HURON COMMUNITY FINANCIAL SERVICES, INC.
East Tawas, Michigan

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022 and 2021

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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, 2022 and 2021, 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, 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 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.

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, 2023

HURON COMMUNITY FINANCIAL SERVICES, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2022 and 2021
(000's omitted, except share and per share data)

	2022	2021
ASSETS		
Cash and due from banks	$ 9,711	$ 25,035
Time deposits held in other financial institutions	31,846	10,764
Investment securities – available-for-sale	115,822	118,614
Restricted securities, at cost	930	957
Loans		
Loans held for sale	597	1,417
Loans – net of allowance for loan losses of $2,683 and $2,683 in 2022 and 2021, respectively	141,615	132,960
Total loans	142,212	134,377
Foreclosed assets	104	163
Premises and equipment, net	3,074	2,756
Goodwill	405	405
Accrued interest receivable	926	681
Bank-owned life insurance	8,021	7,833
Other assets	3,799	1,325
Total assets	$ 316,850	$ 302,910
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	$ 52,548	$ 68,533
Interest-bearing	220,783	192,651
Total deposits	273,331	261,184
Short-term borrowings	10,967	7,874
FHLB Advances	10,000	3,000
Accrued expenses and other liabilities	678	740
Total liabilities	294,976	272,798
Stockholders' equity		
Common stock - $1 par value: authorized – 1,000,000 shares issued and outstanding – 580,694 and 583,663 shares	581	584
Additional paid-in capital	18,612	19,000
Retained earnings	11,282	10,527
Accumulated other comprehensive income (loss)	(8,601)	1
Total stockholders' equity	21,874	30,112
Total liabilities and stockholders' equity	$ 316,850	$ 302,910

See accompanying notes to consolidated financial statements.

HURON COMMUNITY FINANCIAL SERVICES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
Years ended December 31, 2022 and 2021
(000's omitted, except share and per share data)

	2022	2021
Interest income		
Loans - including fees	$ 6,970	$ 7,231
Time deposits held in other financial institutions	462	299
Investment securities		
Taxable	1,071	613
Tax-exempt	771	666
Other	137	47
Total interest income	9,411	8,856
Interest expense		
Deposits	607	489
FHLB Advances	41	64
Short-term borrowings	141	7
Total interest expense	789	560
Net interest income	8,622	8,296
Provision for loan losses	-	180
Net interest income after provision for loan losses	8,622	8,116
Other operating income		
Service charges - deposits	420	411
Net gain on sale of loans held for sale	158	684
Bank-owned life insurance income	188	179
Net loan servicing income	96	219
Other	311	345
Total other operating income	1,173	1,838
Other operating expenses		
Salaries and employee benefits	4,356	3,899
FDIC assessment	96	73
Occupancy expenses	624	605
Service fees	1,025	932
Depreciation expense	317	509
Other	1,156	1,316
Total other operating expenses	7,574	7,334
Income before income taxes	2,221	2,620
Income tax expense	190	375
Net income	2,031	2,245
Other comprehensive loss – net of reclassification adjustments and tax - unrealized loss on investment securities	(8,602)	(1,432)
Total comprehensive income (loss)	$ (6,571)	$ 813
Earnings per share		
Basic earnings per common share	$ 3.48	$ 3.84
Diluted earnings per common share	3.47	3.82

See accompanying notes to consolidated financial statements.

HURON COMMUNITY FINANCIAL SERVICES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years ended December 31, 2022 and 2021
(000's omitted, except share and per share data)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Unearned Compensation	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, January 1, 2021	$ 584	$ 19,107	$ 9,442	$ (11)	$ 1,433	$ 30,555
Net income	-	-	2,245	-	-	2,245
Other comprehensive loss	-	-	-	-	(1,432)	(1,432)
Issuance and sale of common stock (27,642 shares)	28	1,580	-	-	-	1,608
Purchase of common stock (27,599 shares)	(28)	(1,671)	-	-	-	(1,699)
Stock-based compensation, net	-	(16)	-	11	-	(5)
Dividends declared $1.98 per common share	-	-	(1,160)	-	-	(1,160)
Balance, December 31, 2021	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
Purchase 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

See accompanying notes to consolidated financial statements.

HURON COMMUNITY FINANCIAL SERVICES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2022 and 2021
(000's omitted, except share and per share data)

	2022	2021
Cash flows from operating activities		
Net income	$ 2,031	$ 2,245
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	317	509
Net gain on sale of loans held for sale	(158)	(684)
Proceeds from sale of loans held for sale	5,267	16,062
Origination of loans held for sale	(5,109)	(15,378)
Provision for loan losses	-	180
Net amortization on securities	442	409
Bank-owned life insurance income	(188)	(179)
Gain on sale of premises and equipment	(119)	-
Net gain on sale of foreclosed assets	(3)	(17)
Stock-based compensation	19	(5)
Net change in:		
Accrued interest receivable	(245)	34
Other assets	(190)	(38)
Accrued expenses and other liabilities	(62)	398
Net cash from operating activities	2,002	3,536
Cash flows from investing activities		
Activity in available-for-sale securities:		
Maturities, prepayments, calls and sales	20,551	24,557
Purchases	(29,087)	(88,522)
Net change in deposits held in other financial institutions	(21,082)	337
Purchase of bank-owned life insurance	-	(600)
Settlement of bank-owned life insurance	-	409
Proceeds from sale of foreclosed assets	62	-
Proceeds from sale of restricted securities	27	-
Proceeds from sale of premises and equipment	285	-
Net (increase) decrease in loans	(7,835)	15,926
Capital expenditures	(801)	(305)
Net cash for investing activities	(37,880)	(48,198)
Cash flows from financing activities		
Net increase in deposits	12,147	42,276
Net increase in short-term borrowings	3,093	2,145
Proceeds from FHLB Advances	7,000	-
Proceeds from the issuance and sale of common stock	2,104	1,608
Purchases of common stock	(2,514)	(1,699)
Cash dividends paid on common stock	(1,276)	(1,160)
Net cash from financing activities	20,554	43,170
Net change in cash and cash equivalents	(15,324)	(1,492)
Cash and cash equivalents at beginning of year	25,035	26,527
Cash and cash equivalents at end of year	$ 9,711	$ 25,035
Supplemental disclosures of cash flow information		
Cash paid during the year for:		
Interest	$ 697	$ 545
Income taxes	80	490

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 banks, 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 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, 2022 were as follows:

During Fiscal Years Ending December 31	Amount Maturing
2023	$ 13,737
2024	7,440
2025	6,203
2026	744
2027	3,722
Total	$ 31,846

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 loss. Restricted securities include Federal Reserve and Federal Home Loan Bank stock and are carried at cost.

Purchase premiums and discounts are recognized in interest income using the interest method over the contractual terms of the securities for discounts and the period to call date, if applicable, for premiums. Declines in the fair value of available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Corporation 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 mortgage loans throughout Michigan. The ability of the Corporation's borrowers to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

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 Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. Loan losses are charged against the allowance when management believes the un-collectability of a loan balance is confirmed.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. For such loans, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan are lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for real estate - commercial and commercial and industrial loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Troubled debt restructuring of loans is undertaken to improve the likelihood that the loan will be repaid in full under the modified terms in accordance with a reasonable repayment schedule. All modified loans are evaluated to determine whether the loans should be reported as a troubled debt restructuring (TDR). A loan is a TDR when the Corporation, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower by modifying or renewing a loan that the Corporation would not otherwise consider. To make this determination, the Corporation must determine whether (a) the borrower is experiencing financial difficulties and (b) the Corporation granted the borrower a concession. This determination requires consideration of all of the facts and circumstances surrounding the modification. An overall general decline in the economy or some deterioration in a borrower's financial condition does not automatically mean the borrower is experiencing financial difficulties.

The loan portfolio is allocated to the following segments for allowance analysis purposes:

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 portfolio segment and ultimately the underlying collateral supporting these loans.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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 results from prior business acquisitions 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.

Bank-Owned Life Insurance: The Bank has purchased life insurance policies on certain key officers. Bank-owned life insurance is recorded at its cash surrender value, or the amount that can be realized.

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

Off-Balance-Sheet Instruments: In the ordinary course of business, the Corporation has entered into commitments under commercial letters of credit and standby letters of credit. Such financial instruments are recorded when funded.

Servicing Rights: Servicing rights represent the fair value of servicing rights retained on loans sold. Servicing rights are expensed in proportion to, and over the period of, estimated net servicing revenues. Impairment is evaluated based on the fair value of the rights, using groupings of the underlying loans as to interest rates and prepayment characteristics. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Any impairment of a grouping is reported as a valuation allowance. Most loans originated for sale are sold servicing retained.

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 2022 or 2021. 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.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Gross servicing fee income is based on a contractual percentage of the outstanding principal and is recorded as income when earned and was approximately $160 and $165 in 2022 and 2021, respectively. The capitalization and amortization of mortgage servicing rights is netted against gross servicing fee income. Late fees and ancillary fees related to loan servicing are not material.

Stock Purchases and Sales: The Corporation regularly engages in the purchase and sale of Corporation common stock. Proceeds from the sale of common stock are recorded to additional paid-in capital.

Comprehensive Income (Loss): Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, net of tax, are reported as a separate component of shareholders' equity in the consolidated balance sheet, such items, along with net income, are components of comprehensive income (loss). Reclassification adjustments during 2022 and 2021 were $0 and $39 and are included in other operating income - other in the consolidated statements of operations and comprehensive loss. The tax effect of reclassifications, included in income tax expense in the consolidated statements of operations and comprehensive income (loss), were $0 and $8 for 2022 and 2021.

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.

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 583,099 and 584,390 for the years ended December 31, 2022 and 2021, 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 1,813 and 3,758 shares at December 31, 2022 and 2021, respectively. There were 15,800 options not considered for dilution in 2022, 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, 2023 which is the date the consolidated financial statements were available to be issued.

(Continued)

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 net income or total stockholders' equity.

NOTE 2 – SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
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	34,982	8	(3,593)	31,397
Collateralized mortgage obligations	11,575	-	(1,577)	9,998
Total available-for-sale securities	$ 126,709	$ 34	$ (10,921)	$ 115,822
2021				
U.S. government and federal agency	$ 32,729	$ 5	$ (436)	$ 32,298
State and municipal	39,424	887	(132)	40,179
Time deposits with financial institutions	3,259	38	(7)	3,290
Mortgage-backed securities	32,345	113	(337)	32,121
Collateralized mortgage obligations	10,856	51	(181)	10,726
Total available-for-sale securities	$ 118,613	$ 1,094	$ (1,093)	$ 118,614

At December 31, 2022 and 2021, securities with a carrying value of $24,169 and $23,609, 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 securities by contractual maturity at December 31, 2022 are as follows:

	December 31, 2022	
	Amortized Cost	Fair Value
Due in 1 year or less	$ 4,629	$ 4,600
Due in 1 through 5 years	54,326	50,355
Due after 5 years through 10 years	16,255	15,063
Due after 10 years	4,942	4,409
Mortgage-backed securities	34,982	31,397
Collateralized mortgage obligations	11,575	9,998
Total	$ 126,709	$ 115,822

There were no securities sold in 2022. Securities sold in 2021 generated proceeds of $1,891 and resulted in gross gains of $39.

(Continued)

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

NOTE 2 – SECURITIES (Continued)

Information pertaining to securities with gross unrealized losses at December 31, 2022 and 2021, 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
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	7,620	(472)	22,829	(3,121)	30,449	(3,593)
Collateralized mortgage obligations	4,304	(477)	5,694	(1,100)	9,998	(1,577)
Total available-for-sale securities	$ 39,462	$ (1,666)	$ 72,717	$ (9,255)	$112,179	$(10,921)
2021						
U.S. government and federal agency	$ 31,238	$ (436)	$ -	$ -	$ 31,238	$ (436)
State and municipal	8,801	(130)	75	(2)	8,876	(132)
Time deposits with financial institutions	738	(7)	-	-	738	(7)
Mortgage-backed securities	28,899	(337)	-	-	28,899	(337)
Collateralized mortgage obligations	7,107	(163)	670	(18)	7,777	(181)
Total available-for-sale securities	$ 76,783	$ (1,073)	$ 745	$ (20)	$ 77,528	$ (1,093)

At December 31, 2022 and 2021, there were 545 and 182 securities in an unrealized loss position, respectively. Unrealized losses on 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.

Restricted securities, totaling $930 and $957 at December 31, 2022 and 2021, respectively, consist of restricted Federal Home Loan Bank stock and Federal Reserve Bank stock. These stocks are carried at cost, which approximates market value.

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of the balances of loans follows:

	2022	2021
Real estate – residential	$ 30,174	$ 27,526
Real estate – commercial	84,152	79,130
Commercial and industrial	23,185	23,506
Consumer	7,384	6,898
	144,895	137,060
Less: allowances for loan losses	2,683	2,683
Loans, net	$ 142,212	$ 134,377

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

In response to the disruption caused by the pandemic, the U.S. Treasury established a Paycheck Protection Loan Program (PPP) overseen by the Small Business Administration (SBA). Through this program, the SBA guaranteed loans were extended to qualifying customers which, if used in accordance with PPP program requirements, will be forgiven and repaid by the SBA. Of all of the PPP loans originated by the Bank, at year-end 2022 and 2021 there were $0 and $6,010 still outstanding, respectively. These loans are included in "commercial and industrial" loans in the table above and in the tables that follow.

In the ordinary course of business, the Bank has granted loans to principal officers and directors and their affiliates amounting to $4,589 and $4,484 at December 31, 2022 and 2021, respectively.

(Continued)

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

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

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2022 and 2021:

	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)

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

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

	Real Estate - Residential	Real Estate - Commercial	Commercial and Industrial	Consumer	Total
2021					
Beginning balance	$ 222	$ 1,494	$ 610	$ 135	$ 2,461
Charge-offs	-	-	-	-	-
Recoveries	-	42	-	-	42
Provision for loan losses	36	104	31	9	180
Ending allowance balance	$ 258	$ 1,640	$ 641	$ 144	$ 2,683
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$ -	$ 211	$ -	$ -	$ 211
Collectively evaluated for impairment	258	1,429	641	144	2,472
Ending allowance balance	$ 258	$ 1,640	$ 641	$ 144	$ 2,683
Loans:					
Individually evaluated for impairment	$ 422	$ 2,179	$ -	$ -	$ 2,601
Collectively evaluated for impairment	27,104	76,951	23,506	6,898	134,459
Total loans	$ 27,526	$ 79,130	$ 23,506	$ 6,898	$ 137,060

(Continued)

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN 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 Corporation 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 institution'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 company'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.

(Continued)

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

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

For residential real estate and consumer loan segments, the Corporation 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
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 LOAN LOSSES (Continued)

	Pass	Monitor	Special Mention	Substandard	Performing	Non-Performing	Total
2021							
Real estate - commercial							
Commercial real estate and other	$ 66,358	$ 107	$ -	$ 100	$ -	$ 213	$ 66,778
Hotels and motels	8,301	-	-	126	-	1,966	10,393
Golf courses	1,353	606	-	-	-	-	1,959
Commercial and industrial	23,427	75	-	4	-	-	23,506
Real estate – residential							
1-4 family residential	-	-	-	-	18,388	82	18,470
Construction and land loans	-	-	-	-	9,056	-	9,056
Consumer							
Home equity lines of credit	-	-	-	-	4,552	-	4,552
Other	-	-	-	-	2,346	-	2,346
Total	$ 99,439	$ 788	$ -	$ 230	$ 34,342	$ 2,261	$ 137,060

(Continued)

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

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

Age Analysis of Past Due Loans
The following tables detail the age analysis of past due loans at December 31, 2022 and 2021:

2022	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total	Past Due 90 Days and Accruing
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	$ -

(Continued)

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

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

2021	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total	Past Due 90 Days and Accruing
Real estate - commercial							
Commercial real estate and other	$ 226	$ -	$ -	$ 226	$ 66,552	$ 66,778	$ -
Hotels and motels	-	-	-	-	10,393	10,393	-
Golf courses	-	-	-	-	1,959	1,959	-
Commercial and industrial	12	-	-	12	23,494	23,506	-
Real estate - residential							
1-4 family residential	152	-	81	233	18,237	18,470	81
Construction and land loans	29	1	-	30	9,026	9,056	-
Consumer							
Home equity lines of credit	-	-	-	-	4,552	4,552	-
Other	-	-	-	-	2,346	2,346	-
Total	$ 419	$ 1	$ 81	$ 501	$ 136,559	$ 137,060	$ 81

Impaired Loans
The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loans are considered impaired when, based on current information and events, it is probable the Corporation will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment is evaluated on an individual loan basis for all loans. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

(Continued)

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

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

The following are schedules of impaired loans by class, as of December 31, 2022 and 2021, and the amount of allowance allocated. Unpaid principal balance reflects the contractual amount due:

2022	Recorded Investment	Unpaid Principal Balance	Related Allowance for Loan Losses	Average Recorded Investment for the Year	Interest Income for the Year
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

(Continued)

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

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

2021	Recorded Investment	Unpaid Principal Balance	Related Allowance for Loan Losses	Average Recorded Investment for the Year	Interest Income for the Year
With no related allowance for loan losses recorded:					
Real estate - commercial:					
Commercial real estate and other	$ 213	$ 215	$ -	$ 216	$ 11
Hotels and motels	-	-	-	-	-
Commercial and industrial	-	-	-	-	-
Real estate - residential					
1-4 family residential	422	533	-	439	19
Construction and land loans	-	-	-	-	-
Consumer – home equity lines of credit	-	-	-	-	-
Sub-total	$ 635	$ 748	$ -	$ 655	$ 30
With an allowance for loan losses recorded:					
Real estate – commercial:					
Commercial real estate and other	$ -	$ -	$ -	$ -	$ -
Hotels and motels	1,966	2,115	211	2,034	113
Commercial and industrial	-	-	-	-	-
Real estate - residential:					
1-4 family residential	-	-	-	-	-
Construction and land loans	-	-	-	-	-
Consumer – home equity lines of credit	-	-	-	-	-
Sub-total	$ 1,966	$ 2,115	$ 211	$ 2,034	$ 113
Total	$ 2,601	$ 2,863	$ 211	$ 2,689	$ 143

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.

(Continued)

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

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

Nonaccrual Loans
Nonaccrual loan balances at December 31, 2022 and 2021 are as follows:

	2022	2021
Real estate commercial:		
Commercial real estate and other	$ -	$ 213
Hotels and motels	1,937	1,966
Golf courses	-	-
Commercial and industrial	-	-
Real estate – residential:		
1-4 family residential	78	82
Construction and land loans	-	-
Consumer:		
Home equity lines of credit	-	-
Total	$ 2,015	$ 2,261

Nonaccrual
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 (current year) or charged to the allowance for loan losses (prior year). 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.

Troubled Debt Restructurings
A modification of a loan constitutes a troubled debt restructuring (TDR) when a borrower is experiencing financial difficulty and the modification constitutes a concession. The Corporation offers various types of concessions when modifying a loan; however, forgiveness of principal is rarely granted.

There were no loans modified as a TDR in 2022 or 2021, and no TDRs defaulted within a year of their modification during 2022 or 2021.

(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 $61,749 and $65,497 at December 31, 2022 and 2021, respectively.

The balance of capitalized servicing rights, net of valuation allowance, included in other assets in the consolidated balance sheets at December 31, 2022 and 2021 was $355 and $419, respectively. The fair value of the capitalized servicing rights was approximately $700 and $592 at year-end 2022 and 2021, respectively. The key economic assumptions used in determining the fair value of the loan servicing rights include an annual constant prepayment speed (CPR) of 6.68% and 11.1% for December 31, 2022 and 2021, respectively, and a discount rate of 11.25% and 8.0% for December 31, 2022 and 2021.

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

	2022	2021
Loan-servicing rights capitalized	$ 61	$ 185
Loan-servicing rights amortized and closed	125	131

NOTE 5 – PREMISES AND EQUIPMENT

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

	2022	2021
Buildings and improvements	$ 4,665	$ 5,067
Furniture and fixtures	2,652	4,518
Vault and equipment	375	375
Automobiles	91	81
Land	667	667
	8,450	10,708
Accumulated depreciation	(5,376)	(7,952)
Premises and equipment, net	$ 3,074	$ 2,756

Depreciation expense for the years ended December 31, 2022 and 2021 amounted to $317 and $509, respectively.

NOTE 6 - DEPOSITS

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

	2022	2021
NOW accounts	$ 123,521	$ 103,955
Savings	54,278	58,032
Money market demand	5,081	7,793
Time		
Under $250	33,866	20,221
$250 and over	4,037	2,650
Total interest-bearing deposits	$ 220,783	$ 192,651

(Continued)

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

NOTE 6 – DEPOSITS (Continued)

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

2023	$ 16,182
2024	10,408
2025	6,131
2026	740
2027	4,442
	$ 37,903

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 $5,967 and $7,874 in 2022 and 2021 respectively. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction and are secured by mortgage-backed securities with a fair value of approximately $5,129 and $7,017 and collateralized mortgage obligation securities with a fair value of approximately $3,318 and $4,522.

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 $14,156 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 4.50% as of December 31, 2022). Outstanding advances at December 31, 2022 and 2021 were $5,000 and $0, respectively.

NOTE 8 – FEDERAL HOME LOAN BANK ADVANCES

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 $21,478 and $16,385 of real estate - residential loans as of December 31, 2022 and 2021, respectively. Advances outstanding as of December 31, 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.

(Continued)

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

NOTE 9 – INCOME TAXES

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

	2022	2021
Deferred tax assets		
Allowance for loan losses	$ 457	$ 457
Accrued employee benefits	345	328
Nonaccrual loans	60	62
Foreclosed assets	1	4
Deferred loan fees	-	43
Net unrealized loss on securities available for sale	2,286	-
Other	54	81
	3,203	975
Deferred tax liabilities		
Prepaid assets	24	43
Servicing rights	75	88
Depreciation	143	142
Other	23	15
	265	288
Net deferred tax assets	$ 2,938	$ 687

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

	2022	2021
Current	$ 155	$ 503
Deferred – continuing temporary differences	35	(128)
	$ 190	$ 375

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:

	2022	2021
Income before income taxes	$ 2,221	$ 2,620
Income tax expense at federal statutory rate	$ 466	$ 550
Increases resulting from nondeductible expenses	3	2
Decreases resulting from nontaxable income	(198)	(210)
Other	(81)	33
	$ 190	$ 375

At December 31, 2022 and 2021, 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, 2022 or 2021. The Corporation is subject to U.S. federal income tax and is no longer subject to examination by the taxing authorities for years before 2019.

(Continued)

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

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, 2022 and 2021 were $86 and $62, respectively.

NOTE 11 – STOCK-BASED COMPENSATION

Options: As of December 31, 2022, the Corporation has four 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, and 2014 Stock Incentive Plan (the "Plans"), permit the grant of stock options for up to 15,000 shares, 25,000 shares, 35,000 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 entity'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 approximately $19 and $16 for 2022 and 2021, respectively. As of December 31, 2022, there were 2,418 shares available for grant in the 2014 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.

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 2022 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	3.41%
Expected term (in years)	7
Risk free rate	3.56%

(Continued)

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

NOTE 11 – STOCK-BASED COMPENSATION (Continued)

A summary of option activity under the Plans for 2022 presented below:

	Number of Shares	Weighted Average Exercise Price
Options outstanding – beginning of year	44,612	$ 54.11
Options granted	3,700	64.00
Options exercised	(16,733)	51.76
Options forfeited	-	-
Options expired	-	-
Options outstanding – end of year	31,579	$ 56.08
Exercisable at year end	26,996	$ 55.02

The grant-date fair value of options granted during 2022 was $5.55 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 $64 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, 2022). The aggregate intrinsic value on outstanding options as of December 31, 2022, was approximately $250. The weighted average remaining contractual term (in years) for options outstanding as of December 31, 2022, was 6.15 years.

As of December 31, 2022, there was approximately $17 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 1.72 years.

Restricted Share Units: In 2022 and 2021, no restricted shares were awarded to any employees in accordance with the 2014 Stock Incentive Plan. During 2022 and 2021, 0 and 600 restricted share awards were forfeited, respectively. All restricted share units vest 3 years from the date of award. Expense recognized in 2022 and 2021 was $0 and $(21), respectively. As of December 31, 2022, there are no unvested restricted shares.

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.

(Continued)

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

NOTE 12 – OFF-BALANCE-SHEET ACTIVITIES (Continued)

At December 31, 2022 and 2021, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2022	2021
Commitments to grant loans	$ 5,290	$ 6,725
Unfunded commitments	23,562	27,223
Commercial and standby letters of credit	53	187

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.

Legal Contingencies: Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Corporation's consolidated financial statements.

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.

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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 available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2022, the Company 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.

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 8.5% as of December 31, 2021 and 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 of 7.5% as of December 31 2021 and 8% thereafter.

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, 2022, both the Company 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 Regulations (CBLR Framework)	
	Amount	Ratio	Amount	Ratio
2022				
Tier 1 capital (to average assets)	$ 29,030	9.1%	$ 28,618	9.0%
2021				
Tier 1 capital (to average assets)	$ 26,903	9.0%	$ 25,307	8.5%

(Continued)

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

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, 2022 and 2021 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.

Assets Measured on a Recurring Basis

Assets measured at fair value on a 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)
Securities available for sale:			
U.S. Government and federal agency	$ 17,124	$ 12,371	$ -
State and municipal	-	39,926	-
Time deposits with other financial institutions	-	5,006	-
Mortgage-backed securities	-	31,397	-
Collateralized mortgage obligations	-	9,998	-
Total securities available for sale	$ 17,124	$ 98,698	$ -

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

NOTE 15 – FAIR VALUE MEASUREMENTS (Continued)

	Fair Value Measurements at December 31, 2021:		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available for sale:			
U.S. Government and federal agency	$ 18,732	$ 13,566	$ -
State and municipal	-	40,179	-
Time deposits with other financial institutions	-	3,290	-
Mortgage-backed securities	-	32,121	-
Collateralized mortgage obligations	-	10,726	-
Total securities available for sale	$ 18,732	$ 99,882	$ -

At December 31, 2022 and 2021, 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 impaired loans and foreclosed assets.

The fair value of collateral dependent impaired loans with specific allocations of the allowance for loan 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 initial recognition of 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 impaired 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.

(Continued)

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

NOTE 15 – FAIR VALUE MEASUREMENTS (Continued)

Assets Measured on a Non-Recurring Basis

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.

	Fair Value Measurements at December 31, 2021:		
	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	$ -	$ -	$ 1,544

Impaired loans measured had a carrying value of $1,755 at year-end 2021 before a valuation allowance of $211. 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 10.7% being applied to available appraisal data to estimate fair value.