Always Here. For Good.

2022 ANNUAL REPORT

Calvin B. Taylor Bankshares, Inc.

2022 ANNUAL REPORT

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In Memoriam

HALE HARRISON

Board of Directors 1975 - 2022

Hale Harrison passed away Monday, October 17, 2022 at age 75. He was born in Berlin and was the son of the late G. Hale Harrison and Lois Carmean Harrison.

Hale graduated from Stephen Decatur High School in 1965. He attended the University of Maryland at College Park, where he studied business and agriculture, and was a member of the Phi Delta Theta fraternity. After two years of college, Hale returned to Ocean City to operate the family hotel business. Hale was integral in growing the family hotel/restaurant business known today as the Harrison Group Resort Hotels and Restaurants. In addition to his family hotel enterprise, Hale owned and maintained numerous acres of farmland in Worcester County.

A public servant, Hale was a former Ocean City Councilman and the former Chairman of the Planning and Zoning Commission for the Town of Ocean City. Hale was elected to the Board of Directors of Taylor Bank on January 8, 1975. He served for 47 years on the Board of Directors for Taylor Bank, and was elected Chair of the Board of Taylor Bank in December 2020. During his time on the Taylor Bank Board, Hale was proud to declare that he was the youngest to join in 1975, and the longest to serve. He also served on the Atlantic General Hospital Board of Trustees. He was a member of the Berlin Heritage Foundation, Ocean City Chamber of Commerce as well as a member of the Young Presidents Organization, now known as World Presidents Organization.

During his 47 years of service on our Board, Hale was the bank's in-house expert on the Ocean City tourism industry. An outstanding business and civic leader, Hale' sharp business acumen combined with his quiet way endeared him to all who know him. We will miss his exceptional leadership as our Board Chair. He was extremely proud of or bank, and our bank employees.

Hale is survived by his wife, Alberta Smith Harrison of Ocean City and their son G. Hale Harrison of Berlin. He had two grandchildren, Haven Harrison and Hunter Harrison, whom he loved and adored. He is also survived by his brother, John H. Harrison, and his wife Karen of Berlin; and his sister, Helen H. Faucette and her husband Richard, of Ormond Beach Florida. He will be remembered by many cousins, nieces, nephews and dear friends.

DEAR STOCKHOLDER,

We are pleased to present the annual financial report of Calvin B. Taylor Bankshares, Inc., and its subsidiary, Calvin B. Taylor Bank. Financial results for 2022, as compared to those from 2021, are presented in the reports and comments that follow.

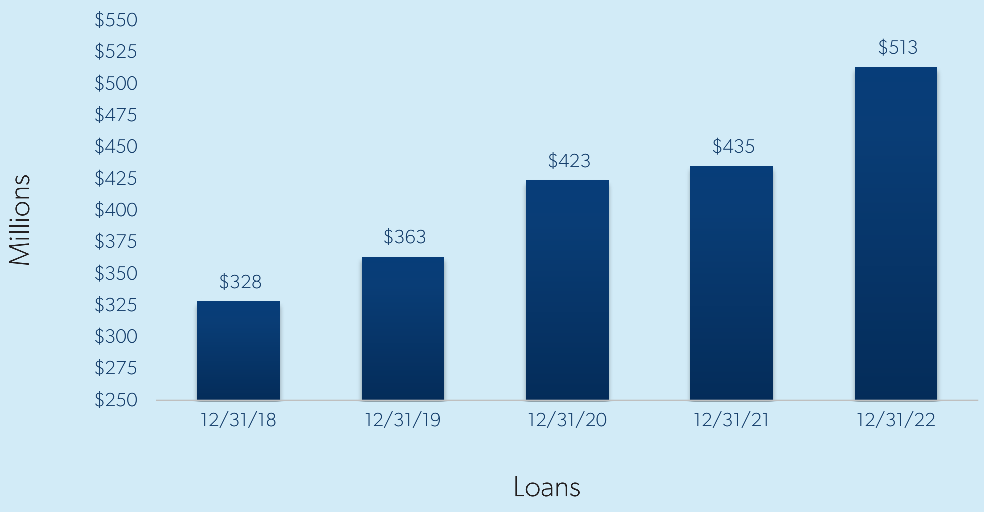
2022 Financial Highlights:

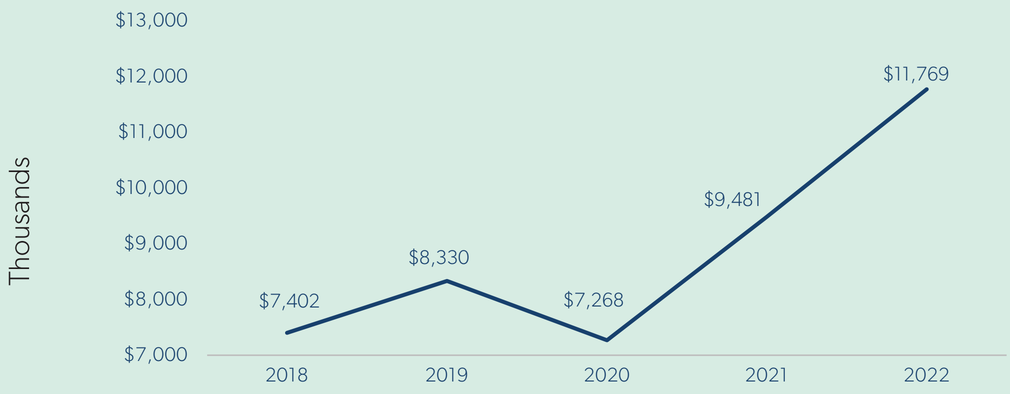
- Total assets increased to $905,940,143 or 0.2% over 2021.
- Total deposits increased to $809,008,459 or 0.7% over 2021.
- Total loans increased to $513,025,696 or 18.0% over 2021.
- Net income increased 24.1% to $11,769,345 and ranked 10th in total profitability among the 33 banks and thrifts headquartered in Maryland in 2022, regardless of asset size.
- The Bank's Efficiency Ratio was 46.86% for 2022 and ranked 5th best among the 33 banks and thrifts headquartered in Maryland in 2022 regardless of asset size.

The Company's financial condition remained strong in 2022. Total assets were $905.9 million at December 31, 2022, which is an increase of $1.5 million over 2021. While the company continued to experience organic growth in 2022, a slowdown in the asset growth rate was anticipated following the expiration of COVID-19 related stimulus programs the previous year. The increase in total assets was directly attributable to growth in deposits, which increased to $809.0 million as of December 31, 2022, a $5.7 million increase over 2021.

Total loans increased $78.1 million to $513.0 million as of December 31, 2022, an increase of 18.0%. Loan demand in 2022 is attributed to strong local market conditions, and borrowers seeking to lock in lower interest rates as the Federal Reserve engaged in a series of aggressive interest rate increases during the year.

While the cost of credit became more expensive for consumer and commercial borrowers, higher interest rates positively impacted the Company's earnings in 2022. Net income increased to $11.7 million in 2022 as compared to $9.5 million in 2021. Loan growth accompanied with higher yields on securities and fed funds sold resulted in a $4.7 million, or 21.8% increase in net interest income. The growth rate in net income outpaced the growth rate of average assets, which increased Return on Average Assets ("ROAA") to 1.27% in 2022 as compared to 1.15% in 2021. The





Net Income

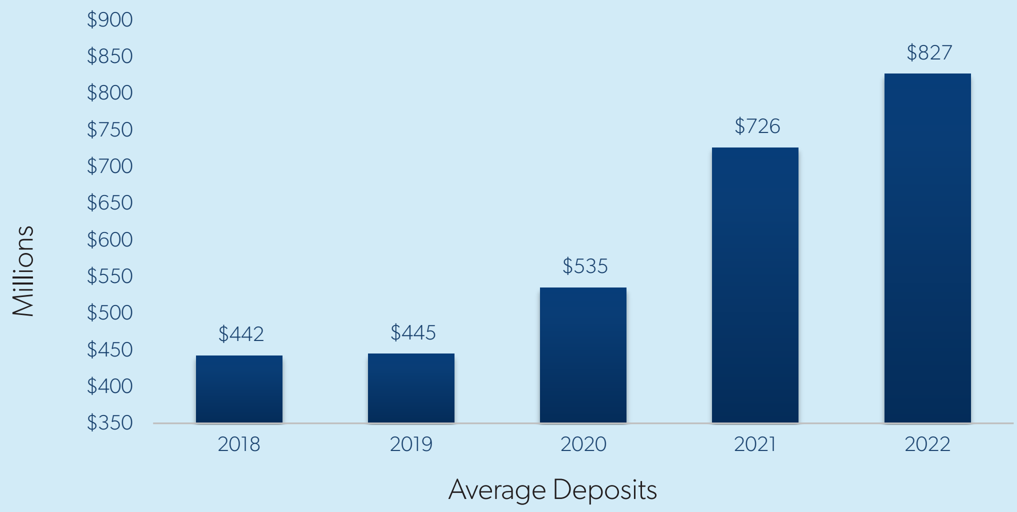
Bank's ROAA in 2022 was 8th best among the 33 banks and thrifts headquartered in Maryland, regardless of asset size. The growth rate in net income also outpaced the growth rate in equity during 2022, which resulted in an increase in Return on Average Stockholder's Equity to ("ROAE") to 12.32% in 2022 as compared to 9.70% in 2021.

Due to the increase in net income, earnings per share increased to $4.26 in 2022 as compared to $3.43 in 2021. The Company continued to repurchase stock in 2022, repurchasing 1,720 shares during the year. The Board of Directors has authorized stock repurchases as a strategic use of the Company's capital. Repurchases are immediately accretive to stockholder value, and may continue as dictated by the Company's overall financial condition. Regular quarterly dividends declared in 2022 totaled $1.26 per share, which represents an increase of $0.10 per share, or 8.6%, compared to 2021 dividends.

The Company and the Bank remain highly capitalized. The Company's average stockholder's equity to average assets ratio was 10.30% in 2022. Capital adequacy is measured by the Community Bank Leverage Ratio (CBLR), a more simplified regulatory measurement for qualifying community banking organizations. A qualifying community banking organization is defined as having less than $10 billion in total consolidated assets, and a leverage ratio of greater than 9.0%. As of December 31, 2022, the leverage ratio of the Company and Bank was 11.4% and 11.2%, respectively.

From December 31, 2019 to December 31, 2022, total assets of the Company grew by $357.9 million, which represents an average annual growth rate of 19.0%. This compares to a prior 10-year average annual growth rate of 3.9%. As a result of federal stimulus, U.S. bank balance sheets have been resized. Largely unplanned growth, banks nationwide are now grappling with ways to preserve the unprecedented and low cost surge in growth during this period.

Each summer I visit with our branch and department personnel to provide a mid-year update on the bank's performance and key initiatives. During my visits this year, we discussed how the past three years have permanently reshaped our industry, and our bank, but more importantly, how this period has reshaped our customer's expectation of their banking experience. In response to these evolving expectations, I am pleased to report that in April 2022, we launched Tally by Taylor Bank, our branded and redesigned online and mobile banking platform. This innovative upgrade has made it easier for our customers to more securely access expanded digital banking services, and manage their finances through the convenience of their digital device. In August 2022, we launched our online residential mortgage portal, providing applicants the ability to apply for a residential mortgage without having to visit a branch location.



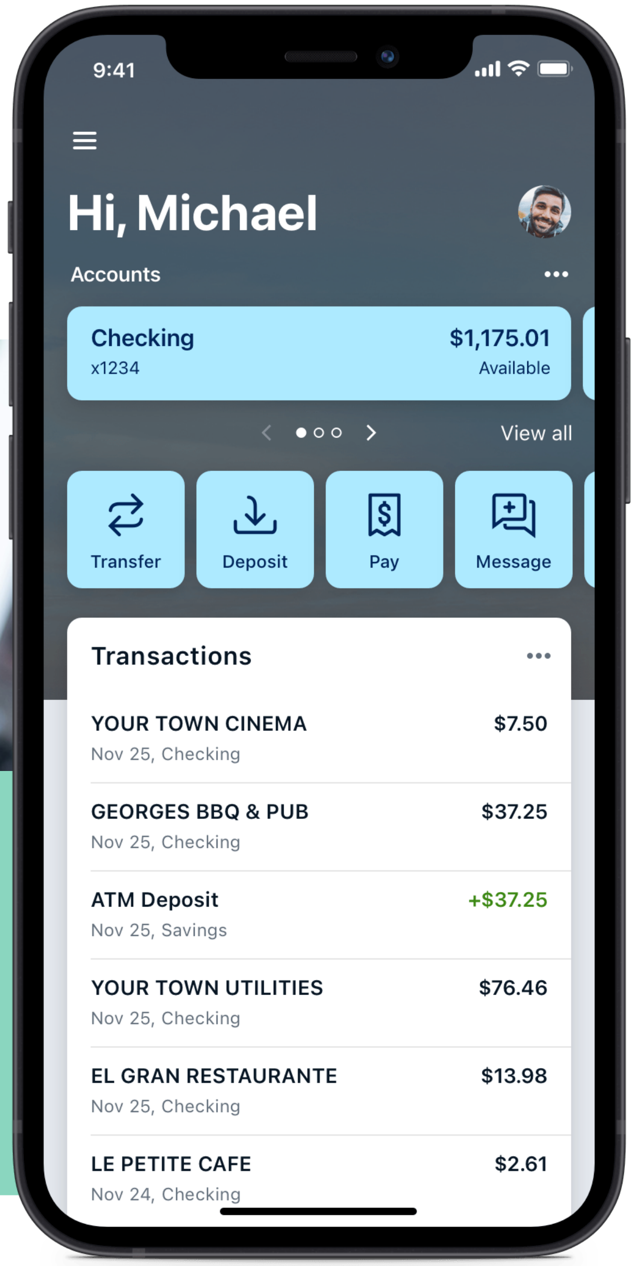
In 2023, our customers will have access to a more secure digital service for person-to-person ("P2P") payment processing. Also in the coming months, and in keeping with our commitment to support and prosper the communities we serve, look for a new personal checking account that will enable the bank to donate to local non-profit organizations based on customer's debit card usage. While high touch banking will always be the cornerstone of the Taylor Bank banking experience, 2022 proved that expanded digital offerings lead to efficient customer engagements, deeper customer relationships, consistent core earnings, and value for our stockholders.

As our 2022 financial results confirm, Taylor Bank remains a high performing bank locally, regionally, and nationally relative to peers. On behalf of the Board of Directors, and an outstanding family of bank employees, thank you for your continued support. If I can ever be of assistance to you, should you have any questions, or wish to discuss any information contained in this financial report, please do not hesitate to contact me at 410-641-1700, or at rthompson@taylorbank.com

Sincerely,

Raymond M. Thompson
President and Chief Executive Officer

DIGITAL ENHANCEMENTS



A whole new way to bank

We continue to evolve our digital channels in pursuit of providing the best customer experience possible. In April, we launched Tally by Taylor Bank, our fully upgraded digital banking experience, featuring new and enhanced digital tools and secure chat functionality.

Simplifying the mortgage process

We launched Mortgagebot to help customers easily find a loan officer and apply for a mortgage on our website.

IN THE COMMUNITY

Find Taylor Bank all over the Eastern Shore - sponsoring local events, honoring outstanding students, providing financial support for worthy causes, and delivering financial literacy education programs.

Supporting the bright futures of local students

The Calvin B. Taylor Memorial Scholarship awards $1,000 towards continuing education expenses to 3 area high school seniors. Taylor Bank is proud to recognize the 2022 recipients: Lauren Hall, Collin Wright and Makenzy Marvel.

Dr. Ray Hoy, President, and Stefanie Rider, Executive Director of the Foundation at Wor-Wic Community College, accept a donation of $50,000 in support of the college's Preparing For a Stronger Tomorrow campaign, from RayThompson, Taylor Bank President and CEO.

Taylor Bank Vice President Wes McCabe, Vice President Lee Chisholm, and Assistant Vice President Cory Walsh present the Ocean Pines Golf Members' Council, represented by Steve House, a $2,000 donation for the annual Taylor Bank Junior Golf Scholarship Tournament.

BOARD OF DIRECTORS

Raymond M. Thompson

Thomas K. Coates

Louis H. Taylor

Todd E. Burbage

Reese F. Cropper, III

James R. Bergey, III

James R. Bergey, Jr.

M. Dean Lewis

G. Hale Harrison

Charlotte K. Cathell

John P. Custis
Not pictured

Directors Emeriti

Richard L. Bunting

John H. Burbage, Jr.

Reese F. Cropper, Jr.
Chairman Emeritus

William H. Mitchell

Joseph E. Moore

Michael L. Quillin, Sr.

OFFICERS AND MANAGERS

EXECUTIVE OFFICERS

M. Dean Lewis
Senior Vice President and Chief Financial Officer

Tina B. Kolarik
Executive Vice President and Chief Operating Officer

Raymond M. Thompson
President and Chief Executive Officer

Douglass M. Cook
Executive Vice President and Chief Lending Officer

BRANCH MANAGEMENT

C. Ray Daisey
Assistant Vice President, Manager of Pocomoke Branch

Casey E. Robinson
Assistant Vice President, Manager of Ocean Pines Branch

Sherry Tarr
Vice President, Relationship Officer, Manager of Chincoteague Branch

Catrina Satchell
Manager of Snow Hill Branch

Shannon Lewis
Assistant Vice President, Relationship Officer, Branch Manager of Onley Branch

Doreen Angelo
Assistant Vice President, Relationship Officer, Branch Manager of Ocean View Branch

Lisa Caldwell
Operations Supervisor of West Ocean City Branch

Heather Godwin
Assistant Vice President, Relationship Officer, Regional Manager of Ocean Landing and South Ocean City Branch

Jennifer W. Scott
Assistant Vice President,Manager of Main Office

Debbie Rickards
Manager of North Ocean City Branch

LENDING AND BUSINESS DEVELOPMENT

COMPLIANCE

Lee I. Chisholm
Vice President
Loan and Business Development Officer

Adam James
Vice President
Loan and Business Development Officer

Kathy M. Warren
Loan Operations Manager

Scott P. Williams
Assistant Vice President
Credit Administrator

Cory B. Walsh
Assistant Vice President
Loan and Business Development Officer

V. Wesley McCabe, III
Vice President
Loan and Business Development Officer

Atif Gaddis
BSA Officer

Carolynn Vogel
Compliance Officer and Internal Auditor

OPERATIONS AND ADMINISTRATION

Sandy H. Duncan
Vice President
Deposit Operations Manager

Hanna Ford
Project Manager

Jen Figgs
Branch Administration Assistant

Andrea Adams
Senior Vice President
Director of Branch Administration

Tori C. Grundman
Assistant Vice President
Marketing Director

Lori A. Simon
Vice President,
Staff Development/Training Coordinator,
CRA Officer

Kathleen J. Allam
Vice President,
Director of IT and Security

Cindy Meyer
Assistant Vice President
Director of Human Resources

Eureka Herring
Electronic Services Manager

Ray Robinson
Senior Vice President of Branch Operations

LOCATIONS

- ★ Berlin Main Office
- 1 Ocean View
- 2 North Ocean City/Fenwick
- 3 Midtown Ocean City
- 4 Ocean City 20th Street
- 5 West Ocean City
- 6 Ocean Pines
- 7 Ocean Landing
- 8 Snow Hill
- 9 Pocomoke
- 10 Chincoteague
- 11 Onley

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
Calvin B. Taylor Bankshares, Inc.
Berlin, Maryland

Opinion

We have audited the consolidated financial statements of Calvin B. Taylor Bankshares, Inc. and Subsidiary (the Company), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of their operations and their 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 audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Other Information Included in the Annual Report

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

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

Yount, Hyde & Barbour, P.C.

Roanoke, Virginia
March 14, 2023

CONSOLIDATED BALANCE SHEETS

	December 31, 2022	December 31, 2021
Assets		
Cash and cash equivalents		
Cash and due from banks	$ 9,060,252	$ 8,112,063
Federal funds sold and interest-bearing deposits	133,316,028	282,150,728
Total cash and cash equivalents	142,376,280	290,262,791
Time deposits in other financial institutions	1,225,953	3,478,221
Debt securities available for sale, at fair value	167,934,059	128,654,564
Debt securities held to maturity, at amortized cost (fair value - $36,962,279 as of December 31, 2022 and $13,909,651 as of December 31, 2021)	39,110,156	13,967,244
Equity securities, at cost	748,833	748,833
Restricted stock, at cost	469,500	355,000
Loans	513,025,696	434,866,477
Less: allowance for loan losses	(2,624,369)	(1,998,728)
Net loans	510,401,327	432,867,749
Accrued interest receivable	2,036,468	1,701,446
Debt securities sold receivable	1,789,635	-
Prepaid expenses	730,891	645,725
OREO	-	-
Premises and equipment, net	12,751,025	12,904,446
Computer software, net	238,009	342,148
Deferred income taxes, net	4,467,476	-
Bank owned life insurance and annuities	21,398,096	18,223,348
Other assets	262,435	327,721
Total assets	$ 905,940,143	$ 904,478,786
Liabilities and Stockholders' Equity		
Deposits		
Noninterest-bearing	$ 265,805,939	$ 283,096,833
Interest-bearing	543,202,520	520,148,789
Total deposits	809,008,459	803,245,622
Accrued interest payable	75,438	26,029
Dividends payable	910,483	800,620
Accrued expenses	703,052	623,132
Deferred compensation and supplemental retirement benefits	693,249	645,716
Deferred income taxes, net	-	6,759
Other liabilities	325,215	41,992
Total liabilities	811,715,896	805,389,870
Stockholders' equity		
Common stock, par value $1 per share; authorized 10,000,000 shares; 2,759,040 and 2,760,760 issued and outstanding as of December 31, 2022 and 2021	2,759,040	2,760,760
Additional paid-in capital	2,337,456	2,398,533
Retained earnings	102,963,224	94,670,987
Accumulated other comprehensive loss, net of deferred income tax	(13,835,473)	(741,364)
Total stockholders' equity	94,224,247	99,088,916
Total liabilities and stockholders' equity	$ 905,940,143	$ 904,478,786

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF INCOME

	For the Year Ended December 31 2022	2021
Interest income		
Loans, including fees	$ 21,423,142	$ 20,743,244
U.S. Treasury and government agency debt securities	1,041,598	316,116
Mortgage-backed debt securities	1,826,957	763,388
State and municipal debt securities	412,724	204,809
Federal funds sold and interest-bearing deposits	3,262,234	296,319
Time deposits in other financial institutions	34,842	139,461
Total interest income	28,001,497	22,463,337
Interest expense		
Deposits	1,598,166	783,110
Net interest income	26,403,331	21,680,227
Provision for loan losses	105,000	125,000
Net interest income after provision for loan losses	26,298,331	21,555,227
Noninterest income		
Debit card and ATM	1,449,508	1,394,789
Service charges on deposit accounts	949,622	776,076
Merchant payment processing	490,147	454,985
Income from bank owned life insurance and annuities	399,518	362,890
Income from bank owned life insurance death proceeds	410,684	622,455
Dividends	64,879	57,746
Gain (loss) on disposition of investment securities	(649,515)	50,869
Loss on disposition of fixed assets	(20,541)	(24,564)
Miscellaneous	374,089	354,367
Total noninterest income	3,468,391	4,049,613
Noninterest expenses		
Salaries	6,289,401	5,751,045
Employee benefits	1,631,081	1,856,256
Occupancy	1,022,060	925,648
Furniture and equipment	802,919	777,574
Data processing	855,900	727,825
Debit card and ATM	635,243	545,657
Marketing	460,015	304,173
Director fees	312,350	311,650
Telecommunication services	316,534	328,468
Deposit insurance premiums	248,288	217,306
Other operating	1,727,586	1,467,571
Total noninterest expenses	14,301,377	13,213,173
Income before income taxes	15,465,345	12,391,667
Income taxes	3,696,000	2,911,000
Net Income	$ 11,769,345	$ 9,480,667
Earnings per common share - basic and diluted	$ 4.26	$ 3.43

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	For the Year Ended December 31	
	2022	2021
Net income	$ 11,769,345	$ 9,480,667
Other comprehensive loss		
Net unrealized loss on available for sale debt securities of:		
Unrealized holding loss of $18,141,710, net of deferred income tax benefit of $4,555,944	(13,585,766)	
Reclassification adjustment for net realized losses included in net income of $656,533, net of income tax benefit of $164,876	491,657	
Unrealized holding loss of $2,028,246, net of deferred income tax benefit of $517,568		(1,510,678)
Reclassification adjustment for net realized gains included in net income of $50,869, net of income tax expense of $12,980		(37,889)
Total other comprehensive loss	(13,094,109)	(1,548,567)
Total comprehensive income (loss)	$ (1,324,764)	$ 7,932,100

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss), net of tax	Total stockholders' equity
	Shares	Par value				
Balance at December 31, 2020	2,772,932	$ 2,772,932	$ 2,808,195	$ 88,396,800	$ 807,203	$ 94,785,130
Net income	-	-	-	9,480,667	-	9,480,667
Other comprehensive loss, net of income tax	-	-	-	-	(1,548,567)	(1,548,567)
Common shares repurchased	(12,172)	(12,172)	(409,662)	-	-	(421,834)
Cash dividend declared ($1.16 per share)	-	-	-	(3,206,480)	-	(3,206,480)
Balance at December 31, 2021	2,760,760	2,760,760	2,398,533	94,670,987	(741,364)	99,088,916
Net income	-	-	-	11,769,345	-	11,769,345
Other comprehensive loss, net of income tax	-	-	-	-	(13,094,109)	(13,094,109)
Common shares repurchased	(1,720)	(1,720)	(61,077)	-	-	(62,797)
Cash dividend declared ($1.26 per share)	-	-	-	(3,477,108)	-	(3,477,108)
Balance at December 31, 2022	2,759,040	$ 2,759,040	$ 2,337,456	$ 102,963,224	$ (13,835,473)	$ 94,224,247

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2022	December 31, 2021
Cash flows from operating activities		
Net Income	$ 11,769,345	$ 9,480,667
Adjustments to reconcile net income to net cash provided by operating activities		
Premium amortization and discount accretion	627,443	769,325
Loss (gain) on disposition of investment securities	649,515	(50,869)
Provision for loan losses	105,000	125,000
Depreciation and amortization	943,882	963,237
Loss on disposition of premises, equipment, and software	20,541	24,564
Income from bank owned life insurance and annuities	(399,518)	(407,501)
Income from bank owned life insurance death proceeds	(410,684)	(622,455)
Accrued and deferred income taxes	77,423	393,548
Decrease (increase) in		
Deferred loan fees and costs, net	(41,942)	(113,035)
Accrued interest receivable	(335,022)	700,776
Other assets	(154,232)	339,385
Increase in other liabilities	436,960	173,281
Net cash provided by operating activities	13,288,711	11,775,923
Cash flows from investing activities		
Time deposits matured, net of purchases	2,248,000	5,250,000
Available for sale debt securities		
Sales	12,952,904	10,149,255
Maturities, prepayments and calls	17,878,714	27,161,328
Purchases	(90,693,204)	(96,571,247)
Held to maturity debt securities		
Maturities, prepayments and calls	-	7,000,000
Purchases	(25,115,340)	(14,991,229)
Loans originated, net of principal reductions	(77,596,636)	(11,248,399)
Liquidating distribution from equity security	7,018	-
Purchases of restricted stock, at cost	(114,500)	-
Redemption of restricted stock, at cost	-	136,400
Proceeds from sale of premises and equipment	60	3,449
Purchases of premises, equipment and computer software	(706,923)	(897,098)
Bank owned life insurance death proceeds	1,312,710	1,269,418
Purchase of bank owned life insurance	(3,680,821)	(5,057,031)
Net cash used by investing activities	(163,508,018)	(77,795,154)

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS CONT.

	Years Ended	
	December 31, 2022	December 31, 2021
Cash flows from financing activities		
Net increase (decrease) in		
Time deposits	(141,665)	8,236,755
Other deposits	5,904,503	180,571,787
Common shares repurchased	(62,797)	(421,834)
Dividends paid	(3,367,245)	(3,210,010)
Net cash provided by financing activities	2,332,796	185,176,698
Net increase (decrease) in cash and cash equivalents	(147,886,511)	119,157,467
Cash and cash equivalents at beginning of year	290,262,791	171,105,324
Cash and cash equivalents at end of year	$ 142,376,280	$ 290,262,791

Supplemental disclosure of cash flow information

Cash payments for:		
Interest	$ 1,548,757	$ 783,918
Income taxes	$ 3,613,696	$ 2,517,452

The accompanying notes are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Calvin B. Taylor Bankshares, Inc. (the "Company") is the bank holding company for Calvin B. Taylor Banking Company of Berlin, Maryland (the "Bank"), a full-service commercial bank which offers a wide range of loan, deposit and ancillary banking services through both physical and digital delivery channels. The Company has 12 banking locations within the eastern coastal area of the Delmarva Peninsula including Worcester County, Maryland, Sussex County, Delaware and Accomack County, Virginia.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation. The accounting and reporting policies reflected in these financial statements conform to accounting principles generally accepted in the United States of America and to general practices within the financial services industry. Certain reclassifications have been made to prior period amounts to conform to current period presentation.

Subsequent Events

The Company has evaluated subsequent events for potential recognition and/or disclosure through March 14, 2023, which is the date the financial statements were available to be issued.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions may affect the reported amounts of income and expenses during the reporting period. Actual results could differ from these estimates. The allowance for loan losses, and the valuation of debt and equity securities are estimates that can be subject to significant change.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold and interest-bearing deposits except for time deposits in other financial institutions. Amounts on deposit with other banks can exceed deposit insurance coverage provided by the Federal Deposit Insurance Corporation ("FDIC"). Federal funds sold are not deposits but uncollateralized overnight loans to other banks. Management regularly evaluates credit risk associated with these banks and has not identified any significant credit risks.

Time Deposits in Other Financial Institutions

Purchases of time deposits in other financial institutions are at or below the FDIC insurance limit and are recorded at cost. The recorded cost is adjusted for amortization of premiums and accretion of discounts to the maturity date using the effective interest method. Interest income from time deposits in other financial institutions includes amortization of purchase premiums and accretion of discounts.

Securities

As debt securities are purchased, management determines if the debt securities should be classified as held to maturity or available for sale. Debt securities are classified as held to maturity when management has the ability and positive intent to hold the securities until maturity. All debt securities are recorded at cost on the trade date. The recorded cost is adjusted for amortization of premiums and accretion of discounts to the maturity date using the effective interest method. Premiums on callable debt securities are amortized to the earliest call date. Interest income from debt securities includes amortization of purchase premiums and accretion of discounts. Held to maturity debt securities are carried at amortized cost. Debt securities classified as available-for-sale are carried at fair value with unrealized gains or losses reported as other comprehensive income (loss), net of income tax. Unrealized gains and losses are based on the difference between amortized cost and fair value of the debt securities. Gains and losses on disposal of debt securities are determined using the specific-identification method and are based on the amortized cost of the security sold.

Debt securities with fair values below their amortized cost are evaluated for other than temporary impairment ("OTTI") at each reporting period or more frequently if warranted. In estimating OTTI losses, management considers the length of time and the extent to which the fair value has been less than amortized cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to hold the debt security for a period of time sufficient to allow for recovery of its amortized cost. The amount of OTTI resulting from credit loss is recognized in net income while OTTI related to other factors is recognized in other comprehensive income (loss).

Marketable equity securities are measured at fair value with changes in fair value recognized in net income. Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment. Impairment is assessed at each reporting period by performing a review of impairment indicators such as a significant deterioration in the earnings performance, credit rating, asset quality or business prospects of the investee. Management also considers significant adverse change in the regulatory, economic, or technological environment of the investee and other factors that jeopardize the investee's ability to continue as a going concern. No impairment was noted in the years ending December 31, 2022 or 2021.

The Bank is a member of the Federal Home Loan Bank ("FHLB") system which requires that members purchase FHLB stock based on the Bank's total assets, levels of FHLB borrowings and other factors. FHLB stock is reported as equity securities without readily determinable fair values and is carried at cost. FHLB stock is a restricted security and is periodically evaluated based on ultimate recovery of par value. Cash dividends are reported as income when declared.

Loans
Loans are reported at their outstanding principal amounts net of any partial charge-offs, non-accrual interest paid, and unamortized deferred origination costs and fees. Certain direct loan origination costs, net of loan origination fees, are deferred and recognized as an adjustment to interest income using the straight-line method over the life of the loan without anticipating prepayments. Managment believes straight-line recognition approximates recognition using the interest method.

A loan is considered to be past due when principal or interest due in accordance with the contractual terms of the loan agreement is not paid in its entirety on or before the payment date. The accrual of interest is generally discontinued when principal or interest is 90 days past due or when the loan is determined to be impaired, unless collateral is sufficient to discharge the debt in full and the loan is in the process of collection. When a loan is placed on nonaccrual, any interest previously accrued but unpaid is reversed from interest income. Interest payments received on nonaccrual loans are generally recorded as a reduction of principal, but on a loan by loan basis may be recorded as cash basis income based on management's judgment. Accrual of interest may be restored when all principal and interest are current and management believes that future payments will be received in accordance with contractual loan terms.

Concentrations of Credit Risk
A majority of the Company's lending activity is with customers located in the coastal resort areas of the Delmarva Peninsula. Credit risk is significantly affected by changes in the tourism-based economy in this area including weather-related impacts.

Allowance for Loan Losses
The allowance for loan losses represents an estimate of probable loan losses which management determines as adequate to absorb identified and inherent losses in the loan portfolio as of the balance sheet date. The determination of the allowance is inherently subjective as it relies on estimates of potential loss related to specific impaired loans, the effects of portfolio trends, and other internal and external factors.

The allowance consists of specific and general components. The general component is based upon historical loan loss experience and adjusted for internal and external factors. In determining an adequate level for the allowance, management considers historical loan loss experience for major types of loans. However, historical data may not be an accurate estimate of losses in the current loan portfolio. Management reviews the current portfolio giving consideration to impaired loans, delinquencies, the composition of the portfolio, concentrations of credit, and changes in lending products, underwriting standards, or staffing. Management considers external factors such as the interest rate environment, competition, current local and national economic trends, and the results of recent assessments by banking regulators and independent loan reviews. Management considers particular characteristics associated with each segment of the loan portfolio when performing these reviews. These characteristics are detailed below:

- Commercial loans not secured by real estate, carry risks associated with the successful operations of a business, and the repayments of these loans depend on the profitability and cash flows of the business. Additional risk relates to the value of collateral where depreciation occurs and the valuation is less precise.
- Loans secured by commercial real estate also carry risks associated with the success of the business and the business and the ability to generate a positive cash flow sufficient to service debts. Real estate security diminishes risks only to the extent that a market exists for the subject collateral.
- Consumer loans carry risks associated with the continued creditworthiness of the borrower and the value of the collateral, such as, automobiles which may depreciate more rapidly than other assets. In addition, these loans may be unsecured. Consumer loans are more likely than real estate loans to be immediately affected in an adverse manner by job loss, divorce, illness, or personal bankruptcy.
- Real estate secured construction loans carry risks that a project will not be completed as scheduled and budgeted and that the value of the collateral may, at any point, be less than the principal amount of the loan. Additional risks may occur if the general contractor is unable to finish the project as planned due to financial pressures unrelated to the project
- Residential real estate loans carry risk associated with the continued creditworthiness of the borrow and changes in the value of the collateral
- Nonprofit and tax-exempt loans are predominately loans made to municipalities, hospitals, or volunteer fire departments. Municipalities rely on tax collections and volunteer fire departments rely upon grants from municipalities and donations for funding. Hospitals generate cash flow from operations but also rely upon grants and donations. These loans are typically secured by real estate or equipment. The inherent risk of this segment is economic downturn which can decrease tax receipts, grants, and donations.

The specific component relates to allowances established on individually impaired loans. Loans are considered impaired when, based on current information, management concludes that it is unlikely that collection of all principal and interest payments will be made according to contractual terms of the loan agreement. Management may categorize a performing loan as impaired based on knowledge of the borrower's financial condition, devaluation of collateral, agreement to a troubled debt restructuring or other circumstances that are deemed relevant to loan collection. The amount of impairment is measured based on the present value of expected future cash flows discounted at the loan's original interest rate or the net realizable value of the underlying collateral. Management considers an impaired loan to be collateral dependent when repayment of the loan is expected to be provided solely by the underlying collateral. Generally, the recorded investment of a collateral dependent impaired loan in excess of the net realizable value of the underlying collateral is recorded as a charge-off against the allowance for loan losses.

The allowance is increased by current period provisions recorded as expense and by recoveries of amounts previously charged-off. The allowance is decreased when loans are charged-off as losses, which occurs when they are deemed to be uncollectible. Provisions for loan losses are recorded to increase or decrease the allowance to the level established by application of management's allowance methodology, and may result in an increase or decrease to expense.

Other Real Estate Owned ("OREO")
OREO is real estate acquired by any means in full or partial satisfaction of a loan. OREO is recorded at the earlier of foreclosure or physical possession, except for residential real estate. For residential real estate, OREO is recorded upon obtaining legal title to the property at completion of a foreclosure or the borrower conveying all interest to the Company. OREO is initially recorded at net realizable value which is fair value of the property less estimated costs to sell. If net realizable value is less than the carrying value of the related loan at the time of foreclosure, a loan loss is recorded through the allowance for loan losses. Subsequent to foreclosure, the Company periodically reviews net realizable value estimates and records declines in value through noninterest income. Gains or losses resulting from the sale of OREO are also included in noninterest income. Costs to maintain properties, such as maintenance, utilities, taxes and insurance are expensed as they are incurred and included in noninterest expense. No OREO was held as of December 31, 2022 and 2021.

Premises and Equipment
Land is carried at cost. Buildings and improvements, equipment, and furniture are recorded at cost less accumulated depreciation. Depreciation is computed under both straight-line and accelerated methods over the estimated useful lives of the assets. Leasehold improvements are generally depreciated over the lesser of the estimated useful life of the asset or the term of the respective lease.

Bank Owned Life Insurance
The Bank has purchased life insurance policies on certain bank officers. Bank owned life insurance is recorded at the amount that can be realized under the insurance policy at the reporting date, which is the cash surrender value. Changes in the cash surrender value are reported as noninterest income.

Retirement Plans
Employee 401(k) and profit sharing plan expense is the amount of matching contributions. Deferred compensation and supplemental retirement plan expense allocates the benefits over the expected years of service.

Income Taxes
Income tax expense includes income taxes payable or refundable for the current year and deferred income taxes. Deferred income taxes are provided for the temporary differences between carrying amounts and tax bases of assets and liabilities and are measured at the enacted tax rates that will be in effect when the differences reverse. The Company files a consolidated Federal income tax return which includes the Bank. Federal income tax expense or benefit is allocated between the Company and the Bank on a separate return basis.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefits that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with the unrecognized tax benefits are classified as additional income taxes in the Consolidated Statements of Income. As of December 31, 2022 and 2021, the Company has not identified and recorded any uncertain tax positions.

Earnings Per Share
Earnings per common share are determined by dividing net income by the weighted average number of common shares outstanding for the period, which was 2,759,899 and 2,765,824 for the years ended December 31, 2022 and 2021, respectively. There were no dilutive common share equivalents outstanding during the years ended December 31, 2022 and 2021.

Comprehensive Income (Loss)
Comprehensive income (loss) represents the change in stockholders' equity from all sources other than investments by, or distributions to stockholders. Besides net income, the other component of the Company's comprehensive income (loss) is the after tax effect of changes in the net unrealized gain/loss on debt securities available for sale.

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.

Advertising
The Company follows the policy of charging the costs of advertising to expense as incurred. Total advertising expense incurred for 2022 and 2021 was $460,015 and $304,173, respectively.

Accounting Standards

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." in June 2016. ASU No. 2016-13 introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale ("AFS") debt securities. The new model referred to as current expected credit losses ("CECL") model, will apply to: (a) financial assets subject to credit losses and measured at amortized cost, and (b) certain off-balance sheet credit exposures. This includes loans, held to maturity debt securities, loan commitments, and financial guarantees. The estimate of expected credit losses should consider historical information, current information, and supportable forecasts, including estimates of prepayments. The Company adopted ASU 2016-13 as of January 1, 2023 in accordance with the required implementation date and recorded the impact of adoption to retained earnings, net of deferred income taxes, as required by the standard. The adjustment recorded at adoption was not significant as compared to the allowance for loan losses or stockholders' equity as of December 31, 2022. Subsequent to adoption, the Company will record adjustments to its allowance(s) for credit losses through the provision for credit losses in the consolidated statements of income.

The company is utilizing a third-party model to calculate its estimate of current expected credit losses, using an advanced probability of default methodolgy. In accordance with ASU 2016-13, the Company has segmented its loan portfolio based on similar risk characteristics which included call report code and product type. The Company utilizes key economic indicators including by not limited to real GDP, unemployment, and interest rates for its reasonable and supportable forecasting of current expected credit losses. To further adjust the allowance for credit losses for expected losses not already included within the quantitative component of the calculation, the Company may consider the following qualitative adjustment factors: credit concentration risk, loan review processes, and flood risk. The Company's CECL implementation process was overseen by the Allowance for Credit Losses Committee and included an assessment of data availability and gap analysis, data collection, consideration and analysis of multiple loss estimation methodologies, an assessment of relevant qualitative factors and correlation analysis of multiple potential loss drivers and their impact on the Company's historical loss experience. During 2022, the Company calculated its current expected credit losses model in parallel to its incurred loss model in order to further refine the methodology and model.

In March 2022, FASB issued ASU No. 2022-02, "Financial Instruments- Credit Losses (Topic 326), Troubled Debt Restructuring and Vintage Disclosures." ASU 2022-02 addresses areas identified by the FASB as part of its post-implementation review of the credit losses standard (ASU 2016-13) that introduced the CECL model. The amendments eliminate the accounting guidance for troubled debt restructurings by creditors that have adopted the CECL model and enhance the disclosure requirements for loan refinancings and restructuring made with borrowers experiencing financial difficulty. In addition, the amendments require a public business entity to disclose current-period gross write-offs for financing receivables and net investment in leases by year of origination in the vintage disclosures. The amendments in this ASU should be applied prospectively, except for the transition method related to the recognition and measurement of TDRs, an entity has the option to apply a modified retrospective transition method, resulting in a cumulative-effect adjustment to retained earnings in the period of adoption. The Company adopted ASU 2022-02 as of January 1, 2023 in conjunction with the adoption of ASU 2016-13 and elected to apply the modified retrospective transition method with a cumulative-effect adjustment recorded to retained earnings, net of deferred income taxes, as required by the standard. The adjustment recorded at adoption was not significant as compared to the allowance for loan losses or stockholders' equity as of December 31, 2022.

In March 2020, the FASB issued ASU No. 2020-04 "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." These amendments provide temporary optional guidance to ease the potential burden in accounting for reference rate reform. The ASU provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meetings certain criteria, that reference LIBOR or another reference rate expected to be discontinued. It is intended to help stakeholders during the global market-wide reference rate transition period. The guidance is effective for all entitites as of March 12, 2020 through December 31, 2024. Subsequently, in January 2021, FASB issued ASU No. 2021-01 "Reference Rate Reform (Topic 848): Scope:" which clarified that all derivative instruments affected by the changes to interest rates used for discounting, margining or contract price alignment, regardless of whether they reference LIBOR or another rate expected to be discontinued as a result of reference rate reform, an entity may apply certain practical expedients. The Company has identified loans that reference LIBOR and is currently in the process of modifying those loans to establish a new reference rate pursuant to practical expedients of this standard prior to December 31, 2024. The Company also owns adjustable rate mortgage-backed securities issued by U.S. government sponsored agencies that reference LIBOR. The Company does not intend to sell these securities due to the reference rate reform and will monitor chagnes implemented by the U.S. government sponsored agency.

NOTE 2. CASH AND CASH EQUIVALENTS

Regulatory reserve requirements stipulate that the Bank maintain cash on hand or on deposit with the Federal Reserve Bank. Effective March 26, 2020, the Federal Reserve Bank reduced reserve requirement ratios to zero percent which reduces the Bank's reserve requirement to zero. The Bank had $134,493,499 and $285,090,044 of cash on hand and on deposit with the Federal Reserve Bank as of December 31, 2022 and 2021, respectively. The amounts on deposit at the Federal Reserve Bank earn interest. The Company normally carries balances with other banks that exceed the Federal Deposit Insurance Corporation (FDIC) deposit insurance limit of $250,000. Average balances carried in excess of the limit, including unsecured federal funds sold to the same banks, were $2,336,637 for 2022 and $2,762,801 for 2021.

NOTE 3. INVESTMENT SECURITIES

The following table is a comparison of amortized cost and fair values of available for sale and held to maturity debt securities at year-end.

December 31, 2022	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available for sale debt securities				
U.S. Treasury and federal agencies	$ 31,325,058	$ -	$ 2,598,309	$ 28,726,749
U.S. government sponsored agencies	11,846,334	-	1,204,476	10,641,858
Residential mortgage-backed securities	85,623,390	22,482	8,853,073	76,792,799
Commercial mortgage-backed securities	38,414,871	22,660	3,669,166	34,768,365
State and municipal	19,208,136	2,042	2,205,890	17,004,288
Total available for sale debt securities	$ 186,417,789	$ 47,184	$ 18,530,914	$ 167,934,059
Held to maturity debt securities				
U.S. Treasury and federal agencies	$ 17,912,709	$ -	$ 1,051,303	$ 16,861,406
U.S. government sponsored agencies	18,425,296	74	954,240	17,471,130
State and municipal	2,772,151	-	142,408	2,629,743
Total held to maturity debt securities	$ 39,110,156	$ 74	$ 2,147,951	$ 36,962,279

December 31, 2021	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available for sale debt securities				
U.S. Treasury and federal agencies	$ 17,204,608	$ 19,889	$ 180,859	$ 17,043,638
U.S. government sponsored agencies	11,300,477	17,509	90,993	11,226,993
Residential mortgage-backed securities	60,008,431	176,540	673,003	59,511,968
Commercial mortgage-backed securities	21,955,096	137,191	279,203	21,813,084
State and municipal	19,184,505	86,040	211,664	19,058,881
Total available for sale debt securities	$ 129,653,117	$ 437,169	$ 1,435,722	$ 128,654,564
Held to maturity debt securities				
U.S. Treasury and federal agencies	$ 8,042,862	$ -	$ 39,893	$ 8,002,969
U.S. government sponsored agencies	4,693,801	-	15,106	4,678,695
State and municipal	1,230,581	-	2,594	1,227,987
Total held to maturity debt securities	$ 13,967,244	$ -	$ 57,593	$ 13,909,651

All residential and commercial mortgage-backed securities owned by the Company were issued by U.S. federal agencies or U.S. government sponsored agencies. All U.S. government sponsored agency debt securities are obligations of the FHLB. State and municipal debt securities are bonds issued by state, cities, counties or other governmental entities that have strong credit profiles and are subject to pre-purchase and ongoing credit due diligence. At December 31, 2022 and 2021, there were no holdings of debt securities of any one issuer, other than U.S. government and its agencies, in an amount greater than 10% of stockholders' equity. Unrealized losses in debt securities are solely the result of changes in market interest rates and are not indicative of other than temporary impairment (OTTI) of the securities. The Company does not intend to sell the debt securities with unrealized losses and has sufficient liquidity to hold these debt securities to allow for recovery of its amortized cost.

The table below shows the gross unrealized losses and fair value of debt securities that are in an unrealized loss position at year-end, aggregated by length of time that individual securities have been in a continuous unrealized loss position.

	Less than 12 months		12 months or more		Total	
December 31, 2022	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unrealized losses
U.S. Treasury and federal agencies	$ 20,214,044	$ 913,617	$ 25,374,111	$2,735,995	$ 45,588,155	$3,649,612
U.S. government sponsored agencies	14,070,715	502,103	13,038,712	1,656,613	27,109,427	2,158,716
Residential mortgage-backed securities	32,644,317	2,204,035	40,334,407	6,649,038	72,978,724	8,853,073
Commercial mortgage-backed securities	18,854,207	1,601,238	13,021,625	2,067,928	31,875,832	3,669,166
State and municipal	7,766,180	723,529	11,570,956	1,624,769	19,337,136	2,348,298
Total debt securities	$ 93,549,463	$5,944,522	$103,339,811	$14,734,343	$196,889,274	$20,678,865

	Less than 12 months		12 months or more		Total	
December 31, 2021	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unrealized losses
U.S. Treasury and federal agencies	$ 19,320,583	$ 220,752	$ -	$ -	$ 19,320,583	$ 220,752
U.S. government sponsored agencies	12,588,585	106,099	-	-	12,588,585	106,099
Residential mortgage-backed securities	47,682,684	673,003	-	-	47,682,684	673,003
Commercial mortgage-backed securities	14,069,606	279,203	-	-	14,069,606	279,203
State and municipal	12,496,860	214,258	-	-	12,496,860	214,258
Total debt securities	$ 106,158,318	$1,493,315	$ -	$ -	$ 106,158,318	$ 1,493,315

The amortized cost and estimated fair value of debt securities by contractual maturity are presented in the following table as of December 31, 2022. Mortgage-backed securities are presented in the following table using the expected average life of the individual securities which is based upon actual prepayment speeds of the individual security. All other debt securities are presented based on their pre-refund date or maturity date. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Certain debt securities are pledged as collateral for state and local government deposits or pledged as collateral to the FHLB for Letters of Credit which collateralize state and local government deposits. The amortized cost and estimated fair value of pledged debt securities at December 31, 2022 are presented in the following table.

	Amortized cost	Fair value
Available for sale debt securities		
Within one year	$ 1,084,679	$ 1,065,745
After one through five years	46,180,596	41,956,397
After five through ten years	110,049,332	97,600,228
After ten years	29,103,182	27,311,689
Total available for sale debt securities	$ 186,417,789	$ 167,934,059
Held to maturity debt securities		
Within one year	$ 1,992,390	$ 1,992,812
After one through five years	37,117,766	35,039,467
Total held to maturity debt securities	$ 39,110,156	$ 36,962,279
Pledged debt securities	$ 25,339,164	$ 22,903,227

Gross realized gains and losses for all investment securities for the years ended December 31, 2022 and 2021 are presented in the following table.

	2022	2021
Gross realized gains from sale of debt securities	$ 1,269	$ 91,693
Gross realized gains from called or prepaid debt securities	-	15,487
Gross realized losses from sale of debt securities	(657,178)	(55,834)
Gross realized losses from called or prepaid debt securities	(624)	(477)
Net realized gain (loss) on disposition of securities	$ (656,533)	$ 50,869

Other equity securities carried at cost as of December 31, 2022 include non-marketable common stock investments in privately held banks of $748,833 and FHLB stock of $469,500. Other equity securities carried at cost as of December 31, 2021 include non-marketable common stock investments in privately held banks of $748,833 and FHLB stock of $355,000. The Company has not observed a price change from orderly transactions for identical or similar investments that would require an adjustment to the carrying amount of the non-marketable common stock investments in privately held banks. OTTI losses were not recorded in 2022 or 2021. The carrying amount of one investment in a privately held bank equity security is zero as of December 31, 2021. An orderly liquidation of this bank began in 2018 and was completed in 2019. All remaining assets and liabilities of the bank at liquidation in 2019 were transferred to a dissolution trust and the Company received a beneficial interest in the trust. In 2022, a liquidating cash distribution of $7,018 was received from the trust and was recognized as a gain.

NOTE 4. LOANS AND ALLOWANCE FOR LOAN LOSSES

Primary segments of the loan portfolio at year-end are presented in the following table. During 2020 and 2021, the Company originated Small Business Administration ("SBA") Paycheck Protection Program ("PPP") loans which are fully guaranteed by the SBA and reported as commercial loans in the table below. Outstanding principal balance of SBA PPP loans were $2,913 as of December 31, 2022 and $6,321,151 as of December 31, 2021. Related net deferred loan fees were $24 as of December 31, 2022 and net deferred loan fees were $290,256 as of December 31, 2021.

	2022	2021
Real estate mortgages		
Construction, land development, and land	$ 35,838,844	$ 23,306,416
Residential 1 to 4 family	172,588,941	139,232,413
Commercial properties	266,183,637	232,147,662
Commercial	37,650,258	39,407,952
Consumer	1,365,376	1,415,335
Total loans	513,627,056	435,509,778
Net deferred loan fees	(601,360)	(643,301)
Total loans net of deferred loan fees	$ 513,025,696	$ 434,866,477

Nonperforming loans are loans past due 90 or more days and still accruing plus nonaccrual loans. The following table details the composition of nonperforming loans as of December 31.

	Nonaccrual		90 Days Past Due or Greater and Accruing	
	2022	2021	2022	2021
Real estate mortgages				
Residential 1 to 4 family	$ 95,133	$ 246,043	$ 109,429	$ 178,537
Commercial	-	878	-	-
Total	$ 95,133	$ 246,921	$ 109,429	$ 178,537

Interest income of $20,271 was recognized on a cash-basis in 2022 related to the resolution of a nonaccrual loan during the period. The interest income recognized on a cash -basis was limited to the accrued interest earned in 2022 and all remaining cash payments received on the nonaccrual loan were recorded as a loan loss recovery. No interest income was recognized on a cash-basis on nonaccrual loans in 2021 and payments received on nonaccrual loans were applied as reductions of principal The recorded investment in consumer mortgage loans collateralized by residential real estate property that were in the process of foreclosure was $315,307 as of December 31, 2021. No loans were in the process of foreclosure as of December 31, 2022.

Loans are considered past due when principal or interest due in accordance with the contractual terms of the loan agreement is not paid in its entirety on or before the payment date. The following table presents the aging of past due loans by the respective loan portfolio segment.

December 31, 2022	30-59 Days Past Due	60-89 Days Past Due	90 Days Past Due or Greater	Total Past Due	Current	Total Loans
Real estate mortgages						
Construction, land development, and land	$ -	$ -	$ -	$ -	$ 35,838,844	$ 35,838,844
Residential 1 to 4 family	1,038,733	594,538	109,429	1,742,700	170,846,241	172,588,941
Commercial properties	604,525	-	-	604,525	265,579,112	266,183,637
Commercial	-	-	-	-	37,650,258	37,650,258
Consumer	-	3,629	-	3,629	1,361,747	1,365,376
Total	$ 1,643,258	$ 598,167	$ 109,429	$ 2,350,854	$ 511,276,202	$ 513,627,056

December 31, 2021	30-59 Days Past Due	60-89 Days Past Due	90 Days Past Due or Greater	Total Past Due	Current	Total Loans
Real estate mortgages						
Construction, land development, and land	$ -	$ -	$ -	$ -	$ 23,306,416	$ 23,306,416
Residential 1 to 4 family	652,503	419,057	315,307	1,386,867	137,845,546	139,232,413
Commercial properties	562,278	-	-	562,278	231,585,384	232,147,662
Commercial	31,680	-	-	31,680	39,376,272	39,407,952
Consumer	5,454	-	-	5,454	1,409,881	1,415,335
Total	$ 1,251,915	$ 419,057	$ 315,307	$ 1,986,279	$ 433,523,499	$ 435,509,778

The following table details activity in the allowance for loan losses by the respective loan portfolio segment for the years ended December 31, 2022 and 2021. The Company did not acquire any loans with deteriorated credit quality during the periods presented.

	Real estate mortgages						
2022	Construction, land dev, and land	Residential	Commercial properties	Commercial	Consumer	Unallocated	Total
Beginning balance	$ 92,653	$ 614,317	$ 820,360	$ 277,665	$ 74,808	$ 118,925	$ 1,998,728
Loans charged off	-	-	-	(6,759)	(116,633)	-	(123,392)
Recoveries	-	610,091	-	666	33,276	-	644,033
Provision expense	74,211	(378,844)	259,872	73,289	114,674	(38,202)	105,000
Ending balance	$ 166,864	$ 845,564	$ 1,080,232	$ 344,861	$ 106,125	$ 80,723	$ 2,624,369
Individually evaluated:							
Balance in allowance	$ -	$ 30,216	$ -	$ -	$ -		$ 30,216
Related loan balance	$ -	$ 1,589,659	$ 1,557,881	$ -	$ -		$ 3,147,540
Collectively evaluated:							
Balance in allowance	$ 166,864	$ 815,348	$ 1,080,232	$ 344,861	$ 106,125	$ 80,723	$ 2,594,153
Related loan balance	$ 35,838,844	$ 170,999,282	$ 264,625,756	$ 37,650,258	$ 1,365,376	$ -	$ 510,479,516

2021	Real estate mortgages: Construction, land dev, and land	Real estate mortgages: Residential	Real estate mortgages: Commercial properties	Commercial	Consumer	Unallocated	Total
Beginning balance	$ 84,317	$ 615,012	$ 804,497	$ 227,184	$ 69,151	$ 36,290	$ 1,836,451
Loans charged off	-	-	-	(1,114)	(61,529)	-	(62,643)
Recoveries	-	76,962	-	189	22,769	-	99,920
Provision expense	8,336	(77,657)	15,863	51,406	44,417	82,635	125,000
Ending balance	$ 92,653	$ 614,317	$ 820,360	$ 277,665	$ 74,808	$ 118,925	$ 1,998,728
Individually evaluated:							
Balance in allowance	$ -	$ 33,225	$ -	$ -	$ -		$ 33,225
Related loan balance	$ -	$ 1,326,447	$ 900,700	$ 878	$ -		$ 2,228,025
Collectively evaluated:							
Balance in allowance	$ 92,653	$ 581,092	$ 820,360	$ 227,665	$ 74,808	$ 118,925	$ 1,965,503
Related loan balance	$ 23,306,416	$ 137,905,966	$ 231,246,962	$ 39,407,074	$ 1,415,335	$ -	$ 433,281,753

Net loan recoveries as a percentage of average loans for the years ended December 31, 2022 and 2021 is presented in the following table. The allowance for loan losses as a percentage of gross loans outstanding as of December 31, 2022 and 2021 are also presented in the following table.

	2022	2021
Net recoveries	$ (520,641)	$ (37,277)
Average gross loans outstanding during the period	$ 477,481,342	$ 448,581,109
Net loan recoveries as a percentage of average loans	-0.11%	-0.01%
Allowance for loan losses at the end of the period	$ 2,624,369	$ 1,998,728
Gross loans outstanding at the end of the period	$ 513,627,056	$ 435,509,778
Allowance for loan losses to gross loans outstanding	0.51%	0.46%
Allowance for loan losses to gross loans outstanding (excluding SBA PPP loans)	0.51%	0.47%

Loans are considered impaired when management concludes it is unlikely that collection of all principal and interest payments will be made according to contractual terms. Troubled debt restructurings are considered impaired since all principal and interest payments according to the original contractual terms will not be collected under the modified terms of the restructuring. A performing loan may be categorized as impaired based on knowledge of circumstances that are deemed relevant to loan collection. Not all impaired loans are past due nor are losses expected for every impaired loan. If a loss is expected, an impaired loan may have a specific reserve included in the allowance for loan losses. If the impaired loan is deemed to be collateral dependent, any expected loss is charged-off against the allowance for loan losses. Year-end impaired loans for each respective loan portfolio segment are presented in the following table.

December 31, 2022	Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With An Allowance	Related Allowance	Average Recorded Investment	Interest Income Recognized During Impairment
Real estate mortgages						
Residential 1to 4 family	$ 1,200,867	$ 585,288	$ 518,297	$ 30,216	$ 1,124,683	$ 47,122
Commercial	444	-	-	-	439	-
Total impaired loans	$ 1,201,311	$ 585,288	$ 518,297	$ 30,216	$ 1,125,122	$ 47,122

December 31, 2021	Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With An Allowance	Related Allowance	Average Recorded Investment	Interest Income Recognized During Impairment
Real estate mortgages						
Residential 1 to 4 family	$ 1,717,947	$ 1,287,523	$ 530,712	$ 33,225	$ 2,299,225	$ 48,267
Commercial	1,686	878	-	-	1,948	-
Total impaired loans	$ 1,719,633	$ 1,288,401	$ 530,712	$ 33,225	$ 2,301,173	$ 48,267

The modification or restructuring of terms on a loan is considered a troubled debt restructuring if it is done to accommodate a borrower who is experiencing financial difficulties. The Bank may forgive principal, lower the interest rate or payment amount, or may modify the payment due dates or maturity date of a loan for a borrower experiencing financial difficulties. As a result of the COVID-19 pandemic and related economic uncertainty in our markets, a temporary loan payment deferral program was established in the 2nd quarter of 2020 for both commercial and consumer borrowers impacted by the pandemic. The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") provided financial institutions the ability to provide loan payment accommodations and short-term modifications without requiring the loans to be reported and accounted for as troubled debt restructurings. The majority of borrowers in the program received six month payment deferral periods and the related deferral period expired in 4th quarter of 2020. Certain borrowers voluntarily resumed their contractual payments prior to the end of the deferral period. All loans in the temporary payment deferral program have been restored and have resumed contractual payments. In accordance with the CARES Act, loans that received temporary payment deferral have not been reported and accounted for as troubled debt restructurings.

Troubled debt restructurings are evaluated for impairment at the time of restructuring and each subsequent reporting period. Generally, an identified loss is recorded as a specific reserve in the allowance for loan losses or charged-off if the loan is deemed to be collateral dependent. Troubled debt restructurings may require additional restructuring to accommodate changes in the borrower's financial position and are considered to be a new troubled debt restructuring. Other restructured loans have been collected with no loss of principal, returned to their original contractual terms, refinanced at market rates and terms, or paid in full. No troubled debt restructurings occured in the years ended December 31, 2022 or December 31, 2021. Restructured loans that become 90 days past due or greater, require an additional restructuring, or have a charge-off recorded are considered to have a payment default. A residential loan restructured in 2020 had a payment default within 12 months of restructuring and had an outstanding principal balance of $178,537 at the time of the payment default. This loan had an outstanding principal balance of $175,056 as of December 31, 2022 and was 79 days past due and is well secured thus no loss is expected..

Troubled debt restructurings with outstanding principal balances as of year-end are presented in the following table for each respective loan portfolio segment.

	Total		Paying as agreed under modified terms		Past due 30 days or more or non-accruing	
December 31, 2022	Number of contracts	Current Balance	Number of contracts	Current Balance	Number of contracts	Current Balance
Real estate mortgages						
Residential 1 to 4 family	4	$ 804,104	2	$ 354,575	2	$ 449,529
Total	4	$ 804,104	2	$ 354,575	2	$ 449,529

	Total		Paying as agreed under modified terms		Past due 30 days or more or non-accruing	
December 31, 2021	Number of contracts	Current Balance	Number of contracts	Current Balance	Number of contracts	Current Balance
Real estate mortgages						
Residential 1 to 4 family	6	$ 981,263	2	$ 270,467	4	$ 710,796
Total	6	$ 981,263	2	$ 270,467	4	$ 710,796

Credit quality is measured based on an internally designed grading scale. The grades correspond to regulatory risk rating categories of pass, special mention, substandard, and doubtful. Pass credits are loans with satisfactory payment history and supporting documentation. Special mention loans have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Company's credit position at some future date. Substandard credits are those with a weakness that may jeopardize repayment, such as deteriorating collateral value, or for which the borrower's ability to meet payment obligations is questionable. Doubtful credits are loans in which the borrower's ability to repay the loan in full is improbable on the basis of currently known facts, conditions and values. Loans graded as doubtful are most likely to result in the loss of principal or loss of income due to placement in nonaccrual status. Management evaluates loans graded as substandard and doubtful individually and provides for anticipated losses in the allowance for loan losses.

Credit quality, as measured by internally assigned grades, is an important component in the calculation of an adequate allowance for loan losses. The following table presents the credit quality indicators of loans for each respective loan portfolio segment at December 31. Performing loans are less than 90 days past due and accruing. Nonperforming loans are 90 days or more past due and/or non-accruing.

	Real estate mortgages					
December 31, 2022	Construction, land dev, and land	Residential	Commercial properties	Commercial	Consumer	Total
Pass	$ 35,838,844	$ 171,231,538	$ 264,625,756	$ 37,650,258	$ 1,365,376	$ 510,711,772
Special mention						
Performing	-	161,514	1,557,881	-	-	1,719,395
Nonperforming	-	164,918	-	-	-	164,918
Substandard						
Performing	-	354,575	-	-	-	354,575
Nonperforming	-	634,187	-	-	-	634,187
Doubtful						
Nonperforming	-	42,209	-	-	-	42,209
Total loans	$ 35,838,844	$ 172,588,941	$ 266,183,637	$ 37,650,258	$ 1,365,376	$ 513,627,056

	Real estate mortgages					
December 31, 2021	Construction, land dev, and land	Residential	Commercial properties	Commercial	Consumer	Total
Pass	$ 23,306,416	$ 137,944,891	$ 231,246,962	$ 39,407,074	$ 1,415,335	$ 433,320,678
Special mention						
Performing	-	99,944	900,700	-	-	1,000,644
Substandard						
Performing	-	755,369	-	-	-	755,369
Nonperforming	-	323,717	-	-	-	323,717
Doubtful						
Nonperforming	-	108,492	-	878	-	109,370
Total loans	$ 23,306,416	$ 139,232,413	$ 232,147,662	$ 39,407,952	$ 1,415,335	$ 435,509,778

NOTE 5. LOAN COMMITMENTS

Loan commitments are agreements to lend to customers as long as there is no violation of any conditions of the contracts. Loan commitments generally have interest rates at current market rates, fixed expiration dates, and may require payment of a fee. Letters of credit are commitments issued to guarantee the performance of a customer to a third party. Loan commitments and letters of credit are made on the same terms, including collateral, as outstanding loans. The Company's exposure to loss in the event of nonperformance by the borrower is represented by the contract amount of the commitment. The unused portion of overdraft protection limits are also considered loan commitments. Outstanding loan commitments as of December 31 were as follows:

	2022	2021
Loan commitments		
Real estate mortgages		
Construction, land development, and land	$ 22,916,494	$ 21,931,645
Residential 1 to 4 family	6,623,351	7,683,151
Commercial properties	30,141,655	27,368,111
Commercial	19,378,776	18,066,732
Total loan commitments	$ 79,060,276	$ 75,049,639
Performance standby letters of credit	$ 1,756,874	$ 1,204,732
Overdraft protection	$ 11,465,076	$ 11,208,332

NOTE 6. OTHER REAL ESTATE OWNED

During the years ended December 31, 2022 and December 31, 2021, the Company did not foreclose on any real estate properties and did not have other real estate owned recorded as of December 31, 2022 and December 31, 2021.

NOTE 7. PREMISES, EQUIPMENT, AND COMPUTER SOFTWARE

The following table provides summary information regarding premises and equipment at December 31 and related depreciation expense for the years then ended.

	Estimated useful life	2022	2021
Land		$ 4,215,936	$ 4,161,909
Buildings	5 - 50 years	13,114,299	13,088,143
Furniture, fixtures, and equipment	3 - 20 years	5,416,543	5,279,667
Total premises and equipment		22,746,778	22,529,719
Accumulated depreciation		(9,995,753)	(9,625,273)
Premises and equipment, net		$ 12,751,025	$ 12,904,446
Depreciation expense		$ 829,778	$ 848,680

The following table provides summary information regarding capitalized computer software at December 31 and related amortization expense for the years then ended.

	Estimated useful life	2022	2021
Computer software	2 - 10 years	$ 1,171,738	$ 1,260,945
Accumulated amortization		(933,729)	(918,797)
Computer software, net		$ 238,009	$ 342,148
Amortization expense		$ 114,104	$ 114,557

NOTE 8. DEPOSITS

Major classifications of interest-bearing deposits at December 31 are presented in the following table.

	2022	2021
Checking	$ 190,623,171	$ 154,938,059
Money market	150,470,193	172,392,135
Savings	151,183,051	141,750,825
Time deposits of $250,000 or more	4,258,028	5,788,436
Time deposits of less than $250,000	46,668,077	45,279,334
Total interest-bearing deposits	$ 543,202,520	$ 520,148,789

The maturity schedule for time deposits at December 31, 2022 was as follows:

2023	$ 42,527,799
2024	8,398,306
2025	-
Total time deposits	$ 50,926,105

NOTE 9. BORROWINGS

The Company has available unsecured federal funds lines of credit with other banks totaling $20,000,000 as of December 31, 2022. No amounts are outstanding under these lines of credit as of December 31, 2022 and 2021. As a member of the FHLB system, the Bank has the ability to borrow advances from the FHLB that will be secured by a blanket lien on debt securities or mortgage loans pledged. Based on the most recent analysis, the Bank is eligible to borrow up to a total of $215,080,000 as of December 31, 2022. Additional FHLB stock is required to be purchased if advances are utilized. No amounts were outstanding under FHLB advances as of December 31, 2022 and 2021.

NOTE 10. RELATED PARTY TRANSACTIONS

The executive officers and directors of the Company enter into loan transactions with the Bank in the ordinary course of business. The terms of these transactions are similar to the terms provided to other borrowers entering into similar loan transactions. Executive officers and directors also make deposits in the Bank and receive the same rates and terms on deposit accounts as other customers with similar accounts. The following table provides loans, deposits and unfunded loan commitments of related parties at December 31 and details activity of related party loans for the years then ended.

	2022	2021
Related party loan activity		
Beginning balance	$ 19,649,339	$ 27,897,219
Additions	33,540,581	7,823,965
Repayments	(19,290,152)	(16,071,845)
Ending balance	$ 33,899,768	$ 19,649,339
Unfunded loan commitments	$ 11,114,068	$ 18,414,578
Deposits	$ 21,087,143	$ 23,154,904

Interior design services were provided to the Company in 2022 by the spouse of the Chief Executive Officer and President. Amounts paid to this related party in 2022 were $4,350. Services were not provided by this related party in 2021.

NOTE 11. EMPLOYEE BENEFITS

The Company has a defined contribution profit sharing plan under Section 401(k) of the Internal Revenue Code. The plan covers substantially all of the employees and allows discretionary contributions by the Company. The plan provides for a matching contribution by the Company equal to 50% of an employee's contributions each pay period. The matching contribution by the Company does not apply to employee contributions over 6% of the employee's wages each pay period. Annually, the Board of Directors determines if a discretionary contribution will be made which is based upon the overall performance of the Company. The total cost of the profit sharing plan including matching and discretionary contributions for 2022 and 2021 was $345,684 and $317,880, respectively. These amounts are included in employee benefits in the accompanying Consolidated Statements of Income.

The Company provides employee medical and prescription drug insurance benefits through a partially self-insured plan. The partially self-insured plan requires the Company to pay for claims up to a certain limit per participant and up to a certain aggregate limit for all participants. A liability of $56,030 and $78,746 was recorded for the incurred but not reported claims as of December 31, 2022 and 2021, respectively, and was reported within accrued expenses on the Consolidated Balance Sheet.

NOTE 12. DEFERRED COMPENSATION AND SUPPLEMENTAL EXECUTIVE RETIREMENT PLANS

The Company has adopted a nonqualified deferred compensation plan and the plan participants are currently limited to the Chief Executive Officer. The plan allows for discretionary employer contributions in addition to deferral of compensation by the participant into the plan. The plan is funded by a bank owned life insurance policy on the participant with premiums due annually. The cash surrender value of the policy is allocated to one or more investment sub-accounts offered by the insurer based upon the participant's investment allocations in the plan. Changes in the nonqualified deferred compensation liability and cash surrender value of the bank owned life insurance policy for the years ended December 31 and net expenses of the plan for the years ended December 31 are presented in the following table.

	Nonqualified Deferred Compensation Liability		Cash Surrender Value of Bank Owned Life Insurance	
	2022	2021	2022	2021
Beginning balance	$ 580,057	$ 459,666	$ 500,949	$ 399,307
Employer contributions/premiums paid	57,031	57,031	57,031	57,031
Change in investment value, net of fees	(101,240)	63,360	(95,278)	44,611
Ending balance	$ 535,848	$ 580,057	$ 462,702	$ 500,949

	Net Plan Expense	
	2022	2021
Compensation expense - contributions	$ 57,031	$ 57,031
Compensation expense - change in value	(101,240)	63,360
BOLI (income) loss from change in value, net of fees	95,278	(44,611)
Administrative costs	3,600	3,600
Net plan expense	$ 54,669	$ 79,380

A separate nonqualified deferred compensation plan was adopted for the executives of the Company excluding the Chief Executive Officer. The plan allows for discretionary employer contributions in addition to deferral of compensation by the participant into the plan. All contributions to this plan since inception were made by the participants. Balances within the plan receive interest credits on a quarterly basis which are equal to the 10-year U.S. Treasury rate plus 200 basis points but not less than 2.50% and not greater than 10.0%. The plan is currently unfunded and was reported within deferred compensation and supplemental retirement benefits on the Consolidated Balance Sheet. The nonqualified deferred compensation liability for this plan was $118,825 as of December 31, 2022 and $65,659 as of December 31, 2021.

The Company entered into Supplemental Executive Retirement Plan ('SERP") agreements in 2022 with the executives of the Company excluding the Chief Executive Officer. Upon the executive's retirement, the plan will provide a stated monthly payment for the executive's lifetime. The SERP is an unfunded plan but the Company has financed the retirement benefits by purchasing fixed annuity contracts with two insurance carriers in 2022 totaling $1,043,595. The annuity contracts have been designed to provide a future source of funds for the lifetime retirement benefits of the SERP. The cash surrender value of the annuity contracts was $1,136,192 as of December 31, 2022, and was included in bank owned life insurance and annuities on the Consolidated Balance Sheet. Expense of $38,576 was accrued in the year ended December 31, 2022 related to this postretirement benefit and was reported within deferred compensation and supplemental retirement benefits on the Consolidated Balance Sheet.

NOTE 13. OTHER NONINTEREST EXPENSES

The components of noninterest expense for the years ended December 31 are as follows:

	2022	2021
Armored car service	$ 103,566	$ 82,563
Bank franchise tax	69,561	61,066
Correspondent bank fees	82,995	68,578
Courier service	23,422	26,469
Deposit product services	55,355	49,527
Donations	73,727	86,392
Dues and subscriptions	84,696	66,389
Electronic banking	206,815	169,834
Liability insurance	71,163	45,380
Professional fees	170,907	148,963
State bank exam assessment	93,277	75,866
Statement processing and postage	246,935	181,158
Stationery and supplies	81,330	111,840
Miscellaneous	363,837	293,546
Total other noninterest expenses	$ 1,727,586	$ 1,467,571

NOTE 14. INCOME TAXES

The following table presents the components of income tax expense for the years ended December 31 and the components of the net deferred taxes at year-end.

	2022	2021
Current income tax expense		
Federal	$ 2,933,275	$ 2,230,114
State	838,711	748,936
Total current income tax expense	3,771,986	2,979,050
Deferred tax benefit	(75,986)	(68,050)
Total income tax expense	$ 3,696,000	$ 2,911,000

The components of the net deferred tax asset (liability) follows:	2022	2021
Deferred tax assets		
Nonaccrual loan interest	$ 14,715	$ 50,088
Allowance for loan losses	675,979	530,460
Other than temporary impairment of investment value	-	3,538
Nonqualified deferred compensation	178,566	171,471
Federal and state loss carryforwards	15,736	20,256
Unrealized loss on available for sale debt securities	4,648,256	257,190
Total deferred tax assets	5,533,252	1,033,003
Deferred tax liabilities		
Prepaid expenses	140,336	119,535
Depreciation and amortization	725,665	764,750
Discount accretion	28,021	2,725
Deferred loan origination costs	171,754	152,752
Total deferred tax liabilities	1,065,776	1,039,762
Net deferred tax asset (liability)	$ 4,467,476	$ (6,759)

A reconciliation of the statutory Federal income tax rate to the Company's effective income tax rate is provided in the following table.

	2022	2021
Statutory federal income tax rate	21.00%	21.00%
Increase (decrease) in tax rate resulting from		
State income taxes net of federal income tax benefit	4.21	4.60
Tax-exempt income	(1.43)	(2.19)
Change in deferred tax rate	0.10	-
Non-deductible expenses	0.02	0.08
Effective income tax rate	23.90%	23.49%

There were no unrecognized tax benefits during any of the reported periods. The Company and its subsidiary file income tax returns in the U.S. federal and state jurisdictions. The Company and its subsidiary are no longer subject to U.S. federal and state income tax examinations for tax years prior to 2019.

NOTE 15. OTHER COMPREHENSIVE INCOME (LOSS)

Changes in accumulated other comprehensive income (loss) by component, net of tax, for the years ended December 31, 2022 and 2021 are reported in the following table.:

December 31, 2022	Unrealized Gains and Losses on Debt Securities Available for Sale	Accumulated Other Comprehensive Income (Loss)
Beginning balance	$ (741,364)	$ (741,364)
Other comprehensive loss before reclassification, net of income tax	(13,580,511)	(13,580,511)
Amounts reclassified from accumulated other comprehensive income (loss), net of income tax	486,402	486,402
Net other comprehensive loss during the period	(13,094,109)	(13,094,109)
Ending balance	$ (13,835,473)	$ (13,835,473)

December 31, 2021	Unrealized Gains and Losses on Debt Securities Available for Sale	Accumulated Other Comprehensive Income (Loss)
Beginning balance	$ 807,203	$ 807,203
Other comprehensive loss before reclassification, net of income tax	(1,510,678)	(1,510,678)
Amounts reclassified from accumulated other comprehensive income (loss), net of income tax	(37,889)	(37,889)
Net other comprehensive loss during the period	(1,548,567)	(1,548,567)
Ending balance	$ (741,364)	$ (741,364)

NOTE 16. FAIR VALUE MEASUREMENTS

The fair value of an asset or liability is the exchange price that would be received to sell that asset or paid to transfer that liability (exit price) in an orderly transaction between market participants occurring in the principal market or most advantageous market for such asset or liability. The fair value hierarchy established in the Financial Accounting Standards Board accounting standards codification establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of inputs that may be used to measure fair values are as follows:

Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities;

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices in markets that are not active, or inputs that are observable or can be corroborated by observable market data;

Level 3: Unobservable inputs that reflect a company's own price or valuation techniques that are significant to the fair value measurement.

Financial assets measured at fair value on a recurring basis include debt securities classified as available for sale. U.S. Treasury securities are determined by quoted market prices (Level 1). Fair value for U.S. federal agency, U.S. government sponsored agency, municipal and mortgage-backed debt securities are calculated based on market prices of similar securities (Level 2). The Company has no financial assets measured at fair value on a recurring basis that are valued with Level 3 inputs. The level in the hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. Financial assets measured on a recurring basis are summarized in the following table.

December 31, 2022	Level 1	Level 2	Total Fair Value
Financial assets			
Debt securities available for sale			
U.S. Treasury and federal agencies	$ -	$ 28,726,749	$ 28,726,749
U.S. government sponsored agencies	-	10,641,858	10,641,858
Residential mortgage-backed securities	-	76,792,799	76,792,799
Commercial mortgage-backed securities	-	34,768,365	34,768,365
State and municipal	-	17,004,288	17,004,288
Total debt securities available for sale	$ -	$ 167,934,059	$ 167,934,059

December 31, 2021	Level 1	Level 2	Total Fair Value
Financial assets			
Debt securities available for sale			
U.S. Treasury and federal agencies	$ 1,938,750	$ 15,104,888	$ 17,043,638
U.S. government sponsored agencies	-	11,226,993	11,226,993
Residential mortgage-backed securities	-	59,511,968	59,511,968
Commercial mortgage-backed securities	-	21,813,084	21,813,084
State and municipal	-	19,058,881	19,058,881
Total debt securities available for sale	$ 1,938,750	$ 126,715,814	$ 128,654,564

The Company measures and reports certain financial and non-financial assets at fair value on a non-recurring basis. Financial assets measured and reported at fair value on a non-recurring basis include impaired loans that are deemed by management to be collateral dependent and have been recorded at the fair value of the underlying collateral by recording partial charge-offs. Non-financial assets measured and reported on a non-recurring basis include other real estate owned.

The Company utilizes appraisals from independent 3rd party licensed appraisers to determine the fair value of collateral underlying impaired loans that are deemed collateral dependent and other real estate owned. The vast majority of appraisals utilize the market approach valuation technique due to the nature of the underlying properties. Due to the significance of adjustments made to observable market prices of similar properties and lack of similarities between comparable properties, the Company considers the appraisals used in determination of fair value for collateral dependent impaired loans and other real estate owned to be Level 3 inputs. In determining fair value, management also considers estimated holding and selling costs if sale of the property is the primary repayment source. When appropriate, management may also reduce the independent appraised value based on the current listing price of real estate for sale, prior experience in selling similar real estate or other factors not considered in the independent appraisal. The valuation process includes a review of the appraisal by the Bank's loan department, which is experienced in appraisal review procedures set forth by bank regulatory guidance.

Financial and non-financial assets measured and reported at fair value on a non-recurring basis, segregated by the level of the valuation inputs within the fair value hierarchy used to measure fair value are detailed in the following table. Total losses in the table below include cumulative partial charge-offs recorded on impaired loans measured and reported at the fair value of the underlying collateral.

December 31, 2022	Level 3	Total Fair Value	Total Losses
Impaired loans recorded at fair value of collateral:			
Residential 1 to 4 family	$ 62,395	$ 62,395	$ 43,000
Total impaired loans recorded at fair value of collateral	62,395	62,395	43,000
Total assets measured on a non-recurring basis	$ 62,395	$ 62,395	$ 43,000

December 31, 2021	Level 3	Total Fair Value	Total Losses
Impaired loans recorded at fair value of collateral:			
Residential 1 to 4 family	$ 218,752	$ 218,752	$ 632,615
Total impaired loans recorded at fair value of collateral	218,752	218,752	632,615
Total assets measured on a non-recurring basis	$ 218,752	$ 218,752	$ 632,615

The following table presents information about Level 3 Fair Value Measurements for December 31.

December 31, 2022	Fair Value	Valuation Technique	Significant Observable Inputs	Range
Impaired Loans	$ 62,395	Discounted appraised value	Discount for selling costs	6.0% (Average 6.0%)

December 31, 2021	Fair Value	Valuation Technique	Significant Observable Inputs	Range
Impaired Loans	$ 218,752	Discounted appraised value	Discount for selling costs	6.0% - 9.9% (Average 8.6%)

The estimated fair values of the Company's financial assets and liabilities that are not measured and reported at fair value on a recurring or non-recurring basis are summarized in the table below. The fair values of these financial instruments as of December 31 are based on the exit price notion which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing parties under current market conditions. Quoted market prices, where available, are shown as estimates of fair market value. The calculation of estimated fair values is based on market conditions at a specific point in time and may not reflect current or future fair values. Most financial instruments do not have quoted market prices and thus the fair value has been determined based on the amount and timing of future cash flows and estimated discount rates based on observable inputs ("Level 2") or unobservable inputs ("Level 3"). The fair values of cash and cash equivalents, accrued interest receivable, bank owned life insurance and annuities, noninterest-bearing deposits and accrued interest payable approximately equals their carrying values and thus are excluded from the table. The carrying amount and estimated fair values of financial instruments reported at amortized cost, segregated by level of valuation inputs within the fair value hierarchy utilized to measure fair value, are presented in the following table.

		Fair Value Measurements			
December 31, 2022	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets					
Time deposits	$ 1,225,953	$ -	$ 970,971	$ 247,947	$ 1,218,918
Debt securities held to maturity	$ 39,110,156	$ 16,861,406	$ 20,100,873	$ -	$ 36,962,279
Other equity securities, at cost	$ 748,833	N/A	N/A	N/A	N/A
Restricted stock, at cost	$ 469,500	N/A	N/A	N/A	N/A
Loans, net	$ 510,338,932	$ -	$ -	$ 482,043,932	$ 482,043,932
Financial liabilities					
Interest-bearing deposits	$ 543,202,520	$ -	$ -	$ 543,116,524	$ 543,116,524

December 31, 2021	Carrying Amount	Fair Value Measurements Level 1	Level 2	Level 3	Total
Financial assets					
Time deposits	$ 3,478,221	$ -	$ 3,255,367	$ 250,165	$ 3,505,532
Debt securities held to maturity	$ 13,967,244	$ 8,002,969	$ 5,906,682	$ -	$ 13,909,651
Other equity securities, at cost	$ 748,833	N/A	N/A	N/A	N/A
Restricted stock, at cost	$ 355,000	N/A	N/A	N/A	N/A
Loans, net	$ 432,648,997	$ -	$ -	$ 434,237,997	$ 434,237,997
Financial liabilities					
Interest-bearing deposits	$ 520,148,789	$ -	$ -	$ 520,207,636	$ 520,207,636

Other equity securities carried at cost and restricted stock carried at cost are included in the table above as they are considered financial instruments not measured and reported at fair value. The Company has not observed a price change from orderly transactions for identical or similar investments that would require an adjustment to the carrying amount of these equity securities and therefore a fair value cannot be determined.

NOTE 17. REGULATORY CAPITAL STANDARDS

The Company's primary regulator, the Federal Reserve, and the Bank's primary regulator, the Federal Deposit Insurance Corporation (FDIC), have adopted leverage and risk-based capital standards for their supervised banking institutions. These standards require ratios of capital to assets for minimum capital adequacy and to be classified as well capitalized under prompt corrective action provisions. Failure to meet minimum capital requirements can initiate certain mandatory, and possible additional, discretionary actions by the regulators that, if undertaken, could have a direct material effect on the Company's financial statements. The Company and the Bank opted into the Community Bank Leverage Ratio ("CBLR") framework which provides a simplified measure of capital adequacy for qualifying community banking organizations. To qualify for the CBLR framework, the Company and the Bank must have less than $10 billion in total consolidated assets, a leverage ratio greater than 9% and off-balance sheet exposures of 25% or less of total consolidated assets. Under the CBLR framework, the Company and the Bank will not be subject to other regulatory capital and leverage requirements and is deemed to have met the ratio requirements to be classified as well capitalized and be in compliance with applicable capital standards including minimum capital adequacy. If the Company or the Bank does not qualify for the CBLR framework or opts out of the framework in a future period, they will become subject to the applicable leverage and risk-based capital standards adopted by their respective regulators.

Temporary changes were made to the CBLR framework in 2020 pursuant to Section 4012 of the CARES Act. Interim final rules adopted by the federal banking agencies, including the Federal Reserve and FDIC, temporarily lowered the minimum leverage ratio requirement under the CBLR framework to 8.5% for calendar year 2021, and reinstating the 9.0% minimum leverage ratio for all periods subsequent to 2021.

As of December 31, 2022, the most recent notification from the FDIC has categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must meet the requirements of the CBLR framework including a leverage ratio greater than the required minimums. There have been no conditions or events since that notification that management believes have changed the Bank's classification as well capitalized. The regulators, through formal or informal agreement, have the authority to require an institution to maintain higher capital ratios than those provided by statute, to be categorized as well capitalized.

The following table presents actual and required regulatory capital amounts and ratios for the Company and Bank at year-end. The ratio for Tier 1 capital to average assets is computed using average assets for the quarter ending December 31.

(in thousands)	Actual		Minimum for CBLR Framework	
December 31, 2022	Amount	Ratio	Amount	Ratio
Tier 1 capital to average assets (leverage ratio)				
Company	$ 108,059	11.4%	$ 85,134	9.0%
Bank	$ 105,721	11.2%	$ 84,930	9.0%

(in thousands)	Actual		Minimum for CBLR Framework	
December 31, 2021	Amount	Ratio	Amount	Ratio
Tier 1 capital to average assets (leverage ratio)				
Company	$ 99,831	10.9%	$ 77,633	8.5%
Bank	$ 97,426	10.7%	$ 77,435	8.5%

NOTE 18. PARENT COMPANY FINANCIAL INFORMATION

Financial statements for Calvin B. Taylor Bankshares, Inc. (Parent Company) for the periods indicated are presented in the following tables.

Balance Sheets	December 31, 2022	December 31, 2021
Assets		
Cash and due from banks	$ 98,559	$ 260,929
Interest-bearing deposits	188,588	6,608
Cash and cash equivalents	287,147	267,537
Time deposits in other financial institutions	250,000	250,000
Equity securities, at cost	748,833	748,833
Investment in subsidiary bank	91,885,336	96,684,796
Premises and equipment, net	999,587	1,023,392
Deferred income taxes, net	-	2,858
Dividends receivable	934,324	823,094
Other assets	35,149	90,204
Total assets	$ 95,140,376	$ 99,890,714
Liabilities and Stockholders' Equity		
Dividends payable	$ 910,483	$ 800,620
Deferred income taxes, net	4,468	-
Other liabilities	1,178	1,178
Total liabilities	$ 916,129	$ 801,798
Stockholders' equity		
Common stock, par value $1 per share; authorized 10,000,000 shares; issued and outstanding	2,759,040	2,760,760
Additional paid-in capital	2,337,456	2,398,533
Retained earnings	102,963,224	94,670,987
Accumulated other comprehensive loss, net of deferred income tax	(13,835,473)	(741,364)
Total stockholders' equity	94,224,247	99,088,916
Total liabilities and stockholders' equity	$ 95,140,376	$ 99,890,714

	Years Ended	
Statements of Comprehensive Income	December 31, 2022	December 31, 2021
Interest income	$ 1,908	$ 1,364
Dividend income	47,169	42,302
Dividends from subsidiary bank	3,477,108	3,628,314
Equity in undistributed income of subsidiary	8,294,649	5,862,499
Rental income	104,042	82,070
Other income	8,290	-
Total income	11,933,166	9,616,549
Occupancy	62,990	58,328
Transfer agent and other stockholder related costs	65,876	64,727
Other	31,955	24,827
Total expenses	160,821	147,882
Income before income taxes	11,772,345	9,468,667
Income tax expense (benefit)	3,000	(12,000)
Net income	11,769,345	9,480,667
Other comprehensive loss, net of tax		
Unrealized losses on available for sale investment securities arising during the period, net of deferred income tax	(13,094,109)	(1,548,567)
Comprehensive income (loss)	$ (1,324,764)	$ 7,932,100

Statements of Cash Flows	Years Ended December 31, 2022	December 31, 2021
Cash flows from operating activities		
Net Income	$ 11,769,345	$ 9,480,667
Adjustments to reconcile net income to net cash provided by operating activities		
Undistributed net income of subsidiary	(8,294,649)	(5,862,499)
Depreciation	23,805	24,803
Gain on disposition of investment securities	(7,018)	-
Decrease (increase) in		
Accrued Interest receivable	(27)	803
Prepaid expenses	(1,207)	(612)
Dividends receivable	(111,231)	3,530
Deferred and accrued income taxes	59,799	28,480
Rent receivable	3,817	(1,266)
Decrease in other liabilities	-	(2,202)
Net cash provided by operating activities	$ 3,442,634	$ 3,671,704
Cash flows from investing activities		
Liquidating distribution from equity security	7,018	-
Net cash provided by investing activities	7,018	-
Cash flows from financing activities		
Common shares repurchased	(62,797)	(421,834)
Dividends paid	(3,367,245)	(3,210,010)
Net cash used in financing activities	(3,430,042)	(3,631,844)
Net increase in cash and cash equivalents	19,610	39,860
Cash and cash equivalents at beginning of year	267,536	227,676
Cash and cash equivalents at end of year	$ 287,146	$ 267,536

Supplemental disclosure of cash flow information

Cash payments for:		
Interest	$ -	$ -
Income taxes	$ -	$ -

MARKET FOR COMMON STOCK AND RELATED MATTERS

STOCK LISTING INFORMATION

The Company's common stock is traded in the "over the counter" (OTC) market under the ticker symbol TYCB. Stock quotes, trade prices and volume information can be found on the OTCQX marketplace, which is an electronic inter-dealer quotation system registered with the Securities and Exchange Commission (SEC) and Financial Industry Regulatory Authority (FINRA).

TRANSFER AGENT

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
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ADDITIONAL INFORMATION

The following officers of the Company can provide additional information:

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CALVIN B. TAYLOR BANKSHARES, INC.
taylorbank.com

Parent Company of

CALVIN B. TAYLOR BANKING COMPANY
Berlin, Maryland