LEDYARD

FINANCIAL GROUP

Plan well. *Live well.*

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

With Independent Auditor's Report

BerryDunn

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Shareholders
Ledyard Financial Group, Inc. and Subsidiary

Opinion

We have audited the accompanying consolidated financial statements of Ledyard Financial Group, Inc. and Subsidiary (the Company), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive (loss) income, 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 referred to above present fairly, in all material respects, the financial position of Ledyard Financial Group, Inc. and Subsidiary as of December 31, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, 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.

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

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

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

- Identify and assess the risks of material misstatement of the 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.

Berry Dunn McNeil & Parker, LLC

Waltham, Massachusetts
March 24, 2023

LEDYARD FINANCIAL GROUP, INC. AND SUBSIDIARY

Consolidated Balance Sheets

December 31, 2022 and 2021

ASSETS

	2022	2021
Cash and due from banks	$ **5,582,380**	$ 2,667,226
Interest bearing deposits	**11,750,492**	15,272,794
Total cash and cash equivalents	**17,332,872**	17,940,020
Securities available-for-sale	**127,205,328**	349,377,361
Securities held-to-maturity	**175,855,003**	-
Nonmarketable equity securities	**2,988,750**	1,185,950
Loans receivable, net of allowance for loan losses of $3,842,765 in 2022 and $7,468,805 in 2021	**358,214,130**	355,208,211
Accrued interest receivable	**3,267,313**	3,249,679
Premises and equipment, net	**18,782,549**	17,843,992
Bank owned life insurance	**11,927,194**	11,688,416
Other assets	**27,891,388**	14,649,623
Total assets	**$ 743,464,527**	$ 771,143,252

LIABILITIES AND SHAREHOLDERS' EQUITY

	2022	2021
Deposits		
Demand	**$ 281,354,863**	$ 354,233,135
NOW accounts	**59,510,444**	63,788,488
Money market accounts	**140,084,636**	162,130,205
Savings	**58,087,833**	59,491,455
Time deposits, other	**25,082,988**	28,601,879
Time deposit, $250,000 and over	**6,211,205**	6,837,298
Total deposits	**570,331,969**	675,082,460
Securities sold under agreements to repurchase	**219,243**	950,803
Advances from Federal Home Loan Bank (FHLB) and other borrowings	**87,977,971**	5,627,304
Subordinated debentures	**17,698,065**	-
Accrued expenses & other liabilities	**14,238,041**	16,777,087
Total liabilities	**690,465,289**	698,437,654
Shareholders' equity		
Common stock, $0.33 par value; 11,000,000 shares authorized, 3,464,393 and 3,467,362 shares issued, 3,348,395 and 3,350,624 shares outstanding at December 31, 2022 and 2021, respectively	**1,154,798**	1,155,787
Additional paid in-capital	**15,167,996**	14,768,380
Treasury stock, at cost; 115,998 and 116,738 shares at December 31, 2022 and 2021, respectively	**(1,644,238)**	(1,654,724)
Retained earnings	**54,407,449**	50,244,036
Accumulated other comprehensive (loss) income	**(16,086,767)**	8,192,119
Total shareholders' equity	**52,999,238**	72,705,598
Total liabilities and shareholders' equity	**$ 743,464,527**	$ 771,143,252

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

LEDYARD FINANCIAL GROUP, INC. AND SUBSIDIARY

Consolidated Statements of Income

Years Ended December 31, 2022 and 2021

	2022	2021
Interest and dividend income		
Interest and fees on loans	**$ 12,968,366**	$ 13,325,292
Investment securities	**7,540,799**	5,886,008
Other interest-earning assets	**249,441**	81,465
Total interest and dividend income	**20,758,606**	19,292,765
Interest expense		
Deposits	**609,721**	755,465
Borrowed funds	**886,737**	263,024
Subordinated debentures	**576,329**	-
Total interest expense	**2,072,787**	1,018,489
Net interest income	**18,685,819**	18,274,276
Reduction in loan losses	**(3,634,494)**	(450,000)
Net interest income after reduction in loan losses	**22,320,313**	18,724,276
Noninterest income		
Ledyard Financial Advisors division income	**12,778,651**	13,168,853
Service fees	**949,880**	870,808
Net (loss) gain on securities	**(2,966,353)**	168,013
Other	**451,244**	828,379
Total noninterest income	**11,213,422**	15,036,053
Noninterest expense		
Salaries and employee benefits	**16,070,916**	15,662,043
Occupancy and equipment	**5,699,380**	5,107,782
Federal Deposit Insurance Corporation (FDIC) insurance fees	**198,497**	175,327
Other general and administrative	**4,068,222**	4,341,878
Total noninterest expense	**26,037,015**	25,287,030
Income before income taxes	**7,496,720**	8,473,299
Income tax expense	**515,468**	708,167
Net income	**$ 6,981,252**	$ 7,765,132
Basic earnings per share	**$ 2.14**	$ 2.42
Diluted earnings per share	**$ 2.13**	$ 2.38
Weighted average numbers of shares outstanding	**3,261,499**	3,214,648

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

LEDYARD FINANCIAL GROUP, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive (Loss) Income

Years Ended December 31, 2022 and 2021

	2022	2021
Net income	**$ 6,981,252**	$ 7,765,132
Other comprehensive (loss) income, net of tax		
Securities		
Changes in net unrealized losses on securities available-for-sale, net of income tax benefit of $10,131,935 and $399,550 in 2022 and 2021, respectively	**(29,139,130)**	(1,503,069)
Reclassification adjustment for net loss (gain) on sales of securities available-for-sale, net of income tax benefit (expense) of $765,319 and $(35,283) in 2022 and 2021, respectively	**2,201,034**	(132,730)
Reclassification adjustment for unrealized holding (loss) included in accumulated other comprehensive income from the transfer of securities available-for-sale to held-to-maturity, adjusted for amortization, net of income tax benefit of $291,514	**838,579**	-
Total securities	**(26,099,517)**	(1,635,799)
Derivative contracts		
Unrealized gain on cash flow hedges, net of income tax expense of $633,049 and $343,715 in 2022 and 2021, respectively	**1,820,631**	1,293,020
Total other comprehensive loss	**(24,278,886)**	(342,779)
Total comprehensive (loss) income	**$ (17,297,634)**	$ 7,422,353

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

LEDYARD FINANCIAL GROUP, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Shareholders' Equity

Years Ended December 31, 2022 and 2021

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
Balance, December 31, 2020	$ 1,149,271	$ 13,813,987	$ (1,767,680)	$ 45,153,579	$ 8,534,898	$ 66,884,055
Net income	-	-	-	7,765,132	-	7,765,132
Other comprehensive loss, net of tax effect	-	-	-	-	(342,779)	(342,779)
Total comprehensive income	-	-	-	7,765,132	(342,779)	7,422,353
Cash dividends paid, $0.80 per share	-	-	-	(2,674,675)	-	(2,674,675)
Stock awards issued from treasury (7,966 shares)	-	82,872	112,956	-	-	195,828
Stock-based compensation expense	-	1,154,476	-	-	-	1,154,476
Restricted stock issued, net of shares returned to cover taxes (19,548 shares)	6,516	(282,955)	-	-	-	(276,439)
Balance, December 31, 2021	$ 1,155,787	$ 14,768,380	$ (1,654,724)	$ 50,244,036	$ 8,192,119	$ 72,705,598
Net income	**-**	**-**	**-**	**6,981,252**	**-**	**6,981,252**
Other comprehensive loss, net of tax effect	**-**	**-**	**-**	**-**	**(24,278,886)**	**(24,278,886)**
Total comprehensive loss	**-**	**-**	**-**	**6,981,252**	**(24,278,886)**	**(17,297,634)**
Cash dividends paid, $0.84 per share	**-**	**-**	**-**	**(2,817,839)**	**-**	**(2,817,839)**
Stock awards issued from Treasury (740 shares)	**-**	**5,890**	**10,486**	**-**	**-**	**16,376**
Stock-based compensation expense	**-**	**947,569**	**-**	**-**	**-**	**947,569**
Restricted stock issued; net of shares returned to cover taxes (-2,967)	**(989)**	**(553,843)**	**-**	**-**	**-**	**(554,832)**
Balance, December 31, 2022	**$ 1,154,798**	**$ 15,167,996**	**$ (1,644,238)**	**$ 54,407,449**	**$ (16,086,767)**	**$ 52,999,238**

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

LEDYARD FINANCIAL GROUP, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Net income	$ **6,981,252**	$ 7,765,132
Adjustments to reconcile net income to net cash provided by operating activities		
Reduction in loan losses	**(3,634,494)**	(450,000)
Depreciation of premises and equipment	**939,162**	989,766
Net (accretion) amortization of securities	**(921,538)**	1,852,579
Net loss (gain) on securities	**2,966,353**	(168,013)
Deferred income tax benefit	**(774,869)**	(181,200)
Amortization of limited partnerships	**1,098,716**	854,167
Stock-based compensation	**947,569**	1,154,476
Fair value of stock awards issued from treasury	**16,376**	195,828
Increase in accrued interest receivable	**(17,634)**	(216,620)
Decrease (increase) in other assets	**596,130**	(5,005,172)
Decrease in right-of-use assets	**439,353**	468,267
Net decrease (increase) in loans held for sale	**114,400**	(114,400)
Decrease in operating lease liabilities	**(438,058)**	(465,469)
(Decrease) increase in accrued expenses and other liabilities	**(331,229)**	3,713,478
Net cash provided by operating activities	**7,981,489**	10,392,819
Cash flows from investing activities		
Proceeds from sales, calls, maturities and paydowns of securities available-for-sale	**30,293,514**	43,469,214
Purchase of securities available-for-sale	**(27,610,493)**	(167,964,546)
Proceeds from calls, maturities and paydowns of securities held-to-maturity	**2,607,852**	-
Net redemption of non-marketable equity securities	**(1,802,800)**	70,100
Low-income housing investment	**(1,769,759)**	(1,904,399)
Net change in loans to customers	**514,176**	9,314,084
Purchase of premises and equipment	**(2,317,072)**	(565,198)
Net cash used by investing activities	**(84,582)**	(117,580,745)
Cash flows from financing activities		
Net change in deposits	**(104,750,491)**	85,570,040
Proceeds from short-term borrowings	**612,601,000**	-
Repayment of short-term borrowings	**(531,300,000)**	-
Repayment of long-term borrowings	**(72,333)**	(3,047,833)
Proceeds from long-term borrowings	**1,122,000**	1,946,150
Proceeds from issuance of subordinated debt	**18,000,000**	-
Net decrease in securities sold under agreements to repurchase	**(731,560)**	(5,197,717)
Restricted stock issued, net of repurchase for tax withholdings and tax benefit	**(554,832)**	(276,439)
Cash dividends paid on common stock	**(2,817,839)**	(2,674,675)
Net cash (used) provided by financing activities	**(8,504,055)**	76,319,526
Net decrease in cash and cash equivalents	**(607,148)**	(30,868,400)
Cash and cash equivalents, beginning of year	**17,940,020**	48,808,420
Cash and cash equivalents, end of year	**$ 17,332,872**	$ 17,940,020
Supplementary cash flow information:		
Transfer of securities from available-for-sale to held-to-maturity	**$ 194,144,720**	$ -
Interest paid on deposits and borrowed funds	**$ 1,743,740**	$ 1,039,947
Income taxes (refunded) paid	**$ (615,390)**	$ 1,092,280

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

Nature of Business

Ledyard Financial Group, Inc. (the Company) is headquartered in Hanover, New Hampshire and, as a bank holding company, it provides financial services to its customers through its wholly-owned bank subsidiary, Ledyard National Bank (the Bank). The Bank provides retail and commercial banking and wealth advisory services through its office locations in New Hampshire and Vermont.

1. Summary of Significant Accounting Policies

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

Basis of Presentation

The Company follows accounting standards as set by the Financial Accounting Standards Board (FASB). FASB sets U.S. GAAP that management follows to consistently report the Company's financial condition, results of operations and cash flows.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned bank subsidiary. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

In preparing financial statements in conformity with U.S. GAAP, management is required 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 in the near term relate to the determination of the allowance for loan losses and the valuation of other real estate owned. In connection with the determination of the allowance and the carrying value of other real estate owned, management obtains independent appraisals for significant properties and collateral securing significant loans. Accordingly, the ultimate collectability of a substantial portion of the Company's loan portfolio is susceptible to changes in local market conditions.

While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's loan portfolio. Such agencies 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.

Significant Group Concentrations of Credit Risk

The Company's operations are affected by various risk factors, including interest rate risk, credit risk, and risk from geographic concentration of lending activities. Management attempts to manage interest rate risk through various asset/liability management techniques designed to match maturities of assets and liabilities. Loan policies and administration are designed to provide assurance that loans will only be granted to creditworthy borrowers, although credit losses are expected to occur because of subjective factors beyond the control of the Company. Although the Company has a diversified loan portfolio, most of its lending activities are conducted within the geographic area where it is located. As a result, the Company and its borrowers may be especially vulnerable to the consequences of changes in the local economy. In addition, a substantial portion of the Company's loans are secured by real estate.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents include cash and due from banks, and interest-bearing deposits.

The Company's due from bank accounts and interest-bearing deposits, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant risk on cash and cash equivalents.

Investment Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for amortization of premiums and accretion of discounts over the period to call or maturity using methods approximating the interest method. Debt securities not classified as held-to-maturity are classified as available-for-sale and are carried at fair value. Nonmarketable equity securities, consisting of stock in the Federal Home Loan Bank (FHLB), Federal Reserve Bank (FRB), and COCC are carried at cost, subject to adjustments for any observable market transactions on the same or similar instruments of the investee. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Unrealized gains and losses on securities available-for-sale are reported as a net amount in other comprehensive income or loss, net of tax.

For declines in the fair value of individual debt securities available-for-sale below their cost that are deemed to be other-than-temporary, where the Company does not intend to sell the security and it is more likely than not that the Company will not be required to sell the security before recovery of its amortized cost basis, the other-than-temporary decline in the fair value of the debt security related to 1) credit loss is recognized in earnings, and 2) other factors, is recognized in other comprehensive income or loss. Credit loss is deemed to exist if the present value of expected future cash flows using the effective rate at acquisition is less than the amortized cost basis of the debt security. For individual debt securities where the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost, the other-than-temporary impairment is recognized in earnings equal to the entire difference between the security's cost basis and its fair value at the balance sheet date.

In estimating other-than-temporary impairment losses, management considers 1) the length of time and the extent to which the fair value has been less than cost, 2) the financial condition and near-term prospects of the issuer, and 3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are stated at the amount of unpaid principal, increased by deferred loan costs and reduced by an allowance for loan losses.

Loans past due 30 days or more are considered delinquent. Management is responsible to initiate immediate collection efforts to minimize delinquency and any eventual adverse impact on the Company.

In general, consumer loans will be charged off if the loan is delinquent for 120 consecutive days. Commercial and real estate loans are charged off in part or in full if they are considered uncollectible.

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

Loan origination and commitment fees and certain direct origination costs are being deferred and the net amount amortized as an adjustment of the related loan's yield. The Company is generally amortizing these amounts over the contractual life of the loan.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses is evaluated on a regular basis by management. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance consists of general, allocated and unallocated components, as further described below.

General Component

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by the following loan segments: residential real estate, commercial real estate, construction, commercial and consumer. Management uses an average of historical losses based on a time frame appropriate to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors: levels/trends in delinquencies; trends in volume and terms of loans; effects of changes in risk selection and changes in lending policies, experience, ability, depth of lending management and staff; and national and local economic conditions. During 2022, management implemented changes to the methodology pertaining to the general component for loan losses on uncriticized loans, whereby the previously established historical loss experience floors utilized were changed to be based on the Company's actual historical loss experience with a reduced floor of 2 basis points. Management was previously utilizing industry peer data floors ranging from 10 basis points to 75 basis points. This change in methodology resulted in an approximate $600,000 release from the allowance for loan losses during 2022. Additionally in 2022, management reduced qualitative factors to the Company's pre-pandemic levels, and further reduced qualitative factors on uncriticized loans. In 2020, the impact of the pandemic uncertainty resulted in an increase of $2,700,000 to the allowance for loan losses. The Company has not experienced losses as a result of the pandemic, and therefore adjusted qualitative factors in 2022 to align with qualitative factors reflective of experience prior to the pandemic, adjusted for improved trends on uncriticized loans. The impact of this change in qualitative factors resulted in an approximate release of $2,400,000 during 2022. Management follows a similar process to estimate its liability for off-balance-sheet commitments to extend credit.

The qualitative factors are determined based on the various risk characteristics of each loan segment. Risk characteristics relevant to each portfolio segment are as follows:

Residential real estate: All loans in this segment are collateralized by 1-4 family residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality of this segment.

Commercial real estate: Loans in this segment are primarily income-producing properties or properties occupied by businesses. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates or a general slowdown in business which, in turn, will have an effect on the credit quality of this segment. Management obtains rent rolls and business financial statements on an annual basis and continually monitors the cash flows of these loans.

Construction: Loans in this segment include real estate development loans for which payment is derived from sale of the property. Credit risk is affected by cost overruns, time to sell at an adequate price, and market conditions.

Commercial: Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy and resultant decreased consumer spending will have an effect on the credit quality in this segment.

Consumer: Repayment of loans in this segment is generally dependent on the credit quality of the individual borrower.

Allocated Component

The allocated component relates to loans that are classified as impaired. Impairment is measured on a loan-by-loan basis for commercial, commercial real estate, construction and residential real estate loans by either the present value of expected future cash flows, discounted at the loan's effective interest rate, or the fair value of the collateral if the loan is collateral dependent. An allowance is established when the discounted cash flows or collateral value of the impaired loan is lower than the carrying value of that loan. Large groups of smaller balance homogenous loans are collectively evaluated for impairment, and the allowance resulting therefrom is reported as the general component, as described above.

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

The Company periodically may agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring (TDR). All TDRs are classified as impaired.

Unallocated Component

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 allocated and general reserves in the portfolio.

Credit Related Financial Instruments

In the ordinary course of business, the Company has entered into commitments to extend credit, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded when they are funded.

Derivative Financial Instruments

Fair values for interest rate swap agreements and interest rate caps (derivative contracts) are based upon the amounts required to settle the contracts.

The Company utilizes derivative contracts to provide an effective hedge against changes in the Secured Overnight Financing Rate (SOFR) swap curve. Derivative contracts are contracts in which a series of interest rate flows are exchanged over a prescribed period. The notional amount on which the interest payments are based is not exchanged.

At the inception of a derivative contract, the Company designates the derivative as one of two types based on the Company's intentions and belief as to likely effectiveness as a hedge. These two types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), or (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item, are recognized in current earnings as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. For both types of hedges, changes in the fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings.

Derivative contracts receive hedge accounting treatment only if they are designated as a hedge and are expected to be, and are, effective in substantially reducing interest rate risk arising from the assets and liabilities identified as exposing the Company to risk. Those derivative financial contracts that do not meet the hedging criteria discussed below would be classified as trading activities and would be recorded at fair value with changes in fair value recorded in noninterest income. Derivative contracts must meet specific effectiveness tests (i.e., over time the change in their fair values due to the designated hedge risk must be within 80 to 125% of the opposite change in the fair values of the hedged assets or liabilities). Changes in fair value of the derivative contracts must be effective at offsetting changes in the fair value of the hedged items due to the designated hedge risk during the term of the hedge. Further, if the underlying financial instrument differs from the hedged asset or liability, there must be a clear economic relationship between the prices of the two financial instruments. If periodic assessment indicates derivatives no longer provide an effective hedge, the derivatives contracts would be closed out and settled or classified as a trading activity.

Other Real Estate Owned

Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses.

After foreclosure, these assets are carried at the lower of their new cost basis or fair value less cost to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost, less accumulated depreciation. The provision for depreciation is computed over the estimated useful life of the related asset, principally by the straight-line method. Improvements to leased property are amortized over the lesser of the term of the lease or life of the improvements.

Income Taxes

The Company recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are established for the temporary differences between the book bases and the tax bases of the Company's assets and liabilities at enacted tax rates expected to be in effect when the amounts related to such temporary differences are realized or settled. Adjustments to the Company's deferred tax assets are recognized as deferred income tax expense or benefit based on management's judgment relating to the realizability of such assets.

FASB Accounting Standards Codification (ASC) Topic 740, *Income Taxes*, defines the criteria that a tax position must satisfy for some or all of the benefits of that position to be recognized in a company's financial statements. Topic 740 prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service and State tax authorities for the years ended December 31, 2019 through 2022.

Earnings per Share

Basic earnings per share data is computed based on the weighted average number of the Company's common shares outstanding during the year. Potential common stock is considered in the calculation of weighted average shares outstanding for diluted earnings per share, and is determined using the treasury stock method.

Stock Based Compensation Plans

Restricted stock awards are measured at the fair value of the stock at the grant date and recognized as expense over the period in which they vest.

Ledyard Financial Advisors Assets and Fees

Assets held by Ledyard Financial Advisors (a division of Ledyard National Bank) for its customers, other than trust cash on deposit at the Bank, are not included in these financial statements because they are not assets of the Bank. Ledyard Financial Advisors earns fees for its wealth management services, which are determined as a percentage of client assets under management. As services are provided over time, the Company has determined the performance obligation to be satisfied over time and therefore, revenue is recognized as earned.

Comprehensive Income or Loss

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities and cash flow hedges, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income or loss.

Dividend Restrictions

Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the Company or by the Company to shareholders.

Recently Issued Accounting Pronouncements

In June 2016, FASB issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* The standard replaces the existing incurred loss model of recognizing credit losses and is referred to as the current expected credit loss model (CECL). Under the new guidance, expected credit losses for financial assets held at the reporting date that are accounted for at amortized cost are measured and recognized based on historical experience, and current and reasonably supportable forecasted conditions, to reflect the full amount of expected credit losses. CECL also applies to held-to-maturity debt securities and certain off-balance sheet credit exposures, such as loan commitments, standby letters of credit, and financial guarantees.

The standard is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company adopted ASU 2016-13, as amended, effective January 1, 2023, using a modified retrospective approach by recording a cumulative-effect adjustment to retained earnings. The Company utilized a model that contains assumptions to calculate credit losses over the estimated life of the financial assets, including the impact of forecasted economic conditions. To estimate the allowance for credit losses for off-balance sheet credit exposures, which are primarily unfunded loan commitments, the Company applied certain assumptions. The impact of adopting this standard is still in process by the Company and the Company anticipates having fully adopted the new guidance by March 31, 2023, retroactive to January 1, 2023.

As part of the adoption of ASU 2016-13, the Company analyzed the corporate and municipal bonds in the Company's held-to-maturity debt portfolio and determined an allowance for current expected credit losses is not warranted as of the effective date. The expected credit losses are adjusted quarterly on an ongoing basis and recorded in an allowance for expected credit losses on the balance sheet, which is deducted from the amortized cost basis of the held-to-maturity portfolio as a contra asset. The losses are expected to be recorded on the income statement through the provision for credit losses. Held-to-maturity investments in U.S. Government sponsored entities and agencies, as well as mortgage-backed securities and collateralized mortgage obligations, which are all either issued by a direct governmental entity or a government-sponsored entity, have no historical evidence supporting expected credit losses; therefore, the Company estimates these losses at zero, and will monitor this assumption in the future for any economic or governmental policies that could affect this assumption.

In March 2022, the FASB issued ASU No. 2022-02, *Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures,* which eliminates the accounting guidance for troubled debt restructurings (TDRs), while enhancing disclosure requirements for certain loan refinancing and restructurings by creditors when a borrower is experiencing financial difficulty. ASU No. 2022-02 is effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. ASU No. 2022-02 is not expected to have a material impact on the Company's consolidated financial statements.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, and has issued subsequent amendments thereto, which provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. The ASU provides optional expedients and exceptions for applying U.S. GAAP to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. The ASU is intended to help stakeholders during the global market-wide reference rate transition period. In December 2022, the FASB issue ASU No. 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*, which extended the sunset date of December 31, 2022 to December 31, 2024. The guidance is effective for all entities as of March 12, 2020 through December 31, 2024. Adoption of ASU No. 2020-4 is not expected to have a material impact on the Company's consolidated financial statements.

Business Segments

U.S. GAAP requires public companies to report (i) certain financial and descriptive information about "reportable operating segments," as defined, and (ii) certain enterprise-wide financial information. Operating segment information is reported using a "management approach" that is based on the way management organizes the segments for purposes of making operating decisions and assessing performance.

The Company's two primary business segments are banking and wealth advisory services. Banking consists principally of lending to commercial and consumer customers, as well as deposit gathering activities. Wealth advisory services includes, as its principal business lines, financial planning services, investment management services, personal tax services, trustee services and estate planning.

The Company's business segment disclosure is based on information generated by an internal profitability reporting system, which generates information by business segment based on the needs of management responsible for managing those segments. Allocations between the business segments can be subjective in nature and are reviewed and refined as circumstances warrant. Any allocations that may affect the reported results of any business segment will not affect the consolidated financial position or results of operations of the Company as a whole. The Company does not allocate assets by segment.

The following tables provide selected financial information for the Company's business segments:

Year ended December 31, 2022	**Banking**	**Wealth Advisory Services**	**Total Consolidated**
Net interest income	**$18,685,819**	**$ -**	**$18,685,819**
Reduction in loan losses	**(3,634,494)**	**-**	**(3,634,494)**
Noninterest income	**(1,565,229)**	**12,778,651**	**11,213,422**
Noninterest expense	**18,132,070**	**7,904,945**	**26,037,015**
Income before income taxes	**2,623,014**	**4,873,706**	**7,496,720**
Income tax (benefit) expense	**(835,523)**	**1,350,991**	**515,468**
Net income	**3,458,537**	**3,522,715**	**6,981,252**

Year ended December 31, 2021	Banking	Wealth Advisory Services	Total Consolidated
Net interest income	$ 18,274,276	$ -	$18,274,276
Reduction in loan losses	(450,000)	-	(450,000)
Noninterest income	1,867,200	13,168,853	15,036,053
Noninterest expense	17,542,202	7,744,828	25,287,030
Income before income taxes	3,049,274	5,424,025	8,473,299
Income tax (benefit) expense	(795,373)	1,503,540	708,167
Net income	3,844,647	3,920,485	7,765,132

Subsequent Events

For the purposes of the presentation of these financial statements in conformity with U.S. GAAP, management has considered transactions or events occurring through March 24, 2023, which is the date that the financial statements are available to be issued. Management has not evaluated subsequent events after that date for inclusion in the financial statements.

2. Cash and Due from Banks

Historically, the Company was required to maintain certain reserves of vault cash or deposits with the FRB. The reserve requirements were eliminated during 2020.

3. Investment Securities

The amortized cost and fair value of securities, with gross unrealized gains and losses, follow:

	2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale				
Mortgage-backed securities	**$ 4,405,841**	**$ -**	**$ (169,447)**	**$ 4,236,394**
Collateralized mortgage obligations	**20,177,525**	**220**	**(43,882)**	**20,133,863**
State and municipal	**92,797,888**	**62,638**	**(8,492,426)**	**84,368,100**
Corporate bonds	**22,574,691**	**-**	**(4,107,720)**	**18,466,971**
Total securities available-for-sale	**$ 139,955,945**	**$ 62,858**	**$ (12,813,475)**	**$ 127,205,328**
Securities held-to-maturity				
U.S. Government sponsored enterprises	**$ 52,120,487**	**$ -**	**$ (4,787,961)**	**$ 47,332,526**
Mortgage-backed securities	**23,827,062**	**-**	**(2,749,362)**	**21,077,700**
State and municipal	**99,907,454**	**-**	**(13,724,776)**	**86,182,678**
Total securities held-to-maturity	**$175,855,003**	**$ -**	**$ (21,262,099)**	**$ 154,592,904**

	2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale				
U.S. Government sponsored enterprises	$ 56,171,129	$ 33,838	$ (800,872)	$ 55,404,095
Mortgage-backed securities	44,642,643	323,580	(637,880)	44,328,343
State and municipal	203,674,694	11,108,021	(682,105)	214,100,610
Corporate bonds	36,069,873	1,415	(526,975)	35,544,313
Total securities available-for-sale	$340,558,337	$11,466,854	$ (2,647,832)	$ 349,377,361

There were no held-to-maturity securities at December 31, 2021.

The Company reassessed classification of certain investments effective March 31, 2022 and transferred $194,144,720 from available-for-sale to held-to-maturity securities. The transfer occurred at fair value. The related unrealized loss of $17,109,767 included in other comprehensive (loss) income is being amortized out of other comprehensive (loss) income with an offsetting entry to interest income as a yield adjustment through earnings over the remaining term of the securities. No gain or loss was recorded at the time of transfer.

At December 31, 2022 and 2021, securities with a carrying amount of $276,590,750 and $342,404,918, respectively, were pledged to at the Federal Reserve, the Federal Home Loan Bank (FHLB) and to secure deposits of business customers.

At year end 2022 and 2021, there were no holding of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders equity.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2022 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Over 1 year through 5 years	$ 505,021	$ 503,055	$ 23,660,235	$ 22,526,450
After 5 years through 10 years	22,840,213	18,717,438	20,305,875	17,899,746
Over 10 years	112,204,870	103,748,441	108,061,831	93,089,008
Mortgage-backed securities	4,405,841	4,236,394	23,827,062	21,077,700
	$139,955,945	$127,205,328	$175,855,003	$154,592,904

During 2022 and 2021, proceeds from sales of securities available for sale were $27,361,421 and $28,451,777, respectively. Gross losses on the sales of securities available for sale were $3,238,765 and $400,095 in 2022 and 2021, respectively. Gross gains on sales of securities available for sale were $272,412 and $556,596 in 2022 and 2021, respectively.

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

	2022 Available-For-sale					
	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Mortgage-backed securities	**$ 4,236,394**	**$ (169,447)**	**$ -**	**$ -**	**$ 4,236,394**	**$ (169,447)**
Collateralized mortgage obligations	**15,098,724**	**(43,882)**	**-**	**-**	**15,098,724**	**(43,882)**
State and municipal	**72,485,404**	**(7,926,535)**	**1,573,100**	**(565,891)**	**74,058,504**	**(8,492,426)**
Corporate bonds	**-**	**-**	**18,466,971**	**(4,107,720)**	**18,466,971**	**(4,107,720)**
Total	**$91,820,522**	**$(8,139,864)**	**$20,040,071**	**$(4,673,611)**	**$111,860,593**	**$(12,813,475)**

	2022 Held-to-maturity					
	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Government sponsored enterprises	**$ 47,332,526**	**$(4,787,961)**	**$ -**	**$ -**	**$ 47,332,526**	**$ (4,787,961)**
Mortgage-backed securities	**21,077,700**	**(2,749,362)**	**-**	**-**	**21,077,700**	**(2,749,362)**
State and municipal	**86,182,678**	**(13,724,776)**	**-**	**-**	**86,182,678**	**(13,724,776)**
Total	**$154.592.904**	**$(21,262,099)**	**$ -**	**$ -**	**$154.592.904**	**$(21,262,099)**

	2021 Available-For-sale					
	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Government sponsored enterprises	$ 37,000,303	$ (675,970)	$ 4,258,190	$ (124,902)	$41,258,493	$ (800,872)
Mortgage-backed securities	14,223,308	(169,014)	12,779,915	(468,866)	27,003,223	(637,880)
State and municipal	32,920,050	(591,607)	3,005,160	(90,498)	35,925,210	(682,105)
Corporate bonds	34,027,868	(526,975)	-	-	34,027,868	(526,975)
Total	$118,171,529	$(1,963,566)	$20,043,265	$ (684,266)	$138,214,794	$(2,647,832)

There were no held-to-maturity securities at December 31, 2021

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

These unrealized losses related principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

4. Loans

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

	2022	2021
Commercial	$ 41,787,701	$ 44,713,754
Commercial real estate	140,552,507	141,604,696
Construction	7,973,234	6,327,800
Residential real estate	159,624,936	154,344,815
Consumer	11,938,400	15,505,185
Loans held for sale	-	114,400
Subtotal	361,876,778	362,610,650
(Less) add:		
Allowance for loan losses	(3,842,765)	(7,468,805)
Net deferred loan costs	180,117	66,366
Loans, net	$ 358,214,130	$ 355,208,211

The Company has transferred a portion of its originated commercial and commercial real estate loans to participating lenders. The amounts transferred have been accounted for as sales and are therefore not included in the Company's accompanying consolidated balance sheets. The Company and participating lenders share ratably in any gains or losses that may result from a borrower's lack of compliance with contractual terms of the loan. The Company continues to service the loans on behalf of the participating lenders and, as such, collects cash payments from the borrowers and remits payments (net of servicing fees) to participating lenders. At December 31, 2022 and 2021, the Company was servicing loans for participants aggregating $9,122,234 and $12,082,798, respectively.

An analysis of the allowance for loan losses follows for the year ended December 31, 2022:

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer	Unallocated	Total
Balance at beginning of year	$ 1,047,802	$ 2,828,407	$ 92,342	$ 1,993,332	$ 261,827	$ 1,245,095	$ 7,468,805
Reduction in loan losses	(788,832)	(1,255,683)	(43,753)	(863,035)	(91,868)	(591,323)	(3,634,494)
Loans charged off	-	(15,171)	-	-	(11,972)	-	(27,143)
Recoveries of loans previously charged off	11,283	-	-	-	24,314	-	35,597
Balance at end of year	$ 270,253	$ 1,557,553	$ 48,589	$ 1,130,297	$ 182,301	$ 653,772	$ 3,842,765

An analysis of the allowance for loan losses follows for the year ended December 31, 2021:

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer	Unallocated	Total
Balance at beginning of year	$ 1,250,106	$2,814,600	$ 92,710	$ 1,895,018	$ 217,575	$ 1,688,035	$ 7,958,044
Provision for (reduction in) loan losses	(252,266)	13,807	(368)	88,285	143,482	(442,940)	(450,000)
Loans charged off	(5,132)	-	-	(25,394)	(103,083)	-	(133,609)
Recoveries of loans previously charged off	55,094	-	-	35,423	3,853	-	94,370
2Balance at end of year	$ 1,047,802	$2,828,407	$ 92,342	$ 1,993,332	$ 261,827	$ 1,245,095	$ 7,468,805

The following table presents the allowance for loan losses and select loan information as of and for the year ended December 31, 2022:

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses							
Ending balance	**$ 270,253**	**$ 1,557,553**	**$ 48,589**	**$ 1,130,297**	**$ 182,301**	**$ 653,772**	**$ 3,842,765**
Individually evaluated for impairment	**$ -**	**$ 800**	**$ -**	**$ 7,264**	**$ -**	**$ -**	**$ 8,064**
Collectively evaluated for impairment	**$ 270,253**	**$ 1,556,753**	**$ 48,589**	**$ 1,123,033**	**$ 182,301**	**$ 653,772**	**$ 3,834,701**
Loans							
Ending balance	**$ 41,787,701**	**$ 140,552,507**	**$ 7,973,234**	**$ 159,624,936**	**$ 11,938,400**		**$ 361,876,778**
Individually evaluated for impairment	**$ -**	**$ 3,611**	**$ -**	**$ 1,823,247**	**$ 1,276**		**$ 1,828,134**
Collectively evaluated for impairment	**$ 41,787,701**	**$ 140,548,896**	**$ 7,973,234**	**$ 157,801,689**	**$ 11,937,124**		**$ 360,048,644**

The following table presents the allowance for loan losses and select loan information as of and for the year ended December 31, 2021:

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses							
Ending balance	$ 1,047,802	$ 2,828,407	$ 92,342	$ 1,993,332	$ 261,827	$ 1,245,095	$ 7,468,805
Individually evaluated for impairment	$ -	$ 772	$ -	$ 5,042	$ -	$ -	$ 5,814
Collectively evaluated for impairment	$ 1,047,802	$ 2,827,635	$ 92,342	$ 1,988,290	$ 261,827	$ 1,245,095	$ 7,462,991
Loans							
Ending balance	$ 44,713,754	$ 141,604,696	$ 6,327,800	$ 154,344,815	$ 15,505,185		$ 362,496,250
Individually evaluated for impairment	$ -	$ 357,495	$ -	$ 1,539,114	$ -		$ 1,896,609
Collectively evaluated for impairment	$ 44,713,754	$ 141,247,201	$ 6,327,800	$ 152,805,701	$ 15,505,185		$ 360,599,641

All of the following tables are presented net of third-party guarantees.

The Bank categorizes each loan category, with the exception of consumer loans, by credit risk exposure. The following tables present the credit risk profile by creditworthiness category as of December 31, 2022 and 2021.

Loans in the “pass” category are considered to be low to average risk.

Loans in the “special mention” category are starting to show signs of potential weakness and are being closely monitored by management.

Loans in the “substandard” category are inadequately protected by the current net worth and paying capacity of the borrowers and/or the collateral pledged, thus there is an increased possibility that the Company will sustain some loss if the weakness is not corrected.

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

Loans in the “loss” category are considered uncollectible and of such little value that their continuance as loans is not warranted.

On an annual basis, or more often if needed, the Company formally reviews the ratings on all commercial, commercial real estate, construction and residential real estate loans. Annually, the Company also engages an independent third-party to review a significant portion of loans within these segments. Management uses the results of these reviews as part of its annual review process.

The following table presents the ratings as of December 31, 2022:

	Commercial	Commercial Real Estate	Construction	Residential Real Estate
Pass	**$ 41,787,701**	**$ 140,121,731**	**$ 7,973,234**	**$ 157,694,211**
Special mention	**-**	**-**	**-**	**-**
Substandard	**-**	**430,776**	**-**	**1,927,588**
Doubtful	**-**	**-**	**-**	**3,137**
Total	**$ 41,787,701**	**$ 140,552,507**	**$ 7,973,234**	**$ 159,624,936**

The following table presents the ratings as of December 31, 2021:

	Commercial	Commercial Real Estate	Construction	Residential Real Estate
Pass	$ 42,998,938	$ 138,552,240	$ 6,327,800	$ 152,777,682
Special mention	-	-	-	-
Substandard	1,714,816	3,052,456	-	1,562,727
Doubtful	-	-	-	4,406
Total	$ 44,713,754	$ 141,604,696	$ 6,327,800	$ 154,344,815

The following table presents an aging analysis of past due loans as of December 31, 2022:

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Loans on Nonaccrual
Commercial	**$ 1,355**	**$ -**	**$ -**	**$ 1,355**	**$ 41,786,346**	**$ 41,787,701**	**$ -**
Commercial real estate	**24,030**	**-**	**-**	**24,030**	**140,528,477**	**140,552,507**	**3,611**
Construction	**33,676**	**-**	**-**	**33,676**	**7,939,558**	**7,973,234**	**-**
Residential real estate	**1,462,446**	**430,705**	**235,499**	**2,128,650**	**157,496,286**	**159,624,936**	**1,440,638**
Consumer	**-**	**-**	**-**	**-**	**11,938,400**	**11,938,400**	**1,276**
Total	**$ 1,521,507**	**$ 430,705**	**$ 235,499**	**$ 2,187,711**	**$ 359,689,067**	**$ 361,876,778**	**$ 1,445,525**

The following table presents an aging analysis of past due loans as of December 31, 2021:

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Loans on Nonaccrual
Commercial	$ 875,660	$ 6,964	$ -	$ 882,624	$ 43,831,130	$ 44,713,754	$ -
Commercial real estate	-	-	-	-	141,604,696	141,604,696	5,602
Construction	-	-	-	-	6,327,800	6,327,800	-
Residential real estate	205,652	671,428	331,115	1,208,195	153,136,620	154,344,815	1,355,294
Consumer	2,067	-	-	2,067	15,503,118	15,505,185	-
Total	$ 1,083,379	$ 678,392	$ 331,115	$ 2,092,886	$ 360,403,364	$ 362,496,250	$ 1,360,896

At December 31, 2022 and 2021 there were no loans 90 days past due and still accruing interest.

The following table presents a summary of information pertaining to impaired loans by loan category as and for the year ended of December 31, 2022:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Investment	Interest Income Recognized	Interest Income Recognized on a Cash Basis
With no related allowance						
Commercial	**$ -**	**$ -**	**$ -**	**$ -**	**$ 60**	**$ 60**
Commercial real estate	**-**	**-**	**-**	**175,946**	**1,937**	**1,937**
Residential real estate	**1,386,806**	**1,386,806**	**-**	**1,232,237**	**63,173**	**63,173**
Consumer	**1,276**	**1,276**	**-**	**638**	**8,067**	**8,067**
With an allowance recorded						
Commercial real estate	**$ 3,611**	**$ 3,611**	**$ 800**	**$ 4,606**	**$ 7,936**	**$ 7,936**
Residential real estate	**436,441**	**436,441**	**7,264**	**448,944**	**20,102**	**20,102**
Total						
Commercial	**$ -**	**$ -**	**$ -**	**$ -**	**$ 60**	**$ 60**
Commercial real estate	**3,611**	**3,611**	**800**	**180,552**	**9,873**	**9,873**
Residential real estate	**1,823,247**	**1,823,247**	**7,264**	**1,681,181**	**83,275**	**83,275**
Consumer	**1,276**	**1,276**	**-**	**638**	**8,067**	**8,067**

The following table presents a summary of information pertaining to impaired loans by loan category as of and for the year ended December 31, 2021:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Investment	Interest Income Recognized	Interest Income Recognized on a Cash Basis
With no related allowance						
Commercial	$ -	$ -	$ -	$ -	$ 393	$ 393
Commercial real estate	351,893	351,893	-	175,946	14,915	14,915
Residential real estate	1,077,668	1,077,668	-	804,026	38,571	38,571
With an allowance recorded						
Commercial real estate	$ 5,602	$ 5,602	$ 772	$ 206,773	$ 8,839	$ 8,839
Residential real estate	461,446	461,446	5,042	735,735	20,516	20,516
Total						
Commercial	$ -	$ -	$ -	$ -	$ 393	$ 393
Commercial real estate	357,495	357,495	772	382,719	23,754	23,754
Residential real estate	1,539,114	1,539,114	5,042	1,539,761	59,087	59,087

Troubled Debt Restructurings

A loan modification constitutes a TDR if the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. To determine whether or not a loan should be classified as a troubled debt restructuring, management evaluates a loan based upon the following criteria:

- The borrower demonstrates financial difficulty; common indicators include past due status with bank obligations, substandard credit bureau reports, or an inability to refinance with another lender; and,
- The Company has granted a concession; common concessions include maturity date extension, interest rate adjustments to below market pricing, reduction of principal and deferment of payments.

The following tables present the recorded investment in TDRs as of December 31, 2022 and 2021 based on payment performance status:

December 31, 2022	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Total
Performing	**$ -**	**$ -**	**$ -**	**$ 382,609**	**$ 382,609**
Non-performing	**-**	**3,611**	**-**	**-**	**3,611**
Total	**$ -**	**$ 3,611**	**$ -**	**$ 382,609**	**$ 386,220**

December 31, 2021	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Total
Performing	$ -	$ 351,893	$ -	$ 183,820	$ 535,713
Non-performing	-	5,602	-	-	5,602
Total	$ -	$ 357,495	$ -	$ 183,820	$ 541,315

TDR loans are considered impaired and carry individual specific reserves. At December 31, 2022 and 2021 the specific reserve related to troubled debt restructured loans was $5,398 and $5,169, respectively. As of December 31, 2022 and 2021, the Company was contractually committed to lend $70,684 and $70,000 in additional funds to two and one customer(s), respectively, with outstanding loans that are classified as TDRs.

The following table summarizes TDRs that occurred during the year ended December 31, 2022:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Residential real estate	**1**	**$ 204,316**	**$ 204,316**
Total	**1**	**$ 204,316**	**$ 204,316**

The following table summarizes TDRs restructurings that occurred during the year ended December 31, 2021:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Residential real estate	1	$ 37,282	$ 37,282
Total	1	$ 37,282	$ 37,282

A loan is considered to be in payment default once it is greater than 30 days contractually past due under the modified terms. There were no troubled debt restructurings modified within the previous twelve-months for which there was a payment default during the years ended December 31, 2022 and 2021.

5. Premises and Equipment

A summary of the cost and accumulated depreciation of premises and equipment follows:

	2022	2021
Land and improvements	**$ 2,335,893**	$ 2,335,893
Buildings and improvements	**21,281,013**	19,917,282
Equipment	**9,577,071**	9,047,645
	33,193,977	31,300,820
Accumulated depreciation	**(14,411,428)**	(13,456,828)
	$ 18,782,459	$ 17,843,992

Depreciation, included in occupancy and equipment expense, amounted to $939,162 and $989,766 for the years ended December 31, 2022 and 2021, respectively.

6. Leases

The Company has operating leases pertaining to bank premises with remaining lease terms of 10 to 20 years, some of which include renewal options to extend which are reflected in the 20 years.

Leases are classified as operating or finance leases at the lease commencement date. The Company does not have any finance leases. Lease expense for operating leases are recognized on a straight-line basis over the lease term. Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

The Company uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known. The Company's incremental borrowing rate is based on the FHLB amortizing advance rate, adjusted for the lease term and other factors. The weighted average discount rate for operating leases at December 31, 2022 and 2021 was 2.5%.

Right-of-use assets and lease liabilities by lease type, and the associated balance sheet classifications as of December 31 were as follows:

	Balance Sheet Classification	**2022**	2021
Right-of-use assets:			
Operating leases	Premises and equipment, net	**$ 5,219,787**	$ 5,659,140
Lease liabilities:			
Operating leases	Accrued expenses and other liabilities	**$ 5,229,473**	$ 5,667,531

The components of lease expense were as follows for the year ended December 31:

	2022	2021
Operating lease cost	**$ 581,041**	$ 621,592
Variable lease cost	**334,900**	239,880
Total lease cost	**$ 915,941**	$ 861,472

The weighted-average remaining lease term for operating leases was 13.2 and 14.2 years at December 31, 2022 and 2021, respectively.

Cash paid for amounts included in the measurement of the operating lease liability was $579,746 and $618,794 at December 31, 2022 and December 31, 2021, respectively.

Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2022 are as follows:

2023	$ 560,222
2024	560,222
2025	560,222
2026	560,222
2027	560,222
Thereafter	3,326,230
Total undiscounted lease payments	6,127,340
Less: imputed interest	897,867
Net lease liability	$ 5,229,473

7. Deposits

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

2023	$ 22,311,888
2024	7,740,314
2025	728,071
2026	486,515
2027	27,405
	$ 31,294,193

Deposit accounts with related parties were $6,153,628 and $5,669,333 at December 31, 2022 and 2021, respectively.

8. Securities Sold Under Agreements to Repurchase

Securities sold under repurchase agreements mature within twelve months and are collateralized by mortgage backed securities with a book value of $3,965,611 and a fair value of $3,465,039 at December 31, 2022 and with a book value of $4,626,799 and a fair value of $4,613,847 at December 31, 2021. All securities collateralizing the repurchase agreements are under the Company's control. The maximum amount of repurchase agreements outstanding at any month end during 2022 and 2021 was $1,224,843 and $5,408,241, respectively. The average amount of repurchase agreements outstanding during 2022 and 2021 was $818,375 and $2,840,768, respectively. The weighted average interest rate on repurchase agreements outstanding at December 31, 2022 and 2021 was 0.10%.

9. Advances from FHLB and Other Borrowings

The Company has fixed rate advances with the FHLB of $40,977,970 and $5,627,304 at December 31, 2022 and 2021, respectively. At December 31, 2022, FHLB fixed-rate advances have a 0% to 4.37% interest rate. At December 31, 2021, all FHLB fixed-rate advances had a 0% interest rate.

Outstanding FHLB and Federal Reserve borrowings are secured by a blanket lien on qualified collateral consisting primarily of loans with first mortgages secured by one to four family properties, certain unencumbered investment securities, and other qualified assets.

The contractual maturities of advances and other borrowings at December 31, 2022 were as follows:

2023	$ 81,300,000
2024	-
2025	1,478,540
2026	1,105,150
2027	582,000
Thereafter	3,512,281
Total	$ 87,977,971

The Bank has a long term line of credit with the FHLB that does not expire in the amount of $2,803,000. There were no amounts outstanding at December 31, 2022 or 2021. The Company, through the Bank, has the ability to borrow from the FRB Discount Window due to its pledge of $189,017,749 and $249,644,923 of investment securities that it owned at December 31, 2022 and 2021, respectively. The Company, through the Bank, has an unsecured line of credit at a correspondent bank totaling $12,500,000. No amounts were outstanding on the line of credit at December 31, 2022 or 2021.

10. Subordinated Debentures

On March 29, 2022, the Company issued $18,000,000 of 10-year fixed to floating subordinated debentures (notes) to certain institutional investors. The notes are due April 1, 2032, are noncallable for five years, and carry an initial fixed rate of 4.00%. The Company may redeem the subordinated notes in whole or in part on or after March 31, 2027 at 100% of the principal amount plus accrued and unpaid interest. The subordinated notes mature on April 1, 2032 and are also redeemable, in whole or in part, upon the occurrence of specific events defined within the trust indenture. In conjunction with the issuance of the notes, the Company incurred and capitalized $332,265 of financing costs which are shown net with the subordinated notes on the consolidated balance sheet and are being amortized over the life of the notes. The subordinated debentures may be included in Tier 2 capital (with certain limitations applicable) under current regulatory guidelines and interpretations.

11. Income Taxes

Allocation of federal and state income taxes between current and deferred portions was as follows:

	2022	2021
Current tax provision		
Federal	**$ 1,349,155**	$ 847,996
State	**(58,818)**	41,371
	1,290,337	889,367
Deferred tax benefit		
Federal	**(808,292)**	(159,829)
State	**33,423**	(21,371)
	(774,869)	(181,200)
	$ 515,468	$ 708,167

The income tax provision differs from the expense that would result from applying federal statutory rates to income before income taxes, as follows:

	2022	2021
Computed tax expense	**$ 1,574,311**	$ 1,779,393
Increase (reduction) in income taxes resulting from:		
Tax exempt income	**(950,362)**	(966,808)
Income from life insurance	**(50,143)**	(50,252)
Tax credits, net of amortization	**(246,790)**	(208,713)
State tax	**(20,062)**	15,800
Other	**208,514**	138,747
	$ 515,468	$ 708,167

The components of the net deferred tax asset were as follows:

	2022	2021
Deferred tax assets		
Allowance for loan losses	**$ 990,076**	$ 1,924,313
Employee benefit plan	**1,121,568**	1,062,831
Net unrealized loss on securities available-for-sale and derivative contracts	**5,766,601**	-
Nonaccrual interest	**-**	63,919
Limited partnerships	**478,952**	451,296
Tax credits	**1,773,425**	554,643
Net operating losses	**457,947**	-
Deferred loan fees	**-**	32,631
Other	**2,495**	2,912
	$ 10,591,065	$ 4,092,545
Deferred tax liabilities		
Net unrealized gain on securities available-for-sale and derivative contracts	**-**	2,177,651
Depreciation	**799,859**	861,529
Prepaid expenses	**194,444**	175,723
	994,302	3,214,903
Net deferred tax asset	**$ 9,596,762**	$ 877,642

No valuation allowance is deemed necessary for the deferred income tax asset. The net deferred tax asset is included with other assets in the consolidated balance sheet.

The Company invests in qualified affordable housing projects. At December 31, 2022 and 2021, the balance of the investment for qualified housing projects was $8,727,341 and $9,826,057, respectively. These balances are reflected in other assets on the consolidated balance sheets.

New investments in qualified affordable housing projects are amortized using the proportional amortization method. All investments made before January 1, 2015, are amortized using the effective yield method. During the years ended December 31, 2022, and 2021, the Company recognized amortization expense of $1,098,716 and $854,167, respectively, which was included within income tax expense in the consolidated statements of income. Additionally, during the years ended December 31, 2022, and 2021, the Company recognized tax credits from its investments in affordable housing tax projects of $1,135,384 and $905,878, respectively. At December 31, 2022, the Company carried forward $1,701,309 in tax credits related to qualified affordable housing projects.

12. Earnings per Share

The following sets forth the computation of basic and diluted earnings per share for 2022 and 2021.

	2022	2021
Net income, as reported	$ 6,981,252	$ 7,765,132
Weighted average shares outstanding	3,261,499	3,214,648
Effect of unvested stock grants	17,368	51,882
Adjusted weighted average shares and assumed conversion	3,278,867	3,266,530
Basic earnings per share	$ 2.14	$ 2.42
Diluted earnings per share	$ 2.13	$ 2.38

13. Financial Instruments with Off-Balance-Sheet Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby and commercial letters-of-credit, and interest rate caps and floors written on adjustable-rate loans. Such instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters-of-credit is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. For interest rate caps and floors written on adjustable-rate loans, the contract or notional amounts do not represent exposure to credit losses.

The Company generally requires collateral or other security to support financial instruments with credit risk.

At December 31, 2022 and 2021, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2022	2021
Commitments to grant loans	**$ 105,810,124**	$ 92,336,044
Commercial and standby letters-of-credit	**$ 435,005**	$ 479,005

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 deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial property.

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

At times, the Company places interest rate caps and floors on loans written by the Company to enable customers to transfer, modify, or reduce their interest rate risk.

14. Legal Contingencies

Various legal claims arise from time-to-time in the normal course of business which, in the opinion of management, will have no material effect on the Company's financial statements.

15. Minimum Regulatory Capital Requirements

The Company and its bank subsidiary are subject to various regulatory capital requirements administered by the Office of the Comptroller of the Currency (OCC). Failure to meet minimum capital requirements can result in mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements.

These capital requirements represent quantitative measures of the Company's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices.

The Company's capital amounts, and classification are also subject to qualitative judgments by its regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of total and Tier 1 capital, and Common Equity Tier 1 (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital to average assets (as defined). Management believes that, as of December 31, 2022, the Company and its bank subsidiary meet all capital requirements to which they are subject. As of December 31, 2022, the most recent notification from the OCC categorized the banking subsidiary as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, a financial institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category. Prompt corrective action provisions are not applicable to bank holding companies.

The ability of the Company to pay cash dividends depends on the receipt of dividends from its banking subsidiary. The Company, as the sole shareholder of the banking subsidiary, is entitled to dividends from legally available funds when and as declared by the banking subsidiary's Board of Directors.

Regulatory capital requirements limit a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% above its minimum risk-based capital requirements. As of December 31, 2022, the Company and the Bank had a capital conservation buffer of 8.0% and 10.8%, respectively, which was in excess of the regulatory requirement of 2.5%. As of December 31, 2021, the Company and the Bank had a capital conservation buffer of 7.7% and 7.2%, respectively, which was in excess of the regulatory requirement of 2.5%.

The actual capital amounts and ratios for the Company and the Bank are presented below.

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
December 31, 2022	**(Dollar amounts in thousands)**					
Total Capital to Risk Weighted Assets						
Company	**$ 73,029**	**16.0%**	**$ 36,550**	**8.0%**	**$ 45,688**	**10.0%**
Bank	**$ 85,453**	**18.8%**	**$ 36,436**	**8.0%**	**$ 45,545**	**10.0%**
Tier 1 Capital to Risk Weighted Assets						
Company	**$ 69,086**	**15.1%**	**$ 27,413**	**6.0%**	**$ 36,550**	**8.0%**
Bank	**$ 81,510**	**17.9%**	**$ 27,327**	**6.0%**	**$ 36,436**	**8.0%**
Common Equity Tier 1 Capital to Risk Weighted Assets						
Company	**$ 69,086**	**15.1%**	**$ 20,560**	**4.5%**	**$ 29,697**	**6.5%**
Bank	**$ 81,510**	**17.9%**	**$ 20,495**	**4.5%**	**$ 29,604**	**6.5%**
Tier 1 Capital to Average Assets						
Company	**$ 69,086**	**9.4%**	**$ 29,336**	**4.0%**	**$ 36,670**	**5.0%**
Bank	**$ 81,510**	**11.1%**	**$ 29,279**	**4.0%**	**$ 36,599**	**5.0%**

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2021	(Dollar amounts in thousands)					
Total Capital to Risk Weighted Assets						
Company	$ 70,101	15.7%	$ 35,705	8.0%	$ 44,631	10.0%
Bank	$ 67,533	15.2%	$ 35,606	8.0%	$ 44,507	10.0%
Tier 1 Capital to Risk Weighted Assets						
Company	$ 64,513	14.5%	$ 26,779	6.0%	$ 35,705	8.0%
Bank	$ 61,945	13.9%	$ 26,704	6.0%	$ 35,606	8.0%
Common Equity Tier 1 Capital to Risk Weighted Assets						
Company	$ 64,513	14.5%	$ 20,084	4.5 %	$ 29,010	6.5%
Bank	$ 61,945	13.9%	$ 20,028	4.5 %	$ 28,929	6.5%
Tier 1 Capital to Average Assets						
Company	$ 64,513	8.6%	$ 30,107	4.0%	$ 37,634	5.0%
Bank	$ 61,945	8.2%	$ 30,058	4.0%	$ 37,572	5.0%

16. Derivative Financial Instruments

The Company uses interest rate derivative contracts (interest rate swap agreements and interest rate caps) for asset/liability management purposes, to hedge various exposures or to modify interest rate characteristics of various balance sheet accounts. Such derivatives are used as part of the asset/liability management process and are linked to specific assets or liabilities and have high correlation between the contract and the underlying item being hedged, both at inception and throughout the hedge period. The notional amount of the derivative contracts does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual derivatives contracts.

Derivative contracts related to borrowings are cash flow hedges and derivative contracts related to loan and municipal bonds are fair value hedges.

At December 31, 2022 and 2021, the information pertaining to outstanding interest rate derivative contracts are as follows:

	2022	2021
Total notional amount of all derivative contracts	**$ 77,454,028**	$ 108,250,113
Interest rate swaps		
Notional amount	**$ 47,454,028**	$ 78,250,113
Weighted average pay rate	**0.41%**	1.05%
Weighted average receive rate	**0.14%**	0.57%
Weighted average maturity in years	**4.0**	6.4
Interest rate caps		
Notional amount	**$ 30,000,000**	$ 30,000,000
Weighted average strike rate	**0.58%**	0.58%
Weighted average maturity in years	**3.3**	4.3

The interest rate swaps provide for the Company to make payments at a fixed rate in exchange for receiving payments at a floating rate, determined by a specified index. Interest rate caps provide for the Company to receive payments when the strike rate is exceeded, determined by a specified index. Interest income (expense) recorded on these derivative transactions totaled $737,886 and ($689,095) during 2022 and 2021, respectively, and is reported as components of the applicable interest income or expense in the consolidated statements of income. Losses of $68,783 and $392,117 for the ineffectiveness of the fair value hedges were recorded in earnings for the years ended December 31, 2022 and 2021, respectively. During 2021, the Company cancelled $10 million in interest rate swaps related to borrowings at a loss of $308,000, which is included in other noninterest expense. Additionally, during 2021, the Company cancelled $43 million in interest rate swaps related to municipal bonds at a gain of $502,000, which is included in other comprehensive income and will be recorded to income over the life of the municipal bonds. The Company expects all hedges outstanding at year end to remain highly effective during the remaining terms of the derivative contracts.

The following table reflects the fair value and cash flow hedges included in the consolidated balance sheets as of December 31, 2022 and 2021:

	2022		2021	
	Notional Value	Fair Value	Notional Value	Fair Value
Included in other assets				
Interest rate swaps related to borrowings	**$ 30,0000,000**	**$ 3,159,549**	$ 30,000,000	$ 737,779
Interest rate swaps related to loans	**17,454,028**	**1,536,478**	5,737,869	208,942
Interest rate caps related to municipal bonds	**30,000,000**	**3,306,466**	30,000,000	1,055,601
Total included in other assets	**$ 77,454,028**	**$ 8,002,493**	$ 65,737,869	$ 2,002,322
Included in other liabilities				
Interest rate swaps related to borrowings	**$ -**	**$ -**	$ 30,000,000	$ 31,911
Interest rate swaps related to loans	**-**	**-**	12,512,244	575,155
Total included in other liabilities	**$ -**	**$ -**	$ 42,512,244	$ 607,066

17. Employee Benefits

The Company sponsors a 401(k)-profit sharing plan which covers all employees who are at least 18 years of age and who have completed one year of employment. Eligible employees contribute a percentage of their annual compensation to the 401(k) plan and the Company makes a flat contribution to all eligible employees, regardless of the amount contributed by the employee. In addition, the Company may make discretionary contributions on behalf of employees under the plan. For the years ended December 31, 2022 and 2021, expense attributable to the plan amounted to $655,901 and $417,906, respectively.

Included in accrued expenses and other liabilities in the balance sheets at December 31, 2022 and 2021 are liabilities established pursuant to deferred compensation agreements with certain officers of the Company of $2,893,291 and $2,552,043, respectively. Deferred compensation expense related to these plans amounted to $396,060 and $708,662 for the years ended December 31, 2022 and 2021, respectively.

18. Stock-Based Compensation

During 2021, the 2006 Stock Option and Incentive plan expired, and new shares are no longer being granted from this plan. During 2018, the Company's Board of Directors adopted the 2018 Stock Grant Plan (2018 Plan). Under the 2018 Plan, the maximum number of shares available for issuance is 150,000. During 2021, the Company's Board of Directors voted to increase the number of shares available for issuance by 150,000 shares. The 2018 Plan requires all grants to be issued at 100% of the fair market value at the date of grant. The restricted stock awards granted through December 31, 2022 each vest over a period of one to four years. During 2022 and 2021, the Company issued 24,395 and 38,980, respectively, from the Plans.

The Company recorded $947,569 and $1,154,476 of compensation expense during the years ended December 31, 2022 and 2021, respectively. Total compensation expense related to nonvested awards not yet recognized is $1,014,830 as of December 31, 2022 and is expected to be recognized over a weighted average period of 1.6 years.

A summary of nonvested restricted stock awards as of December 31, 2022 and changes during the year then ended are presented below:

	Shares	Weighted Average Grant Date Fair Value
Nonvested shares at December 31, 2021	**110,593**	**19.95**
Granted	**24,395**	**24.26**
Vested	**(67,375)**	**20.07**
Forfeited	**(2,194)**	**21.11**
Nonvested shares at December 31, 2022	**65,419**	**21.40**

19. Other Noninterest Income and Expense

The components of other noninterest expense which are in excess of 1% of total revenues (total interest and dividend income and noninterest income) and not shown separately in the statements of income are as follows for the years ended December 31:

	2022	2021
Noninterest expense		
Printing, postage, stationery & supplies	**$ 349,524**	$ 313,222
Professional fees	**723,158**	662,166
Advertising	**631,638**	478,994
Hedge ineffectiveness	**68,783**	392,117
Recruitment	**N/A**	474,948

20. Related Party Transactions

The Company has had, and may be expected to have in the future, transactions in the ordinary course of business with directors, principal officers, their immediate families and affiliated companies in which they are principal shareholders (commonly referred to as related parties), all of which have been, in the opinion of management, on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. Loans granted to related parties amounted to $2,098,007 and $1,544,207 at December 31, 2022 and 2021, respectively.

21. Components of Other Comprehensive Income (Loss)

The following table presents the components of other comprehensive income (loss) for the years ended December 31, 2022 and 2021:

	December 31, 2022			December 31, 2021		
	Before Tax	**Tax Effect**	**Net of Tax**	Before Tax	Tax Effect	Net of Tax
Changes in net unrealized losses on securities available-for-sale*	**$(39,271,065)**	**$(10,131,935)**	**$(29,139,130)**	$(1,902,619)	$(399,550)	$(1,503,069)
Reclassification adjustment for net realized loss (gain)	**2,966,353**	**765,319**	**2,201,034**	(168,013)	(35,283)	(132,730)
Reclassification Adjustment for unrealized holding (loss) for transfer of securities available-for-sale to held-to-maturity net of amortization	**1,130,093**	**291,514**	**838,579**	-	-	-
Unrealized gain on cash flow hedges	**2,453,680**	**633,049**	**1,820,631**	1,636,735	343,715	1,293,020
Other comprehensive (loss)	**$(32,720,939)**	**$(8,442,053)**	**$(24,278,886)**	$ (433,897)	$ (91,118)	$ (342,779)

	Unrealized Gains and Losses on Available-for-Sale Securities*	Unrealized Gains and Losses on Cash Flow Hedges	Total
Balance at December 31, 2020	$ 9,270,282	$ (735,384)	$ 8,534,898
Other comprehensive income (loss) before reclassifications	(1,503,069)	1,293,020	(210,049)
Amounts reclassified from accumulated other comprehensive income	(132,730)	-	(132,730)
Balance at December 31, 2021	$ 7,634,483	$ 557,636	$ 8,192,119
Other comprehensive income (loss) before reclassifications	**(16,443,683)**	**1,820,631**	**(14,623,052)**
Reclassification from available-for-sale securities to held-to-maturity	**(11,856,868)**	-	**(11,856,868)**
Amounts reclassified from accumulated other comprehensive income	**2,201,034**	**-**	**2,201,034**
Balance at December 31, 2022	**$ (18,465,034)**	**$ 2,378,267**	**$ (16,086,767)**

*Unrealized gains and losses on available-for-sale securities in accumulated other comprehensive income includes fair value hedge adjustments for municipal bonds.

22. Fair Value

U.S. GAAP defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. U.S. GAAP also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

Financial Instruments Recorded at Fair Value on a Recurring Basis

Investment securities: Fair values for securities are determined by obtaining quoted market prices on nationally recognized securities exchanges or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities.

Loans held for sale: Fair values of loans held for sale are based on commitments on hand from investors or prevailing market prices.

Derivative contracts: The fair value measurements utilize a discounted cash flow model that incorporates and considers observable data that may include publicly available third party market quotes in developing the curve utilized for discounting future cash flows.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at December 31, 2022, Using:		
	Total	**Quoted Prices In Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**
Assets (market approach)			
Securities available-for-sale			
Mortgage-backed securities	**$ 4,236,394**	**$ -**	**$ 4,236,394**
Collateralized mortgage obligations	**20,133,863**	**-**	**20,133,863**
State and municipal	**84,368,100**	**-**	**84,368,100**
Corporate bonds	**18,466,971**	**-**	**18,466,971**
	$ 127,205,328	**$ -**	**$ 127,205,328**
Derivative contracts	**$ 8,002,493**	**$ -**	**$ 8,002,493**

	Fair Value Measurements at December 31, 2021, Using:		
	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets (market approach)			
Securities available-for-sale			
U.S. Government sponsored enterprises	$ 55,404,095	$ -	$ 55,404,095
Mortgage-backed securities	44,328,343	-	44,328,343
State and municipal	214,100,610	-	214,100,610
Corporate bonds	35,544,313	-	35,544,313
Derivative contracts	$ 349,377,361	$ -	$ 349,377,361
Liabilities (market approach)	$ 2,002,322	$ -	$ 2,002,322
Derivative contracts	$ 607,066	$ -	$ 607,066

The Company had no assets and liabilities measured at fair value on a nonrecurring basis as of December 31, 2022 or 2021.

The estimated fair values and related carrying amounts for assets and liabilities for which fair value is only disclosed are as follows:

December 31, 2022	**Carrying Amount**	**Estimated Fair Value**	**Quoted Prices In Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Financial assets					
Securities held-to-maturity	**$ 175,855,003**	**$ 154,592,904**	**$ -**	**$ 154,592,904**	**$ -**
Loans	**358,214,130**	**332,243,606**	**-**	**-**	**332,243,606**
Accrued interest receivable	**3,267,313**	**3,267,313**	**-**	**3,267,313**	**-**
Financial liabilities					
Accrued interest payable	**340,233**	**340,233**	**-**	**340,233**	**-**
Deposits	**570,331,969**	**569,419,438**	**-**	**569,419,438**	**-**
Borrowings and securities sold under agreements to repurchase	**88,197,214**	**86,124,758**	**-**	**86,124,578**	**-**
Subordinated debentures	**17,698,065**	**17,282,160**	**-**	**17,282,160**	**-**

December 31, 2021	Carrying Amount	Estimated Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets					
Loans	$ 355,208,211	$ 401,897,718	$ -	$ -	$401,897,718
Accrued interest receivable	3,249,679	3,249,679	-	3,249,679	-
Financial liabilities					
Accrued interest payable	11,186	11,186	-	11,186	-
Deposits	675,082,460	675,231,226	-	675,231,226	-
Borrowings and securities sold under agreements to repurchase	6,578,107	6,578,107	-	6,578,107	-

Excluded from the tables above were financial instruments measured at fair value on a recurring and nonrecurring basis, as previously described.