HURON COMMUNITY FINANCIAL SERVICES, INC.
East Tawas, Michigan

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022

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Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Huron Community Financial Services, Inc.
East Tawas, Michigan

Opinion

We have audited the consolidated financial statements of Huron Community Financial Services, Inc., which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations and comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended, and the related notes to consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Huron Community Financial Services, Inc. as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, in the year-ended December 31, 2023, Huron Community Financial Services, Inc. adopted the new accounting guidance ASU 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, as amended. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Huron Community Financial Services, Inc.'s ability to continue as a going concern for one year from the date the consolidated financial statements are available to be issued.

(Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 consolidated 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 consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated 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 Huron Community Financial Services, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Huron Community Financial Services, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Crowe LLP

Crowe LLP

Grand Rapids, Michigan
March 15, 2024

HURON COMMUNITY FINANCIAL SERVICES, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2023 and 2022
(000's omitted, except share and per share data)

	2023	2022
ASSETS		
Cash and cash equivalents	$ 21,890	$ 9,711
Time deposits held in other financial institutions, at cost	32,833	31,846
Investment securities – available for sale, at fair value	110,580	115,822
Restricted stock, at cost	935	930
Loans		
Loans held for sale	128	597
Loans – net of allowance for credit losses of $2,433 and $2,683 in 2023 and 2022, respectively	146,291	141,615
Total loans	146,419	142,212
Foreclosed assets	-	104
Premises and equipment, net	3,579	3,074
Goodwill	405	405
Accrued interest receivable	1,449	926
Bank-owned life insurance	8,215	8,021
Other assets	4,849	4,306
Total assets	$ 331,154	$ 317,357
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest bearing	$ 52,189	$ 52,548
Interest bearing	231,005	220,783
Total deposits	283,194	273,331
Short-term borrowings	4,274	10,967
FHLB advances	10,000	10,000
Federal Reserve Bank borrowings	10,000	-
Accrued expenses and other liabilities	1,672	1,185
Total liabilities	309,140	295,483
Stockholders' equity		
Common stock – $1 par value: authorized – 1,000,000 shares issued – 552,524 and 580,694 shares outstanding at December 31, 2023 and 2022, respectively	553	581
Additional paid-in capital	16,994	18,612
Retained earnings	11,978	11,282
Accumulated other comprehensive loss	(7,511)	(8,601)
Total stockholders' equity	22,014	21,874
Total liabilities and stockholders' equity	$ 331,154	$ 317,357

See accompanying notes to consolidated financial statements.

HURON COMMUNITY FINANCIAL SERVICES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
Years ended December 31, 2023 and 2022
(000's omitted, except share and per share data)

	2023	2022
Interest income		
Loans – including fees	$ 8,673	$ 6,970
Time deposits held in other financial institutions	1,070	462
Investment securities		
Taxable	1,105	1,071
Tax-exempt	817	771
Other	653	137
Total interest income	12,318	9,411
Interest expense		
Deposits	2,256	607
FHLB advances	459	41
Federal Reserve Bank borrowings	68	-
Short-term borrowings	29	141
Total interest expense	2,812	789
Net interest income	9,506	8,622
Provision (recovery) for credit losses – loans	(250)	-
Net interest income after provision for credit losses	9,756	8,622
Other operating income		
Service charges – deposits	437	420
Net gain on sales of loans held for sale	67	158
Bank owned life insurance income	194	188
Net loan servicing income	66	96
Other	159	311
Total other operating income	923	1,173
Other operating expenses		
Salaries and employee benefits	4,600	4,356
FDIC assessment	139	96
Occupancy expenses	646	624
Data processing fees	841	931
Depreciation expense	388	317
Other	2,066	1,250
Total other operating expenses	8,680	7,574
Income before income taxes	1,999	2,221
Income tax expense	202	190
Net income	1,797	2,031
Other comprehensive income (loss) – net of reclassification adjustments and tax – unrealized gain (loss) on investment securities	1,090	(8,602)
Total comprehensive income (loss)	$ 2,887	$ (6,571)
Earnings per share		
Basic earnings per common share	$ 3.18	$ 3.48
Diluted earnings per common share	3.17	3.47

See accompanying notes to consolidated financial statements.

HURON COMMUNITY FINANCIAL SERVICES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years ended December 31, 2023 and 2022
(000's omitted, except share and per share data)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance, January 1, 2022	$ 584	$ 19,000	$ 10,527	$ 1	$ 30,112
Net income	-	-	2,031	-	2,031
Other comprehensive loss	-	-	-	(8,602)	(8,602)
Issuance and sale of common stock (36,361 shares)	36	2,068	-	-	2,104
Repurchase of common stock (39,330 shares)	(39)	(2,475)	-	-	(2,514)
Stock-based compensation, net	-	19	-	-	19
Dividends declared $2.18 per common share	-	-	(1,276)	-	(1,276)
Balance, December 31, 2022	581	18,612	11,282	(8,601)	21,874
Net income	-	-	1,797	-	1,797
Other comprehensive income	-	-	-	1,090	1,090
Issuance and sale of common stock (17,394 shares)	17	1,023	-	-	1,040
Repurchase of common stock (45,564 shares)	(45)	(2,658)	-	-	(2,703)
Stock-based compensation, net	-	17	-	-	17
Dividends declared $1.91 per common share	-	-	(1,101)	-	(1,101)
Balance, December 31, 2023	$ 553	$ 16,994	$ 11,978	$ (7,511)	$ 22,014

See accompanying notes to consolidated financial statements.

HURON COMMUNITY FINANCIAL SERVICES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2023 and 2022
(000's omitted, except share and per share data)

	2023	2022
Cash flows from operating activities		
Net income	$ 1,797	$ 2,031
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	388	317
Net gain on sales of loans held for sale	(67)	(158)
Proceeds from sales of loans held for sale	2,134	5,267
Origination of loans held for sale	(1,598)	(5,109)
Provision (recovery) for credit losses – loans	(250)	-
Net amortization on securities	369	442
Bank owned life insurance income	(194)	(188)
Gain on sale of premises and equipment	-	(119)
Net gain on sale of foreclosed assets	(17)	(3)
Stock-based compensation	17	19
Net change in:		
Accrued interest receivable	(523)	(245)
Other assets	(785)	(190)
Accrued expenses and other liabilities	441	(62)
Net cash from operating activities	1,712	2,002
Cash flows from investing activities		
Activity in investment securities available for sale:		
Maturities, prepayments, calls and sales	24,060	20,551
Purchases	(17,809)	(29,087)
Net change in time deposits held in other financial institutions	(987)	(21,082)
Purchase of restricted securities	(5)	-
Proceeds from sale of foreclosed assets	121	62
Proceeds from redemption of restricted securities	-	27
Proceeds from sale of premises and equipment	-	285
Net increase in loans	(4,426)	(7,835)
Capital expenditures	(893)	(801)
Net cash from (for) investing activities	61	(37,880)
Cash flows from financing activities		
Net increase in deposits	9,863	12,147
Net increase (decrease) in short-term borrowings	(6,693)	3,093
Proceeds from FHLB advances	-	7,000
Proceeds from Federal Reserve Bank borrowings	10,000	-
Proceeds from the issuance and sale of common stock	1,040	2,104
Repurchases of common stock	(2,703)	(2,514)
Cash dividends paid on common stock	(1,101)	(1,276)
Net cash from financing activities	10,406	20,554
Net change in cash and cash equivalents	12,179	(15,324)
Cash and cash equivalents at beginning of year	9,711	25,035
Cash and cash equivalents at end of year	$ 21,890	$ 9,711
Supplemental disclosures of cash flow information		
Cash paid during the year for:		
Interest	$ 2,615	$ 697
Income taxes	75	80

See accompanying notes to consolidated financial statements.

(000's omitted, except share and per share data)

NOTE 1 − NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation: The consolidated financial statements include the accounts of Huron Community Financial Services, Inc. (the "Corporation") and its wholly owned subsidiaries, Huron Community Bank (the "Bank") and Huron Community Insurance Agency, LLC. All intercompany transactions and balances have been eliminated in consolidation.

Nature of Operations: The Bank operates in Iosco, Arenac, Alcona and Ogemaw counties in the state of Michigan. The Bank's revenue results primarily from providing real estate and commercial loans and, to a lesser extent, consumer loans. Its primary deposit products are demand deposits, savings, and term certificate accounts. The Corporation does not have any significant concentrations to any one industry or customer.

Use of Estimates: In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: Cash and cash equivalents include cash on hand, amounts due from other financial institutions, and federal funds sold. Federal funds sold are generally sold for one-day periods. Net cash flows are reported for customer loan and deposit transactions, time deposits in other financial institutions and short-term borrowings.

Time Deposits Held with Other Financial Institutions: Time deposits held with other financial institutions are interest earning deposits. All individual time deposits held with other financial institutions are originated in amounts that are within federally insured limits and are carried at cost. Contractual maturities of time deposits held with other financial institutions at December 31, 2023 were as follows:

During Fiscal Years Ending December 31,	Amount Maturing
2024	$ 14,229
2025	12,402
2026	2,480
2027	3,722
Total	$ 32,833

Investment Securities: Securities not classified as held to maturity or trading are classified as "available for sale" and are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss), net of tax.

Interest income includes amortization or accretion of purchase premium or discount. Premiums and discounts on securities are amortized or accreted on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Premiums on callable securities are amortized to their earliest call date. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

A security is placed on nonaccrual status at the time any principal or interest payments become greater than 90 days delinquent. Interest accrued but not received for a security placed on non-accrual is reversed against interest income.

(Continued)

NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Accrued interest receivable on investment securities available for sale totaled $423 at December 31, 2023 and is excluded from the estimate of credit losses.

Federal Home Loan Bank (FHLB) Stock: The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. FHLB stock was $455 and $450 at December 31, 2023 and 2022 and is include in restricted stock in the consolidated balance sheets. Both cash and stock dividends are reported as income in interest income – other in the consolidated statements of operations and comprehensive income (loss).

Federal Reserve Bank (FRB) Stock: The Bank is a member of its regional Federal Reserve Bank. FRB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. FRB stock was $480 at both December 31, 2023 and 2022 and is include in restricted stock in the consolidated balance sheets. Both cash and stock dividends are reported as income in interest income – other in the consolidated statements of operations and comprehensive income (loss).

Loans Held for Sale: Real estate - residential loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Real estate –residential loans held for sale are generally sold with servicing retained. The carrying value of real estate – residential loans sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of real estate - residential loans are based on the difference between the selling price and the carrying value of the related loan sold.

Loans: The Bank grants real estate – commercial, real estate – residential, commercial and industrial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by commercial and residential loans throughout Michigan. The ability of the Bank's borrowers to honor their contracts is dependent upon the real estate and general economic conditions in this area.

(Continued)

NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost net of the allowance for credit losses. Amortized cost is the principal balance outstanding, net of deferred loan fees and costs. Accrued interest receivable totaled $808 at December 31, 2023 and was reported in accrued interest receivable in the consolidated balance sheets and is excluded from the estimate of credit losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. 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.

Allowance for Credit Losses – Loans: The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Bank uses the weighted average remaining maturity (WARM) method for estimating expected losses on each portfolio segment. The WARM method uses an average annual charge-off rate and remaining life to estimate the allowance for credit losses. The average annual charge-off rate contains losses over several vintages and is used as a foundation for estimating the credit losses for the remaining balances of loans in a portfolio segment as of the consolidated balance sheet date. The average annual charge-off rate is applied to the contractual term, further adjusted for estimated prepayments to determine the unadjusted historical charge-off rate for the remaining loan balance.

The annual charge-off rate is comprised of the Bank's historical loss experience over the past seven (7) years by portfolio segment. This actual loss experience is supplemented with other qualitative factors based on the risks present for each portfolio segment. These qualitative factors include consideration of the following: lending policies and procedures, nature and volume of the loan portfolio, experience, ability and depth of the lending department, volume and severity of past due, nonaccrual and adversely classified loans, quality of the loan review function, values of the underlying collateral for loans, existence and impact of any concentrations in credit risk, and other external factors such as competition, legal and regulatory matters. Management forecasts the qualitative factors over the expected life of the portfolio and has adjusted the historical loss experience for these expectations.

(Continued)

NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Bank has identified the following portfolio segments:

Commercial and Industrial – Loans to businesses that are sole proprietorships, partnerships, limited liability companies and corporations. These loans are for commercial, industrial, or professional purposes. The risk characteristics of these loans vary based on the borrowers business and industry as repayment is typically dependent on cash flows generated from the underlying business.

Consumer – Term loans or lines of credit for the purchase of consumer goods, vehicles or home improvement. The risk characteristics of the loans in this segment vary depending on the type of collateral but generally repayment is expected from an individual continuing to generate a cash flow that supports the calculated payment obligation. Secondary support could involve liquidation of collateral.

Real Estate – Commercial – These are loans to purchase, construct or refinance business related facilities, both owner-occupied and non-owner-occupied (leased to unrelated businesses). The risks associated with this segment are dependent on the businesses' ability to continue to generate cash flows that supports the payment obligation under the loan and changes in market valuation of the underlying commercial real estate. However, these risks are mitigated by diversification of industries within this segment and ultimately the underlying collateral supporting these loans.

Real Estate – Residential – These are loans to purchase, construct or refinance single-family residences. The risks associated with this segment are dependent on the customer's ability to satisfy the payment obligation under the loan and often widely fluctuating market values of the underlying real estate. However, due to robust underwriting procedures and assessment of underlying residential real estate property collateral, these risks are diminished.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. When management determines that foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for estimated selling costs as appropriate.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a loan modification will be executed with an individual borrower, or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Bank.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been legally isolated from the Corporation, 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 the Corporation does not maintain effective control over the transferred assets.

Foreclosed Assets: Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less estimated costs to sell at the date of the foreclosure, 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 estimated costs to sell. Revenue and expenses from operations and changes in the valuation allowance are recorded in earnings.

(Continued)

NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Premises and Equipment: Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets.

Goodwill: Goodwill arises from business combinations and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is assessed at least annually for impairment, and any such impairment will be recognized in the period identified.

Leases: Leases are classified as operating or finance leases at the lease commencement date. The Corporation leases certain locations and equipment. The Corporation records leases on the consolidated balance sheet in the form of a lease liability for the present value of future minimum payments under the lease terms and a right-of-use asset equal to the lease liability adjusted for items such as deferred or prepaid rent, lease incentives, and any impairment of the right-of-use asset. The discount rate used in determining the lease liability is based upon incremental borrowing rates the Corporation could obtain for similar loans as of the date of commencement or renewal. The Corporation does not record short term leases with an initial lease term of one year or less in the consolidated balance sheets.

At lease inception, the Corporation determines the lease term by considering the noncancelable lease term and all optional renewal periods that the Corporation is reasonably certain to renew. The lease term is also used to calculate straight-line lease expense. Leasehold improvements, except for those relating to leases between entities under common control, are amortized over the shorter of the useful life and the estimated lease term. The Corporation's leases do not contain residual value guarantees or material variable lease payments that will impact the Corporation's ability to pay dividends or cause the Corporation to incur additional expenses.

Operating lease expense consists of a single lease cost allocated over the remaining lease term on a straight-line basis, variable lease expense, and any impairment of the right-of-use asset. Lease expense is included in other operating expenses – occupancy expenses in the Corporations consolidated statements of operations and comprehensive income (loss). The Corporation's variable lease expense include rent escalators that are based on market conditions and include items such as common area maintenance, utilities, parking, property taxes, insurance and other costs associated with the lease. As of December 31, 2023, the balance of the right of use asset and lease liability was not material to the Corporation.

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

Short-Term Borrowings: Short-term borrowings consist of repurchase agreements and on demand borrowings such as lines of credit. Substantially all repurchase agreement liabilities represent amounts advanced by various customers. Securities are pledged to cover these borrowings, which are not covered by federal deposit insurance.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

(Continued)

NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Servicing Rights: When real estate – residential loans are sold with servicing retained, servicing rights are initially recorded at fair value in net gain on sales of loans held for sale in the consolidated statements of operations and comprehensive income (loss). Fair value is based on market prices for comparable servicing contracts, when available or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into earnings in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Corporation later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the valuation allowance may be recorded as an increase to earnings. No impairment of servicing rights has been recorded at year end 2023 or 2022. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Gross servicing fee income is based on a contractual percentage of the outstanding principal and is recorded as income when earned and was approximately $149 and $160 in 2023 and 2022, respectively. The amortization of servicing rights is netted against gross servicing fee income. Late fees and ancillary fees related to loan servicing are not material.

Stock-Based Compensation: Compensation cost is recognized for stock options awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options.

Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Comprehensive Income (Loss): Comprehensive income (loss) consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on investment securities available for sale which is also recognized as a separate component of stockholders' equity.

There were no reclassification adjustments (and associated tax effect) during 2023 and 2022 related to other comprehensive income (loss).

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the consolidated financial statements.

Income Taxes: Income tax expense is the sum of the current year income tax due or refundable and the change in deferred tax assets and liabilities. 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 federal income tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

(Continued)

NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Corporation recognizes interest and/or penalties related to income tax matters in income tax expense.

Earnings per Share: Basic earnings per common share are computed by dividing net income by the average number of common shares outstanding during the period. The number of weighted average common shares outstanding was 564,759 and 583,099 for the years ended December 31, 2023 and 2022, respectively. The Corporation uses the treasury stock method to compute diluted earnings per share, which assumes that proceeds from the assumed exercise of stock options would be used to purchase common stock at the average market price during the period. The dilutive effect of stock options increased average common shares outstanding by 1,908 and 1,813 shares at December 31, 2023 and 2022, respectively. There were 15,150 options not considered for dilution in 2023, because the exercise price plus unrecognized compensation cost was in excess of the average market price during the year.

Fair Values of Financial Statements: Fair values of financial instruments are estimated using the relevant market information and other assumptions, as more fully disclosed in the consolidated financial statements. 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.

Subsequent Events: The consolidated financial statements and related disclosures include evaluation of events up through and including March 15, 2024, which is the date the consolidated financial statements were available to be issued.

Reclassification: Certain amounts appearing in the prior year's consolidated financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on prior period net income or total stockholders' equity.

Adoption of New Accounting Standards: On January 1, 2023, the Corporation adopted ASU 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan and securities held to maturity. It also applies to off-balance sheet credit exposures such as loan commitments, standby letters of credit, financial guarantees, and other similar instruments. In addition, ASC 326 made changes to the accounting for investment securities available for sale. One such change is to require credit losses to be presented as an allowance rather than as a write-down on investment securities available for sale management does not intend to sell or believes that it is more likely than not, they will be required to sell.

The Corporation adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet (OBS) credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The impact of the adoption of ASC 326 was not material to the Corporation.

(Continued)

(000's omitted, except share and per share data)

NOTE 2 – INVESTMENT SECURITIES

The amortized cost and fair value of investment securities available for sale and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive loss, are as follows at December 31:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2023				
U.S. government and federal agency	$ 32,411	$ -	$ (2,327)	$ 30,084
State and municipal	40,248	179	(1,956)	38,471
Time deposits with financial institutions	5,676	7	(202)	5,481
Mortgage-backed securities, residential	31,702	15	(3,619)	28,098
Collateralized mortgage obligations, residential	10,052	-	(1,606)	8,446
Total securities available for sale	$ 120,089	$ 201	$ (9,710)	$ 110,580
2022				
U.S. government and federal agency	$ 32,570	$ -	$ (3,075)	$ 29,495
State and municipal	42,344	26	(2,444)	39,926
Time deposits with financial institutions	5,238	-	(232)	5,006
Mortgage-backed securities, residential	34,982	8	(3,593)	31,397
Collateralized mortgage obligations, residential	11,575	-	(1,577)	9,998
Total securities available for sale	$ 126,709	$ 34	$ (10,921)	$ 115,822

There was no investment securities available for sale with an allowance for credit losses at December 31, 2023.

At December 31, 2023 and 2022, investment securities available for sale with a carrying value of $64,486 and $24,169, respectively, were pledged to secure borrowings and public deposits and for other purposes required or permitted by law.

The amortized cost and fair value of investment securities available for sale are shown by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately:

	December 31, 2023	
	Amortized Cost	Fair Value
Due in 1 year or less	$ 9,575	$ 9,355
Due in 1 through 5 years	52,522	49,387
Due after 5 years through 10 years	12,981	12,300
Due after 10 years	3,257	2,994
Mortgage-backed securities, residential	31,702	28,098
Collateralized mortgage obligations, residential	10,052	8,446
Total	$ 120,089	$ 110,580

There were no investment securities available for sale sold in 2023 or 2022.

(Continued)

(000's omitted, except share and per share data)

NOTE 2 – INVESTMENT SECURITIES (Continued)

At December 31, 2023 and 2022, there were no holdings of investment securities available for sale of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of total stockholders' equity.

Information pertaining to investment securities available for sale with gross unrealized losses at December 31, 2023 and 2022, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2023						
U.S. government and federal agency	$ -	$ -	$ 30,084	$ (2,327)	$ 30,084	$ (2,327)
State and municipal	4,207	(22)	29,387	(1,934)	33,594	(1,956)
Time deposits with financial institutions	-	-	4,487	(202)	4,487	(202)
Mortgage-backed securities, residential	796	(4)	26,378	(3,615)	27,174	(3,619)
Collateralized mortgage obligations, residential	-	-	8,446	(1,606)	8,446	(1,606)
Total securities available for sale	$ 5,003	$ (26)	$ 98,782	$ (9,684)	$ 103,785	$ (9,710)
2022						
U.S. government and federal agency	$ -	$ -	$ 29,495	$ (3,075)	$ 29,495	$ (3,075)
State and municipal	23,199	(564)	14,032	(1,880)	37,231	(2,444)
Time deposits with financial institutions	4,339	(153)	667	(79)	5,006	(232)
Mortgage-backed securities, residential	7,620	(472)	22,829	(3,121)	30,449	(3,593)
Collateralized mortgage obligations, residential	4,304	(477)	5,694	(1,100)	9,998	(1,577)
Total securities available for sale	$ 39,462	$ (1,666)	$ 72,717	$ (9,255)	$ 112,179	$ (10,921)

At December 31, 2023 and 2022, there were 497 and 545 investment securities available for sale in an unrealized loss position, respectively. Unrealized losses on these securities have not been recognized into earnings because the issuers' securities are of high credit quality, the Corporation has the intent and ability to hold the securities for the foreseeable future, and the decline in fair value is due primarily to increased market interest rates. The fair value is expected to recover as the securities approach the maturity date.

NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

A summary of the balances of loans follows:

	2023	2022
Real estate – residential	$ 32,311	$ 30,174
Real estate – commercial	77,231	84,152
Consumer and industrial	30,027	23,185
Consumer	9,283	7,384
	148,852	144,895
Less: allowances for credit losses	2,433	2,683
Loans – net	$ 146,419	$ 142,212

(Continued)

(000's omitted, except share and per share data)

NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table present the balance in the allowance for credit losses by portfolio segment for the year ended December 31, 2023.

	Real Estate – Residential	Real Estate – Commercial	Commercial and Industrial	Consumer	Total
2023					
Beginning balance, prior to adoption of ASC 326	$ 558	$ 1,558	$ 430	$ 137	$ 2,683
Impact of adoption of ASC 326	-	-	-	-	-
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
Provision (recovery) for credit losses	(107)	4	(139)	(8)	(250)
Ending allowance balance	$ 451	$ 1,562	$ 291	$ 129	$ 2,433

(Continued)

(000's omitted, except share and per share data)

NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table presents the activity in the allowance for loan losses by portfolio segment for each of the year ending December 31, 2022:

	Real Estate - Residential	Real Estate - Commercial	Commercial and Industrial	Consumer	Total
2022					
Beginning balance	$ 258	$ 1,640	$ 641	$ 144	$ 2,683
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
Provision for loan losses	300	(82)	(211)	(7)	-
Ending allowance balance	$ 558	$ 1,558	$ 430	$ 137	$ 2,683
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$ -	$ 217	$ -	$ -	$ 217
Collectively evaluated for impairment	558	1,341	430	137	2,466
Ending allowance balance	$ 558	$ 1,558	$ 430	$ 137	$ 2,683
Loans:					
Individually evaluated for impairment	$ 360	$ 1,937	$ -	$ -	$ 2,297
Collectively evaluated for impairment	29,814	82,215	23,185	7,384	142,598
Total loans	$ 30,174	$ 84,152	$ 23,185	$ 7,384	$ 144,895

(Continued)

NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Credit Risk Grading
As part of the management of the loan portfolio at the time of origination and through the continuing loan review process, the Bank categorizes each loan into credit risk categories based on several factors including current financial information, overall debt service coverage, comparison against industry averages, collateral coverage, historical payment experience, and current economic trends. The credit risk rating structure used is shown below:

Monitor – A monitor asset is not considered "rated" or "classified" for regulatory purposes but is considered an asset which bears watching due to some modest deterioration in financial performance or external threats, such as a lawsuit, environmental issue, or potential loss of a significant customer. Some of the following characteristics may exist: financial condition has taken a negative turn and may be temporarily strained; borrower may have experienced recent losses from operations; cash flow may be insufficient to service the loan, based on most recent six-month period; financial covenant defaults are occurring with some regularity, and they would be deemed more than inconsequential; need for guarantor is critical, but guarantor's condition adds little substance to credit quality; loss of principal is not at question, unless current trends were to continue; however, there are aspects of this underwriting which may not now conform to bank lending policy; borrowing base deficiencies may exist and are becoming a concern.

Special Mention – A special mention asset 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. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. Some of the following characteristics may exist: loans are currently protected, but are potentially weak due to negative trends in balance sheet or income statement; cash flow may be insufficient to meet debt service, with the prospect that this condition may not be temporary; lack of effective control over the collateral or existence of documentation deficiencies; there is a potential risk of payment default; management's ability to cope with current financial conditions is questioned; collateral coverage has weakened; moderate operating losses may have occurred; financial information may be inadequate to depict condition of borrower adequately; consistent borrowing deficiencies.

Substandard – A substandard asset has well defined weaknesses whereby collection is possible, but jeopardized. However, jeopardized payment does not imply ultimate loss. Assets so classified are inadequately protected by current net worth and repayment capacity, and there is a high probability that collateral will have to be liquidated to repay the loan. If deficiencies are not corrected quickly, there is a real possibility of loss, and of the borrower's ability to operate as a going concern. Loan may be in default, borrower may be in bankruptcy, loan restructure at less than market terms, or has been partially charged off. Nonaccrual loans would be classified, at least, "substandard."

Doubtful – A doubtful asset has characteristics of "substandard," but information available suggests it is highly improbable that liquidation of collateral will repay the loan in its entirety. It may be impossible to calculate exactly what the loss may be, but the probability of some loss is high. Loans are to be placed on nonaccrual status when a significant percentage is classified "doubtful" and collateral liquidation is probable (Not all nonaccrual loans necessarily have to be classified "doubtful" if collateral appears adequate to repay remaining the outstanding loan balance).

Pass – Credits not covered by the above definitions are pass credits, which are not considered to be adversely rated.

(000's omitted, except share and per share data)

NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

For real estate – residential and consumer loan segments, the Bank monitors credit quality using a combination of the delinquency status of the loan and other known borrower circumstances and classifies loans as performing and nonperforming:

Performing – Loan pays as agreed and is current.

Nonperforming – Loans which are contractually past due 90 days or more as to interest or principal payments, on nonaccrual status, in process of foreclosure or other forms of liquidation and/or collection or loans where the terms of which have been renegotiated to provide a reduction or deferral on interest or principal.

	Pass	Monitor	Special Mention	Substandard	Performing	Non-Performing	Total
2023							
Real estate – commercial							
Commercial real estate and other	$ 72,349	$ 8	$ 75	$ -	$ -	$ -	$ 72,432
Hotels and motels	1,693	-	-	1,591	-	-	3,284
Golf courses	1,515	-	-	-	-	-	1,515
Commercial and industrial	30,019	8	-	-	-	-	30,027
Real estate – residential							
1-4 family residential	-	-	-	-	30,961	64	31,025
Construction and land loans	-	-	-	-	1,286	-	1,286
Consumer							
Home equity lines of credit	-	-	-	-	5,297	-	5,297
Other	-	-	-	-	3,986	-	3,986
Total	$ 105,576	$ 16	$ 75	$ 1,591	$ 41,530	$ 64	$ 148,852

(Continued)

(000's omitted, except share and per share data)

NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

	Pass	Monitor	Special Mention	Substandard	Performing	Non-Performing	Total
2022							
Real estate – commercial							
Commercial real estate and other	$ 72,480	$ 19	$ 111	$ -	$ -	$ -	$ 72,610
Hotels and motels	7,914	-	-	-	-	1,937	9,851
Golf courses	1,287	404	-	-	-	-	1,691
Commercial and industrial	23,173	12	-	-	-	-	23,185
Real estate – residential							
1-4 family residential	-	-	-	-	19,961	78	20,039
Construction and land loans	-	-	-	-	10,135	-	10,135
Consumer							
Home equity lines of credit	-	-	-	-	4,910	-	4,910
Other	-	-	-	-	2,474	-	2,474
Total	$ 104,854	$ 435	$ 111	$ -	$ 37,480	$ 2,015	$ 144,895

(Continued)

(000's omitted, except share and per share data)

NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Age Analysis of Past Due Loans
The following tables detail the age analysis of past due loans at December 31, 2023 and 2022:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days	Total Past Due	Current	Total	Past Due 89 Days and Accruing
2023							
Real estate – commercial							
Commercial real estate and other	$ 143	$ -	$ -	$ 143	$ 72,289	$ 72,432	$ -
Hotels and motels	-	-	-	-	3,284	3,284	-
Golf courses	-	-	-	-	1,515	1,515	-
Commercial and industrial	14	-	-	14	30,013	30,027	-
Real estate – residential							
1-4 family residential	-	-	-	-	31,025	31,025	-
Construction and land loans	-	-	-	-	1,286	1,286	-
Consumer							
Home equity lines of credit	-	-	-	-	5,297	5,297	-
Other	-	-	-	-	3,986	3,986	-
Total	$ 157	$ -	$ -	$ 157	$ 148,695	$ 148,852	$ -

(000's omitted, except share and per share data)

NOTE 3 – LOANS AND ALLOWANCE FOR CEDIT LOSSES (Continued)

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days	Total Past Due	Current	Total	Past Due 89 Days and Accruing
2022							
Real estate – commercial							
Commercial real estate and other	$ 196	$ 1	$ -	$ 197	$ 72,413	$ 72,610	$ -
Hotels and motels	-	-	-	-	9,851	9,851	-
Golf courses	-	-	-	-	1,691	1,691	-
Commercial and industrial	-	-	-	-	23,185	23,185	-
Real estate – residential							
1-4 family residential	228	-	-	228	19,811	20,039	-
Construction and land loans	8	-	-	8	10,127	10,135	-
Consumer							
Home equity lines of credit	-	-	-	-	4,910	4,910	-
Other	-	-	-	-	2,474	2,474	-
Total	$ 432	$ 1	$ -	$ 433	$ 144,462	$ 144,895	$ -

Collateral Dependent Loans
The following tables present the amortized cost basis of collateral-dependent loans by class of loans as of December 31, 2023:

	Commercial Real Estate	Residential Real Estate
Real estate – commercial:		
Hotels and motels	$ 1,592	$ -
Real estate – residential:		
1-4 family residential	-	64
Total	$ 1,562	$ 64

(Continued)

(000's omitted, except share and per share data)

NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table presents information related to impaired loans by class, as of December 31, 2022, and the amount of allowance for loan losses allocated.

	Recorded Investment	Unpaid Principal Balance	Related Allowance for Loan Losses	Average Recorded Investment for the Year	Interest Income for the Year
2022					
With no related allowance for loan losses recorded:					
Real estate – commercial:					
Commercial real estate and other	$ -	$ -	$ -	$ -	$ -
Hotels and motels	-	-	-	-	-
Commercial and industrial	-	-	-	-	-
Real estate – residential					
1-4 family residential	360	431	-	370	23
Construction and land loans	-	-	-	-	-
Consumer – home equity lines of credit	-	-	-	-	-
Sub-total	360	431	-	370	23
With an allowance for loan losses recorded:					
Real estate – commercial:					
Commercial real estate and other	-	-	-	-	-
Hotels and motels	1,937	2,137	217	2,008	121
Commercial and industrial	-	-	-	-	-
Real estate – residential:					
1-4 family residential	-	-	-	-	-
Construction and land loans	-	-	-	-	-
Consumer – home equity lines of credit	-	-	-	-	-
Sub-total	1,937	2,137	217	2,008	121
Total	$ 2,297	$ 2,568	$ 217	$ 2,378	$ 144

The recorded investment in loans excluded accrued interest receivable due to immateriality. For purposes of this disclosure, the unpaid principal balance is not reduced for partial charge-offs and reflects the contractual amounts due.

(Continued)

(000's omitted, except share and per share data)

NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Nonaccrual Loans
The following tables present the amortized cost basis of loans on nonaccrual status as of December 31, 2023 and 2022:

	2023	2022
Real estate commercial:		
Hotels and motels	$ 1,592	$ 1,937
Real estate – residential:		
1-4 family residential	64	78
Total	$ 1,656	$ 2,015

At December 31, 2023, there were no loans on nonaccrual status that had an allowance for credit losses allocation.

Loans on which interest and/or principal is 90 days or more past due are placed on nonaccrual status and any previously accrued but uncollected interest is reversed against income. Such loans will remain on a cash basis for the recognition of income until such time as the loan has remained current for a period of not less than six (6) months and it is determined an adequate propensity for timely payment to occur in the future. Past due is measured from the date through which interest is due or on which principal payment is due irrespective of the date on which the billing may have been rendered. Unless otherwise specified in the note or loan agreement, demand notes shall, for purposes of measuring past due status, have an interest due date no less frequently than once each calendar quarter. Other loans on which there is serious doubt as to collectability are placed on nonaccrual because of past due status. Any loan whereby some or all of the balance has been charged off is placed on nonaccrual, unless it is part of an A B loan restructure. If the loan was on nonaccrual at the time of the restructure, it will remain in nonaccrual until such time as the above stated criteria is met. If the loan was not in nonaccrual at the time of the A B note restructuring and there is concrete evidence the payment structure will be met, the loan will not have to be placed in nonaccrual, provided the B portion has been charged off. Real estate – residential loans are placed on nonaccrual status when the account is three months (typically four payments) past due. All previously accrued but uncollected interest is reversed when the loan is placed on nonaccrual.

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

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

There were no loan modifications in 2023 or 2022, and no loan modifications that defaulted within a year of their modification during 2023 or 2022.

Related Parties
In the ordinary course of business, the Bank has granted loans to principal officers and directors and their affiliates amounting to $4,200 and $4,589 at December 31, 2023 and 2022, respectively.

(Continued)

(000's omitted, except share and per share data)

NOTE 4 – LOAN SERVICING

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of loans serviced for others were $56,723 and $61,749 at December 31, 2023 and 2022, respectively.

The balance of capitalized servicing rights, net of valuation allowance, included in other assets in the consolidated balance sheets at December 31, 2023 and 2022 was $272 and $355, respectively. The fair value of the capitalized servicing rights was approximately $1,183 and $700 at year-end 2023 and 2022, respectively. The key economic assumptions used in determining the fair value of the loan servicing rights include an annual constant prepayment speed (CPR) of 6.42% and 6.68% for December 31, 2023 and 2022, respectively, and a discount rate of 11.00% and 11.25% for December 31, 2023 and 2022, respectively.

The following summarizes servicing rights capitalized and amortized, along with the aggregate activity in related valuation allowances:

	2023	2022
Mortgage-servicing rights capitalized	$ 24	$ 61
Mortgage-servicing rights amortized and closed	107	125

NOTE 5 – PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation of premises and equipment is as follows:

	2023	2022
Buildings and improvements	$ 5,494	$ 4,665
Furniture and fixtures	2,414	2,652
Vault and equipment	375	375
Automobiles	91	91
Land	949	667
	9,323	8,450
Accumulated depreciation	(5,744)	(5,376)
Net premises and equipment	$ 3,579	$ 3,074

Depreciation expense for the years ended December 31, 2023 and 2022 amounted to $388 and $317, respectively.

(Continued)

(000's omitted, except share and per share data)

NOTE 6 - DEPOSITS

The following is a summary of the distribution of interest-bearing deposits at December 31:

	2023	2022
Checking/NOW accounts	$ 114,273	$ 123,521
Savings	51,929	54,278
Money market demand	2,152	5,081
Time		
Under $250	52,089	33,866
$250 and over	10,562	4,037
Total interest-bearing deposits	$ 231,005	$ 220,783

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

2024	$ 47,214
2025	10,111
2026	887
2027	4,410
2028	29
	$ 62,651

NOTE 7 – SHORT-TERM BORROWINGS

Short-term borrowings include the following:

Securities Sold Under Agreements to Repurchase: These are classified as secured borrowings and are used by the Bank for its sweep account product that mature daily and had a year-end balance of $4,274 and $5,967 in 2023 and 2022 respectively. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction and are secured by U.S. Government and agency securities with a fair value of approximately $939 and $0, mortgage-backed securities with a fair value of approximately $4,336 and $5,129, and collateralized mortgage obligation securities with a fair value of approximately $4,069 and $3,318.

Discount Window Borrowings: The Bank has a discount window loan agreement with the Federal Reserve Bank that allows for advances. The advances are secured by investment securities with a fair value of approximately $26,420 and are generally due within 28 days from the date of the advance. The interest rate on the advances is based on the quoted Federal Reserve discount window rate (effective rate of 5.50% as of December 31, 2023). Outstanding advances at December 31, 2023 and 2022 were $0 and $5,000, respectively.

(Continued)

(000's omitted, except share and per share data)

NOTE 8 – FEDERAL HOME LOAN BANK ADVANCES AND FEDERAL RESERVE BANK BORROWINGS

Advances from the Federal Home Loan Bank (FHLB) are secured by the Corporation's qualifying real estate loans under a blanket collateral agreement. The advances are collateralized by approximately $22,084 and $21,478 of real estate – residential loans as of December 31, 2023 and 2022, respectively. Advances outstanding as of December 31, 2023 and 2022 were $10,000, maturing December 23, 2024 with an annual fixed interest rate of 4.53%.

FHLB advances are subject to prepayment penalties and the provisions and conditions of the credit policy of the Federal Home Loan Bank.

Borrowings from the Federal Reserve Bank (FRB) under the Bank Term Funding Program are secured by the Corporation's U.S. Government and federal agency securities with a fair value of approximately $22,837 as of December 31, 2023. FRB borrowings outstanding as of December 31, 2023 were $10,000, maturing December 16, 2024 with an annual fixed interest rate of 4.93%.

NOTE 9 – INCOME TAXES

The components of the net deferred tax asset, included in other assets in the consolidated balance sheets, are as follows:

	2023	2022
Deferred tax assets		
Allowance for credit losses	$ 403	$ 457
Accrued employee benefits	363	345
Nonaccrual loans	97	60
Foreclosed assets	-	1
Lease liability	42	-
Net unrealized loss on securities available for sale	1,997	2,286
Other	59	54
	2,961	3,203
Deferred tax liabilities		
Prepaid assets	45	24
Servicing rights	57	75
Depreciation	225	143
Right-of-use asset	42	-
Other	31	23
	400	265
Net deferred tax assets	$ 2,561	$ 2,938

Allocation of income taxes between current and deferred portions is as follows:

	2023	2022
Current	$ 114	$ 155
Deferred – continuing temporary differences	88	35
	$ 202	$ 190

(Continued)

(000's omitted, except share and per share data)

NOTE 9 – INCOME TAXES (Continued)

The reasons for the differences between the income tax expense at the federal statutory income tax rate of 21% and the recorded income tax expense are summarized as follows:

	2023	2022
Income before income taxes	$ 1,999	$ 2,221
Income tax expense at federal statutory rate	420	466
Increases resulting from nondeductible expenses	5	3
Decreases resulting from nontaxable income	(198)	(198)
Other	(25)	(81)
	$ 202	$ 190

At December 31, 2023 and 2022, the Corporation had no unrecognized tax benefits recorded. The Corporation does not expect the amount of unrecognized tax benefits to significantly change within the next twelve months. No amounts have been recorded for interest or penalties for the years ended December 31, 2023 or 2022. The Corporation is subject to U.S. federal income tax and is no longer subject to examination by the taxing authorities for years before 2020.

NOTE 10 – BENEFIT PLAN

The Corporation has a 401(k) plan whereby a certain percentage of employees' contributions can be matched with discretionary contributions by the Corporation. Contributions to the plan for the years ended December 31, 2023 and 2022 were $90 and $86, respectively.

NOTE 11 – STOCK-BASED COMPENSATION

Options: As of December 31, 2023, the Corporation has five share-based compensation plans which are described below. Options available for grant under the 1997 Nonemployee Director Discretionary Stock Option Plan, 2005 Nonemployee Director Stock Option Plan, and the 2005 Employee Stock Option Plan have been issued. Some of the options issued under the 1997 and 2005 plans are exercisable by the participants until the end of the contractual terms.

The Corporation's 2005 Nonemployee Director Stock Option Plan, 2005 Nonemployee Director Discretionary Stock Option Plan, 2005 Employee Stock Option Plan, 2014 Stock Incentive Plan, and 2023 Stock Incentive Plan (the "Plans"), permit the grant of stock options for up to 15,000 shares, 25,000 shares, 35,000 shares, 50,000 shares, and 50,000 shares of common stock, respectively. The Corporation believes that such awards better align the interests of its employees with those of its stockholders. Option awards are generally granted with an exercise price equal to the market price of the Corporation's stock at the date of grant; those option awards generally vest immediately for nonemployees and over three years for employees and have 10-year contractual terms. Certain option awards provide for accelerated vesting if there is a change in control (as defined in the Plans). The compensation cost that has been charged against earnings for the Plans was $17 and $19 for 2023 and 2022, respectively. As of December 31, 2023, there were 47,469 shares available for grant in the 2023 Stock Incentive Plan. In accordance with the respective Plan agreements, incentive stock options are no longer permitted to be granted from the 2005 Nonemployee Director Stock Option Plan or the 2005 Employee Stock Option Plan.

(Continued)

(000's omitted, except share and per share data)

NOTE 11 – STOCK-BASED COMPENSATION (Continued)

The Corporation uses a Black-Scholes formula to estimate the calculated value of its share-based payments. The volatility assumption used in the Black-Scholes formula is based on the historic volatility of the Corporation's stock price and dividend payments throughout the year. The Corporation calculated the historical volatility using the monthly closing total stock price for the one year immediately prior.

The weighted average assumptions used in the Black-Scholes model for 2023 grants are noted in the following table. The Corporation uses historical data to estimate option exercise and employee termination within the valuation model. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

Volatility	10.00%
Dividend rate	3.29%
Expected term (in years)	7.00
Risk free rate	4.04%

A summary of option activity under the Plans for 2023 presented below:

	Number of Shares	Weighted Average Exercise Price
Options outstanding – beginning of year	31,579	$ 56.08
Options granted	5,950	58.00
Options exercised	(3,245)	51.97
Options forfeited	(501)	61.33
Options expired	(500)	48.00
Options outstanding – end of year	33,283	$ 56.85
Exercisable at year end	27,217	$ 56.25

The grant-date fair value of options granted during 2023 was $5.99 per option.

The aggregate intrinsic value of the outstanding options represents the total pretax intrinsic value (i.e., the difference between the Corporation's stock price of $58 and the exercise price, times the number of shares outstanding that would have been received by the option holder had all option holders exercised their options on December 31, 2023). The aggregate intrinsic value on outstanding options as of December 31, 2023, was approximately $37. The weighted average remaining contractual term (in years) for options outstanding as of December 31, 2023, was 6.29 years.

As of December 31, 2023, there was approximately $32 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plans. That cost is expected to be recognized over a weighted average period of 1.81 years.

(Continued)

(000's omitted, except share and per share data)

NOTE 12 – OFF-BALANCE-SHEET ACTIVITIES

Credit-Related Financial Instruments: The Corporation is a party to credit-related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit, and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet.

The Corporation's exposure to credit loss is represented by the contractual amount of these commitments. The Corporation follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, 2023 and 2022, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2023	2022
Commitments to grant loans	$ 8,400	$ 5,290
Unfunded commitments	23,768	23,562
Commercial and standby letters of credit	47	53

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Corporation, is based on management's credit evaluation of the customer.

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 and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Corporation is committed.

Commercial and standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those letters of credit are used primarily to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved is extending loan facilities to customers. The Corporation generally holds collateral supporting those commitments if deemed necessary.

Collateral Requirements: To reduce credit risk related to the use of credit-related financial instruments, the Corporation might deem it necessary to obtain collateral. The amount and nature of the collateral obtained are based on the Corporation's credit evaluation of the customer. Collateral held varies but may include cash, securities, accounts receivable, inventory, property, plant, equipment, and real estate.

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NOTE 13 – RESTRICTIONS ON DIVIDENDS, LOANS AND ADVANCES

Banking regulations place certain restrictions on dividends paid and loans or advances made by the Bank to the Corporation. Prior approval of the Bank's federal regulator is required if the total dividends declared by the Bank in a calendar year exceed the sum of the net profits of the Bank for the preceding three years, less any required transfers to surplus. In addition, dividends paid by the Bank would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum standards.

Loans or advances made by the Bank to the Corporation are generally limited to 10 percent of the Bank's capital stock and surplus.

NOTE 14 – MINIMUM REGULATORY CAPITAL REQUIREMENTS

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on investment securities available for sale is not included in computing regulatory capital. Management believes as of December 31, 2023, the Corporation and Bank meet all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2023 and 2022, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

The federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio framework (CBLR framework), for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule was elected by the Bank and in effect for all periods presented. The federal banking agencies issued an interim final rule that makes temporary changes to the CBLR framework, pursuant to section 4012 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and a second interim final rule that provides a graduated increase in the community bank leverage ratio requirement after the expiration of the temporary changes implemented pursuant to section 4012 of the CARES Act.

The community bank leverage ratio removes the requirement for qualifying banking organizations to calculate and report risk-based capital but rather only requires a Tier 1 to average assets (leverage) ratio. Qualifying banking organizations that elect to use the community bank leverage ratio framework and that maintain a leverage ratio of greater than required minimums will be considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies' capital rules (generally applicable rule) and, if applicable, will be considered to have met the well capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. Under the interim final rules, the community bank leverage ratio minimum requirement is 9% for calendar year 2022 and beyond. The interim rule allows for a two-quarter grace period to correct a ratio that falls below the required amount, provided that the Bank maintains a leverage ratio greater than 8%. As of December 31, 2023, the Bank had fallen below the 9% minimum but was still within the two-quarter grace period for correction.

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NOTE 14 – MINIMUM REGULATORY CAPITAL REQUIREMENTS (Continued)

Under the final rule, an eligible banking organization can opt out of the CBLR framework and revert-back to the risk-weighting framework without restriction. As of December 31, 2023, both the Corporation and Bank were qualifying community banking organizations as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework.

Actual and required capital amounts (in millions) and ratios are presented below at year-end.

	Actual		To Be Well Capitalized Under Prompt Corrective Action Requirements (CBLR Framework)	
	Amount	Ratio	Amount	Ratio
2023				
Tier 1 capital (to average assets)	$ 28,400	8.7%	$ 29,397	9.0%
2022				
Tier 1 capital (to average assets)	$ 29,030	9.1%	$ 28,618	9.0%

NOTE 15 – FAIR VALUE MEASUREMENTS

Accounting standards require certain assets and liabilities be reported at fair value in the consolidated financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Corporation's assets measured at fair value on a recurring basis at December 31, 2023 and 2022 and the valuation techniques used by the Corporation to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Corporation has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Corporation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

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(000's omitted, except share and per share data)

NOTE 15 – FAIR VALUE MEASUREMENTS (Continued)

Assets Measured on a Recurring Basis

Assets measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at December 31, 2023:		
	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. Government and federal agency	$ 17,440	$ 12,644	$ -
State and municipal	-	38,471	-
Time deposits with financial institutions	-	5,481	-
Mortgage-backed securities, residential	-	28,098	-
Collateralized mortgage obligations, residential	-	8,446	-
Total securities available for sale	$ 17,440	$ 93,140	$ -

	Fair Value Measurements at 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. Government and federal agency	$ 17,124	$ 12,371	$ -
State and municipal	-	39,926	-
Time deposits with financial institutions	-	5,006	-
Mortgage-backed securities, residential	-	31,397	-
Collateralized mortgage obligations, residential	-	9,998	-
Total securities available for sale	$ 17,124	$ 98,698	$ -

At December 31, 2023 and 2022, the fair value of U.S. Treasury securities included in U.S. Government and federal agency securities available for sale were determined based on Level 1 inputs, while the fair value of all the remaining securities available for sale portfolio was determined based on level 2 inputs. The Corporation estimates the fair value of these investment inputs include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

The Corporation also has assets that under certain conditions are subject to measurement at fair value on a nonrecurring basis. These assets include individually evaluated loans and foreclosed assets.

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(000's omitted, except share and per share data)

NOTE 15 – FAIR VALUE MEASUREMENTS (Continued)

The fair value of collateral dependent individually evaluated loans with specific allocations of the allowance for credit losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Foreclosed assets are reported in the following table at the initial recognition of any impairment and on an ongoing basis until recovery or charge-off. At the time of foreclosure or repossession, foreclosed assets are adjusted to fair value less estimated costs to sell, establishing a new cost basis.

Appraisals for collateral-dependent individually evaluated loans and foreclosed assets are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Corporation. Management reviews the assumptions and approaches utilized in the appraisal. Management periodically evaluates the appraised values and will discount a property's appraised value to account for a number of factors including but not limited to the cost of liquidating the collateral, the age of the appraisal, observable deterioration since the appraisal, or other factors unique to the property.

Assets Measured on a Non-Recurring Basis

There were no assets measured at fair value on a non-recurring basis at December 31, 2023.

Assets measured at fair value on a non-recurring basis are summarized below:

	Fair Value Measurements at December 31, 2022:		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans			
Real estate – commercial	$ -	$ -	$ 1,720

Impaired loans measured had a carrying value of $1,937 at year-end 2022 before a valuation allowance of $217. Impairment charges recognized during the year resulted in additional provisions for loan losses of approximately $0. The real estate-commercial loan presented in the table above is valued using the sales comparison valuation technique with a discount of 11.2% being applied to available appraisal data to estimate fair value.