CATSKILL HUDSON BANCORP, INC.

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2022 and 2021

CATSKILL HUDSON BANCORP, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
of Catskill Hudson Bancorp, Inc.

Opinion

We have audited the accompanying consolidated financial statements of Catskill Hudson Bancorp, Inc. and subsidiary, which comprise the consolidated statements of financial condition as of December 31, 2022 and 2021, and the related consolidated statements of net income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Catskill Hudson Bancorp, Inc. and subsidiary as of December 31, 2022 and 2021, and the results of its consolidated operations and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 Catskill Hudson Bancorp Inc. and subsidiary'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 Consolidated Financial Statements

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

UHY LLP Certified Public Accountants

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 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 Catskill Hudson Bancorp Inc. and subsidiary'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 Catskill Hudson Bancorp Inc. and subsidiary'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.

UHY LLP

Albany, New York
April 27, 2023

CATSKILL HUDSON BANCORP, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

December 31, 2022 and 2021

(In Thousands)

	2022	2021
ASSETS		
Cash and cash equivalents	$ 14,087	$ 44,973
Securities available for sale, at fair value	122,786	128,607
Securities held to maturity, at amortized cost	6,235	6,514
Loans, net of allowance for loan losses	413,823	381,913
Restricted investment in bank stocks	920	735
Premises and equipment, net	10,590	11,038
Right of use assets	2,791	-
Life insurance at cash surrender value	1,954	1,931
Other assets	3,453	3,284
Total assets	$ 576,639	$ 578,995
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Interest bearing	$ 412,136	$ 428,514
Noninterest bearing	117,623	106,802
Total deposits	529,759	535,316
Subordinated debentures	12,109	12,060
Junior subordinated debentures	3,299	3,299
Accrued expenses and other liabilities	3,879	971
Lease liability	2,950	-
Total liabilities	551,996	551,646
STOCKHOLDERS' EQUITY		
Common stock	711	711
Treasury stock (8,416 shares at cost)	(152)	(152)
Additional paid-in capital	7,348	7,348
Retained earnings	20,289	19,252
Accumulated other comprehensive (loss) income	(3,553)	190
Total stockholders' equity	24,643	27,349
Total liabilities and stockholders' equity	$ 576,639	$ 578,995

See notes to consolidated financial statements.

CATSKILL HUDSON BANCORP, INC.

CONSOLIDATED STATEMENTS OF NET INCOME

Years Ended December 31, 2022 and 2021

(In Thousands, Except Per Share Data)

	2022	2021
Interest and dividend income:		
Loans	$ 15,902	$ 14,559
Securities:		
Taxable	1,574	456
Tax-exempt	422	448
Other	334	40
Total interest and dividend income	18,232	15,503
Interest expense:		
Deposits	1,760	1,424
Borrowings	646	830
Total interest expense	2,406	2,254
Net interest income	15,826	13,249
Provision for loan losses	495	338
Net interest income, after provision for loan losses	15,331	12,911
Noninterest income:		
Service fees	826	844
Other	180	1,155
Total noninterest income	1,006	1,999
Noninterest expenses:		
Salaries and employee benefits	7,902	7,123
Occupancy	1,915	1,732
Depreciation and amortization	694	677
Amortization of subordinated debentures	50	141
Data processing	773	680
Stationary, supplies and printing	158	183
Professional	674	404
FDIC insurance premiums	338	328
Office	440	503
ATM and debit card	302	267
Other operating expenses	1,298	1,081
Total operating expenses	14,544	13,119
Income before income tax expense	1,793	1,791
Income tax expense	287	269
Net income	$ 1,506	$ 1,522
Earnings per common share		
Basic and diluted	$ 2.14	$ 2.17

See notes to consolidated financial statements.

CATSKILL HUDSON BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31, 2022 and 2021

(In Thousands)

	2022	2021
Net income	$ 1,506	$ 1,522
Other comprehensive income:		
Securities available-for-sale:		
Unrealized losses arising during the year	(4,738)	(872)
Tax effects	995	183
Other comprehensive loss	(3,743)	(689)
Comprehensive (loss) Income	$ (2,237)	$ 833

See notes to consolidated financial statements.

CATSKILL HUDSON BANCORP, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2022 and 2021

(In Thousands)

	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2020	$ 711	$ (152)	$ 7,348	$ 18,046	$ 879	$ 26,832
Net Income				1,522	-	1,522
Comprehensive loss	-	-	-	-	(689)	(689)
Common stock dividends declared, $0.45 per share	-	-	-	(316)	-	(316)
Balance at December 31, 2021	711	(152)	7,348	19,252	190	27,349
Net Income				1,506	-	1,506
Comprehensive loss	-	-	-	-	(3,743)	(3,743)
Implementation of Topic 842, Leases	-	-	-	(132)	-	(132)
Common stock dividends declared, $0.48 per share	-	-	-	(337)	-	(337)
Balance at December 31, 2022	$ 711	$ (152)	$ 7,348	$ 20,289	$ (3,553)	$ 24,643

See notes to consolidated financial statements.

CATSKILL HUDSON BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2022 and 2021

(In Thousands)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,506	$ 1,522
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	495	338
Depreciation and amortization of premise and equipment	694	677
Amortization of subordinated debentures	50	141
Non-cash operating lease expense	27	-
Net amortization of securities	(756)	344
Bank-owned life insurance income	(23)	(25)
Deferred income tax expense	-	410
Net change in:		
Accrued interest receivable and other assets	826	(476)
Accrued expenses and other liabilities	2,908	163
Net cash provided by operating activities	5,727	3,094
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities available-for-sale activity:		
Purchases	(514,217)	(811,250)
Proceeds from sales	516,067	792,500
Proceeds from maturities and principal repayments	-	28
Securities held-to-maturity activity:		
Purchases	(2,015)	(2,046)
Proceeds from maturities and principal repayments	2,283	1,859
Loan originations, net of principal payments	(32,405)	(20,687)
(Purchases) proceeds of restricted investment in bank stock	(185)	14
Purchases of premise and equipment	(860)	(560)
Proceeds from sale of premise and equipment	613	-
Net cash used in investing activities	(30,719)	(40,142)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	(5,557)	5,790
Payment made on subordinated debt	-	(11,000)
Net proceeds from new subordinated debt	-	12,051
Common stock dividends paid	(337)	(316)
Net cash (used in) provided by financing activities	(5,894)	6,525
Net decrease in cash and cash equivalents	(30,886)	(30,523)
Cash and cash equivalents, beginning of year	44,973	75,496
Cash and cash equivalents, end of year	$ 14,087	$ 44,973
SUPPLEMENTARY CASH FLOWS INFORMATION		
Interest paid	$ 3,877	$ 2,371
Income taxes paid	$ 9	$ 50
SUPPLEMENTARY SCHEDULE OF NONCASH FINANCING ACTIVITIES		
Right of use asset	$ 3,011	$ -
Lease Liability	$ 3,143	$ -

See notes to consolidated financial statements.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Catskill Hudson Bancorp, Inc. (the "Company") provides a full range of commercial banking services through its wholly-owned subsidiary, Catskill Hudson Bank (the "Bank"). The Bank's operations are conducted in fourteen locations located in the New York counties of Sullivan, Orange, Ulster, Albany and Saratoga. The Bank is regulated by the Federal Deposit Insurance Corporation and the New York State Department of Financial Services. The Company is regulated by the Federal Reserve Bank of New York.

The Company also has another wholly-owned subsidiary, Catskill Hudson Statutory Trust I ("Trust I"). Trust I was formed for the purpose of issuing trust preferred securities, the proceeds of which were advanced to the Company and contributed to the Bank as additional capital.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accounts of Trust I are not included in the consolidated financial statements as discussed in Note 9.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the realizability of deferred income tax assets.

Fair Value Hierarchy

The Company groups its assets that are measured at fair value in three levels, based on the markets in which the assets are traded, and the reliability of the assumptions used to determine fair value.

Level 1 – Valuation is based on quoted prices in active markets for identical assets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets.

Level 2 – Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets.

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

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Hierarchy (Continued)

Determination of fair values

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various assets and liabilities. 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 discount rates and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the asset or liability.

The following methods were used by the Company in estimating the fair value of assets measured at fair value:

Securities available for sale: All fair value measurements are obtained from a third-party pricing service and are not adjusted by management. Securities measured at fair value in Level 2 are based on pricing models that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, credit spreads and new issue data.

Impaired loans: Fair value is based upon independent third-party appraisals of the properties.

Investment Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and recorded at amortized cost. Securities not classified as held-to-maturity are classified as "available-for-sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income, net of the related deferred income tax effect.

Purchase premiums and discounts are recognized in interest income using methods that approximate the interest method. Purchase premiums on callable debt securities are amortized to the first call date while all other premiums and discounts are amortized over the terms of the securities. Gains and losses on the sale of securities are determined using the specific identification method.

Declines in fair value of securities below their amortized cost that are deemed to be other-than-temporary are separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income. 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, (3) the intent and ability of the Company to retain its investment in the issuer for a reasonable period of time sufficient to allow for any anticipated recovery in fair value, (4) whether it is likely the Company intends to sell or will have to sell the security prior to recovery, and (5) whether the change in fair value is due to a deterioration in the credit quality of the issuer or is due to non-credit related market conditions.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans

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

The loans receivable portfolio is segmented into commercial and consumer loans. Commercial loans consist of the following classes: commercial and commercial real estate. Consumer loans consist of the following classes: residential mortgage, installment, home equity, and other consumer.

Commercial lending, including commercial real estate loans, generally present a higher level of risk than residential mortgage loans. This greater risk is due to several factors, including the concentration of principal in a limited number of loans and borrowers, the effect of general economic conditions on income producing properties and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by commercial real estate is typically dependent upon the successful operation of the related real estate project or business. If the cash flow from the project is reduced, the borrower’s ability to repay the loan may be impaired.

Consumer loans may entail greater credit risk than do residential mortgage loans, particularly in the case of consumer loans which are unsecured or are secured by rapidly depreciable assets, such as automobiles. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. In addition, consumer loan collections are dependent on the borrower’s continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans.

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

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through the provision for loan losses charged to earnings. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Non-residential consumer loans are generally charged off no later than 120 days past due on a contractual basis, earlier in the event of bankruptcy, or if there is an amount deemed uncollectible.

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

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows, collateral value, or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans, grouped by loan class, not considered impaired. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these classes of loans adjusted by qualitative factors, as deemed appropriate. These qualitative risk factors encompass:

- Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices.
- National, regional, and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans.
- Nature and volume of the portfolio and terms of loans.
- Experience, ability, and depth of lending management and staff.
- Volume and severity of past due, classified and nonaccrual loans as well as loan modifications.
- Quality of the Company's loan review system, and the degree of oversight by the Company's Board of Directors.
- Existence and effect of any concentrations of credit and changes in the level of such concentrations.
- Effect of external factors, such as competition and legal and regulatory requirements.

Each factor is incorporated as part of qualitative adjustments to the allowance based on management's best judgment using relevant information available at the time of the evaluation. The qualitative adjustments are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

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

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

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

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

In addition, this segment includes loans issued under the United States Small Business Administration's (SBA) Paycheck Protection Program (PPP). These loans are guaranteed and are not allocated a general reserve because the Company has not experienced losses on such loans and management expects the guarantees will be effective, if necessary.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual residential mortgage loans, installment loans, home equity loans, and other consumer loans for impairment disclosures, unless such loans are the subject of a troubled debt restructuring agreement ("TDR").

Loans whose terms are modified are classified as TDRs if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a TDR generally involve a temporary reduction in interest rate or an extension of a loan's stated maturity date at a below market interest rate based on the credit risk associated with the loan. Non-accrual TDRs are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as TDRs are designated as impaired.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans classified special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

On an annual basis, the Company formally reviews the ratings on substantially all commercial loans through the use of an independent third-party. Management uses the result of these reviews as part of its annual review process. In addition, management utilizes delinquency reports, the watch list, and other loan reports to monitor credit quality of other loan classes.

In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgements about information available to them at the time of their examination.

Restricted Investment in Bank Stocks

Restricted investment in bank stocks, which represents required investments in the common stock of correspondent banks, is carried at cost and consists of the common stock of the Federal Home Loan Bank ("FHLB") and Atlantic Community Bancshares, Inc. ("ACBI").

Premises and Equipment

Premises and equipment are carried at cost, less accumulated depreciation and amortization, which is calculated using the straight-line method over the estimated useful lives of the assets. In the case of leasehold improvements, amortization is recorded over the shorter of the lease term or the estimated useful life of the related assets, as follows:

	Years
Buildings and leasehold improvements	10 – 39
Furniture, fixtures and equipment	3 – 7
Software	3 – 5

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreclosed Real Estate

Real estate properties acquired through, or in lieu of, loan foreclosure are initially recorded at fair value less estimated selling costs at the date of foreclosure, establishing a new cost basis. Any write-downs based on the asset's fair value at date of acquisition are charged to the allowance for loan losses. After foreclosure, property held for sale is carried at the lower of the new basis that was established at the time of foreclosure or fair value less any costs 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 the property to the lower of its cost or fair value less cost to sell. Foreclosed assets are included in accrued interest receivable and other assets in the consolidated statements of financial condition.

Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in right of use ("ROU") assets, current portion of lease liabilities, and lease liabilities in the consolidated balance sheets. Finance leases are included in property and equipment and finance lease liabilities in our consolidated balance sheets.

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. The Company uses the estimated incremental borrowing rate, which is derived from information available at the lease commencement date, in determining the present value of lease payments. The incremental borrowing rates are based on rates the Company's bank would provide on a fixed rate over the term of the lease. The ROU asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

We have elected the practical expedient that allows lessees to choose to not separate lease and non-lease components by class of underlying asset and are applying this expedient to all relevant asset classes. We have also elected the practical expedient package to not reassess at adoption (i) expired or existing contracts for whether they are or contain a lease, (ii) the lease classification of any existing leases or (iii) initial indirect costs for existing leases.

Bank-Owned Life Insurance

Bank-owned life insurance policies are reflected at the cash surrender value of the underlying policies on the consolidated statements of financial condition. Income from the increase in the cash surrender value of the policies is included with other operating income on the consolidated statements of net income and are not subject to income taxes.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Current income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities. Changes in tax rates and laws are recognized in the period in which they are enacted.

Deferred income tax expense (benefit) results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company accounts for income taxes in accordance with current income tax accounting guidance for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions.

Uncertain tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment.

The Company recognizes interest and penalties on income taxes, if any, as a component of income tax expense. Tax years subject to examination by tax authorities are the years ended December 31, 2022, 2021 and 2020.

Earnings Per Share

Earnings per share is computed by dividing net income available to common stockholders by the weighted average number of shares outstanding during the year. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares relate to restricted stock awards and are determined using the treasury method.

Earnings per common share have been computed based on the following as of December 31:

	2022	2021
Net income applicable to common stock	$ 1,506,000	$ 1,522,000
Average number of common shares outstanding	704,016	702,374
Basic and diluted earnings per share	$2.14	$2.17

Dilutive shares consist solely of restricted stock granted, which were not material for the years ended December 31, 2022 and 2021.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Off-Balance-Sheet Financial Instruments

In the ordinary course of business, the Company has entered into off-balance-sheet financial instruments consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received.

Reclassifications

Certain amounts appearing in prior year consolidated financial statements may have been reclassified to conform with the current year's presentation.

Comprehensive Income

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, are reported as a separate component of the stockholders' equity section of the consolidated statements of financial condition. Such items along with net income are components of comprehensive income.

Recent Accounting Pronouncements

The Company adopted ASC 842, Leases, effective January 1, 2022 using a modified retrospective method and will not restate comparative periods. As permitted under the transition guidance, the Company will carry forward the assessment of whether its contracts contain or are leases, classification of leases and remaining lease terms.

Based on the portfolio of leases, $3,011,194 of right of use assets and $3,143,209 of lease liabilities were recognized on the consolidated balance sheet upon adoption.

In June 2016, FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Among other things, these amendments require the measurement of all expected credit losses for certain financial assets, such as loans, held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This ASU, as amended, is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Management is currently evaluating the impact to the consolidated financial statements of adopting this ASU. Although no financial statement impacts have been calculated, the adoption of this ASU is expected to significantly change the approach management uses in calculating the allowance for loan losses.

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. This Update provides temporary optional expedients and exceptions to GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens of the expected market transition from LIBOR and other interbank offered rates to alternative reference rates, such as Secured Overnight Financing Rate ("SOFR"). The Company does not expect the adoption of this standard to have a material impact on the Company's consolidated financial statements.

NOTE 2 — CASH AND CASH EQUIVALENTS

The Company is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. Effective March 26, 2020, the reserve requirement ratio was reduced to zero percent. The Company maintains cash deposits in other depository institutions that occasionally exceed the amount of deposit insurance available. Management periodically assesses the financial condition of these institutions and believes that the risk of any possible credit loss is minimal.

NOTE 3 — INVESTMENT SECURITIES

The amortized cost, fair value, and gross unrealized gains and losses of investment securities are as follows:

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available-for-sale:				
U.S. Treasuries	$ 74,079	$ 16	$ 33	$ 74,062
Government-sponsored enterprise bonds	20,230	-	1,560	18,670
Government-sponsored mortgage-backed securities	15,788	-	1,984	13,804
State and local municipal bonds	17,186	-	936	16,250
Total securities available-for-sale	$ 127,283	$ 16	$ 4,513	$ 122,786
Held-to-maturity:				
State and local municipal bonds	$ 6,235	$ -	$ 87	$ 6,148

	December 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available-for-sale:				
U.S. Treasuries	$ 59,998	$ -	$ -	$ 59,998
Government-sponsored enterprise bonds	20,230	-	243	19,987
Government-sponsored mortgage-backed securities	19,739	232	89	19,882
State and local municipal bonds	28,399	371	30	28,740
Total securities available-for-sale	$ 128,366	$ 603	$ 362	$ 128,607
Held-to-maturity:				
State and local municipal bonds	$ 6,514	$ 55	$ -	$ 6,569

NOTE 3 — INVESTMENT SECURITIES (Continued)

The following tables set forth the Company's investment in securities with unrealized losses less than twelve months and unrealized losses twelve months or more at December 31, 2022:

	Less Than		Over Twelve Months		Total	
December 31, 2022:	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
			(In Thousands)			
Available-for-sale:						
U.S. Treasuries	$ 33	$ 13,394	$ -	$ -	$ 33	$ 13,394
Government-sponsored mortgage-backed securities	975	9,549	1,009	4,254	1,984	13,803
Government-sponsored enterprise bonds	-	-	1,560	18,670	1,560	18,670
State and local municipal bonds	719	11,632	217	3,874	936	15,506
	$ 1,727	$ 34,575	$ 2,786	$ 26,798	$ 4,513	$ 61,373
Held-to-maturity:						
State and local municipal bonds	$ 87	$ 1,447	$ -	$ -	$ 87	$ 1,447

There were 43 securities with an unrealized loss for 12 months or more at December 31, 2022. The total number of securities with an unrealized loss of less than 12 months was 78 at December 31, 2022.

Unrealized losses on these securities have not been recognized into earnings because the issuers of the securities are of high quality, management has the ability and intent to hold these securities for the foreseeable future and does not believe they will have to sell the securities or be required to sell the securities, and the declines in fair value are principally due to market interest rates and not the result of credit risk. The fair values of these securities are expected to recover as they approach maturity and/or market interest rates fluctuate.

There were 49 securities in an unrealized loss position at December 31, 2021.

The amortized cost and fair value of debt securities at December 31, 2022, by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

	Available for Sale		Held to Maturity	
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
		(In Thousands)		
Within 1 year	$ 78,582	$ 78,517	$ 211	$ 211
Over 1 year through 5 years	22,976	21,347	1,252	1,241
Over 5 years through 10 years	6,026	5,553	4,535	4,459
Over 10 years	19,699	17,369	237	237
	$ 127,283	$ 122,786	$ 6,235	$ 6,148

NOTE 3 — INVESTMENT SECURITIES (Continued)

Debt securities with a carrying value of $106,812,419 and $117,735,910 were pledged to secure public deposits at December 31, 2022 and 2021, respectively.

NOTE 4 — LOANS

Loans consist of the following:

	December 31,	
	2022	2021
	(In Thousands)	
Commercial loans:		
Commercial real estate	$ 257,621	$ 268,047
Commercial	19,444	29,153
Consumer loans:		
Residential mortgage	135,264	83,094
Installment	213	194
Home equity	1,972	2,705
Other consumer	65	45
	414,579	383,238
Allowance for loan losses	(2,317)	(2,672)
Net deferred loan costs	1,561	1,347
	$ 413,823	$ 381,913

The Coronavirus Aid, Relief, and Economic Security Act, or CARES Act, was signed into law on March 27, 2020, and provided emergency economic relief to individuals and businesses impacted by the COVID-19 pandemic. The CARES Act authorized the SBA to temporarily guarantee loans under a new 8(a) loan program called the PPP.

Although we were not already a qualified SBA lender, we enrolled in the PPP by completing the required documentation.

An eligible business could apply for a PPP loan up to the lesser of: (1) 2.5 times its average monthly “payroll costs;” or (2) $10.0 million. PPP loans had: (a) an interest rate of 1.0%; (b) a two or five-year loan term to maturity; and (c) principal and interest payments deferred until the SBA remits the forgiven amount to the Company or 10 months from the end of the covered period, as defined. The SBA will guarantee 100% of the PPP loans made to eligible borrowers. The entire principal amount of the borrower’s PPP loan, including any accrued interest, was eligible to be reduced by the loan forgiveness amount under the PPP that both employee and compensation levels of the business were maintained and 60% of the loan proceeds were used for payroll expenses, with the remaining 40% of the loan proceeds available for other qualifying expenses. As of December 31, 2022, the Company had approximately $124,000 of PPP loans outstanding, compared to $1,244,000 as of December 31, 2021.

NOTE 4 — LOANS (Continued)

The following tables present the classes of the loan portfolio summarized by credit rating within the Company's internal risk rating system as of December 31, 2022 and 2021:

December 31, 2022	Pass	Special Mention	Substandard	Doubtful	Total
			(In Thousands)		
Commercial	$ 18,934	$ -	$ 441	$ 69	$ 19,444
Commercial real estate	247,336	5,961	4,324	-	257,621
Residential mortgage	135,248	-	16	-	135,264
Installment	213	-	-	-	213
Home equity	1,972	-	-	-	1,972
Other consumer	65	-	-	-	65
	$ 403,768	$ 5,961	$ 4,781	$ 69	$ 414,579

December 31, 2021	Pass	Special Mention	Substandard	Doubtful	Total
			(In Thousands)		
Commercial	$ 29,280	$ -	$ 613	$ -	$ 29,893
Commercial real estate	251,362	12,050	3,895	-	267,307
Residential mortgage	83,075		19	-	83,094
Installment	194	-	-	-	194
Home equity	2,705	-	-	-	2,705
Other consumer	45	-	-	-	45
	$ 366,661	$ 12,050	$ 4,527	$ -	$ 383,238

NOTE 4 — LOANS (Continued)

The following tables summarize information in regards to impaired loans, by loan portfolio class, at and for the years ended December 31, 2022 and 2021:

December 31, 2022	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(In Thousands)		
With no related allowance recorded:					
Commercial	$ -	$ -	$ -	$ -	$ -
Commercial real estate	3,068	3,068	-	3,023	154
Residential mortgage	85	85	-	86	3
Home equity	130	130	-	136	8
With an allowance recorded:					
Commercial	250	250	150	500	17
Commercial real estate	-	-	-	-	-
Residential mortgage	-	-	-	-	-
Home equity	-	-	-	-	-
Total:					
Commercial	$ 250	$ 250	$ 150	$ 500	$ 17
Commercial real estate	3,068	3,068	-	3,023	154
Residential mortgage	85	85	-	86	3
Home equity	130	130	-	136	8

December 31, 2021	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(In Thousands)		
With no related allowance recorded:					
Commercial	$ -	$ -	$ -	$ -	$ -
Commercial real estate	2,709	2,709	-	2,806	124
Residential mortgage	87	87	-	87	3
Home equity	146	146	-	152	9
With an allowance recorded:					
Commercial	534	534	400	546	-
Commercial real estate	-	-	-	-	-
Residential mortgage	-	-	-	-	-
Home equity	-	-	-	-	-
Total:					
Commercial	$ 534	$ 534	$ 400	$ 609	$ -
Commercial real estate	2,709	2,709	-	2,518	124
Residential mortgage	87	87	-	44	3
Home equity	146	146	-	193	9

NOTE 4 — LOANS (Continued)

The following table presents nonaccrual loans by classes of the loan portfolio as of December 31, 2022 and 2021:

	2022	2021
	(In Thousands)	
Commercial	$ 250	$ 534
Commercial real estate	1,227	740
Residential mortgage	-	-
	$ 1,477	$ 1,274

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by the past due status as of December 31, 2022 and 2021:

	30-59 Days Past Due	60-89 Days Past Due	90 Days Or More Past Due	Total Past Due	Current	Total Loans Receivables	Loans Receivable > 90 Days Past Due and Accruing
				(In Thousands)			
December 31, 2022							
Commercial	$ -	$ -	$ -	$ -	$ 19,458	$ 19,458	$ -
Commercial real estate	-	-	-	-	257,623	257,623	-
Residential mortgage	-	-	-	-	135,248	135,248	-
Installment	-	-	-	-	213	213	-
Home equity	-	-	-	-	1,972	1,972	-
Other consumer	-	-	-	-	65	65	-
	$ -	$ -	$ -	$ -	$ 414,579	$ 414,579	$ -

	30-59 Days Past Due	60-89 Days Past Due	90 Days Or More Past Due	Total Past Due	Current	Total Loans Receivables	Loans Receivable > 90 Days Past Due and Accruing
				(In Thousands)			
December 31, 2021							
Commercial	$ -	$ -	$ -	$ -	$ 29,153	$ 29,153	$ -
Commercial real estate	-	-	-	-	268,047	268,047	-
Residential mortgage	-	-	-	-	83,094	83,094	-
Installment	-	-	-	-	194	194	-
Home equity	-	-	-	-	2,705	2,705	-
Other consumer	-	-	-	-	45	45	-
	$ -	$ -	$ -	$ -	$ 383,238	$ 383,238	$ -

NOTE 4 — LOANS (Continued)

The following tables summarize the activity in the allowance for loan losses by loan class for the years ended December 31, 2022 and 2021 and information in regards to the allowance for loan losses and the recorded investment in loans receivable by loan class as of December 31, 2022 and 2021:

	Allowance for Loan Losses						
	Beginning Balance	Charge Offs	Recoveries	Provision (Credit)	Ending Balance	Ending Balance Impaired Loans	Ending Balance Non-impaired Loans
				(In Thousands)			
December 31, 2022							
Commercial	$ 596	$ (253)	$ 3	$ (54)	$ 292	$ 150	$ 142
Commercial real estate	1,235	(605)	-	576	1,206	-	1,206
Residential mortgage	369	-	-	212	581	-	581
Installment	2	-	7	(8)	1	-	1
Home equity	11	-	-	(3)	8	-	8
Other consumer	1	-	-	5	6	-	6
Unallocated	457	-	-	(234)	223	-	223
	$ 2,671	$ (858)	$ 10	$ 494	$ 2,317	$ 150	$ 2,167

	Allowance for Loan Losses						
	Beginning Balance	Charge Offs	Recoveries	Provision (Credit)	Ending Balance	Ending Balance Impaired Loans	Ending Balance Non-impaired Loans
				(In Thousands)			
December 31, 2021							
Commercial	$ 642	$ (126)	$ 169	$ (89)	$ 596	$ 400	$ 196
Commercial real estate	1,257	-	176	(198)	1,235	-	1,235
Residential mortgage	207	(54)	8	208	369	-	369
Installment	4	(1)	4	(5)	2	-	2
Home equity	15	-	-	(4)	11	-	11
Other consumer	3	(14)	-	12	1	-	1
Unallocated	43	-	-	414	457	-	457
	$ 2,171	$ (195)	$ 357	$ 338	$ 2,671	$ 400	$ 2,271

The Company identifies loans for potential restructure primarily through direct communication with borrowers and evaluation of the borrower’s financial statements, revenue projections, tax returns, and credit reports. Even if the borrower is not presently in default, management will consider the likelihood that cash flow shortages, adverse economic conditions, and negative trends may result in a payment default in the near future.

NOTE 4 — LOANS (Continued)

The following table provides information with respect to our commercial and commercial real estate loans by industry, excluding PPP loans, at December 31, 2022.

Industry	Number of Loans	Balance
		(In thousands)
Industrial/manufacturing	10	$ 1,648
Lessors residential	72	59,643
Lessors non-residential	79	98,829
Hospitality	29	55,383
Restaurant/food service	19	5,489
Other	168	54,501
	377	$ 275,493

There were no loans modified under troubled debt restructuring ("TDRs") during the year ended December 31, 2022 and 2021.

NOTE 5 — PREMISES AND EQUIPMENT, NET

Premises and equipment, net consist of the following at December 31, 2022 and 2021:

	December 31, 2022	December 31, 2021
	(In Thousands)	
Building	$ 4,474	$ 4,527
Data processing equipment	3,814	3,577
Office and other equipment	2,394	2,557
Leasehold improvements	1,426	1,445
Land	5,235	5,214
	17,343	17,320
Accumulated depreciation and amortization	(6,753)	(6,282)
	$ 10,590	$ 11,038

Depreciation and amortization expense for the years ended December 31, 2022 and 2021 amounted to $694,000 and $677,000, respectively.

NOTE 6 — DEPOSITS

Time deposits in denominations of $250,000 and over were $37,223,000 and $25,502,000 at December 31, 2022 and 2021 respectively.

The aggregate amounts of demand deposit overdrafts that were reclassified as loans were $28,000 and $16,000 as of December 31, 2022 and 2021, respectively.

NOTE 6 — DEPOSITS (Continued)

At December 31, 2022, scheduled maturities of time deposits are as follows (In Thousands):

Year Ending December 31, 2022	
2023	$ 81,022
2024	17,595
2025	3,598
2026	1,824
2027	159
	$ 104,198

NOTE 7 — BORROWINGS

The Bank has a $3,500,000 overnight line of credit with a correspondent bank. The line bears interest at the federal funds rate in effect at the time of the borrowing plus 0.375%. The terms of the line require the Bank to identify and segregate in a separate account specific securities pledged as collateral for any amounts borrowed over $1,500,000. The collateral must consist of securities with a market value of at least 125% of borrowings in excess of the unsecured limit. There were no borrowings on the line at December 31, 2022 and 2021.

The Bank also has four unsecured federal funds overnight lines of credit with four correspondent banks. The lines bear interest at the federal funds rate. The maximum available credit is $6,000,000, $5,000,000, $3,000,000, and $5,000,000 for each of the lines. There were no borrowings on any of the lines at December 31, 2022 or 2021.

The Company has a borrowing agreement with the FHLB of New York with an available funding capacity for overnight advances of $288,270,000 as of December 31, 2022. This limit is restricted by the Company’s ability to provide eligible collateral to support its obligations to the FHLB as well as the ability to meet the FHLB’s stock purchase requirement. Advances from the FHLB are collateralized by a blanket lien against the Company’s qualifying assets with variable interest rates in effect at the FHLB. The Company had borrowings of $3,000,000 under the agreement at December 31, 2022.

NOTE 8 — SUBORDINATED DEBENTURES

The Company issued $11,000,000 in subordinated debentures on October 28, 2016. The debentures bear interest at a fixed rate of 7.25%. Interest is payable quarterly. The cost of issuing subordinated debt is approximately $228,000 which was amortized over the life of the debt. The debentures mature on October 28, 2026. The debentures may be redeemed in whole or in part on or after October 28, 2021 at 100% of the principal amount plus accrued interest.

NOTE 8 — SUBORDINATED DEBENTURES (Continued)

On October 21, 2021, the Company issued $12,300,000 in subordinated debentures. The debentures bear interest at a fixed rate of 4.25%. Interest is payable quarterly. Beginning December 31, 2026 interest will be adjusted to the three-month term SOFR conventions floating interest rate plus 325 basis points. The cost of issuing subordinated debt was approximately $249,000 which is being amortized over the life of the debt. The debentures mature on October 21, 2031. The debentures may be redeemed in whole or in part on or after October 21, 2027 at 100% of the remaining principal balance plus accrued interest.

On November 1, 2021, the Company utilized the proceeds from the 2021 subordinated debt agreement to redeem the previous subordinated debt in full. A wire payment in the amount of $11,066,458 was made on November 1, 2021 to EJF Debt Opportunities Master Fund, LP which included the principal amount of $11,000,000 plus accrued, unpaid interest and fees of $66,458.

NOTE 9 — JUNIOR SUBORDINATED DEBENTURES

The Company issued $3,299,000 in junior subordinated debentures on October 13, 2006 that are due December 15, 2036, to Trust I. The Company owns all of the $99,000 in common equity of the trust and the debentures are the sole asset of the trust. The trust issued $3,200,000 of floating-rate trust capital securities in a private offering. The floating-rate capital securities provide for quarterly distributions at a variable coupon rate based on three-month LIBOR plus 1.75%. The interest rate was 6.52% and 1.87% at December 31, 2022 and 2021, respectively. The securities are callable by the Company, subject to regulatory approval, at par. The Company unconditionally guarantees the trust capital securities. The terms of the junior subordinated debentures and the common equity of the trust mirror the terms of the trust capital securities issued by the trust. The Company used the net proceeds from this offering to fund an additional $3,200,000 capital investment in the Bank to fund its operations and future growth.

The accounts of Trust I are not included in the consolidated financial statements of the Company. However, for regulatory purposes, the trust capital securities qualify as Tier 1 capital of the Company subject to a 25% of capital limitation under risk-based capital guidelines. The portion that exceeds the 25% of capital limitation qualifies as Tier 2 capital. At December 31, 2022 and 2021, all of the Company's trust capital securities qualified as Tier 1 capital.

NOTE 10 — STOCKHOLDERS' EQUITY

Common stock of the Company is as follows at December 31, 2022 and 2021:

	2022	**2021**
Authorized shares, $1.00 par value	1,000,000	1,000,000
Issued shares	711,000	711,000
Outstanding shares	703,484	702,284

NOTE 11 — RETIREMENT PLANS

The Bank has a 401(k) defined contribution retirement plan covering substantially all of its employees as they become eligible. Discretionary employer matching contributions to the plan are allowed under the plan. Matching contributions totaled $140,000 and $121,000 for 2022 and 2021, respectively. Additional contributions to the plan are permitted based on management's discretion.

NOTE 12 — INCOME TAXES

Income tax expense in the consolidated statements of net income are comprised of:

	2022	2021
	(In Thousands)	
Current	$ 223	$ 449
Deferred	64	(180)
	$ 287	$ 269

The provision for income taxes differs from that computed by applying statutory rates to income before income taxes primarily due to the effects of tax-exempt income and state taxes.

Deferred income tax assets and liabilities, included in accrued interest receivable and other assets in the consolidated statements of financial condition, resulting from temporary differences are summarized as follows:

	2022	2021
	(In Thousands)	
Deferred tax assets:		
Allowance for loan loss over tax bad debt reserve	$ 296	$ 258
Non-accrual interest	38	31
Accrued paid time off	16	31
Core deposit premium	14	17
Available for sale securities	944	-
Total deferred tax asset	1,308	337
Deferred tax liabilities:		
Premises and equipment	(147)	(223)
Deferred loan costs	(328)	(321)
Investments	(62)	-
Available for sale securities	-	(51)
Total deferred tax liabilities	(537)	(595)
Net deferred tax liability	$ 771	$ (258)

NOTE 12 — INCOME TAXES (Continued)

A valuation allowance is required against deferred tax assets if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The full realization of the tax benefits associated with the carryforwards depends predominately upon the recognition of ordinary income during the carryforward period. As New York State ("NYS") tax law provides for permanent deduction of income from "qualified" loans for community banks, management determined that the Company would most likely not pay NYS income tax. Accordingly the Company is not recording a state deferred taxes.

The Company did not have any uncertain tax positions at December 31, 2022 and 2021.

NOTE 13 — RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has, and expects to continue to have, transactions, including loans and deposit accounts, with the Company's and the Bank's executive officers and directors, and their affiliates. The aggregate amount of loans to such related parties at December 31, 2022 and 2021 was $3,013,000 and $3,624,000, respectively. During 2022, there were $603,000 in new loans to such related parties, net advances on existing lines of credit decreased by $332,000 and repayments amounted to $226,000. During 2021, there were $350,000 in new loans to such related parties, net advances on existing loans decreased by $78,000, and repayments amounted to $1,768,000.

The Bank held deposits of $16,389,000 and $16,855,910 for related parties at December 31, 2022 and 2021, respectively.

NOTE 14 — OTHER COMMITMENTS AND CONTINGENCIES

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the statements of financial condition. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments summarized as follows at December 31, 2022 and 2021:

	2022	2021
	(In Thousands)	
Commitments to extended credit:		
Commitments to grant loans	$ 32,525	$ 35,360
Unadvanced commercial lines of credit	22,531	22,441
Unadvanced consumer lines of credit	2,783	3,439
Standby letters of credit	1,313	2,167

NOTE 14 — OTHER COMMITMENTS AND CONTINGENCIES (Continued)

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount and type of collateral obtained, if deemed necessary by the Bank upon extension of credit, varies and is based on management's credit evaluation of the counterparty.

Standby letters of credit are conditional lending commitments issued by the Bank to guarantee the performance of a customer to a third party. These letters of credit are primarily issued to support public and private borrowing arrangements. Generally, letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit. The Bank generally holds collateral supporting those commitments. The amount of the liability related to guarantees under standby letters of credit was not material at December 31, 2022 and 2021.

The terms of the Subordinated Debentures discussed in Note 8 and the Junior Subordinated Debentures discussed in Note 9 contain certain covenants. The Company has complied with all covenants during 2022 and 2021.

Various legal claims also 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 consolidated financial statements.

NOTE 15 — CONCENTRATIONS OF CREDIT

Most of the Bank's business activity is with customers in the Bank's market area. The majority of those customers are depositors of the Bank. Investments in state and local government securities also involve governmental entities within the Bank's market area. The concentrations of credit by type of loan are set forth in Note 4. The distribution of commitments to extend credit is set forth in Note 14. The Bank, as matter of policy, does not extend credit to any single borrower, or group of related borrowers in excess of its legal lending limit of approximately $6,884,000

NOTE 16 — REGULATORY MATTERS

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

NOTE 16 — REGULATORY MATTERS (Continued)

Regulations require minimum ratios of total capital, common equity Tier 1 capital, Tier 1 capital to risk-weighted assets and a minimum leverage ratio for all banking organizations, as set forth in the following table. Additionally, community banking institutions must maintain a capital conservation buffer in an amount greater than 2.5% of total risk-weighted assets to avoid being subject to limitations on capital distributions and discretionary bonuses.

As of December 31, 2022, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized an institution must maintain capital ratios as set forth in the following table. There are no conditions or events since the notification that management believes have changed the Bank's category. Management believes, as of December 31, 2022 and 2021, that the Bank met all capital adequacy requirements to which they are subject. In addition, the Bank exceeds the required 2.50% capital conservation buffer at December 31, 2022. The Bank's actual capital amounts and ratios as of December 31, 2022 and 2021 are also presented in the following table:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
December 31, 2022						
Total capital (to risk weighted assets)	$45,893	12.77%	$28,755	8%	$35,944	10%
Tier 1 capital (to risk weighted assets)	$43,576	12.12%	$21,566	6%	$28,755	8%
Common equity Tier 1 capital (to risk weighted assets)	$43,576	12.12%	$16,175	4.50%	$23,364	6.50%
Tier 1 capital (to average assets)	$43,576	7.53%	$23,136	4%	$28,920	5%
December 31, 2021						
Total capital (to risk weighted assets)	$44,766	12.23%	$29,270	8%	$36,588	10%
Tier 1 (to risk weighted assets)	$42,296	11.50%	$21,953	6%	$29,270	8%
Common equity Tier 1 capital (to risk weighted assets)	$42,296	11.50%	$16,465	4.50%	$23,782	6.50%
Tier 1 capital (to average assets)	$42,296	6.95%	$24,227	4%	$30,284	5%

NOTE 17 — FAIR VALUE MEASUREMENTS

Assets measured at fair value on a recurring basis

Assets measured at fair value on a recurring basis at December 31, 2022 and 2021 are summarized below:

	December 31, 2022			
	Level 1	Level 2	Level 3	Total Fair Value
		(In Thousands)		
Securities available for sale	$ -	$ 122,785	$ -	$ 122,785

NOTE 17 — FAIR VALUE MEASUREMENTS (Continued)

Assets measured at fair value on a recurring basis *(continued)*

	December 31, 2021			
	Level 1	Level 2	Level 3	Total Fair Value
		(In Thousands)		
Securities available for sale	$ -	$ 128,607	$ -	$ 128,607

There were no liabilities measured at fair value on a recurring basis at December 31, 2022 or 2021.

Assets measured at fair value on a non-recurring basis

The Bank may also be required, from time to time, to measure certain other assets at fair value on a non-recurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets. The following tables summarize the fair value hierarchy used to determine each adjustment and the carrying value of the related assets as of December 31, 2022 and 2021.

	December 31, 2022				Year Ended December 31, 2022
	Level 1	Level 2	Level 3	Total Fair Value	Total Losses
		(In Thousands)			
Impaired loans	$ -	$ -	$ 202	$ 202	$ -

	December 31, 2021				Year Ended December 31, 2021
	Level 1	Level 2	Level 3	Total Fair Value	Total Losses
		(In Thousands)			
Impaired loans	$ -	$ -	$ 134	$ 134	$ -

There were no liabilities measured at fair value on a non-recurring basis at December 31, 2022 and 2021.

NOTE 18 — RISKS AND UNCERTAINTIES

On March 11, 2020, the World Health Organization declared the coronavirus outbreak a pandemic. Actions taken domestically and across the world to help mitigate the spread of the coronavirus included and continue to include restrictions on travel, required quarantine, and mandated closures of certain types of public places and businesses. The coronavirus and actions taken to mitigate the spread of it have had and are expected to have an adverse impact on the economies and financial markets of the geographical area in which the Company operates. On March 27, 2020, the CARES Act was enacted amongst other provisions to provide emergency assistance to individuals, families, and businesses affected by the coronavirus pandemic.

It is unknown how long the adverse conditions associated with the coronavirus pandemic will last and what the complete financial effect will be to the Company. In addition to the negative impact of the coronavirus on the general economy, it is reasonably probable that the Company and its customers are vulnerable to the risk of a near-term severe impact. It is also reasonably probable that estimates made in the financial statements have been, or will be, materially and adversely impacted in the near term as a result of these conditions. The following areas of the financial statements could be adversely impacted:

- Net interest income: In accordance with current regulatory guidance, the Company is working with its borrowers impacted by the coronavirus pandemic by deferring loan payments. The Company is recognizing interest income on these loans in accordance with generally accepted accounting principles where judgment is required to determine whether to continue to accrue interest or put the loan on non-accrual. These loans could eventually default, which could result in the reversal of any related accrued interest income against interest income.

- Provision for loan losses: Depending on the severity and duration of the pandemic, asset quality could deteriorate and loan losses could increase, resulting in an increase in the provision for loan losses.

- Securities impairment: Depending on the severity and duration of the pandemic and its impact on the issuers of the Company's securities, asset quality could deteriorate which could result in other-than-temporary impairment of certain securities, which could result in impairment losses.

NOTE 19 — LEASES

The following table presents the components of our right-of-use assets and liabilities related to leases and their classification in our consolidated balance sheets at December 31, 2022:

Components of lease balances	
Operating Leases	
Right of use asset	$ 2,790,901
Current portion of lease liabilities	$ 407,851
Operating lease liabilities, net of current portion	2,541,906
Total operating lease liabilities	$ 2,949,757

NOTE 19 — LEASES (Continued)

The Company's real estate lease agreements typically have initial terms of three to five years, and the equipment lease agreements typically have initial terms of two to three years. Leases with an initial term of 12 months or less ("short-term leases") are not recorded in the consolidated balance sheets.

Real estate leases may include one or more options to renew, with renewals that can extend the lease term, usually for three years. The exercise of lease renewal options is at the Company's sole discretion. In general, the Company does not consider renewal options to be reasonably likely to be exercised. Therefore, renewal options are generally not recognized as part of the right of use assets and lease liabilities.

Cash flow and other information related to leases is included in the following table:

	2022
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash outflows for operating leases	$ 592,503

The weighted-average lease terms and discount rates for operating leases are presented in the following table:

	December 31, 2022
Weighted-average remaining lease term (years)	
Operating Leases	8.93
Weighted-average discount rate	
Operating Leases	7.05%

Future maturities of lease liabilities at December 31, 2022 are presented in the following table:

	Operating Leases
2023	$ 597,821
2024	482,235
2025	430,946
2026	392,826
2027	370,916
2028	281,863
Thereafter	1,655,749
Total lease payments	4,212,356
Less: Imputed interest	1,262,598
Total lease obligation	2,949,758
Less: Current portion	2,790,901
Long-term lease obligation	$ 158,857

NOTE 20 — SUBSEQUENT EVENTS

The Company evaluated the impact of subsequent events through April 27, 2023, representing the date at which the consolidated financial statements were available to be issued. There were no subsequent events which require adjustments to or disclosure in the consolidated financial statements.