Peoples Ltd. and Subsidiaries

Consolidated Financial Statements

December 31, 2022 and 2021

Peoples Ltd. and Subsidiaries

Table of Contents
December 31, 2022 and 2021

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, 2022 and 2021, 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, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the 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 accounting principles generally accepted in the United States of America, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Baker Tilly US, LLP

Wilkes-Barre, Pennsylvania
February 23, 2023

Peoples Ltd. and Subsidiaries

Consolidated Balance Sheets
December 31, 2022 and 2021
(In Thousands, Except Share Amounts)

	2022	2021
Assets		
Cash and due from banks	$ 73,022	$ 63,549
Available-for-sale securities	121,481	104,945
Held-to-maturity securities	5,650	4,900
Marketable equity securities	117	81
Loans, net	315,727	276,324
Loans held-for-sale	633	4,263
Cash surrender value, life insurance	10,789	10,524
Bank premises and equipment	8,687	5,780
Accrued interest receivable	1,495	955
Restricted equity securities	2,723	2,621
Deferred income taxes	3,679	737
Other assets	2,401	2,616
Total	$ 546,404	$ 477,295
Liabilities and Shareholders' Equity		
Liabilities		
Demand deposits:		
Noninterest-bearing	$ 141,641	$ 117,593
Interest-bearing	179,327	141,584
Total	320,968	259,177
Savings deposits	102,751	81,557
Time deposits	71,247	79,289
Total deposits	494,966	420,023
Borrowed funds	8,000	8,000
Accrued interest payable	58	20
Other liabilities	2,663	2,758
Total liabilities	505,687	430,801
Shareholders' Equity		
Common stock, $.50 par value, authorized 5,000,000; 2022 - 789,828 shares issued, 775,173 outstanding 2021 - 750,004 shares issued, 735,349 outstanding	395	375
Surplus	24,111	21,322
Retained earnings	28,389	25,764
Treasury stock, at cost	(512)	(512)
Accumulated other comprehensive loss	(11,666)	(455)
Total shareholders' equity	40,717	46,494
Total	$ 546,404	$ 477,295

See notes to consolidated financial statements

Peoples Ltd. and Subsidiaries

Consolidated Statements of Income
Years Ended December 31, 2022 and 2021
(in Thousands, Except Per Share Amounts)

	2022	2021
Interest Income		
Interest and fees on loans	$ 13,849	$ 13,650
Interest and dividends on investments:		
Taxable interest and dividends	3,023	1,468
Nontaxable interest	523	359
Total interest income	17,395	15,477
Interest Expense		
Interest on deposits	1,313	823
Interest on borrowed funds	26	226
Total interest expense	1,339	1,049
Net Interest Income	16,056	14,428
Provision for Loan Losses	200	150
Net Interest Income After Provision for Loan Losses	15,856	14,278
Noninterest Income		
Service charges	1,761	1,616
Gain on sale of loans	320	1,732
Increase in cash surrender value, life insurance	265	254
Commissions	161	153
Unrealized gains on equity securities	36	-
Gain on sale of foreclosed assets	24	19
Other income	497	743
Total noninterest income	3,064	4,517
Noninterest Expenses		
Salaries and employee benefits	5,558	5,286
Occupancy and equipment	1,129	1,055
Data processing	668	652
Debit/credit card processing	480	446
Professional fees	480	575
Pennsylvania shares tax	461	410
FDIC insurance	182	187
FHLB prepayment fee	-	114
Other expenses	1,479	1,670
Total noninterest expenses	10,437	10,395
Income Before Provision for Income Taxes	8,483	8,400
Provision for Income Taxes	1,528	1,573
Net Income	$ 6,955	$ 6,827
Earnings Per Share	$ 8.97	$ 8.84

See notes to consolidated financial statements

Peoples Ltd. and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)
Years Ended December 31, 2022 and 2021
(in Thousands)

	2022	2021
Net Income	$ 6,955	$ 6,827
Other Comprehensive Loss		
Unrealized loss on available-for-sale securities	(14,191)	(2,383)
Tax effect	2,980	501
Total other comprehensive loss	(11,211)	(1,882)
Total Comprehensive Income (Loss)	$ (4,256)	$ 4,945

See notes to consolidated financial statements

Peoples Ltd. and Subsidiaries

Consolidated Statements of Changes in Shareholders' Equity
Years Ended December 31, 2022 and 2021
(in Thousands, Except Share Amounts)

	Common Stock		Treasury Stock			Retained	Accumulated Other Comprehensive	
	Shares	Amount	Shares	Amount	Surplus	Earnings	Income (Loss)	Total
Balance, January 1, 2021	715,155	$ 358	14,655	$ (512)	$ 18,865	$ 23,034	$ 1,427	$ 43,172
Net income	-	-	-	-	-	6,827	-	6,827
Other comprehensive loss	-	-	-	-	-	-	(1,882)	(1,882)
Cash dividend ($2.30 per share)	-	-	-	-	-	(1,611)	-	(1,611)
5% stock dividend	34,849	17	-	-	2,457	(2,486)	-	(12)
Balance, December 31, 2021	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

See notes to consolidated financial statements

Peoples Ltd. and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021
(in Thousands)

	2022	2021
Operating Activities		
Net income	$ 6,955	$ 6,827
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	200	150
Depreciation	444	405
Amortization and accretion, net	135	13
Gain on sale of loans	(320)	(1,732)
Loans originated for sale	(8,451)	(40,959)
Proceeds from sale of loans originated for sale	12,401	51,969
Writedown on foreclosed assets	-	40
(Gain) loss on sale of foreclosed assets	(24)	3
(Gain) loss on disposal of equipment	(11)	1
Unrealized gains on equity securities	(36)	-
Deferred income taxes	38	3
Increase in cash surrender value, life insurance	(265)	(254)
Amortization of right-of-use asset	182	170
Change in:		
Accrued interest receivable	(540)	93
Other assets	8	(782)
Accrued interest payable	38	(70)
Operating lease liability	(203)	(195)
Other liabilities	108	7
Net cash provided by operating activities	10,659	15,689
Investing Activities		
Proceeds from calls and maturities of available-for-sale securities	16,119	30,233
Purchase of available-for-sale securities	(46,981)	(46,557)
Purchase of held-to-maturity securities	(750)	(2,250)
Proceeds from redemption of restricted equity securities	186	858
Purchase of restricted equity securities	(288)	(1,144)
Net increase in loans	(39,603)	(15,262)
Purchase of life insurance	-	(2,500)
Purchase of bank premises and equipment	(3,367)	(928)
Proceeds from sale of bank equipment	27	-
Proceeds from the sale of foreclosed assets	49	172
Net cash used in investing activities	(74,608)	(37,378)
Financing Activities		
Net increase in deposits	74,943	43,592
Repayment of borrowed funds	-	(13,000)
Proceeds from issuance of common stock	214	-
Dividends paid	(1,735)	(1,623)
Net cash provided by financing activities	73,422	28,969
Increase in Cash and Due From Banks	9,473	7,280
Cash and Due From Banks, Beginning	63,549	56,269
Cash and Due From Banks, Ending	$ 73,022	$ 63,549

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.

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 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 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 loan losses, the valuation of investment securities and determination of other-than-temporary impairment thereon, and valuation of deferred tax assets.

In connection with the determination of the allowance for loan losses, management generally obtains independent appraisals for significant properties. While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in economic conditions. It is reasonably possible that the estimated losses on loans may change materially in the near term.

The Company's investment securities are comprised of a variety of financial instruments. The fair values of these securities are subject to various risks including changes in the interest rate environment and general economic conditions. Due to the increased level of these risks and their potential impact on the fair values of the securities, it is possible that the amounts reported in the accompanying consolidated financial statements could materially change in the near term.

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. Declines in the fair value of available-for-sale debt securities below their costs that are deemed to be credit-related are reflected in earnings as realized losses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

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 $2,713 at December 31, 2022 and $2,611 at December 31, 2021. 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, 2022 and 2021.

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, 2022 and 2021.

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 loan 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 and home equity loans. 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 impaired 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 Loan Losses

The allowance for loan 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 loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan 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 loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components.

The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, a specific allowance is established when the collateral value, observable market price, or discounted cash flows of the impaired loan is lower than the carrying value of that loan. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment records, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis. The Company does not separately evaluate individual residential and consumer loans for impairment, unless such loans are part of a larger relationship that is impaired, or are classified as substandard or a troubled debt restructuring.

The estimated fair values of substantially all of the Company's impaired 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 a real estate secured loan becomes impaired, 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 or 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 general component covers pools of loans by loan class including loans not considered impaired, as well as smaller balance homogeneous loans, such as residential 1-4 family, home equity and consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates, adjusted for qualitative risk factors. 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 lending management and staff.

5. Volume and severity of past due, classified and nonaccrual loans as well as other loan modifications.

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 to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. 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 a loss are considered uncollectible and are immediately charged to the allowance for loan 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 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.

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Loans whose terms are modified are classified as troubled debt restructurings (TDR) if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a TDR generally involve a temporary reduction in interest rate or an extension of a loan's stated maturity date. Nonaccrual TDRs are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as TDRs are generally designated as impaired.

In addition, federal and state regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan 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 loan losses is adequate.

The Company made no significant changes to its accounting policies or methodologies for the allowance for loan losses in 2022 or 2021.

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 $0 and $25 at December 31, 2022 and 2021, respectively, and are included in other assets. Residential real estate in process of foreclosure was $0 and $333 at December 31, 2022 and 2021, 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 weighted average number of shares of common stock outstanding. 2021 earnings per share was adjusted for the effect of the 2022 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 $145 in 2022 and $172 in 2021.

Treasury Stock

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

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 $1,301 in 2022 and $1,119 in 2021. The Company paid $1,500 of income tax payments in 2022 and $2,100 in 2021. Right-of-use assets and operating lease liabilities recognized in 2022 and 2021 were $0 and $184, respectively.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income and other comprehensive loss. Other comprehensive loss consists solely of the net unrealized losses on available-for-sale securities, net of deferred income taxes. Accumulated other comprehensive loss consists of net unrealized losses of $14,768 plus deferred income taxes of $3,102 at December 31, 2022 and $577 plus deferred income taxes of $122 at December 31, 2021.

(In Thousands, Except Share Amounts)

Reclassifications

Certain amounts related to 2021 have been reclassified to conform to the 2022 presentation.

Subsequent Events

Subsequent events were evaluated for recognition or disclosure through February 23, 2023, the date the consolidated financial statements were available to be issued.

Future Accounting Standards

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized basis. The measurement of expected credit losses is 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.

In March 2022, the FASB issued ASU No. 2022-02, *Financial Instruments - Credit Losses - Troubled Debt Restructurings and Vintage Disclosures*. This standard eliminates the recognition and measurement guidance for troubled debt restructurings (TDRs) by creditors and enhances disclosure requirements for certain loan restructurings when a borrower is experiencing financial difficulty. In addition, the standard requires the disclosure of gross write-offs by year of origination.

The Company is required to adopt these standards in 2023 but does not believe the adoption will have a material effect on its consolidated financial statements.

2. Investments

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

	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

(In Thousands, Except Share Amounts)

	December 31, 2021							
		Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
Available-for-sale:								
U.S. Treasury	$	9,905	$	-	$	104	$	9,801
U.S. government agency and government sponsored enterprises (GSE)		9,975		-		155		9,820
State and municipal obligations		25,729		399		109		26,019
Mortgage-backed securities, GSE, residential		59,914		286		895		59,305
Total debt securities		105,523		685		1,263		104,945
Equity securities		68		13		-		81
Total	$	105,591	$	698	$	1,263	$	105,026
Held-to-maturity, Corporate bonds	$	4,900	$	13	$	50	$	4,863

Investments with a fair value of $42,584 at December 31, 2022 and $39,677 at December 31, 2021 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 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	$	2,282	$	2,273
Due after one year through five years		37,521		35,086
Due after five years through ten years		16,662		13,939
Due after ten years through fifteen years		2,908		2,767
Due after fifteen years		12,399		11,888
Subtotal		71,772		65,953
Mortgage-backed securities, GSE, residential		64,477		55,528
Total	$	136,249	$	121,481

	Held-to-Maturity			
		Amortized Cost		Fair Value
Due after five years through ten years	$	5,650	$	5,104

(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, 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

	December 31, 2021					
	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	$ 9,801	$ 104	$ -	$ -	$ 9,801	$ 104
U.S. agency and GSE	3,922	53	5,898	102	9,820	155
State and municipal obligations	6,022	109	-	-	6,022	109
Mortgage-backed securities, GSE, residential	29,022	710	6,258	185	35,280	895
Corporate bonds	3,200	50	-	-	3,200	50
Total debt securities	$ 51,967	$ 1,026	$ 12,156	$ 287	$ 64,123	$ 1,313

The Company had 255 debt securities in unrealized loss positions at December 31, 2022. The unrealized losses are considered to result from changes in interest rates 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. No declines are deemed to be other-than-temporary.

(In Thousands, Except Share Amounts)

3. Loans and Allowance for Loan Losses

Loans at December 31 are summarized as follows:

	2022	2021
Mortgage loans on real estate:		
Residential 1-4 family	$ 105,408	$ 86,466
Commercial real estate	123,220	116,891
Home equity	28,273	24,871
Total mortgage loans on real estate	256,901	228,228
Commercial and industrial	54,286	45,485
Municipal	6,395	4,256
Consumer	2,241	2,249
Total loans	319,823	280,218
Allowance for loan losses	(4,096)	(3,894)
Loans, net	$ 315,727	$ 276,324

The Company elected to participate in the Payroll Protection Program (PPP) administered by the Small Business Administration (SBA). This program was enacted as part of the Coronavirus, Relief and Economic Security Act (CARES Act) in March 2020 to provide emergency economic relief to businesses impacted by the COVID-19 pandemic. These loans were fully guaranteed by the SBA and were eligible for forgiveness up to 100% of the loan and accrued interest balance if the borrowers met specified requirements. These loans had terms from 2-5 years depending on date of origination, with interest at 1%. No payments were generally required until the SBA remitted the loan forgiveness amount to the Company. At December 31, 2022 and 2021, $39 and $5,057, respectively, of PPP loans remain outstanding and are included in commercial and industrial loans.

The SBA paid a fee to the Company to originate each PPP loan based on the amount of the loan. Such fees, net of deferred loan origination costs, were recognized in interest income, as an adjustment of yield, over the life of the related loan. However, upon receipt of a loan's SBA forgiveness payment, any remaining fee for the loan was fully recognized into income. The Company recognized $306 and $1,403 of net PPP fee income in 2022 and 2021, respectively.

(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	$ 62	$ 1,497	$ 64	$ 66	$ -	$ -	$ -	$ 1,689
Ending balance, collectively evaluated for impairment	$ 105,346	$ 121,723	$ 28,209	$ 54,220	$ 6,395	$ 2,241	$ -	$ 318,134

(In Thousands, Except Share Amounts)

Changes in the allowance for loan losses in 2021 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, 2021	$ 777	$ 1,720	$ 227	$ 594	$ 22	$ 40	$ 426	$ 3,806
Charge-offs	-	(47)	-	-	-	(61)	-	(108)
Recoveries	-	-	-	-	-	46	-	46
Provision (credit)	(76)	278	(39)	88	(3)	5	(103)	150
Ending balance, December 31, 2021	$ 701	$ 1,951	$ 188	$ 682	$ 19	$ 30	$ 323	$ 3,894
Ending balance, individually evaluated for impairment	$ -	$ 44	$ -	$ 28	$ -	$ -	$ -	$ 72
Ending balance, collectively evaluated for impairment	$ 701	$ 1,907	$ 188	$ 654	$ 19	$ 30	$ 323	$ 3,822
Loans receivable at December 31, 2021:								
Total balance	$ 86,466	$ 116,891	$ 24,871	$ 45,485	$ 4,256	$ 2,249	$ -	$ 280,218
Ending balance, individually evaluated for impairment	$ 46	$ 1,586	$ 85	$ 918	$ -	$ -	$ -	$ 2,635
Ending balance, collectively evaluated for impairment	$ 86,420	$ 115,305	$ 24,786	$ 44,567	$ 4,256	$ 2,249	$ -	$ 277,583

(In Thousands, Except Share Amounts)

The following table summarizes information on impaired loans at December 31:

	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	$ 62	$ 62	$ -	$ 62	$ -
Commercial real estate	1,402	1,818	-	1,564	55
Home equity	64	74	-	74	-
Commercial and industrial	66	83	-	66	2
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	62	62	-	62	-
Commercial real estate	1,497	1,919	31	1,659	60
Home equity	64	74	-	73	-
Commercial and industrial	66	83	-	66	2

	December 31, 2021				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential 1-4 family	$ 46	$ 54	$ -	$ 46	$ 4
Commercial real estate	1,480	1,633	-	1,895	72
Home equity	85	90	-	55	2
Commercial and industrial	890	890	-	1,065	39
With an allowance recorded:					
Residential 1-4 family	-	-	-	-	-
Commercial real estate	106	106	44	112	7
Home equity	-	-	-	-	-
Commercial and industrial	28	28	28	29	1
Total:					
Residential 1-4 family	46	54	-	46	4
Commercial real estate	1,586	1,739	44	2,007	79
Home equity	85	90	-	55	2
Commercial and industrial	918	918	28	1,094	40

(In Thousands, Except Share Amounts)

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

	2022	2021
Residential 1-4 family	$ 202	$ 137
Commercial real estate	277	292
Home equity	82	26
Commercial and industrial	18	-
Total	$ 579	$ 455

The following table presents information on loans by internal risk rating at December 31, 2022:

	Residential 1-4 Family	Commercial Real Estate	Home Equity	Commercial and Industrial	Municipal	Consumer	Total
Pass	$ 105,308	$ 120,346	$ 28,160	$ 54,251	$ 6,395	$ 2,241	$ 316,701
Special mention	-	1,256	-	-	-	-	1,256
Substandard	202	1,547	82	35	-	-	1,866
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total	$ 105,510	$ 123,149	$ 28,242	$ 54,286	$ 6,395	$ 2,241	$ 319,823

The following table presents information on loans by internal risk rating at December 31, 2021:

	Residential 1-4 Family	Commercial Real Estate	Home Equity	Commercial and Industrial	Municipal	Consumer	Total
Pass	$ 86,378	$ 115,256	$ 24,737	$ 44,564	$ 4,256	$ 2,249	$ 277,440
Special mention	-	-	-	-	-	-	-
Substandard	88	1,635	134	921	-	-	2,778
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total	$ 86,466	$ 116,891	$ 24,871	$ 45,485	$ 4,256	$ 2,249	$ 280,218

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

(In Thousands, Except Share Amounts)

The following table presents information on loans by past due status at December 31, 2021:

	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	$ 178	$ 167	$ 247	$ 592	$ 85,874	$ 86,466	$ 110
Commercial real estate	-	-	292	292	116,599	116,891	-
Home equity	18	-	101	119	24,752	24,871	75
Commercial and industrial	72	-	-	72	45,413	45,485	-
Municipal	-	-	-	-	4,256	4,256	-
Consumer	-	1	-	1	2,248	2,249	-
Total	$ 268	$ 168	$ 640	$ 1,076	$ 279,142	$ 280,218	$ 185

The Company may grant a concession or modification for economic or legal reasons related to a borrower's financial condition that it would not otherwise consider resulting in a modified loan which is then identified as a TDR. The Company may modify loans through rate reductions, extensions of maturity, interest only payments or payment modifications to better match the timing of cash flows due under the modified terms with the cash flows from the borrowers' operations. Loan modifications are intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. TDRs are generally considered impaired loans for purposes of calculating the Company's allowance for loan losses. The Company identifies loans for potential restructure primarily through direct communication with the borrower and evaluation of the borrower's financial statements, revenue projections, tax returns and credit reports. Even if the borrower is not presently in default, management will consider the likelihood that cash flow shortages, adverse economic conditions and negative trends may result in a payment default in the near future.

There were no TDRs made in 2022 or 2021. No TDRs defaulted in 2022 or 2021.

4. Bank Premises and Equipment

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

	2022	2021
Land	$ 1,860	$ 1,360
Bank premises	9,503	6,163
Equipment, furniture and fixtures	6,576	5,999
Construction in process	110	1,225
Total	18,049	14,747
Less accumulated depreciation	9,362	8,967
Net	$ 8,687	$ 5,780

The 2021 construction in process related to an administrative and lending facility completed in September 2022.

(In Thousands, Except Share Amounts)

5. Deposits

The aggregate amount of certificates of deposit with a minimum denomination in excess of $250 was $17,784 and $16,218 at December 31, 2022 and 2021, respectively.

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

Years ending December 31:	
2023	$ 56,135
2024	5,723
2025	2,351
2026	3,743
2027	3,295
Total	$ 71,247

6. Borrowed Funds

The Company has a maximum borrowing capacity with the FHLB of $157,865, including a $68,063 line of credit. The Company had no borrowings under the line at December 31, 2022 and 2021. The Company has used $375 in 2022 and 2021 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, 2022 and 2021.

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

	2022	2021
Fixed rate advances:		
Due in 2023	$ 3,000	$ 3,000
Due in 2024	5,000	5,000
Total	$ 8,000	$ 8,000

The weighted average interest rate on the above borrowings was 0.32%.

7. Income Taxes

The provision for income taxes consists of the following:

	2022	2021
Current	$ 1,490	$ 1,570
Deferred	38	3
Total	$ 1,528	$ 1,573

(In Thousands, Except Share Amounts)

A reconciliation between the effective income tax expense and the amount computed using the federal statutory rate of 21% in 2022 and 2021 is as follows:

	2022	2021
Federal income tax expense at statutory rate	$ 1,781	$ 1,764
Effect of:		
Tax-exempt income	(254)	(204)
Other items	1	13
Total	$ 1,528	$ 1,573

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

	2022	2021
Deferred tax assets (liabilities):		
Allowance for loan losses	$ 760	$ 707
Deferred compensation	112	93
Other	(132)	(133)
Unrealized losses on available-for-sale debt securities, AOCI	3,102	122
Unrealized gains on equity securities	(10)	(3)
Depreciation	(153)	(49)
Net deferred tax asset	$ 3,679	$ 737

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, 2022 and 2021. There were no interest and penalties recognized in 2022 and 2021.

8. Retirement Plan

The Company sponsors a defined contribution retirement plan. Retirement plan expense was $231 in 2022 and $115 in 2021.

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 2022 or 2021.

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

	2022	2021
Commitments to extend credit	$ 43,766	$ 38,772
Standby letters of credit	6,451	4,594

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 $510 and $692 at December 31, 2022 and 2021, respectively, for its operating leases which is included in other assets, and an operating lease liability of $596 and $799 at December 31, 2022 and 2021, respectively.

Expected future lease payments at December 31, 2022 under these operating leases are as follows (in thousands):

Years ending December 31:	
2023	$ 190
2024	191
2025	134
2026	112
Total lease payments	627
Present value discount	31
Operating lease liability, included in other liabilities	$ 596

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, 2022 and 2021, the weighted average discount rate was 3% and the weighted average remaining lease term was approximately 3 years in 2022 and 4 years in 2021.

Operating lease expense was $200 in 2022 and $192 in 2021. Short-term lease expense was $77 in 2022 and $68 in 2021. Cash paid for operating leases was $221 in 2022 and $218 in 2021.

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):

	2022	2021
Balance, beginning	$ 4,460	$ 5,345
New loans	1,160	1,985
Repayment	(1,316)	(2,870)
Balance, ending	$ 4,304	$ 4,460

Related-party deposits were $6,390 in 2022 and $6,187 at December 31, 2021.

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.

(In Thousands, Except Share Amounts)

Management believes, as of December 31, 2022, that the Bank meets all capital adequacy requirements to which they are subject. 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 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:

	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 %

	2021			
	Actual		To be Well Capitalized	
	Amount	Ratio	Amount	Ratio
Tier 1 (core) capital (to average assets)	$ 46,837	10.0 %	$ 39,980	8.5 %

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, 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	$ -

	December 31, 2021			
	Total	**Level 1**	**Level 2**	**Level 3**
U.S. Treasury	$ 9,801	$ 9,801	$ -	$ -
U.S. agency and GSE	9,820	-	9,820	-
State and municipal obligations	26,018	-	26,018	-
Mortgage-backed securities, GSE, residential	59,306	-	59,306	-
Total debt securities	104,945	9,801	95,144	-
Equity securities	81	81	-	-
Total	$ 105,026	$ 9,882	$ 95,144	$ -

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

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 following table presents the Company's financial instruments subject to fair value adjustments on a nonrecurring basis by level within the fair value hierarchy:

	December 31, 2022			
	Total	**Level 1**	**Level 2**	**Level 3**
Impaired loans, net	$ 64	$ -	$ -	$ 64

	December 31, 2021			
	Total	**Level 1**	**Level 2**	**Level 3**
Impaired loans, net	$ 62	$ -	$ -	$ 62

(In Thousands, Except Share Amounts)

Impaired 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, 2022, management adjustments to the collateral value approximated 21%. 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.

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

	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	-

(In Thousands, Except Share Amounts)

	2021				
	Carrying Amount	**Estimated Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial assets:					
Cash and due from banks	$ 63,549	$ 63,549	$ 63,549	$ -	$ -
Available-for-sale securities	105,026	105,026	9,801	95,144	-
Held-to-maturity securities	4,900	4,863	-	4,863	-
Marketable equity securities	81	81	81	-	-
Loans, net	276,324	281,253	-		281,253
Loans held-for-sale	4,263	4,391	-	4,391	
Accrued interest receivable	955	955	-	955	-
Restricted equity securities	2,621	2,621	-	2,621	-
Financial liabilities:					
Deposits	420,023	419,817	-	419,817	-
Borrowed funds	8,000	7,901	-	7,901	-
Accrued interest payable	20	20	-	20	-

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, 2023, or sooner if all available shares are issued. The Company may renew the Plan.

In 2022, the Company issued 3,139 shares of common stock through the Plan. At December 31, 2022, there were 31,861 shares available for future issuance.