APOLLO BANCORP, INC.

ANNUAL REPORT

2023

President's Message

Dear Stockholders:

Apollo Bancorp, Inc. delivered solid earnings in 2023, which was a challenging year for the banking industry. Net income totaled $1,705,000 in 2023 compared with $1,909,000 reported in 2022. Earnings per share totaled $3.28 in 2023 compared with $3.68 in 2022. The most notable change during 2023 was much greater loan interest income, which was offset by significantly higher interest expense.

Comparing 2023 with 2022, net interest income increased 4.3% due to substantially higher loan interest income of $1,356,000, which was offset by an $899,000 increase in interest expense. Loan balances outstanding grew a robust $16.8 million, or 10.9%, in a market environment characterized by higher interest rates and lower inventory of real estate. Double-digit loan growth occurred in 2023 for the second consecutive year following 10.2% reported in 2022.

The loan portfolio is primarily secured by residential real estate, both investment properties and owner-occupied homes. Sound credit policies and prudent underwriting have continued to serve the bank well as loan portfolio growth has been achieved while maintaining strong asset quality with few watchlist credits and low delinquency.

An industry-wide trend of deposit run-off started in 2022 and accelerated in 2023. Higher interest rates in the capital markets as well as banking concerns and regulatory involvement were frequent topics in the national media in the early part of 2023. Much of the deposit growth of the pandemic era moved out of FDIC-insured institutions and into money market mutual funds due to higher interest rates.

Deposits decreased throughout the industry and Apollo Trust Company experienced an $11.8 million reduction of deposits. Combined with strong loan growth, borrowings increased $25.7 million in 2023. Consequently, the net interest margin decreased throughout the year but still compared favorably with peer averages. The inverted yield curve has also reduced profitability due to spread compression.

Noninterest income decreased by $62,000 in 2023 compared with 2022 due to a variety of reasons. Most notably was the $181,000 reduction in fiduciary income as the bank exited its longstanding responsibility as a corporate trustee. This strategic decision was made due to business continuity risk of operating a small trust department with limited profitability.

Noninterest expenses increased 7.6% in 2023 compared with a 7.9% increase in 2022. Ongoing challenges in a competitive labor market and frequent technology advancements have increased overhead. There is strong demand for high performing staff, and operational innovations are needed to provide customers with outstanding service and necessary products to be competitive with larger banks. I am also pleased to report that Stephanie Embry recently re-joined the bank as executive vice president and chief operating officer.

The quarterly dividend was increased from $0.55 to $0.56 per share, or 1.8%, in the fourth quarter and represented the fourteenth consecutive annual increase. Dividends remain a priority and increased to $2.21 in 2023, which currently approximates a 6.2% yield.

The directors, officers and employees appreciate your continued support and thank you for your loyalty.

Sincerely,

Nelson L. Person
President and CEO

Directors and Officers

Board of Directors

John C. Dormire

Dickson K. Forbes

Robert E. Kelly, Jr.

Larry D. Loperfito

Nelson L. Person

Karen A. Stanford

Directors Emeritus

Antonio O. DiFilippo

Richard G. Hildebrand

Officers

Nelson L. Person, *President and Chief Executive Officer*

Stephanie A. Embry, *Executive Vice President and Chief Operating Officer*

T. J. Backus, *Vice President, Lending*

Julia M. Holmes, *Vice President, Risk Management and Secretary*

Robert J. Kopec, *Vice President, Residential Lending*

Kirk S. Montgomery, *Vice President and Chief Information Officer*

Michelle M. Arbster, *Controller*

Sara J. Copeland, *Assistant Vice President, Loan Operations*

Joyce M. Corbin, *Assistant Secretary/Assistant Treasurer*

Financial Summary

Financial Performance

Earnings Per Share (EPS), Dividends Paid Per Share (Dividends), Return on Average Assets (ROA) and Return on Average Equity (ROE) are presented below:

	2023	2022
EPS	$3.28	$3.68
Dividends	$2.21	$2.17
ROA	0.89%	1.04%
ROE	7.51%	8.50%

Balance Sheet Highlights

(in millions)

	2023	2022
Assets	$198.4	$182.7
Loans	$171.8	$155.0
Deposits	$145.0	$156.8
Capital	$23.2	$22.1

APOLLO BANCORP, INC.

APOLLO, PENNSYLVANIA

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2023

SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders
Apollo Bancorp, Inc.

Opinion

We have audited the accompanying consolidated financial statements of Apollo Bancorp, Inc. and subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022; the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended; and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company changed its method of accounting for credit losses effective January 1, 2023, due to the adoption of Accounting Standards Codification (ASC) Topic 326, *Financial Instruments – Credit Losses*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

PITTSBURGH, PA
2009 Mackenzie Way • Suite 340
Cranberry Township, PA 16066
(724) 934-0344

PHILADELPHIA, PA
2100 Renaissance Blvd. • Suite 110
King of Prussia, PA 19406
(610) 278-9800

WHEELING, WV
980 National Road
Wheeling, WV 26003
(304) 233-5030

STEUBENVILLE, OH
511 N. Fourth Street
Steubenville, OH 43952
(304) 233-5030

S.R. Snodgrass, P.C. d/b/a S.R. Snodgrass, A.C. in West Virginia

Responsibilities of Management for the Financial Statements (Continued)

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Other Information Included in Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the President's Message and Financial Summary but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

Other Information Included in Annual Report (Continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or whether the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

S.R. Snodgrass P.C.

Cranberry Township, Pennsylvania
March 5, 2024

APOLLO BANCORP, INC.
CONSOLIDATED BALANCE SHEET

	December 31, 2023	December 31, 2022
ASSETS		
Cash and due from banks	$ 2,869,920	$ 5,607,846
Investment securities available for sale, at fair value	12,880,656	16,099,616
Loans	171,849,322	155,048,052
Less allowance for credit losses	1,235,496	1,190,258
Net loans	170,613,826	153,857,794
Premises and equipment, net	1,884,934	1,871,666
Bank-owned life insurance	5,524,360	2,359,255
Accrued interest and other assets	4,643,978	2,918,164
TOTAL ASSETS	$ 198,417,674	$ 182,714,341
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 64,914,480	$ 70,016,427
Interest-bearing demand	4,513,371	4,482,406
Money market	2,388,438	1,712,469
Savings	62,723,392	70,923,508
Time	10,485,355	9,651,836
Total deposits	145,025,036	156,786,646
Short-term borrowings	27,150,000	1,500,000
Accrued interest and other liabilities	3,000,690	2,291,732
TOTAL LIABILITIES	175,175,726	160,578,378
STOCKHOLDERS’ EQUITY		
Common stock, par value $2; 2,000,000 shares authorized; 600,000 shares issued; 519,952 shares outstanding in 2023 and 2022, respectively	1,200,000	1,200,000
Capital surplus	3,615,097	3,615,097
Retained earnings	23,156,868	22,592,397
Accumulated other comprehensive loss	(1,363,637)	(1,905,151)
Treasury stock, at cost (80,048 shares in 2022 and 2023)	(3,366,380)	(3,366,380)
TOTAL STOCKHOLDERS’ EQUITY	23,241,948	22,135,963
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$ 198,417,674	$ 182,714,341

See accompanying notes to the consolidated financial statements.

APOLLO BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31, 2023	2022
INTEREST AND DIVIDEND INCOME		
Interest and fees on loans	$ 7,564,006	$ 6,207,581
Interest on deposits	77,003	151,803
Investment securities:		
Taxable interest	363,392	437,893
Tax-exempt interest	162,057	205,796
Dividend income	45,045	10,506
Total interest and dividend income	8,211,503	7,013,579
INTEREST EXPENSE		
Deposits	220,568	124,853
Short-term borrowings	808,951	5,825
Total interest expense	1,029,519	130,678
NET INTEREST INCOME	7,181,984	6,882,901
Provision for credit loss expense	104,105	11,600
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	7,077,879	6,871,301
NONINTEREST INCOME		
Service charges on deposit accounts	983,608	978,582
Fiduciary income	95,071	276,544
Earnings on bank-owned life insurance	165,105	51,800
Other	71,414	70,683
Total noninterest income	1,315,198	1,377,609
NONINTEREST EXPENSE		
Compensation and employee benefits	3,702,492	3,249,895
Occupancy and equipment	598,326	605,069
Pennsylvania shares tax	159,636	163,233
Professional fees	317,435	365,857
Data processing	516,986	481,729
Federal Deposit Insurance Corporation assessment	129,382	92,771
Advertising	36,000	36,000
Other	950,325	961,464
Total noninterest expense	6,410,582	5,956,018
Income before income tax expense	1,982,495	2,292,892
Income tax expense	277,931	383,582
NET INCOME	$ 1,704,564	$ 1,909,310
EARNINGS PER SHARE	$ 3.28	$ 3.68
AVERAGE SHARES OUTSTANDING	519,952	519,043

See accompanying notes to the consolidated financial statements.

APOLLO BANCORP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31, 2023	2022
Net income	$ 1,704,564	$ 1,909,310
Other comprehensive income (loss):		
Unrealized holding gain (loss) on available-for-sale securities	485,633	(1,872,954)
Tax effect	(101,983)	393,320
Change in unrecognized cost for defined benefit pension plan	199,828	(252,975)
Tax effect	(41,964)	53,125
Total other comprehensive income (loss)	541,514	(1,679,484)
TOTAL COMPREHENSIVE INCOME	$ 2,246,078	$ 229,826

See accompanying notes to the consolidated financial statements.

APOLLO BANCORP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance, January 1, 2022	$ 1,200,000	$ 3,615,097	$ 21,811,181	$ (225,667)	$ (3,374,885)	$ 23,025,726
Net income	-	-	1,909,310	-	-	1,909,310
Other comprehensive loss	-	-	-	(1,679,484)	-	(1,679,484)
Cash dividends ($2.17 per share)	-	-	(1,128,094)	-	-	(1,128,094)
Purchase of treasury stock (11,796 shares)	-	-	-	-	(530,820)	(530,820)
Sale of treasury stock (11,985 shares)	-	-	-	-	539,325	539,325
Balance, December 31, 2022	1,200,000	3,615,097	22,592,397	(1,905,151)	(3,366,380)	22,135,963
Net income	-	-	1,704,564	-	-	1,704,564
Other comprehensive income	-	-	-	541,514	-	541,514
Cash dividends ($2.21 per share)	-	-	(1,149,094)	-	-	(1,149,094)
Cumulative effect of adoption of ASU 2016-13	-	-	9,001	-	-	9,001
Balance, December 31, 2023	$ 1,200,000	$ 3,615,097	$ 23,156,868	$ (1,363,637)	$ (3,366,380)	$ 23,241,948

See accompanying notes to the consolidated financial statements.

APOLLO BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2023	2022
OPERATING ACTIVITIES		
Net income	$ 1,704,564	$ 1,909,310
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and accretion	370,746	345,384
Provision for credit losses	104,105	11,600
Earnings on bank-owned life insurance	(165,105)	(51,800)
Increase in accrued interest receivable	(63,133)	(44,130)
Increase in accrued interest payable	86,673	5,869
Deferred income taxes	(182,951)	(40,345)
Other, net	347,392	326,650
Net cash provided by operating activities	2,202,291	2,462,538
INVESTING ACTIVITIES		
Investment securities available for sale:		
Proceeds from maturities and principal repayments	3,663,407	5,181,091
Purchase of bank-owned life insurance	(3,000,000)	-
Redemption of restricted stock	955,100	130,000
Purchase of restricted stock	(2,102,000)	(195,300)
Net increase in loans	(16,968,047)	(14,404,416)
Purchase of premises and equipment, net	(227,973)	(79,713)
Net cash used for investing activities	(17,679,513)	(9,368,338)
FINANCING ACTIVITIES		
Net decrease in deposits	(11,761,610)	(31,918)
Net increase in short-term borrowings	25,650,000	1,500,000
Cash dividends paid	(1,149,094)	(1,128,094)
Purchase of treasury stock	-	(530,820)
Sale of treasury stock	-	539,325
Net cash provided by financing activities	12,739,296	348,493
Decrease in cash and cash equivalents	(2,737,926)	(6,557,307)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	5,607,846	12,165,153
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 2,869,920	$ 5,607,846

See accompanying notes to the consolidated financial statements.

APOLLO BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Basis of Presentation

Apollo Bancorp, Inc. (the "Company") is a Pennsylvania corporation and is registered under the Bank Holding Company Act. The Company was organized to become the holding company of Apollo Trust Company (the "Bank"). Apollo Realty, Inc. is the wholly owned subsidiary of Apollo Trust Company. The Bank and its subsidiary derive substantially all their income from banking and bank-related services, which include interest earnings on residential real estate, commercial mortgage, commercial, and consumer loan financing as well as interest-earning investment securities and a variety of deposit and fiduciary services to its customers through seven locations. The Bank is a state-chartered bank located in Pennsylvania. The Board of Governors of the Federal Reserve System supervises the Company, while the Bank is subject to regulation and supervision by the Board of Governors of the Federal Reserve System and the Pennsylvania Department of Banking and Securities.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, the Bank, and its wholly owned subsidiary, Apollo Realty, Inc. All significant intercompany transactions have been eliminated in consolidation.

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the Consolidated Balance Sheet date and reported amounts of revenues and expenses for the period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses, the valuation of deferred tax assets, and the fair value of financial instruments.

Investment Securities

Investment securities are classified at the time of purchase, based on management's intention and ability, as securities available for sale. Debt securities classified as available for sale serve principally as a source of liquidity. Unrealized holding gains and losses for available-for-sale debt securities are reported as a separate component of stockholders' equity, net of tax, until realized. Realized securities gains and losses are computed using the specific identification method. Interest and dividends on investment securities are recognized as income when earned.

Securities are periodically reviewed for other-than-temporary impairment based upon a number of factors, including, but not limited to, the extent to which the market value has been less than cost, the financial condition of the underlying issuer, the ability of the issuer to meet contractual obligations, the likelihood of the security's ability to recover any decline in its market value, and the Bank's intent to sell the security or whether the Bank would be required to sell the security before its anticipated recovery in market value. A decline in value that is considered to be other than temporary is recorded as a loss within noninterest income in the Consolidated Statement of Income.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses – Available-for-Sale Securities

The Bank measures expected credit losses on available-for-sale debt securities when the Bank does not intend to sell, or when it is not more likely than not that it will be required to sell, the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For available-for-sale debt securities that do not meet the aforementioned criteria, the Bank evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Bank considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this evaluation indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, equal to the amount that the fair value is less than the amortized cost basis. Economic forecast data is utilized to calculate the present value of expected cash flows. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income (loss).

The allowance for credit losses on available-for-sale debt securities is included within investment securities available for sale on the Consolidated Balance Sheet. Changes in the allowance for credit losses are recorded within provision for credit losses on the Consolidated Statement of Income. Losses are charged against the allowance when the Bank believes the collectability of an available-for-sale security is in jeopardy or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable on available-for-sale debt securities totaled $120,002 at December 31, 2023, and is included within accrued interest and other assets on the Consolidated Balance Sheet. This amount is excluded from the estimate of expected credit losses. Available-for-sale debt securities are typically classified as nonaccrual when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about the further collectability of principal or interest. When available-for-sale debt securities are placed on nonaccrual status, unpaid interest credited to income is reversed.

Credit Losses on Investment Securities – Prior to Adopting ASU 2016-13

The Bank adopted ASU No. 2016-13 effective January 1, 2023. Financial statement amounts related to *Investment Securities* recorded as of December 31, 2022, and for the periods ending December 31, 2022, are presented in accordance with the accounting policies described in the following sections. The following sections were carried forward from the Annual Report for the year ended December 31, 2022.

Securities are evaluated on at least a quarterly basis, and more frequently when market conditions warrant such an evaluation, to determine whether a decline in their value is other than temporary. To determine whether a loss is other than temporary, management utilizes criteria such as the reasons underlying the decline, the magnitude and duration of the decline, and whether or not management intends to sell or expects that it is more likely than not that it will be required to sell the security prior to an anticipated recovery of the fair value. The term "other-than-temporary" is not intended to indicate that the decline is permanent but indicates that the prospects for a near-term recovery of value are not necessarily favorable or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Credit Losses on Investment Securities – Prior to Adopting ASU 2016-13 (Continued)

Declines in the fair value of securities below their 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.

Restricted Stock

Common stock of the Federal Home Loan Bank of Pittsburgh (FHLB), Federal Reserve Bank of Cleveland, and Atlantic Community Bankers Bank represents ownership interest in institutions that are wholly owned by other financial institutions. These equity securities are accounted for at cost and are classified with other assets.

The Bank is a member of the FHLB, and as such, is required to maintain a minimum investment in stock of the FHLB that varies with the level of advances outstanding. The stock is purchased from and sold to the FHLB based upon its $100 par value. The stock does not have a readily determinable fair value, and as such, is classified as restricted stock, carried at cost, and evaluated for impairment as necessary. The stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and the length of time this situation has persisted; (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance; (c) the impact of legislative and regulatory changes on the customer base of the FHLB; and (d) the liquidity position of the FHLB.

Management evaluated the restricted stock and concluded that it was not impaired for the periods presented herein. More consideration was given to the long-term prospects as opposed to the stress caused by the economic conditions the world is facing. Management also considered regulatory capital ratios in excess of all regulatory capital requirements, liquidity and shares of stock continuing to be issued and redeemed at par value, and the payment of dividends.

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 and any deferred fees or costs. Accrued interest receivable totaled $542,105 at December 31, 2023, and was reported in accrued interest and other assets on the Consolidated Balance Sheet and is excluded from the estimate of credit losses. 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 Bank is amortizing these amounts over the contractual life of the loan. Premiums and discounts on purchased loans are amortized as adjustments to interest income using the effective yield method.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans (Continued)

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 and/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. Payments received on nonaccrual loans, including impaired loans, generally is either applied against principal or reported as interest income on a cash basis, 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.

Allowance for Credit Losses - Loans

The allowance for credit losses (ACL) is a valuation reserve established and maintained by charges against income and is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loans. Loans, or portions thereof, are charged-off against the ACL when they are deemed uncollectible. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged off.

The ACL is an estimate of expected credit losses, measured over the contractual life of a loan, that considers our historical loss experience, current conditions, and forecasts of future economic conditions. Determination of an appropriate ACL is inherently subjective and may have significant changes from period to period.

The methodology for determining the ACL has two main components: evaluation of expected credit losses for certain groups of homogeneous loans that share similar risk characteristics and evaluation of loans that do not share risk characteristics with other loans.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Bank has identified the following portfolio segments and measures the allowance for credit losses using the following methods: Commercial, Commercial Real Estate, Residential Real Estate, Construction Real Estate, and Consumer Loans. All of these portfolios related allowance for credit losses are measured utilizing the SCALE method. For loans collectively evaluated, management elected to use the Federal Reserve's SCALE model. The model uses call report data from peer banks that have an asset size greater than $1 billion in assets. The Bank utilizes the UpScale Model from the Invictus Group for the calculation and selects a peer group based on different filters such as a system generated portfolio match score, asset size and geographic distance from the Bank's operating footprint. The loss rates from the peer group include historical, qualitative adjustments and forecasts as calculated by the peer group banks. The Bank then adjusts the group historical loss factor to their historical losses and will adjust qualitative factors to address any specific current risks that exist in the Bank that would differ from peer group banks.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses – Loans (Continued)

Historical credit loss experience is the basis for the estimation of expected credit losses, applying historical loss rates to pools of loans with similar risk characteristics. After consideration of the historic loss calculation, management applies qualitative adjustments to reflect the current conditions and reasonable and supportable forecasts not already reflected in the historical loss information at the balance sheet date. Reasonable and supportable forecast adjustment is based on management judgement. For periods beyond our reasonable and supportable forecast, management reverts to historical loss rates utilizing a straight-line method. These modified historical loss rates are multiplied by the outstanding principal balance of each loan to calculate a required reserve.

The Bank has elected to exclude accrued interest receivable from the measurement of its ACL. When a loan is placed on non-accrual status, any outstanding accrued interest is reversed against interest income.

The ACL for individual loans begins with the use of normal credit review procedures to identify whether a loan no longer shares similar risk characteristics with other pooled loans and therefore should be individually assessed. We evaluate all commercial loans that meet the following criteria: 1) when it is determined that foreclosure is probable, 2) substandard, doubtful, and nonperforming loans when repayment is expected to be provided substantially through the operation or sale of the collateral, and 3) when it is determined by management that a loan does not share similar risk characteristics with other loans. Specific reserves are established based on the following three acceptable methods for measuring the ACL: 1) the present value of expected future cash flows discounted at the loan's original effective interest rate; 2) the loan's observable market price; or 3) the fair value of the collateral when the loan is collateral-dependent. Our individual loan evaluations consist primarily of the fair value of collateral method because most of our loans are collateral-dependent. Collateral values are discounted to consider disposition costs when appropriate. A specific reserve is established or a charge-off is taken if the fair value of the loan is less than the outstanding balance.

Allowance for Loan Losses – Prior to Adopting ASU 2016-13

Prior to the adoption of ASU 2016-13 Financial Instruments - *Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, the Bank calculated its allowance for loan losses (ALL) using an incurred loan loss methodology. The following policy related to the ALL in prior periods.

The allowance for loan losses represents an amount that management estimates is adequate to provide for probable losses inherent in its loan portfolio. The allowance method is used in providing for loan losses. Accordingly, all loan losses are charged to the allowance, and all recoveries are credited to it. The allowance for loan losses is established through a provision for loan losses that is charged to operations. The provision is based on management's evaluation of adequacy of the allowance for loan losses, which encompasses overall risk characteristics of various portfolio segments, past experience with losses, impact of economic conditions on borrowers, and other relevant factors. Estimates used in determining adequacy of the allowance for loan losses, including amounts and timing of future cash flows expected on impaired loans, are particularly susceptible to significant changes in the near term.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses – Prior to adopting ASU 2016-13 (Continued)

Impaired loans are commercial and commercial real estate loans for which it is probable the Bank will not be able to collect all amounts due according to contractual terms of the loan agreement. The Bank individually evaluates such loans for impairment and does not aggregate loans by major risk classifications. The definition of "impaired loans" is not the same as "nonaccrual loans," although the two categories may overlap. The Bank may also choose to place a loan on nonaccrual status due to payment delinquency or uncertain collectability while not classifying the loan as impaired, provided it is not a commercial or commercial real estate classification. Factors considered by management in determining impairment include payment status and collateral value. The amount of impairment for these types of loans is determined by the difference between the present value of expected cash flows related to the loan, using the original interest rate, and its recorded value, or as a practical expedient in the case of collateralized loans, the difference between fair value of the collateral and the recorded amount of such loans. When foreclosure is probable, impairment is measured based on fair value of the collateral.

In situations where, for economic or legal reasons related to a borrower's financial difficulties, management may grant a concession for other than an insignificant period of time to the borrower that would not otherwise be considered, the related loan is classified as a troubled debt restructuring (TDR). Management strives to identify borrowers in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring and charges down the principal balance as determined in the analysis. This process is completed for all types of loans. It is then further analyzed to determine if the loan should be classified as impaired.

Mortgage loans secured by one-to-four family residential properties, and all consumer loans are large groups of smaller-balance homogeneous loans and are measured for impairment collectively. Loans that experience insignificant payment delays, which are defined as 90 days or less, generally are not classified as impaired. Management determines significance of payment delays on a case-by-case basis, taking into consideration all circumstances concerning the loan, creditworthiness and payment history of the borrower, length of payment delay, and amount of any shortfall in relation to principal and interest owed.

In addition to the allowance for loan losses, the Bank also estimates probable losses related to unfunded lending commitments, including letters of credit and financial guarantees. Unfunded lending commitments are subject to individual reviews and are analyzed and segregated by risk according to the Bank's internal risk rating scale. These risk classifications, in conjunction with an analysis of historical loss experience, current economic conditions, performance trends within specific portfolio segments, and any other pertinent information, result in an estimation of the reserve for unfunded lending commitments. Provision for credit losses related to the loan portfolio and unfunded lending commitments is reported in the Consolidated Statement of Income.

Bank-Owned Life Insurance

The Bank purchased insurance on the lives of certain Bank officers. The policies accumulate value to meet future liabilities, including payment of employee benefits. Increases in the cash surrender value are recorded as noninterest income in the Consolidated Statement of Income. The cash surrender value of bank-owned life insurance is recorded as an asset on the Consolidated Balance Sheet.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on both the straight-line over the estimated useful lives of the assets, which range from 5 to 15 years for furniture, fixtures, and equipment, and 7 to 39 years for buildings. Expenditures for maintenance and repairs are charged against income as incurred. Costs of major additions and improvements are capitalized.

Pension and 401(k) Profit Sharing Plans

Pension benefits include contributions, determined actuarially, to a defined benefit retirement plan covering all eligible employees of the Bank. This plan was frozen effective January 1, 2015. Bank contributions to the 401(k) Profit Sharing Plan are based on compensation and elected deferral amounts of the plan participants.

Fiduciary Activities

Fiduciary assets (other than cash deposits) held by the Bank in fiduciary or agency capacities for its customers are not included in the accompanying Consolidated Balance Sheet, since such items are not assets of the Company or Bank. In accordance with industry practice, fees are recorded on a cash basis and approximate fees that would have been recognized on an accrual basis.

Advertising Costs

Advertising costs are generally expensed as the costs are incurred.

Income Taxes

The Company and its subsidiary file a consolidated federal income tax return. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Deferred income tax expenses or benefits are based on changes in a deferred tax asset or liability from period to period.

Comprehensive Income

Comprehensive income comprises unrealized holding gains (losses) on the available-for-sale securities portfolio and changes in unrecognized pension cost for the defined benefit pension plan.

Earnings Per Share

The Company currently maintains a simple capital structure; thus, there are no dilutive effects on earnings per share. Earnings per share are calculated by dividing net income by the weighted-average number of shares outstanding for the periods. Treasury shares are not deemed outstanding for earnings-per-share calculations.

Cash Flow Information

For the purposes of reporting cash flows, cash and cash equivalents include cash and due from banks with original maturities of less than 90 days.

Cash payments for interest in 2023 and 2022 were $942,846 and $124,809, respectively. Income tax payments totaled $435,000 in 2023 and $445,000 in 2022.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassification

Certain items in the prior year's financial statements have been reclassified to conform to the current-year presentation. Such reclassifications did not affect consolidated net income or stockholders' equity.

Revenue Recognition

Revenue associated with financial instruments, including revenue from loans and securities and certain noninterest income streams such as fees associated with mortgage servicing rights, financial guarantees, derivatives, and certain credit card fees, are also not in scope of ASC 606. Noninterest revenue streams, such as trust and asset management income, deposit-related fees, and interchange fees, did not change significantly upon adoption of ASC 606. Noninterest revenue streams in scope of ASC 606 are discussed below.

Fiduciary Fees

Trust and asset management income is primarily comprised of fees earned from the management and administration of trusts and other customer assets. The Bank's performance obligation is generally satisfied over time, and the resulting annual fees are based on the average market value of assets held in the account as valued at the end of each month. Payment is generally received within a few days after the end of the month via a debit from the customers' accounts. The Bank does not earn performance-based incentives. Additional services, including, but not limited to, additional accountings and supervision of personal affairs for the elderly may be provided on a case-by-case basis. The Bank's performance obligation for these transactional-based services is generally satisfied, and related revenue recognized, at a point in time (i.e., as incurred). Payment is received shortly after services are rendered.

Service Charges

Service charges on deposit accounts consist of overdraft charges, monthly service fees, check orders, and other deposit account related fees. The Bank's performance obligation for monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transactional-based, and, therefore, the Bank's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately, or in the following month, through a direct charge to customers' accounts.

Debit Card Network Fees

The Bank earns interchange fees from debit cardholder transactions conducted primarily through the Mastercard payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, net of card network fees, concurrently with the transaction processing services provided to the cardholder.

Sale of Other Real Estate Owned (OREO)

The Bank records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of delivery of an executed deed. When the Bank finances the sale of OREO to the buyer, management assesses whether the buyer is committed to perform the buyer's obligation under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Bank adjusts the transaction price and related gain or loss on sale if a significant financing component is present.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Pronouncements Adopted in 2023

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* and subsequent related updates. This ASU replaces the incurred loss methodology for recognizing credit losses and requires businesses and other organizations to measure the current expected credit losses (CECL) on financial assets measured at amortized cost, including loans and held-to-maturity securities, net investments in leases, off-balance-sheet credit exposures such as unfunded commitments, and other financial instruments. In addition, ASC 326 requires credit losses on available-for-sale debt securities to be presented as an allowance rather than as a write-down when management does not intend to sell or believes that it is not more likely than not they will be required to sell. This guidance became effective on January 1, 2023, for the Bank. The results reported for periods beginning after January 1, 2023, are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable accounting standards.

The Bank adopted this guidance, and subsequent related updates, using the modified retrospective approach for all financial assets measured at amortized cost, including loans and held-to-maturity debt securities, available-for-sale debt securities, and unfunded commitments. On January 1, 2023, the Bank recorded a cumulative effect increase in retained earnings of $9,001.

The Bank adopted the provisions of ASC 326 related to presenting other-than-temporary impairment on available-for-sale debt securities prior to January 1, 2023, using the prospective transition approach, though no such charges had been recorded on the securities held by the Bank as of the date of adoption.

The Bank expanded the pooling utilized under the legacy incurred loss method to include additional segmentation based on risk. The impact of the change from the incurred loss model to the current expected credit loss model is detailed below.

	January 1, 2023		
	Pre-adoption	Adoption Impact	As Reported
ACL on loans			
Commercial	$ 118,203	$ (27,731)	$ 90,472
Commercial real estate	673,988	(378,935)	295,053
Residential real estate	368,672	332,619	701,291
Consumer	26,521	2,808	29,329
Construction real estate	-	6,073	6,073
Unallocated	2,874	(2,874)	-
ACL for unfunded commitments	-	77,041	77,041
	$ 1,190,258	$ 9,001	$ 1,199,259

	January 1, 2023		
	Pre-adoption	Adoption Impact	As Reported
Loans			
Commercial	$ 13,525,821	$ 1,522,179	$ 15,048,000
Commercial real estate	75,217,383	(42,777,383)	32,440,000
Residential real estate	63,806,987	40,818,013	104,625,000
Construction real estate	-	527,000	527,000
Consumer	2,461,838	(89,809)	2,372,029
	$ 155,012,029	$ -	$ 155,012,029

2. INVESTMENT SECURITIES AVAILABLE FOR SALE

The amortized cost and fair values of investment securities available-for-sale are summarized as follows at December 31:

	2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
U.S. government agency securities	$ 2,208,307	$ -	$ (116,619)	$ -	$ 2,091,688
Obligations of states and political subdivisions	11,239,247	3,544	(696,922)	-	10,545,869
Mortgage-backed securities:					
Government-sponsored entities	253,336	-	(10,237)	-	243,099
Total debt securities	$ 13,700,890	$ 3,544	$ (823,778)	$	$ 12,880,656

	2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agency securities	$ 2,711,899	$ -	$ (141,601)	$ 2,570,298
Obligations of states and political subdivisions	12,897,613	2,421	(1,131,610)	11,768,424
Corporate securities	1,497,634	13	(8,694)	1,488,953
Mortgage-backed securities:				
Government-sponsored entities	298,335	-	(26,394)	271,941
Total debt securities	$ 17,405,481	$ 2,434	$ (1,308,299)	$ 16,099,616

There were no sales of available-for-sale securities in 2023 or 2022.

2. INVESTMENT SECURITIES AVAILABLE FOR SALE (Continued)

The following tables show the Bank's gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31.

2023	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government agency securities	$ -	$ -	$ 2,091,688	$ (116,619)	$ 2,091,688	$ (116,619)
Obligations of states and political subdivisions	269,968	(757)	8,525,366	(696,165)	8,795,334	(696,922)
Mortgage-backed securities:						
Government-sponsored entities	-	-	243,099	(10,237)	243,099	(10,237)
Total	$ 269,968	$ (757)	$ 10,860,153	$ (823,021)	$ 11,130,121	$ (823,778)

2022	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government agency securities	$ 1,207,429	$ (74,886)	$ 1,362,869	$ (66,715)	$ 2,570,298	$ (141,601)
Obligations of states and political subdivisions	9,657,824	(914,193)	1,069,391	(217,417)	10,727,215	(1,131,610)
Corporate securities	1,238,953	(8,694)	-	-	1,238,953	(8,694)
Mortgage-backed securities:						
Government-sponsored entities	271,941	(26,394)	-	-	271,941	(26,394)
Total	$ 12,376,147	$ (1,024,167)	$ 2,432,260	$ (284,132)	$ 14,808,407	$ (1,308,299)

There were 51 securities that were in an unrealized loss position at December 31, 2023. The Bank has concluded that any impairment of its investment securities portfolio outlined in the above table is not other than temporary and is the result of interest rate changes, sector credit rating changes, or Bank-specific rating changes that are not expected to result in the noncollection of principal and interest during the period.

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

2. INVESTMENT SECURITIES AVAILABLE FOR SALE (Continued)

	Amortized Cost	Fair Value
Due in one year or less	$ 729,893	$ 727,522
Due after one year through five years	2,628,555	2,589,604
Due after five years through ten years	5,595,561	5,237,491
Due after ten years	4,746,881	4,326,039
Total	$ 13,700,890	$ 12,880,656

Investment securities with a carrying value of $1,019,620 and $6,201,817 were pledged to secure public deposits and other purposes as required by law at December 31, 2023 and 2022, respectively.

3. LOANS

Major classifications of loans are summarized as follows at December 31:

	2023	2022
Commercial	$ 14,724,227	$ 13,525,821
Commercial real estate	35,899,355	75,217,383
Residential real estate	118,354,880	63,806,987
Consumer	2,820,772	2,461,838
	171,799,234	155,012,029
Less:		
Allowance for loan losses	1,235,496	1,190,258
Net deferred loan costs	(50,088)	(36,023)
Net loans	$ 170,613,826	$ 153,857,794

The Bank's primary business activity is with customers located within its identified trade area. Commercial, residential, and consumer loans are granted. Although the Bank had a diversified loan portfolio at December 31, 2023, loans outstanding to individuals and businesses are dependent upon economic conditions in its primary market area. The Bank has an industry concentration in loans to lessors of buildings and dwellings, with a balance of $63,435,128 and $58,353,899 at December 31, 2023 and 2022, respectively.

4. ALLOWANCE FOR CREDIT LOSSES

The following tables present, by portfolio segment, changes in the allowance for credit losses and the recorded investment in loans as of and for the years ended December 31, 2023 and 2022:

December 31, 2023	Commercial	Commercial Real Estate	Residential Real Estate	Construction Real Estate	Consumer	Unallocated	Total
Allowance for credit losses:							
Beginning balance	$ 118,203	$ 673,988	$ 368,672	$ -	$ 26,521	$ 2,874	$ 1,190,258
Impact of adopting ASC 326	(27,731)	(378,935)	332,619	6,073	2,808	(2,874)	(68,040)
Charge-offs	-	-	-	-	670	-	670
Recoveries	-	-	338	-	9,505	-	9,843
Provision	13,141	21,738	66,046	(6,073)	9,253	-	104,105
Ending balance	$ 103,613	$ 316,791	$ 767,675	$ -	$ 48,757	$ -	$ 1,236,836

December 31, 2022	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses:						
Beginning balance	$ 128,542	$ 636,302	$ 375,268	$ 17,627	$ 41,419	$ 1,199,158
Charge-offs	-	-	-	(23,007)	-	(23,007)
Recoveries	-	355	-	2,152	-	2,507
Provision	(10,339)	37,331	(6,596)	29,749	(38,545)	11,600
Ending balance	$ 118,203	$ 673,988	$ 368,672	$ 26,521	$ 2,874	$ 1,190,258
Ending balance individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance collectively evaluated for impairment	$ 118,203	$ 673,988	$ 368,672	$ 26,521	$ 2,874	$ 1,190,258
Loans:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -		$ -
Collectively evaluated for impairment	13,525,821	75,217,383	63,806,987	2,461,838		155,012,029
Ending balance	$ 13,525,821	$ 75,217,383	$ 63,806,987	$ 2,461,838		$ 155,012,029

4. ALLOWANCE FOR CREDIT LOSSES (Continued)

The Bank offers an overdraft privilege program; the charge-offs, recoveries, and provision amounts are included in the consumer loan category.

Commercial loans, commercial real estate loans, and consumer loans are considered to be riskier than one-to-four family residential mortgage loans. Commercial real estate loans entail significant additional credit risks compared to one-to-four family residential mortgage loans, as they involve large loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment experience on loans secured by income-producing properties typically depends on successful operation of the related real estate project and/or business operation of the borrower and, therefore, may be subject to a greater extent to adverse conditions in the real estate market and in the general economy. Commercial loans involve a higher risk of default than residential mortgage loans of like duration since their repayment is generally dependent on successful operation of the borrower's business and sufficiency of collateral, if any. Although a borrower's ability to repay for both one-to-four family residential mortgage loans and consumer loans is highly dependent on personal income, as well as the local economy, especially employment levels, consumer loans, as a group, generally present a higher degree of risk because of the nature of collateral, if any.

Credit Quality Information

The following table represents the commercial credit exposures by internally assigned credit risk ratings as of December 31, 2023 and 2022. The grading analysis estimates capability of a borrower to repay contractual obligations under the loan agreements as scheduled or at all. The Bank's internal credit risk rating system is based on experiences with similarly rated loans.

The Bank's internally assigned credit risk ratings are as follows:

- Pass loans are protected by current net worth and paying capacity of an obligor or by the value of underlying collateral.
- Special Mention loans have a potential weakness or risk evident, which could cause a more serious problem if not corrected.
- Substandard loans have a well-defined weakness based on objective evidence and are characterized by a distinct possibility that the Bank would sustain some loss if the deficiencies are not corrected.
- Doubtful loans have all the weaknesses inherent in a substandard asset. In addition, these weaknesses make collection or liquidation in full highly questionable and improbable based on existing circumstances.
- Loss loans are considered uncollectible, or of such value that continuance as an asset is not warranted.

Based on the most recent analysis performed, the following table presents the recorded investment in non-homogeneous loans by internal risk rating system as of December 31, 2023:

4. ALLOWANCE FOR CREDIT LOSSES (Continued)

<u>Credit Quality Information</u> (Continued)

For residential real estate and consumer loans, the Bank evaluates credit quality based on whether the loan is considered performing or nonperforming. Loans are generally considered to be nonperforming when they become 90 days past due unless they are well secured and/or in the process of collection. There were no non-homogeneous revolving loans in the portfolio at December 31, 2023. The following table presents the balances of residential real estate and consumer loans by classes of loan portfolio based on payment performance:

	Term Loans Amortized Costs Basis by Origination Year						
December 31, 2023	2023	2022	2021	2020	2019	Prior	Total
Commercial							
Risk Rating							
Pass	$ 3,760,703	$ 6,091,841	$ 298,819	$ 3,982,888	$ 340,008	$ 249,967	$ 14,724,226
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-
Total	$ 3,760,703	$ 6,091,841	$ 298,819	$ 3,982,888	$ 340,008	$ 249,967	$ 14,724,226
Commercial							
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial Real Estate					-		
Risk Rating							
Pass	$ 5,811,597	$ 4,771,743	$ 8,136,749	$ 2,652,535	$ 2,344,008	$ 12,038,787	$ 35,755,419
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	143,936	143,936
Doubtful	-	-	-	-	-	-	-
Total	$ 5,811,597	$ 4,771,743	$ 8,136,749	$ 2,652,535	$ 2,344,008	$ 12,182,723	$ 35,899,355
Commercial Real Estate							
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total					-		
Risk Rating							
Pass	$ 9,572,300	$ 10,863,584	$ 8,435,568	$ 6,635,423	$ 2,684,016	$ 12,288,754	$ 50,479,645
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	143,936	143,936
Doubtful	-	-	-	-	-	-	-
Total	$ 9,572,300	$ 10,863,584	$ 8,435,568	$ 6,635,423	$ 2,684,016	$ 12,432,690	$ 50,623,581

	December 31, 2022	
	Commercial	Commercial Real Estate
Pass	$ 13,469,284	$ 74,854,289
Special Mention	-	-
Substandard	56,537	363,094
Doubtful	-	-
Total	$ 13,525,821	$ 75,217,383

4. ALLOWANCE FOR CREDIT LOSSES (Continued)

<u>Credit Quality Information</u> (Continued)

For residential real estate and consumer loans, the Bank evaluates credit quality based on whether the loan is considered performing or nonperforming. Loans are generally considered to be nonperforming when they become 90 days past due unless they are well secured and/or in the process of collection. There were no revolving loans in the portfolio at December 31, 2023, that had been converted to term. The following table presents the balances of residential real estate and consumer loans by classes of loan portfolio based on payment performance:

	Term Loans Amortized Costs Basis by Origination Year						Revolving Loans Amortized Cost Basis	
December 31, 2023	2023	2022	2021	2020	2019	Prior		Total
Residential real estate								
Payment Performance								
Performing	$ 19,891,516	$ 20,442,218	$ 15,893,497	$ 19,587,676	$ 8,228,912	$ 27,466,246	$ 6,844,815	$ 118,354,880
Nonperforming	-	-	-	-	-	-	-	-
Total	$ 19,891,516	$ 20,442,218	$ 15,893,497	$ 19,587,676	$ 8,228,912	$ 27,466,246	$ 6,844,815	$ 118,354,880
Residential real estate								
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Consumer					-			
Payment Performance								
Performing	$ 1,373,203	$ 800,507	$ 216,431	$ 248,955	$ 48,650	$ 1,457	$ 131,569	$ 2,820,772
Nonperforming	-	-	-	-	-	-	-	-
Total	$ 1,373,203	$ 800,507	$ 216,431	$ 248,955	$ 48,650	$ 1,457	$ 131,569	$ 2,820,772
Consumer								
Current period gross charge-offs	$ -	$ -	$ -	$ 763	$ -	$ -	$ -	$ -
Total					-			
Payment Performance								
Performing	$ 21,264,719	$ 21,242,725	$ 16,109,928	$ 19,836,631	$ 8,277,562	$ 27,467,703	$ 6,976,384	$ 121,175,652
Nonperforming	-	-	-	-	-	-	-	-
Total	$ 21,264,719	$ 21,242,725	$ 16,109,928	$ 19,836,631	$ 8,277,562	$ 27,467,703	$ 6,976,384	$ 121,175,652

	December 31, 2022	
	Residential Real Estate	Consumer
Performing	$ 63,806,987	$ 2,460,110
Nonperforming	-	1,728
Total	$ 63,806,987	$ 2,461,838

4. ALLOWANCE FOR CREDIT LOSSES (Continued)

Age Analysis of Past-Due Loans by Class

The following table shows an aging analysis of past-due loans as of December 31, 2023 and 2022:

December 31, 2023	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans
Commercial	$ -	$ -	$ -	$ -	$ 14,724,227	$ 14,724,227
Commercial real estate	-	-	-	-	35,678,074	35,678,074
Residential real estate	282,908	-	187,262	470,170	118,105,991	118,576,161
Consumer	-	15,312	1,303	16,615	2,804,157	2,820,772
Total	$ 282,908	$ 15,312	$ 188,565	$ 486,785	$ 171,312,449	$ 171,799,234

December 31, 2022	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans	Investment 90 Days and Accruing
Commercial	$ -	$ -	$ -	$ -	$ 13,525,821	$ 13,525,821	$ -
Commercial real estate	-	-	363,094	363,094	74,854,289	75,217,383	-
Residential real estate	126,866	17,484	-	144,350	63,662,637	63,806,987	-
Consumer	-	21,718	15,652	37,370	2,424,468	2,461,838	13,924
Total	$ 126,866	$ 39,202	$ 378,746	$ 544,814	$ 154,467,215	$ 155,012,029	$ 13,924

Nonaccrual Loans

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

Impaired Loans

There were no impaired loans as of December 31, 2022.

Modifications to Borrowers Experiencing Financial Difficulty

Occasionally, the Bank modifies loans to borrowers in financial distress by providing principal forgiveness, term extension, an other-than-insignificant payment delay, or interest rate reduction. When principal forgiveness is provided, the amount of forgiveness is charged off against the allowance for credit losses.

In some cases, the Bank provides multiple types of concessions on one loan. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted.

Upon the Bank's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount. ASC 310-10-50-44 indicates qualitative information should be disclosed, by portfolio segment, regarding how the defaults are factored into determining the allowance for credit losses.

5. PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows at December 31:

	2023	2022
Land and land improvements	$ 827,756	$ 827,756
Bank buildings	4,523,712	4,377,239
Leasehold improvements	50,348	50,348
Furniture, fixtures, and equipment	2,413,080	2,331,580
	7,814,896	7,586,923
Less accumulated depreciation	5,929,963	5,715,257
Total	$ 1,884,933	$ 1,871,666

Depreciation charged to operations was $214,978 in 2023 and $232,709 in 2022.

6. DEPOSITS

Time deposits at December 31, 2023, mature $5,872,309, $1,553,290, $1,501,479, $987,280, and $570,997 during 2024, 2025, 2026, 2027, and 2028, respectively.

Time deposits include certificates of deposit in denominations of $250,000 or more. Such deposits aggregated $1,514,268 and $1,002,642 at December 31, 2023 and 2022, respectively.

7. SHORT-TERM BORROWINGS

Short-term borrowings are from the FHLB. The outstanding balances and related information for short-term borrowings are summarized as follows:

	2023	2022
Balance, December 31	$ 27,150,000	$ 1,500,000
Maximum month-end balance during the year	27,150,000	1,500,000
Average balance during the year	10,519,784	132,191
Average year-end interest rate	5.68%	4.45%
Average interest rate during the year	7.69%	4.41%

Average balances outstanding during the year represent daily average balances, and average interest rates represent interest expenses divided by average balance.

8. OTHER BORROWINGS

The Bank maintains an Open RepoPlus credit arrangement, which is renewable annually, with the FHLB. The line maintains a variable rate of interest that may be reset daily at the FHLB's discretion. The Bank's maximum borrowing capacity under the credit arrangement with the FHLB as of December 31, 2023, was approximately $95 million. All borrowings from the FHLB are secured by a blanket lien on qualified collateral, defined principally as investment securities and mortgage loans that are owned by the Bank, free and clear of any liens or encumbrances, and the Bank's investment in FHLB stock.

The Bank may request a Federal Reserve advance secured by acceptable collateral. The Bank's maximum borrowing capacity with the Federal Reserve Bank as of December 31, 2023, is approximately $98,363,000. The Bank did not have outstanding advances at December 31, 2023 and 2022.

8. OTHER BORROWINGS (Continued)

The Bank also maintains a $4.0 million federal funds line of credit with another financial institution. The Bank did not have outstanding borrowings related to this line of credit at December 31, 2023 and 2022.

In addition, the Company maintains a line of credit at the Bank, which is eliminated during consolidation. The Company did not have an outstanding balance at December 31, 2023 and 2022.

9. INCOME TAXES

The provision for income taxes consists of:

	2023	2022
Federal income tax	$ 464,015	$ 427,026
State income tax	(3,133)	(3,099)
Deferred	(182,951)	(40,345)
Total	$ 277,931	$ 383,582

The tax effects of deductible and taxable temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities, respectively, are as follows at December 31:

	2023	2022
Deferred tax assets:		
Allowance for loan losses	$ 211,731	$ 202,230
Accrued pension expense	389,551	266,552
Net unrealized loss on securities	-	274,232
Nonaccrual loan interest	-	190
Lease liability	30,663	5,984
Unfunded commitments	7,706	-
Accrued bonus	-	97
Total deferred tax assets	639,651	749,285
Deferred tax liabilities:		
Prepaid pension expense	(382,959)	(212,379)
Deferred loan costs	(10,518)	(7,565)
Net unrealized gain on securities	-	-
Premises and equipment	(55,090)	(37,063)
Right-of-use asset	(30,663)	(5,984)
Total deferred tax liabilities	(479,230)	(262,991)
Net deferred tax asset	$ 160,421	$ 486,294

9. INCOME TAXES (Continued)

The reconciliation of the federal statutory rate and the Company's effective income tax rate is as follows:

	2023		2022	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Provision at statutory rate	$ 415,723	21.0 %	$ 481,509	21.0 %
State income taxes	(2,539)	(0.1)	(2,448)	(0.1)
Effect of tax-exempt income	(116,253)	(5.9)	(95,096)	(4.1)
Other, net	(19,000)	(1.1)	(383)	(0.1)
Actual tax expense and effective rate	$ 277,931	13.9 %	$ 383,582	16.7 %

U.S. generally accepted accounting principles prescribe a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information.

A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. U.S. generally accepted accounting principles also provides guidance on the accounting for and disclosure of unrecognized tax benefits, interest, and penalties.

There is currently no liability for uncertain tax positions and no known unrecognized tax benefits. The Company recognized, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the Consolidated Statement of Income. The Company's federal and state income tax returns for taxable years through 2019 have been closed for purposes of examination by the Internal Revenue Service and the Pennsylvania Department of Revenue.

10. EMPLOYEE BENEFITS

The Bank sponsors a trusteed, noncontributory defined benefit pension plan (the "Plan") covering certain employees and officers. The Plan calls for benefits to be paid to eligible employees at retirement based primarily upon years of service with the Bank and compensation rates. The Bank's funding policy is to make annual contributions, if needed, based upon the funding formula developed by the Plan's actuary.

Effective January 1, 2015, a Plan amendment was approved that froze all employee participation and benefit accruals under the Plan. Compensation received after the Plan freeze date will not be recognized for any purpose under the Plan.

10. EMPLOYEE BENEFITS (Continued)

The following table sets forth the change in Plan assets and benefit obligation at December 31:

	2023	2022
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 1,347,391	$ 2,306,852
Interest cost	76,168	80,156
Actuarial loss	46,945	(430,325)
Benefits paid	(14,716)	(609,292)
Benefit obligation at end of year	1,455,788	1,347,391
Change in Plan assets:		
Fair value of Plan assets at beginning of year	2,105,747	3,227,802
Actual return on Plan assets	282,481	(512,763)
Benefits paid	(14,716)	(609,292)
Fair value of Plan assets at end of year	2,373,512	2,105,747
Funded status	$ 917,724	$ 758,356
Amounts recognized in accumulated other comprehensive loss consist of:		
Net loss	$ 905,888	$ 1,105,716

The accumulated benefit obligation for the defined benefit pension plan was $1,455,788 and $1,347,391 at December 31, 2023 and 2022, respectively.

Components of Net Periodic Benefit

	2023	2022
Interest cost	$ 76,168	$ 80,156
Expected return on Plan assets	(145,812)	(224,780)
Net amortization and deferral	110,104	54,244
Net periodic benefit (cost)	$ 40,460	$ (90,380)

10. EMPLOYEE BENEFITS (Continued)

Assumptions

The weighted-average assumptions used to determine benefit obligations at December 31:

	2023	2022
Discount rate	5.50 %	5.75 %
Rate of compensation increase	N/A	N/A

The weighted-average assumptions used to determine net periodic cost for years ended December 31:

	2023	2022
Discount rate	5.50 %	3.50 %
Expected long-term return on Plan assets	7.00	7.00

The long-term rate of return on Plan assets gives consideration to returns currently being earned on Plan assets, as well as future rates expected to be earned.

Plan Assets

The Bank's defined benefit pension plan weighted-average asset allocations at December 31 by asset category are as follows:

	2023	2022
Equities	65.80 %	65.36 %
Fixed income	33.62	33.61
Cash and cash equivalents	0.58	1.03
Total	100.00 %	100.00 %

The Bank believes that the Plan's risk and liquidity position are, in large part, a function of the asset class mix. The Bank desires to utilize a portfolio mix that results in a balanced investment strategy. The target allocations are as follows: equities, 65 percent, and fixed income, 35 percent.

10. EMPLOYEE BENEFITS (Continued)

Plan Assets (Continued)

The following tables set forth, by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2023 and 2022:

	December 31, 2023			
	Level I	Level II	Level III	Total
Assets:				
Cash and cash equivalents	$ 13,750	$ -	$ -	$ 13,750
Mutual funds - equity:				
Large-cap value	157,566	-	-	157,566
Large-cap core	207,829	-	-	207,829
Mid-cap core	173,609	-	-	173,609
Small-cap core	183,592	-	-	183,592
International core	244,313	-	-	244,313
International value	153,082	-	-	153,082
Large-cap growth	281,209	-	-	281,209
Small/mid-cap growth	-	-	-	-
Mutual funds - fixed income:				
Fixed income - U.S. core	-	-	-	-
Intermediate duration	797,710	-	-	797,710
Common/collective trusts - equity:				
Large-cap value	-	160,652	-	160,652
Total assets at fair value	$ 2,212,660	$ 160,652	$ -	$ 2,373,312

	December 31, 2022			
	Level I	Level II	Level III	Total
Assets:				
Cash and cash equivalents	$ 21,636	$ -	$ -	$ 21,636
Mutual funds - equity:				
Large-cap value	148,852	-	-	148,852
Large-cap core	174,934	-	-	174,934
Mid-cap core	158,890	-	-	158,890
Small-cap core	111,194	-	-	111,194
International core	222,006	-	-	222,006
International value	137,682	-	-	137,682
Large-cap growth	213,109	-	-	213,109
Small/mid-cap growth	53,164	-	-	53,164
Mutual funds - fixed income:				
Fixed income - U.S. core	527,614	-	-	527,614
Intermediate duration	180,212	-	-	180,212
Common/collective trusts - equity:				
Large-cap value	-	156,454	-	156,454
Total assets at fair value	$ 1,949,293	$ 156,454	$ -	$ 2,105,747

10. EMPLOYEE BENEFITS (Continued)

Investment Securities

The fair value of investment securities is equal to the available quoted market price. If no quoted market price is available, fair value is estimated using the quoted market price for similar securities.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Cash Flows

The following benefit payments that reflect expected future service, as appropriate, are expected to be paid:

	Pension Benefit
2024	$ 47,983
2025	64,608
2026	66,150
2027	88,594
2028	99,063
2029 through 2033	516,385

The payment streams are based upon the normal form of payment, which is a monthly annuity benefit.

11. 401(K) PROFIT SHARING PLAN

The Bank sponsors a qualified Section 401(k) deferred compensation plan for all eligible employees. An annual profit-sharing contribution to the plan is determined each year by the Board of Directors. Bank contributions to the 401(k) Profit Sharing Plan are based on compensation and elected deferral amounts of the plan participants. The contributions amounted to $94,180 and $92,507 for 2023 and 2022, respectively.

12. NON-QUALIFIED RETIREMENT PLANS

The Bank maintains non-qualified retirement plans for certain current and former officers and directors. Supplemental executive retirement plans provide additional benefit payments for eligible officers upon meeting vesting requirements that will require the Bank to make payments to the participating individuals subsequent to retirement. In addition, the Bank also maintains compensation deferral plans for officers and directors. Expenses for these non-qualified retirement plans were $449,061 and $96,300 for the years ended December 31, 2023 and 2022, respectively. The Bank has total accrued liabilities of $1,855,007 and $1,269,296 at December 31, 2023 and 2022, respectively.

13. COMMITMENTS

In the normal course of business, there are various outstanding commitments and contingent liabilities that are not reflected in the accompanying consolidated financial statements. 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. Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party.

13. COMMITMENTS (Continued)

These commitments comprised the following at December 31:

	2023	2022
Commitments to extend credit	$ 9,608,696	$ 9,804,783
Standby letters of credit and financial guarantees	2,500	2,500
Total	$ 9,611,196	$ 9,807,283

The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Consolidated Balance Sheet. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The amount of collateral obtained, as deemed necessary, is based upon management's credit evaluation in compliance with the lending policy guidelines.

Since many of the credit line commitments are expected to expire without being fully drawn upon, the total contractual amounts do not necessarily represent future funding requirements.

Standby letters of credit and financial guarantees represent conditional commitments issued to guarantee performance of a customer to a third party. The coverage period for these instruments is typically a one-year period, with renewal option subject to prior approval by management. For secured letters of credit, the collateral is typically Bank deposit instruments.

As of December 31, 2023, the reserve on unfunded commitments was $36,693.

14. REGULATORY RESTRICTIONS

Loans

Federal law prevents the Company from borrowing from the Bank unless the loans are secured by specified collateral. Further, such secured loans are limited in amount to 10 percent of the Bank's common stock and capital surplus.

Dividend Limitation

The Bank is subject to dividend restrictions by both the Board of Governors of the Federal Reserve System and the Pennsylvania Department of Banking and Securities. Under the Board of Governors of the Federal Reserve System, the Bank is subject to a dividend restriction that generally limits the amount of dividends that can be paid by a state member bank. Nonobjection of the Board of Governors of the Federal Reserve System is required if the total of all dividends declared by a state member bank in any calendar year exceeds net profits, as defined for the year, combined with its retained net profits for the two preceding calendar years less any required transfers to surplus. The Pennsylvania Banking Code also restricts the availability of capital funds for the payment of dividends by all state-chartered banks to the surplus of the Bank. Accordingly, at December 31, 2023, the balance in the Bank's capital surplus account totaling $3,400,000 is unavailable for dividends.

Regulatory Capital Requirements

Federal regulations require the Company and Bank to maintain minimum amounts of capital. Specifically, the Company and the Bank are required to maintain certain minimum dollar amounts and ratios of total capital, common equity Tier 1 capital, and Tier 1 capital to risk-weighted assets, and Tier 1 capital to average total assets.

14. REGULATORY RESTRICTIONS (Continued)

Regulatory Capital Requirements (Continued)

In addition to the capital requirements, the Federal Deposit Insurance Corporation Improvement Act (FDICIA) established five capital categories ranging from "well capitalized" to "critically undercapitalized." Should any institution fail to meet the requirements to be considered "adequately capitalized," it would become subject to a series of increasingly restrictive regulatory actions.

As of December 31, 2023 and 2022, the Federal Deposit Insurance Corporation categorized the Company and the Bank as well capitalized under the regulatory framework for prompt corrective action. To be classified as a well-capitalized financial institution, total risk-based, common equity Tier 1, Tier 1 risk-based, and Tier 1 leverage capital ratios must be at least 10 percent, 6.5 percent, 8 percent, and 5 percent, respectively.

The following table sets forth the Company's capital position and minimum requirements as of December 31.

	2023		2022	
	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)				
Actual	$ 25,874,808	20.77 %	$ 25,229,113	22.28 %
For capital adequacy purposes	9,966,080	8.00	9,059,360	8.00
To be well capitalized	12,457,600	10.00	11,324,200	10.00
Common equity Tier 1 capital (to risk-weighted assets)				
Actual	$ 24,602,808	19.75 %	$ 24,041,114	21.23 %
For capital adequacy purposes	5,605,920	4.50	5,095,890	4.50
To be well capitalized	8,097,440	6.50	7,360,730	6.50
Tier 1 capital (to risk-weighted assets)				
Actual	$ 24,602,808	19.75 %	$ 24,041,114	21.23 %
For capital adequacy purposes	7,474,560	6.00	6,794,520	6.00
To be well capitalized	9,966,080	8.00	9,059,360	8.00
Tier 1 capital (to average assets)				
Actual	$ 24,602,808	12.46 %	$ 24,041,114	13.02 %
For capital adequacy purposes	7,895,560	4.00	7,384,080	4.00
To be well capitalized	9,869,450	5.00	9,230,100	5.00

14. REGULATORY RESTRICTIONS (Continued)

Regulatory Capital Requirements (Continued)

The following table sets forth the Bank's capital position and minimum requirements as of December 31.

	2023		2022	
	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)				
Actual	$ 21,980,746	17.64 %	$ 21,312,166	18.82 %
For capital adequacy purposes	9,966,080	8.00	9,059,360	8.00
To be well capitalized	12,457,600	10.00	11,324,200	10.00
Common equity Tier 1 capital (to risk-weighted assets)				
Actual	$ 20,708,746	16.62 %	$ 20,124,166	17.77 %
For capital adequacy purposes	5,605,920	4.50	5,095,890	4.50
To be well capitalized	8,097,440	6.50	7,360,730	6.50
Tier 1 capital (to risk-weighted assets)				
Actual	$ 20,708,746	16.62 %	$ 20,124,166	17.77 %
For capital adequacy purposes	7,474,560	6.00	6,794,520	6.00
To be well capitalized	9,966,080	8.00	9,059,360	8.00
Tier 1 capital (to average assets)				
Actual	$ 20,708,746	10.50 %	$ 20,124,166	10.90 %
For capital adequacy purposes	7,887,560	4.00	7,384,080	4.00
To be well capitalized	9,859,450	5.00	9,230,100	5.00

15. FAIR VALUE MEASUREMENTS

The following disclosures show the hierarchal disclosure framework associated with the level of pricing observations utilized in measuring assets and liabilities at fair value. The three broad levels defined by U.S. generally accepted accounting principles are as follows:

Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level II: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair valued using other financial instruments, the parameters of which can be directly observed.

Level III: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires the use of observable market data, when available.

15. FAIR VALUE MEASUREMENTS (Continued)

The following tables present the assets reported on the Consolidated Balance Sheet at their fair value as of December 31, 2023 and 2022, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	December 31, 2023			
	Level I	Level II	Level III	Total
Assets measured on a recurring basis:				
U.S. government agency securities	$ -	$ 2,091,688	$ -	$ 2,091,688
Obligations of states and political subdivisions	-	10,545,869	-	10,545,869
Mortgage-backed securities Government-sponsored entities	-	243,099	-	243,099
Total	$ -	$ 12,880,656	$ -	$ 12,880,656

	December 31, 2022			
	Level I	Level II	Level III	Total
Assets measured on a recurring basis:				
U.S. government agency securities	$ -	$ 2,570,298	$ -	$ 2,570,298
Obligations of states and political subdivisions	-	11,768,424	-	11,768,424
Corporate securities	-	1,488,953	-	1,488,953
Mortgage-backed securities Government-sponsored entities	-	271,941	-	271,941
Total	$ -	$ 16,099,616	$ -	$ 16,099,616

There were no assets measured on a nonrecurring basis at December 31, 2023 and 2022.

16. FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS

The fair value of the Bank's financial instruments not recorded at fair value on a recurring basis is as follows:

	December 31, 2023				
	Carrying Value	Level I	Level II	Level III	Fair Value
Financial assets:					
Net loans	$ 170,613,824	$ -	$ -	$ 156,725,838	$ 156,725,838
Financial liabilities:					
Deposits	$ 145,025,036	$ 134,476,865	$ -	$ 10,255,214	$ 144,732,079

	December 31, 2022				
	Carrying Value	Level I	Level II	Level III	Fair Value
Financial assets:					
Net loans	$ 153,857,794	$ -	$ -	$ 146,223,854	$ 146,223,854
Financial liabilities:					
Deposits	$ 156,786,646	$ 147,060,342	$ -	$ 9,199,313	$ 156,259,655

For cash and cash equivalents, restricted stock, bank-owned life insurance, accrued interest receivable, short-term borrowings, and accrued interest payable, the carrying value is a reasonable estimate of fair value, and considered a Level I measurement.

17. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents the changes in accumulated other comprehensive income (loss) by component net of tax for the years ended December 31, 2023 and 2022:

	Unrealized Gains (Losses) on Available-for-Sale Securities	Unrecognized Pension Costs	Total
Balance as of December 31, 2021	$ 447,999	$ (673,666)	$ (225,667)
Other comprehensive loss before reclassification	(1,479,634)	(254,094)	(1,733,728)
Amount reclassified from accumulated other comprehensive income (loss)	-	54,244	54,244
Balance as of December 31, 2022	(1,031,635)	(873,516)	(1,905,151)
Other comprehensive (loss) income before reclassification	383,650	70,882	454,532
Amount reclassified from accumulated other comprehensive income (loss)	-	86,982	86,982
Balance as of December 31, 2023	$ (647,985)	$ (715,652)	$ (1,363,637)

17. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (Continued)

The following tables present significant amounts reclassified out of each component of accumulated other comprehensive income (loss) for the years ended December 31, 2023 and 2022:

December 31, 2023		Amount Reclassified from Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Consolidated Statement of Income
Unrecognized pension costs	$	139,372	Other noninterest expense
		(29,268)	Income tax expense
	$	110,104	Net of tax
December 31, 2022			
Unrecognized pension costs	$	(68,663)	Other noninterest expense
		14,419	Income tax expense
	$	(54,244)	Net of tax

18. LEASES

The Bank leases one office location under an operating lease. Several assumptions and judgments were made when applying the requirements of Topic 842 to the Bank's existing lease commitments, including the allocation of consideration in the contracts between lease and nonlease components, determination of the lease term, and determination of the discount rate used in calculating the present value of the lease payments.

The lease cost associated with the operating leases for the year ended December 31, 2023, amounted to $28,800. The right-of-use asset associated with operating leases amounted to $146,016 at December 31, 2023. The lease liability associated with operating leases amounted to $146,016 at December 31, 2023.

Management considers the Bank's historical pattern of exercising renewal options on leases and the positive performance of the leased locations, when determining whether it is reasonably certain that the leases will be renewed. If management concludes that there is reasonable certainty about the renewal option, it is included in the calculation of the remaining term of each applicable lease. The discount rate utilized in calculating the present value of the remaining lease payments for each lease was the Federal Home Loan Bank of Pittsburgh advance rate corresponding to the original maturity of the lease. The following table presents the remaining lease term and discount rate for the leases outstanding at December 31, 2023.

	Operating
Remaining term	60 months
Discount Rate	4.17%

Undiscounted cash flows due in:		Operating
2024	$	32,400
2025		32,400
2026		32,400
2027		32,400
2028		32,400
Total undiscounted cash flow:		162,000
Discount on cash flows		(15,984)
Total lease liability	$	146,016

19. SUBSEQUENT EVENTS

The Company assessed events occurring subsequent to December 31, 2023, through March 5, 2024, for potential recognition and disclosure in the consolidated financial statements. No events have occurred that would require adjustment to or disclosure in the consolidated financial statements that were issued March 5, 2024.

Notes

Locations

Main Office
201 North Warren Avenue
Apollo, PA 15613

Second Street Drive Thru
312 North Second Street
Apollo, PA 15613

Allegheny Township Office
501 Hyde Park Road
Leechburg, PA 15656

North Apollo Office
2113 River Road
North Apollo, PA 15673

North Washington Office
697 Sportsman Drive
Apollo, PA 15613

Spring Church Office
1696 State Route 56
Spring Church, PA 15686

Loan Office
1250 Freeport Road
Pittsburgh, PA 15238

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Apollo Bancorp, Inc. common stock is traded Over-the-Counter on OTC Pink under the symbol APLO. Recent trades and current bid-ask prices may be viewed at:

otcmarkets.com

Apollo Bancorp, Inc. also serves as its own stock transfer agent.

APOLLO BANCORP, INC.