2023 ANNUAL REPORT

Proudly serving our community for 113 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, 2023

TABLE OF CONTENTS

BANK SERVICES

ATM SERVICE
BILL PAYING SERVICE
CERTIFICATES OF DEPOSIT
CHECKING ACCOUNTS
DEBIT CARDS
DIRECT DEPOSIT PAYROLL
DRIVE-IN SERVICE
EXTERNAL TRANSFERS
INDIVIDUAL RETIREMENT ACCOUNTS
INTERNET BANKING
LOANS, ALL TYPES
MERCHANT CARD SERVICES
MOBILE BANKING & DEPOSIT
MONEY MARKET ACCOUNTS
NIGHT DEPOSIT SERVICES
NOW ACCOUNTS
PERSON TO PERSON TRANSFERS
REMOTE DEPOSIT CAPTURE
SAFE DEPOSIT BOXES
SAVINGS ACCOUNTS
SUPER NOW ACCOUNTS
TELEPHONE BANKING
VISA TRAVEL & GIFT CARDS

PEOPLES BANCORP, INC.

DIRECTORS

Robert W. Clark, Jr.
Betterton, Maryland

Corey N. Duncan
Easton, Maryland

Myles S. Loller
Worton, Maryland

Stefan R. Skipp
Arnold, Maryland

LaMonte E. Cooke
Chestertown, Maryland

Gary B. Fellows
Millington, Maryland

Terry M. Mead
Denton, Maryland

J. Scott Sturgill
Sudlersville, Maryland

R. Allen Davis
Galena, Maryland

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

Megan B. Owings
Millington, Maryland

William G. Wheatley
Worton, Maryland

Patricia Joan O. Horsey - ***Advisory Director to The Peoples Bank Board***
Chestertown, Maryland

OFFICERS

Corey N. Duncan
Chairman of Bancorp Board

Gary B. Fellows
Chairman of Bank Board

Myles S. Loller
Chairman of FAM&M, Inc. Board

J. Scott Sturgill
President & CEO

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

Terri L. Garvey
EVP - Chief Operating Officer

Randall M. Robey
EVP - Chief Financial Officer

Stephanie L. Usilton
EVP - HRO & Board Secretary

David A. Bowman
SVP - Chief Lending Officer

S. Henrietta Maloney
SVP - Operations Officer

Mary Chandler Obrecht
SVP - Chief Credit Officer

L. Susan Barnhardt
Vice President & Lender

Sheila M. Bolton
VP - Branch Administration

Desiree A. McCracken
Vice President & Lender

Ina P. Reed
Vice President & Controller

Cecil A. Reihl
Vice President & Lender

Jacquelyn V. Shields
VP - Compliance Officer

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

Kimberly Swyka
Vice President & Lender

Katie E. DiSano
VP - Deposit Operations

K. Tanya Brilz
AVP - Deposit Operations

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 Vice President

Evetta D. Hopkins
Assistant Cashier

Mary Ann Landa
Assistant Cashier

Jennifer L. Mancuso
Assistant Cashier

Nancy Richcreek
Assistant Cashier

Clara M. Ross
Assistant Cashier

Sharon L. Sutton
Assistant Cashier

Roni Lynn Thomas
Assistant Cashier

Samantha M. Thompson
Assistant Cashier

OTHER PERSONNEL

Kathleen E. Barnhart
Kathleen F. Bozarth
Mallory K. Brilz
Jacqueline D. Brown
Mary L. Burton
Avery E. Crawford
Brett L. Davis
Caroline M. Dumont
Chardonnay L. Emory
Naomi M. Genser
Lori A. Goad
Carolyn L. Greaves
Bryan C. Greenwood
Joseph Casey Grieves
Margaret K. Hammer
Wilhelmina "Diena" Howard
Susan M. Joyner
Samantha J. Kamm
Dayleann M. Koch
Melissa L. Leonard
Donna M. Lins
Meghan P. Livie
Kathryn A. Mazur
Spencer M. McAllister
Patrick T. McCarthy
Rebecca L. McGinnes
Jerome J. McKinney, Jr.
Lorraine Susan Molano
Lisa C. Nicholas
Brittany A. Patchett-Rue
Sabrina N. Patterson
Marcey G. Peet
Alexis L. Phelps
Wendy M. Pleasants
Kimberly A. Porter
Marsha F. Ray
Barbara A. Reinhardt
Scott B. Schulze
Lois L. Serio
Deena M. Smith
Natalie N. Smith
Sarah S. Sutton
Stephanie L. Thomas
Curtis D. Trump, V
Kimberly R. Usilton
Raymond W. Weisman
Grace A. Wheatley
Kimberly S. Wood
Brenda J. Yoder
Daniel Zottarelli

Dear Fellow Shareholders:

Economic uncertainty and volatility have been with us the last few years. With interest rates on a historically aggressive climb upward; The Peoples Bank's financial results are noteworthy. Net Income for the year reached $4.6 million, the highest net income in more than 20 years. This was achieved as benchmark interest rates increased 11 times since March 2022 with the current Prime Rate of 8.50% (still the highest in 22 years). Recognizing our improved profitability, we were pleased to announce increasing our semiannual dividend payout by $0.03 per share, to $0.41 per share.

The Bank experienced an increase in loans outstanding by $12.4 million for a 7% growth rate while maintaining credit standards. Our portfolio is not deemed to have a large exposure or concentration with any risk or business segment; and our delinquency levels remains very low. This low delinquency is a reflection of our underwriting and the economic strength and integrity of the communities we serve. Our customer deposit balances, while experiencing industry contraction, remain stable and strong with the Bank not being reliant on non-traditional funding for operations.

Fleetwood Insurance Group continues to thrive and grow, nearly 80 years after the original Kirby-Fleetwood Agency was established in 1946 in the Townshend Building in Chestertown. Fleetwood Insurance Group and its BGV Insurance Easton office which was founded in 1967, pride themselves on a tradition of strong community involvement and personal relationships with clients and company partners. I strongly commend Creg Fleetwood and his team at Fleetwood for their impressive growth coupled with unflinching stability.

It has been my pleasure to work for you, our shareholders, as well as our customers, employees, directors, and the communities we serve. Current economic forecasts anticipate lower benchmark interest rates and inflation in 2024 and 2025, but there is significant uncertainty in these challenging economic times; as such we have tried to position ourselves for the future. Whatever path our economy takes, The Peoples Bank remains ready to serve our community.

In closing, I would like to recognize two Directors that have retired. Joan O. Horsey served 17 years (retired 2023) and Gary B. Fellows served 27 years (retired 2024). We thank both Joan and Gary for their voice and service to The Peoples Bank.

J. Scott Sturgill
President & CEO

Financial Highlights
Five years ended December 31, 2023

	2023	2022	2021	2020	2019
	(dollars in thousands except per share amounts)				
Deposits	**$ 282,266**	$ 324,778	$ 310,750	$ 269,222	$ 214,721
Investments, including stock	**87,101**	102,394	53,686	21,307	15,115
Loans (net of the allowance for credit losses)	**184,844**	172,215	160,956	173,838	185,294
Stockholders' equity	**32,291**	26,535	30,932	30,235	28,672
Assets	**319,008**	354,740	345,343	304,773	249,191
Net income	**4,595**	3,124	1,478	2,189	2,563
Return on average assets	**1.43%**	0.90%	0.46%	0.80%	1.03%
Return on average equity	**16.26%**	11.49%	4.90%	7.44%	9.11%
Earnings per share	**6.30**	4.29	2.03	3.00	3.52
Dividends per share	**0.75**	0.72	0.72	0.72	0.70
Book value per share	**44.30**	36.40	42.44	41.48	39.34
Number of shares outstanding	**728,918**	728,918	728,918	728,918	728,918

COMMITTEES

AUDIT COMMITTEE
Corey N. Duncan, Chairperson
R. Allen Davis
Herman E. (Trey) Hill, III
Stefan R. Skipp
William G. Wheatley

CAPITAL COMMITTEE
Herman E. (Trey) Hill, III, Chairperson
LaMonte E. Cooke
Terry M. Mead
Stefan R. Skipp
William G. Wheatley

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

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

EXECUTIVE COMMITTEE
Gary B. Fellows, Chairperson of Bank
Corey N. Duncan, Chairperson of Bancorp
Robert W. Clark, Jr.

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

GOVERNANCE/NOMINATING COMMITTEE
Megan B. Owings, Chairperson
Robert W. Clark, Jr.
R. Allen Davis
Herman E. (Trey) Hill, III
Terry M. Mead

PERSONNEL/COMPENSATION COMMITTEE
Megan B. Owings, Chairperson
Robert W. Clark, Jr.
Corey N. Duncan
Gary B. Fellows
Herman E. (Trey) Hill, III
Myles S. Loller

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

INDEPENDENT AUDITOR'S REPORT

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

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of their operations and their 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.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for credit losses in 2023 due to the adoption of Accounting Standards Update 2016-13, Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, including all related amendments. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the 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 financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Other Information Included in the Annual Report

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

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.

Owings Mills, Maryland
March 20, 2024

CONSOLIDATED BALANCE SHEETS

ASSETS	DECEMBER 31, 2023	2022
Cash and due from banks	**$ 33,269,899**	$ 66,704,119
Investment securities available for sale, at fair value	**51,791,550**	53,301,262
Investment securities held to maturity, at cost (fair value of **$34,439,500** and $48,572,434)	**35,000,000**	48,860,000
Federal Home Loan Bank and CBB Financial Corp. stock, at cost	**308,500**	232,900
Loans, less allowance for credit losses of **$2,722,331** and $2,979,963, respectively	**184,843,572**	172,214,821
Premises and equipment	**6,756,415**	6,558,955
Accrued interest receivable	**1,126,532**	1,135,647
Deferred income taxes	**1,901,590**	1,814,283
Goodwill and other intangibles	**2,941,347**	3,164,920
Other assets	**1,068,814**	753,688
	$319,008,219	$354,740,595

LIABILITIES AND STOCKHOLDERS' EQUITY

	2023	2022
Deposits		
Noninterest bearing checking	**$110,427,527**	$130,441,776
Savings and NOW	**105,593,381**	118,017,643
Money market	**24,474,296**	28,609,128
Other time	**41,771,016**	47,709,087
	282,266,220	324,777,634
Securities sold under repurchase agreements	**3,050,588**	2,015,493
Accrued interest payable	**90,060**	42,450
Other liabilities	**1,310,649**	1,370,171
	286,717,517	328,205,748
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	**29,372,031**	25,324,216
Accumulated other comprehensive loss		
Unrealized loss on securities available for sale	**(6,277,375)**	(7,963,804)
Unfunded liability for defined benefit plan	**(305,684)**	(327,295)
	32,290,702	26,534,847
	$319,008,219	$354,740,595

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

	YEARS ENDED DECEMBER 31, 2023	2022
Interest and dividend revenue		
Loans, including fees	**$ 8,343,779**	$ 7,585,338
U.S. government agency securities	**3,247,343**	1,484,397
Other	**1,372,261**	1,368,974
Total interest and dividend revenue	**12,963,383**	10,438,709
Interest expense		
Deposits	**589,598**	438,535
Borrowed funds	**1,244**	1,609
Total interest expense	**590,842**	440,144
Net interest income	**12,372,541**	9,998,565
Provision for (recovery of) credit losses	**(300,000)**	(700,000)
Net interest income after provision for credit losses	**12,672,541**	10,698,565
Noninterest revenue		
Service charges on deposit accounts	**458,368**	446,363
Insurance commissions	**5,236,571**	5,012,358
Loss on sale and disposal of premises and equipment	**(3,994)**	(4,002)
Other noninterest revenue	**288,076**	317,885
Total noninterest revenue	**5,979,021**	5,772,604
Noninterest expense		
Salaries	**6,602,215**	6,479,619
Employee benefits	**1,573,544**	1,597,527
Occupancy	**641,396**	631,871
Furniture and equipment	**571,626**	663,941
Data processing and correspondent fees	**762,836**	707,392
Professional fees	**401,395**	384,804
Other operating	**2,145,015**	1,927,082
Total noninterest expense	**12,698,027**	12,392,236
Income before income taxes	**5,953,535**	4,078,933
Income tax expense	**1,359,032**	954,671
Net income	**$ 4,594,503**	$ 3,124,262
Earnings per common share - basic and diluted	**$ 6.30**	$ 4.29

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	YEARS ENDED DECEMBER 31,	
	2023	2022
Net income	**$ 4,594,503**	$ 3,124,262
Other comprehensive income (loss)		
Unrealized gain (loss) on investment securities available for sale	**1,952,573**	(9,437,700)
Income tax relating to unrealized gain (loss) on investment securities available for sale	**(266,144)**	2,036,598
	1,686,429	(7,401,102)
Change in underfunded status of defined benefit plan	**29,816**	558,475
Income tax relating to change in underfunded status of defined benefit plan	**(8,205)**	(153,678)
	21,611	404,797
Total other comprehensive income (loss)	**1,708,040**	(6,996,305)
Total comprehensive income (loss)	**$ 6,302,543**	$ (3,872,043)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2023 and 2022

	Common stock Shares	Common stock Par value	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders' equity
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
Net income	**-**	**-**	**-**	**4,594,503**	**-**	**4,594,503**
Change in underfunded status of defined benefit plan net of income taxes of $8,205	**-**	**-**	**-**	**-**	**21,611**	**21,611**
Unrealized gain on investment securities available for sale net of income taxes of $266,144	**-**	**-**	**-**	**-**	**1,686,429**	**1,686,429**
Cash dividend, $0.75 per share	**-**	**-**	**-**	**(546,688)**	**-**	**(546,688)**
Balance, December 31, 2023	**728,918**	**$7,289,180**	**$2,212,550**	**$29,372,031**	**$(6,583,059)**	**$32,290,702**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEARS ENDED DECEMBER 31, 2023	2022
Cash flows from operating activities		
Interest received	**$ 12,951,599**	$ 9,899,052
Fees and commissions received	**5,983,015**	5,776,606
Interest paid	**(543,232)**	(446,133)
Cash paid to suppliers and employees	**(12,429,097)**	(12,476,238)
Income taxes paid	**(1,188,400)**	(728,896)
Net cash provided by operating activities	**4,773,885**	2,024,391
Cash flows from investing activities		
Proceeds from maturities and calls of investment securities		
Available for sale	**2,907,067**	5,775,023
Held to maturity	**13,860,000**	5,000,000
Purchase of investment securities available for sale	**-**	(15,018,750)
Purchase of investment securities held to maturity	**-**	(53,860,000)
Purchase of Federal Home Loan Bank stock	**(75,600)**	(20,200)
Loans made, net of principal collected	**(12,284,922)**	(10,515,668)
Purchase of premises, equipment, and software	**(591,643)**	(173,502)
Net cash provided by (used by) investing activities	**3,814,902**	(68,813,097)
Cash flows from financing activities		
Net increase (decrease) in		
Time deposits	**(5,938,071)**	(5,080,866)
Other deposits	**(36,573,343)**	19,108,193
Securities sold under repurchase agreements	**1,035,095**	743,920
Dividends paid	**(546,688)**	(524,821)
Net cash provided by (used by) financing activities	**(42,023,007)**	14,246,426
Net decrease in cash and cash equivalents	**(33,434,220)**	(52,542,280)
Cash and cash equivalents at beginning of year	**66,704,119**	119,246,399
Cash and cash equivalents at end of year	**$ 33,269,899**	$ 66,704,119

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	YEARS ENDED DECEMBER 31, 2023	2022
Reconciliation of net income to net cash provided by operating activities		
Net income	**$ 4,594,503**	$ 3,124,262
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of premiums and accretion of discounts	**22,929**	47,034
Provision for (recovery of) credit losses	**(300,000)**	(700,000)
Depreciation and software amortization	**390,189**	425,997
Amortization of intangible assets	**223,573**	223,573
Loss on disposal of premises and equipment	**3,994**	4,002
Decrease (increase) in		
Accrued interest receivable	**9,115**	(543,863)
Deferred income taxes	**170,631**	225,775
Other assets	**(315,126)**	(321,264)
Deferred origination costs, net	**(43,828)**	(42,828)
Increase (decrease) in		
Accrued interest payable	**47,610**	(5,989)
Other liabilities	**(29,705)**	(412,308)
	$ 4,773,885	$ 2,024,391

The accompanying notes are an integral part of these consolidated financial statements.

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.

Adoption of ASU 2016-13

On January 1, 2023, the Company adopted ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investment in leases recognized by the lessor in accordance with Topic 842 on leases. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that is more likely than not they will be required to sell.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

Adoption of ASU 2016-13 (Continued)

The Company adopted ASC 326 and all the subsequent amendments effective January 1, 2023, using the modified retrospective method for all financial assets measured at amortized cost, and off-balance-sheet credit exposures. Results for reporting periods beginning after January 1, 2023, are presented under ASC 326 while prior periods amounts continue to be reported in accordance with previously applicable GAAP. The Company did not record a change to retained earnings as of January 1, 2023, as a result of adopting ASC 326. There were no changes in the allowance for credit reserves or change in net deferred tax assets.

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. The Bank amortizes premiums through the earliest call date and accretes discounts to maturity. 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.

Investment securities available for sale are required to be individually evaluated for impairment. A security is considered impaired if the fair value of the security is less than its amortized cost basis. If management concludes that it does not intend to sell an impaired security, and it is not more likely than not management will be required to sell an impaired security before recovery of its amortized cost basis, the Bank would only be required to record the portion of the impairment related to credit losses (if any) in an allowance for credit losses with an offsetting entry to net income.

The allowance for credit losses on investment securities held to maturity is a contra-asset valuation account, calculated in accordance with Accounting Standards Codification ("ASC") Topic 326 ("ASC 326"), that is deducted from the amortized cost basis of held to maturity securities to present management's best estimate of the net amount expected to be collected. Held to maturity securities are charged-off against the allowance when deemed uncollectable by management. Adjustments to the allowance are reported in our income statement as a component of credit loss expense. Management measures expected credit losses on held to maturity securities on a collective basis by major security type with each type sharing similar risk characteristics and considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. There is no allowance for credit losses on held to maturity securities at December 31, 2023.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

Loans and allowance for credit 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 subject to individually evaluated status 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 credit losses on loans is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loans. Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. Credit losses on loans are charged against the allowance for credit losses on loans when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance for credit losses on loans.

Management estimates the required allowance for credit losses on loans using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience (past events) provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current conditions such as differences relating to underwriting standards, nature and volume of the loan portfolio, delinquency level and overall loan portfolio quality, or term as well as for changes in environmental conditions, such as changes in economic conditions that may affect the borrower's ability to pay, unemployment rates, property values, or other relevant factors. If the current economy or real estate market were to suffer a severe downturn, the provision for credit losses on loans would need to be increased.

The allowance for credit losses on loans is measured on a collective (pool) basis when similar risk characteristics exist. The Bank has identified portfolio segments based on collateral type and measures the allowance for credit losses on loans using Call Report-derived data. The Bank utilizes the weighted-average remaining maturity approach to calculate the expected loss for each loan within the pool. The Bank also considers qualitative adjustments to the historical loss rate for each loan portfolio segment, which are a combination of specific risk characteristics or current conditions at the reporting date that may differ from those in effect during the historical loss calculation period as well as forward looking projections for each pool based on a reasonable and supportable forecast based on objective economic data. The total loss rate is the lifetime historical loss rate plus the total qualitative factor adjustments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

Loans and allowance for credit losses (Continued)

Some loans are not sufficiently similar in risk characteristics to other loans. These loans are evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluation. Loans that are individually evaluated for which impairment is determined to exist will have a specific reserve allocated to them and included in the expected allowance for credit losses on loans. The expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

An unallocated component may be maintained to cover uncertainties that could affect management's estimate of probable expected losses. The unallocated component of the allowance for credit losses on loans reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general expected losses in the loan portfolio. Allocation of a portion of the allowance for credit losses on loans to one category of loans does not preclude its availability to absorb expected losses in other categories.

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 Bank becomes aware of the loss. The Bank 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.

Allowance for Credit Losses on Off-Balance-Sheet Items

The Bank estimates expected credit losses on off-balance sheet items, which consist of contractual obligations to extend credit, loans which the Bank has approved but have not been funded, and letters of credit, over the contractual period during which the Bank is exposed to credit risk, unless that obligation is unconditionally cancellable by the Bank. The allowance for credit losses on off-balance-sheet items is recorded as a liability and is adjusted each reporting period through credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on off-balance-sheet items expected to be funded over its estimated life. The loss rates used to determine the required allowance for credit losses on off-balance-sheet items are essentially the same as those used on originated loans.

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. The cost of major renewals and improvements are capitalized, while the cost of ordinary maintenance and repairs are charged to expense as incurred.

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 credit losses. Subsequent reductions in the estimated value of the property are reported as a write-down on other real estate owned.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

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, 2023 and 2022.

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.

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. Deferred tax assets are recognized only to the extent that is more likely than not that such amounts will be realized based on consideration of available evidence.

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 2023 and 2022. There were no dilutive common stock equivalents outstanding in 2023 or 2022.

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 Community Banking and Insurance segment are same. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

Segment reporting (Continued)

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, 2023 and 2022, respectively.

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, 2023	Community banking	Insurance	Inter-segment elimination	Total
Interest income	**$ 12,963,383**	**$ 18**	**$ (18)**	**$ 12,963,383**
Interest expense	**590,860**	**-**	**(18)**	**590,842**
Provision for (recovery of) credit losses	**(300,000)**	**-**	**-**	**(300,000)**
Noninterest revenue	**812,026**	**5,258,955**	**(91,960)**	**5,979,021**
Noninterest expenses	**9,027,170**	**3,762,817**	**(91,960)**	**12,698,027**
Income before income taxes	**4,457,379**	**1,496,156**	**-**	**5,953,535**
Income tax expense	**939,202**	**419,830**	**-**	**1,359,032**
Net income	**$ 3,518,177**	**$1,076,326**	**$ -**	**$ 4,594,503**
Assets	**$314,595,840**	**$7,194,121**	**$ (2,781,742)**	**$319,008,219**

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) credit 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

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)

Subsequent events

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2023, through March 20, 2024, the date these financial statements were available to be issued, for items that should potentially be recognized or disclosed in these consolidated financial statements.

On February 23, 2024, the Board of Directors approved resolutions to terminate the Company's defined benefit plan effective May 31, 2024, with termination settlements to beneficiaries to be paid beginning in the fourth quarter of 2024. Total disbursements associated with the termination are estimated to be $3.1 million including termination settlements, associated fees, and benefit payments through termination. The Company's defined benefit plan held assets with a fair value of $2.8 million at December 31, 2023, leaving an estimated remaining expense of $300,000 to be accrued by the termination date. This estimate could change as the Company approaches the termination date.

No other 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 balances carried in excess of the limit, including unsecured federal funds sold to the same banks, were $10,870,699 for 2023 and $10,460,480 for 2022.

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, 2023	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Available for sale				
U.S. government agency	**$ 36,486,220**	**$ -**	**$ 5,207,110**	**$ 31,279,110**
Mortgage-backed securities	**23,965,810**	**-**	**3,453,370**	**20,512,440**
	$ 60,452,030	**$ -**	**$ 8,660,480**	**$ 51,791,550**
Held to maturity				
U.S. government agency	**$ 35,000,000**	**$ -**	**$ 560,500**	**$ 34,439,500**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Investment Securities (Continued)

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

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.

	Available for sale		Held to Maturity	
December 31, 2023	Amortized cost	Fair value	Amortized cost	Fair value
Maturing				
Within one year	**$ -**	**$ -**	**$ -**	**$ -**
Over one to five years	**-**	**-**	**10,000,000**	**9,909,600**
Over five to ten years	**36,486,220**	**31,279,110**	**25,000,000**	**24,529,900**
	$ 36,486,220	**$ 31,279,110**	**$ 35,000,000**	**$ 34,439,500**
Pledged securities	**$ 11,340,892**	**$ 9,754,588**	**$ -**	**$ -**
December 31, 2022				
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	$ -	$ -

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Investment Securities (Continued)

Securities in a continuous unrealized loss position of less than 12 months and 12 months or longer at December 31, 2023 and 2022, are as follows:

	Less than 12 months		12 months or longer		Total	
December 31, 2023	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value
Available for sale						
U.S. government agency	**$ 1,760**	**$ 734,460**	**$5,205,350**	**$30,544,650**	**$ 5,207,110**	**$31,279,110**
Mortgage-backed securities	**-**	**-**	**3,453,370**	**20,512,440**	**3,453,370**	**20,512,440**
	$ 1,760	**$ 734,460**	**$8,658,720**	**$51,057,090**	**$ 8,660,480**	**$51,791,550**
December 31, 2022						
Available for sale						
U.S. government agency	$ -	$ -	$6,316,055	$29,433,945	$ 6,316,055	$29,433,945
Mortgage-backed securities	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

Based on a review of investment securities experiencing unrealized losses as of December 31, 2023, the Banks concluded that it is expected to recover the amortized cost basis of its investment. The Bank has the intent and ability to hold and does not believe it will be required to sell these investment securities prior to maturity. Unrealized losses are primarily due to increases in market interest rates over the yields available at the time the underlying securities were purchased, and the Bank does not believe that any of the securities are experiencing unrealized losses due to reasons of credit quality. The U. S. Government agency securities the Bank owns are issued by the Federal Home Loan Bank and the Federal Farm Credit Bank, which the United States government has affirmed its commitment to support. The mortgage-back securities the Bank owns are issued by FNMA, GNMA, SBA, and FHLMC which the U. S. government has affirmed its commitment to support.

As part of implementing ASU 2016-13 on January 1, 2023, the Bank determined that no allowance for credit losses was required on the Bank's held to maturity investment portfolio. Based on management's assessment of the investment portfolio at December 31, 2023, no allowance for credit losses was required on the Bank's investment portfolio.

As of December 31, 2023, there was 1 security in an unrealized loss position for less than 12 months and 25 securities in an unrealized loss position for 12 months or more. 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.

There were no sales of securities in 2023 or 2022.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Loans and Allowance for Credit Losses

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

	2023	2022
Real estate		
Residential	**$ 90,823,610**	$ 88,752,485
Commercial	**58,551,650**	49,243,049
Other	**20,936,659**	20,555,447
Construction and land development	**7,215,437**	9,147,001
Commercial	**9,076,633**	6,857,753
Consumer	**1,000,937**	721,900
	187,604,926	175,277,635
Deferred (fees) costs, net	**(39,023)**	(82,851)
Allowance for credit losses	**(2,722,331)**	(2,979,963)
	$184,843,572	$172,214,821

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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Loans and Allowance for Credit Losses (Continued)

Real Estate Loans (Continued)

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 individuals in its market area. 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.

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

	2023
Within ninety days	**$ 10,206,230**
Over ninety days to one year	**14,145,878**
Over one year to five years	**81,726,476**
Over five years	**81,526,342**
	$187,604,926
Variable rate loans included in total above	**$ 11,436,015**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Loans and Allowance for Credit Losses (Continued)

The following table illustrates individually evaluated loans considered to be collateral dependent segmented by those with and without a related allowance as of December 31, 2023 and 2022.

Total Individually Evaluated Loans Segmented by With and Without a Related Allowance Recorded
December 31, 2023

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	-	$ -	$ -	$ -	$ -	$ -
Commercial real estate	-	-	-	-	-	-
Other real estate	-	-	-	-	-	-
Construction and land development	-	-	-	-	-	-
Commercial loans	-	-	-	-	-	-
Consumer loans	-	-	-	-	-	-
	-	-	-	-	-	-
With No Related Allowance Recorded						
Residential real estate	14	635,924	827,576	-	43,706	847,155
Commercial real estate	3	541,601	1,152,854	-	56,823	1,163,906
Other real estate	3	403,696	403,696	-	22,615	409,950
Construction and land development	2	19,719	38,861	-	2,486	40,017
Commercial loans	-	-	-	-	-	-
Consumer loans	-	-	-	-	-	-
	22	1,600,940	2,422,987	-	125,630	2,461,028
TOTAL						
Residential real estate	14	635,924	827,576	-	43,706	847,155
Commercial real estate	3	541,601	1,152,854	-	56,823	1,163,906
Other real estate	3	403,696	403,696	-	22,615	409,950
Construction and land development	2	19,719	38,861	-	2,486	40,017
Commercial loans	-	-	-	-	-	-
Consumer loans	-	-	-	-	-	-
Total impaired loans	22	$ 1,600,940	$ 2,422,987	$ -	$ 125,630	$ 2,461,028

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Loans and Allowance for Credit Losses (Continued)

Total Individually Evaluated 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 Credit Losses (Continued)

The following table summarizes activity in the allowance for credit losses and allocations based on loans that are individually evaluated and loan balances collectively evaluated as of and for the year ended December 31, 2023.

December 31, 2023	Residential real estate	Commercial real estate	Other real estate	Construction and land development	Commercial	Consumer	Overdraft	Unallocated	Total
Allowance for credit losses									
Beginning balance	**$ 1,569,075**	**$ 748,434**	**$ 315,076**	**$ 156,079**	**$ 112,876**	**$ 11,963**	**$ 684**	**$ 65,776**	**$ 2,979,963**
Charge-offs	**-**	**-**	**-**	**-**	**-**	**-**	**(1,525)**	**-**	**(1,525)**
Recoveries	**111,518**	**61,411**	**-**	**-**	**35,790**	**-**	**1,174**	**-**	**209,893**
Provision - funded loans	**(284,593)**	**(43,845)**	**(78,076)**	**24,921**	**(65,666)**	**37**	**(333)**	**(18,445)**	**(466,000)**
Ending balance	**$ 1,396,000**	**$ 766,000**	**$ 237,000**	**$ 181,000**	**$ 83,000**	**$ 12,000**	**$ -**	**$ 47,331**	**$ 2,722,331**
Ending balance allocated to:									
Loans individually evaluated for impairment	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Loans collectively evaluated for impairment	**1,396,000**	**766,000**	**237,000**	**181,000**	**83,000**	**12,000**	**-**	**47,331**	**2,722,331**
	$ 1,396,000	**$ 766,000**	**$ 237,000**	**$ 181,000**	**$ 83,000**	**$ 12,000**	**$ -**	**$ 47,331**	**$ 2,722,331**

The following table summarizes activity in the allowance for loan losses and allocation based on loans that are individually evaluated for impairment and loan balances collectively evaluated for impairment as of and for the year ended December 31, 2022. This table reflects activity prior to the adoption of ASU 2016-13.

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

The following table summarizes activity in the allowance of off-balance sheet credit losses for the years ended December 31, 2023 and 2022.

	2023	2022
Allowance for off-balance sheet credit losses		
Beginning balance	**$ 25,000**	$ 25,000
CECL Adoption	**-**	-
Provision for off-balance sheet credit losses	**166,000**	-
Ending balance	**$ 191,000**	$ 25,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Loans and Allowance for Credit 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 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 allowance may be necessary.

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

December 31, 2023	Pass	Pass/Watch	Special Mention	Substandard	Total
Residential real estate	**$ 88,051,024**	**$ 1,681,346**	**$ -**	**$ 1,091,240**	**$ 90,823,610**
Commercial real estate	**53,444,279**	**4,276,401**	**-**	**830,970**	**58,551,650**
Other real estate	**19,329,230**	**1,607,429**	**-**	**-**	**20,936,659**
Construction and land development	**7,195,718**	**-**	**-**	**19,719**	**7,215,437**
Commercial	**9,020,873**	**55,468**	**-**	**292**	**9,076,633**
Consumer	**967,382**	**-**	**-**	**33,555**	**1,000,937**
	$178,008,506	**$ 7,620,644**	**$ -**	**$ 1,975,776**	**$187,604,926**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Loans and Allowance for Credit Losses (Continued)

The following table analyzes the age of past due loans segregated by class of loans as of December 31, 2023 and 2022

December 31, 2023	30-59 Days past due	60-89 Days past due	Greater than 90 days	Total past due	Current	Total loans
Residential real estate	$ -	$ -	$ -	$ -	$ 90,823,610	$ 90,823,610
Commercial real estate	284,408	-	-	284,408	58,267,242	58,551,650
Other real estate	-	-	-	-	20,936,659	20,936,659
Construction and land development	-	-	-	-	7,215,437	7,215,437
Commercial loans	-	-	-	-	9,076,633	9,076,633
Consumer loans	-	-	-	-	1,000,937	1,000,937
Total	$ 284,408	$ -	$ -	$284,408	$187,320,518	$187,604,926

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

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:

	2023		2022
	Amortized Cost Basis	Nonaccrual Loans With No Allowance for Credit Losses	Amortized Cost Basis
Residential real estate	$ 222,614	$ 222,614	$ 383,356
Commercial real estate	283,177	283,177	340,759
Other real estate	-	-	-
Construction and land development	19,719	19,719	24,668
Commercial loans	-	-	-
Consumer loans	10,605	10,605	-
Total	$ 536,115	$ 536,115	$ 748,783
Interest not accrued on nonaccrual loans	$ 4,659		$ 5,294

There were no loans over 90 days past due and accruing at December 31, 2023 and 2022.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Loans and Allowance for Credit 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.

During the year ended December 31, 2023, the Company did not modify any loans to borrowers who were experiencing financial difficulty.

Prior to the implementation of ASU 2016-13, the modification of terms on a loan (restructuring) was considered a "troubled debt restructuring" if it was done to accommodate a borrower who was 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, are set forth in the following table:

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	-	$ -

There were no new troubled debt restructurings in 2022.

At December 31, 2023 and 2022, there were no formal foreclosure procedures in process.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Loans and Allowance for Credit Losses (Continued)

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

	2023	2022
Check loan lines of credit	**$ 391,371**	$ 403,185
Mortgage lines of credit and loan commitments	**10,031,351**	8,970,889
Other lines of credit and commitments	**13,920,440**	15,580,540
Undisbursed construction loan commitments	**2,400,542**	5,740,133
	$ 26,743,704	$ 30,694,747
Standby letters of credit	**$ 1,263,050**	$ 1,319,050

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 Company'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 Company 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:

	2023	2022
Land	$ 3,100,510	$ 3,100,510
Premises	5,654,289	5,632,567
Furniture and equipment	3,124,847	2,964,716
	11,879,646	11,697,793
Accumulated depreciation	5,123,231	5,138,838
Net premises and equipment	$ 6,756,415	$ 6,558,955
Depreciation expense	$ 377,969	$ 414,391

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

	2023	2022
Cost	$ 81,364	$ 65,504
Accumulated amortization	64,387	52,167
Net computer software	$ 16,977	$ 13,337
Amortization expense	$ 12,220	$ 11,606

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, 2023 and 2022 was $705,620.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Intangibles and Goodwill (Continued)

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

	2023	2022
Intangible asset	**$ 3,353,592**	$ 3,353,592
Accumulated amortization	**(1,117,865)**	(894,292)
Net intangible asset	**$ 2,235,727**	$ 2,459,300
Amortization expense	**$ 223,573**	$ 223,573

Estimated amortization expense:	
2024	**$ 223,573**
2025	**223,573**
2026	**223,573**
2027	**223,573**
2028	**223,573**
Thereafter	**1,117,862**

7. Other Time Deposits

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

	2023	2022
Within one year	**$ 25,012,384**	$ 9,489,927
Over one to two years	**5,126,020**	11,346,777
Over two to three years	**5,341,098**	8,340,885
Over three to four years	**4,176,721**	10,204,837
Over four to five years	**1,924,883**	8,248,429
Over five years	**189,910**	78,232
	$ 41,771,016	$ 47,709,087

Included in other time deposits are certificates of deposit in amounts of $250,000 or more of $5,038,336 and $6,453,911 as of December 31, 2023 and 2022, 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:

	2023	2022
Maximum amount outstanding	**$ 3,602,607**	$ 4,640,523
Average amount outstanding	**1,445,740**	2,012,590
Average rate paid during the year	**0.09%**	0.08%
Investment securities underlying agreements at year-end		
Book value	**4,408,947**	5,428,869
Fair value	**3,897,168**	4,831,729

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, 2023, the Bank could borrow up to $92,072,100 from the Federal Home Loan Bank subject to qualifying available collateral. The Bank had pledged loans that provided a borrowing capacity of $28,800,820 as of December 31, 2023.

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, 2023. As of December 31, 2023, the Bank had pledged mortgage loans totaling $9,203,815 to the Federal Reserve Bank of Richmond to provide a borrowing capacity of $4,270,151 under its discount window program.

10. Income Taxes

The components of income tax expense are as follows:

	2023	2022
Current		
Federal	**$ 1,027,075**	$ 663,475
State	**161,326**	65,420
	1,188,401	728,895
Deferred	**170,631**	225,776
	$ 1,359,032	$ 954,671

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Income Taxes (Continued)

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

	2023	2022
Allowance for credit losses	$ 82,552	$ 192,622
Prepaid pension costs	57,769	(18,434)
Depreciation and amortization	61,190	(16,667)
Nonaccrual interest	175	938
Deferred compensation	12,547	67,317
NOL and AMT carryovers	(43,602)	-
	$ 170,631	$ 225,776

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

	2023	2022
Deferred income tax assets		
Deferred compensation	$ 36,472	$ 49,019
Pension liability	4,992	43,632
Nonaccrual interest	1,282	1,457
Unrealized loss on investment securities available for sale	2,383,104	2,116,960
NOL and AMT carryovers	43,602	-
	2,469,452	2,211,068
Deferred income tax liabilities		
Allowance for credit losses	210,826	100,939
Depreciation and amortization	357,036	295,846
	567,862	396,785
Net deferred income tax asset	$ 1,901,590	$ 1,814,283

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

	2023	2022
Tax at statutory federal income tax rate	21.0 %	21.0 %
Tax effect of		
Tax-exempt income	(0.5)	(0.6)
State income taxes, net of federal benefit	2.1	2.7
Other, net	0.2	0.3
	22.8 %	23.4 %

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, 2019.

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 six months 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 2023 and 2022, were $144,251 and $135,925, 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 prior to 2013. 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:

	2023	2022
Change in plan assets		
Fair value of plan assets at beginning of year	**$ 2,462,299**	$ 3,063,540
Actual return on plan assets	**246,285**	(193,279)
Settlements	**-**	(329,601)
Employer contribution	**229,000**	-
Benefits paid	**(123,653)**	(78,361)
Fair value of plan assets at end of year	**2,813,931**	2,462,299
Change in benefit obligation		
Projected benefit obligation at beginning of year	**2,620,858**	3,713,585
Settlements	**-**	(329,601)
Interest cost	**133,326**	96,515
Benefits paid	**(123,653)**	(78,361)
Actuarial loss (gain)	**102,208**	(781,280)
Accumulated benefit obligation at end of year	**2,732,739**	2,620,858
Funded Status	**81,192**	(158,559)
Unrecognized net loss	**421,735**	451,551
Cumulative employer contributions in excess of net periodic benefit cost	**$ 502,927**	$ 292,992

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Pension (Continued)

Net periodic benefit cost includes the following components:

	2023	2022
Interest cost	**$ 133,326**	$ 96,515
Expected return on assets	**(137,395)**	(157,276)
Recognized actuarial loss (gain)	**23,134**	70,963
Recognized actuarial (gain)loss due to settlements	**-**	56,787
Net periodic benefit cost included in employee benefits	**$ 19,065**	$ 66,989

There was a increase in the pension benefit obligation due to the change in the discount rates from 5.21% to 4.99%. 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).

	2023	2022
Actuarial net loss (gain)	**$ (6,682)**	$ (430,725)
Recognized net actuarial gain (loss)	**(23,134)**	(70,963)
Impact of settlement on net loss (gain)	**-**	(56,787)
Total recognized in OCI before taxes	**$ (29,816)**	$ (558,475)
Total recognized in net cost and OCI before taxes	**$ (10,751)**	$ (491,486)

The amount expected to be recognized in net periodic benefit costs in 2024 is $18,000 consisting of recognized losses.

Assumptions used in the accounting for net periodic benefit costs:

	2023	2022
Discount rates	**5.21%**	2.75%
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:

	2023	2022
Discount rate	**4.99%**	5.21%
Rate of compensation increase	**N/A**	N/A

The Bank is not expected to make a contribution to the plan for 2024.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Pension (Continued)

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

	2023	2022
Domestic Equity securities	**43 %**	41 %
Fixed income securities	**57 %**	59 %
	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
2024	$1,072,903
2025	373,902
2026	73,594
2027	341,645
2028	165,303
2029 through 2033	600,108

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 Morgan Stanley and One America Financial.

13. Other Operating Expenses

Other operating expenses consist of the following:

	2023	2022
Advertising	**$ 126,221**	$ 125,847
Amortization of intangibles	**223,573**	223,573
Deposit services	**332,636**	257,430
Directors' fees	**187,878**	204,015
Insurance	**127,126**	118,534
Office supplies and printing	**87,540**	97,247
Postage	**91,048**	77,734
Public relations and contributions	**76,601**	90,156
Regulatory assessments	**186,929**	136,253
Telephone	**119,015**	107,630
Other	**586,448**	488,663
	$ 2,145,015	$ 1,927,082

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:

	2023	2022
Beginning loan balances	**$ 1,882,694**	$ 1,737,372
Advances	**376,300**	1,359,015
Repayments	**(689,341)**	(1,066,011)
Change in related parties	**(223,628)**	(147,682)
Ending loan balances	**$ 1,346,025**	$ 1,882,694

In addition to the outstanding balances listed above, the officers and directors and their related interests had $2,194,300 and $1,952,358 in unused loans committed but not funded as of December 31, 2023 and 2022, respectively.

Deposits from officers and directors and their related interests were $5,154,561 and $8,148,220 as of December 31, 2023 and 2022, 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 and Bank's financial statements. The Bank could opt in to 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 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 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 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)

The tables below present actual and required capital ratios as of December 31, 2023 and 2022, for the Bank under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels as of December 31, 2023 and 2022. 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. The Bank opted out of the CBLR framework in 2022.

Actual and required capital amounts (in thousands) and ratios are presented below at December 31, 2023 and 2022, under the Basel III Capital Rules:

(in thousands)	Actual		Minimum capital adequacy		To be well capitalized	
December 31, 2023	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 capital (to risk-weighted asset)						
Bank	**$38,009**	**20.84%**	**$19,148**	**10.50%**	**$18,236**	**10.00%**
Tier I (core) capital (to risk-weighted assets)						
Bank	**$35,722**	**19.59%**	**$15,501**	**8.50%**	**$14,589**	**8.00%**
Common tier I (CET I)						
Bank	**$35,722**	**19.59%**	**$12,765**	**7.00%**	**$11,854**	**6.50%**
Tier I Capital (to average assets)						
Bank	**$35,722**	**11.59%**	**$12,330**	**4.00%**	**$15,412**	**5.00%**

(in thousands)	Actual		Minimum capital adequacy		To be well capitalized	
December 31, 2022	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 capital (to risk-weighted asset)						
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 I)						
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%

The Bank was classified as well-capitalized in accordance with the Basel III Capital Rules as of December 31, 2023. There have been no conditions or events since that notification that management believes have changed the Bank's classification as well capitalized.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. 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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. Fair Value Measures (Continued)

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 investment 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 investment securities available for sale as follows:

December 31, 2023	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
Available for sale				
U.S. government agency	**$ -**	**$ 31,279,110**	**$ -**	**$ 31,279,110**
Mortgage-backed securities	**-**	**20,512,440**	**-**	**20,512,440**
	$ -	**$ 51,791,550**	**$ -**	**$ 51,791,550**
December 31, 2022				
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

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

Fair values on a nonrecurring basis

The Company's individually evaluated 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).

Individually evaluated 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.

December 31, 2023	Level 1 inputs	Level 2 inputs	Level 3 inputs	Total
Individually evaluated	**$ -**	**$ -**	**$ 1,600,940**	**$ 1,600,940**
	$ -	**$ -**	**$ 1,600,940**	**$ 1,600,940**
December 31, 2022				
Individually evaluated	$ -	$ -	$ 2,758,254	$ 2,758,254
	$ -	$ -	$ 2,758,254	$ 2,758,254

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. Fair Value Measures (Continued)

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, 2023 and 2022, 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.

	December 31, 2023				
	Carrying amount	Level 1	Level 2	Level 3	Total fair value
Financial assets					
Federal Home Loan Bank and CBB Financial Corp. stock	**$ 308,500**	**$ -**	**$ -**	**$ -**	**N/A**
Loans, net	**184,843,572**	**-**	**176,699,535**	**-**	**176,699,535**
Financial liabilities					
Non term deposits	**$240,495,204**	**$240,495,204**	**$ -**	**$ -**	**$240,495,204**
Time deposits	**41,771,016**	**-**	**40,959,235**	**-**	**40,959,235**
Short-term borrowings	**3,050,588**	**3,050,588**	**-**	**-**	**3,050,588**

	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

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

17. 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, **2023**	2022
Assets		
Cash	**$ 152,642**	$ 185,188
Investment in Bank Subsidiary	**32,124,068**	26,341,361
Other assets	**15,949**	9,555
Total assets	**$ 32,292,659**	$ 26,536,104
Liabilities and Stockholders' Equity		
Other liabilities	**$ 1,957**	$ 1,257
Total liabilities	**1,957**	1,257
Stockholders' equity		
Common stock	**7,289,180**	7,289,180
Additional paid-in capital	**2,212,550**	2,212,550
Retained earnings	**29,372,031**	25,324,216
Accumulated other comprehensive (loss)	**(6,583,059)**	(8,291,099)
Total stockholders' equity	**32,290,702**	26,534,847
Total liabilities and stockholders' equity	**$ 32,292,659**	$ 26,536,104

Statements of Income	Years Ended December 31, **2023**	2022
Interest revenue	**$ 320**	$ 187
Dividends from Bank Subsidiary	**569,000**	522,000
Equity in undistributed income of Bank Subsidiary	**4,074,667**	2,629,895
	4,643,987	3,152,082
Expenses		
Professional fees	**37,256**	-
Other	**25,297**	35,166
	62,553	35,166
Income before income tax benefit	**4,581,434**	3,116,916
Income tax (benefit)	**(13,069)**	(7,346)
Net income	**$ 4,594,503**	$ 3,124,262

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. Parent Company Financial Information (Continued)

Statements of Cash Flows	Years Ended December 31, 2023	2022
Cash flows from operating activities		
Interest and dividends received	**$ 569,321**	$ 522,187
Cash paid for operating expenses	**(55,178)**	(28,219)
	514,143	493,968
Cash flows from financing activities		
Dividends paid	**(546,689)**	(524,821)
	(546,689)	(524,821)
Net increase (decrease) in cash	**(32,546)**	(30,853)
Cash at beginning of year	**185,188**	216,041
Cash at end of year	**$ 152,642**	$ 185,188
Reconciliation of net income to net cash provided by operating activities		
Net income	**$ 4,594,503**	$ 3,124,262
Adjustments to reconcile net income to net cash provided by operating activities		
Undistributed net income of subsidiary	**(4,074,667)**	(2,629,895)
(Increase) decrease in other assets	**(6,394)**	102
Increase (decrease) in other liabilities	**700**	(501)
	$ 514,142	$ 493,968

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

Creg Fleetwood
President
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Established 1910

113 YEARS OF INDEPENDENT COMMUNITY BANKING

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