Mars Bancorp

2022
ANNUAL
REPORT

2022 was highlighted by people and places as the bank was able to reconnect with customers and the community. The bank re-engaged in many of its customer events at, and outside, our branch locations as well as attending charitable and volunteer activities throughout the area. It was good to be able to call on customers and attend business events, too.

While the economy and rate environment proved challenging, the bank grew both its deposit and loan portfolios while increasing net interest income.

The bank also expanded its footprint both digitally and geographically, adding a loan production office in Beckley, WV and expanding its presence in eastern Butler and Armstrong counties. The bank launched digital account opening which provided online and mobile access to customers throughout western Pennsylvania.

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Message to Shareholders

INTRODUCTION

During 2022 the bank successfully added to its deposit and loan portfolios and increased net interest income while embarking on new strategies to continue growing a sustainable, independent community bank. While 2022 brought relief from pandemic-related protocols, new financial challenges related to inflation, supply chain issues, a difficult labor market, and slowing economic growth were added. It was also important in 2022 for the bank staff to reconnect and return to in-person business development activities and community engagement.

KEY ACCOMPLISHMENTS

As the bank transitioned from reacting to the pandemic to proactively focusing on its future and mission, it built on the new and re-energized processes and technologies implemented in 2020 and 2021. We launched new strategic initiatives to help propel the bank forward to increase topline revenue, sustainably grow geographically and digitally, and create better customer engagement in 2023 and beyond.

Fully Open, Hybrid Model, and Staffing

The bank never closed during the pandemic, offering retail, mortgage, and commercial banking through our branch locations and digital tools. We took the opportunity to streamline many bank functions and re-engineer processes.

In 2022 the bank implemented a permanent hybrid work model. The goal of the hybrid model is to work on purpose, to be together to create solutions for customers, engage our customers and community stakeholders in person, and use our relationships to help build our community banking culture, staff, and future leaders of the bank. The hybrid model was well received by staff, providing flexibility and the ability to work from home while creating an advantage in recruiting.

During 2022 the bank remained focused on maintaining and recruiting talented, dedicated, and professional employees. Despite the challenging labor market, many positions that were open throughout the pandemic were successfully filled. Additionally, benchmarking was used to ensure staff raises and overall compensation were competitive in our marketplace to maximize retention and provide for advancement.

Building for Growth

The bank's strategic plan targets growth of topline revenue through its retail, mortgage, commercial, and digital channels, while also using financial tools to increase revenue. Tactics put in place in 2022 and continuing into 2023 will improve the bank's results in each area.

Retail Banking

In 2022, retail banking was able to focus entirely on customer support and sales. More interaction with customers, in person and through structured outbound calling, successfully reengaged customers who transitioned to digital tools through the pandemic. The result was growth in both home equity term loans and lines of credit, along with increases in consumer deposits. As the year ended, the retail banking team launched a customer support call center. The retail team also took on the servicing of customers who open deposit accounts through the bank's online channel, providing personal and relationship driven service as needed. This renewed focus on customer contact and support is resulting in additional opportunities to solve customer issues and present product and service options.

Commercial Banking

2022 proved to be a very strong year in commercial lending. With businesses "getting back to normal", lending needs increased, resulting in the bank maximizing its commercial real estate lending activities. As part of its strategic plan, the bank is also focused on growing the commercial and industrial (C&I) and equipment financing business. With this added focus, the commercial lending team successfully increased C&I loan production. The commercial team also increased treasury management customers. Treasury or cash management tools create the opportunity to deepen an understanding of a customer organization and its needs while providing greater security against fraud and cyber threats and adding convenience for the customer to conduct their financial business more efficiently.

Mortgage Lending

The rising rate environment significantly impacted the volume of mortgage applications during 2022. The bank grew its mortgage portfolio but had fewer sold mortgage loans and, therefore, a reduction in fee income. To help offset the lower volumes, the bank successfully added a mortgage lender in its traditional footprint while expanding its reach in two new areas. In March, the bank opened a loan production office in Beckley, West Virginia. The bank is also expanding its mortgage presence in eastern Butler and Armstrong counties by adding a mortgage lender with extensive experience in that geography. In early 2023 we opened a loan production office in Chicora, Pennsylvania, to support the market areas east of Butler, Pennsylvania.

Digital Banking

Migration to digital products continued in 2022, with the bank adding tools to better serve and sell to customers. Online and mobile deposit account opening launched in January. The functionality allows customers to open checking, savings, and certificate of deposit accounts online. The bank is using this capability to expand its geographic reach as well as attract new customers within its traditional footprint. Account opening launched with the bank's redesigned website and URL www.mars.bank. Additional new online functionality added throughout the year included short web forms for customers to contact the bank more conveniently and an online appointment setting application that permits customers or prospects to request a call, video, or in-person meeting with sales and service staff. Mobile banking added new functionality with the launch of My Card controls that allow customers to use the mobile banking app to set up debit card use limitations, submit travel plans (to open their card for use overseas), report and freeze a lost card, and digitize their debit card for use in Apple, Google, and Samsung wallets.

Financial Investment

As part of its strategic plan, the bank is working to increase its return on investment while managing risk in a volatile rate environment. As a result, the bank added an interest rate swap contract and purchased subordinated debt investment securities.

Risk and Cybersecurity

One of the critical functions of the bank's board and management is the ongoing efforts to maintain sound regulatory compliance and security standards to meet the ever-increasing battle against fraud and cyberattacks.

The bank transitioned two key risk management positions due to the retirement of previous officers. The bank was pleased to add Travis Squyres, Senior Vice President and Chief Risk Officer, and Katie McGuire, Bank Secrecy Act ("BSA") and Compliance Officer.

On the cyber front, the bank continued its semiannual business continuity reviews and tabletop exercises to practice its preparedness for and response to cyber or other threats. For the first time, we conducted a management team exercise reviewing cybercriminal tactics and response tools led by agents from the Cybersecurity and Infrastructure Security Agency (CISA, an agency of the Department of Homeland Security). The bank also expanded its system-wide cyber training to reinforce awareness of the threats that each staff member faces daily. These training and preparedness activities, in conjunction with continual improvement in monitoring and response technologies, are the best defense against the escalating threat of cybercrime.

In October, the bank held its third cybersecurity awareness event for commercial banking customers. The event featured speakers from the FBI and CISA and covered the current threat landscape and resources businesses can utilize to help protect or recover from cyberattacks. The bank also provided information on secure payment services that can help prevent fraud.

Diversity and Inclusion

The bank is committed to providing a welcoming environment for our staff and customers. We continued to develop our diversity and inclusion initiative in 2022. Projects launched will help expand opportunity and inclusion for our current and new staff. We also made connections in our communities and across our industry to gain a better understanding and lay the foundation for this ongoing work.

Community Engagement

The bank continues to grow its support of underserved communities. Our BankOn certified checking account launched in January and customers opened the low-cost, no fee accounts both in branches and online, increasing access to a safe, secure banking option. We are also committed to first time homeownership providing access to grants and offering the Perfect Fit mortgage for low-income and moderate-income individuals and families. Our online first time homebuyer program saw a record number of students take the course and during the year first time homebuyer activity increased.

We are honored to receive recognition in response to our commitment to our customers and the communities we serve. In early 2023, community members voted the bank as Best Bank and Best Mortgage/Home Equity Lender in the Cranberry Eagle's Community Choice Awards.

One of the gratifying parts of the past year was returning to events with customers, staff, and the community. We celebrated our customers and community with appreciation days at each branch location. These events combined

a component supporting a local charity or need while inviting customers and the community to join bank staff in lunch or refreshments in the branch.

While the bank continued to support the community's needs throughout the pandemic, 2022 brought the return of in-person service projects. Bank staff served over 3,500 hours through bank-sponsored projects and through other charitable, civic, and service organizations. For more information about the bank's charitable giving and volunteerism, visit www.mars.bank and search "Community Impact."

Commitment to Shareholders

As a community bank, we cherish the support of and relationships with our core stakeholders: our customers, shareholders, staff, and community. We continue to provide a fair return to our shareholders; in January 2023 Mars Bancorp announced an increase in its quarterly cash dividend to $0.165 per share. We also are committed to sustainable growth to provide better returns in the future. As an engaged community bank, we are implementing the strategies needed to serve the growing needs of our customers. These strategies include adding to topline revenue and portfolio management while maintaining strong credit quality through rigorous loan underwriting, monitoring, and collection practices. These strategies will result in ongoing value for our shareholders.

FINANCIAL RESULTS

Net income for 2022 totaled $1,838,000 as compared to $2,114,000 for the same period in the prior year, a decrease of $276,000 or 13.0%.

The key items impacting our financial performance were:

Interest income totaled $14,354,000 for the twelve months ended December 31, 2022, compared to $12,384,000 for the same twelve-month period in 2021, an increase of $1,970,000. This was primarily due to increases in interest income on loans of $1,139,000 and interest income on investment securities of $534,000. The increase in interest income on loans was primarily related to higher average loan balances and higher yields earned. The increase in investment security interest income was primarily related to higher investment security balances.

Interest expense totaled $726,000 for the twelve months ended December 31, 2022, compared to $480,000 for the same twelve-month period in 2021, an increase of $246,000. This was primarily due to increases in interest expense from higher deposit costs of $237,000. The increase in deposit costs was primarily related to higher rates paid on deposits resulting from market rate increases.

As a result, net interest income increased by $1,723,000 or 14.5% for the twelve months ended December 31, 2022, compared to the same period in 2021.

The net interest spread and net interest margin were 2.72% and 2.80% for the twelve months ended December 31, 2022, respectively, compared to 2.60% and 2.65% for the same period in the prior year.

Loans outstanding increased by $41.0 million, or 14.6%, to $322.0 million at December 31, 2022, compared to $281.0 million at December 31, 2021. Deposits increased by $18.0 million, or 3.9%, to $481.4 million at December 31, 2022, compared to $463.4 million at December 31, 2021.

The provision for loan losses totaled $180,000 for the twelve months ended December 31, 2022, compared to a $36,000 provision for the same period in the prior year, an increase of $144,000. This provision increase is primarily related to the overall growth in the bank's loan portfolio. The Company's credit quality position at December 31, 2022, remained very strong, as evidenced by delinquencies at 0.04% of total loans, nonaccrual loans at 0.01% of total loans, and the allowance for loan losses at 0.97% of total loans.

Non-interest income decreased by $829,000 or 29.8% for the twelve months ended December 31, 2022, as compared to the same period in 2021. The primary reasons for this decrease were lower residential mortgage sale and processing income of $692,000, lower net gain on sales of available for sale securities of $95,000, and lower investment services income of $29,000.

Non-interest expense increased by $1,094,000 or 9.0% for the twelve months ended December 31, 2022, as compared to the same period in 2021, primarily related to increases in employee compensation of $807,000, employee benefit costs of $138,000, equipment expense of $171,000, and travel lodging and entertainment costs of $77,000. These increases were partially offset by lower loss on the early extinguishment of debt of $180,000, lower advertising costs of $49,000, consulting costs of $45,000, and Pennsylvania Shares Tax of $44,000.

The Company recognized income tax expense of $238,000 for the twelve months ended December 31, 2022, as compared to $307,000 for the same period in the prior year.

YEAR AHEAD

We are excited by the prospects for 2023 and beyond. While the interest rate environment and overall economy are challenging, the tools, technology, products, and services we are adding to serve our customers will benefit all our stakeholders. Our focus for the year includes implementing new online loan point-of-sale technology and broadening the leadership, processing, and underwriting capabilities of the mortgage lending department. We will also look to expand the reach of our commercial lending activities, including growth in our C&I, equipment financing, and professional services loan activities. We also plan to add a new commercial lender in Mercer County and support the commercial banking team with additional marketing and sales tools and initiatives. We will expand our geographic reach and depth of penetration in our traditional markets through increased digital acquisition strategies for mortgage lending and deposits, including remarketing and cross-selling activities. Our new retail customer support center will expand to provide product and service recommendations and local, expert banking support. We will continue to look for new investment and portfolio management opportunities and adding new loan products and services.

As always, the bank will maintain its commitment to sustainable community banking by maintaining strong credit quality through effective underwriting, enterprise-wide risk management, and innovative information technology and cybersecurity practices.

We are also committed to expanding the capability of our board of directors. We are pleased to add Janel M. Skelley to our 2023 nominees for director to be voted upon at the Mars Bancorp annual meeting in April. As Chief Financial Officer of the Allegheny Conference on Community Development (committed to improving the Pittsburgh region's economic future and quality of life), Janel will bring extensive financial and community development expertise and experience to the board.

CLOSING

The bank's success in 2022 was due to both internal and external factors. The flexibility and ingenuity required during the previous two years was a platform to continue to build our sophistication and efficiency as a community bank. Our ability to maintain and deepen customer relationships through the pandemic benefited the bank as we returned to in-person events, meetings, and calling practices.

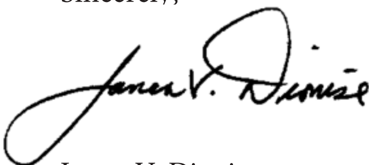
Effectively growing loans and deposits in conjunction with managing the bank's position through the rapid interest rate hikes provided an increase in net interest income. Continuing to manage rate changes closely and effectively will be critical to the bank's success in 2023.

Despite the challenges, we are confident that the strategic initiatives being implemented will continue to grow topline revenue while providing our customers with better products and additional services to manage their financial lives. Our implementation of a permanent hybrid staffing model and our focus on our community impact and relationship-based banking will continue to attract talent that will fulfill our mission.

We will continue to focus on all four key stakeholders to provide excellent products and services, a fair return to our shareholders, a positive impact in our community, and an enjoyable and fulfilling work life for our staff.

Through all the challenges and opportunities, we would not be able to succeed without the dedication of our board of directors, management team, and staff. For this, we say thank you. We also thank our shareholders for your investment in the bank and the resulting impact on our customers, staff, and communities.

Sincerely,

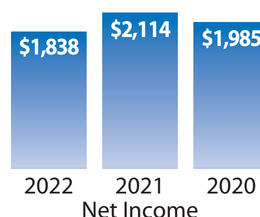


James V. Dionise
President and Chief Executive Officer

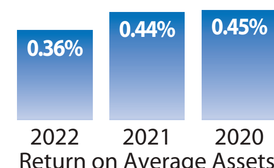
Janet L. van Buskirk Balentine
Chairman of the Board

Financial Highlights

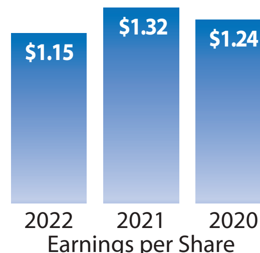
	2022	2021	Change
For the Year Ended December 31,			
(dollars in thousands, except per share data)			
EARNINGS			
Net interest income	**$ 13,628**	$11,905	14.5%
Provision for loan losses	**180**	36	400.0%
Non-interest income	**1,950**	2,779	-29.8%
Non-interest expense	**13,322**	12,227	9.0%
Income tax expense	**238**	307	-22.5%
Net income	**1,838**	2,114	-13.0%
SHARE DATA			
Earnings per share	**$ 1.15**	$ 1.32	-13.0%
PERFORMANCE RATIOS			
Return on average assets	**0.36%**	0.44%	-8bp
Return on average equity	**6.25%**	5.35%	90bp
Net interest margin	**2.80%**	2.65%	15bps
Efficiency ratio	**85.52%**	83.27%	225bps
At December 31,			
(dollars in millions, except per share data)			
BALANCE SHEET			
Assets	**$ 514.6**	$ 505.2	1.9%
Loans	**322.0**	281.0	14.6%
Deposits	**481.4**	463.4	3.9%
Stockholders' equity	**24.3**	38.7	-37.3%
CAPITAL			
Book value per share	**$ 15.19**	$ 24.22	-37.3%
Total risk-based capital ratio	**14.44%**	15.91%	-147bps
CREDIT QUALITY			
Delinquent loans	**$ 0.1**	$ 0.1	13.2%
Non-accrual loans	**0.1**	0.1	-16.8%
Delinquent loans/loans	**0.04%**	0.04%	0bp
Non-accrual loans/loans	**0.01%**	0.01%	0bp
Allowance for loan losses/loans	**0.97%**	1.05%	-8bps



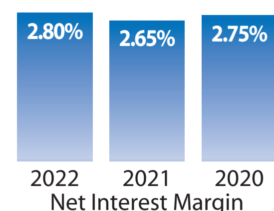
Net Income



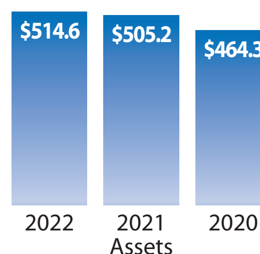
Return on Average Assets



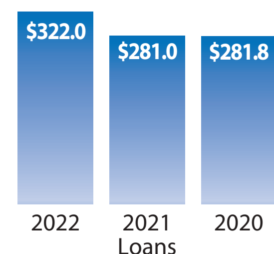
Earnings per Share



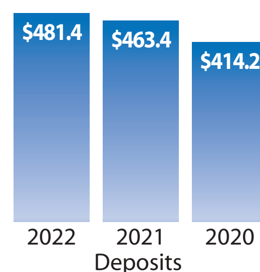
Net Interest Margin



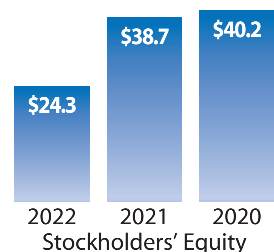
Assets



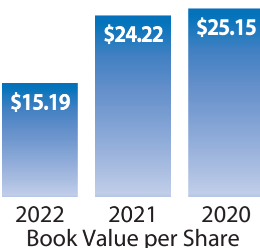
Loans



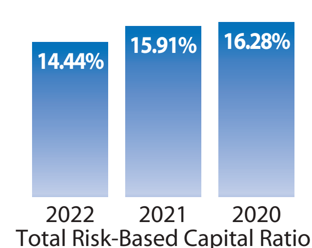
Deposits



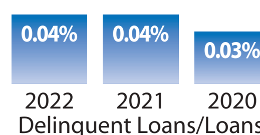
Stockholders' Equity



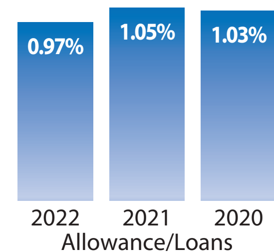
Book Value per Share



Total Risk-Based Capital Ratio



Delinquent Loans/Loans



Allowance/Loans

Independent Auditors' Report

To the Board of Directors and Stockholders of
Mars Bancorp, Inc. and Subsidiaries

Opinion

We have audited the consolidated financial statements of Mars Bancorp, Inc. and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive loss, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

Baker Tilly US, LLP, trading as Baker Tilly, is a member of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Other Information Included in the Annual Report
Management is responsible for the other information included in the annual report. The other information comprises the Message to Shareholders, Financial Highlights, and Community Reinvestment Act Program but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or 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.

Baker Tilly US, LLP

Pittsburgh, Pennsylvania
February 22, 2023

Consolidated Balance Sheets

December 31,

	2022	2021
ASSETS		
Cash and due from banks	**$ 23,466,015**	$ 37,648,643
Interest-bearing deposits with banks	**1,136,356**	2,098,554
Cash and Cash Equivalents	**24,602,371**	39,747,197
Securities available for sale	**145,692,587**	166,330,514
Loans	**321,978,136**	281,044,347
Less allowance for loan losses	**3,131,779**	2,951,779
Net Loans	**318,846,357**	278,092,568
Premises and equipment, net	**7,133,227**	7,396,280
Restricted investments in bank stock	**2,379,600**	2,340,700
Bank-owned life insurance	**8,222,561**	8,030,640
Net deferred tax asset	**4,888,180**	735,179
Accrued interest receivable and other assets	**2,801,563**	2,479,198
Total Assets	**$514,566,446**	$505,152,276
LIABILITIES		
Deposits:		
Non-interest-bearing demand	**$159,043,793**	$153,753,206
Interest-bearing demand	**65,711,255**	68,576,705
Savings	**107,238,267**	103,451,486
Money market	**107,839,470**	104,370,632
Time	**41,549,524**	33,293,792
Total Deposits	**481,382,309**	463,445,821
Borrowed funds	**5,378,970**	-
Accrued interest payable and other liabilities	**3,493,350**	2,958,524
Total Liabilities	**490,254,629**	466,404,345
STOCKHOLDERS' EQUITY		
Common stock, par value $.01 per share; 4,000,000 shares authorized, 1,600,000 shares issued and outstanding	**16,000**	16,000
Capital surplus	**799,200**	799,200
Undivided profits	**39,198,763**	38,384,420
Accumulated other comprehensive loss	**(15,702,146)**	(451,689)
Total Stockholders' Equity	**24,311,817**	38,747,931
Total Liabilities and Stockholders' Equity	**$514,566,446**	$505,152,276

See notes to consolidated financial statements

Consolidated Statements of Income

Years Ended December 31,

	2022	2021
INTEREST INCOME		
Loans, including fees	**$11,356,021**	$10,217,464
Interest-bearing deposits with banks	**340,838**	43,931
Securities:		
Taxable	**2,176,156**	1,584,845
Exempt from federal income tax	**480,617**	538,035
Total Interest Income	**14,353,632**	12,384,275
INTEREST EXPENSE		
Deposits	**579,131**	342,163
Interest on borrowed funds	**146,372**	137,408
Total Interest Expense	**725,503**	479,571
Net Interest Income	**13,628,129**	11,904,704
Provision for Loan Losses	**180,000**	36,000
Net Interest Income after Provision for Loan Losses	**13,448,129**	11,868,704
NON-INTEREST INCOME		
Service charges on deposits	**125,408**	127,042
NSF fees	**63,624**	56,380
ATM processing fees	**503,821**	506,811
Gain on sales of mortgages originated for sale	**418,103**	1,016,809
Restricted investments in bank stock dividends	**145,494**	145,283
Bank-owned life insurance income	**191,921**	192,665
Other	**501,668**	734,372
Total Non-Interest Income	**1,950,039**	2,779,362
NON-INTEREST EXPENSE		
Salaries and employee benefits	**8,016,114**	7,071,462
Occupancy	**571,234**	544,152
Furniture and equipment	**1,323,294**	1,151,863
Pennsylvania shares tax	**331,024**	375,284
FDIC insurance	**205,568**	160,903
Professional fees	**387,819**	435,159
Loss on early extinguishment of debt	**-**	180,243
Other	**2,486,772**	2,308,402
Total Non-Interest Expense	**13,321,825**	12,227,468
Income before Income Taxes	**2,076,343**	2,420,598
Income Tax Expense	**238,000**	307,000
Net Income	**$ 1,838,343**	$ 2,113,598
Earnings per Share	**$ 1.15**	$ 1.32

See notes to consolidated financial statements

Consolidated Statements of Comprehensive Loss

Years Ended December 31,

	2022	2021
Net Income	**$ 1,838,343**	$ 2,113,598
Other Comprehensive Loss, Net of Tax:		
Net unrealized losses on securities:		
Net unrealized holding losses arising during period (net of taxes of $4,010,287 in 2022 and $670,426 in 2021)	**(15,086,314)**	(2,522,082)
Less: Reclassification adjustment for net gains included in net income (net of taxes of $55 in 2022 and $20,045 in 2021) (1)(2)	**(209)**	(75,405)
Net unrealized losses on derivatives:		
Net unrealized holding losses arising during period (net of taxes of $43,577 in 2022 and $0 in 2021)	**(163,934)**	-
Other Comprehensive Loss	**(15,250,457)**	(2,597,487)
Comprehensive Loss	**$(13,412,114)**	$ (483,889)

(1) Gross amount included in other non-interest income on consolidated statements of income was $264 in 2022 and $95,450 in 2021.

(2) The income tax effect included in income tax expense on consolidated statements of income.

See notes to consolidated financial statements

Consolidated Statements of Stockholders' Equity

	Common Stock	Capital Surplus	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2020	$ 800	$ 799,200	$ 37,302,022	$ 2,145,798	$ 40,247,820
Net income	-	-	2,113,598	-	2,113,598
Other comprehensive loss, net of tax	-	-	-	(2,597,487)	(2,597,487)
Cash dividends paid on common stock at $0.635 per share	-	-	(1,016,000)	-	(1,016,000)
Stock Dividend	15,200	-	(15,200)	-	-
Balance at December 31, 2021	$ 16,000	$ 799,200	$ 38,384,420	$ (451,689)	$ 38,747,931
Net income	-	-	**1,838,343**	-	**1,838,343**
Other comprehensive loss, net of tax	-	-	-	**(15,250,457)**	**(15,250,457)**
Cash dividends paid on common stock at $0.640 per share	-	-	**(1,024,000)**	-	**(1,024,000)**
Balance at December 31, 2022	**$16,000**	**$799,200**	**$39,198,763**	**$(15,702,146)**	**$ 24,311,817**

See notes to consolidated financial statements

Consolidated Statements of Cash Flows

Years Ended December 31,

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**$ 1,838,343**	$ 2,113,598
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**180,000**	36,000
Provision for depreciation and amortization	**469,703**	453,571
Net amortization of securities premiums and discounts	**136,543**	155,343
Deferred income tax benefit	**(99,082)**	(48,089)
Net accretion of deferred loan fees and costs	**(91,069)**	(446,012)
Net realized gain on sale of securities available for sale	**(264)**	(95,450)
Proceeds from sales of mortgage loans originated for sale	**21,516,273**	32,095,909
Net gain on sale of mortgage loans originated for sale	**(418,103)**	(1,016,809)
Mortgage loans originated for sale	**(20,284,920)**	(31,079,100)
Earnings on investments in life insurance	**(191,921)**	(192,665)
Increase in accrued interest receivable and other assets	**(322,365)**	(422,969)
Increase in accrued interest payable and other liabilities	**327,315**	80,677
Net Cash Provided by Operating Activities	**3,060,453**	1,634,004
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment securities available for sale:		
Purchases of securities	**(18,298,136)**	(86,726,608)
Proceeds from maturities, calls, and principal repayments of securities	**17,836,109**	24,249,410
Proceeds from sales of securities	**1,866,810**	3,425,971
Net (increase) decrease in loans receivable	**(41,655,970)**	1,175,851
Purchases of restricted bank stock	**(1,454,600)**	(193,800)
Redemptions of restricted bank stock	**1,415,700**	1,136,700
Purchases of premises and equipment	**(206,650)**	(1,116,156)
Net Cash Used in Investing Activities	**(40,496,737)**	(58,048,632)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	**17,936,488**	49,264,159
Proceeds from other borrowings	**181,867,894**	-
Repayments on other borrowings	**(176,488,924)**	(6,993,030)
Cash dividends paid	**(1,024,000)**	(1,016,000)
Net Cash Provided by Financing Activities	**22,291,458**	41,255,129
Net Decrease in Cash and Cash Equivalents	**(15,144,826)**	(15,159,499)
Cash and Cash Equivalents, Beginning of Year	**39,747,197**	54,906,696
Cash and Cash Equivalents, End of Year	**$ 24,602,371**	$ 39,747,197
SUPPLEMENTAL INFORMATION		
Interest paid	**$ 671,180**	$ 503,953
Income taxes paid	**115,000**	425,000

See notes to consolidated financial statements

Notes to Consolidated Financial Statements

NOTE 1 - NATURE OF OPERATIONS AND BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of Mars Bancorp, Inc. and its direct and indirect wholly-owned subsidiaries, Mars Bank ("Bank") and Mars Insurance Services, LLC ("MIS"). All material intercompany transactions have been eliminated in consolidation.

As used in these notes to the consolidated financial statements, Mars Bancorp, Inc. and its consolidated subsidiaries are collectively referred to as the "Company".

The Company is incorporated under the laws of the Commonwealth of Pennsylvania and is under the regulatory jurisdiction of the Board of Governors of the Federal Reserve System. The Bank is subject to regulation and supervision by the Pennsylvania Department of Banking and Securities and the Federal Deposit Insurance Corporation ("FDIC"). The Company's activity consists of owning and supervising its subsidiary, Mars Bank. The Bank derives its principal sources of revenue from its residential and commercial real estate portfolios, commercial, industrial and consumer loans, investment securities portfolio, as well as a variety of deposit services offered to its customers through six branch offices, which are located in areas of Allegheny, Butler, and Mercer counties in Western Pennsylvania. MIS provides real estate settlement services and title insurance to the Bank's customers in connection with its residential and commercial real estate lending activities. MIS is subject to review and conducts business under the jurisdiction of the FDIC and the Pennsylvania Insurance Department. The Bank maintains a loan production office in Beckley, West Virginia, subjecting the Bank to the regulation and supervision of the West Virginia Division of Financial Institutions.

The Company has evaluated events and transactions occurring subsequent to the consolidated balance sheet date of December 31, 2022 for items that should potentially be recognized or disclosed in the consolidated financial statements. The evaluation was conducted through February 22, 2023, the date these consolidated financial statements were available to be issued.

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES

A summary of significant accounting and reporting policies applied in the presentation of the accompanying consolidated financial statements follows:

Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America ("GAAP"), requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income 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, the valuation of deferred tax assets and the determination of other-than-temporary impairment on securities.

Significant Concentrations of Credit Risk

Most of the Company's activities are with customers located within its local trade area. Note 3 discusses the types of securities in which the Company invests. Note 4 discusses the types of loans that the Company originates. The Company does not have any significant concentrations in any one industry or to any one customer. Although the Company has a diversified loan portfolio, exposure to credit loss can be adversely impacted by downturns in local economic and employment conditions.

Securities

Currently, the Company's investment securities portfolio is classified as available for sale. The portfolio serves principally as a source of liquidity and is carried at fair value, with unrealized gains and losses reported as increases or decreases to other comprehensive income (loss), net of tax, until realized. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Realized gains and losses on sales of securities available for sale are computed using the specific identification method. Interest and dividends on investment securities are recognized as interest income when earned.

Restricted Investments in Bank Stock

The Bank owns restricted stock investments in the Federal Home Loan Bank of Pittsburgh ("FHLB") and Atlantic Community Bankers Bank ("ACBB"). The investment in FHLB stock at December 31, 2022 and 2021 totaled $2,299,600 and $2,260,700, respectively. At December 31, 2022 and 2021, the ACBB investment was $80,000. The investments are required by law according to predetermined formulas. These investments are carried at cost.

The FHLB pays a dividend to the Bank for its restricted stock investment in the FHLB. The Bank earned $ 145,112 and $144,983 in dividends in 2022 and 2021, respectively. In addition, the FHLB continues to repurchase excess capital stock consistent with its practice in past quarters. Repurchase of capital stock totaled $1,415,700 and $1,136,700 in 2022 and 2021, respectively.

Management evaluates the restricted stock for impairment in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 942-325-35, Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others. Management's determination of whether these investments are impaired is based on its assessment of the ultimate recoverability of their cost, rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB.

Management believes no impairment charge is necessary related to the FHLB restricted stock as of December 31, 2022 and 2021.

Other-Than-Temporary Impairment

The Company reviews its investment portfolio on a quarterly basis for indications of other-than-temporary impairment ("OTTI"). This review includes analyzing the length of time and the extent to which fair value has been lower than cost, the financial condition and near-term prospects of the issuer, including any specific events that may influence the operations of the issuer, and the Company's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in the market.

The Company recognizes credit-related OTTI on debt securities in earnings while noncredit-related OTTI on debt securities not expected to be sold is recognized in accumulated other comprehensive income (loss). The Company assesses whether the credit loss existed by considering whether (1) the Company has the intent to sell the security, (2) it is more likely than not that the Company will be required to sell the security before recovery, or (3) the Company does not expect to recover the entire amortized cost basis of the security. The Company can bifurcate the OTTI on securities not expected to be sold or where the entire amortized cost of the security is not expected to be recovered into the components representing credit loss and the component representing loss related to other factors. The portion of the fair value decline attributable to credit loss is recognized through earnings.

Derivative Instruments and Hedging Activities

The Company records all derivatives on the consolidated balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting.

Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

The Company records cash flow hedges at the inception of the derivative contract based on the intent and likely effectiveness of the hedge. The Company formally assesses, both at the inception and on an ongoing basis, whether the derivative instruments that are being used are highly effective in offsetting changes in cash flows of the hedged item. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended. For a cash flow hedge that is effective, the gain or loss on the derivative is reported in other comprehensive income (loss) and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. If a hedge is no longer effective, the Company discontinues hedge accounting, and subsequent changes to hedged cash flows are recorded with non-interest income. If a cash flow hedge is discontinued, gains or losses that were accumulated in other comprehensive income are amortized or accreted into earnings over the same period in which the hedged items affect earnings.

Loans

Loans that the Company 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 ("ALLL") and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. The loans receivable portfolio is segmented into commercial and industrial, consumer and real estate loans. Real estate loans consist of the following classes: residential and commercial mortgages.

For all classes of loans, the accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collection 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 non-accrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on non-accrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collection 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 and the ultimate collection 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.

Loan Origination Fees and Costs

Loan origination fees and certain direct loan origination costs are being deferred for loans receivable. The net amount is amortized as an adjustment to the related loan's yield. Management is amortizing these amounts over the contractual life of the related loans. As of December 31, 2022 and December 31, 2021, net deferred costs and fees totaled $243,559 and $79,077, respectively.

Commitment fees that are based on a percentage of a customer's unused lines of credit and fees related to standby letters of credit are recognized as income over the commitment period.

Mortgages Held for Sale

Mortgages originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Mortgages held for sale are sold with servicing rights released. Gains and losses on sales of mortgages are based on the difference between the selling price and the carrying value of the related mortgage sold.

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the consolidated balance sheet date and is recorded as a reduction to loans. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All or part of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all or part of the principal balance is highly unlikely. No portion of the allowance for loan losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

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

The allowance consists of specific, general and inherent risk components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan type including commercial and commercial real estate loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate, home equity, and other consumer loans and further segmented by risk ratings of pass, special mention, substandard, and doubtful. Loans that have a 100% government guarantee are not evaluated for specific, general, or inherent credit loss risk.

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

Pass pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These qualitative risk factors include:

- Changes in lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices;

- Changes in national and local economic and business conditions, including the condition of various market segments;

- Changes in the nature and volume of the portfolio;

- Changes in the experience, ability, and depth of lending management and staff;

- Changes in the volume and severity of past due and classified loans, and in the volume of non-accruals, troubled debt restructurings, and other loan modifications;

- Changes in the quality of the Company's loan review system and the degree of oversight by the Company's Board of Directors;

- Changes in the value of underlying collateral for collateral-dependent loans;

- The existence and effect of any concentrations of credit, and changes in the level of such concentrations;

- The effect of external factors, such as competition and legal and regulatory requirements, on the level of estimated loan losses in the Company's current portfolio.

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

Included in the Company's loan assets are loans to business owners of various types. The Company makes commercial loans for real estate development and other business purposes required by the customer base.

The Company's credit policy determines advance rates against the different forms of collateral that can be pledged against commercial and industrial loans. Typically, the majority of loans will be limited to a percentage of their underlying collateral values such as real estate values, equipment, eligible accounts receivable, and inventory. Individual loan advance rates may be higher or lower depending upon the financial strength of the borrower and/or term of the loan. The assets financed through commercial loans are used within the business for its ongoing operation. Repayment of these kinds of loans generally comes from the cash flow of the business or the ongoing conversion of assets. Commercial real estate loans include long-term loans financing commercial properties. Repayment of this kind of loan is dependent upon either the ongoing cash flow of the borrowing entity or the resale of or lease of the subject property. Commercial real estate loans typically require a loan to value ratio of not greater than 85% and vary in terms.

Residential mortgages and home equity loans are secured by the borrower's residential real estate in either a first or subordinate lien position. Residential mortgages and home equity loans have varying loan rates depending on credit score and the loan to value ratio. Residential mortgages have amortizations up to 30 years and home equity loans have maturities up to 20 years. Other consumer loans include installment loans, car loans, and overdraft lines of credit.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due, according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking

into consideration all of the circumstances surrounding the loan and borrower, including the length of the delay, reasons for the delay, borrower's prior payment record and amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and industrial loans and commercial real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, loan's obtainable market price or fair value of the collateral if the loan is collateral dependent.

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

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

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

Loans whose terms are modified are classified as troubled debt restructurings if the Company grants such borrowers concessions that would not be granted to other customers and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate or an extension of a loan's stated maturity date. Non-accrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as troubled debt restructurings are designated as impaired.

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

In addition, Federal regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

Notes to Consolidated Financial Statements

Foreclosed Assets

Foreclosed assets are comprised of property acquired through a foreclosure proceeding or acceptance of a deed in lieu of foreclosure. Such properties are included in other assets. The Company did not have any foreclosed assets and there were no consumer mortgage loans secured by residential real estate in the process of foreclosure at December 31, 2022 and 2021.

Foreclosed assets initially are recorded at fair value, net of estimated selling costs, at the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the assets are carried at the lower of cost or fair value minus estimated costs to sell. Revenues are included in other non-interest income. Expenses from operations and changes in the valuation allowance are included in other non-interest expense.

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation and amortization. Depreciation is computed using both the straight-line and accelerated methods over the estimated useful lives of the premises and equipment. Charges for maintenance and repairs are expensed as incurred.

Bank-Owned Life Insurance

The Company purchased insurance on the lives of certain key executive officers. The policies accumulate asset values to meet future liabilities, including the payment of employee benefits. Increases in the cash surrender value and proceeds upon the death of a key employee are recorded as non-interest income in the consolidated statements of income. The cash surrender value of bank-owned life insurance is recorded as an asset on the consolidated balance sheets.

Advertising Costs

The Company follows the policy of charging the costs of advertising to expense as incurred. Total advertising expense for the years ended December 31, 2022 and 2021 was $167,511 and $216,654, respectively.

Income Taxes

Certain income and expense items are accounted for in different years for financial reporting purposes than for income tax purposes. Deferred taxes are provided to recognize these temporary differences. The principal items involved are investment securities, provision for loan losses, and benefit plans. Income tax expense is not proportionate to earnings before taxes, principally because income from obligations of states and political subdivisions and increases in the cash surrender value of bank-owned life insurance is nontaxable. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more-likely-than-not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

A tax position is recognized as a benefit at the largest amount that is more-likely-than-not to be sustained in a tax examination based solely on its merits. An uncertain tax position will not be recognized if it has less than 50% likelihood of being sustained. Under the threshold guidelines, the Company believes no significant uncertain tax positions exist, either individually or in the aggregate, that would result in recognition of a liability for unrecognized tax benefits as of December 31, 2022 and 2021.

Earnings per Share

The Company has a simple capital structure. Basic earnings per share represents income available to common stockholders divided by the weighted average number of common shares outstanding during each period. On June 1, 2021, the Company declared a twenty-for-one stock split in the form of stock dividend, payable June 18, 2021, to stockholders of record as of June 4, 2021. Under the terms of the stock split, the Company's stockholders received a dividend of nineteen additional shares of common stock for every share held on the record date. The stock dividend was paid in authorized but unissued shares of common stock of the Company. The par value of the

Company's stock was not affected by the split and remained at $0.01 per share. The average weighted shares outstanding were 1,600,000 for the years ended December 31, 2022 and 2021.

Cash and Cash Equivalents
The Company has defined cash and cash equivalents as those amounts included in the consolidated balance sheet captions cash and due from banks and interest-bearing deposits with banks.

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 letters of credit. Such financial instruments are recorded in the consolidated balance sheet when they are funded.

Comprehensive Income (Loss)
GAAP requires 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 securities available for sale and derivatives, are reported as a separate component in the equity section of the consolidated balance sheet, such items, along with net income, are components of comprehensive income (loss). The only components of other comprehensive loss for the year ended December 31, 2022 is the net unrealized loss on securities available for sale and net loss on derivatives designated as hedging instruments. The only component of other comprehensive loss for the year ended December 31, 2021 is the net unrealized loss on securities available for sale.

Revenue from Contracts with Customers
The majority of the Company's revenues are derived from interest income and other related sources, primarily loans and investment securities.

A description of the Company's non-interest income revenue streams accounted for under ASC 606 is as follows:

Service Charges on Deposit Accounts and NSF Fees: The Company earns fees from its deposit customers for individual account services and transactions, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment fees, and ACH origination fees are recognized at the time the transaction is executed since that is the point in time when the service is performed and the customer's request is completed by the Company. Account maintenance fees, which relate primarily to monthly maintenance and minimum balance requirements, are earned over the course of a month, representing the period over which the Company satisfies its performance obligation. Overdraft and NSF fees are recognized at the point in time that the overdraft and NSF fee occurs. Service charges on deposits are withdrawn from the customer's account balance.

ATM Processing Fees: The Company earns interchange fees from its debit cardholder transactions conducted through the payment provider network. Interchange fees from cardholder transactions generally represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Reclassifications
Certain comparative amounts for the prior year have been reclassified to conform to current year classifications. Such reclassifications had no effect on net income or stockholders' equity.

Recent Accounting Standards
In June 2016, the FASB issued Accounting Standards Update ("ASU") 2016-13, Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments ("CECL"), which replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses measured at amortized cost and certain other instruments, including loans, held-to-maturity debt securities, net investments in leases, and off-balance sheet credit exposures. In addition, CECL will require the use of a modified available-for-sale debt security impairment model and eliminate the current accounting for purchased credit impaired loans and debt securities. In October 2019, the FASB approved a delay of the required implementation

date of ASU 2016-13 (as amended) for public business entities. ASU 2019-10 delayed the effective date from fiscal years beginning after December 15, 2020 to fiscal years beginning after December 15, 2022, including interim periods within the fiscal year.

These updates impact our consolidated financial statements using a cumulative effect adjustment to retained earnings on the date of adoption. Although CECL changes the measurement of the allowance for loan losses, it does not change the related credit risk or ultimate loss amounts within our loan portfolio.

We have finalized our loan segmentation approach, developed a reasonable and supportable forecast period, and tested a reversion method and historical loss forecast covering the remaining contractual life, as adjusted for prepayments, utilizing our own and a peer group portfolio.

Based on our portfolio composition and forecasts, we currently estimate that our CECL adjustment did not have a material impact on the consolidated financial statements. The impact of this update is dependent on our loan portfolio components and underlying credit quality, as well as historical experience, interest rates, and forecasts of economic conditions.

Model development and our internal procedures related to CECL are complete. This update is effective as of January 1, 2023.

Notes to Consolidated Financial Statements

NOTE 3 - SECURITIES AVAILABLE FOR SALE

The amortized cost and estimated fair value of securities available for sale at December 31, 2022 and 2021 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
DECEMBER 31, 2022				
U.S. treasuries, U.S. government agencies and corporations	**$ 65,591,513**	**$ 13,250**	**$ (6,199,834)**	**$ 59,404,929**
Obligations of states and political subdivisions	**32,225,384**	-	**(3,590,414)**	**28,634,970**
Debt of other financial institutions	**500,000**	-	**(68,975)**	**431,025**
Residential collateralized mortgage obligations guaranteed by U.S. government agencies	**45,202,414**	-	**(6,972,291)**	**38,230,123**
Mortgage-backed securities	**21,841,899**	-	**(2,850,359)**	**18,991,540**
Total	**$165,361,210**	**$ 13,250**	**$(19,681,873)**	**$145,692,587**
DECEMBER 31, 2021				
U.S. treasuries, U.S. government agencies and corporations	$ 63,058,737	$ 79,452	$ (699,858)	$ 62,438,331
Obligations of states and political subdivisions	35,320,662	427,572	(100,607)	35,647,627
Debt of other financial institutions	500,000	-	-	500,000
Residential collateralized mortgage obligations guaranteed by U.S. government agencies	47,098,527	388,120	(874,705)	46,611,942
Mortgage-backed securities	20,924,346	430,357	(222,089)	21,132,614
Total	$ 166,902,272	$1,325,501	$ (1,897,259)	$ 166,330,514

The majority of the mortgaged-backed securities ("MBS") are comprised of Mortgage-Backed Delegated Underwriting and Servicing ("DUS") Bonds. At December 31, 2022 and 2021, the Company had a fair value of $10,240,699 and $11,966,307 in DUS Bonds, respectively. These MBS securities are issued by Fannie Mae ("FNMA") consisting of a single loan or a pool of loans backed by multifamily properties, which must be income producing and consist of at least five residential units. These bonds carry FNMA backing and an implied government guarantee. The bonds pay timely monthly principal and interest and are structured with 5-, 7-, 10-, 15-, and 18-year fixed-rate balloon maturities and 25- or 30-year amortization schedules, depending on the life of the property. DUS related loans include a prepayment deterrent fee, or yield maintenance contract, which mitigates prepayment risk on the securities. The yield maintenance period often encompasses the majority of the life of the loan. The bonds are typically structured with a 7- or 10-year balloon term, and a 6.5- or 9.5-year yield maintenance period, respectively. The remainder of the MBS represent residential mortgages as of December 31, 2022 and 2021.

Notes to Consolidated Financial Statements

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

	Amortized Cost	Fair Value
Due in one year or less	**$ 3,999,837**	**$ 3,895,096**
Due after one year through five years	**54,547,992**	**50,070,208**
Due after five years through ten years	**57,186,105**	**48,572,022**
Due after ten years	**49,627,276**	**43,155,261**
Total	**$165,361,210**	**$145,692,587**

Investment securities available for sale with a fair value of $73,223,432 and $60,074,640 at December 31, 2022 and 2021, respectively, were pledged to secure public deposits as required by law.

Sales of securities generated proceeds of $1,866,810 and $3,425,971 in 2022 and 2021, respectively. The Company realized gross gains and losses on sales of these securities of $1,775 and $1,511, respectively, in 2022. The Company realized gross gains and losses on sales of these securities of $95,450 and $0, respectively, in 2021.

The following tables show the Company's investments' 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, 2022 and 2021:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
DECEMBER 31, 2022						
U.S. treasuries, U.S. government agencies and corporations	**$ 3,116,724**	**$ 49,505**	**$ 55,230,196**	**$ 6,150,329**	**$ 58,346,920**	**$ 6,199,834**
Obligations of states and political subdivisions	**14,435,168**	**1,156,082**	**14,199,802**	**2,434,332**	**28,634,970**	**3,590,414**
Debt of other financial institutions	**431,025**	**68,975**	**-**	**-**	**431,025**	**68,975**
Residential collateralized mortgage obligations guaranteed by U.S. government agencies	**11,421,794**	**1,224,612**	**26,879,490**	**5,747,679**	**38,301,284**	**6,972,291**
Mortgage-backed securities	**11,854,680**	**981,401**	**7,065,700**	**1,868,958**	**18,920,380**	**2,850,359**
Total	**$41,259,391**	**$3,480,575**	**$103,375,188**	**$16,201,298**	**$144,634,579**	**$19,681,873**
DECEMBER 31, 2021						
U.S. treasuries, U.S. government agencies and corporations	$ 50,849,067	$ 656,607	$ 3,399,727	$ 43,251	$ 54,248,794	$ 699,858
Obligations of states and political subdivisions	9,179,493	88,062	393,248	12,545	9,572,741	100,607
Residential collateralized mortgage obligations guaranteed by U.S. government agencies	15,211,040	450,903	12,431,220	423,802	27,642,260	874,705
Mortgage-backed securities	6,708,569	222,089	-	-	6,708,569	222,089
Total	$ 81,948,169	$ 1,417,661	$ 16,224,195	$ 479,598	$ 98,172,364	$ 1,897,259

There has been an increase in the number and in the fair value dollar amount from December 31, 2021 to December 31, 2022 of securities that have unrealized losses. At December 31, 2022, two hundred thirty-seven securities totaling $144.6 million were in an unrealized loss position compared to ninety-five securities totaling $98.2 million in an unrealized loss position at December 31, 2021. The individual losses ranged from $3 to $889,586 at December 31, 2022 as compared to losses that ranged from $35 to $178,096 at December 31, 2021 and the total gross unrealized loss increased from $1.9 million at December 31, 2021 to $19.7 million at December 31, 2022. The primary driver behind the market value changes of these securities relate to various changes in interest rates. There was an increase in the number and dollar amount of securities with unrealized losses of 12 months or more. At December 31, 2022, there were one hundred thirty-six securities totaling $103.4 million in an unrealized loss position more than twelve months compared to fifteen securities totaling $16.2 million in an unrealized loss position more than twelve months at December 31, 2021. The primary reason these bonds have unrealized losses relates to their original purchase date and the interest rate/spreads that was in effect at that date. There has been no material negative change in credit issues in the portfolio. One hundred thirty-two of the securities with principal balances totaling $115.6 million have the explicit or implicit guarantee of the U.S. Government. The remaining securities with an unrealized loss position are comprised of one hundred four securities totaling $28.6 million that relate to obligations of states and political subdivisions and one debt of other financial institutions totaling $431,025. The Company has performed an analysis of these securities as summarized in the "OTTI" accounting policy. Management believes that the unrealized losses are temporary in nature and are a result of the current interest rate environment and not a reflection of credit quality.

NOTE 4 - LOANS

The Company's loan portfolio is segmented to enable management to monitor risk and performance. The real estate loans are further classified into two classes. Residential mortgages include those secured by first and second lien residential properties while commercial mortgages are comprised of loans to commercial customers for self-use or income-producing commercial or residential real estate. The commercial and industrial segment consists of loans to finance the activities of commercial customers. The consumer segment consists primarily of auto loans and personal loans.

Residential mortgage loans are typically longer-term loans which generally entail greater interest rate risk than consumer and commercial loans. Under certain economic conditions, housing values may decline, which may increase the risk that the collateral values are insufficient. Commercial real estate loans generally present a higher level of risk than loans secured by residences. This greater risk is due to several factors including but not limited to 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 in monitoring these types of loans. Furthermore, the repayment of commercial real estate loans is typically dependent upon successful operation of the related real estate project. If the cash flow from the project is reduced by such occurrences as leases not being obtained, renewed or not entirely fulfilled, the borrower's ability to repay the loan may be impaired. Commercial and industrial loans are primarily secured by business assets, inventories, and accounts receivable which present collateral risk. Consumer loans generally have higher interest rates and shorter terms than residential mortgage loans, however, they have additional credit risk due to the type of collateral securing the loan.

The CARES Act created the Paycheck Protection Program ("PPP") loan program which provides payroll assistance for small businesses and select nonprofits in the form of 100% guaranteed loans from the Small Business Administration ("SBA"). The Company was a participating lender in the PPP loan program.

Major classifications of loans receivable at December 31, 2022 and 2021 are summarized as follows:

	2022	2021
Real Estate:		
Residential	**$196,473,737**	$165,964,774
Commercial	**108,791,978**	97,662,897
Commercial and industrial	**16,157,777**	17,022,198
Consumer	**310,296**	315,079
Total	**321,733,788**	280,964,948
Less unamortized deferred loan costs	**(244,348)**	(79,399)
	321,978,136	281,044,347
Less allowance for loan losses	**3,131,779**	2,951,779
Net Loans	**$318,846,357**	$278,092,568

During 2021, the Company originated 103 loans totaling $8,647,119 through its participation in the 1st draw and 2nd draw loan programs of the PPP. There were no loans originated under the program in 2022. As of December 31, 2022, all the PPP loans totaling $24,147,346 have been forgiven by the SBA. The balance of the PPP loans at December 31, 2021 totaled $2,794,089 and is included in the commercial and industrial loan totals above. During 2022 and 2021, in connection with the SBA's PPP loan programs, the Company received $0 and $452,535 in PPP loan origination fees, respectively, of which $102,942 and $723,765 was recognized in interest income during 2022 and 2021, respectively. The remaining balance of $0 and $102,942 is deferred and included with net unamortized deferred loan fees as part of the loans in the consolidated balance sheets at December 31, 2022 and 2021, respectively.

In the normal course of business, loans are extended to directors, executive officers, and their related interests and affiliates. In management's opinion, all these loans are on substantially the same terms and conditions as loans to other individuals and businesses of comparable creditworthiness. The aggregate amount of credit extended to these directors and executive officers at December 31, 2022 and 2021 was $220,273 and $319,444, respectively. During 2022, there were no new loans or principal advances made and repayments totaled $99,171.

Mortgages held for sale totaled $294,500 and $1,107,750 as of December 31, 2022 and 2021, respectively, and are included in the residential real estate balances above.

NOTE 5 - ALLOWANCE FOR LOAN LOSSES

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard, and doubtful within the Company's internal risk rating system as of December 31, 2022 and 2021:

	Pass	Special Mention	Substandard	Doubtful	Total
DECEMBER 31, 2022					
Real Estate:					
Residential	**$196,443,472**	**$ -**	**$30,265**	**$ -**	**$196,473,737**
Commercial	**107,743,837**	**1,048,141**	**-**	**-**	**108,791,978**
Commercial and industrial	**16,157,777**	**-**	**-**	**-**	**16,157,777**
Consumer	**310,296**	**-**	**-**	**-**	**310,296**
Total	**$320,655,381**	**$1,048,141**	**$30,265**	**$ -**	**$321,733,788**
DECEMBER 31, 2021					
Real Estate:					
Residential	$ 165,928,388	$ -	$ 36,386	$ -	$ 165,964,774
Commercial	94,860,881	2,802,016	-	-	97,662,897
Commercial and industrial	16,938,746	83,452	-	-	17,022,198
Consumer	315,079	-	-	-	315,079
Total	$ 278,043,094	$ 2,885,468	$ 36,386	$ -	$ 280,964,948

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 table presents the classes of the loan portfolio summarized by the past due status as of December 31, 2022 and 2021.

	Current	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Total Loans Receivable	Non-Accrual Loans	Loans Receivable 90 Days Past Due and Accruing
DECEMBER 31, 2022								
Real Estate:								
Residential	**$196,349,767**	**$123,970**	**$ -**	**$ -**	**$123,970**	**$196,473,737**	**$30,265**	**$ -**
Commercial	**108,791,978**	**-**	**-**	**-**	**-**	**108,791,978**	**-**	**-**
Commercial and industrial	**16,157,777**	**-**	**-**	**-**	**-**	**16,157,777**	**-**	**-**
Consumer	**310,296**	**-**	**-**	**-**	**-**	**310,296**	**-**	**-**
Total	**$321,609,818**	**$123,970**	**$ -**	**$ -**	**$123,970**	**$321,733,788**	**$30,265**	**$ -**
DECEMBER 31, 2021								
Real Estate:								
Residential	$ 165,855,293	$ 109,481	$ -	$ -	$ 109,481	$ 165,964,774	$ 36,386	$ -
Commercial	97,662,897	-	-	-	-	97,662,897	-	-
Commercial and industrial	17,022,198	-	-	-	-	17,022,198	-	-
Consumer	315,079	-	-	-	-	315,079	-	-
Total	$ 280,855,467	$ 109,481	$ -	$ -	$ 109,481	$ 280,964,948	$ 36,386	$ -

Notes to Consolidated Financial Statements

The following tables summarize information in regards to impaired loans by loan portfolio class as of December 31, 2022 and 2021:

	Recorded Investment	Related Allowance	Unpaid Principal Balance	Average Recorded Investment	Interest Income Recognized
DECEMBER 31, 2022					
With no related allowance recorded:					
Real Estate:					
Residential	**$30,265**	**$ -**	**$48,785**	**$33,520**	**$ -**
Total	**$30,265**	**$ -**	**$48,785**	**$33,520**	**$ -**
Total:					
Real Estate:					
Residential	**$30,265**	**$ -**	**$48,785**	**$33,520**	**$ -**
Total	**$30,265**	**$ -**	**$48,785**	**$33,520**	**$ -**
DECEMBER 31, 2021					
With no related allowance recorded:					
Real Estate:					
Residential	$ 36,386	$ -	$ 52,900	$ 39,690	$ -
Total	$ 36,386	$ -	$ 52,900	$ 39,690	$ -
Total:					
Real Estate:					
Residential	$ 36,386	$ -	$ 52,900	$ 39,690	$ -
Total	$ 36,386	$ -	$ 52,900	$ 39,690	$ -

The Company did not have any impaired loans with an allowance recorded at December 31, 2022 and 2021.

The following table presents the primary segments of the allowance for loan losses, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for potential losses as of December 31, 2022 and 2021:

	Beginning Balance	Charge-Offs	Recoveries	Provisions	Ending Balance	Ending Balance Individually Evaluated For Impairment	Ending Balance Collectively Evaluated For Impairment
DECEMBER 31, 2022							
Real Estate:							
Residential	**$1,546,955**	**$ -**	**$ -**	**$ 232,059**	**$1,779,014**	**$ -**	**$1,779,014**
Commercial	**1,107,902**	**-**	**-**	**(107,567)**	**1,000,335**	**-**	**1,000,335**
Commercial and industrial	**112,952**	**-**	**-**	**(4,783)**	**108,169**	**-**	**108,169**
Consumer	**2,250**	**-**	**-**	**(317)**	**1,933**	**-**	**1,933**
Inherent risk	**181,720**	**-**	**-**	**60,608**	**242,328**	**-**	**242,328**
Total	**$2,951,779**	**$ -**	**$ -**	**$ 180,000**	**$3,131,779**	**$ -**	**$3,131,779**
DECEMBER 31, 2021							
Real Estate:							
Residential	$ 1,461,459	$ -	$ -	$ 85,496	$ 1,546,955	$ -	$ 1,546,955
Commercial	1,085,543	-	-	22,359	1,107,902	-	1,107,902
Commercial and industrial	303,295	-	-	(190,343)	112,952	-	112,952
Consumer	2,093	-	823	(666)	2,250	-	2,250
Inherent risk	62,566	-	-	119,154	181,720	-	181,720
Total	$ 2,914,956	$ -	$823	$ 36,000	$ 2,951,779	$ -	$ 2,951,779

Notes to Consolidated Financial Statements

The following table summarizes loans evaluated both individually and collectively for impairment as of December 31, 2022 and 2021:

	Ending Balance	Ending Balance Individually Evaluated For Impairment	Ending Balance Collectively Evaluated For Impairment
DECEMBER 31, 2022			
Real Estate:			
Residential	**$196,473,737**	**$30,265**	**$196,443,472**
Commercial	**108,791,978**	-	**108,791,978**
Commercial and industrial	**16,157,777**	-	**16,157,777**
Consumer	**310,296**	-	**310,296**
Total	**$321,733,788**	**$30,265**	**$321,703,523**
DECEMBER 31, 2021			
Real Estate:			
Residential	$ 165,964,774	$ 36,386	$ 165,928,388
Commercial	97,662,897	-	97,662,897
Commercial and industrial	17,022,198	-	17,022,198
Consumer	315,079	-	315,079
Total	$ 280,964,948	$ 36,386	$ 280,928,562

In the normal course of business, the Company modifies loan terms for various reasons. These reasons may include as a retention strategy to compete in the current interest rate environment, and to re-amortize or extend a loan term to better match the loan's payment stream with the borrower's cash flows. A modified loan is considered to be a Troubled Debt Restructure ("TDR") when the Company has determined that the borrower is troubled (i.e. experiencing financial difficulties) and a concession is made by the Company that would not otherwise be considered for a borrower or collateral with similar credit risk characteristics. The Company evaluates the probability that the borrower will be in payment default on any of its debt in the foreseeable future without modification. To make this determination, the Company performs a global financial review of the borrower and loan guarantors to assess their current ability to meet their financial obligations.

When the Company restructures a loan to a troubled borrower, the loan terms (i.e. interest rate, payment, amortization period, and/or maturity date) are modified in such a way to enable the borrower to cover the modified debt service payments based on current financials and cash flow adequacy. If a borrower's hardship is thought to be temporary, then modified terms are only offered for that time period. Where possible, the Company obtains additional collateral and/or secondary payment sources at the time of the restructure in order to put the Company in the best possible position if the borrower is not able to meet the modified terms. To date, the Company has not forgiven any principal as a restructuring concession. The Company will not offer modified terms if it believes that modifying the loan terms will only delay an inevitable permanent default.

All loans designated as TDRs are considered impaired loans and may be in either accruing or non-accruing status. The Company's policy for recognizing interest income on impaired loans does not differ from its overall policy for interest recognition. Accordingly, the accrual of interest is discontinued when principal or interest is delinquent for 90 days or more unless the loan is well-secured and in the process of collection. If the loan was accruing at the time of the modification, then it continues to be in accruing status subsequent to the modification. Non-accrual

TDRs may return to accruing status when there has been sufficient payment performance for a period of at least six months. TDRs are considered to be in payment default if, subsequent to modification, the loans are transferred to non-accrual status. Loans may be removed from TDR status in the calendar year following the modification if the interest rate at the time of modification was consistent with the interest rate for a loan with comparable credit risk and the loan has performed according to its modified terms for at least six months.

There was one loan totaling $30,265 and $36,386 that was classified as a TDR at December 31, 2022 and December 31, 2021, respectively. At December 31, 2022 and 2021, this one TDR loan was classified as non-accrual. There were no loan modifications made in 2022 and 2021 that resulted in a TDR classification at year-end.

If a loan was considered to be impaired prior to modification as a TDR, then there is no impact on the ALLL as a result of the modification because the loan was already being evaluated individually for impairment. If a loan was not impaired prior to modification as a TDR, then there could be an impact on the ALLL as a result of the modification because of the movement of the loan from the pools of loans being evaluated collectively for impairment to being evaluated individually for impairment. Since there were no new modifications in 2022 and 2021, there was no additional ALLL analysis needed. The volume and type of TDR activity are considered in the assessment of the local economic trends qualitative factor used in the determination of the ALLL for loans that are evaluated collectively for impairment.

The Company did not charge off any loan that was classified as a TDR at December 31, 2021 and December 31, 2020 in either 2022 or 2021, respectively. There were no other TDRs that subsequently defaulted during the years ended December 31, 2022 and 2021.

NOTE 6 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. 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 amount recognized in the balance sheet.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit written is represented by the contract or notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The following table identifies the contract or notional amount of those instruments at December 31, 2022 and 2021:

	2022	2021
Financial instruments whose contract amounts represent credit risk:		
Commitments to grant loans	**$10,375,763**	$13,847,635
Unfunded commitments under lines of credit	**35,437,057**	32,367,181
Standby letters of credit	**1,209,127**	942,127

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. Some of the commitments are expected to expire without being drawn upon. The total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and

income-producing commercial properties. At December 31, 2022 and 2021, the Company's fixed rate loan, commitments totaled $3,003,483 and $2,284,741, respectively.

Outstanding letters of credit written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next twelve months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Company requires collateral supporting these letters of credit as deemed necessary. Management believes that the proceeds obtained through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The current amount of the liability as of December 31, 2022 and 2021 for guarantees under standby letters of credit issued is not material.

NOTE 7 - PREMISES AND EQUIPMENT

Major classifications of premises and equipment at December 31, 2022 and 2021 are summarized as follows:

	2022	2021
Land	**$ 2,105,339**	$ 2,105,339
Buildings and leasehold improvements	**9,135,259**	9,135,259
Furniture and fixtures	**5,778,020**	5,571,370
Computer software	**1,412,448**	1,412,448
	18,431,066	18,224,416
Accumulated depreciation and amortization	**(11,297,839)**	(10,828,136)
Total	**$ 7,133,227**	$ 7,396,280

Depreciation and amortization charged to operations was $469,703 and $453,571 in 2022 and 2021, respectively.

NOTE 8 - DEPOSITS

Time deposits include certificates of deposit in denominations of $250,000 or more. Such deposits aggregated $14,837,447 and $3,709,257 at December 31, 2022 and 2021, respectively.

The following schedule represents the maturity of time deposits at December 31, 2022:

2023	**$26,334,105**
2024	**14,405,758**
2025	**483,231**
2026	**76,310**
2027	**250,120**
Total	**$41,549,524**

Deposits from principal officers, directors, and their affiliates at year-end 2022 and 2021 were $3,823,450 and $4,400,535, respectively.

NOTE 9 - BORROWED FUNDS AND AVAILABLE CREDIT ARRANGEMENTS

The Bank maintains a credit arrangement, which includes a revolving line of credit with the FHLB. Under this credit arrangement, the Bank has a borrowing limit of approximately $184.1 million at December 31, 2022 that is subject to annual renewal and typically incurs no service charges. Any loans or letters of credit generated with this credit facility are secured by a blanket security agreement on outstanding residential mortgage loans, other real estate related collateral, and U.S. government agencies and mortgage-backed securities. As of December 31, 2022,

the Bank had one credit arrangement with the FHLB which totaled $5.4 million. The borrowing had a weighted average interest rate of 3.30% and a maturity date of July 19, 2023. As of December 31, 2021, the Bank had no FHLB borrowed funds outstanding. In December 2021, the Bank prepaid all of its $7.0 million in FHLB borrowings outstanding and incurred a prepayment fee of $180,243 and accounted for the transaction as early debt extinguishment. During 2022 and 2021, interest expense on FHLB borrowings totaled $146,372 and $137,408, respectively.

The Bank has borrowing access capabilities through the Federal Reserve Bank ("FRB") discount window. This access allows the Bank to borrow money, usually on a short-term basis, to meet temporary liquidity needs. As of December 31, 2022, the Bank had a borrowing capacity of approximately $1.8 million. Discount window borrowings are fully secured through a pledge of mortgage-backed and U.S. government agency securities to the FRB of Cleveland. The Bank had no FRB discount window borrowings outstanding as of December 31, 2022 and 2021.

The Bank has an established $10.0 million guidance line of credit with Truist Bank for repurchase and reverse repurchase transactions and a $4.0 million guidance line of credit for the purchase of federal funds. The $4.0 million guidance line of credit has no prescribed termination date and is not a committed facility, as Truist Bank reserves the right to cancel the line at any time at its sole discretion. The Bank has $8.8 million, $7.5 million, and $5.0 million federal funds purchase lines of credit with Zions First National Bank, ACBB, and PNC Bank, respectively, all of which have no prescribed termination date and are not committed facilities. The Company also has a credit facility line of credit of $3.0 million with ACBB. These facilities are intended to provide for short-term liquidity needs for the Bank and the Company. For the years ended December 31, 2022 and 2021, there were no borrowings outstanding under these credit facilities.

NOTE 10 - CASH FLOW HEDGES OF INTEREST RATE RISK

The Company's objectives in using interest rate derivatives are to add stability to interest income and to manage its exposure to interest rate movements. To accomplish this objective, the Company has utilized an interest rate swap as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the payment of variable amounts to a counterparty in exchange for the Company receiving fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. During 2022, the Company entered into a $10 million notional interest rate swap receiving a fixed rate of 6.405%. The maturity date of the interest rate swap is August 18, 2024. The variable rate asset being hedged are $10 million of prime based loans.

Key features and terms of the hedging relationship are summarized as follows:

- The notional amount of the swap matches the corresponding amount of the loans;
- The fair value of the swap at inception of the hedging relationship was zero;
- The formula for computing net settlements under the swap is the same for each net settlement;
- The repricing and payment dates of the hedging instrument match the hedged transaction;
- There is no floor or cap on the variable interest rate of the swap or the loans being hedged;
- The Company considered potential payment date differences between the hedging instrument and the hedged transactions and determined that the impact of these differences is de minimis;
- Based on the Company's current assessment, it is probable that there will be sufficient interest receipts through the maturity date of the swap (i.e. the hedged transactions are probable of occurring), as the Company has existing loans in excess of the amount designated as being hedged.

The Company expects at inception that the hedging relationship will be highly effective at achieving offsetting changes in cash flows attributable to the risk being hedged because (1) the key features and terms as outlined above closely match at inception, and (2) it is probable that the swap counterparty will not default on its obligations under the swap. Ongoing assessments of the hedge effectiveness are performed on a quarterly basis.

The swap is recorded on the consolidated balance sheet in other liabilites at fair value. At December 31, 2022, the swap had an unrealized loss of $207,511, with the tax effected amount of $163,934 included in accumulated other comprehensive loss. The Company had $1,485 of loss reclassified into income from accumulated other comprehensive loss during the year ended December 31, 2022.

NOTE 11 - INCOME TAXES

The provision for federal income taxes for the years ended December 31, 2022 and 2021 is summarized as follows:

	2022	2021
Current	**$337,082**	$355,089
Deferred	**(99,082)**	(48,089)
Total	**$238,000**	$307,000

The components of the net deferred tax asset at December 31, 2022 and 2021 are as follows:

	2022	2021
Allowance for loan losses	**$ 552,888**	$ 503,445
Net unrealized loss on securities	**4,130,411**	120,069
Unrealized loss on derivatives	**43,577**	-
Deferred and post-retirement benefit plans	**472,161**	396,458
Non-accrual loan interest	**3,855**	3,431
Total Deferred Tax Assets	**5,202,892**	1,023,403
Deferred origination fees and costs	**51,147**	16,606
Investment securities accretion	**115,238**	87,358
Depreciation	**148,327**	184,260
Total Deferred Tax Liabilities	**314,712**	288,224
Net Deferred Tax Asset	**$4,888,180**	$ 735,179

As of December 31, 2022, the Company had no unrecognized tax benefits as defined by FASB ASC 740-10-25, Accounting for Uncertainty in Income Taxes. The Company does not expect the total amount of unrecognized tax benefits to significantly increase within the next twelve months. As of December 31, 2022 and 2021, the Company did not incur any interest or penalties associated with its tax position. Any amount, if applicable, would be included as part of other non-interest expense. The Company is subject to federal income tax as well as a capital-based state franchise tax.

The Company establishes a valuation allowance when it is more-likely-than-not that the Company will not be able to realize the benefit of the deferred tax assets or when future deductibility is uncertain. Periodically, the need for a valuation allowance is reviewed and adjusted based on management's assessment of realizable deferred tax assets.

The Company is no longer subject to examination by taxing authorities for years before 2019.

Notes to Consolidated Financial Statements

The total tax provision for financial reporting purposes differed from the amount computed by applying the federal statutory income tax rate of 21% in 2022 and 2021 to income before income taxes. The differences are as follows:

	2022	2021
Tax at statutory rate	**$ 436,032**	$ 508,326
Effect of tax-exempt income	**(194,926)**	(220,217)
Other	**(3,106)**	18,891
Income Tax Expense	**$ 238,000**	$ 307,000

NOTE 12 - CONTINGENCIES AND COMMITMENTS

There are no material legal proceedings to which the Company is party to except proceedings which arise in the normal course of business and, in the opinion of management, will not have any material effect on the consolidated financial position of the Company.

The Company leases three office facilities and a parking lot lease with terms of between two and five years with multiple renewal options.

NOTE 13 - EMPLOYEE BENEFITS

401(k) Profit Sharing Plan
The Company has a non-contributory profit sharing and integrated contributory 401(k) plan in which eligible employees participate. The Company is required to make a "safe harbor" contribution to the plan of at least 3% of eligible employee's compensation. This "safe harbor" contribution is fully vested and is referred to as a non-elective contribution. The Company also makes a matching contribution equal to 100% of each participant's contributions up to a maximum of 3% of their salary. In addition, the Company may make discretionary contributions to the profit-sharing plan as determined by the Board of Directors. The total plan contribution expense for 2022 and 2021 was $325,052 and $316,052, respectively.

Post-Retirement Life Insurance Benefits
The Company provides term life insurance benefits for its retired employees. All employees may become eligible for these benefits, provided they do not retire prior to reaching age sixty-five.

The projected accumulated post-retirement benefit obligation, which is unfunded, totaled $150,914 and $177,392 as of December 31, 2022 and 2021, respectively. It is computed using various actuarially determined assumptions regarding participant mortality, withdrawal and retirement rates, salary scales, discount rates, and disabled mortality rates. The Company has the right to amend or terminate these benefits.

The net periodic post-retirement benefit cost, which consists primarily of service costs and interest on the accumulated benefit obligation, totaled $7,859 and $8,850 in 2022 and 2021, respectively. For 2022 and 2021, interest cost was computed using a discount rate of 2.85% and 2.50%, respectively.

Supplemental Employee Retirement Plan
The Company also maintains a nonqualified Supplemental Employee Retirement Plan ("SERP"). The SERP was established to provide a full level of retirement benefit for certain executives who otherwise would have been bound by existing qualified plan limitations. As of December 31, 2022, the vested obligations of the SERP totaled $1.6 million. The obligations under the retirement benefit portion of the plan are unfunded; however, the Company has purchased life insurance policies on the covered executives which are actuarially designed to offset the

annual expenses associated with the plan and will, given reasonable actuarial assumptions, offset all of the plan's costs during the life of the executives and provide a complete recovery of all plan costs at the executive's death. The Company is the sole owner and beneficiary of all policies. Net periodic expense for the SERP for 2022 and 2021 included in non-interest expense was $217,531 and $209,016, respectively.

Phantom Stock Plan

During 2021, the Company adopted a Phantom Stock Plan ("PSP"). The purpose of the PSP is to aid the Company in attracting and retaining capable officers and to improve growth and profitability by providing the participants with a propriety interest in the Company as an incentive to continue to contribute to its success. The value of the PSP shares is tied to the book value of the Company. The awards vest over a three-year period, and the value at vesting includes accumulated dividends paid during the period. The PSP shares are not equity, contain no voting rights, and do not dilute actual shares of the Company that are outstanding. The Company awarded 15,040 shares under the plan and recorded related compensation expense of $113,400 in 2022 and $64,328 in 2021. There were 1,069 shares forfeited in 2022. In each subsequent year, the value of the remaining shares is adjusted to reflect the additional pro-rata share of the award that the participant has earned. As of December 31, 2022, there are 7,031 shares earned and will fully vest after the three year vesting period has been obtained. The value of the earned but not fully vested shares at December 31, 2022 was approximately $177,728. At the current PSP per share value, projected future expense over the remaining vesting periods equals $179,530. This amount is subject to adjustment each year based on the financial performance of the Company. The Company must revalue the remaining shares each year and record that amount as a liability. Awards are settled in cash after the required vesting period has been satisfied.

NOTE 14 - OTHER EXPENSES

The following is an analysis of other expenses for the years ended December 31, 2022 and 2021:

	2022	2021
Computer services	**$ 480,330**	$ 495,236
ATM processing expense	**299,749**	284,140
Advertising	**167,511**	216,654
Director fees	**242,120**	234,160
Corporate insurance	**117,636**	108,627
Regulatory assessments	**80,440**	75,505
Telecommunications	**122,497**	104,309
Charitable contributions	**169,614**	144,172
Other	**806,875**	645,599
Total	**$2,486,772**	$2,308,402

NOTE 15 - FAIR VALUE MEASUREMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year-ends and have not been re-evaluated or updated for purposes of these financial instruments subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

FASB ASC 820, Fair Value Measurements and Disclosures, establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to

unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are as follows:

- Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability;
- Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2022 and 2021 are as follows:

	Fair Value	Level 1	Level 2	Level 3
DECEMBER 31, 2022				
U.S. treasuries, U.S. government agencies and corporations	**$ 59,404,929**	**$ -**	**$ 59,404,929**	**$ -**
Obligations of states and political subdivisions	**28,634,970**	**-**	**28,634,970**	**-**
Debt of other financial institutions	**431,025**	**-**	**431,025**	**-**
Residential collateralized mortgage obligations guaranteed by U.S. government agencies	**38,230,123**	**-**	**38,230,123**	**-**
Mortgage-backed securities	**18,991,540**	**-**	**18,991,540**	**-**
Total	**$145,692,587**	**$ -**	**$145,692,587**	**$ -**
DECEMBER 31, 2021				
U.S. treasuries, U.S. government agencies and corporations	$ 62,438,331	$ 4,925,938	$ 57,512,393	$ -
Obligations of states and political subdivisions	35,647,627	1,192,851	34,454,776	-
Debt of other financial institutions	500,000	-	500,000	-
Residential collateralized mortgage obligations guaranteed by U.S. government agencies	46,611,942	5,964,064	40,647,878	-
Mortgage-backed securities	21,132,614	-	21,132,614	-
Total	$ 166,330,514	$12,082,853	$ 154,247,661	$ -

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

The following information should not be interpreted as an estimate of the fair value of the entire Company, since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and

assumptions were used to estimate the fair values of the Company's financial instruments at December 31, 2022 and 2021:

Cash and Due from Banks and Interest-Bearing Deposits with Banks (Carried at Cost)
The carrying amount of cash and short-term instruments approximate their fair value.

Securities Available for Sale (Carried at Fair Value)
The fair value of securities available for sale is determined by obtaining quoted market prices in nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted prices. For certain securities which are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence (Level 3). In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support on certain Level 3 investments. The entire Company's available for sale securities used valuation methodologies associated with Level 1 and Level 2 techniques at December 31, 2022 and 2021.

Loans (Carried at Cost)
The loan portfolio fair value analysis consists of two segments: (1) a credit adjustment to reflect the estimated adjustment to the carrying value of the loans due to credit-related factors; and, (2) a yield adjustment to reflect the estimated adjustment to the carrying value of the loans due to a differential in yield between the portfolio loan yields and estimated current market rate yields on loans with similar characteristics.

To determine a credit adjustment, the loan portfolio was divided into two segments: (1) performing loans and (2) non-accrual loans. The credit adjustment was calculated on the portfolio of performing loans to account for the estimated credit losses that could expect to be realized over the remaining life of the subject loan portfolio, in the absence of a liquid market or direct quotes for loans comparable to the performing loans in the Company's loan portfolio. In this regard, three primary sources of information were considered in developing a market-based credit adjustment: (1) the Company's recent loan charge-off history for loans with similar collateral characteristics and/or purposes; (2) an outsourced proprietary model that utilizes customized default, prepayment, and severity rates at the loan level for real estate loans and at the cohort level for all other loan types (based on the objective attributes of the loan with statistical performance variables in the peer marketplace); and, (3) the Company's internal allowance for loan and lease losses analysis for performing loans. The customized model places an emphasis on two critical underwriting factors for the residential loan portfolio; credit score and loan to value.

Loans classified as non-accrual were segregated and an estimated credit adjustment reserve level was assumed from a third-party perspective.

To determine a yield adjustment, future cash flows were projected based on remaining term, weighted average coupon, estimated months until maturity or repricing and an estimated rate of prepayments. Projected monthly cash flows were then discounted to present value using a risk-adjusted market rate. The risk-adjusted market rate reflects the approximate risk-adjusted market rate in existence at the valuation date for similar loans, taking into account regional market conditions, including a premium applied, based on the Company's assessment reflecting the lack of marketability and liquidity of the loans relative to a base index. The fair value adjustment was then calculated as the difference between the current principal balance and the present value of future cash flows.

Mortgages Held for Sale (Carried at Lower of Cost or Fair Value)
The carrying amount of mortgages held for sale approximate their fair value.

Impaired Loans With Specific Loss Allowances (Carried at Fair Value)
The fair value of impaired loans with specific loss allowances is measured using the estimated fair market value of the collateral less the estimated costs to sell. Fair value of the collateral is typically determined by appraisal. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly. As of December 31, 2022, and 2021, the Company had no impaired loans with a specific allowance.

Foreclosed Real Estate (Net Realizable Value)
The fair value of foreclosed real estate is measured using the estimated fair value of the collateral less the estimated costs to sell. Fair value is typically determined by an appraisal. As of December 31, 2022, and 2021, the Company had no foreclosed real estate.

Restricted Investments in Bank Stock (Carried at Cost)
The carrying amount of restricted investments in bank stock approximates fair value and considers the limited marketability of such securities.

Accrued Interest Receivable and Payable (Carried at Cost)
The carrying amount of accrued interest receivable and accrued interest payable approximates their fair value.

Deposits (Carried at Cost)
The fair value disclosed for non-interest and interest-bearing checking, statement and passbook savings, and money market accounts is, by definition, equal to the amount payable on demand at the reporting date (i.e., the carrying amounts). Fair value for fixed-rate certificates of deposit is estimated using a discounted cash flow calculation that applies interest rates currently being offered in the marketplace on similar certificates to a schedule of aggregated expected monthly maturities on time deposits.

Borrowed Funds (Carried at Cost)
The fair value for borrowings are estimated using discounted cash flow analyses using interest rates for instruments for similar terms.

Derivatives
The fair value of derivatives are based on valuation models using observable market data as of the measurement date (level 2). Our derivatives are traded in an over-the-counter market where quoted market prices are not always available. Therefore, the fair values of derivatives are determined using quantitative models that utilize multiple market inputs. The inputs will vary based on the type of derivative, but could include interest rates, prices and indices to generate continuous yield or pricing curves, prepayment rate, and volatility factors to value the position. The majority of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services.

Notes to Consolidated Financial Statements

The carrying amount and fair values of the Company's financial instruments were as follows at December 31, 2022 and 2021:

	Carrying Amount	Fair Value	(Level 1) Quoted Prices in Active Market for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
DECEMBER 31, 2022					
Financial Assets					
Cash and due from banks	**$ 23,466,015**	**$ 23,466,015**	**$23,466,015**	**$ -**	**$ -**
Interest-bearing deposits with banks	**1,136,356**	**1,136,356**	**1,136,356**	-	-
Securities available for sale	**145,692,587**	**145,692,587**	-	**145,692,587**	-
Net loans	**318,846,357**	**293,124,645**	-	-	**293,124,645**
Restricted investments in bank stock	**2,379,600**	**2,379,600**	-	**2,379,600**	-
Accrued interest receivable	**1,131,751**	**1,131,751**	-	**1,131,751**	-
Financial Liabilities					
Deposits	**$481,382,309**	**$481,421,511**	**$ -**	**$481,421,511**	**$ -**
Borrowed funds	**5,378,970**	**5,326,980**	-	**5,326,980**	-
Derivative instruments	**207,511**	**207,511**	-	**207,511**	-
Accrued interest payable	**57,096**	**57,096**	-	**57,096**	-
DECEMBER 31, 2021					
Financial Assets					
Cash and due from banks	$ 37,648,643	$ 37,648,643	$ 37,648,643	$ -	$ -
Interest-bearing deposits with banks	2,098,554	2,098,554	2,098,554	-	-
Securities available for sale	166,330,514	166,330,514	12,082,853	154,247,661	-
Net loans	278,092,568	281,101,248	-	-	281,101,248
Restricted investments in bank stock	2,340,700	2,340,700	-	2,340,700	-
Accrued interest receivable	935,011	935,011	-	935,011	-
Financial Liabilities					
Deposits	$ 463,445,821	$ 463,468,331	$ -	$ 463,468,331	$ -
Accrued interest payable	2,773	2,773	-	2,773	-

NOTE 16 - REGULATORY MATTERS

Cash and Due from Banks

The Federal Reserve Board requires the Bank to maintain a reserve requirement against specified deposit liabilities. On March 26, 2020, the reserve requirement ratios were set to zero percent by The Federal Reserve Board.

Dividends

Banks are subject to dividend payout restrictions, which generally limit the amount of dividends that can be paid by an FDIC insured bank. In addition to the minimum risk-based requirements outlined below, banks must hold common equity tier 1 capital in an amount greater than 2.50% of total risk-weighted assets ("the capital conservation buffer") to avoid being subject to limits on capital distributions such as dividend payments. At December 31, 2022, the Bank's capital conservation buffer was 6.44%.

Capital Requirements

The Bank is subject to various regulatory capital requirements administered by its federal and state 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 Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of 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.

The Bank is subject to the Basel III capital requirements as adopted by the FDIC. These requirements include a required ratio for Total Risk Based Capital, Tier 1 Risk Based Capital, Common Equity Tier 1 Risk Based Capital ("CET 1"), and the Tier 1 Leverage ratio. There is also an additional capital conservation buffer over the required capital ratios.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of Total and Tier 1 capital (as defined in the regulations) to risk-weighted assets, and of Tier 1 capital to average assets. Under the Basel III reporting requirements, CET 1 risk-based capital with a minimum capital requirement of 4.50% of risk weighted assets was established. Management believes, as of December 31, 2022, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2022 and 2021, the most recent notifications from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

Notes to Consolidated Financial Statements

The Bank's actual capital amounts and ratios and the minimum amounts and ratios required for capital adequacy purposes and to be well capitalized under the prompt corrective action provisions are as follows:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
DECEMBER 31, 2022						
Total risk-based capital to risk-weighted assets	**$43,082,000**	**14.44%**	**≥$23,860,320**	**≥ 8.00%**	**≥ $29,825,400**	**≥10.00%**
Tier 1 capital to risk-weighted assets	**39,950,000**	**13.39%**	**≥ 17,895,240**	**≥ 6.00%**	**≥ 23,860,320**	**≥ 8.00%**
CET 1 risk-based capital	**39,950,000**	**13.39%**	**≥ 13,421,430**	**≥ 4.50%**	**≥ 19,386,510**	**≥ 6.50%**
Tier 1 capital to average assets	**39,950,000**	**7.38%**	**≥ 21,643,720**	**≥ 4.00%**	**≥ 27,054,650**	**≥ 5.00%**
DECEMBER 31, 2021						
Total risk-based capital to risk-weighted assets	$ 42,076,000	15.91%	≥ $21,157,200	≥ 8.00%	≥ $26,446,500	≥10.00%
Tier 1 capital to risk-weighted assets	39,124,000	14.79%	≥ 15,867,900	≥ 6.00%	≥ 21,157,200	≥ 8.00%
CET 1 risk-based capital	39,124,000	14.79%	≥ 11,900,925	≥ 4.50%	≥ 17,190,225	≥ 6.50%
Tier 1 capital to average assets	39,124,000	7.84%	≥ 19,972,360	≥ 4.00%	≥ 24,965,450	≥ 5.00%

Community Reinvestment Act Program

The Bank is dedicated to helping our local communities prosper. We are committed to serving the credit and banking needs of the communities in which we do business. We recognize this requires us to take a proactive, rather than a passive approach in determining and meeting community credit needs, including those of creditworthy low- and moderate-income areas and individuals while helping to foster development in those area. We are committed to working with community organizations to promote the availability of credit and other banking services as needed in the communities that we serve. This philosophy of commitment to our stakeholders and communities means we participate not to meet a requirement, but to fulfill a purpose.

From the boardroom to our banking centers, our purpose and goal is to help individuals, families and businesses thrive. We accomplish this through:

- Delivery of consumer and commercial banking products and services to the communities we serve;
- Participating in and promoting grant programs to help meet the needs of low to moderate income borrowers and helping individuals in our communities to become first-time homeowners;
- Meeting with community-based organizations to understand their needs;
- Providing financial education opportunities to students, customers, and the public;
- Commitment to the community through sponsorships, charitable donations, volunteerism, and promoting charitable organizations;
- Investment in the professional development of our staff and management to encourage active participation in professional associations and encouraging involvement in the community; and
- Developing, implementing, and measuring our CRA activities.

It is the policy of the Bank to make an active effort to determine the credit needs of our entire community, including those of low and moderate income areas and individuals. The Bank will work to ensure that this is done by identifying people who can speak to these needs, such as community organizations, government officials, non-profit groups, businesses, trade associations and church and educational leaders.

The Bank will make an active effort to know the people in local organizations concerned with community development and the needs of low and moderate income people. Our needs assessment contacts will be a regular vehicle for ensuring good communication with them.

The Bank provides time for and encourages our team members to participate in charitable, civic, and educational events. Throughout the year, varying forms of outreach activities are planned and scheduled by management that include offsite service days to campaigns for donations of goods or money. Management is also encouraged to identify organizations and community centers of influence to connect, serve on boards, and keep abreast of the changes and needs of the community. Each year, dozens of organizations benefit from the expertise of Bank participation and we look to continue this important purpose as we move forward.

Regulatory agencies perform periodic evaluations of the performance of banks under CRA. The Bank received a "Satisfactory" rating for our last CRA Performance Evaluation dated September 19, 2022. Copies of the Performance Evaluation are available from the Bank upon request or can be obtained at www.fdic.gov/hardcopy.html.

MARS BANCORP AND MARS BANK BOARD OF DIRECTORS

Janet L. van Buskirk Balentine
Chairman, Settlement Officer - Retired

J. Jay Thier
Vice Chairman, Stirling Capital

Harry G. Austin III
James Austin Company - Retired

Dr. Daniel J. Cole
Three Rivers Urology - UPMC

James V. Dionise
Mars Bancorp and Mars Bank

Kenneth R. Fleeson
Lectromat, Inc.

Dianne Dobson Howard
Lord Corporation - Retired

Gregory B. Mensch
Naval Nuclear Laboratory

Steven D. Thompson
Schneider Downs & Co., Inc.

Dallas C. Hipple
Emeritus

R. Bruce Mensch
Emeritus

Patricia Sutton van Buskirk
Emeritus

MARS BANCORP AND MARS BANK EXECUTIVE LEADERSHIP TEAM

James V. Dionise
President
Chief Executive Officer

Michael J. Kirk
Executive Vice President
Chief Financial Officer, Treasurer, and Secretary

MARS BANK SENIOR LEADERSHIP TEAM

James V. Dionise
President
Chief Executive Officer

Michael J. Kirk
Executive Vice President
Chief Financial Officer, Treasurer, and Secretary

Daniel F. Doyle
Vice President
Administrative Services Officer

Mark D. Drenchko
Senior Vice President
Chief Commercial Banking Officer

Stephen L. Eckert
Senior Vice President
Chief Marketing Officer

Stephanie A. Embry
Senior Vice President
Chief Retail Banking Officer

James M. Hein
Senior Vice President
Controller

Lisa M. Kooker
Senior Vice President
Chief Credit Officer

Michael W. McGraw
Senior Vice President
Chief Information Officer

Travis Squyres
Senior Vice President
Chief Risk Officer

Tracie L. Williams
Senior Vice President
Chief Human Resources Officer

Mars Bancorp Board of Directors

Mars Bancorp

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Mars Bank

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Heritage Creek
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