COMMUNITY BANK DELAWARE

Lewes, Delaware

FINANCIAL STATEMENTS

December 31, 2023

C O N T E N T S

800.464.1976
YHBcpa.com

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Community Bank Delaware
Lewes, Delaware

Report on the Financial Statements

We have audited the accompanying financial statements of Community Bank Delaware, which comprise the balance sheets as of December 31, 2023, 2022, and 2021, and the related statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Community Bank Delaware as of December 31, 2023, 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 Community Bank Delaware and to meet our other ethical responsibilities, in accordance with 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.

Adoption of Accounting Standard

As discussed in Note 1 to the financial statements, the Bank adopted Financial Accounting Standards Board Accounting Standards Update 2016-13, "Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments" effective January 1, 2023. Our opinion is not modified with respect to this matter.

Responsibility 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 Community Bank Delaware's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgement 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 Community Bank Delaware'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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Community Bank Delaware's ability to continue as a going concern for a reasonable period of time.

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

Yount, Hyde & Barbour, P.C.

Owings Mills, Maryland
March 26, 2024

COMMUNITY BANK DELAWARE

Balance Sheets

December 31, 2023, 2022, and 2021

Assets

	2023	2022	2021
Cash and due from banks	$ 2,100,763	$ 2,149,959	$ 1,415,379
Interest bearing deposits in other financial institutions	7,222,078	11,356,097	35,559,306
Cash and cash equivalents	9,322,841	13,506,056	36,974,685
Certificates of deposit at other financial institutions	- -	- -	996,000
Investment securities available for sale	15,493,180	16,232,076	16,114,603
Restricted equity securities at cost	2,181,400	628,900	814,800
Loans held for sale	- -	- -	420,000
Loans, less allowance for credit losses of $3,099,149, $2,685,990, and $2,337,624	296,056,958	258,945,431	217,864,500
Premises and equipment	11,893,842	11,278,726	8,996,912
Bank owned life insurance	6,326,010	5,655,923	4,716,668
Accrued interest receivable	859,140	675,211	487,498
Deferred income taxes	1,111,629	1,123,270	325,350
Lease right of use assets	3,268,874	3,355,627	- -
Other assets	476,648	433,360	270,081
	$346,990,522	$311,834,580	$287,981,097

Liabilities and Stockholders' Equity

	2023	2022	2021
Deposits			
Noninterest-bearing	$ 40,984,955	$ 53,887,608	$ 52,302,649
Interest-bearing	240,149,081	224,663,102	197,650,114
Total deposits	281,134,036	278,550,710	249,952,763
Federal Home Loan Bank advances	32,000,000	4,500,000	12,500,000
Federal funds purchased	995,000	- -	- -
Accrued interest payable	528,737	76,160	65,727
Operating lease liabilities	3,353,147	3,397,763	- -
Other liabilities	344,727	601,276	190,263
	318,355,647	287,125,909	262,708,753
Stockholders' equity			
Preferred stock, par value $1 per share; authorized 100,000 shares, no shares issued or outstanding	- -	- -	- -
Common stock, par value $1 per share; authorized 4,000,000 shares; 2,082,736 shares issued and outstanding in 2023, 1,882,736 shares issued and outstanding in 2022 and 2021	2,082,736	1,882,736	1,882,736
Surplus	19,113,998	16,813,998	16,813,998
Retained earnings	10,055,137	8,757,233	6,733,499
Accumulated other comprehensive income (loss)	(2,616,996)	(2,745,296)	(157,889)
	28,634,875	24,708,671	25,272,344
	$346,990,522	$311,834,580	$287,981,097

See Notes to Financial Statements.

COMMUNITY BANK DELAWARE

Statements of Income

Years ended December 31, 2023, 2022, and 2021

	2023	2022	2021
Interest revenue			
Loans, including fees	$ 14,016,814	$ 10,755,376	$ 9,895,634
Investment securities	463,177	354,599	236,400
Interest bearing deposits in other financial institutions	460,142	300,408	62,014
Dividends	59,563	25,543	44,104
Total interest revenue	14,999,696	11,435,926	10,238,152
Interest expense			
Deposits	3,889,038	991,482	887,102
Borrowed funds	901,519	39,565	173,004
Total interest expense	4,790,557	1,031,047	1,060,106
Net interest income	10,209,139	10,404,879	9,178,046
Provision for credit losses	243,278	350,000	200,000
Net interest income after provision for credit losses	9,965,861	10,054,879	8,978,046
Noninterest revenue			
Service charges on deposit accounts	148,877	139,857	119,888
Gain on sale of loans held for sale	- -	30,903	179,957
Bank owned life insurance income	170,087	139,255	16,668
Other fees and commissions	178,632	228,337	202,146
Total noninterest revenue	497,596	538,352	518,659
Noninterest expenses			
Salaries	3,225,414	2,917,164	2,713,133
Employee benefits	1,052,173	943,722	747,492
Data processing	915,971	791,745	714,278
Occupancy	651,755	639,367	616,428
Furniture and equipment	180,367	203,017	202,796
Other operating	1,273,391	1,257,739	1,072,718
Total noninterest expenses	7,299,071	6,752,754	6,066,845
Income before income taxes	3,164,386	3,840,477	3,429,860
Income tax expense	726,844	913,024	834,945
Net income	$ 2,437,542	$ 2,927,453	$ 2,594,915
Earnings per common share			
Basic	$ 1.20	$ 1.55	$ 1.38
Diluted	$ 1.20	$ 1.55	$ 1.38

See Notes to Financial Statements.

COMMUNITY BANK DELAWARE

Statements of Comprehensive Income

Years ended December 31, 2023, 2022, and 2021

	2023	2022	2021
Net income	$ 2,437,542	$ 2,927,453	$ 2,594,915
Other comprehensive income (loss)			
Unrealized gain (loss) on investment securities available for sale	162,406	(3,275,199)	(401,517)
Income tax expense (benefit) relating to investment securities available for sale	34,106	(687,792)	(84,318)
Other comprehensive income (loss)	128,300	(2,587,407)	(317,199)
Total comprehensive income	$ 2,565,842	$ 340,046	$ 2,277,716

See Notes to Financial Statements.

COMMUNITY BANK DELAWARE

Statements of Changes in Stockholders' Equity
Years ended December 31, 2023, 2022, and 2021

	Common Stock Shares	Common Stock Par Value	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, December 31, 2020	1,882,736	$ 1,882,736	$ 16,813,998	$ 4,929,333	$ 159,310	$ 23,785,377
Net income	- -	- -	- -	2,594,915	- -	2,594,915
Unrealized loss on investment securities available for sale, net of income taxes of $84,318	- -	- -	- -	- -	(317,199)	(317,199)
Common stock dividend, $0.42 per share	- -	- -	- -	(790,749)	- -	(790,749)
Balance, December 31, 2021	1,882,736	1,882,736	16,813,998	6,733,499	(157,889)	25,272,344
Net income	- -	- -	- -	2,927,453	- -	2,927,453
Unrealized loss on investment securities available for sale, net of income taxes of $687,792	- -	- -	- -	- -	(2,587,407)	(2,587,407)
Common stock dividend, $0.48 per share	- -	- -	- -	(903,719)	- -	(903,719)
Balance, December 31, 2022	1,882,736	1,882,736	16,813,998	8,757,233	(2,745,296)	24,708,671
Net income	- -	- -	- -	2,437,542	- -	2,437,542
Adoption of ASU 2016-13	- -	- -	- -	(163,923)	- -	(163,923)
Stock offering, $12.50 per share	200,000	200,000	2,300,000	- -	- -	2,500,000
Unrealized gain on investment securities available for sale, net of income taxes of $34,106	- -	- -	- -	- -	128,300	128,300
Common stock dividend, $0.48 per share	- -	- -	- -	(975,715)	- -	(975,715)
Balance, December 31, 2023	2,082,736	$ 2,082,736	$ 19,113,998	$ 10,055,137	$ (2,616,996)	$ 28,634,875

See Notes to Financial Statements.

COMMUNITY BANK DELAWARE

Statements of Cash Flows

Years ended December 31, 2023, 2022, and 2021

	2023	2022	2021
Cash flows from operating activities			
Interest received	$ 14,832,069	$ 11,094,687	$ 10,092,949
Fees and commissions received	327,509	399,097	501,991
Interest paid	(4,337,980)	(1,020,614)	(1,157,532)
Cash paid to suppliers and employees	(7,395,072)	(6,346,706)	(5,632,555)
Origination of loans held for sale	- -	(2,389,500)	(11,358,316)
Proceeds from sale of loans held for sale	- -	2,809,500	11,845,716
Income taxes paid	(705,735)	(759,014)	(986,670)
Net cash provided by operating activities	2,720,791	3,787,450	3,305,583
Cash flows from investing activities			
Proceeds from maturity of investment securities available for sale	897,352	1,437,080	2,065,666
Purchase of securities available for sale	- -	(4,850,433)	(9,645,987)
Redemption (purchase) of restricted equity securities	(1,552,500)	185,900	236,500
Proceeds from redemption of certificates at other financial institutions	- -	996,000	- -
Loans made, net of principal collected	(37,534,174)	(41,256,724)	(17,126,352)
Purchase of bank owned life insurance	(500,000)	(800,000)	(4,700,000)
Purchase of premises, equipment, and software	(817,295)	(2,662,130)	(748,271)
Net cash used by investing activities	(39,506,617)	(46,950,307)	(29,918,444)
Cash flows from financing activities			
Net increase (decrease) in time deposits	31,636,297	(2,771,698)	5,808,173
Net increase in other deposits	(29,052,971)	31,369,645	45,602,362
Net increase in federal funds purchased	995,000	- -	- -
Increase (decrease) in Federal Home Loan Bank borrowings	27,500,000	(8,000,000)	(7,700,000)
Stock offering net proceeds	2,500,000	- -	- -
Common stock dividends paid	(975,715)	(903,719)	(790,749)
Net cash provided by financing activities	32,602,611	19,694,228	42,919,786
Net increase (decrease) in cash and cash equivalents	(4,183,215)	(23,468,629)	16,306,925
Cash and cash equivalents at beginning of year	13,506,056	36,974,685	20,667,760
Cash and cash equivalents at end of year	$ 9,322,841	$ 13,506,056	$ 36,974,685

See Notes to Financial Statements.

COMMUNITY BANK DELAWARE

Statements of Cash Flows (Continued)

Years ended December 31, 2023, 2022, and 2021

	2023	2022	2021
Reconciliation of net income to net cash provided by operating activities			
Net income	$ 2,437,542	$ 2,927,453	$ 2,594,915
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	361,203	381,207	377,908
Provision for credit losses	243,278	350,000	200,000
Premium amortization net of discount accretion	3,950	20,681	35,092
Deferred income taxes	21,109	(110,128)	93,868
Increase (decrease) in			
Deferred loan origination costs	12,352	(174,207)	(227,328)
Accrued interest payable	452,577	10,433	(97,426)
Operating lease liabilities	(44,616)	- -	- -
Other liabilities	(297,029)	3,808,776	(200,559)
Decrease (increase) in			
Bank owned life insurance	(170,087)	(139,255)	(16,668)
Loans held for sale	- -	420,000	487,400
Accrued interest receivable	(183,929)	(187,713)	47,033
Lease right of use assets	86,753	- -	- -
Other assets	(202,312)	(3,519,797)	11,348
Net cash provided by operating activities	$ 2,720,791	$ 3,787,450	$ 3,305,583

See Notes to Financial Statements.

Note 1. Summary of Significant Accounting Policies

The accounting and reporting policies reflected in the financial statements conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. Management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of commitments and contingent liabilities at the date of the financial statements and revenue and expenses during the year. Actual results could differ from those estimates.

Business

The Bank provides credit and deposit services to individuals and businesses located primarily in Sussex County, Delaware and surrounding areas.

Current Expected Credit Losses – Adoption of ASU 2016-13

Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-13, "Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments" affects financial assets with the contractual right to receive cash, including loans held for investment, held to maturity debt securities, and off-balance sheet credit exposures, unless specifically excluded from scope. Financial assets measured at an amortized cost basis are presented at the net amount expected to be collected. The allowance for credit losses (ACL) is a valuation account that is deducted from the amortized cost basis of the financial asset to present the net carrying value and the amount expected to be collected on the financial asset. The Bank has made the accounting policy election to exclude accrued interest receivable on financial assets from the estimate of credit losses.

The Bank adopted the Current Expected Credit Loss (CECL) Standard using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures on January 1, 2023. Upon adoption, the Bank recognized an after-tax cumulative effect reduction to retained earnings totaling $163,923, as detailed in the table below. Results for reporting periods beginning on January 1, 2023 are presented under the CECL standard while prior period amounts continue to be reported in accordance with previously applicable accounting guidance.

The adoption of ASU 2016-13 resulted in the following adjustments to the Bank's financial statements as of January 1, 2023:

At January 1, 2023	Changes to Balance Sheet	Income Tax Effect	Changes to Retained Earnings
Allowance for credit losses on loans	$ 167,017	$ 35,073	$ 131,944
Allowance for credit losses on off-balance sheet items	40,480	8,501	31,979
	$ 207,497	$ 43,574	$ 163,923

Cash and Cash Equivalents

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

Investment Securities

As securities are purchased, management determines if the securities should be classified as held to maturity or available for sale. Securities which management has the intent and ability to hold to maturity are recorded at amortized cost which is cost adjusted for amortization of premiums and accretion of discounts. Securities held to meet liquidity needs or which may be sold before maturity are classified as available for sale and carried at fair value with unrealized gains and losses included in stockholders' equity on an after-tax basis. Premiums are amortized to the first call date and discounts are accreted through maturity using the interest method.

Investment securities available for sale are required to be individually evaluated for impairment. A security is considered impaired if the fair value of the security is less than its amortized cost basis. If management concludes that it does not intend to sell an impaired security, and it is not more likely than not management will be required to sell an impaired security before recovery of its amortized cost basis, the Bank would only be required to record the portion of the impairment related to credit losses (if any) in an allowance for credit losses with an offsetting entry to net income. Any portion of the impairment not related to credit losses is recorded through other comprehensive income.

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

Certificates of Deposit in Other Financial Institutions

Certificates of deposit in other financial institutions are carried at cost. As of December 31, 2021, the Bank held $996,000 in certificates of deposit that all matured during 2022.

Restricted Equity Securities

Restricted equity securities include the Bank's investment in Federal Home Loan Bank of Pittsburgh stock. As a member of the Federal Home Loan Bank, the Bank is required to purchase stock based on its total assets. Additional stock is purchased and redeemed based on the outstanding Federal Home Loan Bank advances to the Bank. The remaining balance of restricted equity securities represents an investment in the common stock of a bankers' bank. The restricted equity securities are carried at cost.

Loans Held for Sale

Mortgage loans originated and intended for sale are carried at the lower of aggregate cost or estimated fair value. Fair value is determined based on outstanding investor commitments, or in the absence of such commitments, based on current investor yield requirements. Gains and losses on loan sales are determined using the specific-identification method.

The Bank sells its mortgage loans to third-party investors servicing released. Upon sale and delivery, loans are legally isolated from the Bank and the Bank has no ability to restrict or constrain the ability of third-party investors to pledge or exchange the mortgage loans. The Bank does not have the entitlement or ability to repurchase the mortgage loans or unilaterally cause third-party investors to put the mortgage loans back to the Bank.

Loans and Allowance for Credit Losses

Loans are stated at the outstanding principal balance less the allowance for credit losses and deferred loan origination costs net of related deferred loan origination fees.

Interest on loans is accrued based on the principal amounts outstanding. The accrual of interest is discontinued when any portion of the principal or interest is 90 days past due or collateral is insufficient to discharge the debt in full. Origination fees and costs are amortized to income over the terms of the loans using an approximate interest method.

Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with contractual terms for a reasonable period of time, and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

The allowance for credit losses on loans is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loans. Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. Credit losses on loans are charged against the allowance for credit losses on loans when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance for credit losses on loans.

Management estimates the required allowance for credit losses on loans using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience (past events) provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current conditions such as differences relating to economic trends, business conditions, nature and volume of new loan originations, asset quality, collateral values, competition, the legal and regulatory environment, changes in lending policies, changes in concentrations, lending team experience, and other relevant factors. If the current economy or real estate market were to suffer a severe downturn, the provision for credit losses on loans would need to be increased.

The allowance for credit losses on loans is measured on a collective (pool) basis when similar risk characteristics exist. The Bank has identified portfolio segments based on collateral type and measures the allowance for credit losses on loans using Call Report-derived data. The Bank utilizes the weighted-average remaining maturity approach to calculate the expected loss for each loan within the pool. The Bank also considers qualitative adjustments to the historical loss rate for each loan portfolio segment, which are a combination of specific risk characteristics or current conditions at the reporting date that may differ from those in effect during the historical loss calculation period as well as forward looking projections for each pool based on a reasonable and supportable forecast based on objective economic data. The total loss rate is the lifetime historical loss rate plus the total qualitative factor adjustments.

Some loans are not sufficiently similar in risk characteristics to other loans. These loans are evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluation. Loans that are individually evaluated for which impairment is determined to exist have a specific reserve allocated to them and included in the expected allowance for credit losses on loans. The expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate. Generally, loans are not individually evaluated for impairment until the accrual of interest has been discontinued.

An unallocated component may be maintained to cover uncertainties that could affect management's estimate of probable expected losses. The unallocated component of the allowance for credit losses on loans reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general expected losses in the loan portfolio. Allocation of a portion of the allowance for credit losses on loans to one category of loans does not preclude its availability to absorb expected losses in other categories.

In situations where, for economic or legal reasons related to a borrowers' financial difficulties, the Bank grants a concession for other than an insignificant period of time to the borrower that the Bank would not otherwise consider, the related loan is classified as a loan modified to a borrower experiencing financial difficulty. 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.

Allowance for Credit Losses on Off-Balance-Sheet Items

The Bank estimates expected credit losses on off-balance sheet items, which consist of contractual obligations to extend credit, loans which the Bank has approved but have not been funded, and letters of credit, over the contractual period during which the Bank is exposed to credit risk, unless that obligation is unconditionally cancellable by the Bank. The allowance for credit losses on off-balance sheet items is recorded as a liability and is adjusted each reporting period through the provision for credit losses. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on off-balance sheet items expected to be funded over its estimated life. The loss rates used to determine the required allowance for credit losses on off-balance-sheet items are essentially the same as those used on originated loans.

Premises and Equipment

Land is recorded at cost. Premises and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related property. Leasehold improvements are amortized over the estimated useful lives of the improvements or the term of the lease, whichever is less. Expenditures for maintenance, repairs, and minor replacements are charged to noninterest expenses as incurred.

Foreclosed Real Estate

Real estate acquired through foreclosure is recorded at the lower of cost or fair value less estimated selling costs on the date acquired. In general, cost equals the Bank's investment in the property at the time of foreclosure. Losses incurred at the time of acquisition of the property are charged to the allowance for credit losses. Subsequent reductions in the estimated value of the property are included in other operating expense.

Computer Software

Computer software is recorded at cost and amortized over three to five years using the straight-line method. Computer software is included in other assets on the balance sheets.

Income Taxes

The provision for income taxes includes taxes payable for the current year and deferred income taxes. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are recognized only to the extent that it is more likely than not that such amounts will be realized based on consideration of available evidence.

Comprehensive Income

Comprehensive income includes net income and the unrealized gain or loss, net of the related income taxes, on investment securities available for sale.

Earnings per Common Share

Basic earnings per common share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding. Diluted earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding, adjusted for the dilutive effect of stock options and warrants using the treasury stock method. The number of shares used to compute basic and diluted earnings per share are reconciled as follows:

	2023	2022	2021
Average common shares outstanding	2,038,990	1,882,736	1,882,736
Dilutive common stock equivalents	- -	- -	1,750
Diluted shares	2,038,990	1,882,736	1,884,486

Stock Options

The Bank accounts for employee and director stock options under the fair value method of accounting using a Black-Scholes valuation model to measure stock-based compensation expense at the date of grant. Compensation expense related to stock-based awards is recognized over the period during which an individual is required to provide service in exchange for such award. The Bank recorded no stock-based compensation expense for the years ended December 31, 2023, 2022, and 2021.

Reclassification

Certain amounts in the financial statements of prior years have been reclassified to conform with the current year presentation. The reclassifications had no effect on net income.

Recent Accounting Pronouncements

In December 2023, the Financial Accounting Standards Board (FASB) issued ASU 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures." The amendments in this ASU require an entity to disclose the amount of income taxes paid (net of refunds received) disaggregated by federal, state, and foreign taxes and the amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions that are equal to or greater than five percent of total income taxes paid (net of refunds received). Additionally, the amendments in this ASU require an entity to disclose income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign and income tax expense (or benefit) from continuing operations disaggregated by federal, state, and foreign. This ASU is effective for annual periods beginning after December 15, 2025. Early adoption is permitted. The amendments should be applied on a prospective basis; however, retrospective application is permitted. The Bank does not expect the adoption of ASU 2023-06 to have a material impact on its financial statements.

In August 2023, the Financial Accounting Standards Board (FASB) issued ASU 2023-05, "Business Combinations – Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement." This ASU applies to the formation of entities that meet the definition of a joint venture (or a corporate joint venture) as defined in the FASB Accounting Standards Codification Master Glossary. While joint ventures are defined in the Master Glossary, there has been no specific guidance in the Codification that applies to the formation accounting by a joint venture in its separate financial statements. The amendments in the ASU require that a joint venture apply a new basis of accounting upon formation. As a result, a newly formed joint venture, upon formation, would initially measure its assets and liabilities at fair value (with exceptions to fair value measurement that are consistent with the business combinations guidance). This ASU is effective on a prospective basis for all joint ventures with a formation date on or after January 1, 2025. Early adoption of ASU 2023-05 is permitted in any interim or annual period in which financial statements have not yet been issued (or made available for issuance). A joint venture that elects to early adopt may apply ASU 2023-05 either prospectively or retrospectively. The Bank does not expect the adoption of ASU 2023-05 to have a material impact on its financial statements.

In March 2023, the Financial Accounting Standards Board (FASB) issued ASU 2023-02, "Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method." These amendments allow reporting entities to elect to account for qualifying tax equity investments using the proportional amortization method, regardless of the program giving rise to the related income tax credits. The ASU is effective for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years. Early adoption is permitted in any interim period. The Bank does not expect the adoption of ASU 2023-02 to have a material impact on its financial statements.

Subsequent Events

The Bank has evaluated events and transactions subsequent to December 31, 2023 through March 26, 2024, the date these financial statements were available to be issued. No significant subsequent events were identified that would affect the presentation of the financial statements.

Note 2. Cash and Cash Equivalents

At times, the Bank carries balances with other banks that exceed the federally insured limit. The balance carried in excess of the limit, including federal funds sold on an unsecured basis, was $5,417,498 as of December 31, 2023.

Deposits held in noninterest-bearing transaction accounts are aggregated with any interest-bearing deposits the owner may hold in the same ownership category. The combined total is insured up to $250,000.

Banks are required to carry noninterest-bearing cash reserves at specified percentages of deposit balances. The Bank's normal amount of cash on hand and on deposit with other banks is sufficient to satisfy the reserve requirements.

Note 3. Investment Securities Available for Sale

Investment securities available for sale are summarized as follows:

	December 31, 2023			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government agency	$ 435,000	$ - -	$ 63,101	$ 371,899
Municipal	6,728,953	- -	1,475,357	5,253,596
Corporate	1,000,000	- -	26,280	973,720
Mortgage-backed	10,204,395	- -	1,717,237	8,487,158
Asset-backed	437,485	- -	30,678	406,807
	$ 18,805,833	$ - -	$ 3,312,653	$ 15,493,180

	December 31, 2022			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government agency	$ 435,000	$ - -	$ 70,253	$ 364,747
Municipal	6,754,154	- -	1,638,800	5,115,354
Corporate	1,000,000	- -	41,980	958,020
Mortgage-backed	11,013,185	- -	1,694,162	9,319,023
Asset-backed	504,796	- -	29,864	474,932
	$ 19,707,135	$ - -	$ 3,475,059	$ 16,232,076

	December 31, 2021			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government agency	$ 435,000	$ - -	$ 10,240	$ 424,760
Municipal	6,267,271	100,210	137,826	6,229,655
Mortgage-backed	8,985,075	15,684	202,523	8,798,236
Asset-backed	627,117	34,835	- -	661,952
	$ 16,314,463	$ 150,729	$ 350,589	$ 16,114,603

The following table summarizes the gross unrealized losses on investment securities by category and length of time they have been in a continuous loss position:

	December 31, 2023					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government agency	$ - -	$ - -	$ 371,899	$ 63,101	$ 371,899	$ 63,101
Municipal	- -	- -	5,253,596	1,475,357	5,253,596	1,475,357
Corporate	- -	- -	973,720	26,280	973,720	26,280
Mortgage-backed	- -	- -	8,487,158	1,717,237	8,487,158	1,717,237
Asset-backed	- -	- -	406,807	30,678	406,807	30,678
	$ - -	$ - -	$ 15,493,180	$ 3,312,653	$ 15,493,180	$ 3,312,653

	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. government agency	$ - -	$ - -	$ 364,747	$ 70,253	$ 364,747	$ 70,253
Municipal	2,913,869	497,382	2,201,485	1,141,418	5,115,354	1,638,800
Corporate	958,020	41,980	- -	- -	958,020	41,980
Mortgage-backed	3,851,191	210,244	5,942,764	1,513,782	9,793,955	1,724,026
	$ 7,723,080	$ 749,606	$ 8,508,996	$ 2,725,453	$ 16,232,076	$ 3,475,059

	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. government agency	$ 424,760	$ 10,240	$ - -	$ - -	$ 424,760	$ 10,240
Municipal	2,248,864	86,252	964,025	51,574	3,212,889	137,826
Mortgage-backed	8,375,821	202,523	- -	- -	8,375,821	202,523
	$ 11,049,445	$ 299,015	$ 964,025	$ 51,574	$ 12,013,470	$ 350,589

The Bank has not recorded an allowance for credit losses on its investment securities available for sale. Management does not intend to sell, and it is unlikely management will be required to sell, the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The fair value is expected to recover as the securities approach maturity.

Contractual maturities at December 31, 2023, are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed and asset-backed securities are due in monthly installments.

	Available for Sale	
	Amortized Cost	Fair Value
Maturing		
Within one year	$ - -	$ - -
Over one to five years	1,496,720	1,465,263
Over five to ten years	435,000	371,899
Over ten years	6,232,233	4,762,053
Mortgage-backed	10,204,395	8,487,158
Asset-backed	437,485	406,807
	$ 18,805,833	$ 15,493,180

There were no securities sales in 2023, 2022, or 2021.

There were no pledged securities at December 31, 2023, 2022, or 2021.

Note 4. Restricted Equity Securities

Restricted equity securities are summarized as follows:

	2023	2022	2021
Federal Home Loan Bank of Pittsburgh	$ 2,131,400	$ 578,900	$ 764,800
Atlantic Community Bankers Bank	50,000	50,000	50,000
	$ 2,181,400	$ 628,900	$ 814,800

Note 5. Loans

Major classifications of loans are as follows:

	2023	2022	2021
Real estate			
Commercial real estate	$ 85,923,742	$ 81,018,425	$ 76,432,890
Residential	170,310,074	143,047,212	109,135,743
Construction and land development	16,900,591	28,128,924	24,552,724
Commercial	25,309,031	8,670,776	9,429,077
Consumer	436,515	477,578	537,391
	298,879,953	261,342,915	220,087,825
Deferred origination costs (fees), net	276,154	288,506	114,299
Allowance for credit losses	(3,099,149)	(2,685,990)	(2,337,624)
	$296,056,958	$258,945,431	$217,864,500

Commercial loans in the table above include $7,683, $13,372, and $2,689,727 of Paycheck Protection Program (PPP) loans as of December 31, 2023, 2022, and 2021, respectively. The PPP loans are 100% guaranteed by the Small Business Administration (SBA). A substantial portion of the PPP loans outstanding at December 31, 2022 and 2021, were forgiven by the SBA.

The Bank makes loans to customers located primarily in Sussex County and surrounding areas of southern Delaware. Although the loan portfolio is diversified, its performance will be influenced by the economy of the region.

A summary of transactions in the allowance for credit losses, by loan classification, during the year ended December 31, 2023, follows:

	December 31, 2023									
							Allowance for Credit Losses Ending Balance Evaluated for Impairment:		Outstanding Loan Balances Evaluated:	
	Beginning Balance	Provision for Credit Losses	Charge Offs	Recoveries	Impact of ASU 2016-13	Ending Balance	Individually	Collectively	Individually	Collectively
Real estate										
Commercial	$ 920,178	$(177,069)	$ - -	$ - -	$ 57,217	$ 800,326	$ - -	$ 800,326	$ 106,256	$ 85,817,486
Residential	1,397,930	364,787	- -	- -	86,924	1,849,641	39,784	1,809,857	506,504	169,803,570
Construction and land development	272,826	(63,181)	- -	- -	16,965	226,610	- -	226,610	- -	16,900,591
Commercial	90,587	122,873	- -	- -	5,633	219,093	- -	219,093	- -	25,309,031
Consumer	4,469	(2,443)	- -	1,175	278	3,479	- -	3,479	- -	436,515
	$2,685,990	244,967	$ - -	$ 1,175	$ 167,017	$3,099,149	$ 39,784	$ 3,059,365	$ 612,760	$298,267,193
Allowance for credit losses on off-balance sheet items	$ - -	(1,689)	$ - -	$ - -	$ 40,480	$ 38,791				
Provision for credit losses		$ 243,278								

The following tables present the changes in the allowance for loan losses for the years ended December 31, 2022 and 2021. These tables reflect activity prior to the adoption of ASU 2016-13.

	December 31, 2022								
						Allowance for Loan Losses Ending Balance Evaluated for Impairment:		Outstanding Loan Balances Evaluated for Impairment:	
	Beginning Balance	Provision for Loan Losses	Charge Offs	Recoveries	Ending Balance	Individually	Collectively	Individually	Collectively
Real estate									
Commercial	$ 898,819	$ 21,359	$ - -	$ - -	$ 920,178	$ - -	$ 920,178	$ - -	$ 81,018,425
Residential	1,120,745	277,185	- -	- -	1,397,930	44,463	1,353,467	527,301	142,519,911
Construction and land development	247,768	25,058	- -	- -	272,826	- -	272,826	- -	28,128,924
Commercial	65,112	25,475	- -	- -	90,587	- -	90,587	- -	8,670,776
Consumer	5,180	923	(1,634)	- -	4,469	- -	4,469	- -	477,578
	$2,337,624	$350,000	$(1,634)	$ - -	$2,685,990	$ 44,463	$ 2,641,527	$ 527,301	$260,815,614

	December 31, 2021								
						Allowance for Loan Losses Ending Balance Evaluated for Impairment:		Outstanding Loan Balances Evaluated for Impairment:	
	Beginning Balance	Provision for Loan Losses	Charge Offs	Recoveries	Ending Balance	Individually	Collectively	Individually	Collectively
Real estate									
Commercial	$ 816,860	$ 81,959	$ - -	$ - -	$ 898,819	$ - -	$ 898,819	$ - -	$ 76,432,890
Residential	1,045,242	75,503	- -	- -	1,120,745	57,701	1,063,044	553,331	108,582,412
Construction and land development	199,616	48,152	- -	- -	247,768	- -	247,768	- -	24,552,724
Commercial	67,347	(4,421)	- -	2,186	65,112	- -	65,112	- -	9,429,077
Consumer	6,373	(1,193)	- -	- -	5,180	- -	5,180	- -	537,391
	$2,135,438	$200,000	$ - -	$ 2,186	$2,337,624	$ 57,701	$ 2,279,923	$ 553,331	$219,534,494

Past due loans, segregated by age and class of loans, as of December 31, 2023, 2022, and 2021, were as follows:

	December 31, 2023								
	Loans 30-89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due	Nonaccrual Loans	Nonaccrual Interest Not Accrued	Nonaccrual Loans With No Allowance For Credit Losses
Real estate									
Commercial	$ - -	$ 106,256	$ 106,256	$ 85,817,486	$ 85,923,742	$ - -	$ 106,256	$ - -	$ 106,256
Residential	536,232	24,271	560,503	169,749,571	170,310,074	- -	24,271	3,818	- -
Construction and land development	- -	- -	- -	16,900,591	16,900,591	- -	- -	- -	- -
Commercial	- -	- -	- -	25,309,031	25,309,031	- -	- -	- -	- -
Consumer	11,146	- -	11,146	425,369	436,515	- -	- -	- -	- -
	$ 547,378	$ 130,527	$ 677,905	$298,202,048	$298,879,953	$ - -	$ 130,527	$ 3,818	$ 106,256

	December 31, 2022							
	Loans 30-89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due	Nonaccrual Loans	Nonaccrual Interest Not Accrued
Real estate								
Commercial	$ - -	$ - -	$ - -	$ 81,018,425	$ 81,018,425	$ - -	$ - -	$ - -
Residential	125,037	20,763	145,800	142,901,412	143,047,212	20,763	28,228	6,134
Construction and land development	- -	- -	- -	28,128,924	28,128,924	- -	- -	- -
Commercial	- -	- -	- -	8,670,776	8,670,776	- -	- -	- -
Consumer	- -	- -	- -	477,578	477,578	- -	- -	- -
	$ 125,037	$ 20,763	$ 145,800	$261,197,115	$261,342,915	$ 20,763	$ 28,228	$ 6,134

	December 31, 2021							
	Loans 30-89 Days Past Due	Loans 90 or More Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due	Nonaccrual Loans	Nonaccrual Interest Not Accrued
Real estate								
Commercial	$ - -	$ - -	$ - -	$ 76,432,890	$ 76,432,890	$ - -	$ - -	$ - -
Residential	249,471	24,473	273,944	108,861,799	109,135,743	24,473	32,046	7,294
Construction and land development	- -	- -	- -	24,552,724	24,552,724	- -	- -	- -
Commercial	- -	- -	- -	9,429,077	9,429,077	- -	- -	- -
Consumer	- -	- -	- -	537,391	537,391	- -	- -	- -
	$ 249,471	$ 24,473	$ 273,944	$219,813,881	$220,087,825	$ 24,473	$ 32,046	$ 7,294

The following table presents the amortized cost basis of collateral-dependent loans by class of loans as of December 31, 2023. This table excludes individually evaluated loans for which a discounted cash flow method is used to determine a specific allowance.

	Amortized Cost Basis	Specific Allowance
Real estate		
Commercial	$ 106,256	$ - -
Residential	326,873	24,189
Construction and land development	- -	- -
Commercial	- -	- -
Consumer	- -	- -
	$ 433,129	$ 24,189

The balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment as of December 31, 2022 and 2021, was as follows (prior to the adoption of ASU 2016-13):

	December 31, 2022						
	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Recognized
Real estate							
Commercial	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -
Residential	551,513	436,985	90,316	527,301	44,463	540,316	26,175
Construction and land development	- -	- -	- -	- -	- -	- -	- -
Commercial	- -	- -	- -	- -	- -	- -	- -
Consumer	- -	- -	- -	- -	- -	- -	- -
	$ 551,513	$ 436,985	$ 90,316	$ 527,301	$ 44,463	$ 540,316	$ 26,175

	December 31, 2021						
	Unpaid Contractual Principal Balance	Recorded Investment with No Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Recognized
Real estate							
Commercial	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -
Residential	573,725	433,609	119,722	553,331	57,701	579,218	24,047
Construction and land development	- -	- -	- -	- -	- -	- -	- -
Commercial	- -	- -	- -	- -	- -	- -	- -
Consumer	- -	- -	- -	- -	- -	- -	- -
	$ 573,725	$ 433,609	$ 119,722	$ 553,331	$ 57,701	$ 579,218	$ 24,047

Credit Quality Indicators

As part of the ongoing monitoring of the credit quality of the Bank's loan portfolio, management tracks certain credit quality indicators including trends related to the risk grade of loans, the level of classified loans, net charge offs, nonperforming loans, and the general economic conditions in the Bank's market.

The Bank utilizes a risk grading matrix to assign a risk grade to each of its loans. A description of the general characteristics of loans characterized as watch list or classified is as follows:

Pass/Watch

Loans graded as Pass/Watch are secured by generally acceptable assets which reflect above-average risk. The loans warrant closer scrutiny by management than is routine, due to circumstances affecting the borrower, the borrower's industry, or the overall economic environment. Borrowers may reflect weaknesses such as inconsistent or weak earnings, break even or moderately deficient cash flow, thin liquidity, minimal capacity to increase leverage, or volatile market fundamentals or other industry risks. Such loans are typically secured by acceptable collateral, at or near appropriate margins, with realizable liquidation values.

Special Mention

A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Bank's credit position at some future date. Borrowers may exhibit poor liquidity and leverage positions resulting from generally negative cash flow or negative trends in earnings. Access to alternative financing may be limited to finance companies for business borrowers and may be unavailable for commercial real estate borrowers.

Substandard

A substandard loan is inadequately protected by the current financial condition and paying capacity of the obligor or of the collateral pledged, if any. Substandard loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Borrowers may exhibit recent or unexpected unprofitable operations, an inadequate debt service coverage ratio, or marginal liquidity and capitalization. These loans require more intense supervision by Bank management.

The following table represents the December 31, 2023, 2022, and 2021, balances of classified loans based on the risk grade. Classified loans include Pass/Watch, Special mention, and Substandard loans.

	December 31, 2023				
	Pass	Pass/ Watch	Special Mention	Substandard	Total
Real estate					
Commercial	$ 83,853,183	$ 1,964,303	$ - -	$ 106,256	$ 85,923,742
Residential	168,846,062	1,464,012	- -	- -	170,310,074
Construction and land development	16,900,591	- -	- -	- -	16,900,591
Commercial	25,309,031	- -	- -	- -	25,309,031
Consumer	436,515	- -	- -	- -	436,515
	$ 295,345,382	$ 3,428,315	$ - -	$ 106,256	$ 298,879,953

	December 31, 2022				
	Pass	Pass/ Watch	Special Mention	Substandard	Total
Real estate					
Commercial	$ 73,946,517	$ 7,071,908	$ - -	$ - -	$ 81,018,425
Residential	139,566,080	3,326,663	105,479	48,990	143,047,212
Construction and land development	28,128,924	- -	- -	- -	28,128,924
Commercial	8,645,644	25,132	- -	- -	8,670,776
Consumer	477,578	- -	- -	- -	477,578
	$ 250,764,743	$ 10,423,703	$ 105,479	$ 48,990	$ 261,342,915

	December 31, 2021				
	Pass	Pass/ Watch	Special Mention	Substandard	Total
Real estate					
Commercial	$ 69,196,558	$ 7,236,332	$ - -	$ - -	$ 76,432,890
Residential	106,865,909	2,097,822	115,493	56,519	109,135,743
Construction and land development	24,454,583	98,141	- -	- -	24,552,724
Commercial	9,400,905	28,172	- -	- -	9,429,077
Consumer	534,571	2,820	- -	- -	537,391
	$ 210,452,526	$ 9,463,287	$ 115,493	$ 56,519	$ 220,087,825

During the year ended December 31, 2023, the Bank did not modify any loans to borrowers who were experiencing financial difficulty.

Prior to the adoption of ASU 2016-13, impaired loans included certain loans that had been modified in troubled debt restructurings (TDRs) where economic concessions had been granted to borrowers who experienced or were expected to experience financial difficulties. The concessions typically resulted from the Bank's loss mitigation activities and may have included reductions in the interest rate, payment extensions, forgiveness of principal, forbearance, or other actions. Certain TDRs were classified as nonperforming at the time of restructure and only returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months.

The status of TDRs as of December 31, 2022 and 2021, was as follows (nonperforming TDRs are those that are 30 or more days past due):

		December 31, 2022		
	Number of	Recorded Investment		
	Contracts	Performing	Nonperforming	Total
Real estate				
Commercial	- -	$ - -	$ - -	$ - -
Residential	2	183,723	- -	183,723
Construction and land development	- -	- -	- -	- -
Commercial	- -	- -	- -	- -
Consumer	- -	- -	- -	- -
	2	$ 183,723	$ - -	$ 183,723

		December 31, 2021		
	Number of	Recorded Investment		
	Contracts	Performing	Nonperforming	Total
Real estate				
Commercial	- -	$ - -	$ - -	$ - -
Residential	2	188,512	- -	188,512
Construction and land development	- -	- -	- -	- -
Commercial	- -	- -	- -	- -
Consumer	- -	- -	- -	- -
	2	$ 188,512	$ - -	$ 188,512

No loans were modified as TDRs during the years ended December 31, 2022 or 2021.

Note 6. Credit Commitments

Outstanding loan commitments, unused lines of credit, and letters of credit were as follows:

	2023	2022	2021
Unused lines of credit			
Real estate			
Commercial	$ 10,138,254	$ 14,011,481	$ 8,404,875
Residential	30,436,610	27,423,281	22,769,349
Construction and land development	2,358,458	15,446,585	10,598,951
Commercial	11,866,366	4,343,565	6,793,780
Consumer	327,767	282,369	305,752
	$ 55,127,455	$ 61,507,281	$ 48,872,707
Loan commitments	$ 12,322,342	$ 5,602,480	$ 13,924,878
Letters of credit	$ 667,000	$ 644,656	$ 1,709,867

Loan commitments and lines of credit are agreements to lend to a customer as long as there is no violation of any condition to the contract. Loan commitments generally have variable interest rates, fixed expiration dates, and may require payment of a fee. Lines of credit generally have variable interest rates. Such lines do not represent future cash requirements because it is unlikely that all customers will draw upon their lines in full at any time. Letters of credit are commitments issued to guarantee the performance of a customer to a third party.

The Bank's maximum exposure to credit loss in the event of nonperformance by the customer is the contractual amount of the credit commitment. Loan commitments, lines of credit, and letters of credit are made on the same terms, including collateral, as outstanding loans. Management is not aware of any accounting loss to be incurred by funding these loan commitments.

Note 7. Related-Party Transactions

The Executive Officers and Directors of the Bank enter into loan transactions with the Bank in the ordinary course of business. These loans are made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with unrelated borrowers.

Activity in related-party loans during 2023, 2022, and 2021, is as follows:

	2023	2022	2021
Balance at beginning of year	$ 9,459,528	$ 11,896,319	$ 11,602,617
Advances	305,112	1,565,636	2,559,211
Change in related parties	- -	(3,153,259)	- -
Repayments	(837,354)	(849,168)	(2,265,509)
Balance at end of year	$ 8,927,286	$ 9,459,528	$ 11,896,319

Deposits from Executive Officers and Directors, including their related interests, were $17,634,693, $13,261,514, and $20,096,993 as of December 31, 2023, 2022, and 2021, respectively.

A director of the Bank is a partner in a law firm that provides legal services to the Bank. During the years ended December 31, 2023, 2022, and 2021, the Bank paid $42,431, $24,112, and $69,085, respectively, to the law firm in connection with those services.

The Bank pays companies owned by two additional directors for services provided to the Bank. Payments to these companies were $22,485, $13,640, and $6,414 during the years ended December 31, 2023, 2022, and 2021, respectively.

Note 8. Premises and Equipment

A summary of premises and equipment and the related depreciation and amortization follows:

	Useful Lives	2023	2022	2021
Land		$ 4,750,564	$ 4,750,564	$ 2,145,247
Land improvements	15 years	282,028	282,028	282,028
Building and improvements	7 - 40 years	7,555,768	7,283,903	7,283,903
Furniture and equipment	3 - 10 years	2,183,455	1,936,695	1,879,882
Construction in progress		457,248	- -	- -
		15,229,063	14,253,190	11,591,060
Accumulated depreciation and amortization		3,335,221	2,974,464	2,594,148
Net premises and equipment		$ 11,893,842	$ 11,278,726	$ 8,996,912
Depreciation expense		$ 360,758	$ 380,316	$ 375,689

Included in other assets at December 31, 2023, 2022, and 2021, is computer software carried at an amortized cost of $16,858, $12, and $902, respectively. Software amortization expense was $445, $891, and $2,219 in 2023, 2022, and 2021, respectively.

During the year ended December 31, 2023, the Bank capitalized interest of $52,577 in connection with the development of the Bank's new branch location in Long Neck.

Note 9. Leases

The Bank entered into a lease for the land at its Rehoboth branch location, which opened in February 2021. The lease, which commenced in 2020, has a term of ten years, with options to renew for four additional five-year terms.

On January 1, 2022, the Bank adopted ASU No. 2016-02 "Leases (Topic 842)" and all subsequent ASUs that modified Topic 842. The Bank elected the optional transition method provided by ASU 2018-11 and did not adjust prior periods for ASC 842. The Bank also elected certain practical expedients within the standard and consistent with such elections did not reassess whether any expired or existing contracts are or contain leases, did not reassess the lease classification for any expired or existing leases, and did not reassess any initial direct costs for existing leases. The right-of-use asset and lease liability are included in other assets and other liabilities.

Lease liabilities represent the Bank's obligation to make lease payments and are presented at each reporting date as the net present value of the remaining contractual cash flows. Cash flows are discounted at the Bank's incremental borrowing rate in effect at the commencement date of the lease if the rate implicit in the lease is unattainable. Right-of-use assets represent the Bank's right to use the underlying asset for the lease term and are calculated as the sum of the lease liability and if applicable, prepaid rent, initial direct costs, and any incentives received from the lessor.

The Bank's long-term lease agreements are classified as operating leases. Certain of these leases offer the option to extend the lease term and the Bank has included such extensions in its calculation of the lease liabilities to the extent the options are reasonably assured of being exercised. The lease agreements do not provide for residual value guarantees and have no restrictions or covenants that would impact dividends or require incurring additional financial obligations.

The following table presents information about the Bank's lease:

December 31,	2023	2022
Lease liabilities	$ 3,353,147	$ 3,397,763
Right-of-use assets	$ 3,268,874	$ 3,355,627
Weighted average remaining lease term	26.5 years	27.5 years
Weighted average discount rate	2.83%	2.83%

At December 31, 2023, the Bank is obligated for minimum future rentals on its operating lease as follows:

Year Ending December 31,	Minimum Rentals
2024	$ 140,000
2025	147,000
2026	154,000
2027	154,000
2028	154,000
Thereafter	4,161,898
Total undiscounted cash flows	4,910,898
Discount	(1,557,751)
Lease liabilities	$ 3,353,147

Rent expense was $202,017, $198,004, and $185,803 during the years ended December 31, 2023, 2022, and 2021, respectively.

Note 10. Deposits

Major classifications of interest-bearing deposits are as follows:

	2023	2022	2021
Checking	$ 18,423,252	$ 21,812,184	$ 19,181,490
Savings	7,480,455	10,064,935	8,627,453
Money market	68,670,262	78,847,168	53,130,658
Certificates of deposit, $250,000 or more	45,189,793	24,485,193	22,958,215
Other time deposits	100,385,319	89,453,622	93,752,298
	$240,149,081	$224,663,102	$197,650,114

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

	2023	2022	2021
Checking	$ 23,565	$ 23,957	$ 18,005
Savings	9,335	10,381	8,605
Money market	1,055,935	220,551	100,211
Certificates of deposit	2,800,203	736,593	760,281
	$ 3,889,038	$ 991,482	$ 887,102

Certificates of deposit mature as follows:

	2023	2022	2021
Maturing within one year	$110,647,963	$ 63,391,732	$ 60,131,090
Maturing over one to two years	11,673,426	19,222,362	13,897,531
Maturing over two to three years	22,623,631	8,647,720	11,981,529
Maturing over three to four years	6,255	22,521,000	7,586,601
Maturing over four to five years	623,837	156,001	23,113,762
	$145,575,112	$113,938,815	$116,710,513

Note 11. Borrowed Funds and Lines of Credit

Borrowed funds consist of notes payable to the Federal Home Loan Bank of Pittsburgh as follows:

Date of Note	Maturity Date	Interest Rate	December 31, 2023	2022	2021
September 14, 2023	September 15, 2025	5.26700%	$30,000,000	$ - -	$ - -
December 28, 2023	January 4, 2024	5.70200%	2,000,000	- -	- -
December 30, 2022	January 3, 2023	4.44700%	- -	2,000,000	- -
March 6, 2020	March 6, 2023	0.90875%	- -	2,500,000	2,500,000
December 31, 2021	January 6, 2022	0.26600%	- -	- -	10,000,000
			$32,000,000	$4,500,000	$12,500,000

During the year ended December 31, 2021, the Bank repaid four advances totaling $14,700,000 prior to their maturity date. The Bank paid penalties totaling $25,856 related to these prepayments, which was recorded in interest expense. During 2023 and 2022, there were no advances repaid prior to their maturity date or associated penalties.

The Bank has pledged loans in its portfolio as collateral for advances from the Federal Home Loan Bank of Pittsburgh as of December 31, 2023, which provided a total borrowing capacity of $164,203,420. The amount the Bank could borrow was limited to $96,928,148 as of December 31, 2023, based on assets it had pledged and credit outstanding. In addition to the advances above, the Federal Home Loan Bank of Pittsburgh has issued letters of credit on behalf of the Bank in the amount of $35,195,000 as of December 31, 2023, to secure municipal deposits.

The Bank has available unsecured lines of credit of $17,500,000 from other financial institutions. The Bank had $995,000 in overnight federal funds purchased borrowings under these lines of credit as of December 31, 2023. The interest rate on the overnight borrowing was 6.5%. The Bank did not have any borrowings under these lines of credit during the years ended December 31, 2022 and 2021.

Note 12. Preferred Stock

The Board of Directors has the authority to issue up to 100,000 shares of preferred stock with a par value of $1 per share. The shares may be issued from time to time as shares of one or more series. The description of each series, including the designation, preferences, conversion and other rights, voting powers, restrictions and other terms will be determined prior to issuance of any shares.

Note 13. Income Taxes

The components of income tax expense (benefit) are as follows:

	2023	2022	2021
Current			
Federal	$ 548,752	$ 828,000	$ 569,032
State	156,983	195,152	172,045
	705,735	1,023,152	741,077
Deferred	21,109	(110,128)	93,868
	$ 726,844	$ 913,024	$ 834,945

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

	2023	2022	2021
Allowance for credit losses	$ (51,444)	$ (73,501)	$ (41,999)
Nonaccrual interest	5,432	(558)	(559)
Other-than-temporary impairment of restricted equity security	- -	- -	1,415
Off-balance sheet allowance	355	- -	- -
Accumulated depreciation	75,405	(27,220)	135,011
Right of use asset	(18,218)	704,681	- -
Lease liability	9,579	(713,530)	- -
	$ 21,109	$ (110,128)	$ 93,868

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

	2023	2022	2021
Deferred tax assets			
Allowance for credit losses	$ 577,625	$ 491,108	$ 417,607
Nonaccrual interest	941	6,373	5,815
Lease liability	703,951	713,530	
Capital loss carryover	9,416	9,416	9,416
Off-balance sheet allowance	8,146	- -	- -
Unrealized loss on investment securities available for sale	695,657	729,762	41,970
	1,995,736	1,950,189	474,808
Deferred tax liabilities			
Right of use asset	686,464	704,681	- -
Accumulated depreciation	188,227	112,822	140,042
	874,691	817,503	140,042
Net deferred tax asset before valuation allowance	1,121,045	1,132,686	334,766
Valuation allowance on capital loss carryover	(9,416)	(9,416)	(9,416)
Net deferred tax asset	$ 1,111,629	$ 1,123,270	$ 325,350

The differences between the federal income tax rate and the effective tax rate for the Bank for the year ended December 31, 2023, 2022, and 2021, follows:

	2023	2022	2021
Statutory federal income tax rate	21.0%	21.0%	21.0%
Increase (decrease) resulting from			
State income tax, net of federal income tax benefit	3.9%	4.0%	4.1%
Tax-exempt income	-2.1%	-1.3%	-0.8%
Nondeductible expenses	0.2%	0.1%	0.1%
Valuation allowance on capital loss carryover	0.0%	0.0%	-0.1%
	23.0%	23.8%	24.3%

The Bank does not have material uncertain tax positions and did not recognize any adjustments for unrecognized tax benefits. The Bank remains subject to examination of income tax returns for the years ending after December 31, 2020.

The Bank realized a capital loss on the disposition of Maryland Financial Bank stock in 2019. The Bank has recorded a valuation allowance related to the capital loss carryforward due to the unlikelihood of the Bank generating a capital gain to offset the loss before 2025.

Note 14. Other Noninterest Expenses

A summary of other noninterest expenses follows:

	2023	2022	2021
Professional services	$ 235,202	$ 237,484	$ 211,472
FDIC insurance	188,447	148,929	108,580
Advertising and promotion	171,522	211,976	181,743
Director fees	148,500	159,500	142,000
Telephone	108,414	97,139	103,065
Credit reports and other loan fees	67,336	49,949	35,080
Correspondent bank charges	61,402	59,278	45,367
Stationery, printing, and supplies	59,331	61,597	55,319
Liability insurance	53,553	82,264	62,163
Meals and entertainment	49,494	37,352	23,277
Dues and memberships	31,925	27,138	28,405
Regulatory examination fees	30,038	25,191	21,600
Postage	5,772	7,699	8,598
Amortization and maintenance of software	3,263	890	2,219
Other	59,192	51,353	43,830
	$ 1,273,391	$ 1,257,739	$ 1,072,718

Note 15. Retirement Plan

The Bank has a retirement plan qualifying under Section 401(k) of the Internal Revenue Code. The Plan covers all employees with six months of service who work at least 1,060 hours during the plan year. For the year ended December 31, 2023 and 2022, the Bank matched participant contributions to the Plan of 50% up to the first 8% of eligible employee compensation. For the year ended December 31, 2021, the Bank matched participant contributions to the Plan of 50% up to the first 6% of eligible employee compensation. The Bank made contributions of $97,272, $96,296, and $63,196 to the Plan in 2023, 2022, and 2021.

Note 16. Capital Standards

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possible additional discretionary actions by the regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The Bank is subject to the Basel III Capital Rules. Quantitative measures established by the Basel III Capital Rules to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the table below) of Common Equity Tier 1 capital, Tier 1 capital, and Total capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to adjusted quarterly average assets (as defined).

The Bank has elected to opt-out of the requirement to include accumulated other comprehensive income in Common Equity Tier 1 capital. Common Equity Tier 1 capital for the Bank is reduced by goodwill and other intangible assets, net of associated deferred tax liabilities and subject to transition provisions.

Under the current prompt corrective action requirements, insured depository institutions are required to meet the following in order to qualify as "well capitalized:" (1) a common equity Tier 1 risk-based capital ratio of 6.5%; (2) a Tier 1 risk-based capital ratio of 8%; (3) a total risk-based capital ratio of 10%; and (4) a Tier 1 leverage ratio of 5%.

The implementation of the capital conservation buffer began on January 1, 2016, at the 0.625% level and was phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reached 2.5% on January 1, 2019). The Basel III Capital Rules also provide for a "countercyclical capital buffer" that is applicable to only certain covered institutions and does not have any current applicability to the Bank.

The aforementioned capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of Common Equity Tier 1 capital to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases, and compensation based on the amount of the shortfall.

The following table presents actual and required capital ratios as of December 31, 2023, 2022, and 2021, for the Bank under the Basel III Capital Rules. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

	December 31, 2023					
	Actual		**Minimum Capital Adequacy**		**To Be Well Capitalized**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
	(in thousands)					
Tier 1 leverage ratio	$31,252	9.14%	$13,670	4.00%	$17,087	5.00%
Tier 1 capital (to risk-weighted assets)	31,252	12.18%	21,804	8.50%	20,522	8.00%
Common equity tier 1 capital ratio (to risk-weighted assets)	31,252	12.18%	17,956	7.00%	16,674	6.50%
Total capital ratio (to risk-weighted assets)	34,390	13.41%	26,935	10.50%	25,652	10.00%

	December 31, 2022					
	Actual		**Minimum Capital Adequacy**		**To Be Well Capitalized**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
	(in thousands)					
Tier 1 leverage ratio	$27,454	8.98%	$12,227	4.00%	$15,283	5.00%
Tier 1 capital (to risk-weighted assets)	27,454	11.92%	19,579	8.50%	18,428	8.00%
Common equity tier 1 capital ratio (to risk-weighted assets)	27,454	11.92%	16,124	7.00%	14,972	6.50%
Total capital ratio (to risk-weighted assets)	30,140	13.08%	24,186	10.50%	23,035	10.00%

	December 31, 2021					
	Actual		**Minimum Capital Adequacy**		**To Be Well Capitalized**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
	(in thousands)					
Tier 1 leverage ratio	$25,430	8.90%	$11,429	4.00%	$14,287	5.00%
Tier 1 capital (to risk-weighted assets)	25,430	12.91%	16,740	8.50%	15,756	8.00%
Common equity tier 1 capital ratio (to risk-weighted assets)	25,430	12.91%	13,786	7.00%	12,802	6.50%
Total capital ratio (to risk-weighted assets)	27,768	14.10%	20,679	10.50%	19,695	10.00%

As of December 31, 2023, the most recent notification from the FDIC has categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain ratios as set forth in the table. There have been no conditions or events since that notification that management believes have changed the Bank's category.

The FDIC, through formal or informal agreement, has the authority to require an institution to maintain higher capital ratios than those provided by statute, to be categorized as well capitalized under the regulatory framework for prompt corrective action.

Note 17. Stock Options

In 2006, the stockholders approved setting aside 107,000 shares for stock options for key employees and 26,750 shares to be used as director options.

The options granted to employees are intended to qualify as incentive stock options under Section 422 of the Internal Revenue Code. Option prices are equal to or greater than the estimated fair value of the common stock at the date of grant. Options granted in 2012 vested over a three-year period, whereby 33% of the options became exercisable on each anniversary of the grant date. The options were exercisable up to ten years from the grant date.

Information with respect to employee options outstanding during the years ended December 31, 2023, 2022, and 2021, is as follows:

	2023		2022		2021	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	- -	$ - -	5,000	$8.45	5,000	$ 8.45
Granted	- -	- -	- -	- -	- -	- -
Exercised	- -	- -	- -	- -	- -	- -
Expired/cancelled/forfeited	- -	- -	5,000	8.45	- -	- -
Outstanding at end of year	- -	$ - -	- -	$ - -	5,000	$ 8.45
Exercisable at end of year	- -	$ - -	- -	$ - -	5,000	$ 8.45

At December 31, 2023, there was no remaining unrecognized compensation expense related to nonvested stock options. The stock options outstanding at December 31, 2021, were not exercised and were forfeited during the year ended December 31, 2022.

Note 18. Fair Value Measurements

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, recommend disclosures about fair value, and establish a hierarchy for determining fair value measurement. The hierarchy includes three levels and is based upon the valuation techniques used to measure assets and liabilities. The three levels are as follows:

Level 1 – Inputs to the valuation method are quoted prices (unadjusted) for identical assets or liabilities in active markets;

Level 2 – Inputs to the valuation method include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument; and

Level 3 – Inputs to the valuation method are unobservable and significant to the fair value measurement.

Fair Value Measurements on a Recurring Basis

The Bank measures investment securities available for sale at fair value on a recurring basis. If quoted prices are available in an active market, securities are classified within Level 1 of the hierarchy. Level 1 includes securities that have quoted prices in an active market for identical assets. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of securities with similar characteristics or discounted cash flows.

The Bank has categorized its investment securities available for sale as follows:

	December 31, 2023			
	Total	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
U.S. government agency	$ 371,899	$ - -	$ 371,899	$ - -
Municipal	5,253,596	- -	5,253,596	- -
Corporate	973,720	- -	973,720	- -
Mortgage-backed	8,487,158	- -	8,487,158	- -
Asset-backed	406,807	- -	406,807	- -
	$ 15,493,180	$ - -	$ 15,493,180	$ - -

	December 31, 2022			
	Total	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
U.S. government agency	$ 364,747	$ - -	$ 364,747	$ - -
Municipal	5,115,354	- -	5,115,354	- -
Corporate	958,020	- -	958,020	- -
Mortgage-backed	9,319,023	- -	9,319,023	- -
Asset-backed	474,932	- -	474,932	- -
	$ 16,232,076	$ - -	$ 16,232,076	$ - -

	December 31, 2021			
	Total	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
U.S. government agency	$ 424,760	$ - -	$ 424,760	$ - -
Municipal	6,229,655	- -	6,229,655	- -
Mortgage-backed	8,798,236	- -	8,798,236	- -
Asset-backed	661,952	- -	661,952	- -
	$ 16,114,603	$ - -	$ 16,114,603	$ - -

Fair Value Measurements on a Nonrecurring Basis

Impaired loans are generally measured based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are classified within Level 3 of the hierarchy. As of December 31, 2023, 2022, and 2021, the fair values consist of loan balances net of valuation allowances.

The Bank has categorized its individually evaluated loans as follows:

	December 31, 2023			
	Total	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Individually evaluated loans (collateral dependent)	$ 408,940	$ - -	$ - -	$ 408,940

	December 31, 2022			
	Total	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Individually evaluated loans	$ 482,838	$ - -	$ - -	$ 482,838

	December 31, 2021			
	Total	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Individually evaluated loans	$ 495,630	$ - -	$ - -	$ 495,630