Available for Sale: Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Using a market approach valuation methodology, third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that consider observable market data (Level 2).

The following table presents the balance of assets measured at fair value on a recurring basis as of December 31, 2022:

		Fair Value Measurements at Reporting Date Using		
Description	Balance as of December 31, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities Available for Sale				
U.S. agency and mortgaged-backed securities	$ 69,304,512	$ - -	$ 69,304,512	$ - -
State and municipal obligations	10,080,038	- -	10,080,038	- -
Corporate securities	1,154,235	- -	1,154,235	- -
	$ 80,538,785	$ - -	$ 80,538,785	$ - -

The following table presents the balance of assets measured at fair value on a recurring basis as of December 31, 2021:

		Fair Value Measurements at Reporting Date Using		
Description	Balance as of December 31, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities Available for Sale				
U.S. agency and mortgaged-backed securities	$ 79,768,736	$ - -	$ 79,768,736	$ - -
State and municipal obligations	67,231,516	- -	67,231,516	- -
	$ 147,000,252	$ - -	$ 147,000,252	$ - -

Certain assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.

The following describes the valuation techniques used by the Bank to measure certain assets recorded at fair value on a nonrecurring basis in the consolidated financial statements.

Impaired Loans: Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreements will not be collected. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan, the fair value of the collateral or present value of expected future cash flows discounted at the loan's effective interest rate. Collateral may be in the form of real estate or business assets including equipment, inventory and accounts receivable. The vast majority of the Bank's collateral is real estate. The value of real estate collateral is determined utilizing a market valuation approach based on an appraisal, of one year or less, conducted by an independent, licensed appraiser using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the property is more than one year old and not solely based on observable market comparables or management determines the fair value of the collateral is further impaired below the appraised value, then a Level 3 valuation is considered to measure the fair value. The value of business equipment is based upon an

NOTE 14 – FAIR VALUE MEASUREMENTS (Continued)

outside appraisal, of one year or less, if deemed significant, or the net book value on the applicable business's financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3). Impaired loans allocated to the allowance for loan losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Consolidated Statements of Income.

Other Real Estate Owned: Loans are transferred to other real estate owned when the collateral securing them is foreclosed upon. The measurement of loss associated with other real estate owned is based on the fair value of the collateral compared to the unpaid loan balance and anticipated costs to sell the property and initial losses are charged against the allowance for loan losses at the time of the transfer. Subsequent to transfer, fair values are determined in a similar manner to impaired loans secured by real estate previously discussed. Any additional fair value adjustments to other real estate owned are recorded in the period incurred and expensed against current earnings through a valuation allowance for other real estate owned. The Bank held no other real estate owned at December 31, 2022 and 2021.

The following tables present the balances of assets measured at fair value on a nonrecurring basis as of December 31, 2022 and 2021:

		Fair Value Measurements at Reporting Date Using		
Description	**Balance as of December 31, 2022**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Impaired Loans, net	$ 294,640	$ - -	$ - -	$ 294,640

		Fair Value Measurements at Reporting Date Using		
Description	**Balance as of December 31, 2021**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Impaired Loans, net	$ 2,005,399	$ - -	$ 1,558,886	$ 446,513

NOTE 14 – FAIR VALUE MEASUREMENTS (Continued)

The following tables present quantitative information about Level 3 Fair Value Measurements for December 31, 2022 and 2021 (dollars in thousands):

Assets	Fair Value as of December 31, 2022	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired Loans, net	$ 295	Present value of future cash flows	Discount rate	6 - 7% (7%)

Assets	Fair Value as of December 31, 2021	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired Loans, net	$ 150	Discounted appraised value	Selling cost	6% (6%)
	297	Present value of future cash flows	Discount rate	6 - 7% (7%)

The following methods and assumptions were used to estimate fair values for other financial instruments:

The carrying amounts and estimated fair values for December 31, 2022 are presented in the following table. Fair values were estimated using an exit price notion.

	December 31, 2022		Fair Value Measurements at Reporting Date Using		
(dollars in thousands)	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and due from financial institutions	$ 4,238	$ 4,238	$ 4,238	$ --	$ --
Interest bearing deposits with depository institutions	47	47	47	--	--
Securities available for sale	80,539	80,539	--	80,539	--
Securities held to maturity	47,914	44,051	--	44,051	--
Restricted securities	1,221	1,221	--	1,221	--
Loans, net	304,245	284,774	--	--	284,774
Accrued interest receivable	1,267	1,267	--	1,267	--
Bank owned life insurance	7,474	7,474	--	7,474	--
Financial liabilities:					
Deposits	$ 414,763	$ 414,807	$ --	$ 379,489	$ 35,318
Accrued interest payable	61	61	--	61	--
Fed funds purchased	9	9	9	--	--
Federal Home Loan Bank advances	21,390	21,390	21,390	--	--

NOTE 14 – FAIR VALUE MEASUREMENTS (Continued)

The carrying amounts and estimated fair values for December 31, 2021 are presented in the following table. Fair values were estimated using an exit price notion.

	December 31, 2021		Fair Value Measurements at Reporting Date Using		
(dollars in thousands)	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and due from financial institutions	$ 2,605	$ 2,605	$ 2,605	$ - -	$ - -
Interest bearing deposits with depository institutions	13,348	13,348	13,348	- -	- -
Securities available for sale	147,000	147,000	- -	147,000	- -
Securities held to maturity	1,305	1,373	- -	1,373	- -
Restricted securities	280	280	- -	280	- -
Loans, net	244,808	243,688	- -	- -	243,688
Accrued interest receivable	1,097	1,097	- -	1,097	- -
Bank owned life insurance	7,295	7,295	- -	7,295	- -
Financial liabilities:					
Deposits	$ 390,681	$ 391,080	$ - -	$ 346,747	$ 44,333
Accrued interest payable	68	68	- -	68	- -

Interest Rate Risk

The Bank assumes interest rate risk, the risk that general interest rate levels will change, as a result of its normal operations. As a result, the fair values of the Bank's financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to the Bank. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Bank's overall interest rate risk.

NOTE 15 – REVENUE RECOGNITION

The Bank recognizes revenue in accordance with ASC Topic 606. The standard does not apply to revenue associated with financial instruments, net interest income, gains and losses from securities and income from bank owned life insurance (BOLI). With the exception of gains or losses on sales of foreclosed properties, all of the revenue from contracts with customers in the scope of ASC Topic 606 is recognized within noninterest income in the Consolidated Statements of Income. Gains or losses on sales of foreclosed properties are recognized within noninterest expense in the Consolidated Statements of Income. Impacts from certain recurring revenue related to noninterest revenue streams such as service charges on deposit accounts, ATM and debit card fees and other service charges and fees did not change significantly upon adoption of ASC Topic 606.

NOTE 15 – REVENUE RECOGNITION (Continued)

A description of the Bank's significant sources of revenue accounted for under ASC Topic 606 follows:

Service charges on deposit accounts

Revenue from service charges on deposit accounts is comprised of transactional based fees, account maintenance and processing fees, overdraft and nonsufficient funds fees and other deposit account related fees. Transactional based fees, overdraft and nonsufficient funds fees and other deposit account related fees are earned based on specific transactions or activity within a customer's deposit account. These fees are recognized at the time the related transaction or activity occurs and the Bank's performance obligation is complete. Revenue for account maintenance and processing fees is recognized monthly upon completion of the Bank's performance obligation. Service charges on deposit accounts are paid through a direct charge to the customer's account.

ATM and debit card fees and other service charges

Revenue from ATM and debit card fees and other service charges is primarily comprised of interchange revenue and ATM fees, safe deposit box rental fees and collection and research fees. Interchange fees are earned when the Bank's debit and credit cardholders conduct transactions that are processed through card payment networks. Interchange fees are recognized daily, concurrent with the transaction processing services provided to the cardholder. ATM fees are earned when a non-Bank cardholder uses the Bank's ATM or when a customer uses a non-Bank ATM. These fees are transactional based with revenue recognized daily as the ATM transactions are settled. Safe deposit box rental fees are charged to the customer on an annual basis and recognized on a monthly basis through the contract period of twelve months. The revenue is recognized on a basis consistent with the duration of the performance obligation and the assessment that the Bank acts as a principal for the services provided. Collection and research fees are transactional based, and therefore, the Bank's performance obligation is satisfied and the related revenue recognized upon completion of the transaction.

Other noninterest income

Other noninterest income consists primarily of check ordering charges and merchant services income. Check ordering charges are transactional based, and therefore, the Bank's performance obligation is satisfied and the related revenue recognized upon completion of the transaction. Merchant services income represents fees charged to merchants to process debit and credit card transactions. The Bank's performance obligation for merchant services income is satisfied and the related revenue recognized when the services are rendered or upon completion.

The following table presents noninterest income, segregated by revenue streams within the scope of ASC Topic 606 and those which are within the scope of other ASC Topics for the years ended December 31, 2022 and 2021:

	2022	2021
Noninterest Income		
Service charges on deposit accounts	$ 490,991	$ 466,459
ATM and debit card fees and other service charges	1,453,695	1,348,621
Other	44,224	58,299
Net revenue from contracts with customers	1,988,910	1,873,379
Noninterest income within the scope of other ASC topics	232,331	232,821
Total noninterest income	$ 2,221,241	$ 2,106,200

NOTE 16 – REGULATORY 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 possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's consolidated financial statements. Pursuant to capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The capital level requirements under the Basel III final rules require the Bank to maintain minimum capital amounts and ratios as presented in the table below to include total capital, Tier 1 capital and common equity Tier 1 capital as defined in the regulations, to risk weighted assets, as defined, and Tier 1 capital, as defined, to average assets, as defined. As of December 31, 2022 and 2021, that the Bank exceeded all capital adequacy requirements to which it is subject.

Under the Basel III rules, the capital conservation buffer was established to absorb losses during periods of economic stress and requires increased capital levels for the purpose of capital distributions and other payments. The capital conservation buffer was fully phased in on January 1, 2019 and requires a buffer of 2.5% above the regulatory minimum capital requirements for Tier 1 capital, common equity Tier 1 and total capital ratios. Failure to maintain the buffer will result in restrictions on capital distributions and payment of discretionary bonuses. The Bank's capital conservation buffer was 6.84% and 9.26% as of December 31, 2022 and 2021, respectively.

As of December 31, 2022, the most recent notification from the Federal Deposit Insurance Corporation (FDIC) categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, common equity Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. The Bank met the requirement to qualify as well capitalized as of December 31, 2022 and 2021. There are no conditions or events since the notification that management believes would impact the Bank's well-capitalized status.

The Bank's capital amounts (dollars in thousands) and ratios as of December 31, 2022 and 2021 are presented in the following table:

	Actual		Minimum For Capital Adequacy Purposes		Minimum For Capital Adequacy with Capital Conservation Buffer		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
2022								
Total capital (to risk weighted assets)	$ 41,959	14.84%	$ 22,626	8.00%	$ 29,696	10.50%	$ 28,282	10.00%
Tier 1 capital (to risk weighted assets)	$ 38,499	13.61%	$ 16,969	6.00%	$ 24,040	8.50%	$ 22,626	8.00%
Common equity Tier 1 (to risk weighted assets)	$ 38,499	13.61%	$ 12,727	4.50%	$ 19,797	7.00%	$ 18,383	6.50%
Tier 1 capital (to average assets)	$ 38,499	8.09%	$ 19,039	4.00%	N/A	N/A	$ 23,798	5.00%
2021								
Total capital (to risk weighted assets)	$ 37,995	17.26%	$ 17,613	8.00%	$ 23,117	10.50%	$ 22,016	10.00%
Tier 1 capital (to risk weighted assets)	$ 35,243	16.01%	$ 13,210	6.00%	$ 18,714	8.50%	$ 17,613	8.00%
Common equity Tier 1 (to risk weighted assets)	$ 35,243	16.01%	$ 9,907	4.50%	$ 15,411	7.00%	$ 14,310	6.50%
Tier 1 capital (to average assets)	$ 35,243	8.24%	$ 17,112	4.00%	N/A	N/A	$ 21,390	5.00%

NOTE 17 – ACCUMULATED OTHER COMPREHENSIVE LOSS

Changes in each component of accumulated other comprehensive loss were as follows:

	Net Unrealized Gains (Losses) on Securities	Unrealized Losses on Securities Transferred to Held to Maturity	Adjustments Related to Pension Benefits	Adjustments Related to Supplemental Executive Retirement Benefits	Accumulated Other Comprehensive (Loss)
Balance at December 31, 2020	$ 2,014,614	$ - -	$ (2,867,308)	$ (679,279)	$ (1,531,973)
Unrealized holding losses on available for sale securities, net of tax ($590,344)	(1,771,030)	- -	- -	- -	(1,771,030)
Reclassification adjustment, net of tax ($84)	(251)	- -	- -	- -	(251)
Change in pension benefits, net of tax $299,087	- -	- -	897,260	- -	897,260
Reclassification adjustment, net of tax $36,093	- -	- -	108,279	- -	108,279
Change in supplemental executive retirement benefits, net of tax ($19,417)	- -	- -	- -	(58,250)	(58,250)
Reclassification adjustment, net of tax $23,168	- -	- -	- -	69,502	69,502
Balance at December 31, 2021	$ 243,333	$ - -	$ (1,861,769)	$ (668,027)	$ (2,286,463)
Unrealized holding losses on available for sale securities, net of tax ($2,526,206)	(7,578,621)	- -	- -	- -	(7,578,621)
Unrealized holding losses on securities prior to transfer to held to maturity, net of tax ($2,369,215)	- -	(7,107,644)	- -	- -	(7,107,644)
Amortization of unrealized holding losses on securities transferred to held to maturity, net of tax $57,576		172,727	- -	- -	172,727
Change in pension benefits, net of tax $33,032	- -	- -	99,099	- -	99,099
Reclassification adjustment, net of tax $27,360	- -	- -	82,080	- -	82,080
Change in supplemental executive retirement benefits, net of tax $186,432	- -	- -	- -	559,295	559,295
Reclassification adjustment, net of tax $23,783	- -	- -	- -	71,347	71,347
Balance at December 31, 2022	$ (7,335,288)	$ (6,934,917)	$ (1,680,590)	$ (37,385)	$ (15,988,180)

Reclassification out of accumulated other comprehensive loss for December 2022 is as follows:

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss	Affected Line Item in the Consolidated Statements of Income
December 31, 2022		
Amortization of defined benefit pension items		
Net actuarial loss	$ (109,440)	Other expense
Amortization of supplemental executive retirement benefit items		
Prior service cost	(52,085)	Salaries and employee benefits
Net actuarial loss	(43,045)	Other expense
	51,143	Income tax expense
	$ (153,427)	Net of tax

NOTE 17 – ACCUMULATED OTHER COMPREHENSIVE LOSS (Continued)

Reclassification out of accumulated other comprehensive loss for December 2021 is as follows:

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss		Affected Line Item in the Consolidated Statements of Income
December 31, 2021			
Amortization of defined benefit pension items			
Net actuarial loss	$	(144,372)	Other expense
Amortization of supplemental executive retirement benefit items			
Prior service cost		(52,085)	Salaries and employee benefits
Net actuarial loss		(40,585)	Other expense
Reclassification adjustment for net gains on available for sale securities		335	Realized gain on securities, net
		59,177	Income tax expense
	$	(177,530)	Net of tax

NOTE 18 – CONCENTRATION RISK

The Bank maintains its cash accounts in several correspondent banks. As of December 31, 2022, cash balances in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC) were $21,537. Most of the Bank's activities are with customers located within its local market areas. As of December 31, 2022, the Bank had two deposit relationships totaling $88,842,381 with each relationship holding more than 5% of total deposits. Significant changes in these accounts are monitored on an ongoing basis. As of December 31, 2022, real estate loans represented 96.86% of the loan portfolio. A detailed schedule is provided in Note 4, Loans. The Bank does not have any significant concentrations to any one customer or industry.

NOTE 19 – SUBSEQUENT EVENTS

The Bank evaluated subsequent events that have occurred after the balance sheet date, but before the consolidated financial statements are issued. There are two types of subsequent events (1) recognized, or those that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, and (2) nonrecognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date.

Subsequent events have been considered through March 20, 2023, the date the financial statements were available to be issued. Based on the evaluation, the Bank did not identify any recognized or nonrecognized subsequent events that would have required adjustment to or disclosure in the consolidated financial statements.

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