Mauch Chunk Trust Financial

ANNUAL REPORT 2023

To Our Stockholders:

Net income for the year ended December 31, 2023, was $3.02 million, a decrease of $2.0 million over 2022's net income of $5.02 million. On a per share basis, net income was $.90 this year versus $1.51 last year.

Lower net income this year is attributable to a decrease in net interest income and increases in other expenses and the provision for loan losses, partially offset by higher other income and lower taxes. The decrease in net interest income is mainly the result of higher interest expense brought about by an increase in the level of interest rates.

Federal funds sold totaled $55.5 million on December 31, 2023, an increase of $30.8 million from 2022's total, the result of excess funds being held to increase liquidity. On the same date, securities available for sale totaled $286.4 million, $3.6 million lower than December of last year. This decrease is mainly attributable to runoff in the mortgage-backed securities component of the portfolio.

On December 31, 2023, net loans receivable totaled $259.1 million, $7.2 million higher than last year. This increase is attributable to an increase in commercial loans, both organic and purchased, as well as consumer loans, home equity and residential mortgages.

Total deposits were $568.3 million on December 31, 2023, an increase of $38.3 million from 2022. Deposit growth this year is attributable to an increase in certificates of deposit, the result of more attractive interest rates and increased marketing.

Long term debt totaled $72.3 million on December 31, 2023, $13.2 million lower than 2022; the result of a transition from borrowed funds as they mature to organic CD growth.

Total shareholders' deficit, on December 31, 2023, was negative $2.6 million, $10.9 million higher than 2022. The change in equity capital this year is attributable to a decrease in accumulated other comprehensive loss of $8.9 million and increase in retained earnings of $2 million.

Since Financial Accounting Standards Board (FASB), Accounting for Certain Investments in Debt and Equity Securities, became effective in 1994, it has been the bank's policy to hold investment securities as available for sale (AFS). To hold investment securities as AFS, unrealized gains or losses on securities, net of estimated taxes, must be reflected as other accumulated gains or losses in stockholder's equity.

This year's increase in accumulated other comprehensive loss is attributable to a decline in the market value of investment securities caused by the large and rapid increase in the level of interest rates that occurred in the beginning of 2022. This unrealized loss may persist for some time, but it is not permanent, and will decrease as the securities approach maturity or the level of interest rates decrease. If necessary, MCTFC intends to hold these securities in portfolio to maturity.

MCTFC remains "well capitalized" and well above the minimum regulatory requirements.

How can a small community bank like ours survive and thrive in an environment dominated by mega-banks and fintechs? This question could be answered in many ways, but every strategy with even the slightest chance of success would begin with a value proposition which present and future customers will find appealing.

We intend to deliver value to our customers and continue growing by providing excellent personal and digital customer service. As part of our broader strategy to deepen relationships and increase customer retention, we continue to focus on appealing to more customers who expect the latest functionality from their digital banking and debit card. In June, we upgraded our mobile banking app to include advanced debit card management features. New options include the ability to view a virtual card and quickly add it to Apple Pay or Google Pay, access transaction history, control card usage, create automated alerts, while also providing self-service options for reporting lost or stolen cards and even managing travel plans. Additional investment in our debit card program also brought the January 2024 launch of new "contactless" cards, which are now being issued for new customers and gradually replacing older, expiring debit cards.

Reflecting on the current financial landscape it is evident that inflation and the FOMC's rapid and significant increases in interest rates have had a tremendous impact on the margins of banks nationwide. Higher rates are great for depositors but hard on borrowers and very hard on a community bank's net interest margin, especially when the yield on loans and securities lags the cost of funds to the extent we experienced in 2023. Fortunately, the FOMC seems to be done raising rates for the time being and it is widely expected their next rate move will be a decrease.

As always, we thank you for your continued loyalty and support.

Sincerely,

Patrick H. Reilly
President/Chief Executive Officer

Thomas R. Lisella
Chairman of the Board

Independent Auditors' Report

To the Board of Directors of
Mauch Chunk Trust Financial Corp.

Opinion

We have audited the accompanying consolidated financial statements of Mauch Chunk Trust Financial Corp. and its subsidiary (the Company), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income (loss), stockholders' deficit, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated 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.

Emphasis of Matter – Change in Accounting Principle

As described in Note 1 to the Company's consolidated financial statements, the Company has changed its method of accounting for the recognition and measurement of the allowance for credit losses effective January 1, 2023, due to the adoption of ASC 326, Financial Instruments – Credit Losses. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 consolidated 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 information included in the annual report 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.

Baker Tilly US, LLP

Allentown, Pennsylvania
March 15, 2024

Mauch Chunk Trust Financial Corp.

Consolidated Balance Sheets
December 31, 2023 and 2022
(Dollars in Thousands)

	2023	2022
Assets		
Cash and due from banks	$ 4,746	$ 5,217
Federal funds sold	55,549	24,781
Total cash and cash equivalents	60,295	29,998
Securities available-for-sale	286,393	282,745
Equity securities	153	153
Restricted investment in bank stocks	3,434	3,939
Loans receivable, net of allowance for loan losses 2023 $3,848; 2022 $3,407	259,050	251,823
Bank premises and equipment, net	7,430	8,293
Accrued interest receivable	3,019	2,992
Investment in life insurance	9,599	10,140
Prepaid expenses and other assets	17,147	20,023
Total assets	646,520	610,106
Liabilities and Stockholders' Deficit		
Liabilities		
Deposits:		
Noninterest bearing	81,921	85,235
Interest bearing	486,396	444,814
Total deposits	568,317	530,049
Securities sold under agreements to repurchase	3,421	3,810
Other borrowed funds	-	260
Accrued interest payable	543	492
Other liabilities	4,481	3,431
Long-term debt	72,320	85,524
Total liabilities	649,082	623,566
Stockholders' Deficit		
Common stock, no par value; authorized 15,000,000 shares; 2023 and 2022 issued 3,392,336 shares; outstanding 3,335,970 shares;	8,497	8,497
Retained earnings	45,065	43,066
Accumulated other comprehensive (loss)	(55,402)	(64,302)
Treasury stock, at cost 2023 and 2022 56,366 shares;	(722)	(721)
Total stockholders' deficit	(2,562)	(13,460)
Total liabilities and stockholders' deficit	$ 646,520	$ 610,106

See notes to consolidated financial statements

Mauch Chunk Trust Financial Corp.

Consolidated Statements of Income
Years Ended December 31, 2023 and 2022
(Dollars in Thousands, Except Per Share Data)

	2023	2022
Interest Income		
Loans receivable, including fees	13,498	$ 10,609
Securities:		
Taxable	$ 7,767	7,759
Tax exempt	1,806	1,878
Other	2,902	283
Total interest income	25,973	20,529
Interest Expense		
Deposits	$ 9,105	2,258
Borrowings	2,093	1,289
Total interest expense	11,198	3,547
Net interest income	14,775	16,982
Provision (Credit) for Credit Loss	$ 667	(261)
Net interest income after (provision) expense	14,108	17,243
Other Income		
Service fees	2,075	1,810
Wealth management fees	1,000	878
Net realized gains on fixed assets	181	-
Income on life insurance policies	764	298
Mortgage banking activities	1	1
Other	178	190
Total other income	4,199	3,177
Other Expenses		
Salaries and wages	5,510	5,169
Employee benefits	2,034	1,728
Occupancy and equipment	1,629	1,755
Director's fees	359	374
Professional fees	600	570
FDIC insurance and assessments	615	235
Data processing	2,251	1,925
Advertising	275	252
Pennsylvania bank shares tax	-	314
Net realized loss on sales of securities	-	314
Other	1,846	1,994
Total other expenses	15,119	14,630
Income before income taxes	3,188	5,790
Income Tax Expense	$ 170	766
Net income	$ 3,018	$ 5,024
Basic Earnings Per Share	$ 0.90	$ 1.51
Weighted Average Shares Outstanding	3,335,970	3,336,147

See notes to consolidated financial statements

Mauch Chunk Trust Financial Corp.

Consolidated Statements of Comprehensive Income (Loss)
Years Ended December 31, 2023 and 2022
(Dollars in Thousands)

	2023	2022
Net Income	$ 3,018	$ 5,024
Other Comprehensive Income (Loss)		
Unrealized holding gains (losses) on securities available-for-sale	11,766	(84,818)
Reclassification adjustment for losses on sales of securities available-for-sale realized in net income [(a)]	-	314
Net unrealized gains (losses)	11,766	(84,504)
Tax effect [(b)]	(2,471)	17,746
Net of tax amount, available-for-sale securities	9,295	(66,758)
Derivative adjustments	(401)	837
Tax effect [(c)]	5	(176)
Net of tax amount, derivative adjustments	(396)	661
Total other comprehensive income (loss)	8,899	(66,097)
Total comprehensive income (loss)	$ 11,917	$ (61,073)

(a) Amounts are included in net realized losses on sales of securities on the Consolidated Statements of Income as a separate element within Other Income.

(b) The tax effect on unrealized holding gains (losses) on securities available-for-sale was ($2,471) and $17,811 for the years ended December 31, 2023 and 2022, respectively. The tax effect on gains on sales of securities available-for-sale was $0 and $(65) for the years ended December 31, 2023 and 2022, respectively. Income tax amounts on unrealized holding gains (losses) on securities available-for-sale are included in the net deferred tax asset as described in Note 12. Income tax amounts on gains on sales of securities are included in income tax expense on the Consolidated Statements of Income.

(c) Income tax amounts on derivative adjustments are included in the net deferred tax asset as described in Note 12.

See notes to consolidated financial statements

Mauch Chunk Trust Financial Corp.

Consolidated Statements of Stockholders' Deficit
Years Ended December 31, 2023 and 2022
(Dollars in Thousands, Except Share Data)

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, December 31, 2021	$ 8,497	$ 39,176	$ 1,795	$ (617)	$ 48,851
Net income		5,024			5,024
Other comprehensive loss			(66,097)		(66,097)
Dividends on common stock ($0.34 per share)		(1,134)			(1,134)
Acquisition of treasury stock	-	-	-	(104)	(104)
Balance, December 31, 2022	8,497	43,066	(64,302)	(721)	(13,460)
Adoption of ASC 326		115			115
Net income		3,018			3,018
Other comprehensive income			8,899		8,899
Dividends on common stock ($0.34 per share)		(1,134)			(1,134)
Balance, December 31, 2023	$ 8,497	$ 45,065	$ (55,403)	$ (721)	$ (2,562)

Mauch Chunk Trust Financial Corp.

Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022
(Dollars in Thousands)

	2023	2022
Cash Flows From Operating Activities		
Net income	$ 3,018	$ 5,024
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision (Credit) losses	667	(261)
Provision for depreciation	679	669
Amortization of purchased mortgage premium	39	39
Amortization of right of use asset	120	120
Net realized loss on sales of securities	-	314
Net (gain) loss on sale of bank premises and equipment	(181)	12
Net accretion of securities premiums and discounts	(17)	(53)
Net decrease in lease liability	(119)	(117)
Deferred income taxes	106	134
Earnings on investment in life insurance	(237)	(298)
(Increase) decrease in assets:		
Accrued interest receivable	(27)	(371)
Prepaid expenses and other assets	165	(173)
Increase (decrease) in liabilities:		
Accrued interest payable	51	353
Other liabilities	1,205	(139)
Net cash provided by operating activities	5,468	5,253
Cash Flows From Investing Activities		
Available-for-sale securities:		
Purchases	-	(17,384)
Proceeds from sales	-	3,908
Maturities and principal repayments	8,136	12,966
Net increase in loans	(8,119)	(25,787)
Net decrease (increase) in restricted investment in bank stocks	505	(456)
Purchases of bank premises and equipment	(532)	(464)
Proceeds from life insurance	778	417
Purchases of life insurance	-	(19)
Proceeds from sale of foreclosed assets	778	-
Net cash provided by (used in) investing activities	1,545	(26,819)
Cash Flows From Financing Activities		
Increase in deposits, net	38,268	39,017
Increase in securities sold under agreements to repurchase	(389)	(160)
Net repayments of other borrowed funds	(260)	(15,822)
Proceeds from long-term debt	-	25,524
Repayment of long-term debt	(13,204)	-
Acquisition of treasury stock	-	(105)
Cash dividends	(1,134)	(1,134)
Net cash provided by financing activities	23,281	47,320
Net increase in cash and cash equivalents	30,295	25,754
Cash and Cash Equivalents, Beginning of Year	29,998	4,244
Cash and Cash Equivalents, Ending of Year	$ 60,293	$ 29,998
Supplementary Cash Flows Information		
Interest paid	$ 11,137	$ 3,194
Income taxes paid	$ 100	$ 970

See notes to consolidated financial statements

1. Summary of Significant Accounting Policies

Nature of Operations and Principles of Consolidation

The consolidated financial statements include the accounts of Mauch Chunk Trust Financial Corp., a bank holding company, and its subsidiary, Mauch Chunk Trust Company (collectively, the Company). All intercompany accounts and transactions have been eliminated in consolidation.

Mauch Chunk Trust Company (the Bank) operates under a state bank charter and provides full banking services, including trust services. As a state bank, the Bank is subject to regulation of the Pennsylvania Department of Banking and Securities and the Federal Deposit Insurance Corporation. The area served by the Bank is principally Carbon County, Pennsylvania. Mauch Chunk Trust Financial Corp. is subject to regulation by the Federal Reserve Bank.

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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of derivative financial instruments, the determination of other-than-temporary impairment on securities and the valuation of deferred tax assets.

Significant Concentrations of Credit Risk

Most of the Company's activities are with customers located within Carbon County, Pennsylvania. Note 3 discusses the types of securities that the Company invests in. Note 4 discusses the types of lending that the Company engages in. The Company does not have any significant concentrations in any one industry or customer. Although the Company has a diversified loan portfolio, its debtors' ability to honor their contracts is influenced by the regions' economy.

Cash and Cash Equivalents

For reporting of cash flows, cash and cash equivalents include cash on hand, amount due from banks and federal funds sold, all with maturities within ninety days. The Company maintains cash deposits in other depository institutions that occasionally exceed the amount of deposit insurance available. Management periodically assesses the financial condition of these institutions and believes that the risk of any possible credit loss is minimal. Generally, federal funds are purchased and sold for one day periods. There were $55,549,000 and $24,781,000 outstanding federal funds sold at December 31, 2023, and 2022, respectively.

Trust Assets

The Company provides trust services, including administration of trust and estates through its trust department. Assets held by the trust department in a fiduciary or agency capacity for its customers are not included in these consolidated financial statements because they are not assets of the Company. Trust income is recorded on a cash basis, which is not materially different from the accrual basis.

Securities

Securities classified as available-for-sale are those securities that the Company intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movement in interest rates, changes in maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Securities available-for-sale are carried at fair value. Unrealized gains or losses are reported as increases or decreases, net of the related deferred tax effect, in other comprehensive income (loss). Equity securities are carried at fair value with changes in fair value reported in income. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

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

The Company has not recognized any credit losses for the years ended December 31, 2023, and 2022.

Restricted Investment in Bank Stocks

Restricted investment in bank stock consists of Federal Home Loan Bank (FHLB) stock in the amount of $3,359,000 and $3,864,000 on December 31, 2023, and 2022, respectively, and Atlantic Community Bankers Bank stock in the amount of $75,000 on December 31, 2023, and 2022. Federal law requires a member institution of the FHLB to hold stock of its district FHLB according to a predetermined formula. The restricted stocks are carried at cost.

Management's determination of whether these investments are impaired is based on the Company's assessment of the ultimate recoverability of the Company's cost rather than by recognizing temporary declines in value. Management believes no impairment charge is necessary related to these restricted stocks as of December 31, 2023.

Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for credit losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Company is generally amortizing these amounts over the contractual life of the loan. Premiums and discounts on purchased loans are amortized as adjustments to interest income using the effective yield method.

The loans receivable portfolio is segmented into commercial and consumer loans. Commercial loans consist of the following classes: commercial and industrial, purchased commercial & industrial, commercial real estate, investment single family real estate, multifamily, construction and land and farmland. Consumer loans consist of the following classes: single family real estate, single family home equity line of credit and consumer.

For all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed. Interest received on nonaccrual loans, including impaired loans, generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

Loans receivable includes a portfolio of purchased mortgages. Premiums related to this portfolio are amortized over the average expected term of the loans within the portfolio.

A majority of the Company's loan assets are loans to business owners of many types. The Company makes commercial loans for real estate development and other business purposes required by the customer base.

The Company's credit policies determine advance rates against the different forms of collateral that can be pledged against commercial loans. Typically, the majority of loans will be limited to a percentage of their underlying collateral values such as real estate values, equipment, eligible accounts receivable and inventory. Individual loan advance rates may be higher or lower depending upon the financial strength of the borrower and/or term of the loan. The assets financed through commercial loans are used within the business for its ongoing operation. Repayment of these kinds of loans generally comes from the cash flow of the business or the ongoing conversions of assets. Commercial real estate loans include long-term loans financing commercial properties. Repayment of this kind of loan is dependent upon either the ongoing cash flow of the borrowing entity or the resale of or lease of the subject property. Commercial real estate loans typically require a loan to value ratio of not greater than 75% and vary in terms.

Residential mortgages and home equity loans are secured by the borrower's residential real estate in either a first or second lien position. Residential mortgages and home equity loans have varying loan rates depending on the risk score of the borrower and the loan to value ratio. Residential mortgages have amortizations up to 30 years and home equity loans have maturities up to 15 years.

Other consumer loans include installment loans and car loans. The majority of these loans are unsecured.

Prior to the adoption of ASU 2016-13, a loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted to the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are also not included in the collective evaluation. When management determines that foreclosure is probable, or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate. Loans that experience insignificant payment delays and payment shortfalls generally are not individually evaluated. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed.

Loans whose terms are modified are considered modified if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted generally involve a temporary reduction in interest rate or extension of a loan's stated maturity date. Nonaccrual modifications are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans which have been modified as described above are designated as individually evaluated.

In addition, Federal regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for credit loss model.

Accounting Standards Adopted in 2023

On January 1, 2023, the Company adopted ASU 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASC 326). This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. CECL requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities, and some off-balance sheet credit exposures such as unfunded commitments to extend credit. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses. In addition, CECL made changes to the accounting for available for sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write- down on available for sale debt securities if management does not intend to sell and does not believe that it is more likely than not, they will be required to sell. The Company adopted ASC 326 and all related subsequent amendments thereto effective January 1, 2023, using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures.

The transition adjustment of the adoption of ASC 326 included a decrease in the allowance for credit losses on loans of $145 thousand. The Company recorded a net increase to retained earnings of $115 thousand as of January 1, 2023, for the cumulative effect of adopting ASC 326, which reflects the transition adjustments noted above, net of the applicable deferred tax assets recorded. Results for reporting periods beginning after January 1, 2023, are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable accounting standards ("Incurred Loss"). As of December 31, 2022, the Company did not have any other than-temporarily impaired investment securities. Therefore, upon adoption of ASC 326, the Company determined that an allowance for credit losses on available for sale securities was not deemed material.

The allowance for credit losses represents management's estimate of lifetime losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The allowance for credit losses is increased by the provision for credit losses and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for credit losses and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Because all identified losses are immediately charged off, no portion of the allowance for credit losses is restricted to any individual loan or groups of loans and the entire allowance is available to absorb all loan losses.

The allowance for credit losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance model is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors as well as reasonable and supportable forecasting for CECL. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

Consistent with ASC 326, the CECL Subcommittee will consider relevant qualitative factors that may cause the CECL estimate to differ from the historical loss experience. Qualitative adjustments will be determined and applied on a quarterly basis and will be designed to compensate for limitations of the model, be supportable and quantifiable, applied consistently over time, and be adequately documented. The Company has developed a model incorporating qualitative factors. These factors, are briefly described as changes in experience, ability and depth of lending personnel and other relevant staff, changes in the value of underlying collateral for collateral- dependent loans existence and effect of concentrations of credit and change in the level of concentrations changes in local, regional, national, and international economic and business conditions and developments that have an effect on the collectability of the loan portfolio, effect of other external factors including competition and legal and regulatory requirements, changes in the volume and severity of past due loans, the volume of non-accrual loans and the volume/severity of adversely classified loans, changes in the quality of the bank’s loan review system and changes in the nature and volume of the portfolio and in the terms of new origination, changes in lending policy/procedures, underwriting standards, and collection, charge-off or recovery practices.

Each factor will be evaluated by the CECL Subcommittee and assigned a risk grade of ‘improving conditions,’ ‘baseline,’ ‘low,’ ‘medium’ or ‘high.’ These risk grades will determine the total quantitative adjustment required for each factor. Adjustment will be based upon statistical analysis applied to average loss history recognized for Companies within the state of Pennsylvania across the period 2000-present, as segregated by the loan groupings included in the Company’s CECL model. Standard deviation from the mean will determine the appropriate adjustment based upon the risk grade applied to each factor.

Accrued Interest Receivable

The Company made an accounting policy election to exclude accrued interest receivable from the amortized cost basis of loans and securities subject to evaluation for the related allowance for credit losses. Accrued interest is excluded because the company discontinues recognition with reasonable time. Accrued interest receivable on loans is reported as a component of accrued interest receivable on the consolidated balance sheets, totaled $678,006 at December 31, 2023 and is excluded from the estimate of credit losses. Accrued interest receivable on securities, also a component of accrued interest receivable on the consolidated statements of financial condition, totaled $741,406 at December 31, 2023 and is excluded from the estimate of credit losses.

Transfers of Financial Assets

Transfers of financial assets, including loan and loan participation sales, are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets. Buildings are depreciated using useful lives ranging from 10 to 40 years. Furniture, fixtures, and equipment are being depreciated using useful lives ranging from 3 to 10 years. Leasehold improvements are depreciated over the shorter of the useful life or lease term of the asset.

Investment in Life Insurance

The Company invests in bank-owned life insurance (BOLI) as a source of funding for employee benefit expenses. BOLI involves the purchasing of life insurance by the Company on a chosen group of employees and directors. The Company is the owner and beneficiary of the policies. This life insurance investment is carried at the cash surrender value of the underlying policies. These policies can be liquidated, if necessary, with tax costs. However, the Company intends to hold the policies and, accordingly, the Company has not provided for deferred income taxes on the earnings from the increase in the cash surrender value.

Foreclosed Assets

Foreclosed assets, which are included in prepaid expenses and other assets, are comprised of property acquired through a foreclosure proceeding or acceptance of a deed-in-lieu of foreclosure and loans classified as in-substance foreclosures. A loan is classified as in-substance foreclosure when the Company has taken possession of the collateral regardless of whether formal foreclosure proceedings take place. Foreclosed assets initially are recorded at fair value, net of estimated selling costs, at the date of foreclosure, establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the assets are carried at the lower of cost or fair value minus estimated costs to sell. Gains and losses on sales of foreclosed assets, are part of other income in the accompanying consolidated statements of income. Revenues and expenses from operations and changes in the valuation allowance are included in foreclosed assets expenses in the accompanying consolidated statements of income.

Advertising

The Company follows the policy of charging the costs of advertising to expense as incurred. Advertising expense for the years ended December 31, 2023, and 2022 was $275,000 and $252,000, respectively.

Income Taxes

Income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. Deferred income taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Mauch Chunk Trust Financial Corp. and its subsidiary file a consolidated federal income tax return.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded in the balance sheets when they are funded.

Earnings Per Share

The Company has a simple capital structure. Basic earnings per share represent income available to common stockholders divided by the weighted average number of shares outstanding during the period.

Treasury Stock

Common stock shares repurchased are recorded as treasury stock at cost.

Subsequent Events

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2023, for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through March 15, 2024, the date these consolidated financial statements were available to be issued.

2. Revenue Recognition

The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying Topic 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers. The main types of revenue contracts included in noninterest income within the consolidated statements of income as follows:

Deposits Related Fees and Service Charges

Service charges and fees on deposits which are included as liabilities in the consolidated balance sheets consist of transaction-based fees, account maintenance fees and overdraft services fees for various retail and business checking customers. Transaction-based fees, which includes services such as automated teller machines (ATM) fees, Automated Clearing House (ACH) fees, stop payment charges and statement rendering fees are recognized at the time transaction is executed as that is the point in time the Company fulfills the customer's request. All deposit liabilities are considered to have one-day terms and therefore related fees are recognized as noninterest income at the time when the services are provided to the customer. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn directly from the customer's account balance.

Interchange Income

The Company earns interchange fees from credit/debit cardholder transactions conducted through the MasterCard payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized monthly, concurrently with the transaction processing services provided to the cardholder.

Gain/Losses on Sale of Foreclosed Assets

The Company records a gain or loss from the sale of foreclosed assets when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of the foreclosed asset to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the foreclosed assets are derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction prices and related gain (loss) on sale if a significant financing component is present.

Wealth/Asset/Trust Management Fees

The Company provides wealth management and trust services to individuals, corporations, and retirement funds, as well as existing loan/deposit customers of the Company, located primarily within our geographic markets. The wealth management operations are conducted through Mauch Chunk Trust Company, the subsidiary of the Company and provides a broad range of personal and corporate fiduciary services, including the administration of decedent and trust estates. Assets held in a fiduciary capacity by Mauch Chunk Trust Company, are not assets of the Company and are therefore not included in the Company's consolidated financial statements. Wealth management and trust fees earned are included within noninterest income in the consolidated statements of income.

Wealth management fees are contractually agreed with each customer and earned over time as the Company provides the contracted monthly or quarterly services. Fees are generally based on a tiered scale based on average market value of the trust assets under management (AUM) at month-end. The services provided under such a contract are considered a single performance obligation because it embodies series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Fees that are transaction based, including trade execution services, are recognized at the point in time that the transaction is executed (i.e., trade date).

3. Securities

The amortized cost and approximate fair value of investment securities available-for-sale and equity securities as of December 31, 2023, and 2022 are summarized as follows:

	2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
State and political subdivisions	$ 213,596	$ -	$ (46,221)	$ 167,375
Mortgage-backed securities, U.S. government sponsored enterprises (GSE's), residential	101,496	-	(20,903)	80,592
Corporate debt securities	42,005	13	(3,592)	38,426
Equity securities	153	-	-	153
	$ 357,250	$ 13	$ (70,716)	$ 286,546

	2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
State and political subdivisions	$ 213,872	$ -	$ (55,434)	$ 158,438
Mortgage-backed securities, U.S. government sponsored enterprises (GSE's), residential	107,270	-	(23,081)	84,189
Corporate debt securities	44,074	5	(3,961)	40,118
Equity securities	153	-	-	153
	$ 365,369	$ 5	$ (82,476)	$ 282,898

The amortized cost and fair value of debt securities available-for-sale as of December 31, 2023,

by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the securities may be called or prepaid with or without any penalties.

	Available-for-Sale	
	Amortized Cost	Fair Value
	(In Thousands)	
Due in one year or less	$ 499	$ 512
Due after one year through five years	9,974	9,921
Due after five years through ten years	31,836	28,644
Due after ten years	213,293	166,724
	255,602	205,801
Mortgage-backed securities	101,495	80,592
	$ 357,097	$ 286,393

Gross losses of $0 were realized on sales of securities in 2023. Gross losses of $314,000 were realized on sales of securities in 2022.

Securities with a carrying value of $95,166,000 and $85,950,000 on December 31, 2023, and 2022, respectively, were pledged to secure public deposits and for other purposes required or permitted by law. Securities with a carrying value of $0 and $27,473,000 on December 31, 2023, and 2022, respectively, were pledged to the Federal Home Loan Bank under its collateral requirements for advances made to the Company.

The following tables show our investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, on December 31, 2023, and 2022:

	2023					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
Securities available, for sale:						
State and political subdivisions	$ 3,076	$ (324)	$ 164,299	$ (45,897)	$ 167,375	$ (46,221)
Mortgage-backed securities, GSE's	-	-	80,592	(20,903)	80,592	(20,903)
Corporate debt securities	-	-	27,914	(3,592)	38,579	(3,592)
	$ 3,076	$ (324)	$ 272,805	$ (70,392)	$ 286,546	$ (70,716)

	2022					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
Securities available, for sale:						
State and political subdivisions	$ 91,530	$ (26,441)	$ 66,908	$ (28,993)	$ 158,437	$ (55,434)
Mortgage-backed securities, GSE's	2,000	(201)	82,189	(22,880)	84,189	(23,081)
Corporate debt securities	27,892	(1,054)	11,714	(2,907)	39,606	(3,961)
	$ 121,422	$ (27,696)	$ 160,811	$ (54,780)	$ 282,233	$ (82,476)

The Company has 220 securities in an unrealized loss position on December 31, 2023, and 2022. The unrealized losses on December 31, 2023, and 2022 are due to interest rate fluctuations. None of the securities are below investment grade. None of the individual losses above are deemed significant. None of the issuers have defaulted on interest payments. The Company does not intend to sell these securities prior to their recovery and it is more likely than not that it will not have to sell the securities prior to recovery. The Company does not consider any investments held as of December 31, 2023 to require an allowance for credit losses.

4. Loans Receivable and Allowance for Credit Losses

The composition of loans receivable on December 31, 2023, and 2022 are as follows:

	2023	2022
	(In Thousands)	
Purchased Commercial & Industrial	$ 30,201	$ -
Commercial Real Estate	51,888	103,847
Commercial	-	55,531
Investment Single Family Real Estate	30,486	-
Residential Mortgage	-	74,728
Single Family Real Estate	82,899	-
Single Family HELOC	8,430	17,759
Multifamily	18,239	-
Farmland	2,243	-
Commercial & Industrial	32,780	-
Construction & Land	2,621	-
Consumer	2,460	2,701
	262,247	254,566
Unearned net loan origination fees	652	664
Less allowance for credit losses	(3,849)	(3,407)
	(3,197)	(2,743)
Net loans	$ 259,050	$ 251,823

The following table presents the activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2023:

	2023 Allowance for Credit Losses				
	Beginning Balance	Charge-offs	Recoveries	Credit Loss Expense	Ending Balance
			(In Thousands)		
Commercial real estate	$ 729	$ -	$ -	$ 18	$ 747
Multifamily	78	-	-	(14)	64
Single Family real state	762	-		(127)	635
Single Family HELOC	161	-	-	(92)	68
Investment Commercial real estate	171	-	-	58	229
Farmland	5	-	-	(2)	3
Commercial & Industrial	525	-	9	(79)	454
Consumer	99	(60)	4	(13)	30
Construction & Land	27	-	-	16	42
Purchased Commercial & Industrial	704	-	-	870	1,574
Total	$ 3,260	$ (60)	$ 13	$ 635	$ 3,848

The beginning balance of the allowance for credit losses for loans on the above table includes the $145,000 initial adoption of CECL adjustment as disclosed in note 1 of the consolidated financial statements.

The following tables summarize the recorded investment in loans receivable by loan class as of December 31, 2022, and the activity in the allowance for credit losses by loan class for the year ended December 31, 2022, and information in regard to the allowance for credit losses:

	December 31, 2022						
	Allowance for Loan Losses						
	Beginning Balance	Charge-ffs	Recoveries	Provisions	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
				(In Thousands)			
Commercial	$ 689	$ -	$ 6	$ 153	$ 848	$ 21	$ 827
Commercial real estate	1,184	-	-	81	1,265	15	1,250
Residential mortgage	832	-	3	(15)	820	-	820
Home equity	156	-	-	15	171	-	171
Consumer, other	47	(32)	12	93	120	70	50
Unallocated	791	-	-	(608)	183	-	183
	$ 3,699	$ (32)	$ 21	$ (281)	$ 3,407	$ 106	$ 3,301

	December 31, 2022		
	Loans Receivable		
	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
		(In Thousands)	
Commercial	$ 55,531	$ 202	$ 55,329
Commercial real estate	103,846	4,213	99,633
Residential mortgage	74,728	203	74,498
Home equity	17,759	113	17,646
Consumer, other	2,701	84	2,617
	$ 254,566	$ 4,844	$ 249,722

The cumulative loss rate used as the basis for the estimate of credit losses is the Company's historical loss calculations within the CECL model, where appropriate. This information is sourced from call report data and spans back to an effective start date of 3/31/2000. Loss data will continuously be uploaded into the model across subsequent periods, with results always one quarter in arrears. The Bank may deviate from utilization of its own loss rates on an as-needed basis when said loss rates have historically been non-existent (0.0%). The Bank may also deviate from its existing loss rates when said rates are no longer indicative of the current portfolio composition/quality, such as historical rates impacted by losses resulting from purchased loan portfolios which have since matured or been divested. In these events, the Bank will utilize aggregate loss rates recognized from banks of comparable asset size throughout the state of Pennsylvania, incurred across the same period, 3/31/2000-present. The Company has adjusted the historical loss experience to reflect the Bank's portfolio, asset quality, concentrations of credit, lending policies, management, loan review policies and procedures, and operating environment.

The following table presents the amortized cost basis of loans on nonaccrual status of December 31, 2023:

	Nonaccrual with No Allowance for Credit Losses	Nonaccrual with Allowance for Credit Losses	Total Nonaccrual
	(In Thousands)		
Commercial Real Estate	$ -	$ -	$ -
Multifamily	-	-	-
Investment Single Family Real Estate	238	-	238
Single Family HELOC	17	-	17
Farmland	-	-	-
Commercial & Industrial	-	-	-
Consumer	-	-	-
Construction & Land	-	-	-
Purchase Commercial & Industrial	-	2,072	2,072
Total	$ 255	$ 2,072	$ 2,327

The following table presents nonaccrual loans by classes of the loan portfolio as of December 31, 2022, and 2022.

	2022 (In Thousands)
Commercial	$ -
Commercial real estate	48
Residential mortgage	91
Home equity	40
Consumer, other	44
	$ 223

The following table present the amortized cost basis of collateral-dependent loans by class of loans as of December 31, 2023 (in thousands):

	Secured by Real estate	Business assets Secured	Total
	(In Thousands)		
Commercial Real Estate	$ -	$ -	$ -
Multifamily	-	-	-
Investment Single Family Real Estate	238	-	238
Single Family HELOC	17	-	17
Farmland	-	-	-
Commercial & Industrial	-	-	-
Consumer	-	-	-
Construction & Land	-	-	-
Purchase Commercial & Industrial	-	2,072	2,072
Total	$ 255	$ 2,072	$ 2,327

The following table summarizes information in regard to impaired loans by loan portfolio class as of December 31, 2022 (in thousands):

	2022				
	Recorded Investment (After Charge-offs)	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(In Thousands)		
With no related allowance recorded:					
Commercial	$ 141	$ 141	$ -	$ 165	$ 9
Commercial real estate	4,083	4,082	-	4,186	195
Residential mortgage	230	267	-	237	11
Home equity	113	113	-	116	5
Consumer, other	-	-	-	-	-
With an allowance recorded:					
Commercial	62	62	21	63	4
Commercial real estate	131	131	15	135	9
Residential mortgage	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer, other	84	84	70	88	5
Total:					
Commercial	203	203	21	228	13
Commercial real estate	4,214	4,214	15	4,321	204
Residential mortgage	230	267	-	237	11
Home equity	113	113	-	116	5
Consumer, other	84	84	70	88	5
	$ 4,844	$ 4,881	$ 106	$ 4,990	$ 238

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by the past due status as of December 31, 2023, and 2022:

	2023						
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivables	Loans Receivable > 90 Days and Accruing
				(In Thousands)			
Commercial Real Estate	$ -	$ -	$ -	$ -	$ 51,888	$ 51,888	$ -
Multifamily	-	-	-	-	18,239	18,239	-
Single Family Real Estate	35	46	5	86	81,813	82,899	-
Single Family HELOC	122	-	-	123	8,307	8,430	-
Investment Single Family Real Estate	-	-	-	-	30,486	30,486	-
Farmland	-	-	-	-	2,243	2,243	-
Commercial & Industrial	-	-	-	-	32,780	32,780	-
Consumer	4	6	-	10	2,450	2,460	-
Construction & Land Purchase	-	-	-	-	2,621	2,621	-
Commercial & Industrial	-	-	-	-	30,201	30,201	-
Total	**$ 161**	**$ 52**	**$ 5**	**$ 219**	**$ 262,028**	**$ 262,247**	**$ -**

	2022						
	30-59 Days Past Due	60-89 Days Past Du	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivables	Loans Receivable > 90 Days and Accruing
				(In Thousands)			
Commercial	$ -	$ -	$ -	$ -	$ 55,531	$ 55,531	$ -
Commercial real estate	17	-	-	17	103,782	103,846	-
Residential mortgage	148	39	-	187	74,450	74,728	-
Home equity	25	-	-	25	17,694	17,759	-
Consumer, other	45	-	-	45	2,612	2,701	-
Total	$ 235	$ 39	$ -	$ 274	$ 254,069	$ 254,565	$ -

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually to classify the loans as to credit risk. This analysis includes loans with an outstanding balance greater than $100,000 and non-homogenous loans, such as commercial and commercial real estate loans. This analysis is performed on an annual basis. The Company uses the following definitions for risk ratings:

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or credit position of the institution at some future date.

Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above-described process are considered to be pass-rated loans.

The following tables present the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Company's internal risk rating system as of December 31, 2023, and 2022 (in thousands):

	2023 Loans Amortized Cost Basis by Origination Year						
	2023	2022	2021	2020	2019	Prior	TOTAL
				(In Thousands)			
Commercial Real Estate:							
Risk Rating:							
Pass	$ 6,084	$ 8,136	$ 6,548	$ 6,066	$ 3,564	$ 16,754	$ **47,152**
Special	-	-	-	-	970	681	**1,651**
Substandard	-	-	-	40	-	3,045	**3,085**
Doubtful	-	-	-	-	-	-	-
TOTAL	**$ 6,084**	**$ 8,136**	**$ 6,548**	**$ 6,106**	**$ 4,534**	**$ 20,480**	**$ 51,888**

	2023 Loans Amortized Cost Basis by Origination Year (In Thousands)						
	2023	2022	2021	2020	2019	Prior	TOTAL
Multifamily:							
Risk Rating:							
Pass	$ 2,913	$ 6,905	$ 1,973	$ 1,479	$ 2,836	$ 2,137	$ **18,239**
Special	-	-	-	-	-	-	**-**
Substandard	-	-	-	-	-	-	**-**
Doubtful	-	-	-	-	-	-	-
TOTAL	**$ 2,913**	**$ 6,905**	**$ 1,973**	**$ 1,479**	**$ 2,836**	**$ 2,137**	**$ 18,239**

	2023 Loans Amortized Cost Basis by Origination Year (In Thousands)						
	2023	2022	2021	2020	2019	Prior	TOTAL
Single Family Real Estate:							
Risk Rating:							
Pass	$ 9,015	$ 18,491	$ 12,225	$ 11,501	$ 4,108	$ 27,133	$ **82,473**
Special	-	-	-	-	-	84	**84**
Substandard	-	107	14	46	12	16	**342**
Doubtful	-	-	-	-	-	-	-
TOTAL	**$ 9,015**	**$ 18,598**	**$ 12,239**	**$ 11,547**	**$ 4,120**	**$ 27,380**	**$ 82,899**

	2023 Loans Amortized Cost Basis by Origination Year (In Thousands)						
	2023	2022	2021	2020	2019	Prior	TOTAL
Single Family HELOC							
Risk Rating:							
Pass	$ 1,152	$ 2,032	$ 1,339	$ 830	$ 440	$ 2,319	$ **8,112**
Special	-	-	-	-	-	-	**-**
Substandard	-	-	-	40	-	278	**318**
Doubtful	-	-	-	-	-	-	-
TOTAL	**$ 1,152**	**$ 2,032**	**$ 1,339**	**$ 870**	**$ 440**	**$ 2,597**	**$ 8,430**

	2023 Loans Amortized Cost Basis by Origination Year (In Thousands)						
	2023	2022	2021	2020	2019	Prior	TOTAL
Investment Single Family Real Estate:							
Risk Rating:							
Pass	$ 5,191	$ 9,098	$ 8,167	$ 3,170	$ 1,568	$ 3,291	$ **30,485**
Special	-	-	-	-	-	-	**-**
Substandard	-	-	-	-	-	-	**-**
Doubtful	-	-	-	-	-	-	-
TOTAL	**$ 5,191**	**$ 9,098**	**$ 8,167**	**$ 3,170**	**$ 1,568**	**$ 3,291**	**$ 30,485**

2023 — Loans Amortized Cost Basis by Origination Year (In Thousands)

	2023	2022	2021	2020	2019	Prior	TOTAL
Farmland:							
Risk Rating:							
Pass	$ 91	$ 254	$ 158	$ 646	$ 641	$ 453	$ **2,243**
Special	-	-	-	-	-	-	**-**
Substandard	-	-	-	-	-	-	**-**
Doubtful	-	-	-	-	-	-	-
TOTAL	$ **91**	$ **254**	$ **158**	$ **646**	$ **641**	$ **453**	$ **2,243**

2023 — Loans Amortized Cost Basis by Origination Year (In Thousands)

	2023	2022	2021	2020	2019	Prior	TOTAL
Commercial & Industrial:							
Risk Rating:							
Pass	$ 7,431	$ 4,990	$ 7,636	$ 4,160	$ 521	$ 7,863	$ **32,601**
Special	-	120	-	-	-	-	**120**
Substandard	-	-	-	-	-	59	**59**
Doubtful	-	-	-	-	-	-	-
TOTAL	$ **7,431**	$ **5,110**	$ **7,636**	$ **4,160**	$ **521**	$ **7,922**	$ **32,780**

2023 — Loans Amortized Cost Basis by Origination Year (In Thousands)

	2023	2022	2021	2020	2019	Prior	TOTAL
Consumer:							
Risk Rating:							
Pass	$ 1,126	$ 589	$ 267	$ 137	$ 69	$ 250	$ **2,438**
Special	3	-	-	-	-	-	**3**
Substandard	-	-	14	-	-	5	**19**
Doubtful	-	-	-	-	-	-	-
TOTAL	$ **1,129**	$ **589**	$ **281**	$ **137**	$ **69**	$ **255**	$ **2,460**

2023 — Loans Amortized Cost Basis by Origination Year (In Thousands)

	2023	2022	2021	2020	2019	Prior	TOTAL
Construction & Land:							
Risk Rating:							
Pass	$ 1,823	$ 797	$ -	$ -	$ -	$ -	$ **2,620**
Special	-	-	-	-	-	-	**-**
Substandard	-	-	-	-	-	-	**-**
Doubtful	-	-	-	-	-	-	-
TOTAL	$ **1,823**	$ **797**	$ **-**	$ **-**	$ **-**	$ **-**	$ **2,620**

	2023						
	Loans Amortized Cost Basis by Origination Year (In Thousands)						
	2023	2022	2021	2020	2019	Prior	TOTAL
Purchased Commercial & Industrial:							
Risk Rating:							
Pass	$ 6,280	$ 12,921	$ 3,562	$ 2,018	$ 2,534	$ 468	$ **27,783**
Special	-	-	-	-	-	-	**-**
Substandar	-	-	2,072	-	-	346	**2,418**
Doubtful	-	-	-	-	-	-	**-**
TOTAL	$ **6,280**	$ **12,921**	$ **5,634**	$ **2,018**	$ **2,534**	$ **814**	$ **30,201**

	2022				
	Pass	Special Mention	Substandard (In Thousands)	Doubtful	Total
Commercial	$ 55,289	$ 40	$ 202	$ -	$ 55,531
Commercial real estate	99,923	1,204	3,350	-	103,847
Residential mortgage	74,399	99	230	-	74,728
Home equity	17,646	-	113	-	17,759
Consumer, other	2,617	-	84-	-	2,701
	$ 249,243	$ 1,343	$ 3,980	$ -	$ 254,566

Occasionally, the Company modifies loans to borrowers in financial distress by providing interest rate. reductions, extensions of maturity, interest only payments or other-than-insignificant payment delays. In 2023, there were modifications to purchased commercial and industrial loans to borrowers in financial distress with total principal amounts of $2,418,000. One modified loan of $346,000, had a 24-month term extension and interest rate increase of 2.00%. The other modified loan of $2,072,000 had an interest rate increase of 6.00% and modified terms of interest capitalized during the 12-month period following modification. There are no additional commitments to lend additional amounts to these borrowers. One modified loan of $2,072,000 is listed on nonaccrual, however both modified loans are current. The Company has not experienced any payment defaults after the modifications.

Prior to 2023, the Company may grant a concession or modification for economic or legal reasons related to a borrower's financial condition that it would not otherwise consider resulting in a modified loan which is then identified as a troubled debt restructuring (TDR). The Company may modify loans through rate reductions, extensions of maturity, interest only payments or payment modifications to better match the timing of cash flows due under the modified terms with the cash flows from the borrowers' operations.

As of December 31, 2022, the Company has a recorded investment in TDRs of $972,000. The Company has allocated $17 of specific allowance for these loans on December 31, 2022.

5. Foreclosed Assets

The Company had no foreclosed asset activity for the years ended December 31, 2023, and 2022.

On December 31, 2023, and 2022, the recorded investment of residential mortgage and consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceeds are in process was $5 and $0, respectively.

6. Bank Premises and Equipment

The components of bank premises and equipment on December 31, 2023, and 2022 are as follows:

	2023	2022
	(In Thousands)	
Land	$ 902	$ 1,100
Buildings and leasehold improvements	11,231	11,972
Furniture, fixtures, and equipment	5,001	4,681
Right of use asset	330	450
Construction in progress	205	141
	17,669	18,344
Accumulated depreciation	(10,239)	(10,051)
	$ 7,430	$ 8,293

7. Deposits

The components of deposits on December 31, 2023, and 2022 are as follows:

	2023	2022
	(In Thousands)	
Demand, noninterest bearing	$ 81,921	$ 85,243
Demand, interest bearing	276,618	279,252
Savings	77,571	82,694
Time, $250,000 and over	27,369	16,061
Time, other	104,838	66,808
	$ 568,317	$ 530,057

Included in time deposits, on December 31, 2023, and 2022, are brokered deposits of $0 and $16,753,000, respectively.

On December 31, 2023, the scheduled maturities of time deposits are as follows (in thousands):

2024	$ 118,002
2025	10,918
2026	1,554
2027	1,324
2028	409
	$ 132,207

8. Securities Sold Under Agreements to Repurchase

The Company enters into agreements under which it sells securities subject to an obligation to repurchase the same or similar securities. Under these arrangements, the Company may transfer legal control over the assets but still retain effective control through an agreement that both entitles and obligates the Company to repurchase the assets. As a result, these repurchase agreements are accounted for as collateralized financing arrangements (i.e., secured borrowings) and not as a sale and subsequent repurchase of securities. The obligation to repurchase the securities is reflected as a liability in the Company's consolidated balance sheets, while the securities underlying the repurchase agreements remain in the respective investment securities asset accounts. In other words, there is no offsetting or netting of the investment securities assets with the repurchase agreement liabilities. In addition, as the Company does not enter into reverse repurchase agreements, there is no such offsetting to be done with the repurchase agreements.

Securities sold under agreements to repurchase generally mature within a few days from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. Securities sold under these agreements are retained under the Company's control at its safekeeping agent. The Company may be required to provide additional collateral based on the fair value of the underlying securities. Information concerning securities sold under agreements to repurchase for the years ended December 31, 2023, and 2022 is summarized as follows:

	2023	2022
	(Dollars In Thousands)	
Balance outstanding on December 31	$ 3,421	$ 3,810
Weighted average interest rate at the end of the year	0.84 %	0.76 %
Average daily balance during the year	3,373	4,481
Weighted-average interest rate during the year	0.75 %	0.25 %
Maximum month-end balance during the year	$ 4,609	$ 6,233

9. Other Borrowed Funds and Long-Term Debt

Other borrowed funds consist of short-term borrowings with the Federal Home Loan Bank (FHLB), and Atlantic Community Bankers Bank (ACBB). The Company has a $81,220,000 line of credit arrangement with the FHLB. Short-term borrowings outstanding under this arrangement with the FHLB were $0 and $0 with a rate of 5.68% and 4.45% on December 31, 2023, and 2022, respectively. As of December 31, 2023, and 2022, outstanding balances owed to ACBB are $0 and $260,000 with a floating rate at Wall Street Journal Prime plus 0.50% on December 31, 2023, due in 2024.

Long-term debt of $72,320,000 and $85,524,000 on December 31, 2023, and 2022, respectively, consists of advances from the FHLB under various notes, with an average rate of 2.28% and 2.51% on December 31, 2023, and 2022, respectively.

Maturities of long-term debt on December 31, 2023, are as follows (in thousands):

2024	$ 46,820
2025	25,500
	$ 72,320

The Company has a maximum borrowing capacity with the FHLB of approximately $141,351,000, of which $72,320,000 was outstanding on December 31, 2023. Advances from the FHLB are secured by qualifying assets of the Bank.

As of December 31, 2023, and 2022, the Company had $23,000,000 available but undrawn in a letter of credit with the FHLB to secure municipal deposits held with the Bank.

10. Employee Benefit Plans

Employee Stock Ownership Plan (ESOP)

The Company has an Employee Stock Ownership Plan (ESOP) which is a noncontributory plan established to acquire shares of the Company's common stock for the benefit of all employees of the Company. Contributions to the plan are determined by the Board of Directors. Contributions charged to expense amounted to $100,000 and $150,000 for the years ended December 31, 2023, and 2022. On December 31, 2023, 134,830 shares of the Company's common stock were held by the Employee Stock Ownership Plan Trust. In the event a terminated Plan participant desires to sell their shares of the stock, or for certain employees who elect to diversify their account balances, the Company may be required to purchase the shares from the participant at their fair market value.

401(k) Plan

The Company has a 401(k) Plan for eligible employees. The employees may contribute up to the maximum percentage of their compensation allowable by law to the Plan. The Company will make matching contributions up to 50% of the employee's contribution not to exceed 2% of eligible compensation. The Company will also make a safe-harbor contribution on the behalf of all participants in an amount equal to 3% of eligible compensation. The Company also may make discretionary contributions. Employees are immediately vested with respect to employee and Company contributions. The Company's contribution charged to expense was $203,000 and $179,000 for the years ended December 31, 2023, and 2022, respectively.

Executive Supplemental Income Plan

The Company has implemented a nonqualified Executive Supplemental Income (ESI) Plan for a certain group of officers. Under the provisions of the ESI Plan, the participating officers have executed agreements providing each officer a retirement annuity benefit, or their beneficiary a salary continuation benefit in the event of pre-retirement death. The Plan is informally funded by life insurance carried on the lives of these officers. The ESI benefit payable was $133,000 and $148,000 on December 31, 2023, and 2022, respectively, and is included in other liabilities in the accompanying consolidated balance sheets. For each of the years ended December 31, 2023, and 2022, $5,000 and $6,000 respectively, was charged to expense in connection with this Plan.

Deferred Compensation Plans

The Company has established several deferred compensation plans for participating Directors. Under these plans, the Company will make deferred income payments for a ten-year period generally beginning at age 65, or at death if earlier.

To informally fund benefits under the Plan, the Company is the owner and beneficiary of life insurance policies on the lives of the participating directors. Deferred compensation payable on December 31, 2023, and 2022 was $359,000 and $407,000, respectively, and is included in other liabilities in the accompanying consolidated balance sheets. For the years ended December 31, 2023, and 2022, $35,000 and $39,000, respectively, was charged to expense in connection with these plans.

11. Comprehensive Loss

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities and changes in the defined benefit pension plan, are reported as a separate component of the equity section of the consolidated balance sheets, net of related income taxes, such items, along with net income, are components of income (loss) in accumulated comprehensive income (loss).

The components of accumulated other comprehensive loss and the related income tax effect are as follows as of December 31, 2023, and 2022:

	2023	2022
	(In Thousands)	
Unrealized holding losses on available-for-sale securities	$ (70,703)	$ (82,471)
Tax effect	14,848	17,320
Net of income taxes	(55,855)	(65,151)
Derivatives	545	1,074
Tax effect	(92)	225
Net of income taxes	453	849
Accumulated other comprehensive loss	$ (55,402)	$ (64,302)

12. Federal Income Taxes

The components of income tax expense for the years ended December 31, 2023, and 2022 are as follows:

	2023	2022
	(In Thousands)	
Current	$ 64	$ 632
Deferred	106	134
	$ 170	$ 766

A reconciliation of the statutory income tax at a rate of 21% to the income tax expense included in the statements of income is as follows for the years ended December 31, 2023, and 2022:

	2023		2022	
	Amount	**Percent of Pre-Tax Income**	**Amount**	**Percent of Pre-Tax Income**
	(Dollars in Thousands)			
Federal income tax at statutory rate	$ 667	21 %	$ 1,218	21 %
Tax exempt interest	(342)	(11)	(396)	(7)
Bank-owned life insurance	(151)	(5)	(44)	(1)
Other	(4)	-	(10)	-
	$ 170	5 %	$ 766	13 %

Net deferred tax assets and liabilities consisted of the following components as of December 31, 2023, and 2022:

	2023	2022
	(In Thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 759	$ 629
Deferred compensation	103	116
Net unrealized loss on derivatives	14,848	17,320
Lease liability	72	97
Nonaccrual loan interest	3	1
Accrued expenses	7	4
	15,792	18,167
Deferred tax liabilities:		
Bank premises and equipment	203	188
Net unrealized gains on securities available-for-sale	-	-
Discount accretion	87	56
Prepaid expenses	94	100
Right of use asset	69	95
Loan origination costs	159	160
Net unrealized gain on derivatives	220	225
	832	824
Net deferred tax liability	$ 14,960	$ 17,343

The Company follows accounting guidance related to the accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax liabilities to maintain for uncertain tax positions. The Company had no material unrecognized tax benefits or accrued interest and penalties as of December 31, 2023, and 2022. The Company's policy is to account for interest as a component of interest expense and penalties as a component of other expense.

13. Transactions With Executive Officers, Directors, and Principal Stockholders

The Company has had, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, principal stockholders, their immediate families and affiliated companies (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. These persons were indebted to the Company for loans totaling $995,000 and $627,000 on December 31, 2023, and 2022, respectively. During 2023 activity included, $859,000 of new loans, $491,000 of repayments made to new executive officers and directors. These persons had deposits with the Company totaling $3,163,000 and $2,623,000 on December 31, 2023, and 2022, respectively.

14. Right of Use Asset and Lease Liabilities

The Company's three leases are all classified as operating leases with no short-term leases. Currently, all of the leases are for branch leases and two out of three contain renewal options. The recorded amounts for the branch leases are impacted by assumptions around renewals and/or extensions and the interest rate used to discount those future lease obligations. The Company has recorded amounts on its consolidated balance sheets as of December 31, 2023, and 2022 for the right of use asset of $330,000, and $450,000, respectively, recorded in bank premises and equipment, offset by lease liabilities of $340,000 and $577,000, respectively, recorded in other liabilities on the consolidated balance sheets. Operating cash flow paid for lease liabilities was $133,000. As of December 31, 2023, the operating leases overall had a weighted average lease term of 3.50 years. The weighted average discount rate for the operating leases was 2.95%.

A reconciliation of operating lease liabilities by minimum lease payments by year and in aggregate and discount amounts in aggregate, as of December 31, 2023, are as follows (in thousands):

2024	$ 107
2025	108
2026	90
2027	52
Total undiscounted lease liabilities	357
Less discounted amount	(17)
Total lease liabilities	$ 340

15. Derivative Financial Instruments

The Company is exposed to certain risk arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its assets and liabilities and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's borrowings.

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate caps as part of its interest rate risk management strategy. Interest rate caps designated as cash flow hedges involve the receipt of variable amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up-front premium.

For derivatives designated and that qualify as cash flow hedges of interest rate risk, the gain or loss on the derivative is recorded in accumulated other comprehensive loss and subsequently reclassified into interest expense in the same period(s) during which the hedged transaction affects earnings. Gains and losses on the derivative representing hedge components excluded from the assessment of effectiveness are over the life of the hedge on a systematic and rational basis, as documented at hedge inception in accordance with the Company's accounting policy election. The earnings recognition of excluded components is presented in interest expense. Amounts reported in accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. The Company presents derivative position on the balance sheet in other assets and other liabilities.

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the consolidated balance sheets as of December 31, 2023, and 2022:

	2023			
	Asset Derivatives		Liability Derivatives	
	Notional Amount	Fair Value (1)	Notional Amount	Fair Value (2)
	(In thousands)			
Interest rate products	$ 36,000	$ 1,049	$ 41,000	$ (376)

	2022			
	Asset Derivatives		Liability Derivatives	
	Notional Amount	Fair Value (1)	Notional Amount	Fair Value
	(In thousands)			
Interest rate products	$ 31,000	$ 1,082	$ -	$ -

(1) Included in other assets in the consolidated balance sheets.

(2) Included in other liabilities in the consolidated balance sheets.

The table below presents the effect of cash flow hedge accounting on accumulated other comprehensive income as of December 31, 2022 and 2021:

	2023		
	Amount of Gain or Loss Recognized in OCI		
	On Derivative	Included Component	Excluded Component
		(In thousands)	
Derivatives in cash flow:			
Hedging relationships			
Interest rate products	$ (396)	$ (396)	$ -

	Amount of Loss Reclassified From Accumulated OCI		
	Into Income (2)	Into Income Included Component	Into Income Excluded Component
		(In thousands)	
Derivatives in cash flow:			
Hedging relationships			
Interest rate products	$ 80	$ 80	$ -

	2022		
	Amount of Gain or Loss Recognized in OCI		
	On Derivative	Included Component	Excluded Component
		(In thousands)	
Derivatives in cash flow:			
Hedging relationships			
Interest rate products	$ 661	$ 661	$ -

	Amount of Loss Reclassified From Accumulated OCI		
	Into Income (2)	Into Income Included Component	Into Income Excluded Component
		(In thousands)	
Derivatives in cash flow:			
Hedging relationships			
Interest rate products	$ -	$ -	$ -

(3) Included in other income in the consolidated statements of income.

(4) Included in interest expense in the consolidated statements of income.

16. Financial Instruments with Off-Balance Sheet Risk

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

A summary of the Company's financial instrument commitments on December 31, 2023, and 2022 is as follows:

	2023	2022
	(In Thousands)	
Commitments to grant loans	$ 11,629	$ 5,141
Unfunded commitments under lines of credit	43,619	46,408
Outstanding letters of credit	937	1,111

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory and equipment. Under ASC 326 unfunded commitments are reserved against in the model, for December 31, 2023 the total reserve was $13,000.

Outstanding letters of credit written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next twelve months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Company requires collateral supporting these letters of credit as deemed necessary. The maximum undiscounted exposure related to these commitments on December 31, 2023, and 2022 was $937,000 and $1,111,000, respectively, and the approximate value of $937,000 and $1,111,000, respectively. The current amount of the liability as of December 31, 2023, and 2022 for guarantees under standby letters of credit issued is not material.

17. Regulatory Matters

The Company is required to maintain a cash reserve balance in vault cash or with the Federal Reserve Bank. The total of this reserve balance was approximately $0 on December 31, 2023, and 2022.

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

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. As of December 31, 2023, and 2022, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

Actual and required capital amounts and ratios for the bank are presented below as of December 31, 2023, and 2022:

	2023					
	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollar Amounts in Thousands)					
Total capital (to risk-weighted assets)	$ 51,348	13.94 %	$ >29,469	>8.00 %	$ >36,837	>10.00 %
Common equity Tier 1 (CET1) capital (to risk-weighted assets)	51,348	13.94	>16,577	>4.50	>23,944	>6.50
Tier 1 (core) capital (to risk-weighted assets)	51,348	13.94	>22,102	>6.00	>29,469	>8.00
Tier 1 (core) capital (to average assets)	51,348	7.22	>28,466	>4.00	>35,582	>5.00

	2022					
	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollar Amounts in Thousands)					
Total capital (to risk-weighted assets)	$ 48,474	12.64 %	$ >30,676	>8.00 %	$ >38,345	>10.00 %
Common equity Tier 1 (CET1) capital (to risk-weighted assets)	48,474	12.64	>17,255	>4.50	>24,924	>6.50
Tier 1 (core) capital (to risk-weighted assets)	48,474	12.64	>23,007	>6.00	>30,676	>8.00
Tier 1 (core) capital (to average assets)	48,474	7.19	>26,967	>4.00	>33,709	>5.00

18. Fair Value Measurements and Fair Value of Financial Instruments

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices in active markets. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows.

Accordingly, the fair value estimates may not be realized in an immediate settlement of the instruments.

Fair value accounting guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

In accordance with this guidance, the Company groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded, and the reliability of the assumptions used to determine fair value.

Level 1 - Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used on December 31, 2023, and 2022 are as follows:

	2023			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In Thousands)			
State and political subdivisions	$ 167,375	$ -	$ 167,375	$ -
Mortgage-backed securities, GSE's, residential	80,592	-	80,392	-
Corporate debt securities	38,426	-	38,426	-
Equity securities	153	-	153	-
Derivative Asset	1,049	-	1,049	-
Derivative Liability	376		376	
	$ 287,971	$ -	$ 287,971	$ -

	2022			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In Thousands)			
State and political subdivisions	$ 157,414	$ -	$ 157,414	$ -
Mortgage-backed securities, GSE's, residential	84,327	-	84,327	-
Corporate debt securities	40,066	-	40,066	-
Equity securities	153	-	153	-
Derivatives	1,083	-	1,083	-
	$ 282,863	$ -	$ 282,863	$ -

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used on December 31, 2023, and 2022 are as follows:

	2023			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In Thousands)			
Individually evaluated	$ 1,417	$ -	$ -	$ 1,417

	2022			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In Thousands)			
Impaired loans	$ 171	$ -	$ -	$ 171

Quantitative information about Level 3 fair value measurements on December 31, 2023, and 2022 is included in the table below:

	2023			
	Quantitative Information About Level 3 Fair Value Measurements			
	Fair Value Estimate	Valuation Techniques	Unobservable Inputs	Estimated Range
	(In Thousands)			
Individually evaluated loans	$ 1,746	Appraisal of collateral	Appraisal adjustments	30-50%
			Liquidation expenses	13%

	2022			
	Quantitative Information About Level 3 Fair Value Measurements			
	Fair Value Estimate	Valuation Techniques	Unobservable Inputs	Estimated Range
	(In Thousands)			
Impaired loans	$ 171	Appraisal of collateral	Appraisal adjustments	40-60%
			Liquidation expenses	13%

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments on December 31, 2023, and 2022:

Cash and Cash Equivalents (Carried at Cost)

The carrying amounts reported in the balance sheet for cash and short-term instruments approximate those assets' fair values.

Securities

The fair value of securities (carried at fair value) is determined by quoted prices in an inactive market or matrix pricing (Level 2). Matrix pricing is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices.

Loans Receivable (Carried at Cost)

The fair values of loans, including loans held for sale, are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments, and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

Individually Evaluated/Impaired Loans (Generally Carried at Fair Value)

Individually evaluated/impaired loans carried at fair value are those in which the Company has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value on December 31, 2023, consists of loan balances of $2,393,000, less a valuation allowance of $976,000 The fair value on December 31, 2022, consists of loan balances of $277,000, less a valuation allowance of $106,000.

Servicing Rights (Carried at Lower of Cost or Fair Value)

The fair value of mortgage servicing right is based on a valuation model that calculates the present value of estimated net servicing income. The valuation incorporation assumptions that market participants would use in estimating future net servicing income.

Restricted Investment in Bank Stocks (Carried at Cost)

The carrying amount of restricted investment in bank stocks approximates fair value and considers the limited marketability of such securities.

Accrued Interest Receivable and Payable (Carried at Cost)

The carrying amount of accrued interest receivable and accrued interest payable approximates its fair value.

Derivatives (Carried at Fair Value)

Derivative instruments are valued using market interest rates and market volatility as inputs to a modified Black-Scholes model.

Deposit Liabilities (Carried at Cost)

The fair values disclosed for demand deposits (e.g., interest and noninterest checking, passbook savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Other Borrowed Funds (Carried at Cost)

The carrying amounts of other borrowed funds approximate their fair values.

Long-Term Debt (Carried at Cost)

Fair values of FHLB advances are estimated using discounted cash flow analysis, based on quoted prices for new FHLB advances with similar credit risk characteristics, terms, and remaining maturity. These prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party.

Off-Balance Sheet Financial Instruments

Fair values for the Company's off-balance sheet financial instruments (lending commitments and letters of credit) are based on fees currently charged in the market to enter into similar agreements, taking into account, the remaining terms of the agreements and the counterparties' credit standing. The fair value of these off-balance sheet financial instruments was not material on December 31, 2023, and 2022.

The estimated fair value of the Company's financial instruments on December 31, 2023, and 2022 were as follows:

	2023				
	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In Thousands)		
Financial assets:					
Cash and cash equivalents	$ 60,295	$ 60,295	$ 60,295	$ -	$ -
Securities available-for-sale	286,393	286,393	-	286,393	-
Equity securities	153	153	-	153	-
Restricted investment in bank stocks	3,434	3,434	-	3,434	-
Loans receivable, net	259,050	251,756	-	-	251,756
Accrued interest receivable	3,019	3,019	-	3,019	-
Derivative Asset	1,049	1,049	-	1,049	-
Financial liabilities:					
Deposits	$ 568,317	$ 525,953	$ -	$ -	$ 525,930
Other borrowed funds	-	-	-	-	-
Accrued interest payable	543	543	-	543	-
Long-term debt	72,320	70,878	-	70,878	-
Derivative Liability	376	376		376	

	2022				
	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In Thousands)		
Financial assets:					
Cash and cash equivalents	$ 29,998	$ 29,998	$ 29,998	$ -	$ -
Securities available-for-sale	282,745	282,745	-	282,745	-
Equity securities	153	153	-	153	-
Restricted investment in bank stocks	3,939	3,939	-	3,939	-
Loans receivable, net	251,823	244,795	-	-	244,795
Accrued interest receivable	2,992	2,992	-	2,992	-
Derivatives	1,074	1,074	-	1,074	-
Financial liabilities:					
Deposits	$ 530,049	$ 504,713	$ -	$ -	$ 504,713
Other borrowed funds	260	260	-	260	-
Accrued interest payable	492	492	-	492	-
Long-term debt	85,524	81,482	-	81,482	-

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