2022

ANNUAL REPORT

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PEOPLES TRUST Company

The bank with a *heart*

Balance Sheets

Statements of Income

Statements of Comprehensive Income

Statements of Changes in Shareholders' Equity

Statements of Cash Flows

Notes to Financial Statements

SINCE 1886

Photography by David Bruekner

2022

ANNUAL REPORT

Looking to the future.

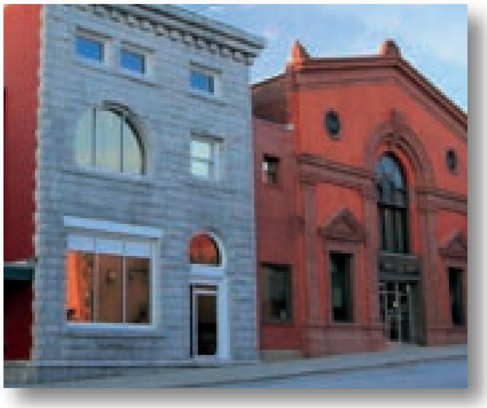
PEOPLES TRUST *Company*

The bank with a *heart*

Photography by David Bruekner

2022

BRANCH LOCATIONS



Main Office
25 Kingman Street
St. Albans, VT

Enosburg Falls
140 Main Street
Enosburg Falls, VT

Franklin Park West
1 Franklin Park West
St. Albans, VT

PEOPLES TRUST
Company
The bank with a *heart*

2022

BRANCH LOCATIONS

Georgia
1127 Ethan Allen Highway
Georgia, VT

Swanton
123 First Street
Swanton, VT

Customer Service

Local:
(802) 524-2196

Toll Free:
(800) 479-2196

Telephone Banking:
(802) 524-5054
(800) 203-9575

PEOPLES TRUST Company

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2022

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PEOPLES TRUST Company

The bank with a heart

PEOPLES TRUST
Company
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March 15, 2023

Dear Peoples Trust Company Shareholder:

Enclosed please find a copy of the 2022 Peoples Trust Company Audited Financial Report. I am pleased to report that your bank had another successful year. While we enjoyed a strong year in 2022, how we arrived there is much different from what was originally anticipated. Rapid increases to interest rates, especially those affecting residential mortgages, negatively affected residential refinance activity and virtually turned off the strong gain-on-sale of loan income we experienced the past two years. This was more than offset, especially in the latter half of the year, with the increased rate received on our large federal funds position and our securities portfolio. Additionally, despite borrowing rates doubling in a very short period, the bank experienced strong loan demand throughout the year, with over $26 million in new on-balance sheet loan growth in 2022.

We continue to be mindful of the current economic conditions and the challenges that high inflation, lack of affordable housing, labor shortages and other issues are having on our customers and community members. As one of the last remaining locally owned and operated banks in the State, we take our responsibility seriously when it comes to supporting our businesses, farmers, municipalities and individuals throughout our Northern Vermont marketplace. I'm sure as a shareholder, you have the same pride as we do that your investment directly impacts your local businesses, neighbors and friends. Your investment makes a difference in real peoples' lives.

Below are a few of the financial highlights of the year ending December 31, 2022 compared to year ending December 31, 2021. You will find more detail in the accompanying pages of this report:

- ***Net Income decreased by $248,754, from $2,320,707 at year-end 2021 to $2,071,953 as of 12/31/2022.***
- ***Total Assets decreased by $13,216,041 from $382,005,862 at year-end 2021 to $368,789,821 as of 12/31/2022.***
- ***Total Loans in the owned portfolio increased by $26,813,632 to $210,776,083.***
- ***Non-performing loans decreased $100,747 to $797,319.***

With our continued focus on enhancing shareholder value, the Board of Directors and I are pleased to announce that at the February 2023 Board meeting, Board members voted to increase the annual dividend payout to its shareholders from $0.95 per share to $1.00 per share. The bank also purchased and retired 17,298 shares in 2022, increasing the ownership percentage of those remaining shareholders. We remain committed to providing increased and tangible shareholder benefits. Your bank continues to maintain a strong capital position, with ratios easily exceeding the FDIC definition of a well-capitalized financial institution.

As noted in previous shareholder communication, in February Kevin J. Manahan was added to the Board of Directors and is on the accompanying proxy for your consideration at this year's annual stockholder meeting. We believe Kevin will serve the bank well and add value to the organization. All of our Board members play a vital role in the mission of the Peoples Trust Company to profitably deliver high quality services that meet the financial needs of our community, its businesses and our neighbors.

We hope you will consider joining us for our Annual Shareholders meeting to be held on Tuesday, April 11th at 10:00am in the Boardroom of the Kingman Street Office (Main Office). This will mark the first in-person meeting we have held since 2019. I look forward to seeing many of you there!

On behalf of the Board of Directors and all of the staff, I want to voice my appreciation for your continued support and dedication to the work we do. Thank you for believing in the "Bank with a Heart".

Sincerely,

Thomas J. Gallagher

Thomas J. Gallagher
President/CEO
Peoples Trust Company

PEISCH
CPAs & Advisors Since 1920

PEOPLES TRUST COMPANY OF ST. ALBANS

FINANCIAL REPORT

DECEMBER 31, 2022

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Peoples Trust Company of St. Albans
St. Albans, Vermont

Opinion

We have audited the accompanying financial statements of Peoples Trust Company of St. Albans which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Peoples Trust Company of St. Albans as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Peoples Trust Company of St. Albans and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

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West Lebanon, NH 03784
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Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

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

A. M. Peisch & Company LLP

Rutland, Vermont
February 6, 2023
VT Reg. No. 92-0000102

PEOPLES TRUST COMPANY OF ST. ALBANS
BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

	2022	2021
ASSETS		
Cash and cash equivalents	$ 6,260,862	$ 3,739,364
Interest bearing deposits with banks	59,165,826	121,769,333
Certificates of deposit	750,000	2,994,000
Securities available-for-sale	79,163,768	61,347,187
Federal Home Loan Bank stock, at cost	223,700	223,700
Loans held for sale	224,791	-
Loans receivable, net	205,719,196	179,075,042
Bank premises and equipment, net	5,401,108	5,623,355
Accrued interest receivable	998,427	851,611
Bank owned life insurance	6,959,248	4,177,172
Other assets	3,922,895	2,205,098
Total assets	$ 368,789,821	$ 382,005,862
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Demand deposits	$ 121,146,682	$ 131,520,277
Savings, NOW, and money market deposits	164,123,861	158,833,460
Time deposits $250,000 and over	8,682,024	8,793,212
Other time deposits	38,194,554	40,803,369
Total deposits	332,147,121	339,950,318
Repurchase agreements	3,250,000	3,250,000
Accrued interest payable and other liabilities	1,562,188	1,318,468
Total liabilities	336,959,309	344,518,786
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Common stock - $0.50 par value; 2,000,000 shares authorized; 552,176 and 569,474 shares issued and outstanding in 2022 and 2021, respectively	276,088	284,737
Additional paid-in capital	8,381,685	8,381,685
Retained earnings	28,577,530	28,062,694
Accumulated other comprehensive (loss) income	(5,404,791)	757,960
Total shareholders' equity	31,830,512	37,487,076
Total liabilities and shareholders' equity	$ 368,789,821	$ 382,005,862

See notes to financial statements.

PEOPLES TRUST COMPANY OF ST. ALBANS
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Interest income:		
Interest and fees on loans	$ 8,744,876	$ 9,099,905
Interest and dividends on investment securities:		
U.S. government and federal agencies	594,568	283,606
CD's with banks	57,115	87,558
Other investments	927,025	756,378
Interest on federal funds sold and other interest bearing deposits	1,196,760	110,909
Total interest income	11,520,344	10,338,356
Interest expense:		
Interest on deposits	747,909	949,380
Interest on repurchase agreements	8,792	7,827
Total interest expense	756,701	957,207
Net interest income	10,763,643	9,381,149
Less provision for loan losses	75,000	-
Net interest income after provision for loans losses	10,688,643	9,381,149
Other income:		
Service charges on deposit accounts	897,692	538,087
Other service charges and fees	379,300	387,290
Interchange fees	1,045,559	1,015,941
Gain on sale of loans	215,945	1,451,363
Loss on sale of securities, net	(5)	-
Other income	415,353	337,958
Total other income	2,953,844	3,730,639
Other expenses:		
Salaries and employee benefits	6,592,679	5,963,955
Occupancy and equipment expense	1,080,653	1,101,403
Software maintenance	674,046	592,735
Gain on sale of premises and equipment	-	(38,924)
Interchange expense	489,814	484,716
State franchise tax	375,980	323,659
Impairment loss	-	41,293
Other expense	2,070,558	1,900,760
Total other expenses	11,283,730	10,369,597
Income before income taxes	2,358,757	2,742,191
Income tax expense	286,804	421,484
Net income	$ 2,071,953	$ 2,320,707
Earnings per common share	$ 3.71	$ 4.06

See notes to financial statements.

PEOPLES TRUST COMPANY OF ST. ALBANS
STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Net income	$ 2,071,953	$ 2,320,707
Other comprehensive loss:		
Unrealized loss on securities:		
Unrealized holding losses arising during period	(7,800,958)	(751,126)
Tax effect	1,638,203	157,735
	(6,162,755)	(593,391)
Less: reclassification adjustment for losses included in income	5	-
Tax effect	(1)	-
	4	-
Other comprehensive loss, net of tax:	(6,162,751)	(593,391)
Comprehensive (loss) income	$ (4,090,798)	$ 1,727,316

See notes to financial statements.

PEOPLES TRUST COMPANY OF ST. ALBANS
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2022 AND 2021

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, January 1, 2021	$ 286,571	$ 8,381,685	$ 26,502,598	$ 1,351,351	$ 36,522,205
Net income	-	-	2,320,707	-	2,320,707
Other comprehensive loss	-	-	-	(593,391)	(593,391)
Stock buyback	(1,834)	-	(218,046)	-	(219,880)
Cash dividends paid	-	-	(542,565)	-	(542,565)
Balance, December 31, 2021	284,737	8,381,685	28,062,694	757,960	37,487,076
Net income	-	-	2,071,953	-	2,071,953
Other comprehensive loss	-	-	-	(6,162,751)	(6,162,751)
Stock buyback	(8,649)	-	(1,026,855)	-	(1,035,504)
Cash dividends paid	-	-	(530,262)	-	(530,262)
Balance, December 31, 2022	$ 276,088	$ 8,381,685	$ 28,577,530	$ (5,404,791)	$ 31,830,512

See notes to financial statements.

PEOPLES TRUST COMPANY OF ST. ALBANS
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 2,071,953	$ 2,320,707
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	448,537	466,484
Provision for loan losses	75,000	-
Net change in deferred taxes	(45,647)	96,845
Decrease (increase) in taxes receivable	62,453	(62,453)
Increase in taxes payable	104,998	-
Gain on sale of loans	(215,945)	(1,451,363)
Gain on sale of premises and equipment	-	(38,924)
Loss on sale of securities, net	5	-
Impairment loss	-	41,293
Amortization, net	494,250	638,818
(Increase) decrease in loans held for sale	(224,791)	2,854,900
Increase in deferred loan fees	(112,358)	(177,181)
(Increase) decrease in accrued interest receivable	(146,816)	94,844
Increase in bank owned life insurance	(2,782,076)	(87,281)
Increase in other assets	(297,884)	(463,239)
Increase in accrued expenses and other liabilities	340,205	19,693
Net cash (used) provided by operating activities	(228,116)	4,253,143
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in interest bearing deposits with banks	62,603,507	(44,657,261)
Proceeds from sales, maturities, and paydowns of securities available-for-sale	6,639,612	12,172,149
Proceeds from sales, maturities, and paydowns of certificates of deposit	2,244,000	746,000
Purchase of securities available-for-sale	(32,751,401)	(19,030,638)
Loan originations, net of repayments	(26,459,404)	297,575
Recoveries of loans charged off	68,553	164,828
Proceeds from sale of premises and equipment	-	663,777
Purchases of premises and equipment	(226,290)	(442,084)
Net cash provided (used) by investing activities	12,118,577	(50,085,654)

See notes to financial statements.

PEOPLES TRUST COMPANY OF ST. ALBANS
STATEMENTS OF CASH FLOWS (Continued)
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) increase in demand, savings, NOW and money market deposits	$ (5,083,194)	$ 42,831,880
Net (decrease) increase in time deposits	(2,720,003)	729,949
Net increase in repurchase agreements	-	39,191
Repurchase of common stock	(1,035,504)	(219,880)
Dividends paid	(530,262)	(542,565)
Net cash (used) provided by financing activities	(9,368,963)	42,838,575
Net increase (decrease) in cash and cash equivalents	2,521,498	(2,993,936)
Cash and cash equivalents		
Beginning	3,739,364	6,733,300
Ending	$ 6,260,862	$ 3,739,364
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	$ 761,759	$ 966,611
Income taxes	$ 165,000	$ 500,000
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Total change in unrealized loss on securities available-for-sale	$ (7,800,953)	$ (751,126)

Note 1. Significant Accounting Policies

The accounting policies of Peoples Trust Company of St. Albans (the Bank) are in conformity with U. S. generally accepted accounting principles and general practices within the banking industry. The following is a description of the more significant policies.

Nature of operations

The Bank provides a variety of financial services to individuals, municipalities, commercial, and non-profit customers through its branches in northwestern Vermont, which is primarily a small business and agricultural area. The Bank's primary deposit products are checking and savings accounts and certificates of deposit. Its primary lending products are commercial, real estate, agricultural, and consumer loans.

Concentration of risk

The Bank's operations are affected by various risk factors, including interest-rate risk, credit risk, and risk from geographic concentration of lending activities. Management attempts to manage interest rate risk through various asset/liability management techniques designed to match maturities of assets and liabilities. Loan policies and administration are designed to provide assurance that loans will only be granted to credit-worthy borrowers, although credit losses are expected to occur because of subjective factors and factors beyond the control of the Bank. In addition, the Bank is a community bank and, as such, is mandated by the Community Reinvestment Act and other regulations to conduct most of its lending activities within the geographic area where it is located. Although the Bank has a diversified loan portfolio and economic conditions are stable, a substantial portion of its loan portfolio is secured by real estate and most of its lending activities are conducted in northern Vermont. As a result, the Bank and its borrowers may be especially vulnerable to the consequences of changes in the local economy and real estate market conditions. Note 3 discusses the types of investments the Bank invests in, and Note 5 discusses the type of lending the Bank engages in.

Use of estimates

In preparing financial statements in conformity with U. S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of income 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, accumulated depreciation based on estimated useful lives of assets, the valuation of foreclosed real estate, and deferred tax assets.

Presentation of cash flows

For purposes of presentation in the statements of cash flows, cash and cash equivalents include cash on hand and amounts due from banks (including cash items in process of clearing).

Note 1. Significant Accounting Policies (Continued)

Investment securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and recorded at amortized cost. Securities not classified as held-to-maturity are classified as available-for-sale and recorded at fair value with unrealized gains and losses excluded from earnings and reported in other comprehensive income net of tax. Purchase premiums and discounts are recognized in interest income using methods approximating the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary, result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Federal Home Loan Bank stock

As a member of the Federal Home Loan Bank, the Bank is required to invest in $100 par value stock of the Federal Home Loan Bank. The stock is nonmarketable and is carried at cost. When redeemed, the Bank will receive from the Federal Home Loan Bank an amount equal to the par value of the stock.

Bank Owned Life Insurance

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

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal adjusted for any charge-offs, the allowance for loan losses and unearned fees. Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Sales are made primarily without recourse. Net unrealized losses are recognized through a valuation allowance by charges to income.

Loan interest income is accrued daily on the outstanding balances. Accrual of interest is discontinued when a loan is specifically determined to be impaired or when the loan is delinquent 90 days and management believes that, after considering collection efforts and other factors, the borrower's financial condition is such that collection of interest is doubtful. Any unpaid interest previously accrued on those loans is reversed from income. Interest income generally is not recognized on specific impaired loans unless the likelihood of further loss is remote. Interest payments received on such loans are generally applied as a reduction of the loan principal balance. Interest income on other nonaccrual loans is recognized only to the extent of interest payments received. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Loans are charged off when collection of principal is considered doubtful. Past due status is determined on a contractual basis.

Loan origination and commitment fees and certain direct loan origination costs are deferred and amortized as an adjustment of the related loan's yield using methods that approximate the interest method. The Bank is generally amortizing these amounts over the contractual life.

Allowance for loan losses

The allowance for loan losses is maintained at a level that, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, credit concentrations, and trends in historical loss experience, specific impaired loans, and economic conditions. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. Although management uses available information to recognize losses on loans, because of uncertainties associated with local economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that a material change could occur in the allowance for loan losses in the near term. However, the amount of the change that is reasonably possible cannot be estimated. The allowance is increased by a provision for loan losses, which is charged to expense, and reduced by charge-offs, net of recoveries. Subsequent recoveries, if any, are credited to the allowance.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Impaired loans may also include loans which have been restructured. A troubled debt restructuring occurs when the Bank grants a concession to a borrower, for legal or economic reasons, that is experiencing financial difficulties. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Impairment is measured on a loan-by-loan basis, primarily for commercial loans by either the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not generally identify individual consumer and residential loans for impairment disclosures, unless those loans are subject to restructuring agreements or are part of a larger impaired customer relationship.

Bank premises and equipment

Bank premises and equipment are stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line and accelerated methods over the estimated useful lives of the related assets. The cost of assets sold or otherwise disposed of and the related allowance for depreciation is eliminated from the accounts and the resulting gains or losses are reflected in the income statement. Maintenance and repairs are charged to current expense as incurred and the cost of major renewals and betterments are capitalized.

Note 1. Significant Accounting Policies (Continued)

Other real estate owned

Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at the lower of the Bank’s carrying amount or fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset’s fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, these assets are carried at the lower of their new cost basis or fair value less cost to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its costs or fair value less cost to sell.

Mortgage servicing

The Bank recognizes, as separate assets, rights to service mortgage loans for others however those servicing rights are acquired. When the Bank acquires mortgage servicing rights through either the purchase or origination of mortgage loans (originated mortgage servicing rights) and sells or securitizes those loans with servicing rights retained, it allocates the total cost of the mortgage loans to the mortgage servicing rights and the loans (without the mortgage servicing rights) based on their relative fair values. To determine the fair value of the servicing rights created, the Bank uses the market prices under comparable servicing sale contracts. The cost of mortgage servicing rights is amortized in proportion to, and over the period of, estimated net servicing revenues. Impairment of mortgage servicing rights is assessed based on the fair value of those rights. Fair values are estimated using discounted cash flows based on a current market interest rate.

Pension plan

Pension costs relating to the Bank’s defined contribution plan are charged to employee benefits expense and are funded as accrued.

Advertising costs

The Bank expenses advertising costs as incurred.

Income taxes

The Bank recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are established for the temporary differences between the accounting basis and the tax basis of the Bank's assets and liabilities at enacted tax rates expected to be in effect when the amounts related to such temporary differences are realized or settled. Adjustments to the Bank's deferred tax assets are recognized as deferred income tax expense or benefit based on management's judgments relating to the realizability of such assets. Historic rehabilitation, low income housing, and new markets tax credits are recognized as a reduction of income tax expense in the years they are earned.

Generally accepted accounting standards prescribe a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Management reviews the inventory of tax positions taken at each reporting period to assess the more-likely-than-not recognition threshold. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold are derecognized in the first subsequent financial reporting period in which that threshold is no longer met.

Fair value measurements

Fair values of financial instruments are estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

- Level 1 – Valuation is based on quoted prices in active markets for identical assets or liabilities that the Bank has the ability to access at the measurement date. Level one 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 one 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 three 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.

Off-balance-sheet financial instruments

In the ordinary course of business, the Bank is party to off-balance-sheet financial instruments consisting of commitments to extend credit, unused lines of credit, commercial letters of credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they become payable.

Note 1. Significant Accounting Policies (Continued)

Earnings per common share

Earnings per common share are computed based on the weighted average number of shares of common stock outstanding during the period, retroactively adjusted for stock splits. The weighted average shares outstanding were 558,912 and 571,318 for the years ended December 31, 2022 and 2021, respectively.

Transfer and servicing of financial assets

Transfers of financial assets 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 Bank, (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 Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Revenue Recognition

The Bank recognizes revenue from contracts with customers when it satisfies its performance obligations. The Bank's performance obligations are generally satisfied as services are rendered and can either be satisfied at a point in time or over time. The majority of the Bank's revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as loans, derivatives and investment securities, and revenue related to mortgage servicing activities, as these activities are subject to other GAAP.

Revenues for the Bank subject to ASC 606 include customer service fees in the statements of income. These fees are made up of service charges and fees on deposit accounts that are recognized at a point in time, including non-sufficient funds fees, overdraft charge fees and stop-payment fees. Such revenue is derived from transactional information and is recognized as revenue immediately as the transactions occur or upon providing the service to complete the customer's transaction. Payment is generally received at the time the performance obligations are satisfied.

Comprehensive income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income or in a separate statement. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities are reported net of the tax effect in the statement of comprehensive income.

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses*. The standard requires financial assets to be measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that will be deducted from the amortized cost basis of the financial assets to present the net carrying value at the amount expected to be collected on the financial statements. The income statement will reflect the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. The measurement of expected credit losses is to be based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. In addition, credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses. The amount of this allowance for credit losses will be limited to the amount by which the fair value is below amortized cost. The standard is effective for reporting periods beginning after December 15, 2022, including interim periods within those fiscal years. The Bank determined that a $184,262 adjustment to increase the allowance for credit losses and decrease retained earnings was required upon adoption on January 1, 2023 (unaudited).

In March 2022, the FASB issued ASU 2022-02, *Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. The amendments in the Update eliminate the existing accounting guidance for troubled debt restructures ("TDRs") by creditors in Subtopic 310-40, Receivables – Troubled Debt Restructurings by Creditors and instead requires that an entity evaluate whether a modification represents a new loan or a continuation of an existing loan. The amendments also enhance disclosure requirements for certain loan refinancing and restructuring by creditors when a borrower is experiencing financial difficulty. All amendments in this update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Bank is currently assessing the impact of the adoption of this standard on the Bank's financial statements.

Note 2. Restrictions on Cash and Due from Banks

The Bank is required to maintain reserve and clearing balances in cash with Atlantic Community Bankers Bank. The totals of the reserve balances was approximately $250,000 at December 31, 2022 and 2021, respectively.

The nature of the Bank's business requires that it maintain amounts due from banks, which, at times, may exceed federally insured limits. No losses have been experienced on these accounts.

Note 3. Investment Securities

Securities available-for-sale (AFS) consists of the following:

AFS	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2022				
U.S. Government and Federal Agencies	$ 57,994,071	$ 26,542	$ 3,469,334	$ 54,551,279
State and municipal securities	28,011,206	361	3,399,078	24,612,489
	$ 86,005,277	$ 26,903	$ 6,868,412	$ 79,163,768
December 31, 2021				
U.S. Government and Federal Agencies	$ 35,332,514	$ 667,172	$ 240,967	$ 35,758,719
State and municipal securities	25,055,229	650,307	117,068	25,588,468
	$ 60,387,743	$ 1,317,479	$ 358,035	$ 61,347,187

Included in the caption "Securities AFS: U.S. Government and Federal Agencies" are mortgage-backed securities as follows:

	Amortized Cost	Fair Value
December 31, 2022	$ 20,662,381	$ 18,552,061
December 31, 2021	$ 20,854,179	$ 21,092,319

Proceeds from the sale of securities available-for-sale were $-0- in 2022 and 2021, respectively.

Gross realized gains and gross realized losses on sales of investments available-for-sale were $-0- and $5 in 2022, respectively, and $-0- in 2021.

Note 3. Investment Securities (Continued)

The scheduled maturities of securities-available for sale at December 31, 2022 were as follows:

	Available-for-Sale Securities	
	Amortized Cost	Fair Value
Due within one year	$ 22,449,576	$ 22,213,008
Due from one to five years	10,014,405	9,302,863
Due from five to ten years	8,385,834	7,695,709
Due in greater than ten years	24,493,081	21,400,127
Mortgage-backed securities	20,662,381	18,552,061
	$ 86,005,277	$ 79,163,768

Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Assets, principally securities, with amortized cost of $8,663,026 and $8,548,732 and with fair values of $8,109,290 and $8,755,073 at December 31, 2022 and 2021, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

Information pertaining to securities with gross unrealized losses at December 31, 2022 and 2021, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2022						
U.S. Government and Federal Agencies	$ 40,091,505	$ (1,299,207)	$ 12,539,075	$ (2,170,127)	$ 52,630,580	$ (3,469,334)
State and municipal securities	17,474,575	(1,846,308)	6,727,553	(1,552,770)	24,202,128	(3,399,078)
Total	$ 57,566,080	$ (3,145,515)	$ 19,266,628	$ (3,722,897)	$ 76,832,708	$ (6,868,412)

Note 3. Investment Securities (Continued)

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2021						
U.S. Government and Federal Agencies	$ 13,787,564	$ (201,468)	$ 2,107,247	$ (39,499)	$ 15,894,811	$ (240,967)
State and municipal securities	6,061,100	(99,942)	2,227,418	(17,126)	8,288,518	(117,068)
Total	$ 19,848,664	$ (301,410)	$ 4,334,665	$ (56,625)	$ 24,183,329	$ (358,035)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2022, the eighty-one debt securities and sixty-one municipal bonds with unrealized losses have depreciated approximately 8% from the Bank's amortized cost basis. These securities are guaranteed by the U. S. or State and municipal governments or other Federal Agencies. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the Federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

Note 4. Loan Servicing

Mortgage loans serviced for others are not included in the accompanying balance sheets. The unpaid principal balances of mortgage loans serviced for others were $141,538,933 and $144,554,153 at December 31, 2022 and 2021, respectively. The carrying amounts of mortgage service rights which approximate their fair value were $706,514 and $803,262 at December 31, 2022 and 2021, respectively. Mortgage service rights of $88,805 and $318,556 were capitalized in 2022 and 2021, respectively. Amortization of mortgage services rights was $185,553 and $175,337 in 2022 and 2021, respectively.

Note 5. Loans

The composition of net loans at December 31 is as follows:

	2022	2021
Residential real estate	$ 67,229,418	$ 55,377,133
Commercial real estate	89,074,234	79,168,846
Commercial	10,970,215	11,320,793
Agricultural real estate	16,446,424	17,144,097
Agricultural	904,107	1,005,131
Consumer	9,108,701	7,093,890
Municipal	14,992,623	11,067,426
Gross loans	208,725,722	182,177,316
Net deferred loan costs	(25,622)	(137,980)
Allowance for loan losses	(2,980,904)	(2,964,294)
Net loans	$ 205,719,196	$ 179,075,042

A summary of current, past due, and nonaccrual loans as of December 31, 2022 and 2021 were as follows:

December 31, 2022	Current	30-89 days	Over 90 days and accruing	Nonaccrual	Total
Residential real estate	$ 66,699,700	$ 101,724	$ -	$ 427,994	$ 67,229,418
Commercial real estate	88,796,307	59,287	-	218,640	89,074,234
Commercial	10,910,242	-	-	59,973	10,970,215
Agricultural real estate	16,357,351	-	-	89,073	16,446,424
Agricultural	863,682	40,425	-	-	904,107
Consumer	9,103,170	3,892	-	1,639	9,108,701
Municipal	14,992,623	-	-	-	14,992,623
Total	$ 207,723,075	$ 205,328	$ -	$ 797,319	$ 208,725,722

December 31, 2021	Current	30-89 days	Over 90 days and accruing	Nonaccrual	Total
Residential real estate	$ 54,933,389	$ 83,752	$ -	$ 359,992	$ 55,377,133
Commercial real estate	78,736,035	-	-	432,811	79,168,846
Commercial	11,320,793	-	-	-	11,320,793
Agricultural real estate	17,038,834	-	-	105,263	17,144,097
Agricultural	1,005,131	-	-	-	1,005,131
Consumer	7,079,144	14,746	-	-	7,093,890
Municipal	11,067,426	-	-	-	11,067,426
Total	$ 181,180,752	$ 98,498	$ -	$ 898,066	$ 182,177,316

Note 6. Allowance for Loan Losses and Credit Quality

Changes in the Allowance for loan losses for the years ended December 31, 2022 and 2021 were as follows:

	Residential Real Estate	Commercial Real Estate	Commercial	Agricultural Real Estate	Agricultural, Consumer and Muncipal	Unallocated	Total
Balance December 31, 2021	$ 622,899	$ 936,130	$ 160,154	$ 512,290	$ 402,820	$ 330,001	$ 2,964,294
Provision for loan losses	194,310	117,620	35,671	(55,387)	108,020	(325,234)	75,000
Recoveries of amounts charged off	-	3,267	710	32,814	3,116	28,646	68,553
	817,209	1,057,017	196,535	489,717	513,956	33,413	3,107,847
Amounts charged off	(62,594)	(27,067)	-	-	(37,282)	-	(126,943)
Balance December 31, 2022	$ 754,615	$ 1,029,950	$ 196,535	$ 489,717	$ 476,674	$ 33,413	$ 2,980,904
Balance December 31, 2020	$ 496,730	$ 878,534	$ 314,309	$ 333,701	$ 541,956	$ 244,272	$ 2,809,502
Provision for loan losses	92,359	(56,291)	(154,155)	176,633	(144,275)	85,729	-
Recoveries of amounts charged off	33,810	113,887	-	1,956	15,175	-	164,828
	622,899	936,130	160,154	512,290	412,856	330,001	2,974,330
Amounts charged off	-	-	-	-	(10,036)	-	(10,036)
Balance December 31, 2021	$ 622,899	$ 936,130	$ 160,154	$ 512,290	$ 402,820	$ 330,001	$ 2,964,294

Despite the above allocation, the Allowance for loan losses is general in nature and is available to absorb loss from any loan type.

At December 31, 2022 and 2021, the allocation of the Allowance for loan losses summarized on the basis of the Bank's impairment methodology was as follows:

December 31, 2022	Residential Real Estate	Commercial Real Estate	Commercial	Agricultural Real Estate	Agricultural, Consumer and Municipal	Unallocated	Total
Individually evaluated for impairment	$ 1,247	$ 10,286	$ -	$ 21,204	$ -	$ -	$ 32,737
Collectively evaluated for impairment	753,368	1,019,664	196,535	468,513	476,674	33,413	2,948,167
Allocated	$ 754,615	$ 1,029,950	$ 196,535	$ 489,717	$ 476,674	$ 33,413	$ 2,980,904
December 31, 2021							
Individually evaluated for impairment	$ 15,269	$ 36,674	$ -	$ 32,198	$ -	$ -	$ 84,141
Collectively evaluated for impairment	607,630	899,456	160,154	480,092	402,820	330,001	2,880,153
Allocated	$ 622,899	$ 936,130	$ 160,154	$ 512,290	$ 402,820	$ 330,001	$ 2,964,294

Note 6. Allowance for Loan Losses and Credit Quality (Continued)

The recorded investment in loans summarized on the basis of the Bank's impairment methodology as of December 31, 2022 and 2021 were as follows:

December 31, 2022	Residential Real Estate	Commercial Real Estate	Commercial	Agricultural Real Estate	Agricultural	Consumer and Municipal	Total
Individually evaluated for impairment	$ 559,250	$ 316,052	$ 12,532	$ 304,584	$ -	$ -	$ 1,192,418
Collectively evaluated for impairment	66,670,168	88,758,182	10,957,683	16,141,840	904,107	24,101,324	207,533,304
Allocated	$ 67,229,418	$ 89,074,234	$ 10,970,215	$ 16,446,424	$ 904,107	$ 24,101,324	$ 208,725,722
December 31, 2021							
Individually evaluated for impairment	$ 620,969	$ 556,719	$ 15,632	$ 518,525	$ 170,044	$ -	$ 1,881,889
Collectively evaluated for impairment	54,756,164	78,612,127	11,305,161	16,625,572	835,087	18,161,316	180,295,427
Allocated	$ 55,377,133	$ 79,168,846	$ 11,320,793	$ 17,144,097	$ 1,005,131	$ 18,161,316	$ 182,177,316

The following table summarizes the loan ratings applied to the Bank's loan types as of December 31, 2022 and 2021:

December 31, 2022	Residential Real Estate	Commercial Real Estate	Commercial	Agricultural Real Estate	Agricultural	Consumer and Municipal	Total
Satisfactory	$ 66,378,967	$ 84,709,269	$ 10,635,655	$ 15,204,390	$ 749,677	$ 24,099,624	$ 201,777,582
Watch	557,620	4,073,630	334,560	664,837	154,430	993	5,786,070
OAEM	-	-	-	-	-	-	-
Substandard	292,831	291,335	-	577,197	-	707	1,162,070
Doubtful	-	-	-	-	-	-	-
Total	$ 67,229,418	$ 89,074,234	$ 10,970,215	$ 16,446,424	$ 904,107	$ 24,101,324	$ 208,725,722
December 31, 2021							
Satisfactory	$ 54,188,726	$ 73,203,316	$ 11,015,709	$ 13,749,165	$ 672,885	$ 18,159,616	$ 170,989,417
Watch	586,476	5,479,204	305,084	2,599,960	162,202	993	9,133,919
OAEM	-	-	-	-	-	-	-
Substandard	601,931	486,326	-	794,972	170,044	707	2,053,980
Doubtful	-	-	-	-	-	-	-
Total	$ 55,377,133	$ 79,168,846	$ 11,320,793	$ 17,144,097	$ 1,005,131	$ 18,161,316	$ 182,177,316

The following is an overview of the Bank's loan rating system:

1-3 Rating – Satisfactory

Risk-rating grades "1" through "3" comprise those loans ranging from lower than average credit risk which indicates borrowers with high liquidity, excellent financial condition, strong management, favorable industry trends or loans secured by highly liquid assets through marginal credit risk, which while credit worthy, exhibit some characteristics which require special attention by the account officer.

Note 6. Allowance for Loan Losses and Credit Quality (Continued)

4 Rating – Watch

These loans are characterized by adequate collateral but recent declining financial, reporting or management trends such as marginal cash flow, marginal profitability, etc.

5 Rating – Other Assets Especially Mentioned (OAEM)

Special mention assets have potential weaknesses that deserve management's close attention and monitoring until resolved. OAEMs are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification currently but might warrant adverse classification if correction of the weakness does not take place in the short term.

6 Rating – Substandard

Loans rated substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged. Assets have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if deficiencies are not corrected.

7 Rating - Doubtful

An asset classified doubtful has all the weaknesses inherent in one classified substandard, with the added characteristic that weaknesses make collection or liquidation in full, on the basis of existing facts, conditions and values, highly questionable and improbable.

Note 6. Allowance for Loan Losses and Credit Quality (Continued)

The following table provides information with respect to impaired loans as of and for the year ended December 31, 2022 and 2021, respectively:

	December 31, 2022			Year Ended December 31, 2022	
	Recorded Investment	Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Received
With an allowance recorded:					
Residential real estate	$ 119,310	$ 120,017	$ 1,247		
Commercial real estate	32,208	52,794	10,286		
Commercial	-	-	-		
Agricultural real estate	304,584	304,584	21,204		
Agricultural	-	-	-		
	456,102	477,395	32,737		
With no allowance recorded:					
Residential real estate	439,940	753,674	-		
Commercial real estate	283,844	913,957	-		
Commercial	12,532	89,333	-		
Agricultural real estate	-	-	-		
Agricultural	-	-	-		
	736,316	1,756,964	-		
Total:					
Residential real estate	559,250	873,691	1,247	$ 567,031	$ 14,659
Commercial real estate	316,052	966,751	10,286	448,783	82,314
Commercial	12,532	89,333	-	13,990	5,488
Agricultural real estate	304,584	304,584	21,204	366,551	24,434
Agricultural	-	-	-	83,736	-
Total	$ 1,192,418	$ 2,234,359	$ 32,737	$ 1,480,091	$ 126,895

Note 6. Allowance for Loan Losses and Credit Quality (Continued)

	December 31, 2021			Year Ended December 31, 2021	
	Recorded Investment	**Principal Balance**	**Related Allowance**	**Average Recorded Investment**	**Interest Income Received**
With an allowance recorded:					
Residential real estate	$ 156,416	$ 157,902	$ 15,269		
Commercial real estate	92,398	114,760	36,674		
Commercial	-	-	-		
Agricultural real estate	518,525	518,525	32,198		
Agricultural	-	-	-		
	767,339	791,187	84,141		
With no allowance recorded:					
Residential real estate	464,553	775,387	-		
Commercial real estate	464,321	1,072,550	-		
Commercial	15,632	92,434	-		
Agricultural real estate	-	-	-		
Agricultural	170,044	170,044	-		
	1,114,550	2,110,415	-		
Total:					
Residential real estate	620,969	933,289	15,269	$ 667,911	$ 21,972
Commercial real estate	556,719	1,187,310	36,674	903,163	183,184
Commercial	15,632	92,434	-	16,745	5,647
Agricultural real estate	518,525	518,525	32,198	790,832	67,873
Agricultural	170,044	170,044	-	233,202	18,469
Total	$ 1,881,889	$ 2,901,602	$ 84,141	$ 2,611,853	$ 297,145

The following table provides information with respect to troubled debt restructurings (TDR) as of and for the year ended December 31, 2022 and 2021, respectively:

	Residential Real Estate	**Commercial Real Estate**	**Commercial**	**Agricultural Real Estate**	**Total**
Balance, December 31, 2021	$ 265,126	$ 139,361	$ 15,632	$ 382,319	$ 802,438
Additions	-	-	-	-	-
Charge-offs	-	-	-	-	-
Paydowns	(17,174)	(26,739)	(3,100)	(77,734)	(124,747)
Balance, December 31, 2022	$ 247,952	$ 112,622	$ 12,532	$ 304,585	$ 677,691

Note 6. Allowance for Loan Losses and Credit Quality (Continued)

	Residential Real Estate	Commercial Real Estate	Commercial	Agricultural Real Estate	Total
Balance, December 31, 2020	$ 541,235	$ 376,373	$ 18,574	$ 454,783	$ 1,390,965
Additions	-	-	-	-	-
Charge-offs	-	-	-	-	-
Paydowns	(276,109)	(237,012)	(2,942)	(72,464)	(588,527)
Balance, December 31, 2021	$ 265,126	$ 139,361	$ 15,632	$ 382,319	$ 802,438

There were no new troubled debt restructurings during 2022 or 2021.

At December 31, 2022 and 2021, the Bank was not committed to lend any additional funds to borrowers whose loans were nonperforming, impaired or restructured.

Note 7. Bank Premises and Equipment

The major classes of bank premises and equipment and the total accumulated depreciation at December 31 are as follows:

	2022	2021
Land and land improvements	$ 1,888,366	$ 1,888,366
Building and improvements	6,293,913	6,293,913
Furniture and equipment	4,509,185	4,498,985
	12,691,464	12,681,264
Less accumulated depreciation	7,290,356	7,057,909
	$ 5,401,108	$ 5,623,355

Depreciation included in occupancy and equipment expense amounted to $448,537 and $466,484 for the years ended December 31, 2022 and 2021, respectively.

In addition, at December 31, 2021, management determined that land located in the Town of Richford was impaired. The land with a cost basis of $61,293 was originally purchased in May 2000 with the intention of building a branch location. Fair market value was calculated based on tax assessed value of $51,500 adjusted for common level of appraisal of 112.34 resulting in an estimated fair market value of $45,843. Common Level of Appraisal (CLA) is an adjustment to listed property values. The State calculates a CLA annually for each town to adjust the listed value of properties to reflect fair market value as nearly as possible. The resulting value was reduced further to $20,000 to account for other carrying costs such as taxes, environmental, etc. An impairment loss of $41,293 was recorded at December 31, 2021 to write-down the net book value to the estimated fair market value of the property. The impairment loss is separately stated under the other expenses section on the Statements of Income.

Note 8. Other Real Estate Owned

At December 31, 2022 and 2021, the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure procedures are in process is $25,333 and $45,200, respectively.

Note 9. Deposits

The following is a maturity distribution of time deposits at December 31, 2022:

Maturing in 2023	$ 26,790,281
Maturing in 2024	7,247,550
Maturing in 2025	4,961,891
Maturing in 2026	3,135,009
Maturing in 2027 and thereafter	4,741,847
	$ 46,876,578

U.S. government and federal agency securities with a cost of $5,005,872 and $5,040,003 and a fair value of $4,672,076 and $5,118,228 were pledged to collateralize certain municipal deposits at December 31, 2022 and 2021, respectively.

Note 10. Repurchase Agreements

Securities sold under agreements to repurchase amounted to $3,250,000 as of December 31, 2022 and 2021, respectively. These agreements are collateralized by U.S. government and federal agency securities with a amortized cost of $3,657,154 and $3,508,729 and a fair value of $3,437,214 and $3,636,845 at December 31, 2022 and 2021, respectively. The securities underlying these agreements are held in safekeeping by the Bank.

The average daily balance of these repurchase agreements approximated $3,249,756 and $3,134,125 during 2022 and 2021, respectively. The maximum borrowings outstanding on these agreements at any month-end reporting period of the Bank was $3,250,000 in 2022 and 2021, respectively. The weighted average rate for repurchase agreements was 0.35% and 0.25% at December 31, 2022 and 2021, respectively.

Note 11. Borrowed Funds

The Bank maintains an unsecured $3,000,000 federal funds line of credit with Atlantic Community Bankers Bank which was unused at December 31, 2022 and 2021.

Note 12. Income Taxes

Income tax expense included in the Statements of Income for the years ended December 31 were as follows:

	2022	2021
Currently payable	$ 332,452	$ 324,639
Deferred	(45,648)	96,845
	$ 286,804	$ 421,484

Total income tax expense differed from the amounts computed by applying the U. S. Federal income tax rate of 21% for 2022 and 2021 to income before income taxes as a result of the following at December 31:

	2022	2021
Computed expected tax expense	$ 495,339	$ 575,859
Disallowed interest expense	3,383	3,303
Municipal income	(193,068)	(142,941)
Employee retention credit	-	(68,399)
Boli income	(27,743)	(18,329)
Other, net	8,893	71,991
	$ 286,804	$ 421,484

The deferred income tax provision consisted of the following items at December 31:

	2022	2021
Nonaccrual loan interest	$ (2,804)	$ 29,010
Depreciation	(3,231)	(9,822)
Bad debts	(15,750)	-
Off balance sheet accrual	(2,205)	-
Deferred directors fees	(27,319)	(22,234)
Mortgage servicing rights	(20,317)	30,076
Limited partnerships	25,978	28,297
Branch impairment	-	41,518
	$ (45,648)	$ 96,845

Note 12. Income Taxes (Continued)

The significant components of the net deferred tax asset consisted of the following items at December 31:

	2022	2021
Components of deferred tax assets:		
Bad debts	$ 385,027	$ 369,277
Off balance sheet accrual	8,359	6,154
Nonaccrual loan interest	217,795	214,991
Branch impairment	8,672	8,672
Deferred directors fees	161,511	134,192
Unrealized loss on securities available-for-sale	1,436,717	-
Total deferred tax asset	2,218,081	733,286
Valuation allowance	-	-
Total deferred tax asset, net of valuation allowance	2,218,081	733,286
Components of deferred tax liability:		
Depreciation	(48,663)	(51,894)
Mortgage servicing rights	(148,368)	(168,685)
Limited partnerships	(62,801)	(36,823)
Unrealized gain on securities available-for-sale	-	(201,483)
Other	(110,000)	(110,000)
Total deferred tax liability	(369,832)	(568,885)
Net deferred tax asset	$ 1,848,249	$ 164,401

Net deferred tax asset is included in the caption “other assets” on the balance sheets at December 31, 2022 and 2021, respectively. The deferred tax asset valuation allowance did not change during 2022 and 2021.

Deferred tax assets are recognized subject to management's judgment that realization is more likely than not as GAAP allows for the recognition and measurement of deductible temporary differences to the extent that it is more likely than not that the deferred tax asset will be realized. Based on the temporary taxable items, historical taxable income and estimates of future taxable income, the Bank believes that it is more likely than not that the deferred tax assets at December 31, 2022 will be realized.

Based on management's evaluation, management has concluded that there were no significant uncertain tax positions requiring recognition in the Bank's financial statements at December 31, 2022. Although the Bank is not currently the subject of tax examination by the Internal Revenue Service (IRS), the Bank's tax years ended December 31, 2019 through 2022 are open to examination by the IRS under the applicable statute of limitations.

Note 12. Income Taxes (Continued)

The Bank may from time-to-time be assessed interest and/or penalties by federal or state tax jurisdictions, although any such assessments historically have been minimal and immaterial to the Bank's financial results. In the event that the Bank receives an assessment for interest and/or penalties, it will be classified in the financial statements as “Other expense”.

Note 13. Pension Plan

The Bank maintains a contributory 401(k) pension plan covering all employees who meet certain age and service requirements. Contributions to the plan are voluntary by the eligible participants up to certain limits. Employee contributions are matched dollar for dollar for every dollar contributed up to six percent of the participant's salary. Contributions to the plan by the Bank for the years ended December 31, 2022 and 2021 amounted to $251,930 and $242,662, respectively.

Note 14. Commitments and Contingencies

In the normal course of business, the Bank is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the Bank's financial statements.

Note 15. Financial Instruments with Off-Balance-Sheet Risk

The Bank 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 and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby letters of credit, interest rate caps and floors written on adjustable rate loans, and commitments to sell loans. Such instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, standby letters of credit, and commercial letters of credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. For interest rate caps and floors written on adjustable rate loans, the contract or notional amounts do not represent exposure to credit loss. The Bank controls the credit risk of their interest rate cap agreements through credit approvals, limits, and monitoring procedures. The Bank generally requires collateral or other security to support financial instruments with credit risk.

	Contract or Notional Amount	
	2022	2021
Financial instruments whose contract amount represent credit risk:		
Commitments to extend credit and available lines of credit	$ 52,036,000	$ 48,512,000
Stand by letters of credit and commercial letters of credit	$ 651,000	$ 672,000

Note 15. Financial Instruments with Off-Balance-Sheet Risk (Continued)

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. At December 31, 2022, the Bank had binding loan commitments at fixed rates totaling $8,224,330 that are included in commitments to extend credit.

The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies but may include real estate, accounts receivable, inventory, property, plant, and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

The Bank enters into a variety of interest rate contracts, including interest rate caps and floors written on adjustable rate loans in managing its interest rate exposure. Interest rate caps and floors on loans written by the Bank enable customers to transfer, modify or reduce their interest rate risk.

Note 16. Transactions with Related Parties

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, principal officers, their immediate families and affiliated companies in which they are principal shareholders (commonly referred to as related parties), all which have been, in the opinion of management, on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others.

Aggregate loan transactions with related parties as of December 31 were as follows:

	2022	2021
Balance, beginning	$ 3,317,075	$ 5,076,742
New loans	478,838	1,982,524
Repayments	(828,472)	(3,742,191)
Other	-	-
Balance, ending	$ 2,967,441	$ 3,317,075

Deposit accounts with related parties approximated $2,650,478 and $2,886,354 at December 31, 2022 and 2021, respectively.

The Bank utilizes an appraisal company owned by a director for loan appraisal services. Appraisal fees are reimbursed to the Bank from the respective borrowers.

Note 16. Transactions with Related Parties (Continued)

The Bank has instituted a split dollar deferred compensation plan for certain officers. The vehicle is funded through Bank Owned Life Insurance (BOLI). The BOLI had a balance of $6,959,248 and $4,177,172 as of December 31, 2022 and 2021, respectively. The accrued deferred compensation was $167,178 and $148,093 as of December 31, 2022 and 2021, respectively.

Amounts due officers and directors under non-qualified deferred compensation agreements were $769,100 and $639,011 at December 31, 2022 and 2021, respectively.

Note 17. Disclosures about Fair Value of Financial Instruments

Fair Value Measurement

The following methods and assumptions were used by the Bank in estimating its fair value disclosures for financial instruments, and for assets measured on recurring basis and non-recurring basis:

Cash and due from banks: The carrying amounts reported in the balance sheet for cash and due from banks, including certificates of deposit, approximate those assets' fair values.

Investment securities: Fair values for investment securities are based on quoted market prices, where available (level one valuation). If quoted market prices are not available, fair values are calculated based on a formula which uses matrices which interpolate prices according to observable inputs for similar items such as sector, credit spread, rating, maturity, and option premium (level two valuations).

Federal Home Loan Bank stock: The carrying amount of this stock approximates its fair value.

Loans receivable and loans held for sale: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values of other loans (for example, fixed rate commercial real estate and rental property mortgage loans and commercial and industrial loans) are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics. Collateral values are estimated using Level 2 inputs based on appraisals of similar properties obtained from a third-party valuation service. Fair values for impaired loans are estimated using Level 3 inputs based on appraisals of similar properties obtained from a third-party valuation service discounted by management based on historical losses for similar collateral and discounted cash flow analysis.

Other real estate owned: Other real estate owned is reported at the fair value of the underlying collateral. Collateral values are estimated using Level 3 inputs based on appraisals of similar properties obtained from a third-party valuation service discounted by management based on updated information.

Deposits: The fair values disclosed for demand deposits (for example, checking and savings accounts) are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair values for certificates of deposit are estimated using a discounted

Note 17. Disclosures about Fair Value of Financial Instruments (Continued)

cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated contractual maturities on such time deposits (Level 2).

Repurchase agreements and borrowed funds: For repurchase agreements and borrowed funds (including Federal funds purchased) that reprice frequently, fair values are based on carrying amounts. The fair values for other borrowings are estimated using a discounted cash flow calculation that applies interest rates currently being offered on such debt to a schedule of aggregated contractual maturities on such debt (Level 2).

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

Other liabilities: Commitments to extend credit were evaluated and fair value was estimated using the fees currently charged to enter into similar agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair market value for off balance sheet financial instruments was immaterial at December 31, 2022 and 2021.

The estimated fair values of the Company's financial instruments at December 31 are as follows:

	2022	
	Carrying Amount	Estimated Value
Financial assets:		
Cash and cash equivalents	$ 6,260,862	$ 6,260,862
Interest bearing deposits with banks	59,165,826	59,165,826
Certificates of deposit	750,000	750,000
Securities available-for-sale	79,163,768	79,163,768
FHLB stock	223,700	223,700
Loans receivable and loans held-for-sale, net (Level 2)	204,784,306	184,943,800
Impaired loans (Level 3)	1,159,681	1,159,681
Accrued interest receivable	998,427	998,427
Financial liabilities:		
Deposits (Level 2)	332,147,121	332,423,280
Repurchase agreements (Level 2)	3,250,000	3,250,000
Accrued interest payable	14,749	14,749

Note 17. Disclosures about Fair Value of Financial Instruments (Continued)

	2021 Carrying Amount	2021 Estimated Value
Financial assets:		
Cash and cash equivalents	$ 3,739,364	$ 3,739,364
Interest bearing deposits with banks	121,769,333	121,769,333
Certificates of deposit	2,994,000	2,994,000
Securities available-for-sale	61,347,187	61,347,187
FHLB Stock	223,700	223,700
Loans receivable and loans held-for-sale, net (Level 2)	177,277,294	179,006,795
Impaired loans (Level 3)	1,797,748	1,797,748
Accrued interest receivable	851,611	851,611
Financial liabilities:		
Deposits (Level 2)	339,950,318	340,625,300
Repurchase agreements (Level 2)	3,250,000	3,250,000
Accrued interest payable	19,807	19,807

The carrying amounts in the preceding table are included in the balance sheets under the applicable captions.

Fair values of assets and liabilities measured on a recurring basis at December 31, 2022 and 2021 are as follows:

	Fair Value	Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2022				
Loans held for sale	$ 224,791	$ -	$ 224,791	$ -
Investments - AFS				
U.S. Government and Federal Agencies	54,551,279	-	54,551,279	-
State and municipal securities	24,612,489	-	24,612,489	-
	$ 79,388,559	$ -	$ 79,388,559	$ -

Note 17. Disclosures about Fair Value of Financial Instruments (Continued)

	Fair Value	Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2021				
Loans held for sale	$ -	$ -	$ -	$ -
Investments - AFS				
U.S. Government and Federal Agencies	35,758,719	-	35,758,719	-
State and municipal securities	25,588,468	-	25,588,468	-
	$ 61,347,187	$ -	$ 61,347,187	$ -

Fair values of assets and liabilities measured on a non-recurring basis at December 31, 2022 and 2021 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2022				
Impaired loans	$ 1,159,681	$ -	$ -	$ 1,159,681
	$ 1,159,681	$ -	$ -	$ 1,159,681
December 31, 2021				
Impaired loans	$ 1,797,748	$ -	$ -	$ 1,797,748
	$ 1,797,748	$ -	$ -	$ 1,797,748

There were $456,102 of impaired loans with a related allowance as of December 31, 2022. The residential real estate loans were evaluated using discounts of appraisals ranging from 13% to 40% along with discounted cash flow analysis. The commercial real estate and agricultural real estate loans were evaluated using discounts of appraisals and asset valuations ranging from 15% to 55% along with discounted cash flow analysis.

There were no transfers between levels for both recurring and non-recurring assets for the years ended December 31, 2022 and 2021.

Note 18. Regulatory Capital Matters

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

Federal banking regulations require the Bank to maintain minimum amounts and ratios of common equity Tier 1, Tier 1 and total capital to risk-weighted assets and Tier 1 capital to average assets, as set forth in the table below. Additionally, community banking institutions must maintain a capital conservation buffer of common equity Tier 1 capital in an amount greater than 2.5% of total risk-weighted assets to avoid being subject to limitations on capital distributions and discretionary bonuses.

For regulatory capital purposes, loans made under PPP are risk-weighted at 0% in risk-based capital calculations. For the Tier 1 leverage ratio computation, PPP loans pledged to the PPPLF are excluded from total average assets.

As of December 31, 2022, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, common equity Tier 1 risk-based, Tier 1 risk-based and Tier 1 leverage rations as set forth in the following tabled. There are no conditions or events since the notification that management believes have changed the Bank's category. Management believes that the Bank meets all capital adequacy requirements to which they are subject. The Bank's actual capital amounts and ratios are presented in the following table.

Note 18. Regulatory Capital Matters (Continued)

The Bank's actual capital amounts (000's omitted) and ratios are also presented in the table.

	Actual		Minimums For Capital Adequacy Purposes		Minimums To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2022						
Total capital						
(to risk weighted assets)	$ 39,963	18.34%	$ 17,433	8.00%	$ 21,791	10.00%
Tier I (core) capital						
(to risk weighted assets)	$ 37,236	17.09%	$ 13,074	6.00%	$ 17,433	8.00%
Common Tier 1 (CET1)						
(to risk weighted assets)	$ 37,236	17.09%	$ 9,806	4.50%	$ 14,164	6.50%
Tier I (core) capital						
(to average assets)	$ 37,236	10.34%	$ 14,558	4.00%	$ 18,198	5.00%
As of December 31, 2021						
Total capital						
(to risk weighted assets)	$ 39,042	21.18%	$ 14,750	8.00%	$ 18,437	10.00%
Tier I (core) capital						
(to risk weighted assets)	$ 36,729	19.92%	$ 11,062	6.00%	$ 14,750	8.00%
Common Tier 1 (CET1)						
(to risk weighted assets)	$ 36,729	19.92%	$ 8,297	4.50%	$ 11,984	6.50%
Tier I (core) capital						
(to average assets)	$ 36,729	9.51%	$ 15,444	4.00%	$ 19,305	5.00%

Note 19. Subsequent Events

The Bank has evaluated subsequent events through February 6, 2023, the date with the financial statements were available to be issued.

BOARD OF DIRECTORS EXECUTIVE/ OTHER OFFICERS

Board of Directors

Frank J. Cioffi, *Member of Board of Directors of Peoples Trust Company of St. Albans since 2009*
Chairman of the Board, GBIC (Greater Burlington Industrial Corp.)

John T. Gallagher, *Member of Board of Directors of Peoples Trust Company of St. Albans since 1991* Owner and President, Gallagher Inc.

Mark E. Lareau, *Member of Board of Directors of Peoples Trust Company of St. Albans since 2001*
Owner, Lareau Appraisal Service

Linda M. LeBlanc, *Member of Board of Directors of Peoples Trust Company of St. Albans since 2005 Current Secretary of the Board*
Retired Senior Executive Officer/Chief Operations Officer of Peoples Trust Company of St. Albans

Leon J. Berthiaume, *Member of Board of Directors of Peoples Trust Company of St. Albans since 2008*
Senior Advisor for Dairy Farmers of America

Thomas J. Gallagher, *Member of Board of Directors of Peoples Trust Company of St. Albans since 2011*
President/CEO of Peoples Trust Company of St. Albans

John P. Casavant, *Member of Board of Directors of Peoples Trust Company 2016*
Part owner and Vice President at NFP, Inc.
(formerly Hackett, Valine and McDonald)

David J. Handy, *Member of Board of Directors of Peoples Trust Company 2016*
Co-owner of Handy Buick, Cadillac, GMC, Inc.

Gordon A. Winters, *Member of Board of Directors of Peoples Trust Company 2016*
Owner, ACE Hardware stores in Milton, Jericho, St. Albans, Burlington VT and Champlain, NY

Kevin J. Manahan, *Member of Board of Directors of People's Trust Company 2023*
Retired Partner at AM Peisch & Co.

Executive Officers

Thomas J. Gallagher *President/CEO*

Aaron A. Reynolds *Senior Executive Vice President/CFO*

Other Officers

Michael J. Elmore *Senior Vice President, CIO*
Angela M. Poirier *Senior Vice President, CLS*
Barbara J. Toof *Senior Vice President, CRBO*
Carol C. Spillane *Senior Vice President*
Lloyd W. Larrow *Senior Vice President*
Stacey M. Cauller *Senior Vice President*
Anne E. Gosselin *Senior Vice President*
Danielle E. Manahan *Senior Vice President*
Janice L. LaRocque *Senior Vice President, BSA*
Lyle D. Poirier *Vice President*
Jay C. Cummings *Vice President*
Rachael A. Brown *Vice President*
Carisa Ledoux *Vice President*
Travis Sweeney *Vice President*

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