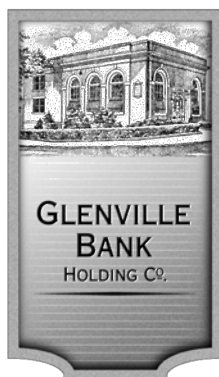




2022 ANNUAL REPORT
Glenville Bank Holding Company

2022 Annual Report



Glennville Bank Holding Company, Inc. (GBHC) is a financial holding company whose principal activity is the ownership of its two wholly-owned subsidiaries, 1st National Bank of Scotia (the “Bank”) and Scautub Agency, LLC (the “Agency”). The consolidated financial statements include accounts of the GBHC, the Bank and the Agency, after elimination of intercompany transactions.

We understand how important good service is to delivering customer satisfaction and are pleased to have been serving the local community since the 1920’s. 1st National Bank of Scotia and Scautub Agency, LLC offer a wide range of banking and insurance services to meet all your financial needs. A friendly officer or customer service specialist will be happy to answer your questions or discuss your needs.

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Report of the Chairman and President

Dear Shareholder:

We are pleased to report another successful year for your company with record earnings for both the Bank and insurance subsidiaries! From our perspective, we have found that the Capital Region of New York is quite resilient and economic activity in our market has been strong, despite high inflation and a tight labor market nationally. Driven mainly by three years of cash accumulation and debt reduction, both consumer and commercial customers have begun to show confidence and have allowed the Bank and Agency great opportunities to expand existing relationships and build new ones.

While wrapping up our 99th year and preparing to enter 1st National's centennial year we have enjoyed looking back at the written history of the Bank and the people that have kept us a vibrant and essential part of our community's economy. As we read the President and Chairman's special letter to the shareholders marking the Bank's 50th anniversary, it struck us as prophetic that 1st National Bank of Scotia has remained relevant and a constant resource for our community for nearly 100 years.

Published in November 1973, the following words from Chairman K.E. Buhrmaster and President L.H. Buhrmaster seem like they could have been written today: *"The pressures for change in our banking system stem, in a large part, from the technological revolution which came to our industry with the greater use of sophisticated electronic equipment and high-speed computers. Although we have the experience of 50 years of bank operations, we believe we are only at the beginning of a great expansion of banking services. How will we at First National handle these revolutionary changes? We are sure our highly competent staff will measure up to these new demands that we have never faced before, by continuing to think first of our customers."*

With the rapid evolution of electronic banking since the Pandemic struck in early 2020, the pace of change in our industry has been breathtaking. The community bank model had to adjust quickly during those first days of the Pandemic. 1st National quickly made, and continues to make changes in product and service delivery to our customers. Technology and workforce investments undertaken by the Bank over the last three years have transformed your Bank but would not have been possible without the strong service excellence plan we adopted through our 2018 Strategic Plan. When the Pandemic emerged in March 2020 the plan had already provided the training that prepared the Bank's staff to immediately pivot our service excellence model to the new era of a remote environment.

We have previously noted the dedication and care shown by our staff in those first few months of the Pandemic, but what is truly incredible is how these dedicated professionals have maintained the high standard of service and rapid technological advancement for the past three years. In addition to adjusting to new customer patterns and branch usage, we have added a substantial number of FinTech (financial technology) products, too numerous to include here. In addition, amid all that was happening, we successfully migrated to a new core processing system. A major change of this nature affects every customer and employee, yet it was accomplished with no impact to our customers.

Report of the Chairman and President

With relatively few concerns the transition process was remarkably transparent to our customers, and last year the conversion was officially accepted as complete. We are proud to have one of the most modern core banking systems available, along with a seat at the table as the products continue to evolve with the changing needs of our customers and the Bank.

Your bank has not been immune to the economic challenges of the last three years. With numerous technology implementations and changes needed to keep pace with the new banking environment as well as historic labor shortages in all businesses, our staff has experienced the same stress as our customers. Yet despite facing staffing shortages that have averaged 10% in all areas of the Bank, our team came to work, performed at an exceptional level, and allowed the Bank to achieve new heights. We are incredibly proud to have such a dedicated and skilled team that maintains the highest level of service excellence. Although the national economic conditions do not show signs of changing soon, we are enthusiastic that that our ability to hire and retain skilled staff has greatly improved. Combined with the traditionally solid economy in our region we are looking forward to a great 2023.

We are also seeing tremendous success in growing our small business banking portfolio. Our overall number of business banking deposit accounts grew by 35%, with overall balances doubling! Online Corporate Cash Management relationships grew by 44%, and small business ACH transactions processed online grew by an incredible 356%. Customers using our small business remote deposit services grew by 410% over the last three years. Not to be outdone, our consumer remote deposit usage grew by thousands of customers in the same period. These results are the best example of how the Bank has been able to not only keep pace with, but stay ahead of, the changing habits of our customers.

With the strong growth in our small business deposits and the rising interest rate environment the Bank's net interest margin increased this year for the first time in years. With the supply chain problems easing and real estate and vehicle prices softening, the Bank experienced record growth in the Commercial Real Estate and Indirect Vehicle financing portfolios, to \$146 and \$159 million respectively. The growth of the car loan portfolio did not come without some pain. A few conversion setbacks, combined with a decrease in used vehicle prices contributed to delinquencies and charge-off rates well above our historic norms. However, rest assured that early 2023 we are already back on track to regain our traditional industry-leading numbers.

Beyond the typical banking metrics, one of the things we always take great pride in is our commitment to reinvesting in the communities we serve. After all, what good is a Community Bank without a community? Helping our neighbors in the towns, villages, and cities in which we live and work has been part of the DNA of our bank since its founding. We are pleased to announce that for the second consecutive time 1st National Bank of Scotia was examined for compliance with the Community Reinvestment Act and received an Outstanding rating. Only a small percentage of banks in the nation receive the highest rating for program excellence, and we are proud to be one of the elite few.

Report of the Chairman and President

2023 will be an exciting year as we celebrate 100 years of making people’s lives better in the community. We have numerous events planned to showcase our history, the impact we have had on our community, and our people who have made it happen for 100 years. Of course, what would a new year be without new products and services. With the introduction of our BankOn basic 1st Checking account, a new security deposit and escrow system, and an upgraded electronic banking platform, we will be better able to serve our customers than ever before. We are also proud to be the only local bank offering a fully electronic consumer loan process, from application to closing, which has already become a popular option. And with our continued investment in technology systems and staff, our customers can feel safe knowing that our cyber and fraud protections are the best they have ever been.

An appropriate way to complete this letter is to once again reflect back to the finishing comments of that insightful letter from 1973. As we move forward with the rapidly evolving digitization of our industry, and of our lives, you can expect that *“...the activities of First National will be drastically altered, but the aims and policies of those before us will be continued. We believe that the good habits of the past can be combined with the new ways of the future.”* Specifically, your Bank and Agency will continue the mission of our founders, to provide superior relationship banking using the most modern and secure means available.

These successes have transpired because of the loyal and steadfast support of our customers, staff, board, and shareholders. We are extremely grateful for that support and pledge to continue investing in the people and businesses of our community. Thank you for your continued trust in us.



L.H. Buhrmaster
Chairman of the Board



John H. Buhrmaster
President & CEO

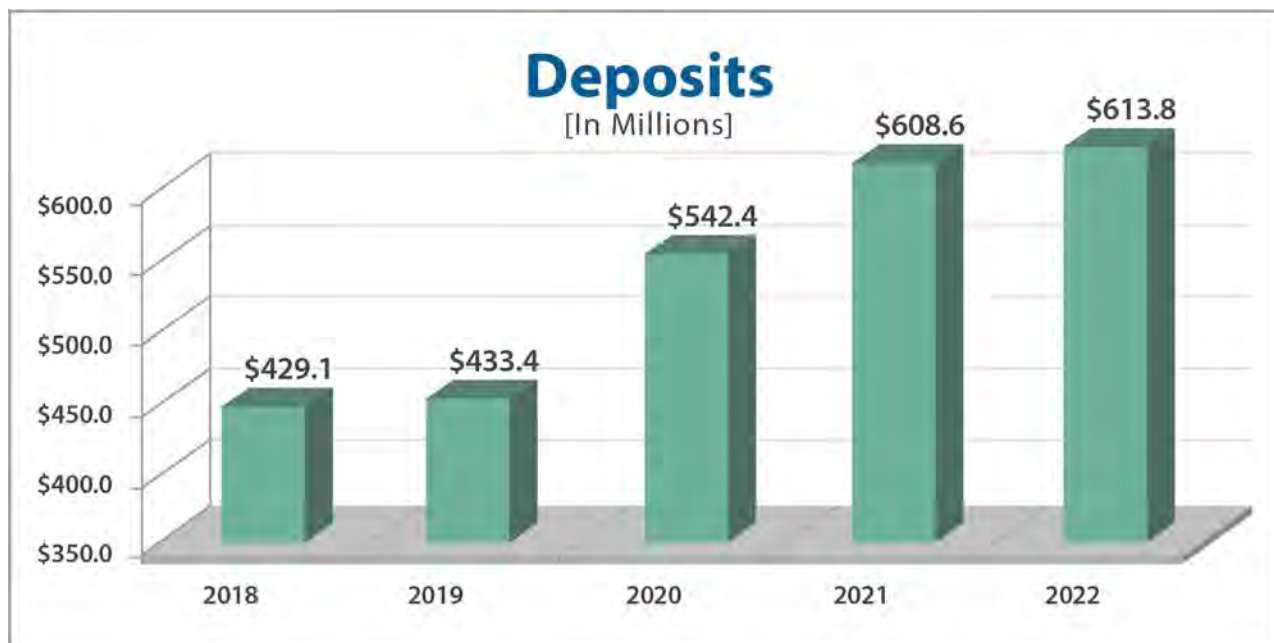
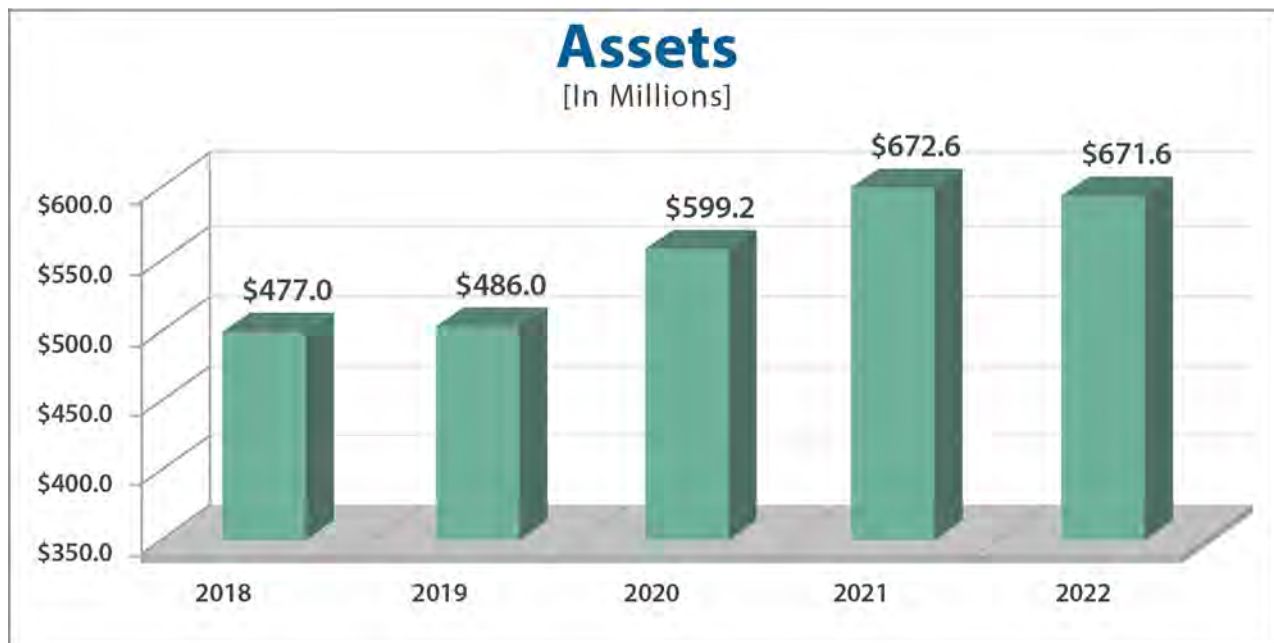
Financial Highlights - Bank Only

(all figures in thousands except per share, percentage & office figures)

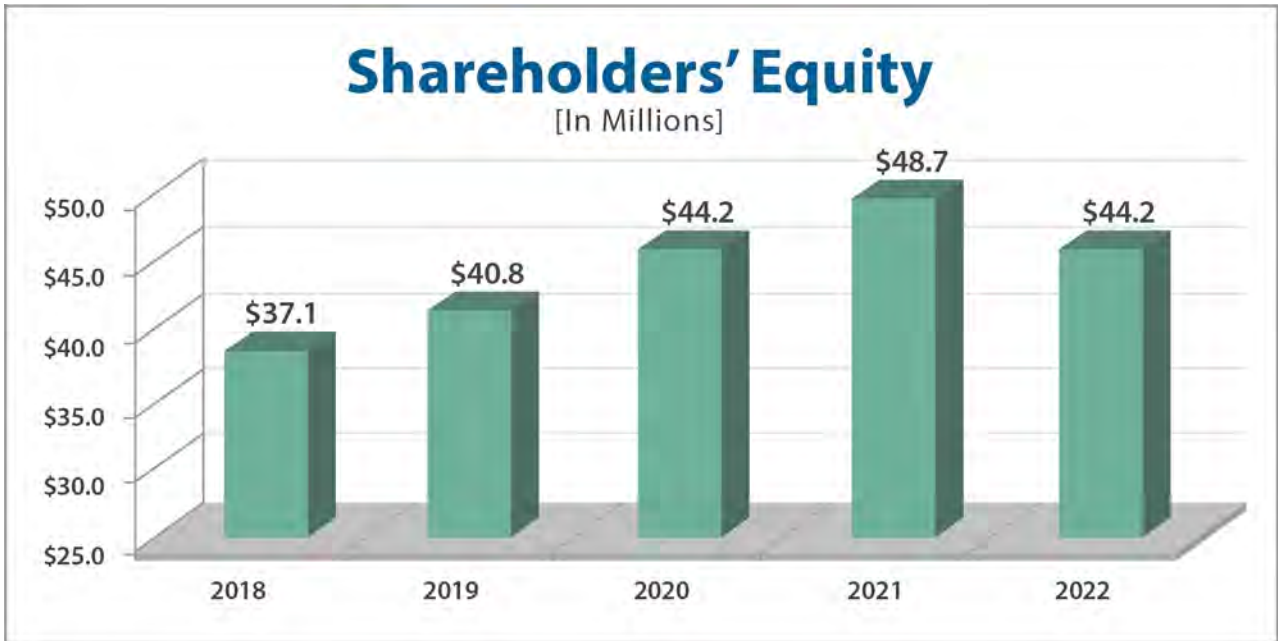
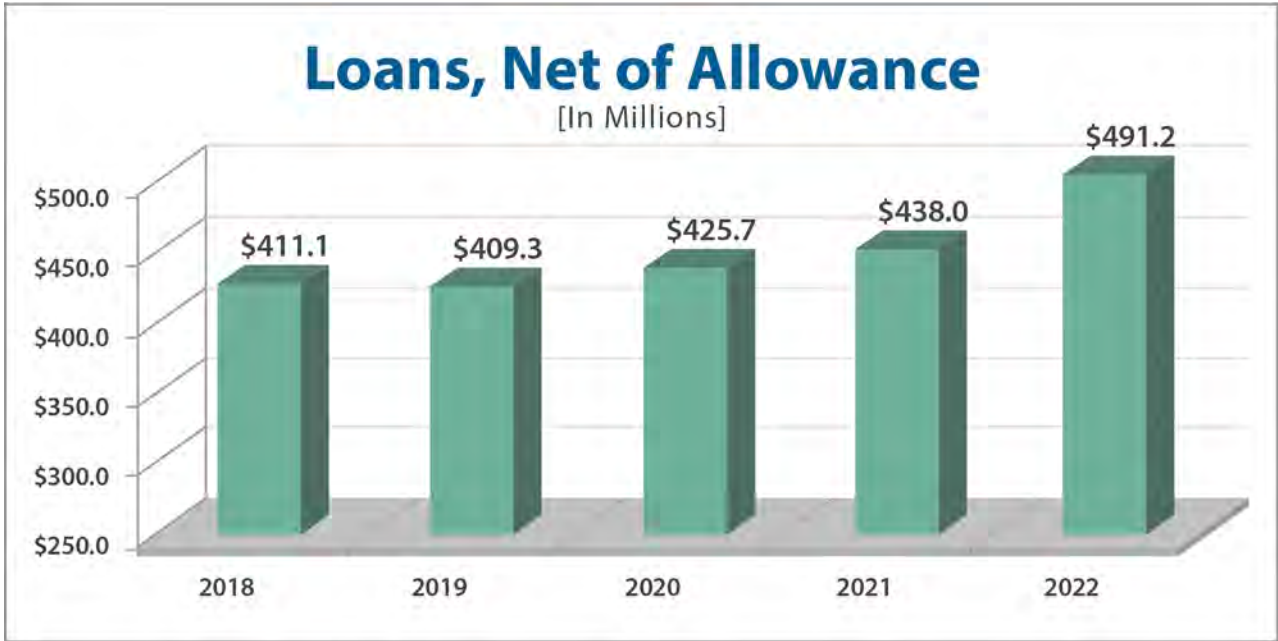
As of December 31,	(Unaudited) 2022	(Unaudited) 2021
Net Income	\$ 4,291	\$ 3,956
Basic earnings per share	\$ 23.00	\$ 21.21
Balance sheet:		
Loans, net of unearned income	\$ 497,599	\$ 444,147
Less: Allowance for loan losses	\$ (5,989)	\$ (5,673)
Total assets	\$ 669,571	\$ 670,378
Total deposits	\$ 617,397	\$ 611,641
Shareholders' equity	\$ 43,381	\$ 48,718
Ratios:		
Return on average assets	0.63%	0.61%
Return on average equity	9.44%	8.92%
Net interest margin	3.41%	3.35%
Loans to deposits	80.60%	72.62%
Tier I leverage	7.70%	7.45%
Risk-based capital	12.35%	13.01%
Allowance for loan losses to loans	1.20%	1.28%
Number of banking offices	10	10

The subsequent financial statements represent the consolidated Effects of the GBHC, the Bank, and the Agency.

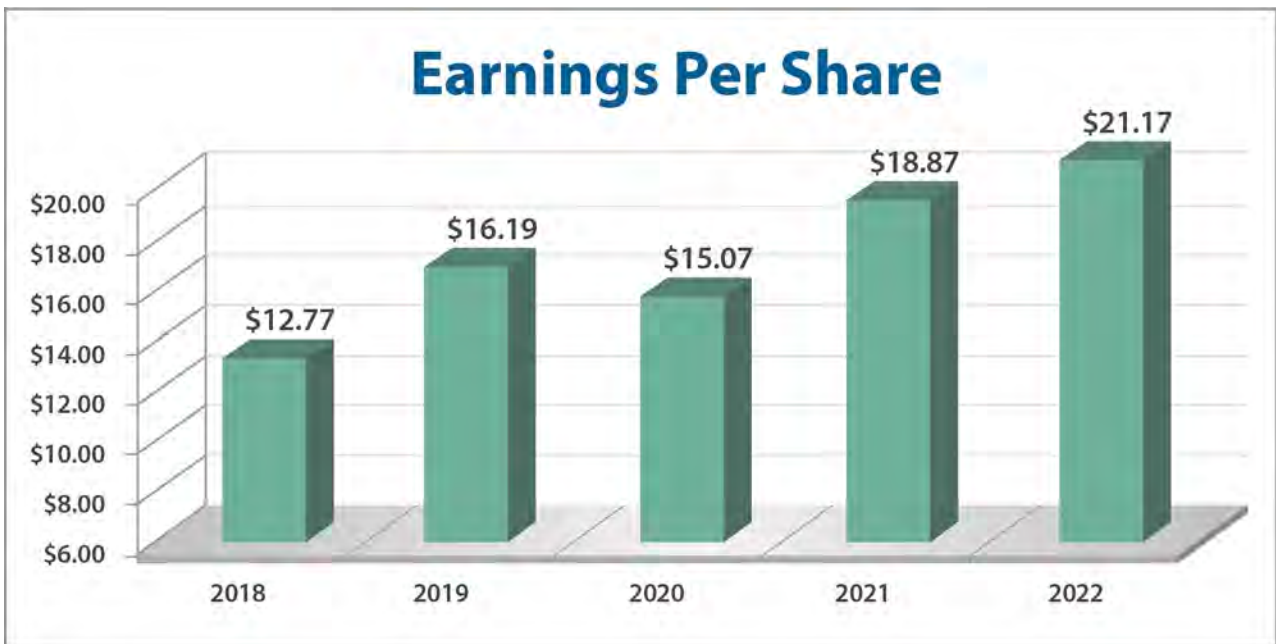
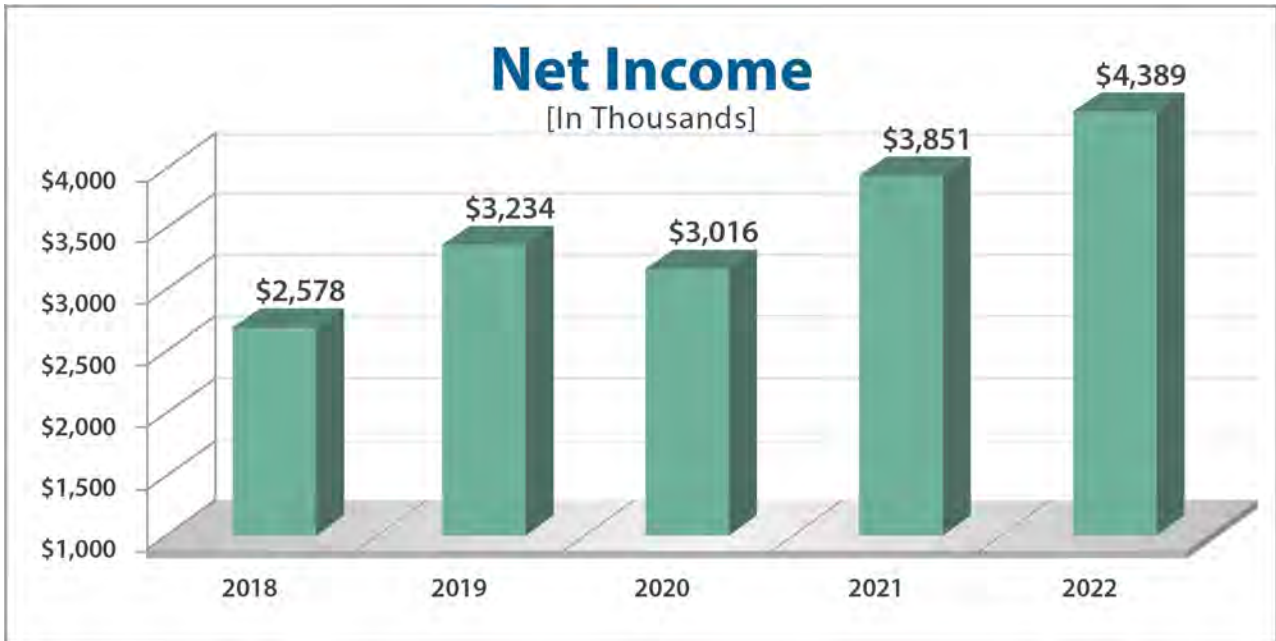
GBHC Consolidated Financial Highlights 2018-2022



GBHC Consolidated Financial Highlights 2018-2022



GBHC Consolidated Financial Highlights 2018-2022



Glenville Bank Holding Company Directors

L.H. Buhrmaster,
Chairman of the Board

John H. Buhrmaster,
President & Chief Executive Officer

Robert J. Dieterich,
Executive Vice President & Chief Financial Officer

Laura M. Dieterich,
Sr. Vice President & Corporate Secretary

David D. Montana,
President, Fortune Air, Inc.

Bruce W. McConnelee
*Retired - Hydro Mobile
Community Liaison*

Scott D. Stevens
President, Dimension Fabricators

1st National Bank of Scotia Directors



L.H. Buhrmaster,
Chairman of the Board

John H. Buhrmaster,
President & Chief Executive Officer

Laura M. Dieterich,
Sr. Vice President & Corporate Secretary

David D. Montana,
*Lead Director
President, Fortune Air, Inc.*

Bruce W. McConnelee
*Retired - Hydro Mobile
Community Liaison*

Scott D. Stevens
President, Dimension Fabricators

Karl F. Sindel
*Licensed Real Estate Salesperson
Retired - GE Information Technology*

Lynn M. Roche
*Retired - Division Executive, Banking & Wealth Management - FIS
Director, Numerated Financial
Director, Reliance Trust Company*

Honorary Director
Calvin P. Welch
*Retired – Senior Vice President & Cashier,
1st National Bank of Scotia*

1st National Bank of Scotia Officers

L.H. Buhrmaster, Chairman

John H. Buhrmaster, President & Chief Executive Officer

Robert J. Dieterich, Executive Vice President & Chief Financial Officer

Laura M. Dieterich, Sr. Vice President & Corporate Secretary

Kelly A. Gibbons, Sr. Vice President of Retail Banking

Kenneth W. Swain III, Sr. Vice President of Business Banking

Christopher R. Hebbard, Sr. Vice President & Sr. Credit Officer

William B. Faubion, Sr. Vice President

James J. Smith, Chief Information Officer

Brian V. Borini, Auditor

Kevin R. Buhrmaster, Vice President

Teresa A. Freeman, Vice President

Joyce A. Poulin, Vice President

John G. Dykeman, Vice President & Controller

Amy E. Belli, Vice President

Daniel A. Centi, Vice President

Nancy R. Harrigan, Vice President

Cheryl F. Hiller, Vice President, & BSA Officer

Laura A. Siracuse, Vice President

Debra A. Lindsay, Vice President

Tracey J. Kearns, Vice President of Retail Banking

Cynthia A. Siatkowski, Compliance Officer & CRA Officer

Tiziana Riccobene, Assistant Vice President

Louis J. Giammatteo, Assistant Vice President

Karen E. Ballester, Assistant Vice President & Marketing Officer

Lisa A. Case, Assistant Vice President

Premnarine Jaddu, Assistant Vice President

Kristen D. Faubion, Assistant Vice President

Cara K. Pabon, Assistant Vice President

Katie Jo Mohamed Ali, Assistant Vice President

Jennifer S.B. Rudolph, Assistant Vice President

Todd J. Greive, Assistant Vice President

Hannah Barr-Glindmyer, Branch Operations Officer

Anne M. Kenkel, Branch Operations Officer



1st National Bank Retail Offices and Officers



Scotia Office

Premnarine Jaddu, *Assistant Vice President*
201 Mohawk Avenue, Scotia, New York 12302
(518) 370-7200



Niskayuna Office

Jennifer S.B. Rudolph, *Assistant Vice President*
1476 Balltown Road, Schenectady, New York 12309
(518) 370-7245



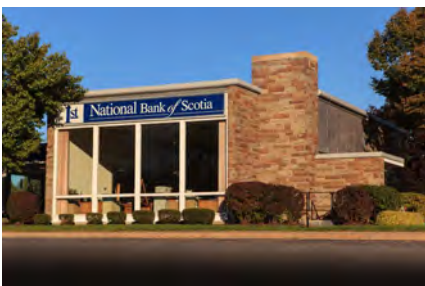
Colonie Office

Anne M. Kenkel, *Branch Operations Officer*
1705 Central Avenue, Albany, New York 12205
(518) 370-7250



Guilderland Office

Lisa A. Case, *Assistant Vice President*
8 New Karner Road at Route 20, Guilderland, New York 12084
(518) 370-7255



Glenville Office

Tracey J. Kearns, *Vice President of Retail Banking*
240 Saratoga Road, Scotia, New York 12302
(518) 370-7260

Visit us at www.firstscotia.com for a complete list of products and services.

1st National Bank Retail Offices and Officers



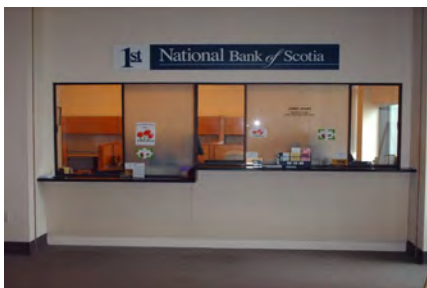
Erie Boulevard Office

Louis J. Giammatteo, *Assistant Vice President*
120 Erie Boulevard, Schenectady, New York 12305
(518) 370-7265



Saratoga Office

Katie Jo Mohamed Ali, *Assistant Vice President*
3013 Route 50, Saratoga Springs, New York 12866
(518) 370-7270



GE Global Research Center

Jennifer S.B. Rudolph, *Assistant Vice President*
1 Research Circle, Schenectady, New York 12309
(518) 370-7217



Rotterdam Office

Todd J. Greive, *Assistant Vice President*
2695 Hamburg Street, Schenectady, New York 12303
(518) 370-7285



Clifton Park Office

Hannah M. Barr-Glindmyer, *Branch Operations Officer*
1693 Route 9, Clifton Park, New York 12065
(518) 370-7290

Visit us at www.firstscotia.com for a complete list of products and services.

Scoutub Agency, LLC Directors and Officers



Steven H. Heider
Chairman of the Board
Owner, Northway Residential Services

Robert J. Dieterich
Chief Executive Officer & Corporate Secretary

David D. Montana
President, Fortune Air, Inc.

Edmund J. Catalano
President

Gertrude A. Chojecki
Vice President

Kelly A. Gibbons
Sr. Vice President, 1st National Bank of Scotia

Kenneth C. Buhrmaster
President & CEO of J.H. Buhrmaster Company, Inc.
President, Buhrmaster Propane, LLC

Personal Insurance

- Automobiles
- Home
- Umbrella Policies
- Motorcycle, ATV, Recreational Vehicles
- Boats

Business Insurance

- Business Owner's Policies
- Workers' Compensation
- New York State Disability
- Commercial Auto
- Commercial Umbrella Policies
- Cyber Security Insurance

Life Insurance

- Mortgage Protection



Principal Office: 108 North Ballston Avenue, Scotia, New York 12302
(518) 346-3427 www.scoutub.com

First Scotia Wealth Management

Investment and insurance products and services are offered through INFINEX INVESTMENTS, INC. Member FINRA/SIPC. First Scotia Wealth Management is a trade name of the bank. Infinex and the bank are not affiliated.

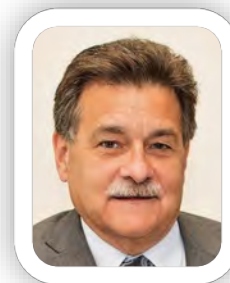


What sets us apart from other Wealth Management Advisors? We listen. We take the time to get to know you, your goals and your life. We give you the information you need to make choices that make sense for you. Our tenured advisors are devoted to earning your trust. You are our priority...**because relationships matter!**

Cynthia V. Powell, INFINEX *Financial Advisor/Program Manager*
Located at 1st National Bank of Scotia Niskayuna Office
1476 Balltown Road, Niskayuna, New York 12309
(518) 370-7249



Paul F. Cardone, INFINEX *Financial Advisor*
Located at 1st National Bank of Scotia Clifton Park Office
1693 Route 9, Clifton Park, New York 12065
(518) 869-3169



Products and services available:

- Brokered certificate of deposits
- Business owner solutions
- Cash Management
- Corporate and Municipal Bonds
- Disability Insurance
- Extended FDIC sweep account
- Fixed Annuities
- Individual Stocks
- Insurance
- Long-Term Care Insurance

- Mutual Funds
- Permanent Life Insurance
- REITs
- Retirement Plans
- Term Life Insurance
- Treasury Securities
- Unit Investment Trusts
- Variable Annuities

Bank Advisory Board

The 1st National Bank of Scotia Advisory Board provides both insight and guidance on issues pertinent to the growth and success of the Bank. This group consists of active community business and civic leaders from a variety of geographical locations and have a diversity of background and experiences. Advisory Board members also receive training in many facets of the Bank so that they may provide relevant recommendations supporting our strategic objective of enhancing and maintaining our service-driven culture.

Kenneth Swain serves as the Liaison Officer for this group, which was created in December 2020. His role is to schedule and coordinate quarterly meetings and to provide the Advisory Board with the objectives and building blocks necessary to successfully achieve our vision, “to provide an exceptional service experience, every time!”



Danna J. Ellsworth
Owner & Operator
Ellsworth & Sons Excavating
Jenkinsville Sand and Gravel, LLC
Lake George Expedition Park



Annmarie Krause
Co-Owner, Krause’s Homemade Candy



Jeffrey J. Gabriele
Co-Owner, Gabriel’s Supermarkets
Beacon Homes



Charles P. Morris
President, Morris Ford



Steven H. Heider
Retired – Chief of Police, Colonie Police Dept.
Owner, Northway Residential
Board Chairman, Scautub Agency



Jason Packer
CEO, Hill & Markes Inc.

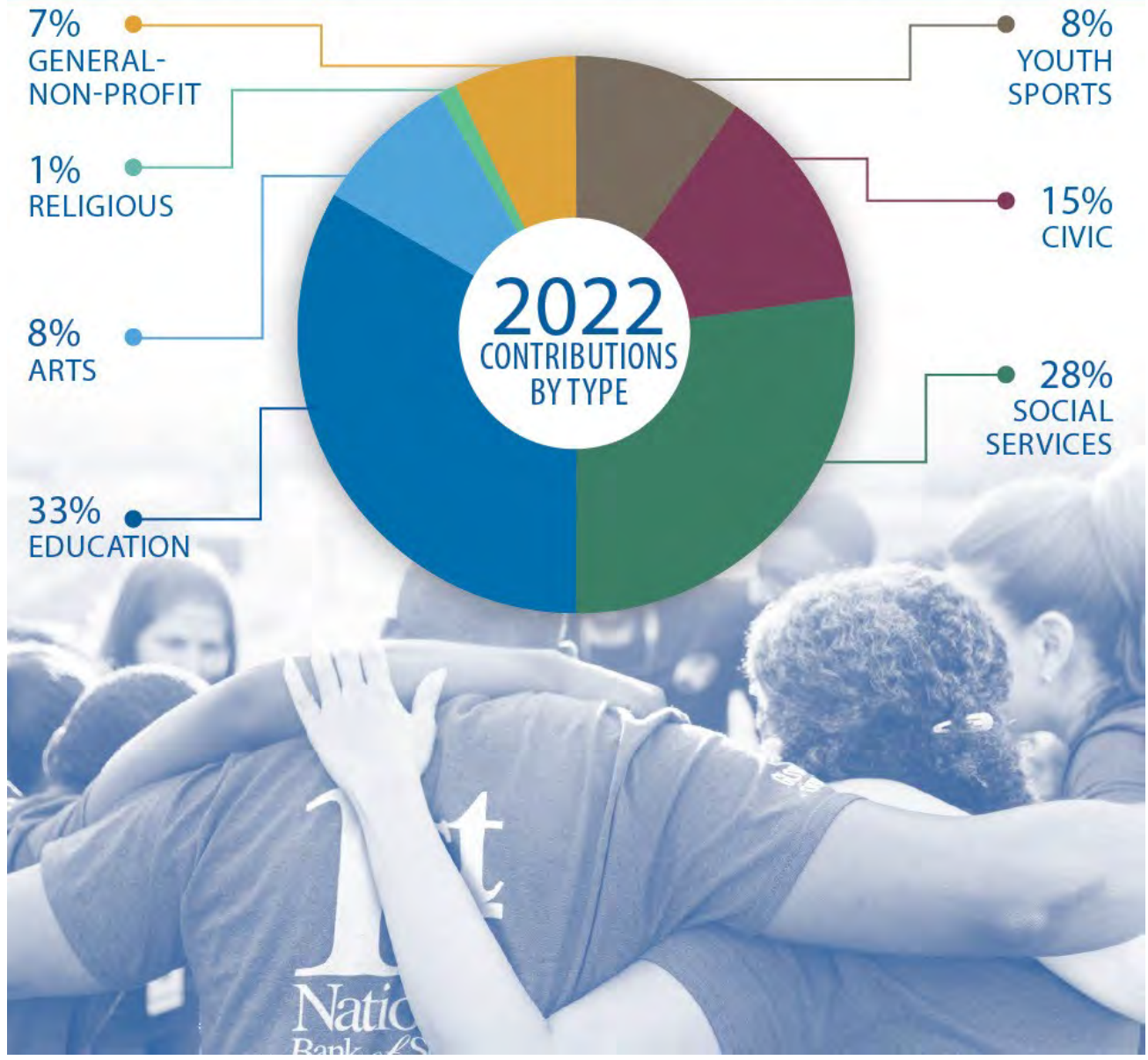


Debra A. Pollard
President, Fenimore Asset Management

Community Commitment

As our products and services continue to evolve and change, our commitment to the communities we serve remains unwavering. Each year 1st National Bank of Scotia contributes thousands of dollars to area schools, local charitable fundraisers and community events. Outside of the bank our employees spend countless hours volunteering in the community, serving on boards, working with youth, or simply collecting donations for a worthy cause. It's what we do. It's why we all work for a community bank.

WE'RE PROUD TO HAVE CONTRIBUTED TO 100+ ORGANIZATIONS IN 2022



Independent Auditor's Report

Bonadio & Co., LLP
Certified Public Accountants

March 7, 2023

To the Board of Directors and Stockholders of Glenville Bank Holding Company, Inc.

Opinion

We have audited the accompanying consolidated financial statements of Glenville Bank Holding Company, Inc. and Subsidiaries (the "Company"), which comprise the consolidated balance sheet as of December 31, 2022, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

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

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

2021 Unaudited Consolidated Financial Statements

The accompanying consolidated balance sheet of the Company as of December 31, 2021, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the year then ended were not audited by us and, accordingly, we do not express an opinion on them.

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 Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists.

(Continued)

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Independent Auditor's Report

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 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 Company's Annual Report

Management is responsible for the other information included in the Company's annual report. The other information comprises of information included within the table of contents Section I entitled "Shareholder Report" and the "Management Report" but it 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 on it.

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.

Bonadio & Co., LLP

Consolidated Balance Sheets

(in thousands, except per share information)

At December 31,	2022	(Unaudited) 2021
Assets		
Cash and cash equivalents:		
Non-interest bearing balances, currency and coin	\$ 10,964	\$ 9,280
Interest-bearing balances due from financial institutions	23,165	79,300
Total cash and cash equivalents	34,129	88,580
Debt Securities:		
Available-for-sale	108,610	102,762
Held-to-maturity (Fair value 2022 \$5,309; 2021 \$12,198)	5,336	12,002
Total debt securities	113,946	114,764
Equity securities with readily determinable fair values	56	62
Loans, net of allowance: as of 2022 (\$5,989), 2021 (\$5,673)	491,175	438,001
Premises and equipment, net	9,410	9,734
Equity securities not readily marketable	1,284	1,182
Cash surrender value of life insurance policies	1,330	1,324
Other intangible assets, net	574	615
Deferred compensation assets	6,105	7,430
Pension plan fund status	7,584	7,348
Accrued interest receivable	2,184	2,005
Other assets	3,824	1,587
Total assets	\$ 671,601	\$ 672,632
Liabilities		
Deposits:		
Non-interest bearing	\$ 199,425	\$ 190,344
Interest-bearing	414,424	418,297
Total deposits	613,849	608,641
Borrowings	4,722	5,248
Other liabilities	8,837	10,057
Total liabilities	627,408	623,946
Shareholders' Equity		
Common stock, par value \$0.01; authorized 250,000 shares; issued 207,405 in 2022 and 207,405 in 2021, respectively	2	2
Outstanding 207,293 shares in 2022 and 207,405 in 2021, respectively		
Additional paid-in capital	23,130	23,130
Retained earnings	30,629	26,743
Accumulated other comprehensive loss	(9,558)	(1,189)
Treasury stock, at cost (112 shares in 2022, 0 shares in 2021)	(10)	-
Total shareholders' equity	44,193	48,686
Total liabilities and shareholders' equity	\$ 671,601	\$ 672,632

The accompanying notes are a fundamental part of the consolidated financial statements.

Consolidated Statements of Income

(in thousands)

Years ended December 31,	2022	(Unaudited) 2021
Interest and dividend income:		
Loans and related fees	\$ 19,914	\$ 19,886
Debt securities	1,524	969
Equity securities	46	38
Interest on earning balances with financial institutions	824	114
Total interest and dividend income	22,308	21,007
Interest Expense:		
Interest on deposits	406	509
Interest on other borrowings	191	140
Total interest expense	597	649
Net interest income	21,711	20,358
Provision for loan loss	1,060	390
Net interest income after provisions	20,651	19,968
Non-Interest Income:		
Insurance and brokerage commissions	1,224	1,209
Interchange fees	1,278	1,266
Service charges and fees	981	890
Net realized gains on sales of loans	31	126
Rental Income	197	237
Gain (loss) on disposal of assets	414	(11)
Unrealized (losses) gains on equity securities	(6)	25
Other non-interest income	294	408
Total non-interest income	4,413	4,150
Non-Interest Expense:		
Salaries and employee benefits	11,873	11,569
Occupancy and equipment	2,357	2,296
Core banking data processing	1,612	1,680
Board related expenses	548	470
Software service contracts	482	452
Federal deposit insurance assessment	430	447
Advertising and marketing	331	262
Accounting and auditing	374	298
Telephone	293	258
Travel and entertainment	275	136
Other expenses	1,119	1,421
Total non-interest expense	19,694	19,289
Income before taxes	5,370	4,829
Applicable income taxes	981	979
Net income	4,389	3,850

The accompanying notes are a fundamental part of the consolidated financial statements.

Consolidated Statements of Comprehensive Income (Loss)

(in thousands)

	(Unaudited)	
Years ended December 31,	2022	2021
Net income		
Other comprehensive (loss) income, net of taxes	\$ 4,389	\$ 3,850
Unrealized losses on securities, net of taxes:		
Unrealized holding losses arising during the period	(10,006)	(1,101)
Income tax benefit during the period	2,102	231
Net unrealized gains losses on securities, net of taxes	(7,904)	(870)
Defined benefit pension plan (losses) gains , net of taxes:		
Net (losses) gains arising during the period	(588)	2,279
Amortization of net loss included in net income	-	28
Income tax benefit (expense) during the period	123	(484)
Defined benefit pension plan (losses) gains , net of taxes	(465)	1,823
Other comprehensive (loss) income , net of taxes	(8,369)	953
Comprehensive (loss) income	(3,980)	4,803

The accompanying notes are a fundamental part of the consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

(in thousands, except per share information)

	Common stock and surplus	Retained earnings	Accumulated Other Comprehensive Income (loss)	Treasury stock	Non- controlling interest	Total shareholders' equity
Balance, January 1, 2021 (unaudited)	\$ 23,104	\$ 23,403	\$ (2,142)	\$ (353)	\$ 162	\$ 44,174
Net income	-	3,850	-	-	-	3,850
Bank purchase of non-controlling interest	(206)	-	-	-	(162)	(368)
Dividends declared (\$2.50 per share)	-	(510)	-	-	-	(510)
Issuance of common stock (2,500 shares)	225	-	-	-	-	225
Issuance of treasury stock (4,080 shares)	9	-	-	353	-	362
Other Comprehensive Income, net of taxes	-	-	953	-	-	953
Balance, December 31, 2021 (unaudited)	\$ 23,132	\$ 26,743	\$ (1,189)	\$ -	\$ -	\$ 48,686
Net Income	-	4,389	-	-	-	4,389
Dividends declared (\$2.50 per share)	-	(503)	-	-	-	(503)
Purchase of treasury stock (112 shares)	-	-	-	(10)	-	(10)
Other Comprehensive loss, net of taxes	-	-	(8,369)	-	-	(8,369)
Balance, December 31, 2022	\$ 23,132	\$ 30,629	\$ (9,558)	\$ (10)	\$ -	\$ 44,193

Consolidated Statements of Cash Flows

(in thousands)	(Unaudited)	
Years ended December 31,	2022	2021
Cash flows from operating activities:		
Net income	\$ 4,389	\$ 3,850
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	811	843
Provision for loan loss	1,060	390
Amortization of intangible assets	53	40
Net premium amortization on securities	610	601
Amortization of deferred loan fees	(48)	(1,590)
Deferred tax expense (benefit)	221	(56)
Unrealized losses (gains) on equity securities	6	(25)
Gain on sale of loans held for sale	(31)	(126)
(Gain) Loss on disposal of premises and equipment	(414)	11
Proceeds from sales of loans held for sale	1,532	3,332
Loans originated and held for sale	(1,501)	(3,206)
Earnings from increase in cash surrender value life insurance policies	(74)	(15)
Net change in other assets and liabilities	(1,245)	(1,300)
Net cash provided by operating activities	5,369	2,749
Cash flows from investing activities:		
Proceeds from maturities and calls AFS	16,275	19,792
Proceeds from maturities and calls HTM	6,847	4,099
Purchases of investment securities AFS	(32,726)	(72,158)
Purchases of investment securities HTM	(180)	(11,233)
Net purchases of equity securities not readily marketable	(115)	(22)
Net change in loans	(54,186)	(12,090)
Proceeds from life insurance death benefit	177	-
Proceeds from sales of premises and equipment	767	-
Purchases of premises and equipment	(848)	(1,327)
Net cash (used in) investing activities	(63,989)	(72,939)
Cash flows from financing activities:		
Net increase in deposits	5,208	66,278
Repayment of borrowings	(526)	(2,406)
Issuances of new borrowings	-	5,000
Issuances of new common stock	-	225
Bank purchase of non-controlling Interest	-	(276)
Dividends paid	(503)	(510)
Net (purchases) issuances of treasury stock	(10)	362
Net cash provided by financing activities	4,169	68,673
Net change in cash and cash equivalents	(54,451)	(1,517)
Cash and cash equivalents at beginning of year	88,580	90,097
Cash and cash equivalents at end of year	\$ 34,129	\$ 88,580
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for:		
Interest	600	675
Income taxes	725	1,055

Notes to Consolidated Financial Statements

(1) Nature of Operations

Nature of Operations: The Glenville Bank Holding Company (GBHC), and its subsidiaries (collectively referred to as the “Company”), is a financial holding company. Through its bank subsidiary, 1st National Bank of Scotia (the “Bank”), and its insurance subsidiary, Scatub Agency, LLC (the “Agency”), the Company provides a variety of banking and insurance services to individuals and corporate customers in Schenectady County, as well as parts of Saratoga, Fulton, Montgomery, and Albany Counties. Our ten offices, and insurance office, serve these five adjacent counties. The Company’s most significant source of revenue is through loans, particularly real estate and auto loans to consumers and small businesses. The Bank contributes over 95% of the consolidated revenue on the statement of Income. The Bank is a nationally chartered commercial bank subject to regulation by the Office of the Comptroller of the Currency (OCC). The GBHC is subject to regulation by the Federal Reserve Bank (FRB) of New York. The Agency is subject to insurance regulation by New York State Department of Financial Services, and other insurance regulators in the states of Vermont, New Jersey, Pennsylvania, and Florida.

Audit requirements: Year end 2022 is the first year our Company is required to have our consolidated financial statements audited. The prior year 2021 displayed in the comparative reports are unaudited. Audited financial statements are required for Insured Depository Institutions (IDIs) per Section 36 and Part 363 of the Federal Deposit Insurance Act when the prior year assets exceed \$500 million.

(2) Summary of Significant Accounting Policies

Principles of Consolidation: The consolidated financial statements include accounts of the GBHC, Bank, and the Agency subsidiaries. All significant intercompany balances and transactions have-been eliminated.

Use of Estimates: The accounting and reporting policies of the Company and its subsidiaries conform to accounting principles generally accepted in the United States of America (GAAP). The consolidated financial statements require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. 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, deferred income taxes, pension and deferred compensation obligations, and the evaluation of investment securities for other than temporary impairment.

The Company is subject to the regulations of various governmental agencies. The Company also undergoes periodic examinations by the regulatory agencies which may subject it to further changes with respect to asset valuations, amounts of required loss allowances, and operating restrictions resulting from the regulators’ judgments based on information available to them at the time of their examination.

Reclassifications: Certain reclassifications have-been made to the prior year consolidated financial statements to conform to the current year presentation. Reclassifications has no effect on prior year net income or shareholders’ equity.

Notes to Consolidated Financial Statements

(2) Summary of Significant Accounting Policies (continued)

Statement of Cash Flows: In the statement of cash flows, the Company has elected to report all cash receipts and cash payments for deposit and lending activities on a net basis, instead of reporting gross. We have also elected not to include near term maturities of Investment securities as cash and cash equivalents. All Investment securities cash flows are reported in the Investing section. Both elections are permitted within GAAP. We do include as cash and cash equivalents the following: cash on hand, cash items in process of collection, balances due from correspondent banks, and interest-bearing balances due from the FRB.

Cash restrictions and balances due from financial institutions: The Bank is no longer required to maintain deposit reserve balances with the FRB, therefore all balances at the FRB are classified as unrestricted cash. The Bank also maintains several due from bank accounts with correspondent financial institutions, which are each insured up to the FDIC insurance limit of \$250,000. The amount of cash with these financial institutions in excess of the insured amount as of December 31, 2022, and 2021, is \$1,863,000 and \$2,726,000 respectively. All cash on deposit with these financial institutions is unrestricted.

Investment in Debt Securities: The Bank classifies debt securities into one of two categories: held-to-maturity (HTM) or available-for-sale (AFS).

Below is an accounting summary of the basic classifications and accounting treatment of debt securities:

Held-to-maturity securities (HTM) – includes debt securities that the Company has the positive intent and ability to hold to the maturity date. These securities are reported at amortized cost in the consolidated balance sheets. Unrealized holding gains and losses are not included in earnings or in a separate component of shareholder's equity; instead, these amounts are disclosed in the notes to the consolidated financial statements.

Available-for-sale securities (AFS) includes debt securities not classified as either held-to-maturity securities or trading securities. These securities are reported at fair value in the consolidated balance sheets, with unrealized holding gains and losses excluded from earnings and reported separately through accumulated other comprehensive income (loss), net of deferred income taxes.

Purchase premiums or discounts on debt securities are recognized in interest income using the straight-line method to the call date or contractual maturity date. If a security is sold or is called prior to the maturity date, any unamortized premium or discount is recognized immediately in interest income in the month of call or sale date. Gains and losses on the sale of securities are computed using the specific identification method. All investment transactions, including gains and losses, are recorded on the settlement date.

Other-than temporary impairment (OTTI) are credit related declines in the fair value of AFS or HTM securities that are reflected in earnings as realized losses if management determines the existence of OTTI. Management considers the following when estimating any OTTI losses: (1) the length of time and the extent to which the fair value has been lower than amortized cost if over one year, (2) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value and (3) whether the Company intends to sell the security or if it is more

Notes to Consolidated Financial Statements

(2) Summary of Significant Accounting Policies (continued)

likely than not that the Company will be required to sell the security before the recovery of its amortized cost basis. If a credit-related impairment occurs, this amount will be measured as the difference between the security's amortized cost basis and the present value of expected future cash flows discounted at the security's effective yield prior to recognition of OTTI determined annually. If there is any portion of OTTI due to factors other than credit, this amount is recorded in other comprehensive income (loss). The Company has no OTTI for either the current or prior year and has no credit loss experience on any of its debt securities.

Equity Securities with Readily Determinable Fair Values: Marketable equity securities are carried at fair value in the consolidated balance sheets with unrealized gains and losses included in net income.

Equity Securities Not Readily Marketable: The Bank owns several equity securities that are classified as nonmarketable. These equity investments, which are required as a condition of membership, include the Federal Home Loan Bank of New York (FHLBNY), the Federal Reserve Bank (FRB) of New York, Pacific Coast Bankers Bank (PCBB), and Atlantic Community Bankers Bank (ACBB). Also included in non-marketable equity securities is stock ownership in Senior Housing Crime Stopper Preferred shares which is used for the Bank's community reinvestment act (CRA) as qualified investments. No securities in this classification have an active market and transferability of the stocks is restricted; we are carrying these securities at amortized cost minus impairment, plus or minus changes resulting from observable price changes. Any changes to amortized cost due to impairment or price changes are included in earnings during the period of changes. Dividends earned are recognized as dividend income on the Income statement. The Senior Housing Crime Stopper preferred was originally purchased at a premium price over par. This premium is being subsequently amortized to the maturity date.

Loans: The Company grants mortgage, commercial, municipal, and consumer loans to customers. Loans that management has the intent and ability to hold to the maturity date are stated at their outstanding unpaid principal balances, less the allowance for loan losses plus net deferred loan origination costs and fees. The ability of our loan customers to pay back their debt is highly dependent upon the real estate and general economic conditions in the market area. Interest income is generally recognized when income is earned using the simple interest method.

Loan origination fees and certain direct origination costs are deferred for longer-term loans, and the net amount is amortized as an adjustment of the related loan's yield into interest income using the straight-line method over the contractual lives of the related loans. If the loan is paid off early, any unamortized net fees and costs are written off or credited to interest income. Loan origination fees and costs for immaterial amounts determined by bank management, and for shorter term loans, are not deferred; these direct origination fees and cost amounts and are recognized into the appropriate non-interest income or expense accounts as received or incurred.

The loans receivable portfolio is segmented into commercial real estate, residential mortgage, commercial and industrial, and consumer loans. Commercial real estate includes both owner and non-owner-occupied loans with commercial real estate properties serving as collateral to protect the Bank's loan investment. The residential mortgage segment consists of one-to-four family first-lien residential mortgages and second-lien home equity loans (which include both fixed rate and adjustable-rate amortizing loans and variable rate line of credit lines). Residential loans are secured by homeowner's residential property serving as collateral. Commercial loans include both fixed and variable rate loans, lines of credit, participations, and other small

Notes to Consolidated Financial Statements

(2) Summary of Significant Accounting Policies (continued)

business commercial loans. Our consumer loan segment includes a significant concentration in the Indirect auto lending portfolio. Outstanding balances in the indirect auto portfolio are \$159,000,000 and \$135,000,000 as of December 31, 2022 and December 31, 2021, respectively.

Allowance for Loan Losses: The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the date of the statement of condition and it is recorded as a reduction of loans. The allowance is increased by the provision for loan losses, decreased by charge-offs when loans are determined to be uncollectible, and increased for future recoveries of prior charge offs. Loans may be charged off earlier in the event of bankruptcy, or if there is an amount that is determined to be uncollectible. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on three major components which are individually evaluated components for larger loans, recent historical losses and several qualitative factors applied to a general pool of loans, and an unallocated component.

The first component is the individually evaluated loans that relates to loans that are classified as impaired. For these loans, an allowance is established when the discounted cash flows or collateral value of the impaired loan is lower than the carrying value of that loan.

The second or general component covers pools of loans, by loan class, not considered impaired, smaller balance homogeneous loans, such as residential real estate, home equity and other consumer loans. These pools of loans are evaluated for loss exposure first based on historical net charge-off loss rates. The ratio of net charge-offs to loans outstanding within each product class over the most recent three years is calculated, then weighted heaviest by the most recent year. In addition, qualitative factors are added to the historical loss rates to arrive at the total allowance for loan loss needed for this general pool of loans. The qualitative factors include changes in national and local economic trends, the rate of growth in the portfolio, trends of delinquencies and nonaccrual balances, changes in loan policy, and changes in lending management experience and related staffing. Each factor is assigned a value that reflects improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. These qualitative factors, applied to each product class, make the evaluation inherently subjective, as it requires material estimates that may be susceptible to significant revision as more information becomes available. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss analysis and calculation.

The third or unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio and generally comprises less than 5% of the total allowance for loan loss.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all 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

Notes to Consolidated Financial Statements

(2) Summary of Significant Accounting Policies (continued)

delays on an individual loan basis, taking into consideration all circumstances surrounding the loan and the borrower, including the length and reason for the delay, the borrower's prior payment record and the amount of shortfall in relation to what is owed. Impairment is measured by either the present value of the expected future cash flows discounted at the loan's effective interest rate or the fair value of the underlying collateral if the loan is collateral dependent. Most of the Company's loans utilize the fair value of the underlying collateral.

An allowance for loan loss is established for an impaired loan if the carrying value exceeds its estimated fair value. 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 loans secured by real estate, estimated fair values are determined primarily through independent appraisals, less costs to sell as explained in the foreclosed real estate accounting policies below.

Credit risk associated with all loan portfolio segments is impacted by several factors, which include general economic conditions within the Bank's market area; the Bank's lending policies and loan review systems; changes or trends in the portfolio's volume, terms, concentrations, delinquencies and risk profile; collateral values; competition, legal and regulatory requirements; and other factors. Further, the commercial real estate segment includes loans secured by both owner occupied and non-owner occupied real estate and is impacted by commercial real estate values. In addition, market conditions may cause adverse changes in the repayment of debt obligations for the non-owner occupied portion of this segment. The commercial and industrial segment consist of a mix of loans for different commercial purposes. These loans are primarily secured including loans secured by commercial vehicles, equipment and other business assets. This segment is also impacted by economic and competitive factors within a borrower's specific industry. The residential real estate segment is impacted by values of the residential real estate that provide collateral for the loans. The other consumer segment consists of loans for various consumer purposes. The loans in this segment are primarily secured with motor vehicle and other types of collateral.

For commercial and industrial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, or any other assets provided by the loan customer, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable aging schedule, equipment, 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 homogeneous loans are collectively evaluated for impairment when the payment history or risk characteristics are common and can be applied a common loan classification or group; this would include loan risks related to general local economic conditions such as unemployment rates and real estate valuations and not unique to a specific borrower. Loans that are related to borrowers with impaired commercial loans or are subject to a troubled debt restructuring agreement are evaluated individually for impairment.

Commercial loans whose terms are modified, outside of normal conditions, are classified as troubled debt restructurings (TDR) if the Company grants such borrowers concessions that we would not otherwise consider for similar customers with similar risk characteristics and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a TDR generally include but are not limited to a temporary reduction in the interest rate, a reduced amount of principal amount due, or an extension of a loan's stated maturity date. As of December 31, 2022 and 2021, the Bank did not have loans that classified as TDR.

Notes to Consolidated Financial Statements

(2) Summary of Significant Accounting Policies (continued)

The allowance calculation methodology includes further evaluation of the borrower's overall financial condition, repayment sources, guarantors, and value of the collateral as needed to determine the loan loss allowance adequacy.

In addition, the OCC 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.

Income Recognition on Impaired and Nonaccrual Loans: For all classes of loans receivable, 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 collectability of principal or interest, even though the loan may be currently performing. A loan may remain on accrual status if it is either well secured or guaranteed and in the process of collection. When a loan is placed on nonaccrual status, unpaid interest is reversed and charged to interest income. Interest received on nonaccrual loans, including impaired loans, generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period, generally six months, and the ultimate collectability of the total contractual principal and interest is no longer in doubt. Nonaccrual 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. After any loans are brought current from non-accrual, the prior interest accrual charged off is again recognized into interest income.

For nonaccrual loans, when future collectability of the recorded loan balance is expected, interest income may be recognized on a cash basis. In the case where a nonaccrual loan had been partially charged off, recognition of interest on a cash basis is limited to that which would have been recognized on the recorded loan balance at the contractual interest rate. Cash interest receipts in excess of that amount are recorded as recoveries to the allowance for loan losses until prior charge-offs have been fully recovered.

Foreclosed real estate: Foreclosed real estate assets held for sale, commonly classified as other real estate owned (ORE), is initially measured on the consolidated balance sheet at the net amount (fair value minus estimated selling costs). Fair value is determined after receiving an independent property appraisal by bank employees authorized to perform real estate appraisals. After the Bank has taken possession of the property, fair value and estimated selling costs are determined, the ORE asset is recognized, and the recorded investment of the underlying loan is derecognized. Any difference is charged to the allowance for loan losses if a loss is incurred. If the ORE asset recognized is higher than the loan receivable, a gain is recorded in other non-interest income on the consolidated income statement.

Any subsequent changes to the initial fair value or selling costs are either charged or credited to the allowance for loan losses if the property is held under one year including the effects of final settlement proceeds at disposition; for any properties held over one year, any changes to fair value or selling costs are recognized as a gain or loss on ORE in other non-interest income, including any final settlement proceeds at disposition.

Notes to Consolidated Financial Statements

(2) Summary of Significant Accounting Policies (continued)

Selling costs are capitalized into the ORE asset when the costs are ordinary and necessary to prepare the property for resale. Any past due property taxes and insurance are included in selling costs. Non-selling costs are expensed as incurred and reported in other expenses in the consolidated statement of income. These non-selling costs may include, but are not limited to, general operating or maintenance expenses to upkeep the property.

The ORE asset is only derecognized on the balance sheet after final proceeds have been received and after other requirements have been met following the provisions within Accounting Topic 606 (Revenue from Contracts with Customers) that determine if an asset sale has occurred. If these requirements are not met, the ORE asset will continue to be recognized and any proceeds received will be reported into deposit liabilities on the consolidated balance sheet.

There was no other real estate owned outstanding as of December 31, 2022 or December 31, 2021. Any foreclosed residential real estate property is recorded as a result of obtaining physical possession of the property. As of December 31, 2022 and 2021, respectively, the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process is \$382,000 and \$259,000, respectively.

Loan Servicing: Mortgage Servicing Rights (MSRs) are recognized at estimated fair value when residential loans are sold, and servicing is retained. The MSRs are reported in other intangible assets in the consolidated balance sheet and are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Management evaluates impairment annually based upon fair value. The fair value estimated amount is performed independently by an external firm specializing in MSR activity and valuation, which include analysis of prices for similar assets with similar characteristics, when available, interest rate assumptions, prepayment speeds of loan payback, and using other market-based assumptions. Impairments are recognized in earnings when the estimated fair value is less than the amortized cost using a valuation account. Subsequent recoveries of impairments are recognized in non-interest income during the year of recovery based on the annual valuation report received from the independent consultant. We do not separately stratify our MSRs by unique characteristics such as interest rates or loan maturity date; instead, we use geographic location as our sole criteria to stratify our MSR assets because the underlying assets are in proximity within our local markets served.

Premises and Equipment: Premises and equipment are stated at cost, less accumulated depreciation. Gain or loss on any assets sold are recognized immediately when proceeds are received. An evaluation of our premises and equipment is performed annually by bank personnel to determine if any assets are either no longer used, been disposed, or are obsolete. If any assets are identified, the cost and accumulated depreciation amounts are removed, and any impairments are recognized immediately and charged to earnings. Future depreciation charges are also changed if management determines a change in accounting estimates is required due to expected life changes of active assets during this review. Any changes in accounting estimates are treated prospectively, where only future years' depreciation expenses are changed. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. The useful lives are estimated using the following ranges: equipment and furniture: 3-15 years; bank premises 10-40 years.

Notes to Consolidated Financial Statements

(2) Summary of Significant Accounting Policies (continued)

We also include any Company-owned internal use software licenses within furniture and equipment (which is reported in the premises and equipment footnote 7) which include reporting for cost, depreciation and annual impairment testing. Assets reported as internal use software licenses generally include software hosting arrangements that allow for a) a contractual right to take possession of the software at any time during the hosting period without significant penalty, and b) it is feasible to either run the software on our own hardware or contract another party unrelated to the vendor to host the software per the guidance in FASB Codification section 350-40 (Intangibles Goodwill and Other Internal-Use software). If both a and b are not met, the software hosting agreement is classified as Cloud Computing Software below.

Cloud Computing Software: For internal use software assets not meeting a and b above, the Company includes any prepaid software costs as Cloud Computing Arrangements in other assets, including any Implementation costs. These prepaid costs of both the hosting arrangement and upfront implementation costs are subsequently amortized straight line into other expense over the service contract hosting period. Cloud Computing Software costs are all reported as Operating Activities in the Statement of Cash Flows following GAAP requirements. Impairment testing is also performed annually in conjunction with Premises and Equipment assets. The balance outstanding of these prepaid assets were \$119,000 and \$106,000 as of December 31, 2022 and 2021, respectively.

Other Intangible Assets: For our other intangible assets, the Company uses assumptions in establishing the carrying value, fair value, and estimating lives of identifiable intangible assets. Customer relationships are amortized on a straight-line basis over the estimated original lives of the assets of 15 years. All other intangible assets are fully amortized as of the reporting date.

Off-Balance Sheet Credit Related Financial Instruments: In the ordinary course of business, the Company has entered into commitments to extend credit, including commitments under standby letters of credit. Such financial instruments are recorded when they are funded. We have established an accrued liability to estimate future credit losses related to unfunded credit commitments reported in other liabilities.

Compensated Absences: An accrued liability for earned and unused vacation time is required and has been recognized in our consolidated financial statements. This amount is determined annually and is equal to the amount we are obligated to pay employees when they either use future earned vacation time or is payable upon termination. The amount accrued is \$76,000 as of December 31, 2022. No amount was accrued as of December 31, 2021 due to immateriality. Other absences for sick or personal time are not required for accrual recognition because they do not meet the recognition criteria within FASB Codification section 710-10-25-1 (Compensated Absences).

Recently Adopted Accounting Guidance Leases: In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) 842, Leases, which requires lessors to classify leases as a sales-type, direct financing, or operating lease. Under the standard, additional disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

Notes to Consolidated Financial Statements

(2) Summary of Significant Accounting Policies (continued)

The Company elected the available practical expedients to not reassess under the new standard its prior conclusions about lease identification, lease classification, and initial direct costs.

ASC 842 also requires the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet for lessees. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Management determined that the adoption of the standard did not have a material impact on the Company's consolidated financial statements and did not apply the guidance in ASC 842 to existing operating leases.

Leases: The Company determines if an arrangement is a lease at inception. The Company reassesses the determination of whether an arrangement is a lease if the terms and conditions of the contract are changed. The Company recognizes revenue on a straight-line basis over the lease term as payments are received. The Company recognizes variable lease payments as revenue in the period incurred. The Company also recognizes rent expense on a straight-line basis over the lease term for equipment and office space operating leases for our Agency subsidiary. The amounts are immaterial to the consolidated financial statements.

Comprehensive Income (Loss): GAAP generally requires that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale debt securities and unrecognized gains and losses on the defined benefit pension plan, however, are reported as a separate component of equity in the statement of condition as Accumulated Other Comprehensive Income (AOCI) instead of reporting these changes in net income.

Accumulated other comprehensive income (loss), collectively referred to as AOCI, represents the sum of these items as of the balance sheet date and is represented in the table below (in thousands):

		(Unaudited)	
		<u>12/31/2022</u>	<u>12/31/2021</u>
Unrealized losses for pension obligations	\$	(1,472)	\$ (884)
Tax effect		309	186
Net unrealized losses for pension obligations		<u>(1,163)</u>	<u>(698)</u>
Unrealized losses on available-for-sale securities		(10,627)	(621)
Tax effect		2,232	130
Net unrealized losses on available-for-sale securities		<u>(8,395)</u>	<u>(491)</u>
Accumulated other comprehensive income losses	\$	<u>(9,558)</u>	<u>\$ (1,189)</u>

Advertising: Costs incurred for advertising are charged to non-interest expense as incurred.

Income Taxes: The Company recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are established for the temporary differences between the accounting basis and the tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when the amounts related to such temporary differences are realized or settled.

Notes to Consolidated Financial Statements

(2) Summary of Significant Accounting Policies (continued)

Subsequent Events: As of March 7, 2023, the date the consolidated financial statements were available to be issued, no significant subsequent events occurred based on conditions existing as of December 31, 2022.

During February 2023, the Bank sold available for sale Investment securities to raise liquidity due to deposit runoff experienced in January 2023. Proceeds of approximately \$21,000,000 was received which resulted in a realized loss of approximately \$900,000. Most of the securities sold were US Treasury and Agency securities. The Bank is expecting to reinvest the proceeds in interest earning assets during 2023.

(3) Debt Securities

The following table summarizes the amortized cost and fair value of securities available-for-sale and securities held-to-maturity at December 31, 2022 and 2021 and the corresponding amounts of gross unrealized gains and losses:

Available-for-sale securities

(in thousands)	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>2022</u>				
U.S. governments and its agencies	\$ 58,624	\$ 4	\$ (5,886)	\$ 52,742
State and local government municipalities	52,354	2	(3,734)	48,622
Mortgage-backed securities	8,259	-	(1,013)	7,246
Total available-for-sale	\$ 119,237	\$ 6	\$ (10,633)	\$ 108,610
<u>2021 (Unaudited)</u>				
U.S. governments and its agencies	\$ 32,901	\$ 7	\$ (611)	\$ 32,297
State and local government municipalities	60,109	196	(251)	60,054
Mortgage-backed securities	10,373	124	(86)	10,411
Total available-for-sale	\$ 103,383	\$ 327	\$ (948)	\$ 102,762

Held-to-maturity securities

(in thousands)	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>2022</u>				
State and local government municipalities	\$ 2,836	\$ 28	\$ (55)	\$ 2,809
Corporate Debt	2,500	-	-	2,500
Total held-to-maturity	\$ 5,336	\$ 28	\$ (55)	\$ 5,309
<u>2021 (Unaudited)</u>				
State and local government municipalities	\$ 9,502	\$ 196	\$ -	\$ 9,698
Corporate Debt	2,500	-	-	2,500
Total held-to-maturity	\$ 12,002	\$ 196	\$ -	\$ 12,198

Notes to Consolidated Financial Statements

(3) Debt Securities (continued)

The following table summarizes the amortized cost and fair value of debt securities by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

As of December 31, 2022: (in thousands)	<u>Available-for-Sale</u>		<u>Held-to-Maturity</u>	
	Amortized Cost Basis	Fair Value	Amortized Cost	Fair Value
Within one year	\$ 10,786	\$ 10,700	\$ 402	\$ 396
Due after one year through five years	63,357	58,734	1,798	1,763
Due after five years through ten years	36,685	31,785	2,956	2,967
Due after ten years	150	145	180	183
	110,978	101,364	5,336	5,309
Mortgage-backed securities	8,259	7,246	-	-
Total	\$ 119,237	\$ 108,610	\$ 5,336	\$ 5,309

At December 31, 2022 and 2021, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

Securities pledged at December 31, 2022 and 2021 had a carrying amount of \$11,042,000 and \$11,197,000 and were pledged to secure public funds on deposits.

There were no sales of available for-sales securities during the year ended December 31, 2022 and 2021.

Notes to Consolidated Financial Statements

(3) Debt Securities (continued)

The following tables summarizes those securities available for sale and held-to-maturity separately, with unrealized losses, segregated by the length of time that they have been in a continuous unrealized loss position at December 31, 2022 and 2021, respectively.

Available-for-sale securities

(in thousands)

December 31, 2022

	Less than 12 months			12 Months or More			Total		
	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses
U.S. government and its agencies	17	\$ 23,720	\$ (1,290)	31	\$ 28,095	\$ (4,597)	48	\$ 51,815	\$ (5,886)
State and local government municipalities	33	10,269	(321)	100	36,921	(3,413)	133	47,190	(3,734)
Mortgage-backed securities	10	3,198	(272)	5	4,048	(741)	15	7,246	(1,013)
	<u>60</u>	<u>\$ 37,187</u>	<u>\$ (1,883)</u>	<u>136</u>	<u>\$ 69,064</u>	<u>\$ (8,751)</u>	<u>196</u>	<u>\$106,251</u>	<u>\$ (10,633)</u>

Held-to-maturity securities

(in thousands)

Less than 12 months

12 Months or More

Total

	Less than 12 months			12 Months or More			Total		
	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses
State and local government municipalities	8	\$ 1,450	\$ (55)	-	\$ -	\$ -	8	\$ 1,450	\$ (55)
	<u>8</u>	<u>\$ 1,450</u>	<u>\$ (55)</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>	<u>8</u>	<u>\$ 1,450</u>	<u>\$ (55)</u>

Notes to Consolidated Financial Statements

(3) Debt Securities (continued)

Available-for-sale securities

(in thousands)

December 31, 2021 (Unaudited)

	Less than 12 months			12 Months or More			Total		
	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses	Number of Securities	Fair Value	Gross Unrealized Losses
U.S. government and its agencies	22	\$ 24,444	\$ (313)	7	\$ 5,664	\$ (298)	29	\$ 30,108	\$ (611)
State and local government municipalities	71	28,551	(207)	4	1,671	(44)	75	30,222	(251)
Mortgage-backed securities	5	5,443	(86)	-	-	-	5	5,443	(86)
	98	\$ 58,438	\$ (606)	11	\$ 7,335	\$ (342)	109	\$ 65,773	\$ (948)

There were no unrealized losses as of December 31, 2021, for held-to-maturity securities.

Unrealized losses on investment securities result from the amortized cost basis of the security being higher than its current fair value. Unrealized losses generally occur because of changes in interest rates since the time of purchase, or because the credit quality of the issuer has deteriorated. Because the Bank has the intent and ability to hold securities with unrealized losses until a market price recovery or to the ultimate maturity of the security, the Bank does not consider any investment that is indicating an unrealized loss to be other-than temporarily impaired at December 31, 2022 or December 31, 2021.

Management does not believe any individual unrealized loss in other securities within the portfolio as of December 31, 2022 and 2021 represents OTTI. Most securities with unrealized losses are either a) local municipal securities that are closely monitored and have minor net loss positions under one percent or b) U.S. government or agency securities whose prices fluctuates due to interest rate changes.

These securities were not rated at the time of their issuance by a nationally recognized statistical rating organization but each security remains significantly collateralized through subordination. Therefore, no credit-related OTTI is deemed to be present. The Bank does not intend to sell any of these securities in an unrealized loss position, due to credit risk nor will it be required to sell these securities prior to the recovery of the amortized cost.

Notes to Consolidated Financial Statements

(4) Equity Securities

Readily marketable equity security changes for the years ended December 31, 2022 and 2021:

(in thousands)

At December 31,	2022	(Unaudited) 2021
Balance at beginning of year	\$ 62	\$ 37
Unrealized gains (losses)	(6)	25
Balance at end of year	\$ 56	\$ 62

Not readily marketable equity security changes for the years ended December 31, 2022 and 2021:

		(Unaudited)
		<u>2021</u>
	<u>2022</u>	<u>2021</u>
Carrying value 12/31/2021	\$ 1,182	\$ 1,173
Premium amortization	(13)	(13)
Net purchases	115	22
Carrying value 12/31/2022	\$ 1,284	\$ 1,182

Non-marketable equity securities carrying value consists of the following for 2022 and 2021:

(in thousands)

At December 31,	2022	(Unaudited) 2021
Senior Crime Stopper Preferred	\$ 512	\$ 525
Federal Reserve Bank	344	269
Federal Home Loan Bank of NY	311	271
Atlantic Community Bankers Bank Northeast	100	100
Other	17	17
Total	\$ 1,284	\$ 1,182

Notes to Consolidated Financial Statements

(5) Loans and Allowance for Loan Losses

The company's loan portfolio at December 31, 2022 and 2021 consists of the following:

(in thousands)

At December 31,	2022	(Unaudited) 2021
Commercial real estate	\$ 117,776	\$ 99,998
Commercial and industrial	52,952	49,317
Residential real estate	153,363	145,104
Other consumer	173,073	149,255
Total loans	497,164	443,674
Less: allowance for loan loss	(5,989)	(5,673)
Loans, net of allowance	\$ 491,175	\$ 438,001

Net deferred (fees) and costs included in totals above	\$ 637	\$ 565
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Notes to Consolidated Financial Statements

(5) Loans and Allowance for Loan Losses (continued)

The following tables summarize the activity in the allowance for loan losses and the recorded investment in loans receivable by loan class for the years ended December 31, 2022 and 2021.

(in thousands):

2022 Allowance for loan losses	Beginning	Charge-Offs	Recoveries	Provision	Ending	Ending	Ending
	Balance				Balance	Balance:	Balance:
						Individually	Collectively
						Evaluated for	Evaluated for
						Impairment	Impairment
Commercial real estate	\$ 1,253	\$ -	\$ -	\$ 102	\$ 1,355	\$ -	\$ 1,355
Commercial & industrial	605	(17)	54	308	950	-	950
Residential real estate	972	(5)	-	34	1,001	-	1,001
Other consumer	1,954	(1,014)	238	1,505	2,683	-	2,683
Unallocated	889	-	-	(889)	-	-	-
Total	\$ 5,673	\$ (1,036)	\$ 292	\$ 1,060	\$ 5,989	\$ -	\$ 5,989

2022	Ending Balance	Ending Balance:	Ending Balance:
		Individually Evaluated	Collectively Evaluated
		for Impairment	for Impairment
Commercial real estate	\$ 117,776	\$ -	\$ 117,776
Commercial & industrial	52,952	-	52,952
Residential real estate	153,363	-	153,363
Other consumer	173,073	-	173,073
Total	\$ 497,164	\$ -	\$ 497,164

2021 (Unaudited) Allowance for loan losses	Beginning	Charge-Offs	Recoveries	Provision	Ending	Ending	Ending
	Balance				Balance	Balance:	Balance:
						Individually	Collectively
						Evaluated for	Evaluated for
						Impairment	Impairment
Commercial real estate	\$ 1,164	\$ -	\$ -	\$ 89	\$ 1,253	\$ -	\$ 1,253
Commercial & industrial	758	-	1	(154)	605	-	605
Residential real estate	872	-	-	100	972	-	972
Other consumer	1,628	(242)	123	445	1,954	-	1,954
Unallocated	979	-	-	(90)	889	-	809
Total	\$ 5,401	\$ (242)	\$ 124	\$ 390	\$ 5,673	\$ -	\$ 5,673

2021 (Unaudited)	Ending Balance	Ending Balance:	Ending Balance:
		Individually Evaluated	Collectively Evaluated
		for Impairment	for Impairment
Commercial real estate	\$ 99,998	\$ -	\$ 99,998
Commercial & industrial	49,317	-	49,317
Residential real estate	145,104	-	145,104
Other consumer	149,255	-	149,255
Total	\$ 443,674	\$ -	\$ 443,674

Notes to Consolidated Financial Statements

(5) Loans and Allowances for Loan Losses (continued)

Description of Credit Quality Indicators: In accordance with regulatory guidelines, a description of the Company's credit quality indicators follows.

Other Assets Especially Mentioned (OAEM): A warning risk grade that portrays one or more weaknesses that may be tolerated in the short term. Assets in this category are currently protected but are potentially weak. This loan would not normally be booked as a new credit but may have redeeming characteristics persuading the Bank to continue working with the borrower. Loans in this classification have potential weaknesses which may, if not checked or corrected, weaken the company's assets, inadequately protect the Bank's position, or effect the orderly, scheduled reduction of the debt at some future time.

Substandard: The relationship is inadequately protected by the current net worth and cash flow capacity of the borrower, guarantor/endorser, or of the collateral pledged. Assets have a well-defined weakness or weaknesses that jeopardize the orderly liquidation of the debt. The relationship shows deteriorating trends or other deficient areas. The loan may be nonperforming and expected to remain so for the foreseeable future. Relationship balances may be adequately secured by asset value; however, a deteriorated financial condition may necessitate collateral liquidation to effect repayment. This would also include any relationship with an unacceptable financial condition requiring excessive attention of the officer due to the nature of the credit risk or lack of borrower cooperation.

Doubtful: The relationship has all the weaknesses inherent in a credit graded as OAEM with the added characteristic that the weaknesses make collection based on currently existing facts, conditions, and value, highly questionable or improbable. The possibility of some loss is extremely high, however its classification as an anticipated loss is deferred until a more exact determination of the extent of loss is determined. Loans in this category must be on nonaccrual. There were no loans in this credit quality classification as of December 31, 2022 or 2021.

Loss: Loans are considered uncollectible and of such little value that continuing to report as loan receivables is not warranted. It is not practicable defer writing off this asset even though partial recovery may be possible in the future. The following table displays the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of other assets especially mentioned, substandard, with the Company's internal risk rating system at December 31, 2022 and 2021. There were no loans in this credit quality classification as of December 31, 2022 or 2021.

(in thousands)

2022	Pass	Other Assets Especially Mentioned	Substandard	Total
Commercial real estate	\$ 116,215	\$ -	\$ 1,561	\$ 117,776
Commercial & industrial	51,824	-	1,128	52,952
Residential real estate	152,927	-	436	153,363
Other consumer	170,443	-	2,630	173,073
Total	\$ 491,409	\$ -	\$ 5,755	\$ 497,164

2021 (Unaudited)	Pass	Other Assets Especially Mentioned	Substandard	Total
Commercial real estate	\$ 96,460	\$ 1,928	\$ 1,610	\$ 99,998
Commercial & industrial	48,816	495	6	49,317
Residential real estate	144,394	-	710	145,104
Other consumer	147,886	-	1,369	149,255
Total	\$ 437,556	\$ 2,423	\$ 3,695	\$ 443,674

Notes to Consolidated Financial Statements

(5) Loans and Allowances for Loan Losses (continued)

A loan is considered impaired when based on current information and events, it is probable that the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Interest income on non-accrual loans is recognized on a cash basis when the borrower makes payment.

There were no loans individually evaluated for impairment as of December 31, 2022 and 2021.

The following table displays nonaccrual loans by classes of the loan portfolio:
(in thousands)

At December 31,	2022	(Unaudited) 2021
Commercial real estate	\$ -	\$ -
Commercial & industrial	39	76
Residential real estate	382	382
Other consumer	2,628	925
Total	\$ 3,049	\$ 1,383

The performance and credit quality of the loan portfolio is also monitored by evaluating the age of the loans receivable as determined by the length of time a recorded payment is past due.

The following tables present the classes of the loan portfolio summarized by the past due status at December 31, 2022 and 2021 (in thousands):

2022	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivables	Loans Receivable > 90 Days & Accruing
Commercial real estate	\$ 1	\$ -	\$ -	\$ 1	\$ 117,775	\$ 117,776	\$ -
Commercial & industrial	69	4	8	81	52,871	52,952	-
Residential real estate	14	-	436	450	152,913	153,363	54
Other consumer	3,056	878	750	4,684	168,381	173,073	2
Total	\$ 3,140	\$ 882	\$ 1,194	\$ 5,216	\$ 491,940	\$ 497,164	\$ 56

2021 (Unaudited)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivables	Loans Receivable > 90 Days & Accruing
Commercial real estate	\$ -	\$ -	\$ -	\$ -	\$ 99,998	\$ 99,998	\$ -
Commercial & industrial	292	45	82	419	48,898	49,317	6
Residential real estate	957	129	711	1,797	143,307	145,104	329
Other consumer	3,398	1,097	564	5,059	144,196	149,255	368
Total	\$ 4,647	\$ 1,271	\$ 1,357	\$ 7,275	\$ 436,399	\$ 443,674	\$ 703

Notes to Consolidated Financial Statements

(5) Loan and Allowance for Loan Losses (continued)

During the years ended December 31, 2020 and 2021 due to the COVID-19 pandemic, the Bank issued Paycheck Protection Program (PPP) loans to provide financial support to help serve our communities during this time of need. As of the end of December 31, 2022 all of these loans have been forgiven as approved by the Small Business Administration (SBA).

A summary of the PPP loan activity is below:

2021 (unaudited):

Net changes 2021	(376)	\$ (27,856)
<u>PPP loan balances 12/31/2021</u>	<u>77</u>	<u>\$ 3,958</u>

2022:

Net changes 2022	(77)	\$ (3,958)
<u>PPP loan balances 12/31/2022</u>	<u>-</u>	<u>\$ -</u>

During the years ended December 31, 2022 and 2021, the Bank recognized \$210,000 and \$1,820,000 of PPP processing fees into income for 2022 and 2021, respectively.

Loans Pledged as Collateral:

The bank pledges mortgage loans at the Federal Home Loan Bank (FHLB) as collateral to secure our line of credit at the FHLB. As of December 31, 2022 and 2021, the amount of loans pledged is \$55,251,000 and \$55,455,000 respectively.

Notes to Consolidated Financial Statements

(6) Loan Servicing

The Bank originates residential mortgage loans, sells to investors, and retains all loan servicing. The outstanding balances of loans serviced for others are derecognized from the accompanying consolidated balance sheets after the sale. The unpaid principal balances of mortgage loans serviced for others were \$63.4 million and \$71.8 million at December 31, 2022 and 2021, respectively. The balance of mortgage servicing rights is included in other intangible assets on the consolidated balance sheet.

<u>2022:</u>	Gross Carrying Value	Accumulated Amortization	Impairment Allowance	Net Carrying Value
Mortgage servicing rights capitalized	\$ 12	\$ -	\$ -	\$ 12
Amortized to expense	-	(77)	-	(77)
Impairment recognized	-	-	-	-
Recovery of prior year impairments	-	-	41	41
Balance December 31, 2022	<u>\$ 1,630</u>	<u>\$ (1,148)</u>	<u>\$ -</u>	<u>\$ 482</u>
<u>2021 (unaudited):</u>				
Balance January 1, 2021	\$ 1,599	\$ (939)	\$ (150)	\$ 510
Mortgage servicing rights capitalized	19	-	-	19
Amortized to expense	-	(132)	-	(132)
Recovery of prior impairments	-	-	109	109
Balance December 31, 2021	<u>\$ 1,618</u>	<u>\$ (1,071)</u>	<u>\$ (41)</u>	<u>\$ 506</u>

The following presents the changes in mortgage servicing rights for the years ended December 31, 2022 and 2021:

The Bank capitalizes the mortgage servicing rights at estimated fair value based upon an independent third party appraisal. The capitalized rights are reported in the Consolidated statement of income in "Net gains on sales of loans". We have elected to subsequently re-measure the servicing assets using the amortization method, measured in proportion to loan proceeds received vs. the original loans sold.

Asset impairment is tested annually in December after we receive an independent valuation report from a third party consultant firm. If it is determined the carrying value is higher than the estimated fair value, an impairment loss is recognized in earnings in Non-Interest Income. Subsequent recoveries are also recognized in earnings in Non-Interest Income. The valuation report employs a discounted cash flow model making several assumptions, including prepayment speeds, interest rate trends, weighted-average default rates, and levels of supply and demand for servicing. Changes to these assumptions can significantly affect the fair value of the servicing rights. This year the estimated fair value was higher than our carrying value by \$169,000. Last year the fair value was lower than carrying value by \$41,000; since the fair value is now higher than book value by more than the prior year valuation allowance, we recognized an impairment recovery of \$41,000 during the year ended December 31, 2022.

The asset impairment charge or recovery, amortization expense, and servicing income are all collectively reported in the Consolidated statement of income in other non-interest income. Servicing income earned was \$168,000 and \$194,000 for the years ended December 31, 2022 and 2021, respectively.

Notes to Consolidated Financial Statements

(7) Premises and Equipment

The following is a summary of premises and equipment as of December 31:

(in thousands)

At December 31,	2022	Unaudited 2021
Land	\$ 1,515	\$ 1,567
Bank premises	13,053	12,235
Equipment and furniture	4,600	4,622
Construction in progress	233	858
Total	19,401	19,282
Less: accumulated depreciation	(9,991)	(9,548)
Premises and equipment, net	\$ 9,410	\$ 9,734

Depreciation expense was \$811,000 and \$843,000 for the years ended December 31, 2022 and 2021, respectively. During the year 2022, we sold a rental property resulting in a gain on disposal of \$417,000. We also recognized impairment losses of (\$3,000) from disposed assets no longer in use.

Notes to Consolidated Financial Statements

(8) Fair Value Measurements

Fair values of assets and liabilities measured on a recurring basis at December 31, 2022 and 2021 are as follows: (in thousands)

Fair Value Measurements at Reporting Date Using

	Quotes Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<u>2022</u>				
U.S. governments and its agencies	\$ -	\$ 52,742	\$ -	\$ 52,742
State and local government municipalities	-	48,622	-	48,622
Mortgage-backed securities	-	7,246	-	7,246
Total investment securities available-for-sale	-	108,610	-	108,610
Readily marketable equity securities	56	-	-	56
Total assets measured at fair value	\$ 56	\$ 108,610	\$ -	\$ 108,666
<u>2021 Unaudited</u>				
U.S. governments and its agencies	\$ -	\$ 32,297	\$ -	\$ 32,297
State and local government municipalities	-	60,054	-	60,054
Mortgage-backed securities	-	10,411	-	10,411
Total investment securities available-for-sale	-	102,762	-	102,762
Readily marketable equity securities	62	-	-	62
Total assets measured at fair value	\$ 62	\$ 102,762	\$ -	\$ 102,824

The fair value hierarchy is based on three levels of inputs, of which the first two are considered observable and the last unobservable. The following is used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

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

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Notes to Consolidated Financial Statements

(9) Other Intangible Assets

These intangible assets were determined by management to meet the criterion for recognition separate from goodwill and have finite lives. We use judgment in assessing whether the carrying amounts are not expected to be recoverable over their estimated useful lives. The customer relationships have been recognized as a result of the acquisition of the Scautub Agency, LLC during year ended December 31, 2013. The weighted average remaining amortization period of this intangible is 5.5 years. This must be tested for impairment at least annually. No impairment has occurred to date for the year ending December 31, 2022. Amortization expense is reported in other expenses in the income statement. The mortgage servicing rights intangible is fully explained in the Loan servicing note.

The change in carrying value of intangible assets for 2022 and 2021 is as follows:

(in thousands)

	2022			
	Gross Carrying Amount	Accumulated Amortization	Impairment Allowance	Net Intangibles
Amortized intangible assets:				
Customer relationships	\$ 230	\$ (138)	\$ -	\$ 92
Mortgage servicing rights	1,630	(1,148)	-	482
Total	\$ 1,860	\$ (1,286)	\$ -	\$ 574
	2021 (unaudited)			
	Gross Carrying Amount	Accumulated Amortization	Impairment Allowance	Net Intangibles
Amortized intangible assets:				
Customer relationships	\$ 230	\$ (121)	\$ -	\$ 109
Mortgage servicing rights	1,618	(1,071)	(41)	506
Total	\$ 1,848	\$ (1,192)	\$ (41)	\$ 615

The estimated amortization expense for each of the five succeeding years ended December 31, is as follows:
(in thousands)

2023	\$ 64
2024	64
2025	64
2026	64
2027	64
Thereafter	254
Total	\$ 574

Notes to Consolidated Financial Statements

(10) Deposits

The components of deposits are as follows:

(in thousands)

As of December 31,	2022	(Unaudited) 2021
Demand deposit noninterest-bearing	\$ 199,425	\$ 190,344
Demand deposit interest-bearing (NOW accounts)	118,779	120,611
Savings accounts	166,996	155,973
Money Market deposits	104,369	111,526
Time deposits	24,280	30,187
Total deposits	\$ 613,849	\$ 608,641

Time deposits that meet or exceed the FDIC Insurance limit of \$250,000 at year-end 2022 and 2021 were \$3,632,000 and \$3,693,000 respectively.

Scheduled maturities of time deposits for the next five years were as follows (in thousands):

2023	\$ 19,553
2024	2,112
2025	756
2026	803
2027	<u>1,056</u>
	<u>\$ 24,280</u>

(11) Related Party Transactions

In the ordinary course of business, the Bank has and expects to continue to have transactions, including borrowings, with its officers, directors, and their affiliates. In the opinion of management, such transactions were on substantially the same terms, including interest rates and collateral, as those prevailing at the time of comparable transactions with other persons and did not involve more than a normal risk of collectability or present any other unfavorable features to the Bank. Loans and Deposits at December 31, 2022 and 2021 are summarized as follows:

	12/31/2022	(Unaudited) 12/31/2021
Loan Balance - Beginning of Year	\$ 1,562	\$ 2,191
New Loans	286	392
Payments	<u>(558)</u>	<u>(1,021)</u>
Loan Balance End of Year	<u>\$ 1,290</u>	<u>\$ 1,562</u>

The Bank held deposits of \$3,528,000 and \$2,501,000 for related parties at December 31, 2022 and 2021, respectively.

Notes to Consolidated Financial Statements

(12) Borrowings

On September 17, 2021, a borrowing in the amount of \$5,000,000 was issued to the GBHC to refinance a prior bank loan outstanding from a variable to a fixed rate. The proceeds of the loan are used by the GBHC to provide more financial support toward the subsidiary Bank as needed through capital contributions. The terms of this loan include: fixed interest 3.75% and final maturity date September 15, 2031. Principal and interest is paid quarterly. This loan is fully secured by the pledging of the Company's GBHC stock up to the amount of the loan.

The other long-term borrowings include: 1) a private note originally issued on August 1, 2013 for \$691,000 related to the purchase of Scautub Insurance Agency. Principal and interest are paid monthly over a ten-year amortization period. The note rate is fixed at 4.25% with a scheduled maturity date of Aug 1, 2023. 2) A promissory note originally issued on December 30, 2015 for \$330,000 related to the furniture and fixtures at 120 Erie Boulevard. Principal and interest are paid monthly over a 15-year amortization period. The note rate is fixed at 3% with a scheduled maturity date of December 30, 2030.

The Bank also has other line of credit lines available with its correspondents banks totaling \$92,251,000 as of December 31, 2022. No borrowings are currently outstanding on these lines.

Borrowings outstanding (in thousands):

	2022	Unaudited 2021
At December 31,	<u>2022</u>	<u>2021</u>
Short term:		
Current portion of long-term	\$ 517	\$ 526
Total short-term borrowings	517	526
Long-term:		
Bank loan	4,472	4,896
Other	250	352
Total long-term borrowings	4,722	5,248
Less: current portion	(517)	(526)
Long-term portion	4,205	4,722
Total borrowings	\$ 4,722	\$ 5,248

At December 31, 2022, scheduled repayments of borrowings are as follows:

(in thousands)

2023	\$	517
2024		479
2025		497
2026		516
2027		536
Thereafter		<u>2,177</u>
Total	\$	<u>4,722</u>

Notes to Consolidated Financial Statements

(13) Pension Plan

The Bank has a noncontributory defined benefit pension plan covering approximately 25% of current employees. The plan provides defined benefits based on years of service and final average salary. The plan was frozen on December 31, 2006, mainly to reduce some of the earnings volatility that can accompany the maintenance of a defined benefit plan. No accruals for service benefits have been made since this frozen period, however the Bank continues to pay monthly benefits to retirees and has an obligation to pay future benefits to current vested employees in the plan.

The following tables provide a reconciliation of the changes in the plan's benefit obligations, fair value of assets, and a statement of the funded status over the periods ending December 31, 2022 and 2021, respectively.

(in thousands)	(Unaudited)	
As of December 31,	2022	2021
Reconciliation of pension benefit obligation		
Obligation at beginning of year	\$ 19,933	\$ 20,940
Service cost including expenses	-	133
Interest cost	574	542
Actuarial loss	(4,779)	(571)
Benefit payments and expected expenses	(1,054)	(1,111)
Obligation at end of year	14,674	19,933
Reconciliation of fair value of plan assets		
Fair value of plan assets at beginning of year	27,282	25,323
Actual (loss) return on plan assets	(3,876)	3,014
Employer contributions	-	-
Benefit payments and actual expenses	(1,148)	(1,055)
Fair value of plan assets at end of year	22,258	27,282
Funded status at end of year	\$ 7,584	\$ 7,349
Amounts recognized in the balance sheet		
Pension plan funded status	\$ 7,584	\$ 7,349
Amounts recognized in AOCI		
Loss	(1,472)	(884)
Components of net periodic pension cost (income) and other amounts recognized in other comprehensive income		
Service cost	\$ -	\$ 133
Interest cost	573	542
Expected return on plan assets	(1,397)	(1,362)
Amortization of net (gain) loss	-	28
Net periodic pension cost/(income)	(824)	(659)
Other changes in plan assets and benefit obligations recognized in other comprehensive income		
Net loss (gain)	588	(2,279)
Amortization of loss	-	(28)
Total amount recognized in other comprehensive income	588	(2,307)
Total amount recognized in net periodic pension cost (income) and other comprehensive income	\$ (236)	\$ (2,966)

Notes to Consolidated Financial Statements

(13) Pension Plan (continued)

(in thousands)

		(Unaudited)
<u>Weighted average assumptions used</u>	<u>2022</u>	<u>2021</u>
Discount rate used for net pension cost	2.95%	2.66%
Discount rate used for pension obligation	5.44%	2.95%
Long-term rate of return used for pension cost	5.50%	5.50%

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands):

2023	\$ 1,038
2024	\$ 1,070
2025	\$ 1,072
2026	\$ 1,067
2027	\$ 1,053
2028-2032	\$ 5,206

The plan asset allocations by asset category are as follows:

		(Unaudited)
<u>Fair value, December 31</u>	<u>2022</u>	<u>2021</u>
Equity securities	65%	64%
Fixed income	30%	30%
Other	5%	6%
Total	100%	100%

Gains and losses in excess of 10% of the greater of the benefit obligation or the fair value of plan assets are amortized over the expected lifetime of participants.

Expected Return on Assets: The long term return on plan assets assumptions are as follows: 6.00% is used for the 2023 expense, and 5.50% for the 2022 expense. This is the assumed rate of return for the plan's entire portfolio of assets, net of investment expenses and including inflation. This assumption represents an estimate of future experience and is based in part on observations of estimates inherent in market data.

In developing the expected return on assets assumption, reliance on models and capital market assumptions and the Plan's investment policy was used. The plan's target asset allocation was reviewed along with forward looking data such as projections of inflation and total return growth. Mean returns, standard deviations and correlations between investment categories were determined and used in the investment return assumption.

This estimate reflects professional judgment, relevant economic data as of the measurement date, and estimates of future experience. We believe these assumptions are reasonable.

Notes to Consolidated Financial Statements

(13) Pension Plan (continued)

Plan asset allocation: The plan assets are managed through an independent asset fund manager who use the following investment policy to allocate assets : 15% to 70% of assets in equity securities; 15% to 70% in debt securities and 5% to 70% in cash equivalents portfolio.

The overall long-term investment objectives are to maximize return while managing risk within an acceptable range. In all cases, the assets in the plan should provide for timely and uninterrupted payment of pension benefits to plan participants without undue exposure to risk.

Pension plan assets measured at fair value are summarized below.

(in thousands)	December 31, 2022			
Asset Category:	Level 1	Level 2	Level 3	Total
Equities	\$ 14,413	\$ -	\$ -	\$ 14,413
Fixed Income	6,718	-	-	6,718
Cash and Other	1,127	-	-	1,127
Total assets	\$ 22,258	\$ -	\$ -	\$ 22,258

(in thousands)	December 31, 2021 (Unaudited)			
Asset Category:	Level 1	Level 2	Level 3	Total
Equities	\$ 17,460	\$ -	\$ -	\$ 17,460
Fixed Income	8,185	-	-	8,185
Cash and Other	1,637	-	-	1,637
Total assets	\$ 27,282	\$ -	\$ -	\$ 27,282

Fair Value of Plan Assets:

The Company used the following valuation methods and assumptions to estimate the fair value of assets held by the plan:

Equities:

The fair values for all equity securities are determined by quoted market prices in active market sources for identical assets (Level 1 inputs).

Fixed Income:

The fair values of all debt securities are valued at the closing price reported in the active market in which the bond is traded (Level 1 inputs).

Cash and Other:

The fair value is equal to the invested balance in the Cash and Other asset category.

Notes to Consolidated Financial Statements

(14) Other Benefit Plans

Deferred Compensation Plan: Our deferred compensation plan covers all directors and selected officers. Under this plan, the company is obligated to pay each participant (or their beneficiary) the fair market value of the assets upon the participant's requested redemption date. There is a deferred compensation liability obligation (included in other liabilities) in addition to a deferred compensation asset of \$6,105,000 and \$7,430,000 as of December 31, 2022 and 2021, respectively. Both the deferred compensation assets and liability accounts are recorded at fair market value at the end of each quarter. When liabilities are paid, the assets are liquidated and paid to beneficiaries during mandatory redemption periods. The compensation expense incurred for new deferred compensation awards for the year-end December 31, 2022 and 2021 were \$246,000 and \$275,000, respectively. This amount is included in salaries and benefits on the income statement and are recognized as new awards are earned from the participant.

The Bank also adopted a defined Contribution plan, Supplemental Executive Retirement Plan (the SERP), effective January 1, 2015. The SERP participants include selected senior Executive Officers of the Bank who were approved by the Board of Directors. The SERP is intended to provide a benefit from the Bank upon retirement, death, disability, voluntary, or involuntary termination of service (other than "for cause"), subject to requirements of Section 409A of Internal Revenue Code. The Executives are one hundred percent (100%) vested in this plan at all times. The contribution amounts are determined by the Bank, in its sole discretion and could be adjusted from time to time to keep pace with salary adjustments or for any other reason. This contribution is made annually to each executive's account, which is due as of the first day of each calendar year. In the event the Executive's employment is terminated for Cause, no benefits of any kind will be due or payable by the bank under the terms of this Plan and all rights of the Executive, his or her designated beneficiary to receive payments shall be forfeited. In the event the Executive is entitled to a benefit from the SERP due to retirement or other termination of employment, the benefits will be paid in monthly installments over a period of two hundred forty (240) months. Installments will commence within ninety (90) days following Executive's separation from service or other designated event. At December 31, 2022 and 2021, other liabilities included \$ 843,000 and \$747,000 respectively, accrued under this plan.

401(k) Plan: A 401(k) benefit plan allows employee contributions up to the annual IRS dollar limit. The employee contributions are matched up to 50% of the first 6% of the compensation contributed. Expense for the years ended December 31, 2022 and 2021 was \$463,000 and \$476,000, respectively including an additional 3% discretionary contribution.

Notes to Consolidated Financial Statements

(15) Income Taxes

Income taxes included in the Statement of Income are as follows: (in thousands)

	(Unaudited)	
For the year ended December 31,	2022	2021
Current:		
Federal	\$ 739	\$ 1,031
State	21	4
Total current	760	1,035
Deferred:		
Federal	221	(56)
State	-	-
Total deferred	221	(56)
Applicable income taxes	\$ 981	\$ 979

A reconciliation of the income tax expense and the amount computed by applying the statutory federal income tax rate to income before income taxes and extraordinary items is shown as follows:

	(Unaudited)	
As of December 31,	2022	2021
Federal income tax at statutory rate	\$ 1,128	\$ 1,014
State tax net of federal income tax effect	16	4
Municipal bond interest	(108)	(101)
Other	(55)	62
Total	\$ 981	\$ 979

The net deferred tax assets included in other assets in the accompanying Consolidated Balance Sheets includes:

	(Unaudited)	
At December 31,	2022	2021
Deferred tax assets:		
Allowance for loan losses	\$ 1,257	\$ 1,191
Deferred compensation	743	757
Deferred fees	-	40
Securities	2,228	125
Other	91	164
Deferred tax assets	4,319	2,277
Deferred tax liabilities:		
Pension	(1,592)	(1,543)
Depreciation	(341)	(348)
Servicing rights	(101)	(106)
Deferred tax liabilities	(2,034)	(1,997)
Net deferred tax assets	\$ 2,285	\$ 280

Management believes it is more likely than not that all of the deferred tax assets will be realized. The amount of the deferred tax asset is considered realizable, however, this amount could be reduced in the near term if estimates of future taxable income are reduced.

Notes to Consolidated Financial Statements

(16) Regulatory Capital Matters

The subsidiary Bank is subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgements by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. Management believes as of December 31, 2022, the Bank meets all capital adequacy requirements to which they are subject. The capital conservation buffer requirements is 2.5% of risk-weighted assets.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2022 and 2021, the most recent regulatory notifications 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 institution's category.

Actual and required capital amounts (in thousands) and ratios are presented below at year-end December 31, 2022 and December 31, 2021, respectively.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective		Minimum To Be Well Capitalized with Buffer	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
<u>2022</u>								
Total Capital (to risk-weighted assets)	\$58,905	12.35%	\$38,161	8.00%	\$47,701	10.00%	\$50,086	10.50%
Tier 1 Capital (to risk-weighted assets)	\$52,939	11.10%	\$28,621	6.00%	\$38,161	8.00%	\$40,546	8.50%
Common Equity Tier 1 (to risk-weighted assets)	\$52,939	11.10%	\$21,466	4.50%	\$31,006	6.50%	\$33,391	7.00%
Tier 1 Capital (to quarterly average assets)	\$52,939	7.70%	\$27,491	4.00%	\$34,364	5.00%	\$34,364	5.00%
<u>2021 (unaudited)</u>								
Total Capital (to risk-weighted assets)	\$55,225	13.01%	\$33,962	8.00%	\$42,452	10.00%	\$44,574	10.50%
Tier 1 Capital (to risk-weighted assets)	\$49,906	11.76%	\$25,471	6.00%	\$33,962	8.00%	\$36,084	8.50%
Common Equity Tier 1 (to risk-weighted assets)	\$49,906	11.76%	\$19,103	4.50%	\$27,594	6.50%	\$29,716	7.00%
Tier 1 Capital (to quarterly average assets)	\$49,906	7.45%	\$26,809	4.00%	\$33,511	5.00%	\$33,511	5.00%

Notes to Consolidated Financial Statements

(17) Off Balance Sheet Related Risks

The Bank, in its normal course of business, is party to financial instruments with off-balance sheet risk. These include commitments to extend credit and performance standby letters of credit, which are not included in the accompanying financial statements.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and performance standby letters of credit is represented by the contractual or notional amount of those instruments. The Company uses the same credit policies in making such commitments as it does for instruments that are included in the consolidated balance sheet.

Financial instruments whose contract amounts represent credit risk as December 31, 2022 and 2021 are as follows (in thousands):

As of December 31,	2022	(Unaudited) 2021
Commitments to extend credit	\$ 53,001	\$ 58,856
Performance standby letters of credit	\$ 1,580	\$ 1,277

Commitments to extend credit are legally binding agreements to lend to customers. Commitments generally have fixed expiration dates or other termination clauses and may require payment of fees. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future liquidity requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank for extension of credit, is based on management's credit assessment of the customer.

Performance standby letters of credit irrevocably obligates the Bank to pay a third-party when a customer fails to perform some contractual non-financial obligation. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Most of the performance standby letters of credit are secured by deposits held in the Bank to mitigate any credit risk.

Notes to Consolidated Financial Statements

(18) Accumulated Other Comprehensive Income (Loss)

Changes in the components of accumulated other comprehensive income (loss) (AOCI), net of tax, for their periods indicated are summarized in the table below:

For the year ended December 31, 2022			
(in thousands)	Pension Plan	Unrealized Losses on AFS Securities	Total
Beginning Balance	\$ (698)	\$ (491)	\$ (1,189)
OCI before reclassifications	(465)	(7,904)	(8,369)
Amounts Reclassified from AOCI	-	-	-
Ending Balance	\$ (1,163)	\$ (8,395)	\$ (9,558)

For the year ended December 31, 2021 (unaudited)			
(in thousands)	Pension Plan	Unrealized Gains and (Losses) on AFS Securities	Total
Beginning Balance	\$ (2,520)	\$ 378	\$ (2,142)
OCI before reclassifications	1,800	(869)	931
Amounts Reclassified from AOCI, net of tax	22	-	22
Ending Balance	\$ (698)	\$ (491)	\$ (1,189)

The following table presents the amounts reclassified out of each component of AOCI for the indicated annual period (in thousands):

Details about AOCI Components	12/31/2022	Unaudited 12/31/2021	Affected Line Item in the Statement of Income
<u>Pension Plan Items</u>			
Retirement Plan Net Losses	\$ -	\$ (28)	Salaries and Employee Benefits
Recognized in Plan Expenses	-	6	Applicable income taxes
	\$ -	\$ (22)	Net Income
<u>Available-for-sale Securities</u>			
Realized gain (loss) on	\$ -	\$ -	Net gains (losses) on sales
	-	-	Applicable income taxes
	\$ -	\$ -	Net Income

Notes to Consolidated Financial Statements

(19) Revenue from Contracts with Customers

The majority of the Company's revenue-generating transactions are not subject to ASC Topic 606 (Revenue from contracts with customers), including interest earned from financial instruments, such as loans and investment securities which are presented in the income statement as components of net interest income. All of the Company's revenue from contracts with customers within the scope of ASC 606 is recognized as non-interest income in the statement of income. The following table presents revenues subject to ASC 606 for the years ended December 31, 2022 and 2021 respectively.

(in thousands)	(Unaudited)	
At December 31,	2022	2021
Customer service charges and fees:		
Insufficient funds	\$ 573	\$ 491
Deposit related fees	240	229
ATM charges	88	88
Safe deposit rental income	80	82
Total service charges	981	890
Insurance and brokerage:		
Insurance commissions	778	767
Brokerage commissions	446	442
Total insurance and brokerage	1,224	1,209
Interchange Fee Income	1,278	1,266
Mortgage loan servicing fee income and gain on sale of loans:		
Loan servicing fees	168	194
Mortgage servicing rights amortization and impairments	(36)	(23)
Net gains on sales of loans	31	126
Total mortgage loan servicing and gain on sales of loans	163	297
Total revenue within scope of Revenue recognition standard	3,646	3,662
Gain on disposal of assets	414	(11)
Unrealized gains (losses) on equity securities	(6)	25
Other miscellaneous non interest income	359	474
Total noninterest income	\$ 4,413	\$ 4,150

Notes to Consolidated Financial Statements

(19) Revenue from Contracts with Customers (continued)

The Company recognizes revenue as it is earned and noted no significant impact to its revenue recognition policies as a result of this new accounting standard relating to revenue from contracts with customers.

The following is a discussion of revenue classifications within the scope of the new revenue recognition guidance:

Customer service charges and fees – Revenue is earned through insufficient funds fees, wire transfer fees, and deposit related fees based on customer activity and statement cycles. Fees earned are recognized at the time the transaction is complete and the Company's performance obligation is satisfied. Safe deposit rent is collected in advance based on the annual renewal date and the subsequent revenue is recognized monthly proportionally up to the ending term of the customer agreement.

Insurance and brokerage - Investment and insurance products are offered through the Bank's First Scotia Wealth Management division and Agency subsidiary, respectively. Revenue is earned through commissions received as transactions occur after our performance obligation is satisfied.

Interchange fees – For debit and credit card interchange fees, revenue is recognized from card networks and other card related services. Interchange rates are set by the card networks. Interchange fees are based on purchase volumes and other factors and are recognized as transactions occur.

Management Report

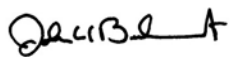
Statement of Management's Responsibilities

The management of 1st National Bank of Scotia (the depository "Institution") is responsible for preparing the Institution's annual financial statements in accordance with generally accepted accounting principles; for establishing and maintaining an adequate internal control structure and procedures for financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Reports of Condition and income (Call Report); and for complying with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions.

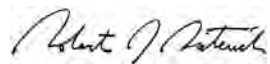
Management's Assessment of Compliance With Designated Laws and Regulations

The management of 1st National Bank of Scotia (the depository "Institution") has assessed the Institution's compliance with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2022. Based upon its assessment, management has concluded that the Institution complied with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2022.

1st National Bank of Scotia



John H. Buhrmaster
President & Chief Executive Officer



Robert J. Dieterich
Executive Vice President & Chief Financial Officer

Date: March 7, 2023

Management Report

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