CATSKILL HUDSON BANCORP, INC.

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2023 and 2022

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, 2023 and 2022, 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, 2023 and 2022, 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.

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 26, 2024

CATSKILL HUDSON BANCORP, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

December 31, 2023 and 2022

(In Thousands)

	2023	2022
ASSETS		
Cash and cash equivalents	$ 20,021	$ 14,087
Securities available for sale, at fair value	81,432	122,786
Securities held to maturity, at amortized cost	5,735	6,235
Loans, net	441,632	413,823
Restricted investment in bank stocks	881	920
Premises and equipment, net	14,815	10,590
Right of use assets	2,406	2,791
Life insurance at cash surrender value	1,972	1,954
Other assets	3,681	3,453
Total assets	$ 572,575	$ 576,639
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Interest bearing	$ 440,659	$ 412,136
Noninterest bearing	87,296	117,623
Total deposits	527,955	529,759
Borrowings:		
Subordinated debentures	12,159	12,109
Junior subordinated debentures	3,299	3,299
Total borrowings	15,458	15,408
Accrued expenses and other liabilities	1,303	3,879
Lease liability	2,573	2,950
Total liabilities	547,289	551,996
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	19,798	20,289
Accumulated other comprehensive loss	(2,419)	(3,553)
Total stockholders' equity	25,286	24,643
Total liabilities and stockholders' equity	$ 572,575	$ 576,639

See notes to consolidated financial statements.

CATSKILL HUDSON BANCORP, INC.

CONSOLIDATED STATEMENTS OF NET INCOME

Years Ended December 31, 2023 and 2022

(In Thousands, Except Per Share Data)

	2023	2022
Interest and dividend income:		
Loans	$ 19,698	15,902
Securities:		
Taxable	2,695	1,574
Tax-exempt	384	422
Other	703	334
Total interest and dividend income	23,480	18,232
Interest expense:		
Deposits	8,737	1,760
Borrowings	860	646
Total interest expense	9,597	2,406
Net interest income	13,883	15,826
Provision for credit losses	(5)	495
Net interest income, after provision for credit losses	13,888	15,331
Noninterest income:		
Service fees	808	826
Other	92	180
Total noninterest income	900	1,006
Noninterest expenses:		
Salaries and employee benefits	8,337	7,902
Occupancy	1,771	1,915
Depreciation and amortization	708	694
Amortization of subordinated debentures	50	50
Data processing	972	773
Stationary, supplies and printing	160	158
Professional	803	674
FDIC insurance premiums	406	338
Office	306	440
ATM and debit card	332	302
Other operating expenses	1,167	1,298
Total operating expenses	15,012	14,544
(Loss) income before income tax expense	(224)	1,793
Income (benefit) tax expense	(72)	287
Net (loss) income	$ (152)	$ 1,506
(Loss) earnings per common share		
Basic and diluted	$ (0.22)	$ 2.14

See notes to consolidated financial statements.

CATSKILL HUDSON BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31, 2023 and 2022

(In Thousands)

	2023	**2022**
Net (loss) income	$ (152)	$ 1,506
Other comprehensive income (loss):		
Securities available-for-sale:		
Unrealized gains (losses)	1,435	(4,738)
Tax effects	(301)	995
Other comprehensive income (loss)	1,134	(3,743)
Comprehensive income (loss)	$ 982	$ (2,237)

See notes to consolidated financial statements.

CATSKILL HUDSON BANCORP, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2023 and 2022

(In Thousands)

	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 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
Net Income				(152)		(152)
Comprehensive loss					1,134	1,134
Common stock dividends declared, $0.48 per share				(339)		(339)
Balance at December 31, 2023	$ 711	$ (152)	$ 7,348	$ 19,798	$ (2,419)	$ 25,286

See notes to consolidated financial statements.

CATSKILL HUDSON BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2023 and 2022

(In Thousands)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ (152)	$ 1,506
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Provision for loan losses	(5)	495
Depreciation and amortization of premise and equipment	658	694
Amortization of subordinated debentures	50	50
Non-cash operating lease expense	8	27
Net amortization of securities	(226)	(756)
Bank-owned life insurance income	(18)	(23)
Deferred income tax expense	(319)	-
Net change in:		
Accrued interest receivable and other assets	(210)	826
Accrued expenses and other liabilities	(2,828)	2,908
Net cash (used in) provided by operating activities	(3,042)	5,727
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities available-for-sale activity:		
Purchases	(1,763,500)	(514,217)
Proceeds from sales	-	516,067
Proceeds from maturities and principal repayments	1,806,525	-
Securities held-to-maturity activity:		
Purchases	(200)	(2,015)
Proceeds from maturities and principal repayments	690	2,283
Loan originations, net of principal payments	(27,804)	(32,405)
Proceeds (purchases) of restricted investment in bank stock	39	(185)
Purchases of premise and equipment	(4,631)	(860)
Proceeds from sale of premise and equipment	-	613
Net cash provided by (used in) investing activities	11,119	(30,719)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	(1,804)	(5,557)
Common stock dividends paid	(339)	(337)
Net cash used in financing activities	(2,143)	(5,894)
Net increase (decrease) in cash and cash equivalents	5,934	(30,886)
Cash and cash equivalents, beginning of year	14,087	44,973
Cash and cash equivalents, end of year	$ 20,021	$ 14,087
SUPPLEMENTARY CASH FLOWS INFORMATION		
Interest paid	$ 9,811	$ 3,877
Income taxes paid	$ 109	$ 9
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 collateral assets.

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.

Allowance for Credit Losses – Held-to-Maturity Securities

Management measures expected credit losses on held-to-maturity securities on a collective basis by major security type. Accrued interest on held-to-maturity securities totaled $62,000 at December 31, 2023 and $57,000 at December 31, 2022, and is excluded from the estimate of credit losses.

The estimate of expected credit losses, measured over the contractual life, is adjusted for current conditions, and reasonable and supportable forecasts.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses – Held-to-Maturity Securities (Continued)

The bank only holds municipal securities in its held-to-maturity portfolio. The portfolio is comprised primarily of general obligation bonds of local municipalities and to a lesser degree non-local general obligation municipal securities. Based on management's review any expected losses would be recorded in our Allowance for Credit Loss.

Allowance for Credit Losses - Available-For-Sale Securities

Available for sale debt securities are measured at fair value under ASC 320. For available-for-sale securities in an unrealized loss position, management assesses whether it intends to sell, or more likely than not will be required to sell the security before recovery of its amortized cost basis. If either of these criteria are met, the security's amortized cost basis is written down to fair value through income.

If debt securities do not meet these criteria, expected credit losses on impaired available-for-sale debt securities are recognized through an Allowance for Credit Loss according to the guidance in ASC 326-30. Credit losses recognized on an available-for-sale debt security are subject to a fair value "floor," meaning that the ACL should not reduce the net carrying amount of the available-for-sale debt security below its fair value. Any changes in fair value unrelated to credit are recognized as an unrealized gain or loss in other comprehensive income (OCI). Management reviews all securities on a quarterly basis to determine whether any change in fair value can be attributed to credit deterioration or other factors. Management considers the extent to which fair value is less than amortized cost, any ratings changes by a recognized rating agency, and any adverse conditions specifically related to the security, among other factors. If the review indicates that a credit loss exists, the present value of expected cash flows is compared to the amortized cost of the security. If the present value of cash flows expected to be collected for a security is less than the amortized cost basis of the security, an allowance for credit losses is recorded.

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.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans (Continued)

Consumer loans may entail greater credit risk than residential mortgage loans, particularly in the case of consumer loans which are unsecured or are secured by rapidly depreciating 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 when management believes, after considering economics, business conditions, and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful. As a matter of policy, the Bank generally places impaired loans on nonaccrual status and recognizes interest income on such loans only on a cash basis, upon receipt of interest payments from the borrower.

Allowance for Credit Losses - Loans

The Bank adopted CECL on January 1, 2023. The CECL approach requires an estimate of the credit losses expected over the life of a loan (or pool of loans). It replaces the incurred approach's threshold that required the recognition of a credit loss when it was probable that a loss event was incurred. The allowance for credit closes is a valuation account that is deducted from, or added to, the loans' amortized cost basis to present the net, lifetime amount expected to be collected on the loans. Loan losses are charged off against the allowance when the Bank believes a loan balance is confirmed to be collectible. Expected recoveries do not exceed the aggregate of amounts previously charged off and expected to be charged off.

The Bank adopted CECL, using the modified retrospective method for all financial assets measured at amortized cost. Results for reporting years beginning after January 1, 2023, are presented under CECL while prior amounts continue to be reflected in accordance with previously applicable GAAP. The adoption of the standard did not have a material impact to the financial statements.

The allowance for credit losses is a valuation account that is deducted from, or added to, the loans amortized costs basis to represent the net amount management expects to collect on the loans. Loans are charged off against the allowance when management confirms that a loan balance is uncollectable. Subsequent recoveries, if any, are credited to the allowance.

Management estimates the expected credit losses, measured over the contractual life of loan, that considers relevant available information, from internal and external sources. This information relates to past events, historical loss experience, current conditions, and reasonable and supportable forecasts.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses – Loans

Adjustments to historical loss data are made for differences in credit losses for loans that share common risk characteristics within a loan class to adjust for differences between the historical period used to calculate historical default and loss severity rates and expected conditions over the remaining lives of the loans in the portfolio. These factors include characteristics such as changes in lending policies or procedures, the nature and volume of the bank's financial assets, our portfolio mix, as well as changes in external factors such as unemployment rates, property values, or changes in legal or regulatory requirements.

The loan loss estimation process involves procedures to appropriately consider the unique characteristics of its two loan portfolio segments, the consumer loan portfolio segment and the commercial loan portfolio segment. These two segments are further disaggregated into loan classes, the level at which credit risk is monitored.

The consumer loan portfolio segment is comprised of the single family and home equity loan classes, and personal installment which are underwritten after evaluating a borrower's capacity, credit, and collateral. These borrowers may be more susceptible to downturns in economic trends such as conditions that negatively affect housing prices and demand, and levels of unemployment.

The commercial loan portfolio segment is comprised of the commercial real estate, multifamily residential, construction/land development and commercial business term loans and lines of credit. Underwriting standards consider the factors described for consumer loan classes as well as others when assessing the borrower's and associated guarantors or other related party's financial position.

Based on the banks underwriting process, management believes that these pools share similar characteristics including but not limited to collateral types, loan to values, credit scores, risk ratings, terms, and interest rates.

Loans that no longer exhibit similar risk characteristics are evaluated individually as they no longer share risk characteristics with other loans within the specific loan portfolio segment.

When a specific loan does not share risk characteristics with other loans in their respective portfolio, we measure expected credit loss as the difference between the amortized cost basis in the loan and the present value of expected future cash flows discounted at the loan's effective interest rate. For collateral dependent loans, credit loss is measured as the difference between the amortized cost basis in the loan and the fair value of the underlying collateral. The fair value of the collateral is adjusted for the estimated cost to sell if repayment or satisfaction of a loan is dependent on the sale (rather than only on the operation) of the collateral.

The allowance for credit losses is maintained at a level which, in management's judgment, is adequate to absorb potential losses inherent in the loan portfolio. The adequacy of the allowance for credit losses is evaluated on at least a quarterly basis by management and is based on management's evaluation of the collectability of the loan portfolio, including specific impaired loans, the nature of the portfolio, credit concentrations, trends in historical loss experience, and economic conditions. Management determines the allowance for credit losses by portfolio segment, which consist of commercial loans, residential real estate loans, and consumer loans. The commercial loan portfolio segment includes both commercial real estate and commercial business loan classes. Each portfolio segment calculates the allowance for credit loss utilizing the weighted average remaining maturity (WARM) method.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses - Loans

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals and modifications. The allowance for credit losses consists of specific valuation allowances based on probable losses on specifically identified impaired loans generally determined based on collateral values or the present value of estimated cash flows; and valuation allowances based on projected historical loss for similar loans with similar characteristics and trends adjusted as appropriate for risk factors specific to the respective loan types. The qualitative risk factor adjustments include consideration of the reasonable and supportable forecasts about the future economic condition. The allowance is increased by a provision for credit losses, when considered necessary, which is charged to expense and reduced by charge-offs, net of recoveries. Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the loan portfolio and the related allowance may change in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Expected credit losses are estimated over the contractual term of the loans. Prepayment assumptions are applied to the two largest pools, residential mortgages and commercial real estate secured. These figures are evaluated periodically.

The bank estimates credit losses over the contractual period in which management believes the bank is exposed to credit risk due to a contractual obligation, unless the obligation is unconditionally cancellable by the bank. The allowance for credit losses on any off-balance sheet exposures is recognized through credit loss expense. This estimate includes a consideration of the likelihood of that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. Management estimates the expected credit losses, measured over the contractual life of loan using relevant available information, from internal and external sources. This information relates to past events, historical loss experience, current conditions, and reasonable and supportable forecasts.

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 credit 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”).

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2023, 2022 and 2021.

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.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings Per Share (Continued)

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

	2023	2022
Net income applicable to common stock	$ (152,000)	$ 1,506,000
Average number of common shares outstanding	705,779	704,016
Basic and diluted (loss) earnings per share	($0.22)	$2.14

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.

The Bank estimates expected credit losses over the contractual period in which the Bank has exposure to credit risk via a contractual obligation to extend credit unless that obligation is unconditionally cancellable by the Bank. The allowance for credit losses on off-balance sheet credit exposures recognized in other liabilities, is adjusted as an expense in other noninterest expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over their estimated lives. Estimating credit losses on unfunded commitments requires the Bank to consider the following categories of off-balance sheet credit exposure; unfunded commitments to extend credit, unfunded lines of credit, and standby letters of credit. Each of these unfunded commitments is then analyzed for a probability of funding to calculate a probable funding amount. The life of loan loss factor by related portfolio segment forms the loan allowance for credit loss calculation is then applied to the probable funding amount to calculate the estimated credit losses on off-balance sheet credit exposures recognized as other liabilities.

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

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 adoption of this standard did not 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, 2023			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
		(In Thousands)		
Available-for-sale:				
U.S. Treasuries	$ 37,978	$ 11	$ -	$ 37,989
Government-sponsored enterprise bonds	20,230	-	795	19,435
Government-sponsored mortgage-backed			-	
securities	13,667	-	1,662	12,005
State and local municipal bonds	12,619	-	616	12,003
Total securities available-for-sale	$ 84,494	$ 11	$ 3,073	$ 81,432
Held-to-maturity:				
State and local municipal bonds	$ 5,735	$ -	$ 72	$ 5,663

	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

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, 2023:

	Less Than		Over Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
			(In Thousands)			
Available-for-sale:						
U.S. Treasuries	$ -	$ -	$ -	$ -	-	$ -
Government-sponsored mortgage-backed securities	-	-	1,662	12,005	1,662	12,005
Government-sponsored enterprise bonds	-	-	795	19,435	795	19,435
State and local municipal bonds	7	1,258	609	10,325	616	11,583
	$ 7	$ 1,258	$ 3,066	$ 41,765	$ 3,073	$ 43,023
Held-to-maturity:						
State and local municipal bonds	$ -	$ -	$ 72	$ 1,451	$ 72	$ 1,451

There were 58 securities with an unrealized loss for 12 months or more at December 31, 2023. The total number of securities with an unrealized loss of less than 12 months was 4 at December 31, 2023.

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 121 securities in an unrealized loss position at December 31, 2022.

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

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
		(In Thousands)		
Within 1 year	$ 54,499	$ 54,017	$ 258	$ 258
Over 1 year through 5 years	5,686	5,357	1,420	1,406
Over 5 years through 10 years	8,036	7,481	4,027	3,969
Over 10 years	16,273	14,577	30	30
	$ 84,494	$ 81,432	$ 5,735	$ 5,663

NOTE 3 — INVESTMENT SECURITIES (Continued)

Debt securities with a carrying value of $71,975,232 and $106,812,419 were pledged to secure public deposits at December 31, 2023 and 2022, respectively.

NOTE 4 — LOANS

Loans consist of the following:

	December 31,	
	2023	**2022**
	(In Thousands)	
Commercial loans:		
Commercial real estate	$ 263,386	$ 257,621
Commercial	21,597	19,444
Consumer loans:		
Residential mortgage	155,647	135,264
Installment	210	213
Home equity	1,394	1,972
Other consumer	43	65
	442,277	414,579
Allowance for loan losses	(2,194)	(2,317)
Net deferred loan costs	1,549	1,561
	$ 441,632	$ 413,823

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, 2023, the Company had approximately $74,000 of PPP loans outstanding, compared to $124,000 as of December 31, 2022.

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, 2023 and 2022:

	Pass	Special Mention	Substandard	Doubtful	Total
			(In Thousands)		
Commercial	$ 21,412	$ -	$ 185	$ -	$ 21,597
Commercial real estate	250,061	12,612	713	-	263,386
Residential mortgage	155,647	-	-	-	155,647
Installment	210	-	-	-	210
Home equity	1,394	-	-	-	1,394
Other consumer	43	-	-	-	43
	$ 428,767	$ 12,612	$ 898	$ -	$ 442,277

	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

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, 2023 and 2022:

	Recorded Investment	Unpaid Principal Balance	Related Allowance For Credit Losses	Average Recorded Investment	Interest Income Recognized
			(In Thousands)		
With no related allowance recorded:					
Commercial	$ -	$ -	$ -	$ -	$ -
Commercial real estate	2,410	2,410	-	2,473	105
Residential mortgage	81	81	-	83	3
Home equity	123	123	-	126	8
With an allowance recorded:					
Commercial	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Residential mortgage	-	-	-	-	-
Home equity	-	-	-	-	-
Total:					
Commercial	$ -	$ -	$ -	$ -	$ -
Commercial real estate	2,410	2,410	-	2,473	105
Residential mortgage	81	81	-	83	3
Home equity	123	123	-	126	8

	Recorded Investment	Unpaid Principal Balance	Related Allowance For Credit Losses	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

NOTE 4 — LOANS (Continued)

The following table presents nonaccrual loans by classes of the loan portfolio as of December 31, 2023 and 2022:

	2023	2022
	(In Thousands)	
Commercial	$ -	$ 250
Commercial real estate	700	1,227
Residential mortgage	-	-
	$ 700	$ 1,477

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, 2023 and 2022:

	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)			
Commercial	$ -	$ -	$ -	$ -	$ 21,597	$ 21,597	$ -
Commercial real estate	-	-	-	-	263,386	263,386	-
Residential mortgage	-	-	-	-	155,647	155,647	-
Installment	-	-	-	-	210	210	-
Home equity	-	-	-	-	1,394	1,394	-
Other consumer	-	-	-	-	43	43	-
	$ -	$ -	$ -	$ -	$ 442,277	$ 442,277	$ -

	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)			
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	$ -

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, 2023 and 2022 and information in regards to the allowance for loan losses and the recorded investment in loans receivable by loan class as of December 31, 2023 and 2022:

	Allowance for Credit Losses						
	Beginning Balance	Charge Offs	Recoveries	Provision (Credit)	Ending Balance	Ending Balance Impaired Loans	Ending Balance Non-impaired Loans
				(In Thousands)			
December 31, 2023							
Commercial	$ 292	$ (244)	$ 37	$ 14	$ 99	$ -	$ 99
Commercial real estate	1,206	-	125	(251)	1,080	-	1,080
Residential mortgage	581	-	-	414	995	-	995
Installment	1	-	54	(54)	1	-	1
Home equity	8	-	-	-	8	-	8
Other consumer	6	(17)	1	11	1	-	1
Unallocated	223	-	-	(213)	10	-	10
	$ 2,317	$ (261)	$ 217	$ (79)	$ 2,194	$ -	$ 2,194

	Allowance for Credit 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

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, 2023.

Industry	Number of Loans	Balance *(In thousands)*
Industrial/manufacturing	4	$ 1,100
Lessors residential	83	62,739
Lessors non-residential	77	99,788
Hospitality	32	54,418
Restaurant/food service	14	4,567
Other	151	62,371
	361	$ 284,983

NOTE 5 — PREMISES AND EQUIPMENT, NET

Premises and equipment, net consist of the following at December 31, 2023 and 2022:

	December 31, 2023	December 31, 2022
	(In Thousands)	
Building	$ 9,070	$ 4,474
Data processing equipment	3,642	3,814
Office and other equipment	2,526	2,394
Leasehold improvements	1,426	1,426
Land	5,235	5,235
	21,899	17,343
Accumulated depreciation and amortization	(7,088)	(6,753)
	$ 14,811	$ 10,590

Depreciation and amortization expense for the years ended December 31, 2023 and 2022 amounted to $709,000 and $694,000, respectively.

NOTE 6 — DEPOSITS

Time deposits in denominations of $250,000 and over were $55,913,000 and $37,223,000 at December 31, 2023 and 2022, respectively.

The aggregate amounts of demand deposit overdrafts that were reclassified as loans were $20,000 and $28,000 as of December 31, 2023 and 2022, respectively.

NOTE 6 — DEPOSITS (Continued)

At December 31, 2023, scheduled maturities of time deposits are as follows (In Thousands):

Year Ending December 31, 2023	
2024	$ 128,964
2025	4,730
2026	2,204
2027	450
2028	272
	$ 136,620

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, 2023 and 2022.

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, 2023 or 2022.

The Company has a borrowing agreement with the FHLB of New York with an available funding capacity for overnight advances of $286,141,000 as of December 31, 2023. 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 no borrowings under the agreement at December 31, 2023 and $3,000,000 under the agreement at December 31, 2022.

NOTE 8 — SUBORDINATED DEBENTURES

The Company issued $12,300,000 in subordinated debentures on November 1, 2021. 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.

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 7.42% and 6.52% at December 31, 2023 and 2022, 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, 2023 and 2022, 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, 2023 and 2022:

	2023	2022
Authorized shares, $1.00 par value	1,000,000	1,000,000
Issued shares	711,000	711,000
Outstanding shares	705,984	703,484

NOTE 11 — RETIREMENT PLANS

The Bank has a 401(k) defined contribution retirement plan covering substantially all of its employees as they become eligible. Contributions to the plan totaled $141,000 and $140,000 for 2023 and 2022, respectively.

NOTE 12 — INCOME TAXES

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

	2023	2022
	(In Thousands)	
Current	$ 248	$ 223
Deferred	(320)	64
	$ (72)	$ 287

NOTE 12 — INCOME TAXES (Continued)

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:

	2023	2022
	(In Thousands)	
Deferred tax assets:		
Allowance for loan loss over tax bad debt reserve	$ 461	$ 296
Non-accrual interest	12	38
Accrued paid time off	-	16
Core deposit premium	12	14
Available for sale securities	643	944
Total deferred tax asset	1,128	1,308
Deferred tax liabilities:		
Premises and equipment	(106)	(147)
Deferred loan costs	(326)	(328)
Investments	(4)	(62)
Available for sale securities	-	-
Total deferred tax liabilities	(436)	(537)
Net deferred tax liability	$ 692	$ 771

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 tax.

The Company did not have any uncertain tax positions at December 31, 2023 and 2022.

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, 2023 and 2022 was $2,857,000 and $3,013,000, respectively. During 2023, there were $50,000 in new loans to such related parties, net advances on existing lines of credit decreased by $164,000 and repayments amounted to $244,000. During 2022, there were $603,000 in new loans to such related parties, net advances on existing loans decreased by $332,000, and repayments amounted to $226,000.

The Bank held deposits of $9,683,000 and $16,389,000 for related parties at December 31, 2023 and 2022, 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, 2023 and 2022:

	2023	2022
	(In Thousands)	
Commitments to extended credit:		
Commitments to grant loans	$ 9,418	$ 32,525
Unadvanced commercial lines of credit	22,900	22,531
Unadvanced consumer lines of credit	2,384	2,783
Standby letters of credit	1,095	1,313

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, 2023 and 2022.

The terms of the Subordinated Debentures discussed in Note 8 and the Junior Subordinated Debentures discussed in Note 9 contain certain covenants. The Company was in compliance with all covenants during 2023 and 2022.

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 $6,802,000

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.

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, 2023, 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, 2023 and 2022, 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, 2023. The Bank's actual capital amounts and ratios as of December 31, 2023 and 2022 are also presented in the following table:

NOTE 16 — REGULATORY MATTERS (Continued)

	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, 2023						
Total capital (to risk weighted assets)	$45,418	11.66%	$31,155	8%	$38,944	10%
Tier 1 capital (to risk weighted assets)	$43,150	11.08%	$23,366	6%	$31,155	8%
Common equity Tier 1 capital (to risk weighted assets)	$43,150	11.08%	$17,525	4.50%	$25,314	6.50%
Tier 1 capital (to average assets)	$43,150	7.39%	$23,365	4%	$29,206	5%
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%

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, 2023 and 2022 are summarized below:

	December 31, 2023			
	Level 1	Level 2	Level 3	Total Fair Value
		(In Thousands)		
Securities available for sale	$ -	$ 81,432	$ -	$ 81,432

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

There were no liabilities measured at fair value on a recurring basis at December 31, 2023 or 2022.

NOTE 17 — FAIR VALUE MEASUREMENTS (Continued)

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. There were no impaired loans as of December 31, 2023. 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.

	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	$ -

There were no liabilities measured at fair value on a non-recurring basis at December 31, 2023 and 2022.

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, 2023:

Components of lease balances	
Operating Leases	
Right of use asset	$ 2,406,355
Current portion of lease liabilities	$ 376,766
Operating lease liabilities, net of current portion	2,195,968
Total operating lease liabilities	$ 2,572,734

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.

NOTE 19 — LEASES (Continued)

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

	2023
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash outflows for operating leases	$ 597,821

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

	December 31, 2023
Weighted-average remaining lease term (years)	
Operating Leases	8.47
Weighted-average discount rate	
Operating Leases	7.10%

Future maturities of lease liabilities at December 31, 2023 are presented in the following table:

	Operating Leases
2024	$ 482,235
2025	430,946
2026	392,826
2027	370,916
2028	281,863
2029	286,925
Thereafter	1,368,824
Total lease payments	3,614,535
Less: Imputed interest	1,041,801
Total lease obligation	2,572,734
Less: Current portion	376,766
Long-term lease obligation	$ 2,195,968

NOTE 20 — SUBSEQUENT EVENTS

The Company evaluated the impact of subsequent events through April 26, 2024, representing the date at which the consolidated financial statements were available to be issued. In January 2024, the Hudson Valley Credit Union ("HVCU") announced that it had entered into a definitive merger agreement with Catskill Hudson Bank (the "Bank") and its parent company Catskill Hudson Bancorp, Inc. (the "Company"), pursuant to which the Bank will merge with and into HVCU, with HVCU as the surviving institution in a series of transactions. Pursuant to the merger agreement, which was approved by the board of directors of HVCU, the Company and the Bank, Catskill stockholders will receive $40.50 in cash for each share of Company common stock held, representing aggregate consideration of approximately $28.6 million.

The merger is expected to be completed during the second half of 2024 after the satisfaction of customary closing conditions, including receipt of all required regulatory approvals and approval of Catskill Hudson's stockholders. Following completion of the transaction, the former Catskill Hudson Bank branches will operate under the Hudson Valley Credit Union name and brand and Catskill Hudson common stock will no longer be quoted on the OTC markets.

The combined institution will serve consumers and businesses in Albany, Columbia, Dutchess, Greene, Orange, Putnam, Rensselaer, Rockland, Saratoga, Schenectady, Sullivan, Ulster, and Westchester Counties in New York State with a wide variety of financial services, including investments and insurance.

Under the merger agreement the current Catskill Hudson Bank Chairman and CEO will serve as a Senior Market President of HVCU.

The Bank's subordinated debenture of $12,300,000 and Junior Subordinated debenture of $3,299,000 are excluded from the merger agreement. Subject to regulatory approval. As part of the merger agreement, the Bank must redeem and retire both the subordinated debenture and junior subordinated debenture no later than the consummation of the merger and is contingent upon regulatory approval of the transaction. Additionally, any dividends declared by the Bank must be paid in full prior to the consummation of the merger.

Separate from the merger agreement, effective March 1, 2024, HVCU assumed the Bank's lease agreement for the building in Latham, New York. No consideration was exchanged as part of the assignment of the lease. As of December 31, 2023, the right of use asset and lease liability for the building in Latham were approximately, $357,000 and $374,000, respectively. Upon assumption of the lease on March 1, 2024, a gain of approximately $16,500 will be recognized in other income.