2022

ANNUAL REPORT

Proudly serving our community for 112 years

Peoples Bancorp, Inc.
and Subsidiary
The Peoples Bank,
Fleetwood, Athey, Macbeth & McCown, Inc.
Chestertown, Maryland

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Peoples Bancorp, Inc. and Subsidiary

Consolidated Financial Statements

December 31, 2022

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PEOPLES BANCORP, INC.

DIRECTORS

Robert W. Clark, Jr.
Betterton, Maryland

LaMonte E. Cooke
Chestertown, Maryland

R. Allen Davis
Galena, Maryland

Corey N. Duncan
Easton, Maryland

Gary B. Fellows
Millington, Maryland

Herman E. (Trey) Hill, III
Rock Hall, Maryland

Patricia Joan O. Horsey
Chestertown, Maryland

Myles S. Loller
Worton, Maryland

Terry M. Mead *
Denton, Maryland

Megan B. Owings
Millington, Maryland

Stefan R. Skipp
Arnold, Maryland

J. Scott Sturgill *
Sudlersville, Maryland

William G. Wheatley
Worton, Maryland

E. Jean Anthony**
Chestertown, Maryland

**** The Peoples Bank Board only***
***** Retired***

OFFICERS

Gary B. Fellows
Chairman of Bank Board

William G. Wheatley
Chairman of Bancorp Board

J. Scott Sturgill
President & CEO

Richard C. Fleetwood, Jr.
President of FAM & M, Inc.

Terri L. Garvey
Executive Vice President & COO

Randall M. Robey
Executive Vice President & CFO

Stephanie L. Usilton
EVP & HRO & Board Secretary

David A. Bowman
Senior Vice President & CLO

S. Henrietta Maloney
Senior Vice President & CISO

Mary Chandler Obrecht
Senior Vice President & CCO

Michael J. Sprouse
Senior Vice President & CRBO

L. Susan Barnhardt
Vice President

James "Josh" Johnson, IV
Vice Pres. of FAM&M, Inc.

Ina P. Reed
Vice President & Controller

Cecil A. Reihl
Vice President

Jacquelyn V. Shields
Vice President

Heather M. Spofford
Vice Pres. of FAM&M, Inc.

Kimberly Swyka
Vice President

Katie E. DiSano
Assistant Vice President

Sheila M. Bolton
Assistant Vice President

Eva W. Hickman
Assistant Vice President

Carolyn L. Walls
Assistant Vice President

Grace M. Eyler
Assistant Secretary

M. Kay McHenry
Assistant Secretary

Karen A. Burris
Assistant Cashier

K. Tanya Brilz
Assistant Cashier

Evetta D. Hopkins
Assistant Cashier

Mary Ann Landa
Assistant Cashier

Nancy Richcreek
Assistant Cashier

Clara M. Ross
Assistant Cashier

Sharon L. Sutton
Assistant Cashier

Samantha M. Thompson
Assistant Cashier

OTHER PERSONNEL

Kathleen E. Barnhart
Kathleen F. Bozarth
Jacqueline D. Brown
Mary L. Burton
Michelle Calhoun
Joanne C. Chek
Lynzie E. Crawford
Brett L. Davis
Caroline M. Dumont
Lori A. Goad
Anjanette S. Graves
Carolyn L. Greaves
Bryan C. Greenwood
Joseph Casey Grieves
Margaret K. Hammer
Wilhelmina "Diena" Howard
Susan M. Joyner
Melissa L. Leonard
Donna M. Lins
Meghan P. Livie
Jennifer L. Mancuso
Kathryn A. Mazur
Spencer M. McAllister
Patrick T. McCarthy
Rebecca L. McGinnes
Sydney A. McGinnes
Jerome J. McKinney, Jr.
Lorraine Susan Molano
Richard J. Newberry
Lisa C. Nicholas
Jamie L. Oesterling
Brittany A. Patchett-Rue
Sabrina N. Patterson
Marcey G. Peet
Alexis L. Phelps
Christina A. Pinkett
Wendy M. Pleasants
Kimberly A. Porter
Barbara A. Reinhardt
Scott B. Schulze
Lois L. Serio
Natalie N. Smith
Jennifer A. Stinnett
Sarah S. Sutton
Noralene H. Thomas
Stephanie L. Thomas
Laurel A. Toth
Raymond W. Weisman
Grace A. Wheatley
Kimberly S. Wood
Daniel Zottarelli

Dear Fellow Shareholders:

I want to thank our shareholders for your commitment to prosper local economic development that is the true benchmark of community banking. During the earlier part of 2022, we all enjoyed the benefit of lower interest rates. Our loan volume remained strong in the early part of the year as interest rates remained low. As the Federal Reserve started to combat inflation by starkly raising interest rates our loan volume decreased. As of this writing, we have started to see loan volume improve. The Peoples Bank is well positioned going into 2023 as our delinquency levels continue to remain low. The additional underwriting capabilities will serve us well as we adjust to the higher interest rates.

Fleetwood Insurance Group continues to thrive; through their team efforts, new clients are being served and subsequently realizing additional revenue. We deeply regret that one of our senior insurance executives, Josh Johnson, died suddenly and tragically on March 4th of this year. Josh was well known in the Mid-Shore and beyond with a personality and warmth larger than any room he entered. Our heartfelt condolences go to his wife Cindy, his family, and to our Fleetwood (BGV) team. He is greatly missed by all.

Our Board of Directors and senior management are strong and experienced. However, it is all of our employees who will drive our growth and sustain our culture. We are committed to using our resources to help build a sustainable future for the communities we serve.

In closing, I would be remiss were I not to pause to voice our appreciation for E. Jean Anthony for her 16 years of service and leadership on the Board of Directors. We know she will enjoy her well-deserved retirement.

J. Scott Sturgill
President & CEO

Financial Highlights
Five years ended December 31, 2022

	2022	2021	2020	2019	2018
	(dollars in thousands except per share amounts)				
Deposits	**$ 324,778**	$ 310,750	$ 269,222	$ 214,721	$ 216,016
Investments, including stock	**102,394**	53,686	21,307	15,115	23,160
Loans (net of the allowance for loan losses)	**172,215**	160,956	173,838	185,294	191,755
Stockholders' equity	**26,535**	30,932	30,235	28,672	26,474
Assets	**354,740**	345,343	304,773	249,191	246,543
Net income	**3,124**	1,478	2,189	2,563	2,108
Return on average assets	**0.90%**	0.46%	0.80%	1.03%	0.87%
Return on average equity	**11.49%**	4.90%	7.44%	9.11%	8.40%
Earnings per share	**4.29**	2.03	3.00	3.52	2.89
Dividends per share	**0.72**	0.72	0.72	0.70	0.49
Book value per share	**36.40**	42.44	41.48	39.34	36.32
Number of shares outstanding	**728,918**	728,918	728,918	728,918	728,918

COMMITTEES

AUDIT COMMITTEE
Corey N. Duncan, Chairperson
Herman E. (Trey) Hill, III
Patricia Joan O. Horsey
Stefan R. Skipp

CAPITAL COMMITTEE
Herman E. (Trey) Hill, III, Chairperson
Robert W. Clark, Jr.
Corey N. Duncan
Stefan R. Skipp
William G. Wheatley

LOAN COMMITTEE
William G. Wheatley, Chairperson
Gary B. Fellows
Patricia Joan O. Horsey
Terry M. Mead
Megan B. Owings
Stefan R. Skipp

COMMUNITY & EMPLOYEES RELATIONS COMMITTEE
Patricia Joan O. Horsey, Chairperson
Robert W. Clark, Jr.
LaMonte E. Cooke
Gary B. Fellows

EXECUTIVE COMMITTEE
Gary B. Fellows, Chairperson of Bank
William G. Wheatley, Chairperson of Bancorp
R. Allen Davis

RISK MANAGEMENT COMMITTEE
Myles S. Loller, Chairperson
LaMonte E. Cooke
Terry M. Mead
J. Scott Sturgill

GOVERNANCE/NOMINATING COMMITTEE
Megan B. Owings, Chairperson
Robert W. Clark, Jr.
R. Allen Davis
Myles S. Loller
Terry M. Mead

PERSONNEL/COMPENSATION COMMITTEE
R. Allen Davis, Chairperson
LaMonte E. Cooke
Corey N. Duncan
Herman E. (Trey) Hill, III
Myles S. Loller
Megan B. Owings

TRUSTEES OF THE PEOPLES BANK DEFINED BENEFIT PLAN
Corey N. Duncan
Myles S. Loller
Randall M. Robey

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8100 Sandpiper Circle
Suite 308
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders of
Peoples Bancorp, Inc. and Subsidiary
Chestertown, Maryland

Opinion

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

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

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the 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.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Other Information Included in the Annual Report

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

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

Yount, Hyde & Barbour, P.C.

Baltimore, Maryland
March 21, 2023

CONSOLIDATED BALANCE SHEETS

ASSETS

	DECEMBER 31,	
	2022	2021
Cash and due from banks	**$ 66,704,119**	$ 119,246,399
Investment securities available for sale, at fair value	**53,301,262**	53,473,052
Investment securities held to maturity, at cost (fair value of **$48,572,434**)	**48,860,000**	-
Federal Home Loan Bank and CBB Financial Corp. stock, at cost	**232,900**	212,700
Loans, less allowance for loan losses of **$2,979,963** and $3,451,176, respectively	**172,214,821**	160,956,325
Premises and equipment	**6,558,955**	6,815,452
Accrued interest receivable	**1,135,647**	591,784
Deferred income taxes	**1,814,283**	226,355
Goodwill and other intangibles	**3,164,920**	3,388,493
Other assets	**753,688**	432,424
	$ 354,740,595	$ 345,342,984

LIABILITIES AND STOCKHOLDERS' EQUITY

	2022	2021
Deposits		
Noninterest bearing checking	**$ 130,441,776**	$ 126,892,949
Savings and NOW	**118,017,643**	105,792,447
Money market	**28,609,128**	25,274,958
Other time	**47,709,087**	52,789,953
	324,777,634	310,750,307
Securities sold under repurchase agreements	**2,015,493**	1,271,573
Accrued interest payable	**42,450**	48,439
Other liabilities	**1,370,171**	2,340,954
	328,205,748	314,411,273
Stockholders' equity		
Common stock, par value $10 per share; authorized 1,000,000 shares; issued and outstanding **728,918** shares	**7,289,180**	7,289,180
Additional paid-in capital	**2,212,550**	2,212,550
Retained earnings	**25,324,216**	22,724,775
Accumulated other comprehensive loss		
Unrealized loss on securities available for sale	**(7,963,804)**	(562,702)
Unfunded liability for defined benefit plan	**(327,295)**	(732,092)
	26,534,847	30,931,711
	$ 354,740,595	$ 345,342,984

CONSOLIDATED STATEMENTS OF INCOME

	YEARS ENDED DECEMBER 31,	
	2022	2021
Interest and dividend revenue		
Loans, including fees	**$ 7,585,338**	$ 7,850,782
U.S. government agency securities	**1,484,397**	272,374
Other	**1,368,974**	126,997
Total interest and dividend revenue	**10,438,709**	8,250,153
Interest expense		
Deposits	**438,535**	458,326
Borrowed funds	**1,609**	2,057
Total interest expense	**440,144**	460,383
Net interest income	**9,998,565**	7,789,770
Provision for (recovery of) loan losses	**(700,000)**	(300,000)
Net interest income after provision for (recovery of) loan losses	**10,698,565**	8,089,770
Noninterest revenue		
Service charges on deposit accounts	**446,363**	438,750
Insurance commissions	**5,012,358**	4,444,286
Gain on sale of other real estate owned, net of write-down	**-**	70,577
Loss on sale and disposal of premises and equipment	**(4,002)**	(1,408)
Other noninterest revenue	**317,885**	275,446
Total noninterest revenue	**5,772,604**	5,227,651
Noninterest expense		
Salaries	**6,479,619**	5,599,188
Employee benefits	**1,597,527**	1,693,870
Occupancy	**631,871**	625,697
Furniture and equipment	**663,941**	594,386
Data processing and correspondent fees	**707,392**	683,586
Other real estate owned expense	**500**	25,147
Professional fees	**384,804**	455,250
Other operating	**1,926,582**	1,663,907
Total noninterest expense	**12,392,236**	11,341,031
Income before income taxes	**4,078,933**	1,976,390
Income tax expense	**954,671**	498,833
Net income	**$ 3,124,262**	$ 1,477,557
Earnings per common share - basic and diluted	**$ 4.29**	$ 2.03

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	YEARS ENDED DECEMBER 31,	
	2022	2021
Net income	**$ 3,124,262**	$ 1,477,557
Other comprehensive loss		
Unrealized loss on investment securities available for sale	**(9,437,700)**	(774,245)
Income tax relating to unrealized loss on investment securities available for sale	**2,036,598**	103,536
	(7,401,102)	(670,709)
Change in underfunded status of defined benefit plan	**558,475**	571,652
Income tax relating to change in underfunded status of defined benefit plan	**(153,678)**	(157,304)
	404,797	414,348
Total other comprehensive loss	**(6,996,305)**	(256,361)
Total comprehensive income (loss)	**$ (3,872,043)**	$ 1,221,196

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2022 and 2021

	Common stock		Additional paid-in	Retained	Accumulated other comprehensive	Total stockholders'
	Shares	Par value	capital	earnings	income (loss)	equity
Balance, December 31, 2020	728,918	$7,289,180	$2,212,550	$21,772,039	$ (1,038,433)	$30,235,336
Net income	-	-	-	1,477,557	-	1,477,557
Change in underfunded status of defined benefit plan net of income taxes of $157,304	-	-	-	-	414,348	414,348
Unrealized loss on investment securities available for sale net of income taxes of $103,536	-	-	-	-	(670,709)	(670,709)
Cash dividend, $0.72 per share	-	-	-	(524,821)	-	(524,821)
Balance, December 31, 2021	728,918	7,289,180	2,212,550	22,724,775	(1,294,794)	30,931,711
Net income	**-**	**-**	**-**	**3,124,262**	**-**	**3,124,262**
Change in underfunded status of defined benefit plan net of income taxes of $153,678	**-**	**-**	**-**	**-**	**404,797**	**404,797**
Unrealized loss on investment securities available for sale net of income taxes of $2,036,598	**-**	**-**	**-**	**-**	**(7,401,102)**	**(7,401,102)**
Cash dividend, $0.72 per share	**-**	**-**	**-**	**(524,821)**	**-**	**(524,821)**
Balance, December 31, 2022	**728,918**	**$7,289,180**	**$2,212,550**	**$25,324,216**	**$ (8,291,099)**	**$26,534,847**

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEARS ENDED DECEMBER 31,	
	2022	2021
Cash flows from operating activities		
Interest received	**$ 9,899,052**	$ 8,246,918
Fees and commissions received	**5,776,606**	5,158,482
Interest paid	**(446,133)**	(464,510)
Cash paid to suppliers and employees	**(12,476,238)**	(10,165,382)
Income taxes paid	**(728,896)**	(355,668)
	2,024,391	2,419,840
Cash flows from investing activities		
Proceeds from maturities and calls of investment securities		
Available for sale	**5,775,023**	22,124,100
Held to maturity	**5,000,000**	-
Purchase of investment securities available for sale	**(15,018,750)**	(55,718,750)
Purchase of investment securities held to maturity	**(53,860,000)**	-
(Purchase) redemption of Federal Home Loan Bank stock	**(20,200)**	71,700
Loans made, net of principal collected	**(10,515,668)**	13,289,779
Purchase of premises, equipment, and software	**(173,502)**	(170,569)
Proceeds from sale of premises and equipment	**-**	10,101
Proceeds from sale of other real estate owned	**-**	544,973
	(68,813,097)	(19,848,666)
Cash flows from financing activities		
Net increase (decrease) in		
Time deposits	**(5,080,866)**	2,745,686
Other deposits	**19,108,193**	38,782,958
Securities sold under repurchase agreements	**743,920**	(1,461,476)
Dividends paid	**(524,821)**	(524,821)
	14,246,426	39,542,347
Net increase (decrease) in cash and cash equivalents	**(52,542,280)**	22,113,521
Cash and cash equivalents at beginning of year	**119,246,399**	97,132,878
Cash and cash equivalents at end of year	**$ 66,704,119**	$119,246,399

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	YEARS ENDED DECEMBER 31,	
	2022	2021
Reconciliation of net income to net cash provided by operating activities		
Net income	**$ 3,124,262**	$ 1,477,557
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of premiums and accretion of discounts	**47,034**	283,353
Provision for (recovery of) loan losses	**(700,000)**	(300,000)
Depreciation and software amortization	**425,997**	461,642
Amortization of intangible assets	**223,573**	223,573
Gain on sale of other real estate owned	**-**	(105,577)
Write-down of other real estate owned	**-**	35,000
Loss on sale and disposal of premises and equipment	**4,002**	1,408
Decrease (increase) in		
Accrued interest receivable	**(543,863)**	(55,271)
Deferred income taxes	**225,776**	143,165
Other assets	**(321,265)**	434,150
Deferred origination costs, net	**(42,828)**	(231,317)
Increase (decrease) in		
Accrued interest payable	**(5,989)**	(4,127)
Other liabilities	**(412,308)**	56,284
	$ 2,024,391	$ 2,419,840
Non cash transactions		
Transfer of foreclosed loans to other real estate owned	**$ -**	$ 123,182

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The accounting and reporting policies reflected in the accompanying financial statements of Peoples Bancorp, Inc. and its subsidiary, The Peoples Bank, a Maryland commercial bank (the "Bank") and its subsidiaries, Fleetwood, Athey, MacBeth & McCown, Inc., an insurance agency (the "Insurance Subsidiary") and PB Land Trust, a trust to maintain foreclosed real estate owned by the company (the "Land Trust"), conform to accounting principles generally accepted in the United States of America ("GAAP") and to general practices within the banking industry. As used in these notes, unless the context requires otherwise, the term "the Company" refers collectively to Peoples Bancorp, Inc., the Bank, the Insurance Subsidiary, and the Land Trust.

Principles of consolidation

The consolidated financial statements include the accounts of the Peoples Bancorp, Inc. and the Bank, the Insurance Subsidiary, and the Land Trust. Intercompany balances and transactions have been eliminated.

Nature of business

Peoples Bancorp, Inc. and its subsidiary operate primarily in Kent, Cecil, Queen Anne's and Talbot Counties, Maryland. The Bank, which operates out of a main office and six branches, offers deposit services and loans to individuals, small businesses, associations, and government entities. Other services include direct deposit of payroll and social security checks, automatic drafts from accounts, automated teller machine services, cash management services, safe deposit boxes, money orders and on-line banking with bill payment service.

The Insurance Subsidiary operates from locations in Kent County and Talbot County. They provide a full range of insurance products to businesses and consumers. Product lines include property, casualty, life, marine, long-term care, and health insurance.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions may affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold. Generally, federal funds are sold for one-day periods.

Investment securities

As securities are purchased, management determines if the securities should be classified as held to maturity or available for sale. Securities which management has the intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost which is cost adjusted for amortization of premiums and accretion of discounts to maturity, or over the expected life in the case of mortgage-backed securities. Amortization and accretion are recorded using the interest method. Securities which may be sold before maturity are classified as available for sale and carried at fair value with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Gains and losses on the sale of securities are determined using the specific identification method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

Federal Home Loan Bank stock and CBB Financial Corp. stock

Federal Home Loan Bank stock and CBB Financial Corp. stock are carried at cost. As a member of the Federal Home Loan Bank, the Bank is required to purchase stock based on its total assets. Additional stock is purchased and redeemed based on the outstanding Federal Home Loan Bank advances to the Bank.

Loans and allowance for loan losses

Loans are stated at their outstanding unpaid principal balance adjusted for deferred origination costs, deferred origination fees, and the allowance for loan losses.

Interest on loans is accrued based on the principal amounts outstanding. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method. The accrual of interest is discontinued when it is not reasonable to expect collection of interest under the original terms. As a result of management's ongoing review of the loan portfolio, loans are classified as nonaccrual when it is not reasonable to expect collection of interest under the original terms. These loans are classified as nonaccrual even though the presence of collateral or the borrower's financial strength may be sufficient to provide for ultimate repayment. Interest on nonaccrual loans is recognized only when received. A loan is generally placed in nonaccrual status when it is specifically determined to be impaired or it becomes 90 days or more past due. When a loan is placed in nonaccrual status, all interest that had been accrued on the loan but remains unpaid is reversed and deducted from earnings as a reduction of reported interest revenue. No additional interest is accrued on the loan balance until the collection of both principal and interest becomes reasonably certain. A loan will be returned to accrual status when all of the principal and interest amounts contractually due are brought current and management believes that future principal and interest amounts contractually due are reasonably assured, which belief is typically evidenced by a sustained period (at least six months) of repayment performance by the borrower.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes a loan is uncollectible. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, changes in lending practices and policies, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the collateral value, if the loan is collateral dependent, or the discounted cash flows of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

Loans and allowance for loan losses (Continued)

A loan is considered impaired when, based on current information and events, management believes that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Impairment is measured on a loan-by-loan basis. Reserves are determined using the net present value of cash flows, or if the loan is collateral dependent, the fair value of the collateral less cost to sell.

As a general rule, a loan, or a portion thereof, is deemed uncollectible and is charged-off as and when required by bank regulatory guidelines, which provide that the loan, or portion thereof, should be charged-off when the Company becomes aware of the loss. The Company becomes aware of a loss upon the occurrence of one or more triggering events, including, among other things, the receipt of new information about the borrower's intent and/or ability to repay the loan, the severity of delinquency, the borrower's bankruptcy, the detection of fraud, or the borrower's death.

Premises and equipment

Land is carried at cost. Premises and equipment are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over estimated useful lives of three to ten years for furniture and equipment, ten to forty years for premises, and three years for software.

Other real estate owned

Real estate acquired through foreclosure is recorded at the lower of cost or fair value on the date acquired. In general, cost equals the Company's investment in the property at the time of foreclosure. Losses incurred at the time of acquisition of the property are charged to the allowance for loan losses. Subsequent reductions in the estimated value of the property are reported as a reduction of gain on sales.

Goodwill and intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. Other intangible assets represent purchased assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset, or liability. Goodwill is not ratably amortized into the income statement over an estimated life, but rather is tested at least annually for impairment. The balance of goodwill was $705,620 at December 31, 2022 and 2021.

Intangible assets that have finite lives are amortized over their estimated useful lives and are also subject to impairment testing. The Company's intangible assets had finite lives and are amortized on a straight-line basis over periods not exceeding 15 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

Income taxes

The provision for income taxes includes taxes payable for the current year and deferred income taxes. Deferred income taxes are provided for the temporary differences between financial and taxable income.

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

Per share data

Basic earnings per share is calculated by dividing net income available to common stockholders by the weighted-average number of common shares outstanding and does not include the effect of any potentially dilutive common stock equivalents. Diluted earnings per share is calculated by dividing net income by the weighted-average number of shares outstanding, adjusted for the dilutive effect of stock-based awards. The weighted average number of shares outstanding were 728,918 for 2022 and 2021. There were no dilutive common stock equivalents outstanding in 2022 or 2021.

Segment reporting

The Company conducts business in two operating segments - Community Banking and Insurance. Each of the operating segments is a strategic business unit that offers different products and services. The Insurance segment was a business that was acquired in a transaction in which the management of the agency was retained. The accounting policies of the segment are the same as those of the Company. However, the segment data reflects inter-segment transactions and balances.

The Community Banking segment is conducted through The Peoples Bank and involves delivering a broad range of financial products and services, including various loan and deposit products to both individuals and businesses. The Community Banking segment income is included in the Parent Holding Company which is the top tier of the Company. Major revenue sources include net interest income and service charges on deposit accounts. Expenses include interest paid on deposits, personnel, occupancy, equipment, and other expenses.

The Insurance segment is conducted through Fleetwood Insurance Group, a subsidiary of the Bank, and offers a full range of insurance products to businesses and consumers. Fleetwood Insurance Group, a general insurance agency conducts business from two locations. They have offices in Chestertown and Easton, Maryland. Major sources of revenue are insurance commissions from property, casualty, life, marine, long-term care, and health insurance. Expenses include personnel, occupancy, and support charges. Non-cash charges associated with amortization of intangibles related to the acquired entities totaled $223,573 for the years ended December 31, 2022 and December 31, 2021, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

Information for the operating segments and reconciliation of the information to the consolidated financial statements for the years ended December 31 is presented in the following tables:

December 31, 2022	Community banking	Insurance	Inter-segment elimination	Total
Interest income	**$ 10,438,709**	**$ 10**	**$ (10)**	**$ 10,438,709**
Interest expense	**440,154**	**-**	**(10)**	**440,144**
Provision for (recovery of) loan losses	**(700,000)**	**-**		**(700,000)**
Noninterest revenue	**829,425**	**5,034,999**	**(91,820)**	**5,772,604**
Noninterest expenses	**8,668,122**	**3,815,934**	**(91,820)**	**12,392,236**
Income before income taxes	**2,859,858**	**1,219,075**	**-**	**4,078,933**
Income tax expense	**613,856**	**340,815**	**-**	**954,671**
Net income	**$ 2,246,002**	**$ 878,260**	**$ -**	**$ 3,124,262**
Assets	**$350,131,226**	**$6,804,642**	**$(2,195,273)**	**$354,740,595**

December 31, 2021	Community banking	Insurance	Inter-segment elimination	Total
Interest income	$ 8,250,153	$ 9	$ (9)	$ 8,250,153
Interest expense	460,392	-	(9)	460,383
Provision for (recovery of) loan losses	(300,000)	-		(300,000)
Noninterest revenue	849,121	4,468,530	(90,000)	5,227,651
Noninterest expenses	8,015,867	3,415,164	(90,000)	11,341,031
Income before income taxes	923,015	1,053,375	-	1,976,390
Income tax expense	201,872	296,961	-	498,833
Net income	$ 721,143	$ 756,414	$ -	$ 1,477,557
Assets	$340,668,485	$6,650,823	$(1,976,324)	$345,342,984

Reclassifications

Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year's net income or stockholders' equity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

Recent accounting pronouncements

During June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The amendments in this ASU, among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The FASB has issued multiple updates to ASU 2016-13 as codified in Topic 326, including ASU's 2019-04, 2019-05, 2019-10, 2019-11, 2020-02, and 2020-03.

The Company adopted ASU 2016-13 as of January 1, 2023, in accordance with the required implementation date and recorded the impact of adoption to retained earnings, net of deferred income taxes, as required by the standard. The adjustment recorded at adoption was not significant to the overall allowance for loan losses or stockholders' equity as compared to December 31, 2022, and consisted of adjustments to the allowance for loan losses and held-to-maturity securities, as well as an adjustment to the Company's reserve for unfunded loan commitments. Subsequent to adoption, the Company will record adjustments to its allowance(s) for loan losses and reserves for unfunded commitments through the provision for loan losses in the consolidated statements of income.

The Company is utilizing a third-party model to tabulate its estimate of current expected credit losses, using a WARM (Weighted Average Remaining Maturity) methodology. In accordance with ASC 326, the Company has segmented its loan portfolio based on similar risk characteristics which included call report classification. The Company primarily utilizes historic loss experience in periods of similar economic conditions as forecast using Gross Domestic Product, Home Price Index, and unemployment on both national and local levels for its reasonable and supportable forecasting of current expected credit losses. To further adjust the allowance for loan losses for expected losses not already included within the quantitative component of the calculation, the Company may consider the following qualitative adjustment factors: underwriting standards, including compliance with written lending policies; lending policies and procedures, including charge-offs, collection, and recoveries; lending and loan review personnel's experience, abilities, and depth; level of significant documentation exceptions; effectiveness of internal loan review and ALLL methodology; level of delinquencies, non-accruals, and problem loans; growth trends in loans; composition of portfolio; level of off-balance sheet credit exposure; risk in international lending; historic loss experience; compared to peer, allowance for loan losses coverage (total loans/net losses/non-accruals).

The Company's CECL implementation process was overseen by the Chief Financial Officer and Management Special Assets Committee, with oversight by the Board Risk Management Committee and Bank Board and included an assessment of data availability and gap analysis, data collection, consideration and analysis of multiple loss estimation methodologies, an assessment of relevant qualitative factors and correlation analysis of multiple potential loss drivers and their impact on the Company's historical loss experience.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Summary of Significant Accounting Policies (Continued)**

Subsequent events

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2022 through March 21, 2023, the date these financial statements were available to be issued, for items that should potentially be recognized or disclosed in these financial statements. No significant subsequent events were identified that would affect the presentation of the financial statements.

2. **Cash and Due From Banks**

The Bank normally carries balances with other banks that exceed the federally insured limit. The average balances carried in excess of the limit, including unsecured federal funds sold to the same banks, were $8,235,003 for 2022 and $11,011,836 for 2021.

Deposits held in noninterest-bearing transaction accounts are aggregated with any interest-bearing deposits the owner may hold in the same category. The combined total is insured up to $250,000.

Banks are required to carry noninterest-bearing cash reserves at specified percentages of deposit balances. The Bank's normal amount of cash on hand and on deposit with other banks is sufficient to satisfy the reserve requirements.

3. **Investment Securities**

Investment securities are summarized as follows:

December 31, 2022	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Available for sale				
U.S. government agency	**$ 36,708,251**	**$ 278**	**$ 6,316,055**	**$ 30,392,474**
Mortgage-backed securities	**26,673,775**	**-**	**3,764,987**	**22,908,788**
	$ 63,382,026	**$ 278**	**$ 10,081,042**	**$ 53,301,262**
Held to maturity				
U.S. government agency	**$ 48,860,000**	**$ 36,884**	**$ 324,450**	**$ 48,572,434**
December 31, 2021				
Available for sale				
U.S. government agency	$ 37,181,747	$ 12,113	$ 544,600	$ 36,649,260
Mortgage-backed securities	17,003,586	55,591	235,385	16,823,792
	$ 54,185,333	$ 67,704	$ 779,985	$ 53,473,052

Contractual maturities of U.S. government agency securities and the amount of pledged securities are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities are paid monthly.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Investment Securities (Continued)

	Available for sale		Held to Maturity	
	Amortized	Fair	Amortized	Fair
December 31, 2022	cost	value	cost	value
Maturing				
Within one year	**$ -**	**$ -**	**$ -**	**$ -**
Over one to five years	**-**	**-**	**5,000,000**	**5,003,800**
Over five to ten years	**36,708,251**	**30,392,474**	**43,860,000**	**43,568,634**
	$ 36,708,251	**$ 30,392,474**	**$ 48,860,000**	**$ 48,572,434**
Pledged securities	**$ 13,048,943**	**$ 11,384,904**	**$ -**	**$ -**
December 31, 2021				
Maturing				
Within one year	$ -	$ -	$ -	$ -
Over one to five years	-	-	-	-
Over five to ten years	37,181,747	36,649,260	-	-
	$ 37,181,747	$ 36,649,260	$ -	$ -
Pledged securities	$ 9,402,271	$ 9,356,450	$ -	$ -

Investments are pledged to secure the deposits of federal and local governments and as collateral for repurchase agreements.

Securities in a continuous unrealized loss position of less than 12 months and 12 months or longer at December 31, 2022 and 2021, are as follows:

	Less than 12 months		12 months or longer		Total	
	Unrealized	Fair	Unrealized	Fair	Unrealized	Fair
December 31, 2022	losses	value	losses	value	losses	value
Available for sale						
U.S. government agency	**$ -**	**$ -**	**$6,316,055**	**$ 29,433,945**	**$ 6,316,055**	**$29,433,945**
Mortgage-backed securitie	**1,987,686**	**14,532,440**	**1,777,301**	**8,376,348**	**3,764,987**	**22,908,788**
	$1,987,686	**$14,532,440**	**$8,093,356**	**$ 37,810,293**	**$10,081,042**	**$52,342,733**
December 31, 2021						
Available for sale						
U.S. government agency	$ 544,600	$35,205,400	$ -	$ -	$ 544,600	$35,205,400
Mortgage-backed securitie	226,159	11,696,943	9,226	405,705	235,385	12,102,648
	$ 770,759	$46,902,343	$ 9,226	$ 405,705	$ 779,985	$47,308,048

All unrealized losses on securities as of December 31, 2022 and 2021, are considered to be temporary losses. Each security will be redeemed at face value at, or prior to, maturity. In most cases, the temporary impairment in value is caused by market interest rate fluctuations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Investment Securities (Continued)

As of December 31, 2022, there were 11 securities in an unrealized loss position for less than 12 months and 15 securities in an unrealized loss position for 12 months or more. As of December 31, 2021, there was 1 security in an unrealized loss position for less than 12 months and 14 securities in an unrealized loss position for 12 months or more.

There were no sales of securities in 2022 or 2021.

4. Loans and Allowance for Loan Losses

Major classifications of loans as of December 31, are as follows:

	2022	2021
Real estate		
Residential	**$ 88,752,485**	$ 77,407,701
Commercial	**49,243,049**	51,331,725
Other	**20,555,447**	21,119,585
Construction and land development	**9,147,001**	7,776,948
Commercial	**6,857,753**	6,352,141
Consumer	**721,900**	545,080
	175,277,635	164,533,180
Deferred (fees) costs, net	**(82,851)**	(125,679)
Allowance for loan losses	**(2,979,963)**	(3,451,176)
	$172,214,821	$160,956,325

The commercial loans in the table above include $246,495 of loans issued under the Paycheck Protection Program (PPP) as of December 31, 2021, which were 100% guaranteed of the Small Business Administration (SBA). As of December 31, 2022, there were no PPP loans included in commercial loans.

Loan Origination/Risk Management

The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, loan delinquencies and nonperforming and potential problem loans.

The Company obtains an independent loan review from a third-party vendor that reviews and evaluates the credit risk program on a periodic basis. Results of these reviews are presented to management. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Company's policies and procedures.

Residential real estate loans are underwritten subject to the borrower's ability and willingness to repay, and a loan-to-value ratio of offered collateral of not more than 80% of the appraised value of the collateral.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Loans and Allowance for Loan Losses (Continued)

Real Estate Loans

Real estate loans are broken into the following categories: Residential; Commercial; Construction and Land Development; and Other Loans.

Commercial real estate loans are subject to underwriting standards and processes similar to commercial loans, in addition to those of real estate loans. These loans are assessed primarily based on cash flow and secondarily on the underlying real estate collateral. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. Management monitors and evaluates commercial real estate loans based on collateral and cash flow. With respect to loans to developers and builders that are secured by non-owner occupied properties that the Company may originate from time to time, the Company generally requires the borrower to have had an existing relationship with the Company and have a proven record of success.

Construction, including land development, loans are underwritten based on financial analyses of the developers and property owners, and estimates of costs and value associated with the complete project. These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

Commercial Loans

Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and to prudently expand its business. The Company's management examines current and projected cash flows to determine the ability of the borrower to repay its obligations as agreed. Commercial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and may incorporate a personal guarantee; however, some short-term loans may be made on an unsecured basis.

Consumer Loans

The Company originates consumer loans. To monitor and manage consumer loan risk, underwriting policies and procedures are developed and modified as needed. The Company believes that its monitoring activity, coupled with relatively small loan amounts that are spread across many individual borrowers, minimizes risk.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Loans and Allowance for Loan Losses (Continued)

The rate repricing and maturity distribution of the loan portfolio at December 31, is as follows:

	2022
Within ninety days	$ 11,867,980
Over ninety days to one year	8,232,100
Over one year to five years	78,492,846
Over five years	76,684,709
	$ 175,277,635
Variable rate loans included in total above	$ 11,092,888

The following table illustrates total impaired loans segmented by those with and without a related allowance as of December 31, 2022 and 2021.

Total Impaired Loans Segmented by With and Without a Related Allowance Recorded
December 31, 2022

Description of Loans	Number of loans	Recorded Investment	Unpaid Contractual Balance	Related Allowance	Interest Income Recognized	Average Recorded Investment
With Related Allowance Recorded						
Residential real estate	1	$ 239,051	$ 239,051	$ 14,476	$ 11,122	$ 243,075
Commercial real estate	-	-	-	-	-	-
Other real estate	-	-	-	-	-	-
Construction and land development	-	-	-	-	-	-
Commercial loans	-	-	-	-	-	-
Consumer loans	-	-	-	-	-	-
	1	239,051	239,051	14,476	11,122	243,075
With No Related Allowance Recorded						
Residential real estate	23	1,058,490	1,595,962	-	88,716	1,638,540
Commercial real estate	5	829,513	1,409,394	-	80,148	1,595,370
Other real estate	3	415,076	415,076	-	24,932	421,153
Construction and land development	2	24,668	41,324	-	2,660	42,404
Commercial loans	1	205,932	205,932	-	11,890	207,306
Consumer loans	-	-	-	-	-	-
	34	2,533,679	3,667,688	-	208,346	3,904,773
TOTAL						
Residential real estate	24	1,297,541	1,835,013	14,476	99,838	1,881,615
Commercial real estate	5	829,513	1,409,394	-	80,148	1,595,370
Other real estate	3	415,076	415,076	-	24,932	421,153
Construction and land development	2	24,668	41,324	-	2,660	42,404
Commercial loans	1	205,932	205,932	-	11,890	207,306
Consumer loans	-	-	-	-	-	-
Total impaired loans	35	$2,772,730	$3,906,739	$ 14,476	$ 219,468	$4,147,848

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Loans and Allowance for Loan Losses (Continued)

Total Impaired Loans Segmented by With and Without a Related Allowance Recorded
December 31, 2021

Description of Loans	Number of loans	Recorded Investment	Unpaid Contractual Balance	Related Allowance	Interest Income Recognized	Average Recorded Investment
With Related Allowance Recorded						
Residential real estate	1	$ 246,991	$ 246,991	$ 16,773	$ 12,978	$ 249,619
Commercial real estate	2	654,766	895,792	46,650	45,801	907,447
Other real estate	-	-	-	-	-	-
Construction and land development	1	10,650	15,602	3,210	1,048	15,961
Commercial loans	-	-	-	-	-	-
Consumer loans	-	-	-	-	-	-
	4	912,407	1,158,385	66,633	59,827	1,173,027
With No Related Allowance Recorded						
Residential real estate	25	1,323,401	1,822,719	-	97,421	1,868,374
Commercial real estate	3	426,133	731,441	-	42,006	747,765
Other real estate	3	426,973	426,973	-	26,215	430,301
Construction and land development	1	18,967	28,011	-	1,887	28,664
Commercial loans	1	209,946	209,946	-	12,369	212,596
Consumer loans	-	-	-	-	-	-
	33	2,405,420	3,219,090	-	179,898	3,287,700
TOTAL						
Residential real estate	26	1,570,392	2,069,710	16,773	110,399	2,117,993
Commercial real estate	5	1,080,899	1,627,233	46,650	87,807	1,655,212
Other real estate	3	426,973	426,973	-	26,215	430,301
Construction and land development	2	29,617	43,613	3,210	2,935	44,625
Commercial loans	1	209,946	209,946	-	12,369	212,596
Consumer loans	-	-	-	-	-	-
Total impaired loans	37	$ 3,317,827	$ 4,377,475	$ 66,633	$ 239,725	$ 4,460,727

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Loans and Allowance for Loan Losses (Continued)

The following table summarizes activity in the allowance for loan losses and allocations based on loans that are individually evaluated for impairment and loan balances collectively evaluated for impairment.

December 31, 2022	Residential Real Estate	Commercial Real Estate	Other Real Estate	Construction and land Development	Commercial	Consumer	Overdraft	Unallocated	Total
Allowance for loan losses									
Beginning balance	$1,673,377	$1,007,011	$ 399,155	$ 166,240	$ 127,581	$ 10,543	$ 1,030	$ 66,239	$3,451,176
Charge-offs	-	-	-	-	-	-	(1,757)	-	(1,757)
Recoveries	143,959	72,582	-	-	13,709	-	294	-	230,544
Provision	(248,261)	(331,159)	(84,079)	(10,161)	(28,414)	1,420	1,117	(463)	(700,000)
Ending balance	$1,569,075	$ 748,434	$ 315,076	$ 156,079	$ 112,876	$ 11,963	$ 684	$ 65,776	$2,979,963
Ending balance allocated to:									
Loans individually evaluated for impairment	$ 14,476	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 14,476
Loans collectively evaluated for impairment	1,554,599	748,434	315,076	156,079	112,876	11,963	684	65,776	2,965,487
	$1,569,075	$ 748,434	$ 315,076	$ 156,079	$ 112,876	$ 11,963	$ 684	$ 65,776	$2,979,963

December 31, 2021	Residential Real Estate	Commercial Real Estate	Other Real Estate	Construction and land Development	Commercial	Consumer	Overdraft	Unallocated	Total
Allowance for loan losses									
Beginning balance	$ 1,491,792	$ 866,469	$ 348,144	$ 100,050	$ 263,056	$ 7,705	$ 1,390	$ 169,642	$ 3,248,248
Charge-offs	-	-	-	-	-	-	(615)	-	(615)
Recoveries	440,935	48,621	-	-	12,819	-	1,168	-	503,543
Provision	(259,350)	91,921	51,011	66,190	(148,294)	2,838	(913)	(103,403)	(300,000)
Ending balance	$ 1,673,377	$ 1,007,011	$ 399,155	$ 166,240	$ 127,581	$ 10,543	$ 1,030	$ 66,239	$ 3,451,176
Ending balance allocated to:									
Loans individually evaluated for impairment	$ 16,773	$ 46,650	$ -	$ 3,210	$ -	$ -	$ -	$ -	$ 66,633
Loans collectively evaluated for impairment	1,656,604	960,361	399,155	163,030	127,581	10,543	1,030	66,239	3,384,543
	$ 1,673,377	$ 1,007,011	$ 399,155	$ 166,240	$ 127,581	$ 10,543	$ 1,030	$ 66,239	$ 3,451,176

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Loans and Allowance for Loan Losses (Continued)

As part of the on-going monitoring of the quality of the Bank's loan portfolio, management tracks certain credit quality indicators. The Bank risk rates all loans. Loans are risk rated based on the scale below:

Grade 1 through 4 – Pass. These grades include "pass grade" loans to borrowers of acceptable credit quality and risk.

Grade 5 – Pass/Watch. This grade includes loans that are on Management's "watch list" and is intended to be utilized on a temporary basis for pass grade borrowers where a significant risk-modifying action is anticipated in the near future.

Grade 6 – Special Mention. This grade is intended to be temporary and includes loans to borrowers whose credit quality has clearly deteriorated and are at risk of further decline unless active measures are taken to correct the situation. This grade may include loans not fully secured where a specific valuation allowance may be necessary.

Grade 7 through 9 – Substandard. This grade includes loans, in accordance with regulatory guidelines, for which accrual of interest may have stopped. This grade includes loans that are past due or not fully secured where a specific valuation allowance may be necessary.

The following table illustrates loans classified by Risk Grades 1-4, 5, 6, and 7 through 9.

December 31, 2022	Pass	Pass/Watch	Special Mention	Substandard	Total
Residential real estate	**$ 84,170,935**	**$3,007,916**	**$ -**	**$1,573,634**	**$ 88,752,485**
Commercial real estate	**47,285,472**	**836,527**	**-**	**1,121,050**	**49,243,049**
Other real estate	**19,159,908**	**1,395,539**	**-**	**-**	**20,555,447**
Construction and land development	**9,122,333**	**-**	**-**	**24,668**	**9,147,001**
Commercial	**6,629,530**	**6,253**	**-**	**221,970**	**6,857,753**
Consumer	**678,629**	**-**	**-**	**43,271**	**721,900**
	$167,046,807	**$5,246,235**	**$ -**	**$2,984,593**	**$175,277,635**

December 31, 2021	Pass	Pass/Watch	Special Mention	Substandard	Total
Residential real estate	$ 72,624,022	$3,203,733	$ -	$1,579,946	$ 77,407,701
Commercial real estate	47,156,763	2,847,140	-	1,327,822	51,331,725
Other real estate	19,333,810	1,785,775	-	-	21,119,585
Construction and land development	7,490,130	257,201	-	29,617	7,776,948
Commercial	5,846,469	249,339	-	256,333	6,352,141
Consumer	511,736	-	-	33,344	545,080
	$152,962,930	$8,343,188	$ -	$3,227,062	$164,533,180

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Loans and Allowance for Loan Losses (Continued)

The following table analyzes the age of past due loans segregated by class of loans as of December 31, 2022 and 2021

December 31, 2022	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans
Residential real estate	**$ 36,053**	**$ -**	**$ 203**	**$ 36,256**	**$ 88,716,229**	**$ 88,752,485**
Commercial real estate	**-**	**-**	**-**	**-**	**49,243,049**	**49,243,049**
Other real estate	**-**	**-**	**-**	**-**	**20,555,447**	**20,555,447**
Construction and land development	**-**	**-**	**-**	**-**	**9,147,001**	**9,147,001**
Commercial loans	**-**	**-**	**-**	**-**	**6,857,753**	**6,857,753**
Consumer loans	**456**	**-**	**-**	**456**	**721,444**	**721,900**
Total	**$ 36,509**	**$ -**	**$ 203**	**$ 36,712**	**$175,240,923**	**$175,277,635**

December 31, 2021	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans
Residential real estate	$ 324,726	$ -	$ 44,708	$ 369,434	$ 77,038,267	$ 77,407,701
Commercial real estate	-	-	-	-	51,331,725	51,331,725
Other real estate	-	-	-	-	21,119,585	21,119,585
Construction and land development	-	-	-	-	7,776,948	7,776,948
Commercial loans	209,946	-	-	209,946	6,142,195	6,352,141
Consumer loans	-	-	-	-	545,080	545,080
Total	$ 534,672	$ -	$ 44,708	$579,380	$163,953,800	$164,533,180

Loans on which the accrual of interest has been discontinued or reduced, and the interest that would have been accrued at December 31, are as follows:

	2022	2021
Residential real estate	**$ 383,356**	$ 511,219
Commercial real estate	**340,759**	401,430
Other real estate	**-**	-
Construction and land development	**24,668**	29,617
Commercial loans	**-**	-
Consumer loans	**-**	-
Total	**$ 748,783**	$ 942,266
Interest not accrued on nonaccrual loans	**$ 5,294**	$ 8,701

There were no loans over 90 days past due and accruing at December 31, 2022 and 2021.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Loans and Allowance for Loan Losses (Continued)

A loan will be returned to accrual status when all of the principal and interest amounts contractually due are brought current and management believes that future principal and interest amounts contractually due are reasonably assured, which belief is typically evidenced by a sustained period (at least six months) of repayment performance by the borrower.

The modification of terms on a loan (restructuring) is considered a "troubled debt restructuring" if it is done to accommodate a borrower who is experiencing financial difficulties. The Company may forgive principal, lower the interest rate or payment amount, or may modify the payment due dates or maturity date of the loan for a troubled borrower. The Company's troubled debt restructurings at December 31, 2022 and 2021, are set forth in the following tables:

TROUBLED DEBT RESTRUCTURINGS

December 31, 2022	Number of Contracts	Recorded Investment	Paying as Agreed Under Modified Terms	Number of Past Due Contracts	Past Due 30 Days
Troubled debt restructurings					
Residential real estate	**20**	**$1,063,274**	**$ 1,063,274**	**-**	**$ -**
Commercial real estate	**4**	**561,438**	**561,438**	**-**	**-**
Other real estate	**3**	**415,076**	**415,076**	**-**	**-**
Construction and land development	**2**	**24,668**	**24,668**	**-**	**-**
Commercial loans	**-**	**-**	**-**	**-**	**-**
Consumer loans	**-**	**-**	**-**	**-**	**-**
	29	**$2,064,456**	**$ 2,064,456**	**-**	**$ -**

December 31, 2021	Number of Contracts	Recorded Investment	Paying as Agreed Under Modified Terms	Number of Past Due Contracts	Past Due 30 Days
Troubled debt restructurings					
Residential real estate	22	$1,311,510	$ 1,311,510	-	$ -
Commercial real estate	4	803,935	803,935	-	-
Other real estate	3	426,973	426,973	-	-
Construction and land development	2	29,617	29,617	-	-
Commercial loans	-	-	-	-	-
Consumer loans	-	-	-	-	-
	31	$2,572,035	$ 2,572,035	-	$ -

There were no new troubled debt restructurings in 2022 and 2021.

At December 31, 2022 and 2021, there were no formal foreclosure procedures in process.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Loans and Allowance for Loan Losses (Continued)

Outstanding loan commitments, unused lines of credit, and letters of credit as of December 31, are as follows:

	2022	2021
Check loan lines of credit	**$ 403,185**	$ 411,464
Mortgage lines of credit and loan commitments	**8,970,889**	6,201,137
Other lines of credit and commitments	**15,580,540**	9,506,551
Undisbursed construction loan commitments	**5,740,133**	1,479,821
	$ 30,694,747	$ 17,598,973
Standby letters of credit	**$ 1,319,050**	$ 877,563

Loan commitments and lines of credit are agreements to lend to a customer as long as there is no violation of any condition to the contract. Loan commitments generally have interest rates fixed at current market rates, fixed expiration dates, and may require payment of a fee. Lines of credit generally have variable interest rates. Such lines do not represent future cash requirements because it is unlikely that all customers will draw upon their lines in full at any time.

Letters of credit are commitments issued to guarantee the performance of a customer to a third party.

Loan commitments, lines of credit, and letters of credit are made on the same terms, including collateral, as outstanding loans. The Bank's exposure to credit loss in the event of nonperformance by the borrower is represented by the contract amount of the commitment. Management is not aware of any fact that could cause the Bank to incur an accounting loss as a result of funding these commitments.

The Company lends to customers located primarily in and near Kent County, Queen Anne's County, Cecil County, and Talbot County, Maryland. Although the loan portfolio is diversified, its performance will be influenced by the economy of the region.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Premises and Equipment

A summary of premises and equipment and related depreciation expense as of December 31, is as follows:

	2022	2021
Land	**$ 3,100,510**	$ 3,100,510
Premises	**5,632,567**	5,623,943
Furniture and equipment	**2,964,716**	2,853,144
	11,697,793	11,577,597
Accumulated depreciation	**5,138,838**	4,762,145
Net premises and equipment	**$ 6,558,955**	$ 6,815,452
Depreciation expense	**$ 414,391**	$ 449,829

Computer software included in other assets and the related amortization are as follows:

	2022	2021
Cost	**$ 65,504**	$ 65,504
Accumulated amortization	**52,167**	40,561
Net computer software	**$ 13,337**	$ 24,943
Amortization expense	**$ 11,606**	$ 11,813

6. Intangibles and Goodwill

The Company recorded $272,932 in goodwill in connection with the Insurance Subsidiary acquisition in 2007. As a result of the acquisition of Bartlett, Griffin, & Vermilye in 2019, the Company recorded $432,688 of goodwill and $3,353,592 of other intangible assets. The intangible assets will be amortized over 15 years for financial statement and income tax purposes. Goodwill is not amortized, but is annually evaluated for impairment. Total goodwill at December 31, 2022 and 2021, was $705,620.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Intangibles and Goodwill (Continued)

Information relating to intangible assets at December 31, is as follows

		2022	2021
Intangible asset		**$ 3,353,592**	$ 3,353,592
Accumulated amortization		**(894,292)**	(670,719)
Net intangible asset		**$ 2,459,300**	$ 2,682,873
Amortization expense		**$ 223,573**	$ 223,573
Estimated amortization expense:			
	2023	**$ 223,573**	
	2024	**223,573**	
	2025	**223,573**	
	2026	**223,573**	
	2027	**223,573**	
	Thereafter	**1,341,435**	

7. Other Time Deposits

Maturities of other time deposits as of December 31, are as follows:

	2022	2021
Within one year	**$ 9,489,927**	$ 8,935,512
Over one to two years	**11,346,777**	8,125,745
Over two to three years	**8,340,885**	11,740,959
Over three to four years	**10,204,837**	10,278,291
Over four to five years	**8,248,429**	13,010,704
Over five years	**78,232**	698,742
	$47,709,087	$52,789,953

Included in other time deposits are certificates of deposit in amounts of $250,000 or more of $6,453,911 and $7,882,437 as of December 31, 2022 and 2021, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Securities Sold Under Repurchase Agreements

Securities sold under repurchase agreements represent borrowings from customers. The government agency securities that are the collateral for these agreements are owned by the Bank and are maintained in the custody of an unaffiliated bank. Additional information is as follows:

	2022	2021
Maximum amount outstanding	**$ 4,640,523**	$ 5,652,739
Average amount outstanding	**2,012,590**	2,572,420
Average rate paid during the year	**0.80%**	0.80%
Investment securities underlying agreements at year-end		
Book value	**5,428,869**	4,353,889
Fair value	**4,831,729**	4,349,299

9. Available Lines of Credit

The Bank may borrow up to 30% of its assets from the Federal Home Loan Bank; however, the amount the Bank could borrow would be limited by the balance of qualified loans it could pledge to the FHLB. As of December 31, 2022, the Bank could borrow up to $105,849,600 from the Federal Home Loan Bank subject to qualifying available collateral. The Bank had pledged loans that provided a borrowing capacity of $13,979,106 as of December 31, 2022.

In addition to the borrowing capacity available from the FHLB, the Bank has a line of credit of $8,000,000 in secured overnight federal funds at December 31, 2022. As of December 31, 2022, the Bank had pledged mortgage loans totaling $7,852,302 to the Federal Reserve Bank of Richmond to provide a borrowing capacity of $4,228,140 under its discount window program.

10. Income Taxes

The components of income tax expense are as follows:

	2022	2021
Current		
Federal	**$ 663,475**	$ 277,103
State	**65,420**	78,586
	728,895	355,689
Deferred	**225,776**	143,165
	$ 954,671	$ 498,854

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Income Taxes (Continued)

The components of the deferred income tax expense (benefit) are as follows:

	2022	2021
Allowance for loan losses and bad debts	**$ 192,622**	$ 82,553
Prepaid pension costs	**(18,434)**	(89,792)
Depreciation and amortization	**(16,667)**	13,104
Nonaccrual interest	**938**	2,469
Deferred compensation	**67,317**	(1,085)
Accrued separation liability	**-**	71,546
Foreclosed real estate impairment	**-**	64,370
	$ 225,776	$ 143,165

The components of the net deferred income tax asset are as follows:

Deferred income tax assets		
Allowance for loan losses	**$ (100,939)**	$ 91,683
Deferred compensation	**49,019**	116,336
Pension liability	**43,632**	178,876
Nonaccrual interest	**1,457**	2,394
Unrealized loss on investment securities available for sale	**2,116,960**	149,579
NOL and AMT carryovers	**-**	-
	2,110,129	538,868
Deferred income tax liabilities		
Depreciation and amortization	**295,846**	312,513
Net deferred income tax asset	**$ 1,814,283**	$ 226,355

A reconciliation of the provisions for income taxes from statutory federal rates to effective rates follows:

	2022	2021
Tax at statutory federal income tax rate	**21.0 %**	21.0 %
Tax effect of		
Tax-exempt income	**(0.6)**	(1.3)
State income taxes, net of federal benefit	**2.7**	5.3
Other, net	**0.3**	0.2
	23.4 %	25.2 %

The Company does not have material uncertain tax positions and did not recognize any adjustments for unrecognized tax benefits. The Company remains subject to examination of income tax returns for the years ending after December 31, 2018.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Profit Sharing Plan

The Company has a profit sharing plan qualifying under section 401(k) of the Internal Revenue Code that covers all of the Company's employees with one year of service who have attained age 21. The Company matches 50% of employee contributions to the Plan, up to a maximum of 6% of pay. The Company may make discretionary contributions to the Plan in amounts approved by its Board of Directors. Plan expenses, included in employee benefits expense for 2022 and 2021, were $135,925 and $117,875, respectively.

12. Pension

The Bank has a defined benefit pension plan that was frozen effective March 22, 2013. Participant benefits stopped accruing as of the date of the freeze. Prior to freezing the plan, it substantially covered all of the employees of the Bank. Benefits are based on years of service and the employee's highest average rate of earnings for five consecutive years during the final ten full years before retirement. The Bank's funding policy is to contribute annually the maximum amount that can be deducted for income tax purposes, determined using the projected unit credit cost method.

The following table sets forth the financial status of the plan at December 31:

	2022	2021
Change in plan assets		
Fair value of plan assets at beginning of year	**$ 3,063,540**	$ 4,077,099
Actual return on plan assets	**(193,279)**	161,724
Settlements	**(329,601)**	(1,094,645)
Employer contribution	**-**	-
Benefits paid	**(78,361)**	(80,638)
Fair value of plan assets at end of year	**2,462,299**	3,063,540
Change in benefit obligation		
Projected benefit obligation at beginning of year	**3,713,585**	4,972,488
Settlements	**(329,601)**	(1,094,645)
Interest cost	**96,515**	98,659
Benefits paid	**(78,361)**	(80,638)
Actuarial loss (gain)	**(781,280)**	(182,279)
Accumulated benefit obligation at end of year	**2,620,858**	3,713,585
Cumulative employer contribution in excess of net periodic benefit cost	**292,992**	359,981
Unrecognized net loss	**(451,551)**	(1,010,026)
Net pension liability included in other liabilities - funded status	**$ (158,559)**	$ (650,045)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Pension (Continued)

Net periodic benefit cost includes the following components:

	2022	2021
Interest cost	**$ 96,515**	$ 98,659
Expected return on assets	**(157,276)**	(191,920)
Recognized actuarial loss (gain)	**70,963**	121,846
Recognized actuarial (gain)loss due to settlements	**56,787**	297,723
Net periodic benefit cost included in employee benefits	**$ 66,989**	$ 326,308

There was a decrease in the pension benefit obligation due to the change in the discount rates from 2.75% to 5.21%. The gain was somewhat offset by the change in the mortality improvement scales and the difference between the lump sums paid and the liabilities that would have been attributed to those participants had they not elected a lump sum.

Other changes in plan assets and benefit obligations recognized in other comprehensive income (OCI).

	2022	2021
Actuarial net loss (gain)	**$ (430,725)**	$ (152,083)
Recognized net actuarial gain (loss)	**(70,963)**	(121,846)
Impact of settlement on net loss (gain)	**(56,787)**	(297,723)
Total recognized in OCI before taxes	**$ (558,475)**	$ (571,652)
Total recognized in net cost and OCI before taxes	**$ (491,486)**	$ (245,344)

The amount expected to be recognized in net periodic benefit costs in 2023 is $23,000 consisting of recognized losses.

Assumptions used in the accounting for net periodic benefit costs:

	2022	2021
Discount rates	**2.75%**	2.25%
Rate of compensation increase	**N/A**	N/A
Long-term rate of return on assets	**5.50%**	5.50%

Assumptions used in determining the net benefit obligation

	2022	2021
Discount rate	**5.21%**	2.75%
Rate of compensation increase	**N/A**	N/A

The Bank is not expected to make a contribution to the plan for 2023.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Pension (Continued)

The plan's assets are allocated as follows at December 31:

	2022	2021
Domestic Equity securities	**41 %**	8 %
Fixed income securities	**59 %**	92 %
	100 %	100 %

The fair value of plan assets are considered to be valued using level 1 inputs.

Projected benefits expected to be paid from the plan are as follows:

Year	Amount
2023	$ 582,957
2024	496,639
2025	364,689
2026	97,144
2027	334,153
2028 - 2032	704,652

The long-term rate of return on assets assumption considers the current earnings on assets of the plan as well as the effects of asset diversification. The plan's investment strategy is to earn a reasonable return while safeguarding the benefits promised to employees. All assets of the plan are maintained in mutual funds with MML Investor services.

13. Other Operating Expenses

Other operating expenses consist of the following:

	2022	2021
Advertising	**$ 125,847**	$ 74,907
Amortization of intangibles	**223,573**	223,573
Deposit services	**257,430**	223,629
Directors' fees	**204,015**	215,328
Insurance	**118,534**	104,789
Office supplies and printing	**97,247**	76,269
Postage	**77,734**	76,889
Public relations and contributions	**90,156**	70,090
Regulatory assessments	**136,253**	128,854
Telephone	**107,630**	104,136
Other	**488,163**	365,443
	$ 1,926,582	$ 1,663,907

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Related-Party Transactions

In the normal course of banking business, loans are made to officers and directors of the Company as well as to companies and individuals affiliated with those officers and directors. The terms of these transactions are substantially the same as the terms provided to other borrowers entering into similar loan transactions. In the opinion of management, these loans are consistent with sound banking practices, are within regulatory lending limitations, and do not involve more than normal credit risk.

A summary of these loans is as follows:

	2022	2021
Beginning loan balances	**$ 1,737,372**	$ 5,129,160
Advances	**1,359,015**	1,220,156
Repayments	**(1,066,011)**	(4,611,944)
Change in related parties	**(147,682)**	-
Ending loan balances	**$ 1,882,694**	$ 1,737,372

In addition to the outstanding balances listed above, the officers and directors and their related interests had $1,952,358 and $317,300 in unused loans committed but not funded as of December 31, 2022 and 2021, respectively.

Deposits from officers and directors and their related interests were $8,148,220 and $9,368,866 as of December 31, 2022 and 2021, respectively.

15. Regulatory Capital Standards

The Bank's primary regulator, the Federal Deposit Insurance Corporation (FDIC), has adopted leverage and risk-based capital standards for their supervised banking institutions. These standards require ratios of capital to assets for minimum capital adequacy and to be classified as well capitalized under prompt corrective action provisions. Failure to meet minimum capital requirements can initiate certain mandatory, and possible additional, discretionary actions by the regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Effective January 1, 2020, the Company and the Bank opted into the Community Bank Leverage Ratio ("CBLR") framework which provides a simplified measure of capital adequacy for qualifying community banking organizations. To qualify for the CBLR framework, the Company and the Bank must have less than $10 billion in total consolidated assets, a leverage ratio greater than 9%, and off-balance sheet exposures of 25% or less of total consolidated assets. Under the CBLR framework, the Company and the Bank will not be subject to other regulatory capital and leverage requirements and is deemed to have met the ratio requirements to be classified as well capitalized and be in compliance with applicable capital standards including minimum capital adequacy. If the Company or the Bank does not qualify for the CBLR framework or opts out of the framework in a future period they will become subject to the applicable leverage and risk-based capital standards adopted by their respective regulators.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Regulatory Capital Standards (Continued)

Temporary changes were made to the CBLR framework in 2020 pursuant to Section 4012 of the CARES Act. Interim final rules adopted by the federal banking agencies, including the Federal Reserve and FDIC, temporarily lowered the minimum leverage ratio requirement under the CBLR framework to 8.0% as of December 31, 2020, 8.5% for calendar year 2021, and reinstating the 9.0% minimum leverage ratio for all periods subsequent to 2021.

The tables below present actual and required capital ratios as of December 31, 2022, for the Bank under the Basel III Capital Rules and as of December 31, 2021, under the CBLR framework. The minimum required capital amounts presented include the minimum required capital levels as of December 31, 2022, based on the phase-in provisions of the Basel III Capital Rules. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules. Eligible banking organization can opt out of the CBLR framework and revert back to the risk weighting framework without restriction. As of December 31, 2021, the Bank was a qualifying community banking organization as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework.

Actual and required capital amounts (in thousands) and ratios are presented below at December 31, 2022, under the Basel III Capital Rules:

(in thousands)	Actual		Minimum capital adequacy		To be well capitalized	
December 31, 2022	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total capital (to risk-weighted assets)						
Bank	**$33,676**	**19.14%**	**$18,471**	**10.50%**	**$17,591**	**10.00%**
Tier I (core) capital (to risk-weighted assets)						
Bank	**$31,468**	**17.89%**	**$14,953**	**8.50%**	**$14,073**	**8.00%**
Common tier I (CET 1)						
Bank	**$31,468**	**17.89%**	**$12,314**	**7.00%**	**$11,434**	**6.50%**
Tier I capital (to average assets)						
Bank	**$31,468**	**9.02%**	**$13,948**	**4.00%**	**$17,435**	**5.00%**

Actual and required capital amounts (in thousands) and ratios are presented at December 31, 2021, under the CBLR framework:

(in thousands)	Actual		Required for Capital Adequacy Purposes	
December 31, 2021	Amount	Ratio	Amount	Ratio
Tier 1 capital to average assets (leverage ratio)				
Company	$28,838	8.92%	$27,485	8.50%
Bank	$28,614	8.50%	$28,835	8.50%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Regulatory Capital Standards (Continued)

Under the CBLR framework, management has the option to revert back to calculating its capital ratios in accordance with the Basel III Capital Rules, which will include reporting Common Equity Tier 1 Capital, Tier 1 Capital, and Total Capital Ratios. Management calculated its capital ratios in accordance with the Basel III Capital Rules as of December 31, 2022. The Bank was classified as well-capitalized in accordance with the Basel III Capital Rules as of December 31, 2022. There have been no conditions or events since that notification that management believes have changed the Bank's classification as well capitalized.

16. Other Real Estate Owned

Activity in other real estate owned is as follows:

	2022	2021
Beginning of year balance	**$ -**	$ 351,214
Additions and improvements	**-**	123,182
Write downs	**-**	(35,000)
Proceeds from sales	**-**	(544,973)
Gain (loss) on sales	**-**	105,577
End of year balance	**$ -**	$ -

17. Fair Value Measures

The fair value of an asset or a liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. In estimating fair value, the Company utilizes valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability. FASB ASC valuation techniques include the assumptions that market participants would use in pricing an asset or a liability. FASB ASC Topic 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

Level 3 inputs – Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. Fair Value Measures (Continued)

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the issuer's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Although management believes the Company's valuation methodologies are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Furthermore, the reported fair value amounts have not been comprehensively revalued since the presentation dates, and, therefore, estimates of fair value after the balance sheet date may differ significantly from the amounts presented herein. Transfers between levels of the fair value hierarchy are recognized on the actual date of the event or circumstance that caused the transfer, which generally coincides with the Company's monthly and quarterly valuation process.

Fair value measured on a recurring basis

The Company measures securities available for sale at fair value on a recurring basis. The following table summarizes securities available for sale measured at fair value on a recurring basis, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value. If quoted prices are available in an active market for identical securities, securities are classified within Level 1 of the hierarchy. If quoted market prices are not available, the fair values are estimated using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. The Company has categorized its securities available for sale as follows:

December 31, 2022	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total
Available for sale				
U.S. government agency	**$ -**	**$30,392,474**	**$ -**	**$ 30,392,474**
Mortgage-backed securities	**-**	**22,908,788**	**-**	**22,908,788**
	$ -	**$ 53,301,262**	**$ -**	**$ 53,301,262**
December 31, 2021				
Available for sale				
U.S. government agency	$ -	$36,649,260	$ -	$ 36,649,260
Mortgage-backed securities	-	16,823,792	-	16,823,792
	$ -	$ 53,473,052	$ -	$ 53,473,052

The fair values of investment securities are determined using market quotations, pricing models, quoted prices of securities with similar characteristics or discounted cash flows.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. Fair Value Measures (Continued)

Fair values on a nonrecurring basis

The Company's other real estate owned and impaired loans are measured at fair value on a nonrecurring basis, which means that the assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of reduced property value).

Other real estate owned measured at fair value on a nonrecurring basis is reported at the fair value of the property, assuming that the sale prices of the properties will be their current appraised values. Appraised values are estimated using Level 3 inputs based on observable market data and current property tax assessments. Impaired loans were measured at fair value during the same period and are reported at the fair value of the loan's collateral. Fair value is generally determined using Level 3 inputs based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. There was no other real estate owned as of December 31, 2022 or 2021.

December 31, 2022	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total
Impaired loans	**$ -**	**$ -**	**$ 2,758,254**	**$ 2,758,254**
December 31, 2021				
Impaired loans	$ -	$ -	$ 3,251,194	$ 3,251,194

FASB ASC Topic 825 requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or nonrecurring basis.

The estimated fair values of the Company's financial assets and liabilities that are not measured and reported at fair value on a recurring or non-recurring basis are summarized in the table below. The fair values of these financial instruments as of December 31, 2022 and 2021, are based on the exit price notion which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing parties under current market conditions. Quoted market prices, where available, are shown as estimates of fair market value. The calculation of estimated fair values is based on market conditions at a specific point in time and may not reflect current or future fair values. Most financial instruments do not have quoted market prices and thus the fair value has been determined based on the amount and timing of future cash flows and estimated discount rates based on observable inputs ("Level 2") or unobservable inputs ("Level 3"). The fair values of cash and cash equivalents, accrued interest receivable, and accrued interest payable approximately equals their carrying values and thus are excluded from the table. The carrying amount and estimated fair values of financial instruments reported at amortized cost, segregated by level of valuation inputs within the fair value hierarchy utilized to measure fair value are presented in the following table.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. Fair Value Measures (Continued)

	December 31, 2022				
	Carrying amount	Level 1	Level 2	Level 3	Total Fair value
Financial assets					
Federal Home Loan Bank and CBB Financial Corp. stock	**$ 232,900**	**$ -**	**$ -**	**$ -**	**N/A**
Loans, net	**172,214,821**	**-**	**162,724,635**	**-**	**162,724,635**
Financial liabilities					
Non term deposits	**$ 277,068,547**	**$ 277,068,547**	**$ -**	**$ -**	**$ 277,068,547**
Time deposits	**47,709,087**	**-**	**46,409,944**	**-**	**46,409,944**
Short-term borrowings	**2,015,493**	**2,015,493**	**-**	**-**	**2,015,493**
Other borrowings	**-**	**-**	**-**	**-**	**-**

	December 31, 2021				
	Carrying amount	Level 1	Level 2	Level 3	Total Fair value
Financial assets					
Federal Home Loan Bank and CBB Financial Corp. stock	$ 212,700	$ -	$ -	$ -	N/A
Loans, net	160,956,325	-	163,129,180	-	163,129,180
Financial liabilities					
Non term deposits	$ 257,960,354	$ 257,960,354	$ -	$ -	$ 257,960,354
Time deposits	52,789,953	-	53,124,931	-	53,124,931
Short-term borrowings	1,271,573	1,271,573	-	-	1,271,573
Other borrowings	-	-	-	-	-

Federal Home Loan Bank and CBB Financial Corp. stock carried at cost are included in the table above because they are considered to be financial instruments not measured and reported at fair value. The Company has not observed any price change from orderly transactions for these or similar investments that would require an adjustment to the carrying value and therefore a fair value cannot be determined.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. Parent Company Financial Information

The balance sheets, statements of income, and statements of cash flows for Peoples Bancorp, Inc. (Parent Only) follow:

Balance Sheets	December 31, 2022	December 31, 2021
Assets		
Cash	**$ 185,188**	$ 216,041
Investment in Bank Subsidiary	**26,341,361**	30,707,771
Other assets	**9,555**	9,657
Total assets	**$ 26,536,104**	$ 30,933,469
Liabilities and Stockholders' Equity		
Other liabilities	**$ 1,257**	$ 1,758
Total liabilities	**1,257**	1,758
Stockholders' equity		
Common stock	**7,289,180**	7,289,180
Additional paid-in capital	**2,212,550**	2,212,550
Retained earnings	**25,324,216**	22,724,775
Accumulated other comprehensive (loss)	**(8,291,099)**	(1,294,794)
Total stockholders' equity	**26,534,847**	30,931,711
Total liabilities and stockholders' equity	**$ 26,536,104**	$ 30,933,469

Statements of Income	Years Ended December 31, 2022	Years Ended December 31, 2021
Interest revenue	**$ 187**	$ 216
Dividends from Bank Subsidiary	**522,000**	522,000
Equity in undistributed income of Bank Subsidiary	**2,629,895**	983,262
	3,152,082	1,505,478
Expenses		
Professional fees	**-**	3,487
Other	**35,166**	31,799
	35,166	35,286
Income before income tax benefit	**3,116,916**	1,470,192
Income tax (benefit)	**(7,346)**	(7,365)
Net income	**$ 3,124,262**	$ 1,477,557

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. Parent Company Financial Information (Continued)

Statements of Cash Flows	Years Ended December 31, **2022**	2021
Cash flows from operating activities		
Interest and dividends received	**$ 522,187**	$ 522,216
Cash paid for operating expenses	**(28,219)**	(32,956)
	493,968	489,260
Cash flows from financing activities		
Dividends paid	**(524,821)**	(524,821)
Stock Repurchase	**-**	-
	(524,821)	(524,821)
Net increase (decrease) in cash	**(30,853)**	(35,561)
Cash at beginning of year	**216,041**	251,602
Cash at end of year	**$ 185,188**	$ 216,041
Reconciliation of net income to net cash provided by operating activities		
Net income	**$ 3,124,262**	$ 1,477,557
Adjustments to reconcile net income to net cash provided by operating activities		
Undistributed net income of subsidiary	**(2,629,895)**	(983,262)
(Increase) decrease in other assets	**102**	(4,285)
Increase (decrease) in other liabilities	**(501)**	(750)
	$ 493,968	$ 489,260

Executive Management

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CEO, President
NMLS #759226

Randall M. Robey
Executive Vice President
Chief Financial Officer

Stephanie L. Usilton
Executive Vice President
Human Resources Officer

Terri L. Garvey
Executive Vice President
Chief Operating Officer
NMLS #446637

David A. Bowman
Senior Vice President
Chief Lending Officer
NMLS #1132599

Mary Chandler Obrecht
Senior Vice President
Chief Credit Officer
NMLS #2045085

Mike Sprouse
Senior Vice President
Chief Retail Banking Officer
NMLS #729792

Creg Fleetwood
President
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Established 1910

112 YEARS OF INDEPENDENT COMMUNITY BANKING

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