Peoples Ltd. and Subsidiaries

Consolidated Financial Statements

December 31, 2023 and 2022

	Page
Independent Auditors' Report	1
Financial Statements	
Consolidated Balance Sheets	3
Consolidated Statements of Income	4
Consolidated Statements of Comprehensive Income (Loss)	5
Consolidated Statements of Changes in Shareholders' Equity	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8

Independent Auditors' Report

To the Shareholders and Board of Directors of
Peoples Ltd. and Subsidiaries

Opinion

We have audited the consolidated financial statements of Peoples Ltd. and Subsidiaries (Company), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income (loss), changes in shareholders' equity, 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 (GAAP).

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1 to the 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 Accounting Standards Codification 326, *Financial Instruments - Credit Losses*. Our opinion is not modified with respect to this matter.

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.

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 GAAP, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Baker Tilly US, LLP

Milwaukee, Wisconsin
February 29, 2024

Peoples Ltd. and Subsidiaries

Consolidated Balance Sheets
December 31, 2023 and 2022
(In Thousands, Except Share Amounts)

	2023	2022
Assets		
Cash and due from banks	$ 25,769	$ 73,022
Available-for-sale securities	116,197	121,481
Held-to-maturity securities, net	5,635	5,650
Marketable equity securities	115	117
Loans, net	352,547	315,727
Loans held-for-sale	494	633
Cash surrender value, life insurance	11,976	10,789
Bank premises and equipment, net	8,930	8,687
Accrued interest receivable	1,666	1,495
Restricted equity securities	3,427	2,723
Deferred income taxes	3,117	3,679
Other assets	2,430	2,401
Total	$ 532,303	$ 546,404
Liabilities and Shareholders' Equity		
Liabilities		
Demand deposits:		
Noninterest-bearing	$ 111,697	$ 141,641
Interest-bearing	203,946	179,327
Total	315,643	320,968
Savings deposits	77,517	102,751
Time deposits	69,571	71,247
Total deposits	462,731	494,966
Borrowed funds	18,000	8,000
Accrued interest payable	150	58
Other liabilities	2,747	2,663
Total liabilities	483,628	505,687
Shareholders' Equity		
Common stock, $.50 par value, authorized 5,000,000; 2023 - 832,554 shares issued, 817,899 outstanding 2022 - 789,828 shares issued, 775,173 outstanding	416	395
Surplus	27,079	24,111
Retained earnings	31,066	28,389
Treasury stock, at cost	(512)	(512)
Accumulated other comprehensive loss	(9,374)	(11,666)
Total shareholders' equity	48,675	40,717
Total	$ 532,303	$ 546,404

See notes to consolidated financial statements

Peoples Ltd. and Subsidiaries

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

	2023	2022
Interest Income		
Interest and fees on loans	$ 18,545	$ 13,849
Interest and dividends on investments:		
Taxable interest and dividends	4,149	3,023
Nontaxable interest	690	523
Total interest income	23,384	17,395
Interest Expense		
Interest on deposits	5,622	1,313
Interest on borrowed funds	423	26
Total interest expense	6,045	1,339
Net interest income	17,339	16,056
Provision for Credit Losses [1]	355	200
Net interest income after provision for credit losses	16,984	15,856
Noninterest Income		
Service charges	1,817	1,761
Gain on sale of loans	461	320
Commissions	189	161
Increase in cash surrender value, life insurance	260	265
Gain on sale of foreclosed assets	-	24
Unrealized (losses) gains on equity securities	(2)	36
Other income	570	497
Total noninterest income	3,295	3,064
Noninterest Expenses		
Salaries and employee benefits	6,039	5,558
Occupancy and equipment	1,320	1,129
Data processing	827	668
Debit/credit card processing	521	480
Pennsylvania shares tax	369	461
Professional fees	501	480
FDIC insurance	228	182
Other expenses	1,611	1,479
Total noninterest expenses	11,416	10,437
Income before provision for income taxes	8,863	8,483
Provision for Income Taxes	1,562	1,528
Net income	$ 7,301	$ 6,955
Earnings Per Share	$ 8.93	$ 8.54

[1] The Company adopted Accounting Standards Update (ASU) 2016-13 as of January 1, 2023. The 2022 amount presented is calculated under the prior accounting standard.

See notes to consolidated financial statements

Peoples Ltd. and Subsidiaries

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

	2023	2022
Net Income	$ 7,301	$ 6,955
Other Comprehensive Income (Loss)		
Unrealized gain (loss) on available-for-sale securities	2,901	(14,191)
Tax effect	(609)	2,980
Total other comprehensive income (loss)	2,292	(11,211)
Total comprehensive income (loss)	$ 9,593	$ (4,256)

See notes to consolidated financial statements

Peoples Ltd. and Subsidiaries

Consolidated Statements of Changes in Shareholders' Equity
Years Ended December 31, 2023 and 2022
(in Thousands, Except Share Amounts)

	Common Stock		Treasury Stock				Accumulated Other Comprehensive	
	Shares	Amount	Shares	Amount	Surplus	Retained Earnings	Income (Loss)	Total
Balance, January 1, 2022	750,004	$ 375	14,655	$ (512)	$ 21,322	$ 25,764	$ (455)	$ 46,494
Net income						6,955		6,955
Other comprehensive loss							(11,211)	(11,211)
Cash dividend ($2.34 per share)						(1,723)		(1,723)
5% stock dividend	36,685	18			2,577	(2,607)		(12)
Dividend reinvestment and stock purchase plan	3,139	2			212			214
Balance, December 31, 2022	789,828	395	14,655	(512)	24,111	28,389	(11,666)	40,717
Net income						7,301		7,301
Other comprehensive income							2,292	2,292
Cash dividend ($2.44 per share)						(1,895)		(1,895)
5% stock dividend	38,761	19			2,699	(2,729)		(11)
Dividend reinvestment and stock purchase plan	3,965	2			269			271
Balance, December 31, 2023	832,554	$ 416	14,655	$ (512)	$ 27,079	$ 31,066	$ (9,374)	$ 48,675

See notes to consolidated financial statements

Peoples Ltd. and Subsidiaries

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

	2023	2022
Operating Activities		
Net income	$ 7,301	$ 6,955
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for credit losses	355	200
Provision for held-to-maturity securities	15	-
Depreciation	520	444
Amortization and accretion, net	161	135
Gain on sale of loans	(461)	(320)
Loans originated for sale	(16,421)	(8,451)
Proceeds from sale of loans originated for sale	17,021	12,401
Gain on sale of foreclosed assets	-	(24)
Gain on disposal of equipment	-	(11)
Unrealized loss (gain) on equity securities	2	(36)
Deferred income taxes	(48)	38
Increase in cash surrender value, life insurance	(260)	(265)
Amortization of right-of-use asset	154	182
Net change in:		
Accrued interest receivable	(171)	(540)
Other assets	(171)	8
Accrued interest payable	92	38
Operating lease liability	(175)	(203)
Other liabilities	261	108
Net cash provided by operating activities	8,175	10,659
Investing Activities		
Proceeds from calls and maturities of available-for-sale securities	10,698	16,119
Purchase of available-for-sale securities	(2,674)	(46,981)
Purchase of held-to-maturity securities	-	(750)
Proceeds from redemption of restricted equity securities	94	186
Purchase of restricted equity securities	(798)	(288)
Net increase in loans	(37,188)	(39,603)
Purchase of life insurance	(927)	-
Purchase of bank premises and equipment	(763)	(3,367)
Proceeds from sale of bank equipment	-	27
Proceeds from the sale of foreclosed assets	-	49
Net cash used in investing activities	(31,558)	(74,608)
Financing Activities		
Net change in deposits	(32,235)	74,943
Net proceeds from borrowed funds	10,000	-
Proceeds from issuance of common stock	271	214
Dividends paid	(1,906)	(1,735)
Net cash (used in) provided by financing activities	(23,870)	73,422
(Decrease) Increase in cash and due from banks	(47,253)	9,473
Cash and Due From Banks, Beginning	73,022	63,549
Cash and Due From Banks, Ending	$ 25,769	$ 73,022

See notes to consolidated financial statements

1. Nature of Operations and Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Peoples Ltd. and its wholly owned subsidiaries, PS Bank (Bank) and DEPPLL Corp. (collectively, Company). All significant intercompany balances and transactions have been eliminated in consolidation. Prior period amounts have been reclassified when necessary to confirm to the current year's presentation. Such reclassifications did not have a material impact on the operating results or financial position of the company.

Nature of Operations

The Company provides a full range of basic financial services to individuals, small businesses and corporate customers through offices in Bradford, Lackawanna, Sullivan, Susquehanna and Wyoming counties of Pennsylvania. The area is a rural and suburban market with an economic base made up of light manufacturing, retail and agricultural businesses. The Company's primary deposit products are demand deposits and interest bearing time and savings accounts. It offers a full array of loan products to meet the needs of retail and commercial customers.

The Bank is subject to regulation by the Pennsylvania Department of Banking and Securities and the Federal Deposit Insurance Corporation. Peoples Ltd. is subject to regulation by the Federal Reserve Bank of Philadelphia.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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 relate to the determination of the allowance for current expected credit losses, the valuation of investment securities and determination of credit related impairment thereon, and valuation of deferred tax assets.

Significant Group Concentrations of Credit Risk

The Company grants loans to customers primarily located in Bradford, Lackawanna, Sullivan and Wyoming counties of Pennsylvania. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on the economic sector in which the Company operates. The Company does not have any significant concentrations from one industry or customer.

Investments

Debt securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost. Debt securities not classified as held-to-maturity are classified as available-for-sale and reported at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss). Equity securities are reported at fair value, with unrealized gains and losses included in net income.

Purchase premiums and discounts are recognized in interest income using 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.

The Company's portfolio of held-to-maturity debt securities consists of corporate bonds which have a long history of no credit losses. In estimating the net amount expected to be collected for held-to-maturity debt securities in an unrealized loss position, a historical loss based method is utilized to calculate the allowance for credit losses.

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 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 above criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Company considers the extent to which fair value is less than amortized cost, any changes to the rating by a rating agency, and adverse conditions related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of the 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. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income (loss), net of tax. The Company elected the practical expedient of zero loss estimates for securities issued by U.S. government entities and agencies and local municipals. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major agencies and have a long history of no credit losses.

Restricted Equity Securities

Restricted equity securities are carried at cost. The Company, as a member of the Pittsburgh branch of the Federal Home Loan Bank system (FHLB), is required to maintain an investment in capital stock of the FHLB. The carrying value of this stock was $3,417 at December 31, 2023 and $2,713 at December 31, 2022. Based on redemption provisions of the FHLB, the stock has no quoted market value. The Company is also required to maintain an investment in the Atlantic Community Bankers Bank. The carrying value of this stock was $10 at December 31, 2023 and 2022.

Management considers whether these investments are impaired based on the ultimate recoverability of the cost basis rather than by recognizing temporary declines in value. Management believes no impairment has occurred related to these investments at December 31, 2023 and 2022.

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 receivable on loans is reported as a component of accrued interest receivable on the consolidated balance sheets, totaled $1,197 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 balance sheets, totaled $469 at December 31, 2023 and is excluded from the estimate of credit losses.

Loans Held-for-Sale

Loans held-for-sale consist of one-four family residential mortgages originated and intended for sale in the secondary market. The loans are carried in the aggregate at the lower of cost or fair value, based upon current delivery prices in the secondary market. Gains or losses are included in net income and are determined using the specific identification method.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for unearned income, the allowance for credit losses, and any unamortized deferred fees or costs on originated loans.

The loan receivable portfolio is segmented into commercial, residential, municipal and consumer loans. Commercial loans include commercial and industrial and commercial real estate loans. Residential loans include 1-4 family mortgage loans, home equity loans, and certain commercial loans in which residential real estate is held as collateral. Consumer loans consist of personal installment loans, and municipal loans consist of loans to local municipalities and authorities. The segments of the Company's loan portfolio are disaggregated to a level that allows management to monitor risk and performance. Common risk characteristics include loan type, collateral type and geographic location.

For all classes of loans receivable except certain residential loans, 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. For residential loans that are well secured and in the process of collection, the accrual of interest is discontinued after one year of past due payments. When a loan is placed on nonaccrual status, unpaid interest is reversed against interest income. Interest received on nonaccrual loans, including individually evaluated loans, is either applied to principal or recognized as interest income, depending on 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.

Allowance for Credit Losses

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, 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. The Company adopted ASC 326 using the modified retrospective method. The Company determined the impact on the allowance for credit losses was not material and determined no cumulative effect adjustment necessary. Results for reporting periods beginning after January 1, 2023, are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP.

Allowance for Credit Losses- Loans

The allowance for credit losses represents management's estimate of 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. Consumer loans are generally charged off no later than 120 days past due on a contractual basis (earlier in the event of bankruptcy) or if there is an amount deemed uncollectible.

The allowance for credit losses represents management's estimate of lifetime credit losses inherent in loans as of the balance sheet date. The allowance for credit losses is estimated by management using relevant available information, from both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. The Company measures expected credit losses for loans on a pooled basis when similar risk characteristics exist. The Company has identified the following portfolio segments and calculates the allowance for credit losses for each using the vintage methodology:

- Real Estate Residential 1-4 Family Loans
- Real Estate Residential Home Equity Loans
- Real Estate Commercial Loans
- Commercial and Industrial Loans
- Municipal Loans
- Consumer Loans

The vintage methodology determines historical characteristics of each loan pool, such as charge offs, recoveries, average lives and prepayment speeds, and calculates an expected credit loss to be applied to the current loan pool. The model also incorporates a qualitative factors reserve for each pool.

These qualitative risk factors include:

1. Lending policies and procedures, including underwriting standards and collection, charge-off and recovery practices.
2. National, regional and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans.
3. Nature and volume of the portfolio and terms of loans.
4. Experience, ability and depth of management team.
5. Volume and severity of past due, classified and nonaccrual loans.
6. Existence and effect of any concentrations of credit and changes in the level of such concentrations.

7. Oversight, including the impact of banking laws and regulations as well as the overall regulatory environment.

8. External factors which may have either a direct or indirect impact on the quality of the loan portfolio.

Each factor is assigned a value, low, moderate or high, in which a basis point factor in the model is allocated. Management reviews the factors quarterly for changes in the conditions. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for credit loss calculation.

Prior to the adoption of ASU 2016-13, loans individually evaluated were classified as impaired. With the adoption of ASU 2016-13 loans that do not share risk characteristics with existing pools are evaluated on an individual basis. A specific allowance is established when the collateral value, observable market price, or discounted cash flows of the individually evaluated loan is lower than the carrying value of that loan. Management considers factors in determining individually evaluated loans such as payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. 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 records, and the amount of the shortfall in relation to the principal and interest owed. The Company does not separately evaluate individual residential and consumer loans, unless such loans are part of a larger relationship that is individually evaluated, or are classified as substandard.

The estimated fair values of substantially all of the Company's individually evaluated loans are measured based on the estimated fair value of the loan's collateral.

For loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When an individually evaluated loan is secured by real estate, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted, when necessary, to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For loans secured by nonreal estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable agings, equipment appraisals, invoices or online pricing sources. Indications of value from these sources are generally discounted, as appropriate, based on the age of the financial information or the quality of the assets.

The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for residential, municipal and consumer loans. Credit quality risk ratings include classifications of pass, special mention, substandard, doubtful and loss. Loans classified as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as loss are considered uncollectible and are immediately charged to the allowance for credit losses. Loans not classified are rated pass. To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Company has a structured loan rating process encompassing both internal and external oversight. Generally, residential and consumer loans are included in the pass category unless on nonaccrual status at which time they are classified as substandard, or they are associated with a closely related criticized commercial credit. The Company's commercial loan officers and credit team are responsible for the timely and accurate risk rating of the commercial loans in their portfolio at origination and on an ongoing basis. The Company utilizes an external loan review consultant to conduct a loan review of its portfolio each year. The external consultant generally reviews all commercial loan relationships exceeding a specified threshold.

In addition, federal and state regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for credit losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for credit losses is adequate.

The Company adopted ASU 2022-02, Financial Instruments-Credit Losses (Topic 326): Troubled Debt Restructuring and Vintage Disclosures, on January 1, 2023. The amendments in the ASU were applied prospectively, and therefore, loan modification and change information is provided for only those items occurring after the January 1, 2023 adoption date.

Based on guidance in ASU 2022-02, a loan modification or refinancing results in a new loan if the terms of the new loan are at least as favorable to the lender as the terms with customers with similar collection risks that are not refinancing or restricting their loans and the modification to the terms of the loan are more than minor. If a loan modification or refinancing does not result in a new loan, it is classified as a loan modification.

There are additional disclosures for modification of loans with borrowers experiencing financial difficulty that result in a direct change in the timing or amount of contractual cash flows. The disclosures are applicable to situations where there is principal forgiveness, interest rate reductions, other than insignificant payment delays, term extensions, or a combination of any of these. If the Company modifies any loans to borrowers in financial distress that involves principal forgiveness, the amount of principal that is forgiven is charged off against the allowance.

Allowance for Credit Losses- Unfunded Commitments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit issued to meet customer financing needs. The Company’s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for off-balance sheet loan commitments is represented by the contractual amount of those instruments. Such financial instruments are recorded when they are funded.

The Company records an allowance for credit losses on off-balance sheet credit exposures, unless the commitments to extend credit are unconditionally cancelable, through a charge to provision for unfunded commitments in the Company's income statement. The allowance for credit losses on off-balance sheet credit exposures is estimated by loan segment at the balance sheet date under the current expected credit loss model using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur. The allowance for unfunded commitments is included in other liabilities on the Company's consolidated balance sheet.

Revenue Recognition

The Company earns income from various sources, including loans, investment securities, bank-owned life insurance, deposit accounts and sales of assets.

Interest income on loans is accrued on the unpaid principal balance and recorded daily. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method. Other loan fees, including late charges, are recognized as they occur.

Interest income on debt securities is recognized on the accrual basis. Purchase premiums and discounts are recognized using the interest method over the term of the securities. Dividends on equity securities are recorded when declared.

Service charges on deposits include maintenance and analysis fees, overdraft fees and automated teller machine (ATM) fees. Revenue is recognized when the Company's performance obligation is completed which is generally monthly for account services or when a transaction has been completed. Payment for service charges on deposit accounts is received immediately or in the following month through a direct charge to customers' accounts.

Commissions are received from third parties based on the sale of the third party's investment and insurance products to the Company's customers. The Company's performance obligation is complete when the sale occurs.

Other income includes other fees and revenue which are generally transactional in nature and are recorded as they occur.

Gains or losses on sales of assets are generally recognized when the asset has been legally transferred to the buyer and the Company has no continuing involvement with the asset. The Company does not generally finance the sale.

Cash Surrender Value, Life Insurance

The Company is the owner and beneficiary of life insurance policies on certain employees and directors. The life insurance investment is carried at the cash surrender value of the underlying owned policies. The increase in the cash surrender value is recognized as a component of noninterest income. The policies can be liquidated, if necessary, with tax costs associated. However, the Company intends to hold these policies and, accordingly, the Company has not provided for deferred income taxes on the earnings from the increase in cash surrender value.

Bank Premises and Equipment

Bank premises (including leasehold improvements) and equipment are carried at cost, less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated lives of the assets for owned assets or the lesser of the lease term or the estimated lives of the assets for leasehold improvements.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other expenses.

Foreclosed assets totaled $13 and $0 at December 31, 2023 and 2022, respectively, and are included in other assets. Residential real estate in process of foreclosure was $352 and $0 at December 31, 2023 and 2022, 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. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities. Enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

Earnings Per Share

Earnings per share is based on the number of shares of common stock outstanding. 2022 earnings per share was adjusted for the effect of the 2023 stock dividend. The Company's basic and diluted earnings per share are the same since there are no dilutive shares of potential common stock outstanding.

Transfers 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 Company - put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (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 or the ability to unilaterally cause the holder to return specific assets.

Advertising Costs

Advertising costs are expensed as incurred and totaled $115 in 2023 and $145 in 2022 and are included in other expenses on the consolidated statements of income.

Treasury Stock

Treasury stock is recorded at cost. The subsequent disposition or sale of the treasury stock is recorded using the average cost method.

(In Thousands, Except Share Amounts)

Consolidated Statements of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and amounts due from banks. Interest paid totaled $5,953 in 2023 and $1,301 in 2022. The Company paid $1,600 of income tax payments in 2023 and $1,500 in 2022. Amounts transferred from loans to foreclosed assets was $13 and $0 in 2023 and 2022, respectively.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income and other comprehensive income (loss). Other comprehensive income (loss) consists solely of the net unrealized gains (losses) on available-for-sale securities, net of deferred income taxes. Accumulated other comprehensive loss consists of net unrealized losses of $11,866 plus deferred income taxes of $2,492 at December 31, 2023 and $14,768 plus deferred income taxes of $3,102 at December 31, 2022.

Subsequent Events

Subsequent events were evaluated for recognition or disclosure through February 29, 2024, the date the consolidated financial statements were available to be issued.

2. Investments

The amortized cost and fair value of investment securities at December 31 are summarized as follows:

	December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. Treasury	$ 16,879	$ -	$ 1,082	$ 15,797
U.S. government agency and government sponsored enterprises (GSE)	12,491	25	728	11,788
State and municipal obligations	41,382	276	2,339	39,319
Mortgage-backed securities, GSE, residential	57,310	6	8,023	49,293
Total debt securities	128,062	307	12,172	116,197
Equity securities	68	47	-	115
Total	$ 128,130	$ 354	$ 12,172	$ 116,312
Held-to-maturity, Corporate bonds	$ 5,650	$ -	$ 763	$ 4,887
Allowance for Credit Losses	(15)			
Held-to-maturity, net	$ 5,635	$ -	$ -	$ 4,887

(In Thousands, Except Share Amounts)

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. Treasury	$ 16,818	$ -	$ 1,459	$ 15,359
U.S. government agency and government sponsored enterprises (GSE)	11,564	28	1,021	10,571
State and municipal obligations	43,390	71	3,438	40,023
Mortgage-backed securities, GSE, residential	64,477	15	8,964	55,528
Total debt securities	136,249	114	14,882	121,481
Equity securities	68	49	-	117
Total	$ 136,317	$ 163	$ 14,882	$ 121,598
Held-to-maturity, Corporate bonds	$ 5,650	$ -	$ 546	$ 5,104
Allowance for Credit Losses	-	-	-	-
Held-to-maturity, net	$ 5,650	$ -	$ -	$ 5,104

Investments with a fair value of $52,816 at December 31, 2023 and $42,584 at December 31, 2022 are pledged as collateral to secure public deposits and for other purposes as required by law.

The amortized cost and fair value of debt securities at December 31, 2023, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or repayment penalties:

	Available-for Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 8,546	$ 8,463
Due after one year through five years	34,997	32,829
Due after five years through ten years	12,144	10,663
Due after ten years through fifteen years	6,303	6,194
Due after fifteen years	8,762	8,755
Subtotal	70,752	66,904
Mortgage-backed securities, GSE, residential	57,310	49,293
Total	$ 128,062	$ 116,197

	Held-to-Maturity	
	Amortized Cost	Fair Value
Due after five years through ten years	$ 5,650	$ 4,887

(In Thousands, Except Share Amounts)

The following table presents gross unrealized losses and fair value of investments aggregated by investment category and length of time that individual securities have been in a continuous loss position:

	December 31, 2023					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Treasury	$ -	$ -	$ 15,797	$ 1,082	$ 15,797	$ 1,082
U.S. agency and GSE	1,582	52	9,298	676	10,880	728
State and municipal obligations	999	4	28,768	2,335	29,767	2,339
Mortgage-backed securities, GSE, residential	1,793	16	46,588	8,007	48,381	8,023
Corporate bonds	-	-	4,887	763	4,887	763
Total debt securities	$ 4,374	$ 72	$ 105,338	$ 12,863	$ 109,712	$ 12,935

	December 31, 2022					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Treasury	$ 5,706	$ 228	$ 9,651	$ 1,231	$ 15,357	$ 1,459
U.S. agency and GSE	-	-	8,954	1,021	8,954	1,021
State and municipal obligations	30,752	2,422	5,092	1,016	35,844	3,438
Mortgage-backed securities, GSE, residential	28,528	2,535	24,936	6,429	53,464	8,964
Corporate bonds	2,228	172	2,876	374	5,104	546
Total debt securities	$ 67,214	$ 5,357	$ 51,509	$ 10,071	$ 118,723	$ 15,428

The Company had 221 available-for-sale debt securities in unrealized loss positions at December 31, 2023. These securities are primarily issued by U.S. government agencies and U.S. GSE. The unrealized losses are considered to result from changes in market interest rates subsequent to purchase and not from downgrades in the creditworthiness of the issuers. In analyzing an issuer's financial condition, management considers whether the securities are general obligation or revenue bonds, whether they 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. The Company does not intend to sell these securities nor is it more likely than not that it will be required to sell these securities prior to recovery. The Company estimated no allowance for credit losses for its investment securities classified as available-for-sale debt securities at December 31, 2023.

The following table shows a roll-forward of the allowance for credit losses on held-to-maturity securities, as of December 31, 2023:

	Corporate Bonds
Balance, December 31, 2022	$ -
Provision for credit losses	15
Charge off of securities	-
Recoveries of securities	-
Balance, December 31, 2023	$ 15

(In Thousands, Except Share Amounts)

3. Loans and Allowance for Credit Losses

Loans at December 31 are summarized as follows:

	2023	2022
Residential 1-4 family	$ 111,984	$ 105,408
Commercial real estate	145,267	123,220
Home equity	30,220	28,273
Commercial and industrial	61,622	54,286
Municipal	5,506	6,395
Consumer	2,292	2,241
Total loans	356,891	319,823
Allowance for credit losses	(4,344)	(4,096)
Loans, net	$ 352,547	$ 315,727

The following tables summarize the activity in the allowance for credit losses by loan class for the year ended December 31, 2023, and information in regard to the allowance for credit losses and loans receivable by loan class as of December 31, 2023 under the CECL methodology.

	Residential 1-4 Family	Commercial Real Estate	Home Equity	Commercial and Industrial	Municipal	Consumer	Unallocated	Total
Allowance for credit losses:								
Beginning balance, prior to adoption of ASC 326 January 1, 2023	$ 819	$ 1,943	$ 210	$ 852	$ 29	$ 18	$ 225	$ 4,096
Charge-offs	(15)	-	(39)	(9)	-	(68)	-	(131)
Recoveries	14	-	-	-	-	10	-	24
Provision (credit)	491	25	163	(186)	(24)	111	(225)	355
Ending balance, December 31, 2023	$ 1,309	$ 1,968	$ 334	$ 657	$ 5	$ 71	$ -	$ 4,344
Ending balance, individually evaluated	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance, collectively evaluated	$ 1,309	$ 1,968	$ 334	$ 657	$ 5	$ 71	$ -	$ 4,344
Loans receivable at December 31, 2023:								
Total balance	$ 111,984	$ 145,267	$ 30,220	$ 61,622	$ 5,506	$ 2,292	$ -	$ 356,891
Ending balance, individually evaluated	$ 237	$ 1,064	$ 57	$ -	$ -	$ -	$ -	$ 1,358
Ending balance, collectively evaluated	$ 111,747	$ 144,203	$ 30,163	$ 61,622	$ 5,506	$ 2,292	$ -	$ 355,533

(In Thousands, Except Share Amounts)

Changes in the allowance for loan losses in 2022 are as follows:

	Residential 1-4 Family	Commercial Real Estate	Home Equity	Commercial and Industrial	Municipal	Consumer	Unallocated	Total
Allowance for loan losses:								
Beginning balance, January 1, 2022	$ 701	$ 1,951	$ 188	$ 682	$ 19	$ 30	$ 323	$ 3,894
Charge-offs	-	-	-	(26)	-	(19)	-	(45)
Recoveries	20	-	-	20	-	7	-	47
Provision (credit)	98	(8)	22	176	10	-	(98)	200
Ending balance, December 31, 2022	$ 819	$ 1,943	$ 210	$ 852	$ 29	$ 18	$ 225	$ 4,096
Ending balance, individually evaluated for impairment	$ -	$ 31	$ -	$ -	$ -	$ -	$ -	$ 31
Ending balance, collectively evaluated for impairment	$ 819	$ 1,943	$ 210	$ 852	$ 29	$ 18	$ 225	$ 4,065
Loans receivable at December 31, 2022:								
Total balance	$ 105,408	$ 123,220	$ 28,273	$ 54,286	$ 6,395	$ 2,241	$ -	$ 319,823
Ending balance, individually evaluated for impairment	$ 388	$ 1,220	$ 64	$ 17	$ -	$ -	$ -	$ 1,689
Ending balance, collectively evaluated for impairment	$ 105,020	$ 122,000	$ 28,209	$ 54,269	$ 6,395	$ 2,241	$ -	$ 318,134

The following table presents information on nonaccrual loans at December 31:

	CECL			Incurred Loss
	2023			2022
	Nonaccrual Loans with No Allowance	Nonaccrual Loans with An Allowance	Total Nonaccrual Loans	Nonaccrual Loans
Residential 1-4 family	$ 324	$ -	$ 324	$ 479
Home equity	97	-	97	82
Commercial and industrial	16	-	16	18
Total	$ 437	$ -	$ 437	$ 579

The Company recognized $61 interest income on nonaccrual loans during the year ended December 31, 2023.

(In Thousands, Except Share Amounts)

Prior to the adoption of ASU 2016-13, loans were considered impaired when, based on current information and events, it was probable the Company would be unable to collect all amounts due in accordance with the original contractual terms of the loan agreements. When determining if the Company would be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement, the Company considered the borrower's capacity to pay, which included such factors as the borrower's current financial statements, an analysis of global cash flow sufficient to pay all debt obligations and an evaluation of secondary sources of repayment, such as guarantor support and collateral value. The tables below include all loans deemed impaired, whether or not individually assessed for impairment.

The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2022:

	December 31, 2022				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential 1-4 family	$ 388	$ 550	$ -	$ 788	$ 11
Commercial real estate	1,125	1,125	-	1,155	46
Home equity	64	74	-	74	-
Commercial and industrial	17	17	-	19	-
With an allowance recorded:					
Residential 1-4 family	-	-	-	-	-
Commercial real estate	95	101	31	95	5
Home equity	-	-	-	-	-
Commercial and industrial	-	-	-	-	-
Total:					
Residential 1-4 family	388	550	-	788	11
Commercial real estate	1,220	1,226	31	1,250	51
Home equity	64	74	-	74	-
Commercial and industrial	17	17	-	19	-

(In Thousands, Except Share Amounts)

The following table presents the Company's recorded investment in loans by credit quality indicators by year of origination as of December 31, 2023:

	2023	2022	2021	2020	2019	Prior	Revolving	Total
Commercial and Industrial:								
Risk Rating								
Pass	$ 17,157	$ 20,798	$ 6,568	$ 5,179	$ 4,766	$ 7,138	$ -	$ 61,606
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	16	-	16
Total Commercial and Industrial Loans	$ 17,157	$ 20,798	$ 6,568	$ 5,179	$ 4,766	$ 7,154	$ -	$ 61,622
Current Period gross write offs	$ -	$ 9	$ -	$ -	$ -	$ -	$ -	$ 9
Commercial Real Estate:								
Risk Rating								
Pass	$ 19,089	$ 19,905	$ 27,677	$ 23,827	$ 8,196	$ 41,653	$ -	$ 140,347
Special Mention	-	-	-	-	-	3,856	-	3,856
Substandard	-	-	-	-	-	1,064	-	1,064
Total Commercial Real Estate Loans	$ 19,089	$ 19,905	$ $ 27,677	$ 23,827	$ 8,196	$ 46,573	$ -	$ 145,267
Current Period gross write offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Consumer:								
Risk Rating								
Pass	$ 1,025	$ 629	$ 173	$ 222	$ 107	$ 136	$ -	$ 2,292
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Total Consumer Loans	$ 1,025	$ 629	$ 173	$ 222	$ 107	$ 136	$ -	$ 2,292
Current Period gross write offs	$ 57	$ 5	$ 6	$ -	$ -	$ -	$ -	$ 68
Residential 1-4 Family:								
Risk Rating								
Pass	$ 14,885	$ 29,963	$ 26,847	$ 9,354	$ 5,713	$ 24,898	$ -	$ 111,660
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	324	-	324
Total Residential 1-4 Family Loans	$ 14,885	$ 29,963	$ $ 26,847	$ 9,354	$ 5,713	$ 25,222	$ -	$ 111,984
Current Period gross write offs	$ -	$ -	$ -	$ -	$ -	$ 15	$ -	$ 15
Home Equity:								
Risk Rating								
Pass	$ 4,297	$ 8,129	$ 4,643	$ 2,838	$ 2,620	$ 7,596	$ -	$ 30,123
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	97	-	97
Total Home Equity Loans	$ 4,297	$ 8,129	$ 4,643	$ 2,838	$ 2,620	$ 7,693	$ -	$ 30,220
Current Period gross write offs	$ -	$ -	$ -	$ -	$ -	$ 39	$ -	$ 39
Municipal:								
Risk Rating								
Pass	$ 12	$ 2,739	$ 78	$ 146	$ 24	$ 2,507	$ -	$ 5,506
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Total Municipal Loans	$ 12	$ 2,739	$ 78	$ 146	$ 24	$ 2,507	$ -	$ 5,506
Current Period gross write offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

(In Thousands, Except Share Amounts)

The following table presents information on loans by credit quality indicators at December 31, 2022:

	Residential 1-4 Family	Commercial Real Estate	Home Equity	Commercial and Industrial	Municipal	Consumer	Total
Pass	$ 104,929	$ 120,769	$ 28,141	$ 54,226	$ 6,395	$ 2,241	$ 316,701
Special mention	-	1,231	-	25	-	-	1,256
Substandard	479	1,220	132	35	-	-	1,866
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total	$ 105,408	$ 123,220	$ 28,273	$ 54,286	$ 6,395	$ 2,241	$ 319,823

The following table presents information on loans by past due status at December 31, 2023:

	30-59 Days Past Due	60-89 Day Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment ≥ 90 Days and Accruing
Residential 1-4 family	$ 273	$ -	$ 574	$ 847	$ 111,137	$ 111,984	$ 250
Commercial real estate	-	-	-	-	145,267	145,267	-
Home equity	40	29	132	201	30,019	30,220	35
Commercial and industrial	16	-	-	16	61,606	61,622	-
Municipal	-	-	-	-	5,506	5,506	-
Consumer	10	-	-	10	2,282	2,292	-
Total	$ 339	$ 29	$ 706	$ 1,074	$ 355,817	$ 356,891	$ 285

The following table presents information on loans by past due status at December 31, 2022:

	30-59 Days Past Due	60-89 Day Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment ≥ 90 Days and Accruing
Residential 1-4 family	$ 111	$ -	$ 194	$ 305	$ 105,103	$ 105,408	$ 23
Commercial real estate	-	-	277	277	122,943	123,220	-
Home equity	104	-	35	139	28,134	28,273	16
Commercial and industrial	14	9	-	23	54,263	54,286	-
Municipal	-	-	-	-	6,395	6,395	-
Consumer	5	6	-	11	2,230	2,241	-
Total	$ 234	$ 15	$ 505	$ 754	$ 319,069	$ 319,823	$ 39

The Company has certain loans for which repayment is dependent upon the operation or sale of collateral, as the borrower is experiencing financial difficulty. The underlying collateral can vary based upon the type of loan. The following provides more detail about the types of collateral that secure collateral dependent loans:

- Residential 1-4 family loans are typically secured by residential real estate first mortgages, and in some cases could be secured by a second mortgage.

- Commercial real estate loans can be secured by either owner occupied commercial real estate or non-owner occupied investment commercial real estate. Typically, owner occupied commercial real estate loans are secured by office buildings, warehouses, manufacturing facilities and other commercial and industrial properties occupied by operating companies. Non-owner occupied commercial real estate loans are generally secured by office buildings and complexes, retail facilities, multifamily complexes, land under development, industrial properties, as well as other commercial or industrial real estate.

- Home equity lines of credit are generally secured by second mortgages on residential real estate property.

- Commercial and industrial loans are generally unsecured with no underlying collateral or secured by inventory, customer accounts, or equipment

- Consumer loans are typically unsecured or secured by the borrower's vehicle, deposits, or securities.

- Municipal loans are generally secured by the overall taxing authority or specific revenue streams of the municipality.

The following table details collateral dependent loans as of December 31:

	2023
Residential 1-4 family	$ 237
Commercial real estate	1,064
Home Equity	57
Total	$ 1,358

The allowance for credit losses incorporates an estimate of lifetime expected credit losses and is recorded on each asset upon asset origination or acquisition. The starting point for the estimate of the allowance for credit losses is historical loss information, which includes losses from modifications of receivables to borrowers experiencing financial difficulty. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification.

Because the effect of most modifications made to borrowers experiencing financial difficulty, such as extensions of terms, insignificant payment delays and interest rate reductions, is already included in the allowance for credit losses because of the measurement methodologies used to estimate the allowance, a change to the allowance for credit losses is generally not recorded upon modification. In some cases, the Company will modify a certain loan by providing multiple types of concessions. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted.

The Company made no loan modifications due to the borrower experiencing financial difficulty in 2023.

(In Thousands, Except Share Amounts)

4. Bank Premises and Equipment

Bank premises and equipment at December 31 is summarized as follows:

	2023	2022
Land	$ 1,860	$ 1,860
Bank premises and leasehold improvements	9,653	9,503
Equipment, furniture and fixtures	7,026	6,576
Construction in process	273	110
Total	18,812	18,049
Less accumulated depreciation	9,882	9,362
Net	$ 8,930	$ 8,687

5. Deposits

The aggregate amount of certificates of deposit with a minimum denomination in excess of $250 was $22,672 and $17,784 at December 31, 2023 and 2022, respectively.

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

Years ending December 31:	
2024	$ 56,559
2025	5,656
2026	3,105
2027	2,923
2028	1,328
Total	$ 69,571

6. Borrowed Funds

The Company has a maximum borrowing capacity with the FHLB of $168,823, including a $68,063 line of credit. The Company had $10,000 under the line at December 31, 2023 and $0 at December 31, 2022. The Company also had $8,000 fixed rate advances with the FHLB at December 31, 2023 and 2022. The Company has used $375 in 2023 and 2022 of its borrowing capacity to issue irrevocable letters of credit to collateralize public deposits. Advances are secured by qualifying assets of the Company, which include FHLB stock, certain U.S. government sponsored enterprise securities, and first mortgage loans.

The Company has a $7,000 unsecured federal funds borrowing agreement with Atlantic Community Bankers Bank. There were no borrowings at December 31, 2023 and 2022.

Borrowed funds from FHLB consisted of the following at December 31:

	2023	2022
Fixed rate advances:		
Due in 2023	$ -	$ 3,000
Due in 2024	$ 8,000	$ 5,000
Floating rate advances:		
Due in 2024	$ 10,000	$ -
Total	$ 18,000	$ 8,000

The weighted average interest rate on the above borrowings was 4.22%.

(In Thousands, Except Share Amounts)

7. Income Taxes

The provision for income taxes consists of the following:

	2023	2022
Current	$ 1,610	$ 1,490
Deferred	(48)	38
Total	$ 1,562	$ 1,528

A reconciliation between the effective income tax expense and the amount computed using the federal statutory rate of 21% in 2023 and 2022 is as follows:

	2023	2022
Federal income tax expense at statutory rate	$ 1,861	$ 1,781
Effect of:		
Tax-exempt income	(312)	(254)
Other items	13	1
Total	$ 1,562	$ 1,528

The following temporary differences gave rise to the net deferred tax asset at December 31:

	2023	2022
Deferred tax assets (liabilities):		
Allowance for credit losses	$ 834	$ 760
Deferred compensation	140	112
Other	(133)	(132)
Unrealized losses on available-for-sale debt securities, AOCI	2,492	3,102
Unrealized gains on equity securities	(11)	(10)
Depreciation	(205)	(153)
Net deferred tax asset	$ 3,117	$ 3,679

A valuation allowance has not been established as the Company believes that the deferred tax assets are more likely than not realizable. The Company had no unrecognized tax benefits at December 31, 2023 and 2022. There were no interest and penalties recognized in 2023 and 2022.

8. Retirement Plan

The Company sponsors a defined contribution retirement plan. Retirement plan expense was $244 in 2023 and $231 in 2022.

(In Thousands, Except Share Amounts)

9. Financial Instruments With Off-Balance-Sheet Risk

The Company is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments. Unless noted otherwise, the Company does not require collateral or other security to support financial instruments with off-balance-sheet credit risk.

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. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Company upon extension of credit, is based on management's credit evaluation.

Unfunded commitments under commercial lines-of-credit and revolving credit lines are commitments for possible future extensions of credit to existing customers. These commitments may or may not be collateralized and usually contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed.

Standby letters of credit written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments if deemed necessary.

To reduce credit risk related to the use of credit-related financial instruments, the Company might deem it necessary to obtain collateral. The amount and nature of the collateral obtained is based on the Company's credit evaluation of the customer. Collateral held varies but may include cash, securities, accounts receivable, inventory, property, plant and equipment and real estate. The Company has not incurred any losses on its commitments in either 2023 or 2022.

Financial instruments whose contract amount represents credit risk were as follows:

	2023	2022
Commitments to extend credit	$ 49,458	$ 43,766
Standby letters of credit	6,298	6,451

For the year ended December 31, 2023, the Company recorded a provision for credit losses for unfunded commitments of $61 in other expenses on the consolidated statement of income. At December 31, 2023, the liability for credit losses on off-balance-sheet credit exposures was $61 and $0 for 2022 included in other liabilities on the consolidated balance sheet.

10. Leases

The Company leases two branches under the terms of agreements classified as operating leases. The Company has recognized a right-of-use asset of $357 and $510 at December 31, 2023 and 2022, respectively, for its operating leases which is included in other assets, and an operating lease liability of $421 and $596 at December 31, 2023 and 2022, which is included in other liabilities on the consolidated balance sheets.

Expected future lease payments at December 31, 2023 under these operating leases are as follows (in thousands):

Years ending December 31:		
2024	$	191
2025		134
2026		112
Total lease payments		437
Present value discount		16
Operating lease liability, included in other liabilities	$	421

None of the leases include options to renew past the current lease term. The discount rate used in determining the operating lease liability was the FHLB fixed advance rate which corresponded with the lease term upon recognition. At December 31, 2023 and 2022, the weighted average discount rate was 3% and the weighted average remaining lease term was approximately 3 years in 2023 and 3 years in 2022.

Operating lease expense was $168 in 2023 and $200 in 2022. Short-term lease expense was $66 in 2023 and $77 in 2022. Cash paid for operating leases was $190 in 2023 and $221 in 2022.

11. Related-Party Transactions

The Company has granted loans to executive officers, directors, significant shareholders (greater than 10%) and their affiliates. The following table summarizes the activity in these loans (in thousands):

	2023		2022	
Balance, beginning	$	4,304	$	4,460
New loans		650		1,160
Repayment		(1,368)		(1,316)
Balance, ending	$	3,586	$	4,304

Related-party deposits were $4,248 in 2023 and $6,390 at December 31, 2022.

(In Thousands, Except Share Amounts)

12. Regulatory 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 consolidated 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 its 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.

Quantitative measures established by regulation to ensure capital adequacy require the maintenance of minimum amounts and ratios of total capital, Tier 1 capital (as defined in the regulations) and common equity Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. A capital conservation buffer of 2.50%, comprised of common equity Tier I capital, is also established above the regulatory minimum capital requirements and must be maintained to avoid limitations on capital distributions.

The Bank has elected the community bank leverage ratio framework. This framework simplifies the regulatory capital requirements by requiring the Bank meet only the Tier 1 capital to average assets (leverage) ratio. The Bank must only maintain a leverage ratio greater than the 9% required minimum to be considered well capitalized under this framework. The Bank can opt out of the new framework and return to the risk-weighting framework at any time.

Management believes, as of December 31, 2023, that the Bank meets all capital adequacy requirements to which they are subject. As of December 31, 2023, 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 ratios as set forth in the following tables. There are no conditions or events since that notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios are as follows:

	2023			
	Actual		To be Well Capitalized	
	Amount	Ratio	Amount	Ratio
Tier 1 (core) capital (to average assets)	$ 57,442	10.8 %	$ 47,841	9.0 %

	2022			
	Actual		To be Well Capitalized	
	Amount	Ratio	Amount	Ratio
Tier 1 (core) capital (to average assets)	$ 52,039	9.9 %	$ 47,493	9.0 %

The Federal Reserve Bank has established capital guidelines for bank holding companies. These guidelines allow small bank holding companies, as defined, an exemption from regulatory capital requirements. Peoples Ltd. meets the eligibility criteria and is exempt from regulatory capital requirements.

Federal and state banking regulations place certain restrictions on dividends paid by the Bank to Peoples Ltd. The amount of total dividends is generally limited to the retained earnings of the Bank. However, dividend payments would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements as discussed above.

13. Fair Value Disclosures

Fair value is defined as an exit price representing the amount that would be received to sell an asset or settle a liability in an orderly transaction between market participants. A three-level hierarchy exists for fair value measurements based upon the inputs to the valuation of an asset or liability.

Level 1 - Valuation is based on quoted prices in active markets for identical assets or liabilities;

Level 2 - Valuation is determined from quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument;

Level 3 - Valuation is derived from model-based and other techniques in which at least one significant input is unobservable and which may be based on the Company's own estimates about the assumptions that a market participant would use to value the asset or liability.

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis by level within the fair value hierarchy (in thousands):

	December 31, 2023			
	Total	**Level 1**	**Level 2**	**Level 3**
U.S. Treasury	$ 15,797	$ 15,797	$ -	$ -
U.S. agency and GSE	11,788	-	11,788	-
State and municipal obligations	39,319	-	39,319	-
Mortgage-backed securities, GSE, residential	49,293	-	49,293	-
Total debt securities	116,197	15,797	100,400	-
Equity securities	115	115	-	-
Total	$ 116,312	$ 15,912	$ 100,400	$ -

	December 31, 2022			
	Total	**Level 1**	**Level 2**	**Level 3**
U.S. Treasury	$ 15,359	$ 15,359	$ -	$ -
U.S. agency and GSE	10,571	-	10,571	-
State and municipal obligations	40,023	-	40,023	-
Mortgage-backed securities, GSE, residential	55,528	-	55,528	-
Total debt securities	121,481	15,359	106,122	-
Equity securities	117	117	-	-
Total	$ 121,598	$ 15,476	$ 106,122	$ -

The classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

(In Thousands, Except Share Amounts)

U.S. Treasury and equity securities are measured at fair value using quoted market prices in an active market for identical assets and are classified as Level 1 in the hierarchy. All other debt securities are measured at fair value using matrix pricing, which 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 and are classified as Level 2 in the hierarchy.

The Company had no financial instruments subject to fair value adjustments on a nonrecurring basis as of December 31, 2023 and the table below presents by level within the fair value hierarchy as of December 31, 2022:

	December 31, 2022			
	Total	Level 1	Level 2	Level 3
Individually evaluated loans, net	$ 64	$ -	$ -	$ 64

Individually evaluated loans that are collateral dependent are written down to fair value through partial charge-offs or the establishment of specific reserves. Such collateral is primarily real estate whose value is based on appraisals performed by certified appraisers. These values are generally adjusted based on management's knowledge of changes in market conditions or other factors and include estimated liquidation expenses which are generally 10% of the collateral value. Management's assumptions of the collateral value include consideration of location and occupancy as well as condition of the property or asset. At December 31, 2023, management did not make adjustments to the collateral value. Since the adjustments may be significant, are based on management's estimates and are generally unobservable, they have been classified as Level 3.

In addition to the disclosures of financial instruments recorded at fair value, U.S. GAAP requires the disclosure of the estimated fair value of all the Company's financial instruments. The majority of the Company's assets and liabilities are considered financial instruments. However, many of these instruments lack an available market. In addition, the Company's general practice and intent is to hold its financial instruments to maturity. The Company has considered the fair value measurement criteria as required under the accounting standard relating to fair value measurement as noted above. Fair value estimates have been determined based on the methodologies management considers most appropriate for each financial instrument.

(In Thousands, Except Share Amounts)

The following are the carrying amounts and estimated fair values of the Company's financial instruments as of December 31:

	2023				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and due from banks	$ 25,769	$ 25,769	$ 25,769	$ -	$ -
Available-for-sale securities	116,197	116,197	15,797	100,400	-
Held-to-maturity securities	5,635	4,887	-	4,887	-
Marketable equity securities	115	115	115	-	-
Loans, net	352,547	348,215	-	-	348,215
Loans held-for-sale	494	506	-	506	-
Accrued interest receivable	1,666	1,666	-	1,666	-
Restricted equity securities	3,427	3,427	-	3,427	-
Financial liabilities:					
Deposits	462,731	461,895	-	461,895	-
Borrowed funds	18,000	17,967	-	17,967	-
Accrued interest payable	150	150	-	150	-

	2022				
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and due from banks	$ 73,022	$ 73,022	$ 73,022	$ -	$ -
Available-for-sale securities	121,481	121,481	15,359	106,122	-
Held-to-maturity securities	5,650	5,104	-	5,104	-
Marketable equity securities	117	117	117	-	-
Loans, net	315,727	303,314	-	-	303,314
Loans held-for-sale	633	649	-	649	-
Accrued interest receivable	1,495	1,495	-	1,495	-
Restricted equity securities	2,723	2,723	-	2,723	-
Financial liabilities:					
Deposits	494,966	493,584	-	493,584	-
Borrowed funds	8,000	7,610	-	7,610	-
Accrued interest payable	58	58	-	58	-

14. Dividend Reinvestment and Stock Purchase Plan

Effective January 1, 2022, the Company established a Dividend Reinvestment and Stock Purchase Plan (Plan) for its shareholders residing in the Commonwealth of Pennsylvania. Shareholders residing in other states are not currently eligible to participate. The Plan is designed to provide the Company's stock at no transactional cost to its shareholders. Cash dividends paid to shareholders who are enrolled in the Plan plus optional cash deposits received are used to purchase shares either directly from the Company, from shares that become available in the open market or from the Company's previously acquired treasury stock. Optional cash purchases are limited to $5 each calendar year per participant. In addition, the Company is limited to $2,485, in the aggregate, of investment proceeds under the Plan unless amended.

The Company has reserved 35,000 shares of its unissued common stock for issuance under the Plan. The Plan will terminate on December 31, 2024, or sooner if all available shares are issued. The Company may renew the Plan.

The Company issued 3,965 shares in 2023 and 3,139 in 2022 of common stock through the Plan. At December 31, 2023, there were 27,896 shares available for future issuance.