Farmers
Bank of Willards
Annual Stockholders Report 2022

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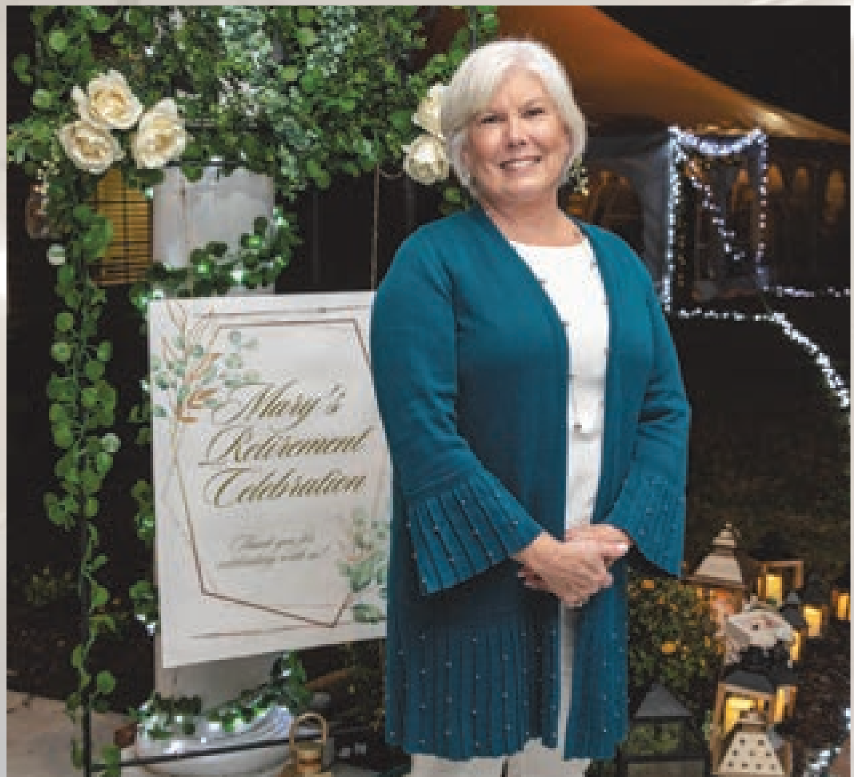

The year 2022 marked the end of a successful journey and the beginning of another for Chief Operations Officer, Mary O'Connell. Mary began her career with The Farmers Bank of Willards on September 8, 1988, where she held various positions including Branch Manager, Compliance Officer, and Loan Department Manager. She was also Secretary to the Board of Directors. She ended her 34-year career as the Bank's Chief Operations Officer. The wealth of knowledge and experience that Mary shared with those with whom she worked was invaluable. Her kind demeanor, and willing attitude made the ordinary workday pleasurable for all. Her motto, which she learned from her father, was "many hands make light work."

While Mary will certainly be missed, we are proud to welcome her to our Board of Directors where her knowledge and experience can benefit The Farmers Bank of Willards, and all its staff and customers for many years to come.

Financial Highlights

	2022	2021	2020	2019	2018
At year end					
Assets	**$521,189,127**	$498,279,633	$445,550,721	$389,484,790	$375,596,642
Deposits	**448,872,260**	433,174,437	367,738,349	298,118,304	300,165,471
Loans, net	**333,539,915**	287,091,890	309,544,222	331,455,253	325,637,727
Stockholders' equity	**46,686,286**	45,684,379	45,599,802	43,119,631	40,326,991
Average balances					
Assets	**$513,946,229**	$478,796,973	$425,128,854	$386,047,014	$365,890,774
Deposits	**462,185,863**	404,452,899	342,151,221	302,709,983	293,693,257
Loans, net	**305,762,744**	295,074,235	321,937,236	329,341,317	315,667,327
Stockholders' equity	**46,401,140**	46,621,093	45,002,824	42,457,501	40,001,547
For the year					
Net interest income	**$ 18,283,055**	$ 15,575,264	$ 15,793,087	$ 16,287,242	$ 15,317,312
Income before income taxes	**6,470,418**	5,067,275	5,217,655	5,603,985	4,518,226
Net income	**4,817,201**	3,755,231	3,875,848	4,155,019	3,365,337
Cash dividend declared	**1,576,946**	1,492,639	1,510,352	1,512,133	1,314,898
Per share data (restated giving retroactive effect to stock dividends declared)					
Net income	**$3.73**	$2.88	$2.95	$3.16	$2.56
Cash dividend declared	**1.22**	1.15	1.15	1.15	1.00
Book value	**36.12**	35.27	34.73	32.80	30.67
Ratios					
Return on average assets	0.94%	0.78%	0.91%	1.08%	0.92%
Return on average equity	10.38%	8.05%	8.61%	9.79%	8.41%

Farmers Bank of Willards

To Our Loyal Shareholders, Customers, and Staff:

As we begin our 98th year of operation, it gives me great pleasure to announce that 2022 was a record-breaking year for your bank. Our 2022 net income was $4,817,201, or $3.73 per share. This result compared quite favorably to last year's net after-tax income of $3,755,231 or $2.88 per share. This irepresents a 28.28% increase in our net after tax profit over 2021. Our average return on equity was 10.38%.

Our team at the Farmers Bank of Willards has been instrumental in forging a strategic vision to provide for extremely strong profitability, while maintaining strong underwriting fundamentals in our loan portfolios. When this strategy is combined with investment income from securities that has far exceeded what we have ever experienced in the past, it is easy to understand why the Bank has had a record-breaking profit year.

The book value of our stock has risen to $36.12 per share. Our cash dividend of $1.22 per share is the highest we have ever paid to you, our loyal shareholders, and the highest percentage dividend paid in 2022 by any local bank in our peer group.

Our net interest income was $18,283,055, far exceeding any prior year's performance. This increase of $2.7 million translated directly into a pre-tax income of $6,470,418, again, another record for our bank.

The Bank's, total assets grew by nearly $23 million, an increase of approximately 4.6%.

Perhaps one of the best achievements in 2022 was the over $46 million growth in net new loans. This increase also resulted in higher net income, and therefore higher dividends to you, our shareholders. In short, we recovered all the loans that were refinanced elsewhere during the pandemic, and then some. We didn't chase low interest rate mortgages in 2021 and early 2022 and that has paid off handsomely as evidenced by our net interest margin of 3.76%.

We strategically invested our huge influx of capital, allowing us to build a highly liquid and secure investment portfolio so that we are well positioned to handle both anticipated deposit run off as well as stable loan growth. These investments helped to boost income in 2022, but we do not expect that to necessarily continue in 2023 and 2024 as we expect continued competitive pressures in the deposit landscape.

It should also be recognized that the Bank's delinquency rate is also at a record low, which is a tribute to our loan officers, Board of Directors, and staff who have worked tirelessly and diligently to ensure that our loan portfolio remains a strong one. In 2023 we expect slower loan growth, some deposit runoff, net interest margin compression, and a small uptick in non-performing loan percentages, which are at their lowest level for our bank in 98 years. The good news is, our stricter underwriting standards have kept our portfolio in excellent shape, and there's no reason to believe that will change in 2023.

Since non-performing assets, are at such a low level, the bank has been able to continue to invest in digital technologies to meet the ever-changing needs and expectations of both current and new customers. Today's bank customer expects both legacy and digital banking channels to operate securely and efficiently and we must continue to deliver.

We anticipate interest rates to remain elevated well into 2024 and expect our country to enter into a recession, which may have already begun. In the United States, many commercial loans are written on shorter terms, and when those loans are repriced, companies will begin to feel the pain of the higher interest rate environment. While that has not yet materialized, when it does, companies will look to cut expenses and layoffs remain a distinct possibility.

As the Bank has exceeded the threshold of half of a billion dollars, we continue to recognize the importance of not resting on our successes. As a board, we have continued to strategically plan for both board and management succession to ensure that we have the skill sets and perspectives in both management and the board to guide the bank into its future. We have been blessed to have a team of very dedicated staff who are vital to meeting strategic priorities. We also continue to remain responsive to the feedback of our stockholders and customers to continue to evolve and to meet the ever-changing needs of today's community banking customer.

We are grateful for your support as The Farmers Bank marks our 98th year of business. Very few banks, or any companies, have the privilege of celebrating such a milestone, which is indicative of the Bank's, willingness to evolve and innovate. Our legacy of world class service has nurtured deep loyalty, and connections with our customers, and is one of the primary reasons for our success. Reflecting back on 2022, as we look forward to the year ahead, we are proud of our accomplishments toward achieving our long-term goals and are extremely excited about the opportunities that lie ahead for The Farmers Bank of Willards and its shareholders.

Sincerely,

Christopher F. Davis
President

Balance Sheets

	December 31, 2022	December 31, 2021
Assets		
Cash and due from banks	**$ 6,537,584**	$ 81,395,802
Federal funds sold	**738,159**	-
Total cash and cash equivalents	**7,275,743**	81,395,802
Certificates of deposit in other banks	**972,000**	2,636,000
Investment securities available for sale	**86,748,655**	110,084,945
Investment securities held to maturity	**71,156,164**	-
Federal Home Loan Bank stock, at cost	**1,118,400**	785,300
Loans, less allowance for loan losses of $3,280,987and $2,926,133	**333,539,915**	287,091,890
Premises and equipment	**7,100,724**	5,750,551
Accrued interest receivable	**1,614,721**	1,065,336
Bank owned life insurance	**4,987,739**	4,859,283
Foreclosed real estate	**2,768,702**	2,894,697
Other assets	**3,906,364**	1,715,829
	$ 521,189,127	$498,279,633
Liabilities and Stockholders' Equity		
Deposits		
Noninterest-bearing	**$ 152,912,919**	$152,777,366
Interest-bearing	**295,959,341**	280,397,071
Total deposits	**448,872,260**	433,174,437
Federal Home Loan Bank advances	**19,450,000**	15,000,000
Accrued interest payable	**181,580**	162,625
Cash dividend payable	**1,576,946**	1,492,639
Other liabilities	**4,422,055**	2,765,553
	474,502,841	452,595,254
Stockholders' equity		
Common stock, par value $1 per share, authorized 30,000,000 shares, issued and outstanding 1,292,579 shares in 2022 and 1,295,133 shares in 2021	**1,292,579**	1,295,133
Surplus	**22,049,696**	22,127,458
Undivided profits	**26,847,420**	23,607,165
Accumulated other comprehensive income (loss)	**(3,503,409)**	(1,345,377)
	46,686,286	45,684,379
	$ 521,189,127	$498,279,633

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

THE FARMERS BANK OF WILLARDS

Statements of Income

	Years Ended December 31,		
	2022	2021	2020
Interest revenue			
Loans, including fees	**$ 17,278,922**	$ 16,980,221	$ 18,071,605
Investment securities	**2,160,023**	663,509	548,567
Federal funds sold	**52,977**	-	3,439
Other	**342,502**	244,330	257,136
Total interest revenue	**19,834,424**	17,888,060	18,880,747
Interest expense			
Deposits	**1,462,912**	1,785,579	2,344,693
Borrowed funds	**88,457**	527,217	742,967
Total interest expense	**1,551,369**	2,312,796	3,087,660
Net interest income	**18,283,055**	15,575,264	15,793,087
Provision for loan losses	**563,500**	(70,000)	875,000
Net interest income after provision for loan losses	**17,719,555**	15,645,264	14,918,087
Noninterest revenue			
Card services	**1,223,686**	1,342,194	1,022,698
Service charges on deposit accounts	**349,466**	300,839	256,906
Increase in cash surrender value of life insurance	**128,456**	124,261	123,129
Gain (loss) on sale/valuation of foreclosed real estate	**(1,178)**	(115,769)	(38,829)
Gain (loss) on sale of available for sale securities	**(18,982)**	10,042	14,158
Gain (loss) on certificates of deposit	**17,518**	-	-
Gain (loss) on early extinguishment of debt	**(242,216)**	(50,363)	-
Gain (loss) on sale/valuation of repossessed property	**(8,024)**	(6,450)	-
Gain (loss) on other dispositions	**(72,053)**	8,775	7,510
Other noninterest revenue	**138,297**	111,819	95,774
	1,514,970	1,725,348	1,481,346
Noninterest expense			
Salaries	**5,068,852**	5,076,006	4,833,366
Employee benefits	**1,432,914**	1,338,352	1,235,329
Occupancy	**742,132**	651,873	590,783
Furniture and equipment	**544,188**	536,235	498,472
Deposit insurance premiums	**175,519**	136,710	106,212
Data communications and processing costs	**1,614,892**	1,583,824	1,139,848
Foreclosed real estate holding costs	**37,275**	94,305	156,597
Card services	**1,168,393**	1,107,409	780,492
Promotional	**496,614**	397,848	381,783
Other operating	**1,483,328**	1,380,775	1,458,896
	12,764,107	12,303,337	11,181,778
Income before income taxes	**6,470,418**	5,067,275	5,217,655
Income taxes	**1,653,217**	1,312,044	1,341,807
Net income	**$ 4,817,201**	$ 3,755,231	$ 3,875,848
Earnings per common share - basic and diluted	$ 3.73	$ 2.88	$ 2.95

Statements of Comprehensive Income

	Years Ended December 31,		
	2022	2021	2020
Net income	**$ 4,817,201**	$ 3,755,231	$ 3,875,848
Other comprehensive income (loss)			
Unrealized gain (loss) on investment securities available for sale	**(1,632,820)**	(2,244,729)	214,874
Reclassify (gain) loss realized on sale of investment securities available for sale	**18,982**	(10,042)	(14,158)
Income tax relating to unrealized gain (loss) on investment securities available for sale	**(544,194)**	620,048	(44,969)
Other comprehensive income (loss)	**(2,158,032)**	(1,634,723)	155,747
Comprehensive income	**$ 2,659,169**	$ 2,120,508	$ 4,031,595

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

Statements of Changes in Stockholders' Equity

	Common stock		Surplus	Undivided profits	Accumulated other comprehensive income (loss)
	Shares	Par value			
Balance, December 31, 2019	1,314,598	$ 1,314,598	$ 22,692,357	$ 18,979,077	$ 133,599
Net income	-	-	-	3,875,848	-
Cash dividend, $1.15 per share	-	-	-	(1,510,352)	-
Stock repurchased	(1,528)	(1,528)	(39,544)	-	-
Unrealized gain on investment securities available for sale net of income taxes of $44,969	-	-	-	-	155,747
Balance, December 31, 2020	1,313,070	1,313,070	22,652,813	21,344,573	289,346
Net income	-	-	-	3,755,231	-
Cash dividend, $1.15 per share	-	-	-	(1,492,639)	-
Stock repurchased	(17,937)	(17,937)	(525,355)	-	-
Unrealized loss on investment securities available for sale net of income taxes of $620,048	-	-	-	-	(1,634,723)
Balance, December 31, 2021	**1,295,133**	1,295,133	22,127,458	23,607,165	(1,345,377)
Net income	-	-	-	4,817,201	-
Cash dividend, $1.22 per share	-	-	-	(1,576,946)	-
Stock repurchased	(2,554)	(2,554)	(77,762)	-	-
Unrealized loss on investment securities available for sale net of income taxes of $544,194	-	-	-	-	(2,158,032)
Balance, December 31, 2022	**1,292,579**	**$ 1,292,579**	**$ 22,049,696**	**$ 26,847,420**	**$ (3,503,409)**

Statements of Cash Flows

	Years Ended December 31, 2022	2021	2020
Cash flows from operating activities			
Interest received	**$ 19,035,598**	$ 17,679,103	$ 19,235,324
Fees and commissions received	**1,676,057**	1,884,216	1,603,730
Interest paid	**(1,532,414)**	(2,412,822)	(3,175,085)
Cash paid to suppliers and employees	**(11,749,778)**	(11,321,338)	(10,519,244)
Income taxes paid	**(1,785,746)**	(1,468,213)	(1,686,394)
	5,643,717	4,360,946	5,458,331
Cash flows from investing activities			
Proceeds from maturities and calls of investment securities available for sale	**13,480,708**	6,593,498	15,768,180
Proceeds from maturities of securities held to maturity	**6,398,571**	-	-
Proceeds from sale of securities available for sale	**5,730,409**	2,147,920	968,411
Net redemption (purchase) of Federal Home Loan Bank stock	**(333,100)**	755,300	522,500
Proceeds from disposition of premises, equipment and software	**-**	854,650	-
Proceeds from sale of foreclosed/repossessed assets	**52,758**	143,210	866,243
Loans advanced, net of principal collected	**(46,965,596)**	22,857,610	18,185,698
Proceeds from sale of certificates of deposit	**1,185,519**	-	-
Net redemption (purchase) of certificates of deposit	**496,000**	(296,000)	722,000
Purchases of investment securities available for sale	**(54,926,016)**	(94,089,018)	(20,192,213)
Purchases of investment securities held for maturity	**(21,348,288)**	-	-
Purchases of premises, equipment, and software	**(1,867,393)**	(221,982)	(314,674)
	(98,096,428)	(61,254,812)	16,526,145
Cash flows from financing activities			
Net increase (decrease) in			
Time deposits	**(8,313,373)**	(7,749,951)	(1,976,431)
Other deposits	**24,011,196**	73,186,039	71,596,476
Proceeds from Federal Home Loan Bank advances, net of repayments	**4,207,784**	(13,050,363)	(12,585,000)
Proceeds from Federal funds purchased, net of repayments	**-**	(52,284)	(3,500,000)
Stock repurchased	**(80,316)**	(543,292)	(41,072)
Dividends paid	**(1,492,639)**	(1,510,352)	(1,512,133)
	18,332,652	50,279,797	51,981,840
Net increase (decrease) in cash and cash equivalents	**(74,120,059)**	(6,614,069)	73,966,316
Cash and cash equivalents at beginning of year	**81,395,802**	88,009,871	14,043,555
Cash and cash equivalents at end of year	**$ 7,275,743**	$ 81,395,802	$ 88,009,871

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

Statements of Cash Flows (Continued)

	Years Ended December 31, 2022	2021	2020
Reconciliation of net income to net cash provided by operating activities			
Net income	**$ 4,817,201**	$ 3,755,231	$ 3,875,848
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	**478,239**	484,408	445,855
Amortization of computer software	**32,785**	42,572	42,320
Provision for loan losses	**563,500**	(70,000)	875,000
Deferred income taxes	**(225,061)**	(120,498)	(127,010)
Amortization of premiums and (accretion) of discounts, net	**(152,119)**	107,107	31,489
Loss (gain) on sale and writedown of assets			
Foreclosed real estate, net of deferred gain realized	**3,450**	123,649	38,829
Repossessed assets	**8,024**	6,450	-
Premises, equipment and software	**41,186**	(8,775)	(7,510)
Investment securities available for sale	**18,982**	(10,042)	(14,158)
Certifcates of deposit in other banks	**(17,518)**	-	-
Early extinguishment of debt	**242,216**	50,363	-
Abandoned lease	**30,867**	-	-
Decrease (increase) in			
Cash surrender value of life insurance	**(128,456)**	(124,261)	(123,129)
Accrued interest receivable	**(549,385)**	31,423	221,364
Prepaid income taxes net of income taxes payable	**92,532**	(35,671)	(217,577)
Other assets	**(1,271,125)**	(12,350)	70,018
Increase (decrease) in			
Deferred origination fees, net	**31,134**	(223,226)	224,853
Accrued interest payable	**18,955**	(100,026)	(87,425)
Other liabilities	**1,608,310**	464,592	209,564
	$ 5,643,717	$ 4,360,946	$ 5,458,331

	2022	2021	2020
Noncash investing activity			
Real estate acquired through foreclosure or deed in lieu of foreclosure	**$ 36,585**	$ -	$ 2,625,320
Repossessed assets	**17,482**	26,250	-
Lease abandoned	**30,867**	-	-
Borrowing for automobile purchase	**-**	-	52,284
	$ 84,934	$ 26,250	$ 2,677,604

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting and reporting policies reflected in the financial statements conform to United States generally accepted accounting principles and to general practices within the banking industry. The Farmers Bank of Willards is not considered a public business entity. As such, it is not required to comply with disclosures that pertain only to public companies. For accounting standards issued by the Financial Accounting Standards Board, the Bank is subject to the effective dates applicable to private companies.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions may affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The estimate that is particularly susceptible to significant change is the allowance for loan losses.

Nature of operations

The Farmers Bank of Willards is a financial institution operating primarily in the Maryland counties of Wicomico and Worcester as well as lower Sussex County in Delaware. The Bank does not limit its services to customers in these areas; but it is the Bank's priority to serve the financial needs of those within its community.

The Bank offers deposit services and loans to individuals, small businesses, associations, and government entities. Other services include automatic drafts from accounts, automated teller machine services, safe deposit boxes, debit cards, internet banking with bill pay feature, and digital banking with a lock-it feature.

Subsidiary

The Bank owns 100% of FBW Delmarva, LLC, which holds leased foreclosed property. The holding costs of this property were included with other operating expense.

Per share data and stock dividends

Earnings per common share and dividends per common share are determined by dividing net income and dividends by the weighted average number of shares outstanding after giving retroactive effect to stock dividends declared. There are no common stock equivalents. The adjusted weighted average number of shares used in the earnings per share calculation was 1,293,011, 1,306,038, and 1,314,315 for the years ended December 31, 2022, 2021, and 2020 respectively.

Stock dividends of 20% or more are recorded at par value while stock dividends of less than 20% are recorded at fair value. This value is determined based on the most recent sale before the dividend. Stock dividends may be funded from earned surplus. As of December 31, 2022, the entire balance of surplus represents paid in surplus with no earned surplus as a result of transfers between the capital accounts.

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, demand amounts due from banks, and federal funds sold. Federal funds are purchased and sold for one-day periods. Due from banks includes interest-bearing accounts that are payable on demand.

Federal Home Loan Bank stock

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. This investment is carried at cost.

Notes to Financial Statements

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

Certificates of deposit in other banks

Certificates of deposit in other banks are recorded at cost.

Investment securities

As debt securities are purchased, management determines if the securities should be classified as held to maturity or available for sale. Securities held to meet liquidity needs or which may be sold before maturity are classified as available for sale and carried at fair value with unrealized gains and losses included in stockholders' equity on an after-tax basis.

Securities that management has the intent and ability to hold to maturity are recorded at amortized cost, which is cost adjusted for amortization of premiums to the bond's first call date and accretion of discounts to maturity. Premiums and discounts of mortgage-backed securities are amortized over the expected lives of the securities. Amortization and accretion are recorded using a method that approximates the level yield method.

During the first quarter of 2022, securities with a book value of $57,593,082 were transferred from available for sale to held to maturity. These securities had a market value of $56,037,348. The $1,555,734 unrealized loss at the time of the transrer is being amortized over the remaining lives of the securities.

Declines in the fair value of individual securities below their cost that are other than temporary result in write-downs of the individual securities to their estimated recoverable value. Factors affecting the determination of whether an impairment that is other than temporary has occurred include a downgrading of the security by a rating agency, a significant deterioration in the financial condition of the issuer, or that management would not likely hold a security for a period of time sufficient to allow for any anticipated recovery of fair value. Gains and losses on the disposition of securities are recorded as of the trade date using the specific identification method.

Loans and allowance for loan losses

Loans are stated at face value adjusted for deferred origination fees, costs, and the allowance for loan losses. Interest on loans is accrued on the principal amounts outstanding. Nonrefundable fees and costs associated with originating loans are recognized as income over the life of the related loans. Generally the accrual of interest is discontinued when any portion of principal or interest is ninety days past due and collateral is insufficient to discharge the debt in full. Loans specifically reviewed for nonaccrual treatment are not considered impaired during periods of "minimal delay" in payment (usually ninety days or less) or if they are both well secured and in the process of collection by an attorney, provided eventual collection of all amounts due is expected.

Payments received on nonaccrual loans are generally accounted for as a reduction in principal with interest recognized after all principal has been collected. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.
Loans are considered impaired when, based on current information, it is probable that the Bank will not collect all principal and interest payments according to contractual terms. Impaired loans include loan relationships where management of the Bank has worked with the borrowers to restructure the original terms of the loan. This may include reducing the payments to interest only for a set period or reducing the interest rate on the loan.

To determine impairment, management considers the financial condition of the borrower, cash flows of the loan, and the value of the related collateral. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that the Bank will measure impairment based on the fair value of the collateral, if the loan is collateral dependent. For collateral dependent real estate loans, management reviews its current appraisal, obtaining either a new appraisal or making adjustments to the original appraised value based on current trends in the real estate market. For other collateral dependent loans, the Bank uses other estimation methods.

Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)

Loans and allowance for loan losses (continued)

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. The allowance, based on evaluations of the collectability of loans, is an amount that management believes will be adequate to absorb probable losses on existing loans that may become uncollectible. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions and trends that may affect the borrowers' ability to pay.

The allowance for loan losses represents an estimation of losses in the loan portfolio. The Bank uses a loan grading system to identify its impaired loans. For the balance of the loan portfolio, management applies a factor to pools of loans with similar characteristics to provide for losses. The pooled loan portions of the allowance reflect management's estimate of probable inherent but undetected losses within the portfolio due to uncertainties in economic conditions, delays in obtaining information, including unfavorable information about a borrower's financial condition, the difficulty in identifying triggering events that correlate perfectly to subsequent loss rates, and risk factors that have not yet manifested themselves in loss allocation factors. These loss allocation factors are general indicators of future loss and include current historic losses, economic conditions, officer experience or unseasoned new products and current delinquency ratios compared to historic ratios. The adequacy of the allowance is determined through careful and continuous evaluation of the loan portfolio, and involves consideration of a number of factors to establish a prudent level.

Management believes it has established the allowance for loan losses in accordance with generally accepted accounting principles and has taken into account the views of its regulators and the current economic environment. There can be no assurance that in the future the Bank's regulators will not require, or the changes in economic environment will not necessitate further increases in the allowance.

Management reports loans as delinquent based on the terms of the promissory note including any modifications.

Premises and equipment

Premises and equipment are recorded at cost less accumulated depreciation. Land is recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets or, if shorter, the expected terms of the leases including lease option periods where exercise is reasonably certain.

Bank owned life insurance

The Bank owns five life insurance policies through two carriers on its three current and retired executive officers. The policies are recorded at their cash surrender values. The earning on the policies is recorded in noninterest revenue.

Foreclosed real estate

Real estate acquired through foreclosure is recorded at the lower of cost or fair value on the date acquired, less estimated cost to sell. In general, cost equals the Bank’s investment in the property at the time of foreclosure.

Losses incurred at the time of acquisition of the property are charged to the allowance for loan losses. Subsequent reductions in the estimated fair value of the property are recorded as a reduction of noninterest revenue. Expenses of owning the property are included in noninterest expense. Upon sale of the property, the gain or loss is recorded in noninterest revenue.

Loans are transferred to foreclosed real estate once either the sale has been ratified or the Bank receives a deed in lieu of foreclosure from the borrower.

Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)

Income taxes

Income tax expense is based on the results of operations, adjusted for permanent differences between items of income or expense reported in the financial statements and those reported for tax purposes. Deferred income taxes are provided for the temporary differences between financial and taxable income. 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.

Recent accounting pronouncements

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

The ASU is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early application is permitted. The Bank adopted ASU 2016-13 as of January 1, 2023 in accordance with the required implementation date and recorded the impact of adoption to undivided profits, net of deferred income taxes, as required by the standard. The adjustment recorded at adoption was not significant to the overall allowance for loan losses or stockholders’ equity as compared to December 31, 2022 and consisted of adjustments to the allowance for loan losses and held-to-maturity securities, as well as an adjustment to the Bank’s reserve for unfunded loan commitments.

The Bank is using a third-party model to tabulate its estimate of current expected credit losses, using a weighted average remaining maturity (“WARM”) methodology. In accordance with ASC 326, the Bank has segmented its loan portfolio based on similar risk characteristics which included call report codes and one segment for a sector that had elevated losses during the most recent recession. The Bank primarily utilizes the historical loss over the weighted average remaining life of each loan segment for its reasonable and supportable forecasting of current expected credit losses. To further adjust the allowance for loan losses for expected losses not already included within the quantitative component of the calculation, the Bank may consider the following qualitative adjustment factors: the experience of its officers, the Federal unemployment rate, and both current and projected economic climates. The Bank’s CECL implementation process was overseen by the chief financial officer, with Board oversight.

Subsequent events

The Bank has evaluated events and transactions subsequent to December 31, 2022, through March 8, 2023, the date these financial statements were available to be issued. No significant subsequent events were identified that would affect the presentation of the financial statements.

2. Correspondent Bank Relationships

The Bank normally carries balances with other banks that exceed the federally insured limit. The average balances carried in excess of the limit, including unsecured federal funds sold to the same banks, were approximately $5,535,901 and $12,926,898 for 2022 and 2021, respectively. The balance maintained at the Federal Reserve Bank is excluded from this average.

Notes to Financial Statements

2. Correspondent Bank Relationships (Continued)

Deposits held in noninterest-bearing transaction accounts are aggregated with any interest-bearing deposits the owner may hold in the same ownership 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. Certificates of Deposit in Other Banks

The certificates mature as follows:

Maturity period	2022	2021
One year or less	$ 497,000	$ 1,463,000
Over one to two years	-	449,000
Over two to three years	225,000	249,000
Over three to four years	250,000	225,000
Over four to five years	-	250,000
	$ 972,000	$ 2,636,000

All individual certificates of deposit balances are in increments of $250,000 or less to allow for full FDIC insurance coverage. In 2022 the Bank sold certificates of deposits with a book value of $5,749,391, realizing gross gains of $18,982.

4. Investment Securities

Investment securities as of December 31, 2022 are summarized as follows:

December 31, 2022	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Available for sale				
U.S. Treasury	$ 50,687,570	$ -	$ 1,419,055	$ 49,268,515
U.S. government agency	7,921,382	-	253,171	7,668,211
Corporate	23,556,375	-	1,218,247	22,338,128
State and municipal	8,052,742	-	578,941	7,473,801
	$ 90,218,069	$ -	$ 3,469,414	$ 86,748,655
Held to maturity				
U.S. Treasury	$ 6,902,605	$ -	$ 61,277	$ 6,841,328
U.S. government agency	6,155,982	-	795,289	5,360,693
Corporate	994,412	-	153,217	841,195
State and municipal	12,356,177	-	1,786,532	10,569,645
Mortgage-backed securities	44,746,988	-	8,670,873	36,076,115
	$ 71,156,164	$ -	$ 11,467,188	$ 59,688,976

Notes to Financial Statements

4. Investment Securities (Continued)

Investment securities as of December 31, 2021 are summarized as follows:

December 31, 2021	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Available for sale				
U.S. Treasury	$ 15,620,392	$ -	$ 67,971	$ 15,552,421
U.S. government agency	9,247,576	55,879	163,039	9,140,416
Corporate	24,656,568	25,393	186,127	24,495,834
State and municipal	14,048,064	87,569	205,420	13,930,213
Mortgage-backed securities	48,367,922	31,808	1,433,669	46,966,061
	$ 111,940,522	$ 200,649	$ 2,056,226	$ 110,084,945

The decline in fair values of debt securities is a result of the fluctuations in interest rates. Since no loss is expected on these securities, no impairment has been recorded. During 2022 and 2021, management sold securities with a book value of $5,599,391 and $2,137,878, respectively realizing gross gains of $43,183 and gross losses of $62,165 in 2022 and gross gains of $31,084 and gross losses of $21,042 in 2021. During 2020, management sold securities with a book value of $954,253, realizing gross gains of $30,354 and gross losses of $16,196.

The Bank has pledged investment securities as collateral on certain deposits. The Bank also has a secured line of credit from a correspondent bank that, when drawn, requires pledging of securities.

Contractual maturities and the amount of pledged securities are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations. Mortgage-backed securities are due in monthly installments and Small Business Administration Agency securities are due in quarterly installments.

	Available for Sale		Held to Maturity	
December 31, 2022	Amortized cost	Fair value	Amortized cost	Fair value
One year or less	$ 27,851,081	$ 27,231,527	$ 8,966,495	$ 8,872,968
One through five years	57,228,806	54,702,626	2,165,818	2,019,535
Five through ten years	5,111,961	4,789,841	5,908,406	5,013,996
After ten years	-	-	8,497,383	6,933,193
Mortgage-backed securities	-	-	44,746,988	36,076,115
Small Business Administration agencies	26,221	24,661	871,074	773,169
	$ 90,218,069	$ 86,748,655	$ 71,156,164	$ 59,688,976
Pledged securities	$ -	$ -	$ 7,605,363	$ 6,138,687
December 31, 2021				
One year or less	$ 13,561,226	$ 13,546,686	$ -	$ -
One through five years	36,348,242	36,057,127	-	-
Five through ten years	5,447,267	5,350,372	-	-
After ten years	6,506,146	6,416,714	-	-
Mortgage-backed securities	48,367,922	46,966,061	-	-
Small Business Administration agencies	1,709,719	1,747,985	-	-
	$ 111,940,522	$ 110,084,945	$ -	$ -
Pledged securities	$ 4,839,134	$ 4,802,281	$ -	$ -

Notes to Financial Statements

4. Investment Securities (Continued)

Investment securities with unrealized losses for continuous periods of less than twelve months and twelve months or longer follow:

	Less than 12 months		12 months or longer		Total	
December 31, 2022	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
U.S. Treasury	$ 48,440,626	$ 1,143,949	$ 7,669,217	$ 336,383	$ 56,109,843	$ 1,480,332
U.S. government agency	7,538,516	329,867	5,489,821	718,593	13,028,337	1,048,460
Corporate	5,222,180	288,657	17,957,143	1,082,807	23,179,323	1,371,464
State and municipal	9,075,429	620,427	8,798,017	1,745,046	17,873,446	2,365,473
Mortgag-backed securities	3,966,870	754,036	32,109,245	7,916,837	36,076,115	8,670,873
	$ 74,243,621	$ 3,136,936	$ 72,023,443	$ 11,799,666	$ 146,267,064	$ 14,936,602
December 31, 2021						
U.S. Treasury	$ 15,552,421	$ 67,971	$ -	$ -	$ 15,552,421	$ 67,971
U.S. government agency	5,598,678	77,206	1,736,003	85,833	7,334,681	163,039
Corporate	18,752,189	186,127	-	-	18,752,189	186,127
State and municipal	7,559,933	102,825	2,663,511	102,595	10,223,444	205,420
Mortgag-backed securities	42,326,394	1,278,578	3,281,325	155,091	45,607,719	1,433,669
	$ 89,789,615	$ 1,712,707	$ 7,680,839	$ 343,519	$ 97,470,454	$ 2,056,226

Interest on investment securities are summarized as follows:

Investment Type	2022	2021	2020
U.S. Treasury	$ 803,159	$ 7,962	$ 99,952
U.S. government agency	166,967	110,738	132,923
Corporate	285,818	52,497	35,027
State and municipal	291,535	189,321	126,231
Mortgage-backed securities	612,544	302,991	154,434
	$ 2,160,023	$ 663,509	$ 548,567

Notes to Financial Statements

5. Loans

Major classifications of loans are as follows:

December 31,	2022	2021
Mortgage		
Residential	$ 170,372,217	$ 144,968,690
Commercial	72,961,093	60,587,588
Farm	11,994,963	12,505,472
Construction	39,738,548	33,725,607
Commercial and agricultural	31,595,790	28,499,710
Consumer	10,158,291	9,730,956
	336,820,902	290,018,023
Allowance for loan losses	3,280,987	2,926,133
Loans, net	$ 333,539,915	$ 287,091,890

Loans are reported after adding the balances of the deferred costs net of deferred origination fees and unearned interest recorded as a result of restoring loans to accrual status. The total adjustment for net fees and unearned interest was $202,558 and $171,424 as of December 31, 2022 and 2021, respectively.

Loans are reported after adding the balances of the deferred costs net of deferred origination fees and unearned interest recorded as a result of restoring loans to accrual status. The total adjustment for net fees and unearned interest was $202,558 and $171,424 as of December 31, 2022 and 2021, respectively.

The Bank has the following loan commitments outstanding:

December 31,	2022	2021
Construction loans	$ 17,555,620	$ 13,198,412
Home equity and revolving residential lines	8,304,696	6,541,461
Other lines of credit	23,525,799	29,559,813
Standby letters of credit	658,253	1,957,131
Payment letters of credit	5,000	5,000
	$ 50,049,368	$ 51,261,817

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 fixed at current market rates, fixed expiration dates, and may require payment of a fee. Lines of credit generally have variable interest rates. Such lines do not represent future cash requirements because it is unlikely that all customers will draw upon their lines in full at any time.

Letters of credit are commitments issued to guarantee the performance of a customer to a third party. Loan commitments, lines of credit, and letters of credit are made on the same terms, including collateral, as outstanding loans. The Bank's exposure to loss in the event of nonperformance by the borrower is represented by the contract amount of the commitment. Management is not aware of any accounting loss the Bank will incur by the funding of these commitments.

Notes to Financial Statements

5. Loans (Continued)

Nonaccrual loans are as follows:

December 31,	2022	2021
Mortgage		
Residential	$ -	$ 113,971
Commercial	-	23,913
Farm	-	-
Construction	1,077,746	205,564
Commercial and agricultural	-	-
Consumer	6,554	138,959
	$ 1,084,300	$ 482,407
Interest not accrued	$ 92,480	$ 83,762

Information regarding impaired loans as of and for the year ending December 31, 2022 is as follows:

	Unpaid contractual principal balance	Recorded Investment	Related allowance	Average recorded investment	Interest income recognized
With no related allowance					
Mortgage					
Residential	$ 241,212	$ 240,490	$ -	$ 235,486	$ 15,613
Commercial	-	-	-	-	-
Farm	-	-	-	-	-
Construction	1,180,000	977,166	-	1,146,194	-
Commercial and agricultural	46,850	46,850	-	53,850	3,801
Consumer	4,606	3,138	-	5,515	561
	1,472,668	1,267,644	-	1,441,045	19,975
With related allowance					
Mortgage					
Residential	1,037,222	1,037,222	112,328	1,049,283	50,981
Commercial	-	-	-	-	-
Farm	-	-	-	-	-
Construction	387,924	210,811	19,331	264,947	7,814
Commercial and agricultural	-	-	-	-	-
Consumer	70,765	62,379	24,422	83,010	5,745
	1,495,911	1,310,412	156,081	1,397,240	64,540
Totals					
Mortgage					
Residential	1,278,434	1,277,712	112,328	1,284,769	66,594
Commercial	-	-	-	-	-
Farm	-	-	-	-	-
Construction	1,567,924	1,187,977	19,331	1,411,141	7,814
Commercial and agricultural	46,850	46,850	-	53,850	3,801
Consumer	75,371	65,517	24,422	88,525	6,306
	$ 2,968,579	$ 2,578,056	$ 156,081	$ 2,838,285	$ 84,515

Notes to Financial Statements

5. Loans (Continued)

Information regarding impaired loans as of and for the year ending December 31, 2021 is as follows:

	Unpaid contractual principal balance	Recorded investment	Related allowance	Average recorded investment	Interest income recognized
With no related allowance					
Mortgage					
Residential	$ 310,307	$ 303,095	$ -	$ 306,493	$ 12,183
Commercial	-	-	-	-	-
Farm	-	-	-	-	-
Construction	144,039	55,180	-	85,985	-
Commercial and agricultural	-	-	-	-	-
Consumer	-	-	-	-	-
	454,346	358,275	-	392,478	12,183
With related allowance					
Mortgage					
Residential	584,711	577,655	106,081	589,919	20,459
Commercial	-	-	-	-	-
Farm	-	-	-	-	-
Construction	392,320	263,523	17,239	271,624	7,729
Commercial and agricultural	134,311	94,475	94,475	131,137	3,258
Consumer	171,461	170,530	141,520	177,147	9,943
	1,282,803	1,106,183	359,315	1,169,827	41,389
Totals					
Mortgage					
Residential	895,018	880,750	106,081	896,412	32,642
Commercial	-	-	-	-	-
Farm	-	-	-	-	-
Construction	536,359	318,703	17,239	357,609	7,729
Commercial and agricultural	134,311	94,475	94,475	131,137	3,258
Consumer	171,461	170,530	141,520	177,147	9,943
	$ 1,737,149	$ 1,464,458	$ 359,315	$ 1,562,305	$ 53,572

Outstanding loan balances based on allowance impairment analysis are as follows:

	December 31, 2022		December 31, 2021	
	Individually evaluated	Collectively evaluated	Individually evaluated	Collectively evaluated
Mortgage				
Residential	$ 1,277,712	$ 169,094,505	$ 880,750	$ 144,087,940
Commercial	-	72,961,093	-	60,587,588
Farm	-	11,994,963	-	12,505,472
Construction	1,187,977	38,550,571	318,703	33,406,904
Commercial and agricultural	46,850	31,548,940	94,475	28,405,235
Consumer	65,517	10,092,774	170,530	9,560,426
	$ 2,578,056	$ 334,242,846	$ 1,464,458	$ 288,553,565

Notes to Financial Statements

5. Loans (Continued)

Composition of the allowance for loan losses, by loan classification and based on impairment analysis, is as follows:

	December 31, 2022		December 31, 2021	
	Individually evaluated	Collectively evaluated	Individually evaluated	Collectively evaluated
Mortgage				
Residential	$ 112,328	$ 361,761	$ 106,081	$ 638,104
Commercial	-	974,504	-	584,604
Farm	-	75,032	-	149,272
Construction	19,331	1,039,524	17,239	485,205
Commercial and agricultural	-	476,548	94,475	493,900
Consumer	24,422	151,645	141,520	118,040
Unallocated	45,892	-	-	97,693
	$ 201,973	$ 3,079,014	$ 359,315	$ 2,566,818

Transactions in the allowance for loan losses, by loan classification, are as follows:

December 31, 2022	Beginning balance	Provision for loan losses	Charge-offs	Recoveries	Ending balance
Mortgage					
Residential	$ 744,185	$ (305,073)	$ -	$ 34,977	$ 474,089
Commercial	584,604	264,900	-	125,000	974,504
Farm	149,272	(74,240)	-	-	75,032
Construction	502,444	866,352	350,786	40,845	1,058,855
Commercial and agricultural	588,375	(84,958)	47,306	20,437	476,548
Consumer	259,560	(51,680)	60,922	29,109	176,067
Unallocated	97,693	(51,801)	-	-	45,892
	$ 2,926,133	$ 563,500	$ 459,014	$ 250,368	$ 3,280,987
December 31, 2021					
Mortgage					
Residential	$ 866,722	$ (96,287)	$ 26,250	$ -	$ 744,185
Commercial	936,022	(452,216)	5,709	106,507	584,604
Farm	234,572	(85,465)	-	165	149,272
Construction	354,214	148,230	-	-	502,444
Commercial and agricultural	533,121	98,154	74,162	31,262	588,375
Consumer	58,760	412,808	235,201	23,193	259,560
Unallocated	192,917	(95,224)	-	-	97,693
	$ 3,176,328	$ (70,000)	$ 341,322	$ 161,127	$ 2,926,133

The Bank makes loans to customers primarily located in the Delmarva region. Although the loan portfolio is diversified, its performance will be influenced by the economy of the region.

Notes to Financial Statements

5. Loans (Continued)

An analysis of past due loans follows:

December 31, 2022	Loans 30-89 days past due	Loans 90 or more days past due	Total past due loans	Current loans	Total loans	Accruing Loans 90 or more days past due
Mortgage						
Residential	$ 199,624	$ 99,862	$ 299,486	$ 170,072,731	$ 170,372,217	$ 99,862
Commercial	-	-	-	72,961,093	72,961,093	-
Farm	-	-	-	11,994,963	11,994,963	-
Construction	-	1,077,746	1,077,746	38,660,802	39,738,548	-
Commercial and agricultural	-	-	-	31,595,790	31,595,790	-
Consumer	79,139	7,759	86,898	10,071,393	10,158,291	7,759
	$ 278,763	$ 1,185,367	$ 1,464,130	$ 335,356,772	$ 336,820,902	$ 107,621
December 31, 2021						
Mortgage						
Residential	$ 677,611	$ -	$ 677,611	$ 144,291,079	$ 144,968,690	$ -
Commercial	-	-	-	60,587,588	60,587,588	-
Farm	-	-	-	12,505,472	12,505,472	-
Construction	-	205,563	205,563	33,520,044	33,725,607	-
Commercial and agricultural	86,485	23,913	110,398	28,389,312	28,499,710	-
Consumer	72,431	127,207	199,638	9,531,318	9,730,956	-
	$ 836,527	$ 356,683	$ 1,193,210	$ 288,824,813	$ 290,018,023	$ -

Credit quality indicators

Management has developed a loan risk grading system to help monitor the overall credit quality of its loan portfolio. Each loan is assigned a risk grade at origination. Large credits, regardless of performance, are reviewed annually to determine the risk grade is still suitable. Loan grades are changed as borrowers' circumstances change and either develop credit weaknesses or improved conditions and performance are noted.

Special mention

A special mention loan has potential weaknesses in the credit that require management's close attention. Generally, special mention credits have a weakness that can be corrected in a relatively short period of time. Poor liquidity or fault in collateral title can result in a special mention grade. If left uncorrected, these potential credit weaknesses may result in deterioration of repayment prospects. Special mention loans do not expose the Bank to sufficient risk to warrant an adverse classification.

Substandard

A substandard loan has a well-defined weakness or weaknesses that jeopardize the ultimate repayment of the loan and require more intense supervision by Bank management. The weaknesses in the collateral value, cash flows or borrower's/project's performance would likely result in some loss to the Bank if the deficiencies are not corrected. Borrowers may exhibit recent or unexpected losses, inadequate debt service coverage ratio, or marginal liquidity and capitalization. Loans that are classified as troubled debt restructured loans are generally graded substandard until the borrower shows the ability to perform under the modified terms of the restructure.

Doubtful

A loan classified as doubtful has all the weaknesses of a substandard loan with the added characteristic that the weaknesses in the credit make collection or liquidation in full, highly improbable.

Notes to Financial Statements

5. Loans (Continued)

Loss

Rarely does the Bank use this category. If a credit is deemed loss, management generally records a charge-off unless there are extenuating circumstances.

Summarized below is the credit risk profile of the loan portfolio.

December 31, 2022	Pass credits	Special Mention	Substandard	Doubtful	Loss	Total loans
Mortgage						
Residential	$ 169,591,366	$ 780,851	$ -	$ -	$ -	$ 170,372,217
Commercial	72,961,093	-	-	-	-	72,961,093
Farm	11,994,963	-	-	-	-	11,994,963
Construction	38,660,802	-	1,077,746	-	-	39,738,548
Commercial and agricultural	31,548,940	46,850	-	-	-	31,595,790
Consumer	10,101,817	49,920	6,554	-	-	10,158,291
	$ 334,858,981	$ 877,621	$ 1,084,300	$ -	$ -	$ 336,820,902
December 31, 2021						
Mortgage						
Residential	$ 144,664,216	$ 190,503	$ 113,971	$ -	$ -	$ 144,968,690
Commercial	60,587,588	-	-	-	-	60,587,588
Farm	12,505,472	-	-	-	-	12,505,472
Construction	33,520,043	-	205,564	-	-	33,725,607
Commercial and agricultural	28,405,235	-	94,475	-	-	28,499,710
Consumer	9,591,997	-	138,959	-	-	9,730,956
	$ 289,274,551	$ 190,503	$ 552,969	$ -	$ -	$ 290,018,023

The restructuring of a loan is considered a "troubled debt restructuring" if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession. These concessions typically result from the Bank's loss mitigation activities and may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules, forbearance and other actions intended to minimize potential losses and to avoid foreclosure or repossession of collateral.

The Bank works with customers to restructure loans by changing the interest rate, modifying the payment term, and writing off accrued interest.

As of December 31, 2022, and 2021, there were no delinquent TDR loans more than ninety days and still accruing interest. There were no new troubled debt restructurings in 2022 or 2021. During 2022, The Bank recorded a charge-off of $49,804 on a TDR construction loan. During 2021, the Bank recorded recoveries of $9,195 for a TDR residential mortgage.

Notes to Financial Statements

5. **Loans** (Continued)

The Bank has outstanding troubled debt restructured (TDR) loans as follows:

	December 31, 2022			December 31, 2021		
	Count	Contract balance	Modified balance	Count	Contract balance	Modified balance
Performing						
Mortgage						
Residential	4	$ 496,860	$ 496,860	5	$ 583,333	$ 576,277
Commercial	-	-	-	-	-	-
Farm	-	-	-	-	-	-
Construction	1	146,172	110,231	1	150,568	113,139
Commercial and agricultural	-	-	-	1	86,485	70,562
Consumer	1	9,547	9,043	1	32,098	31,571
	6	652,579	616,134	8	852,484	791,549
Nonperforming						
Mortgage						
Residential	-	-	-	1	121,183	113,971
Commercial	-	-	-	-	-	-
Farm	-	-	-	-	-	-
Construction	1	241,752	100,580	1	241,752	150,384
Commercial and agricultural	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
	1	241,752	100,580	2	362,935	264,355
Total	7	$ 894,331	$ 716,714	10	$ 1,215,419	$ 1,055,904

6. Premises and Equipment

A summary of premises and equipment and the related depreciation follows:

	Useful life	2022	2021
Land		$ 1,948,831	$ 1,276,607
Buildings and improvements	10-40 years	4,529,206	3,747,791
Leasehold improvements	10-40 years	1,814,491	1,817,592
Furniture and equipment	5-10 years	4,110,307	4,026,783
Automobiles	4-5 years	224,148	74,284
		12,626,983	10,943,057
Accumulated depreciation and amortization		5,526,259	5,192,506
Net premises and equipment		$ 7,100,724	$ 5,750,551
Depreciation and amortization expense		$ 478,239	$ 484,408

Management has purchased a bank building in Ocean City and will remodel and refurnish it to open during the Summer of 2023. Management has also been investigating the purchase of two parcels of land for future branches. The Bank has recorded some due diligence costs related to these parcels.

Notes to Financial Statements

6. Premises and Equipment (Continued)

Included in other assets at December 31, 2022 and 2021, is computer software carried at an amortized cost of $13,977 and $101,769, respectively. Software amortization expense was $32,785 and $42,572 in 2022 and 2021, respectively.

7. Leases

On January 1, 2022, the Bank adopted ASU No. 2016-2 "Leases (Topic 842)" and all subsequent ASUs that modified Topic 842. The Bank elected the optional transition method provided by ASU 2018-11 and did not adjust prior periods for ASU 842. The Bank also elected certain practical expedients within the standard and consistent with such elections did not reassess whether any expired or existing contracts are/or contain leases, did not reassess the lease classification for any existing leases, and did not reassess any initial direct costs for existing leases. The right-of-use asset and lease liability are included in other assets and other liabilities, respectively. Because the Bank decided to close one of its offices, the right-of-use asset was charged off for a total of $30,867 in 2022, but the lease obligation remains.

Lease liabilities represent the Bank's obligation to make lease payments and are presented at each reporting date as the net present value of the remaining contractual cash flows. Cash flows are discounted at the Bank's incremental borrowing rate at the time of adoption of this ASU. There were no new leases entered into during 2022.

The Bank's long-term lease agreements are classified as operating leases. Certain of these leases offer the option to extend the lease term. The Bank has included only one such extension in its calculation of the lease liabilities. The lease agreements do not provide for residual value guarantees and have no restrictions or covenants that would impact dividends or require incurring additional financial obligations.

The following table presents information about the Bank's leases as of December 31, 2022:

Lease liabilites	$ 1,190,551
Right-of-use assets	$ 1,157,564
Weighted average remaining lease term (years)	10.56
Weighted average discount rate	1.94%

A maturity analysis of operating lease liabilities and reconciliation of the undiscounted cash flows to the total of operating lease liabilities is as follows:

Period	Amount
2023	$ 207,287
2024	199,003
2025	140,612
2026	59,322
2027	61,398
Remaining years	680,544
Total undiscounted cash flows	1,348,166
Discount	(157,615)
Lease liabilities	$ 1,190,551

Rent expense for 2022, 2021, and 2020 was $197,940, $194,846, and $174,406, respectively. The Bank is also required to pay certain executory costs including insurance, real estate taxes, and common area maintenance.

Notes to Financial Statements

8. Foreclosed Real Estate

Transactions in foreclosed real estate are as follows:

	2022	2021	2020
Beginning of year balance	$ 2,894,697	$ 3,299,858	$ 1,579,610
Additions and improvements	36,585	-	2,625,320
Sale deferred (recognized)	(131,130)	(146,182)	(55,016)
Sales	(25,200)	(143,210)	(811,227)
Writedowns and losses	(6,250)	(115,769)	(38,829)
End of year balance	$ 2,768,702	$ 2,894,697	$ 3,299,858

The Bank has financed some of the sales of its foreclosed real estate properties. If the down payments on these sales are less than required by accounting standards for sales treatment, the financed properties remain in foreclosed real estate until payments made on the loans plus the original down payments exceed thresholds for required down payment. Any gains on these sales are also deferred. Deferred gains of $2,272, $7,880 and $160 were recognized on loans transferred out of foreclosed real estate in 2022, 2021 and 2020, respectively. Financed properties reported as foreclosed real estate as of December 31, 2022, 2021, and 2020 totaled $323,122, $454,252, and $271,152, respectively.

Three loans, totaling $137,462 and five loans, totaling $474,507 were in the process of foreclosure as of December 31, 2022, and 2021, respectively.

9. Deposits

Major classifications of interest-bearing deposits are as follows:

December 31,	2022	2021
Money market and NOW	$ 98,908,603	$ 86,343,902
Savings	86,276,051	74,965,109
Certificates of deposit over $250,000	14,821,631	16,469,428
Other time	95,953,056	102,618,632
	$ 295,959,341	$ 280,397,071

Demand deposits and interest-bearing escrow accounts, in an overdraft status, totaling $96,618 and $62,889, as of December 31, 2022 and 2021, respectively have been reclassified as loans.

Notes to Financial Statements

9. Deposits (Continued)

The maturity and repricing distributions of time deposits follows:

December 31, 2022	Over $250,000	Other	Total
One year or less	$ 6,215,339	$ 46,398,652	$ 52,613,991
Over one to two years	5,278,672	15,345,554	20,624,226
Over two to three years	1,587,155	16,870,237	18,457,392
Over three to four years	1,740,465	11,051,515	12,791,980
Over four to five years	-	6,287,098	6,287,098
	$ 14,821,631	$ 95,953,056	$ 110,774,687
December 31, 2021			
One year or less	$ 5,704,945	$ 48,070,301	$ 53,775,246
Over one to two years	5,431,610	17,023,647	22,455,257
Over two to three years	1,986,928	9,754,087	11,741,015
Over three to four years	1,238,747	14,955,962	16,194,709
Over four to five years	2,107,198	12,814,635	14,921,833
	$ 16,469,428	$ 102,618,632	$ 119,088,060

Certain certificates are issued with a step-up feature that provides the owner a one-time opportunity to increase the certificate of deposit rate to the current rate of newly issued certificates of the same term at the date the option is exercised. Once a certificate of deposit step-up feature has been exercised, the deposit becomes fixed rate.

10. Lines of Credit and Federal Home Loan Bank Advances

The Bank has an available line of credit of $12,000,000 in overnight federal funds from a correspondent bank. $6,000,000 of this line is unsecured while the balance of the line of credit is collateralized with pledged investment securities. The entire line was available as of December 31, 2022 and 2021.

The Bank also has a line of credit with the Federal Home Loan Bank (FHLB) which allows total outstanding advances of twenty five percent of total assets. Because the Bank has pledged as collateral its portfolio of first mortgages on residential properties, the total available advances is limited by this portfolio. Based on this collateral, the total remaining credit available with the FHLB as of December 31, 2022 and 2021 was $44,007,539 and $37,027,422, respectively. In addition to the first residential mortgage portfolio, the FHLB has placed a blanket lien on all loans of the Bank with the exception of the nonmortgage consumer and commercial loans.

The nonmortgage consumer and commercial loan portfolios are pledged as collateral on a line of credit from the Federal Reserve Bank. The total available under this line of credit as of December 31, 2022 and 2021 was $25,251,410 and $20,570,039, respectively.

The interest rates on the closed end advances are fixed while the interest rate on the daily line of credit can change daily.

During 2022 and 2021, the Bank paid off advances prior to maturity, totaling $15,000,000 and $13,000,000, respectively. The bank recognized losses from the early extinguishment of debt of $242,216 and $50,363 from these 2022 and 2021, respective payoffs.

Notes to Financial Statements

10. Lines of Credit and Federal Home Loan Bank Advances (Continued)

A summary of outstanding FHLB advances is as follows:

		December 31,		
Description	Rate	2022	2021	Maturity
One year line	floating	$ 19,450,000	$ -	March 13, 2023
Seven year advance	2.3930%	-	15,000,000	March 13, 2027
		$ 19,450,000	$ 15,000,000	

As of December 31, 2022, the interest rate on the outstanding advance was 4.57%.

11. Retirement Plans

The Bank sponsors a profit-sharing plan that covers all employees with one year of service who have attained age twenty-one. Contributions are determined annually by the Board of Directors. During 2022, 2021, and 2020 the Board made safe harbor contributions which matched 100% of the first 3% of employee compensation and 50% of the next 2% of employee compensation for a maximum match of 4%, resulting in total contributions of $160,895, $148,189, and $142,000, respectively.

The Bank has adopted a supplemental executive retirement plan for three of its executive officers. The plan provides fixed annual benefits to each participant at age 64 or disability date. The benefits vest over the period from adoption to normal retirement age. The Bank recorded expenses, including interest, of $211,840, $205,402, and $189,979 for the years ended December 31, 2022, 2021, and 2020, respectively. These plans are funded by five life insurance contracts, with a face value of $3,000,000, which are owned by the Bank. During 2019, one of the three executives retired. He is receiving annual benefits in accordance with terms of the plan.

12. Related Party Transactions

Officers, directors and employees are depositors of the Bank. They receive the same deposit rates and terms as other customers with similar deposits. As of December 31, 2022, and 2021, the deposits of executive officers and directors were $10,507,872 and $18,783,198, respectively.

Executive officers and directors of the Bank enter into loan transactions with the Bank in the ordinary course of business. The terms of these transactions are similar to the terms provided to other borrowers entering into similar loan transactions.

A summary of the activity in these loans is as follows:

	2022	2021
Beginning balance	$ 4,915,430	$ 12,573,568
Advances	1,210,652	165,000
Change in related parties	-	(5,830,483)
Repayments	(587,221)	(1,992,655)
Ending balance	$ 5,538,861	$ 4,915,430

In 2005 the Bank entered into an agreement to lease a branch from a company owned by the Chairman of the Board of Directors at that time. Rent paid to this company in 2021 and 2020 totaled $49,149, and $48,735, respectively with additional executory costs of $5,083, and $172 in 2021 and 2020, respectively. During 2021 and 2020, the Bank also purchased supplies totaling $220, and $182, respectively, from a store owned by this director.

Notes to Financial Statements

12. Related Party Transactions (Continued)

During 2021, this director retired from the Board of Directors.

The Bank built a branch in Millsboro, Delaware upon land owned by a director. The Bank paid rent on the lease of this land totaling $49,679, $46,923, and $44,991 for 2022, 2021, and 2020, respectively. This director owned an auto body shop that performed $2,045 in repairs on the Bank automobile in 2020. During 2020 the Bank foreclosed on property that included land, buildings, and equipment. At the November 2020 auction of this property, this director purchased most of the equipment at a price of $825,000. The Bank has agreed to rent him the buildings in which the large production equipment is located at $1,000 per month beginning May 2021. During 2022 and 2021, the Bank collected $12,000 and $8,000 rent, respectively.

In 2022, the Bank paid $1,268 for services from a used car dealership owned by a director.

13. Income Taxes

A reconciliation of the statutory federal income tax rates to the effective income tax rates follows:

	2022	2021	2020
Statutory federal income tax rate	21.0 %	21.0 %	21.0 %
Increase (decrease) in tax rate resulting from:			
Tax-exempt income	(0.8)	(1.1)	(1.0)
State tax, net of federal tax benefit	5.2	5.9	5.9
Other, net	0.2	0.1	(0.2)
Income tax expense	25.6 %	25.9 %	25.7 %

The components of income tax expense (benefits) are as follows:

	2022	2021	2020
Current			
Federal	$1,399,023	$1,028,401	$1,060,030
State	479,255	404,141	408,787
	1,878,278	1,432,542	1,468,817
Deferred	(225,061)	(120,498)	(127,010)
	$1,653,217	$1,312,044	$1,341,807

The components of the deferred taxes are as follows:

	2022	2021	2020
Provision for loan losses	$ (155,061)	$ 19,262	$ (175,551)
Writedowns of foreclosed real estate	2,589	(44,796)	8,612
Deferred gain on foreclosed property sales	625	2,168	44
Supplemental executive retirement plan	(45,483)	(43,698)	(37,803)
Interest on nonaccrual loans	(2,399)	11,522	66,974
Bonuses and vacations	8,545	(31,821)	-
Leases	9,077	-	-
Depreciation	(42,954)	(33,135)	10,714
	$ (225,061)	$ (120,498)	$ (127,010)

Notes to Financial Statements

13. Income Taxes (Continued)

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

	2022	2021	2020
Deferred tax assets			
Allowance for loan and letter of credit losses	$ 623,758	$ 468,697	$ 487,959
Foreclosed real estate writedowns	116,603	119,192	74,396
Deferred gain on foreclosed property sales	-	625	2,793
Supplemental executive retirement plan	514,048	468,565	424,867
Interest on nonaccrual loans	25,448	23,049	34,571
Bonuses and vacations	23,276	31,821	-
Unrealized loss on securities available for sale	1,330,046	510,609	-
	2,633,179	1,622,558	1,024,586
Deferred tax liability			
Unrealized gain on securities available for sale	-	-	109,848
Leases	9,077	-	-
Depreciation	396,787	439,741	472,876
	405,864	439,741	582,724
	$ 2,227,315	$ 1,182,817	$ 441,862

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

14. Capital Standards

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. 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 Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital accounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The Basel III Capital Rules became effective for the Bank on January 1, 2015 (subject to a phase-in period for certain provisions). With the adoption of the Basel III Capital Rules, the Bank elected to opt-out of the requirement to include accumulated other comprehensive income in Common Equity Tier 1 capital.

Common Equity Tier 1 capital consists of common stock, surplus, and undivided profits less disallowed deferred tax assets. Tier 1 capital includes Common Equity Tier 1 capital components with adjustments for certain investments and other items in which the Bank does not participate. Consequently, the Bank's Common Equity Tier 1 capital and Tier 1 capital are the same.

Total capital includes the allowance for loan losses, as limited based on total risk-weighted assets. In calculating risk-weighted assets, specified risk percentages are applied to each category of asset and off-balance sheet items.

Failure to meet the capital requirements could affect the Bank's ability to pay dividends and accept deposits and may significantly affect the operations of the Bank. In 2020, a capital conservation buffer became effective.

Notes to Financial Statements

14. Capital Standards (Continued)

The capital conservation buffer is not applied to the leverage, or Tier 1 capital to average assets, ratio. The buffer provides additional capital the Bank must hold to make the Bank more resilient during downturns in the economic cycle. If the Bank fails to meet the buffer, its ability to pay out dividends, buy back stock and pay discretionary bonuses will be limited.

As of its most recent regulatory examination, the Bank was considered well capitalized. Management knows of no conditions or events since the last regulatory examination that would change this classification.

The FDIC, through formal or informal agreement, has the authority to require an institution to maintain higher capital ratios than those provided by statute to be categorized as well capitalized under the regulatory framework for prompt corrective action.

The following table presents actual and required capital ratios as of December 31, 2022, and December 31, 2021, for the Bank under the Basel III Capital Rules.

(Dollars in thousands)	Actual		Minimum capital adequacy		To be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2022						
Total capital (to risk-weighted assets)	$ 53,488	16.56%	$ 25,846	8.00%	$ 32,307	10.00%
Tier 1 capital (to risk-weighted assets)	$ 50,189	15.53%	$ 19,384	6.00%	$ 25,846	8.00%
Common equity tier 1 capital (to risk-weighted assets)	$ 50,189	15.53%	$ 14,538	4.50%	$ 21,000	6.50%
Capital conservation buffer			$ 8,077	2.50%		
Tier 1 capital (to average assets)	$ 50,189	9.67%	$ 20,768	4.00%	$ 25,960	5.00%
December 31, 2021						
Total capital (to risk-weighted assets)	$ 49,973	18.08%	$ 22,114	8.00%	$ 27,642	10.00%
Tier 1 capital (to risk-weighted assets)	$ 45,684	16.53%	$ 16,585	6.00%	$ 22,114	8.00%
Common equity tier 1 capital (to risk-weighted assets)	$ 45,684	16.53%	$ 12,438	4.50%	$ 17,967	6.50%
Capital conservation buffer			$ 6,910	2.50%		
Tier 1 capital (to average assets)	$ 45,684	9.20%	$ 19,855	4.00%	$ 24,819	5.00%

15. Fair Value Measures

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. The Financial Accounting Standards Board (FASB) defines fair value and establishes a framework for measuring fair value. Its guidance also establishes a hierarchy for determining fair value measurements. The hierarchy includes three levels and is based upon the valuation techniques used to measure assets and liabilities.

Level one uses inputs of quoted prices, unadjusted, for identical assets or liabilities in active markets. Level two inputs to the valuation method include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Level three assumes inputs to the valuation method that are unobservable and significant to the fair value measurement.

Debt securities classified as available for sale are measured at fair value on a recurring basis. The fair value of municipal bonds classified as available for sale are estimated by applying spreads to curve using the municipal yield curve provided daily by market makers. The fair value of U.S. Treasury, U.S. Agency, mortgage-backed securities, and corporate bonds are calculated from a yield curve derived daily using various market makers. The values are generated by applying spreads to this curve. The Bank does not measure the fair value of any of its other financial assets or liabilities on a recurring basis.

Notes to Financial Statements

15. Fair Value Measures (Continued)

The assets measured at fair value on a recurring basis are as follows:

		Fair value measurements using:		
December 31, 2022	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investment securities available for sale				
U.S. Treasury	49,268,515	$ -	$ 49,268,515	$ -
U.S. government agency	7,668,211	-	7,668,211	-
Corporate	22,338,128	-	22,338,128	-
State and municipal	7,473,801	-	7,473,801	-
	$ 86,748,655	$ -	$ 86,748,655	$ -
December 31, 2021				
Investment securities available for sale				
U.S. Treasury	$ 15,552,421	$ -	$ 15,552,421	$ -
U.S. government agency	9,140,416	-	9,140,416	-
Corporate	24,495,834	-	24,495,834	-
State and municipal	13,930,213	-	13,930,213	-
Mortgage-backed securities	46,966,061	-	46,966,061	-
	$ 110,084,945	$ -	$ 110,084,945	$ -

Impaired loans are generally measured based on the fair value of the loan’s collateral on a nonrecurring basis. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values. As of December 31, 2022 and 2021, the fair values of impaired loans are estimated to be $2,421,975 and $767,363, respectively. As of December 31, 2022 and 2021, the fair values of these loans consist of recorded investment in loan balances of $2,578,056 and $1,123,612, net of valuation allowances of $156,081 and $356,249, respectively.

The Bank measures its foreclosed real estate, on a nonrecurring basis at fair value less costs to sell. As of December 31, 2022 and 2021, the fair value was estimated to be $2,768,702 and $2,894,697, respectively. The fair value of foreclosed real estate was based on offers and/or appraisals. Cost to sell the real estate was based on standard market factors. The Bank has categorized its foreclosed real estate as Level 3. The lack of an active local real estate market makes these fair values “best estimates” only. There is no assurance that the Bank will realize the recorded fair value of these properties as they are sold.

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
The Farmers Bank of Willards
Willards, Maryland

Opinion

We have audited the financial statements of The Farmers Bank of Willards, which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years ended December 31, 2022, 2021, and 2020, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of The Farmers Bank of Willards as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years ended December 31, 2022, 2021, and 2020, 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 Farmers Bank of Willards and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the 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 Farmers Bank of Willards' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the 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, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these 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 Farmers Bank of Willards' 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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Farmers Bank of Willards' ability to continue as a going concern for a reasonable period of time.

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

Other Information Included in Annual Report

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

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

Yount, Hyde & Barbour, P.C.

Baltimore, Maryland
March 8, 2023

Average Balances, Interest, and Yields

	For the Year Ended December 31, 2022			For the Year Ended December 31, 2021		
	Average balance	Interest	Yield	Average balance	Interest	Yield
Assets						
Federal funds sold	$ 2,739,119	$ 52,977	1.93%	$ -	$ -	0.00%
Interest bearing deposits	43,448,816	338,507	0.78%	108,610,352	201,110	0.19%
Investment securities						
U. S treasury	38,570,796	858,632	2.23%	1,631,711	8,517	0.52%
U. S. agency and MBS	57,330,027	791,039	1.38%	30,520,894	420,914	1.38%
State and municipal	17,362,055	310,065	1.79%	10,160,199	205,247	2.02%
Other	24,062,644	285,818	1.19%	4,313,446	52,497	1.22%
Total investment securities	137,325,522	2,245,554	1.64%	46,626,250	687,175	1.47%
Bank stock	327,472	18,032	5.51%	1,212,087	54,013	4.46%
Loans						
Commercial	30,327,449	1,732,392	5.71%	34,869,654	2,389,880	6.85%
Mortgage	268,702,379	14,750,229	5.49%	254,402,624	13,870,368	5.45%
Consumer	9,808,442	815,847	8.32%	8,961,454	742,213	8.28%
Total loans	308,838,270	17,298,468	5.60%	298,233,732	17,002,461	5.70%
Allowance for loan losses	3,075,526			3,159,497		
Total loans, net of allowance	305,762,744	17,298,468	5.66%	295,074,235	17,002,461	5.76%
Total interest-earning assets	489,603,673	19,953,538	4.08%	451,522,924	17,944,759	3.97%
Noninterest-bearing cash	7,078,157	-		10,920,835	-	
Premises and equipment	6,045,597	-		6,237,049	-	
Other assets	11,218,802	-		10,116,165	-	
Total assets	$ 513,946,229	$ 19,953,538		$ 478,796,973	$ 17,944,759	
Liabilities and Stockholders' Equity						
Interest-bearing deposits						
Savings and NOW deposits	$ 122,535,291	$ 260,927	0.21%	$ 102,133,725	$ 237,586	0.23%
Money market	61,055,270	185,702	0.30%	42,421,007	129,546	0.31%
Other time deposits	117,144,800	1,016,283	0.87%	122,898,580	1,418,447	1.15%
Total interest-bearing deposits	300,735,361	1,462,912	0.49%	267,453,312	1,785,579	0.67%
Borrowed funds	2,327,400	88,457	3.80%	24,876,868	527,217	2.12%
Total interest-bearing liabilities	303,062,761	1,551,369	0.51%	292,330,180	2,312,796	0.79%
Noninterest-bearing deposits	161,450,502	-		136,999,587	-	
	464,513,263	1,551,369		429,329,767	2,312,796	
Other liabilities	3,031,826	-		2,846,113	-	
Stockholders' equity	46,401,140	-		46,621,093	-	
Total liabilities and stockholders' equity	$ 513,946,229	$ 1,551,369		$ 478,796,973	$ 2,312,796	
Net interest spread			3.57%			3.18%
Net interest income		$ 18,402,169			$ 15,631,963	
Net margin on interest-earning assets			3.76%			3.46%

EXECUTIVE and SENIOR OFFICERS

CHRISTOPHER F. DAVIS
President

WILLIAM S. TURNER
Executive Vice President/
Chief Lending Officer

RENEE M. LOVELL
Chief Financial Officer

MARY K. O'CONNELL
Chief Operations Officer

KIMBERLY BENTON
Vice President, Branch Operations

HEATHER MARINE
Vice President Digital Operations

TERRY B. SPARROW
Vice President of Information Systems

KRIS DERICKSON
Vice President, Human Resources

CELESTE M. RAYNE
Vice President of Worcester County Operations

JUSTIN M. GRAY
Vice President of Business Development

GEORGE O. BURBAGE
Vice President, Loan Officer

MATTHEW C. DAVIS
Vice President, Loan Officer

NATALIE N. BINDER
Treasurer

OTHER MANAGEMENT STAFF

TINA SMACK
Assistant Vice President

MARY DRYDEN
Assistant Vice President Special Assets

VICKIE DAVIS
Compliance, Bank Secrecy Act & Security Officer

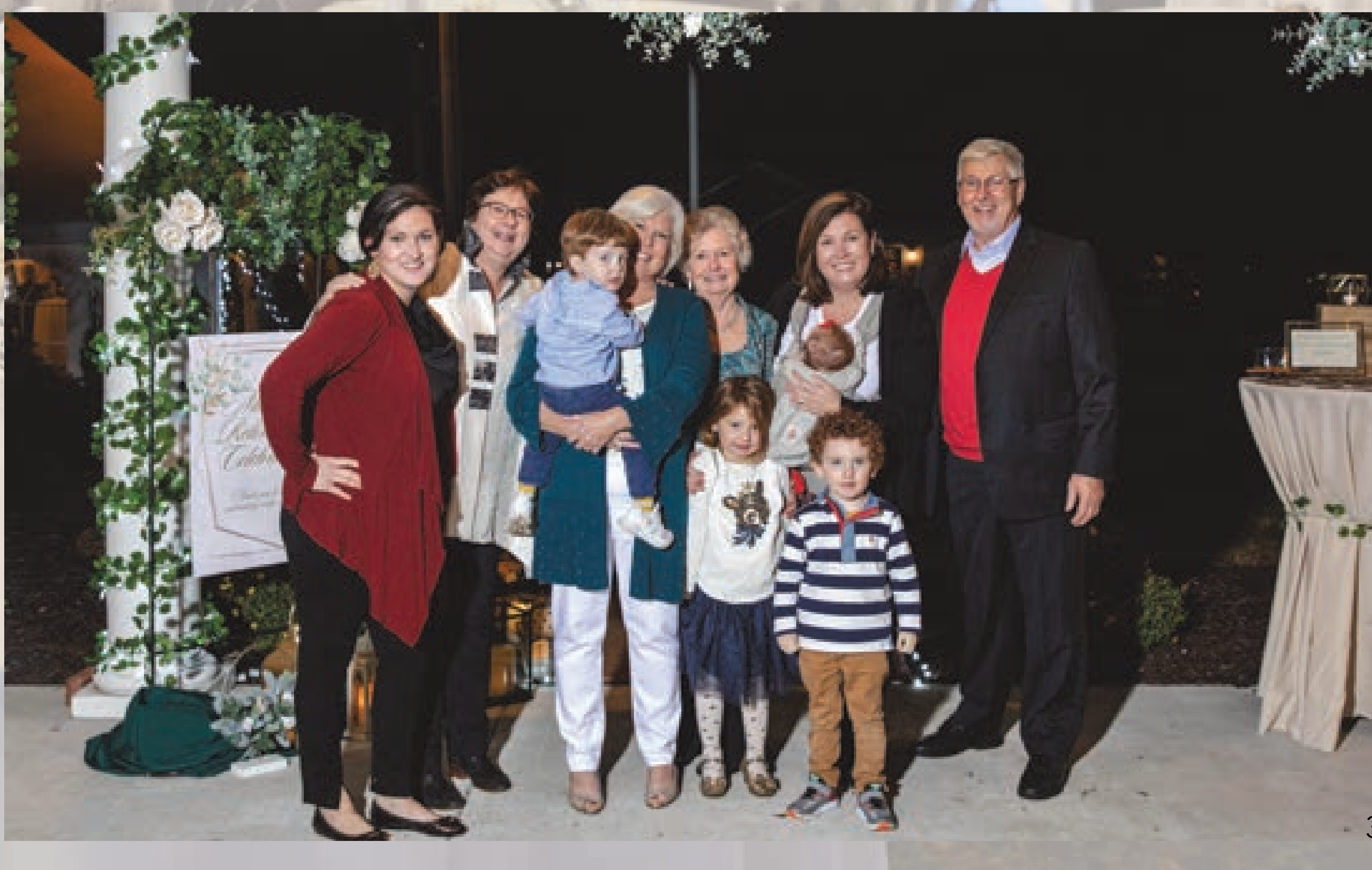
IRINA POTAPENKO
Internal Auditor

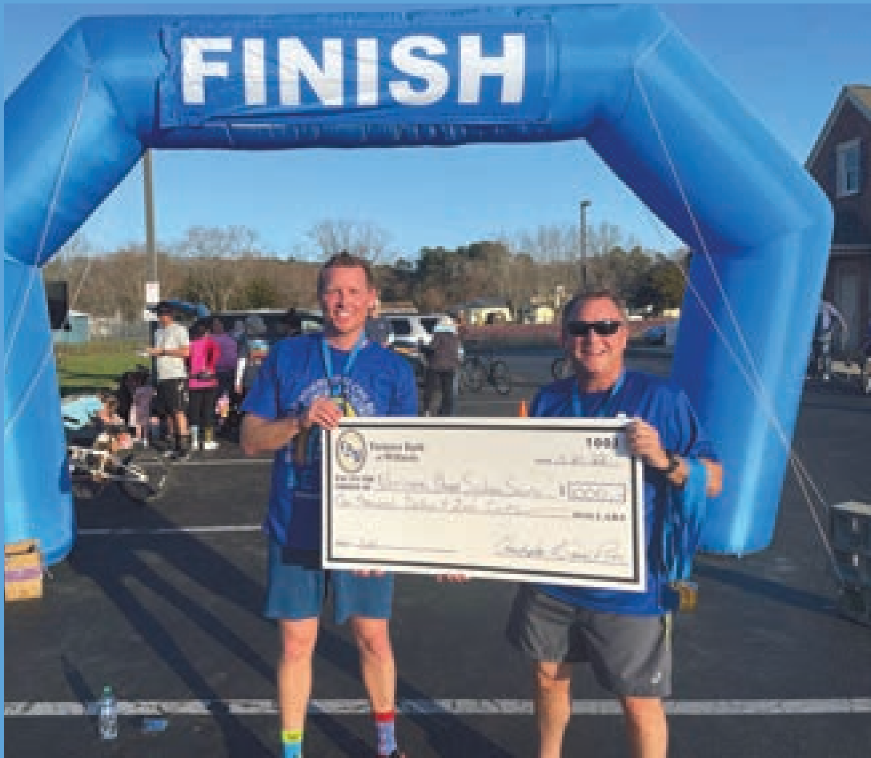
SARAH STRICKLAND
Assistant Vice President, Loan Administration

SHERRY HAYMAKER
Assistant Vice President, Real Estate Settlements

ELIZABETH WALKER
CRA Officer

Farmers Bank of Willards

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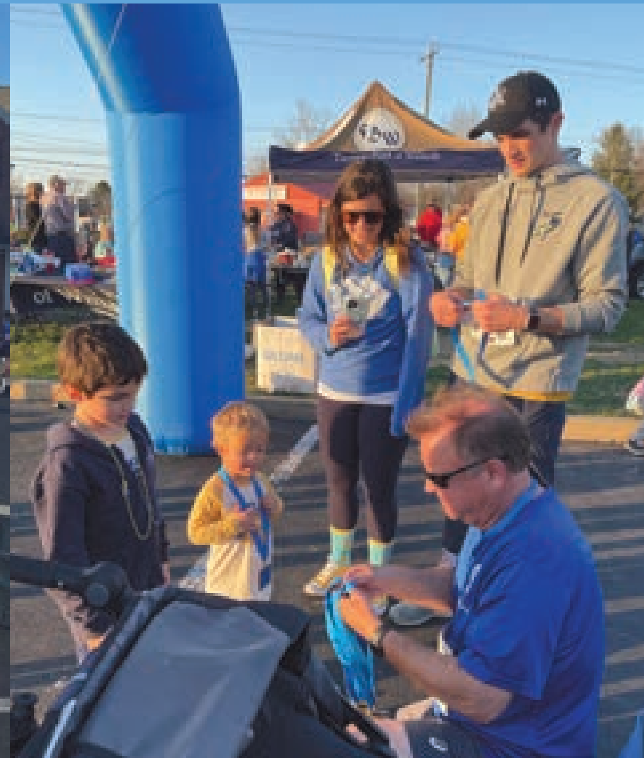
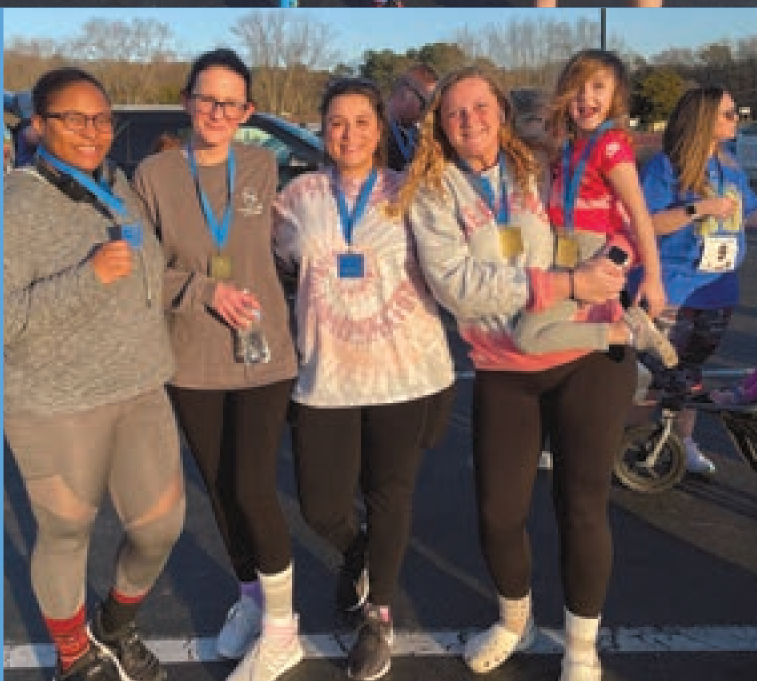
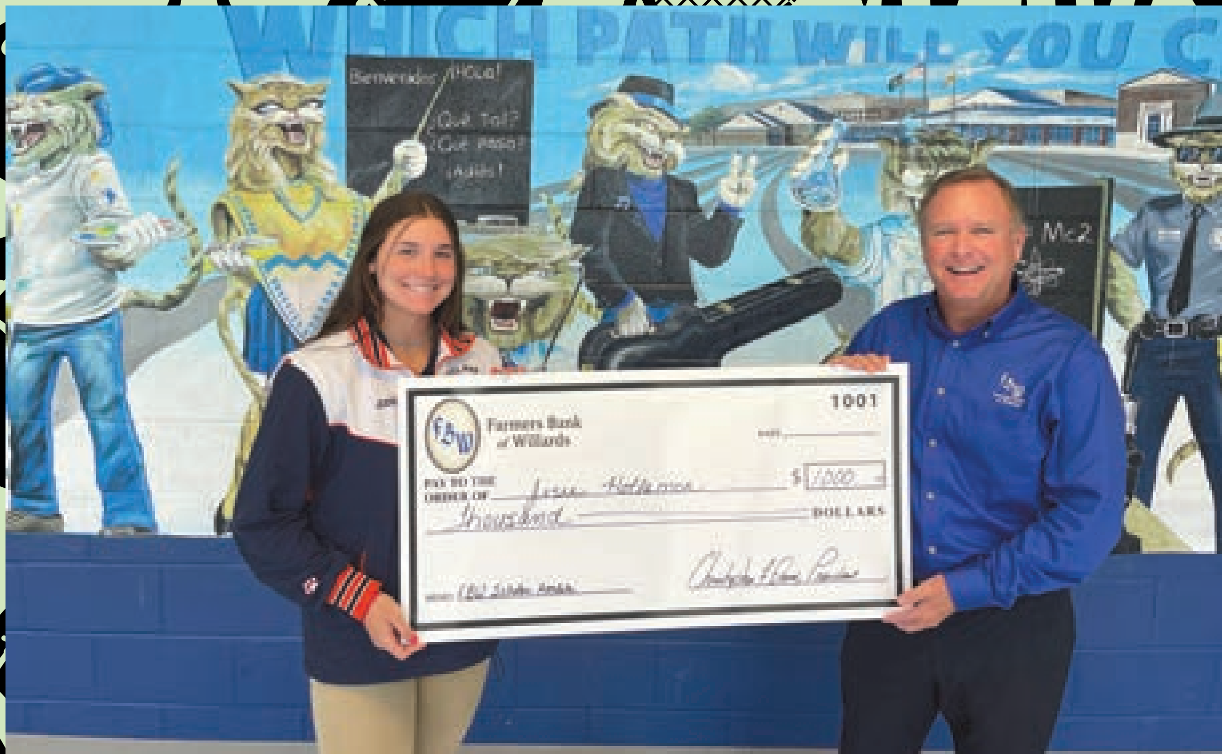
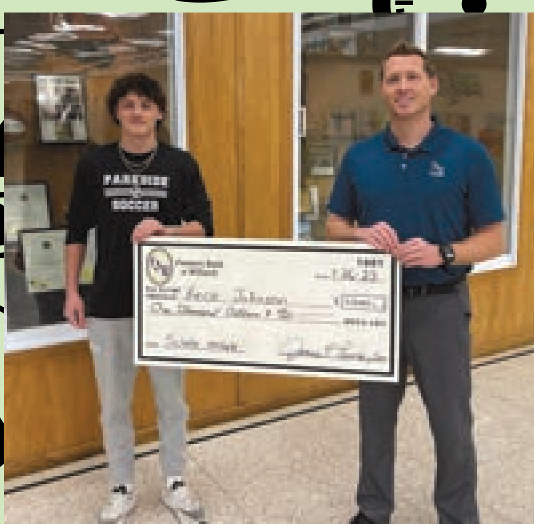
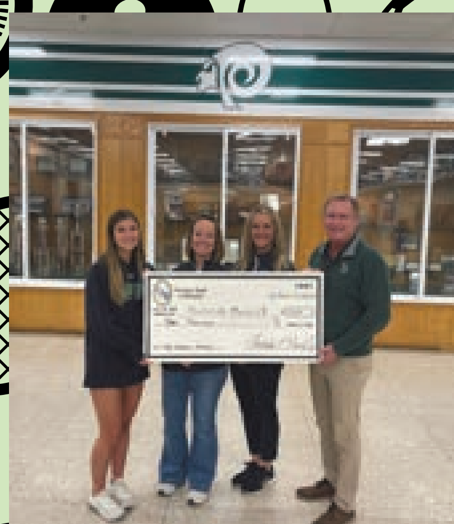


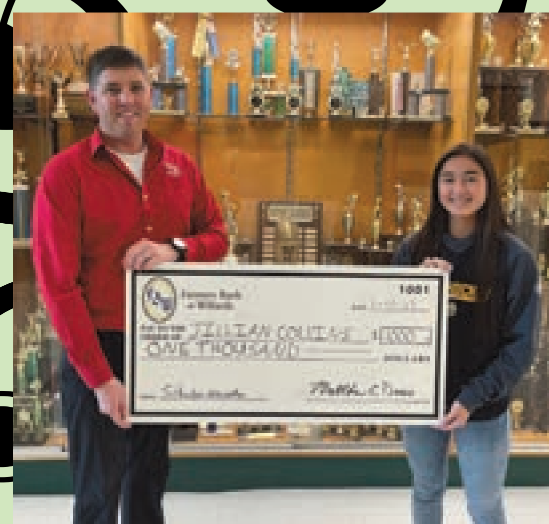


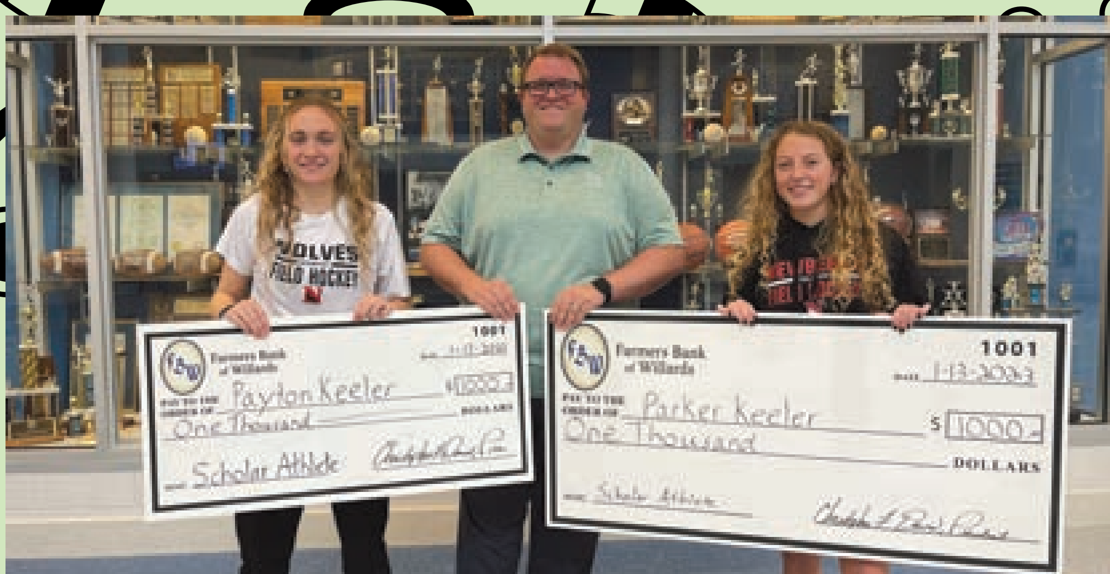

FINISH
3.21 Run



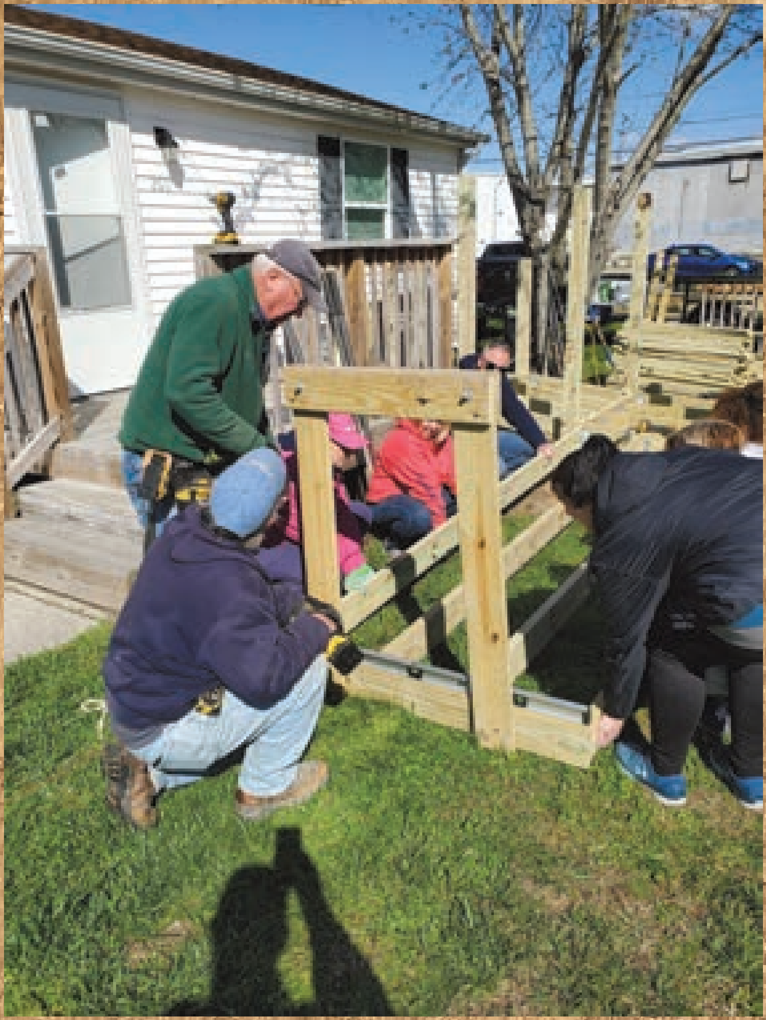


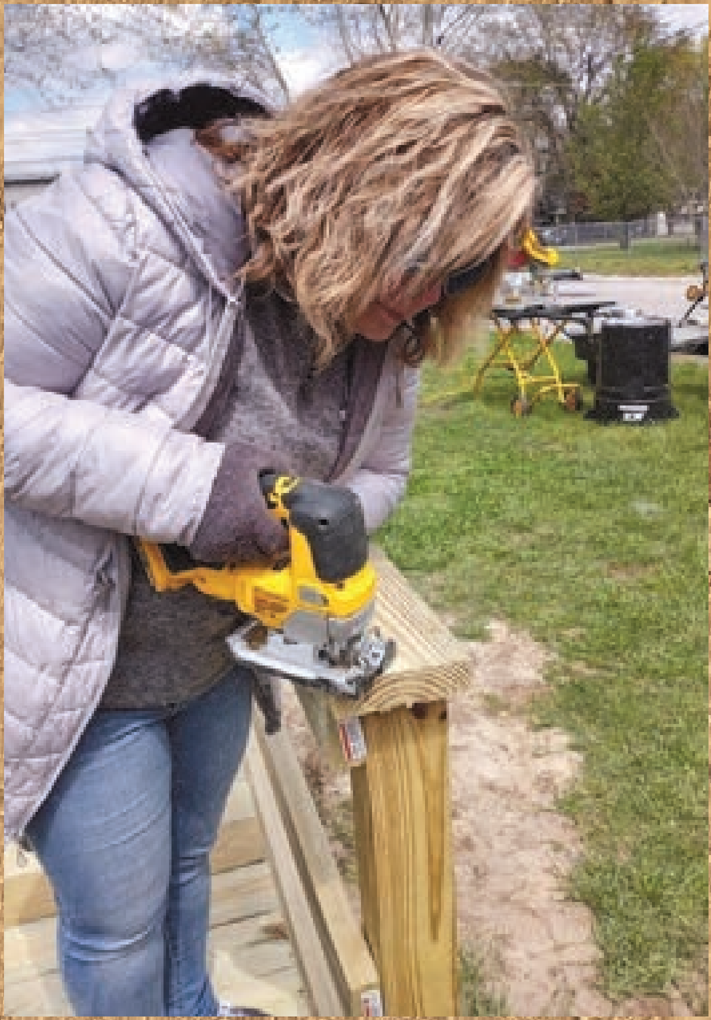




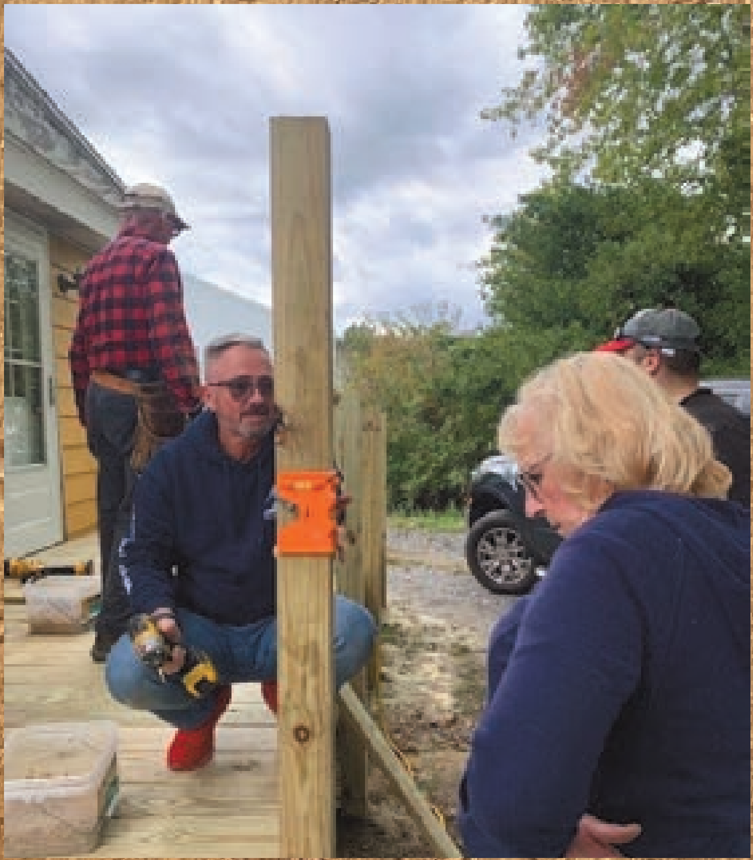


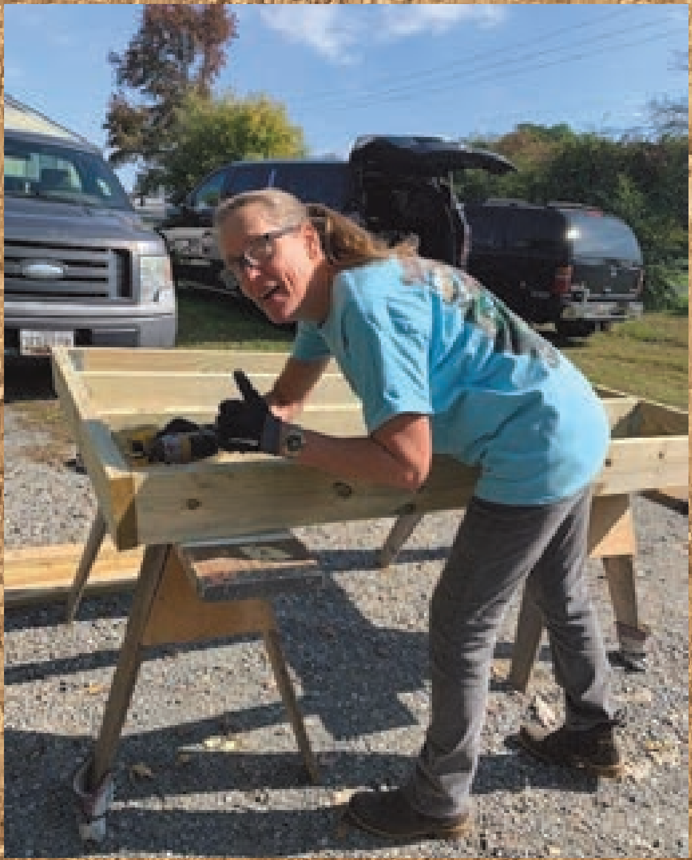
Farmers Bank of Willards Scholar Athlete

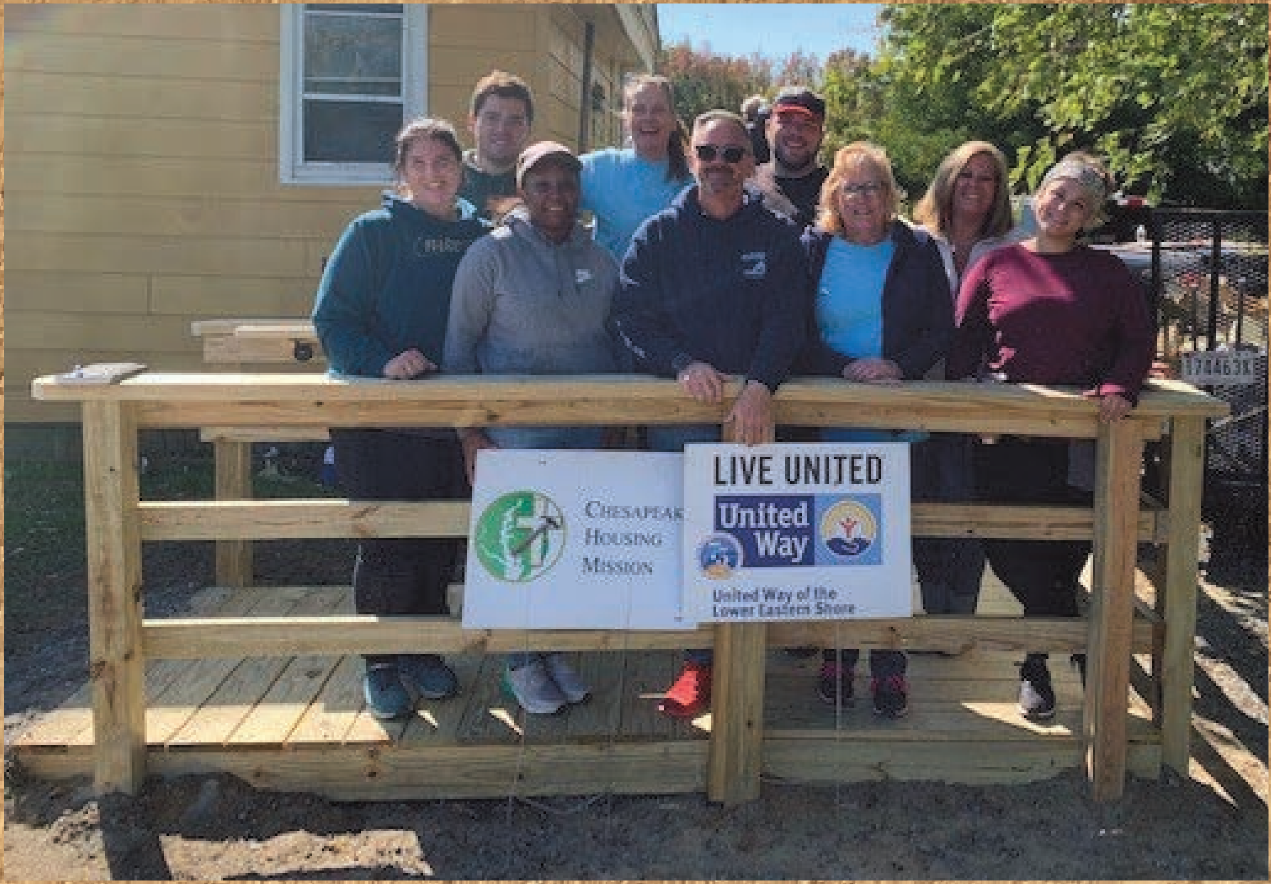


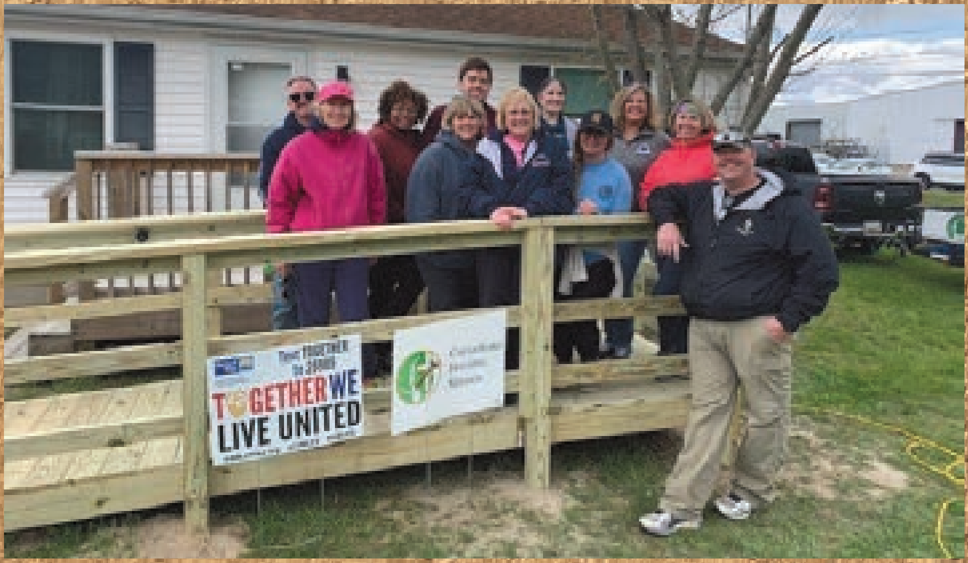


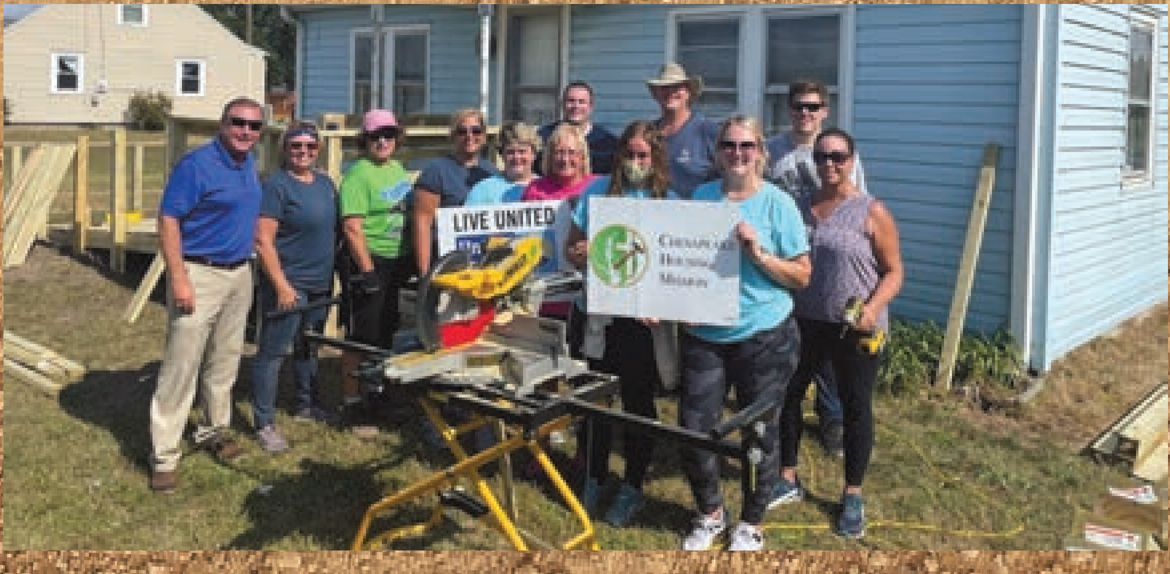
🛠FBW Ramp Build🛠

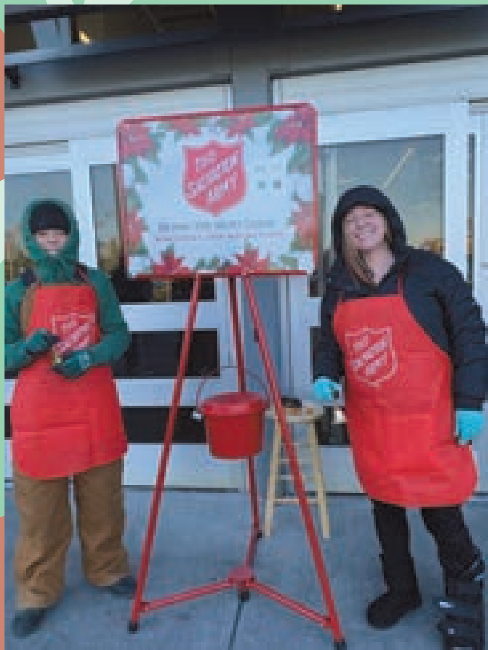


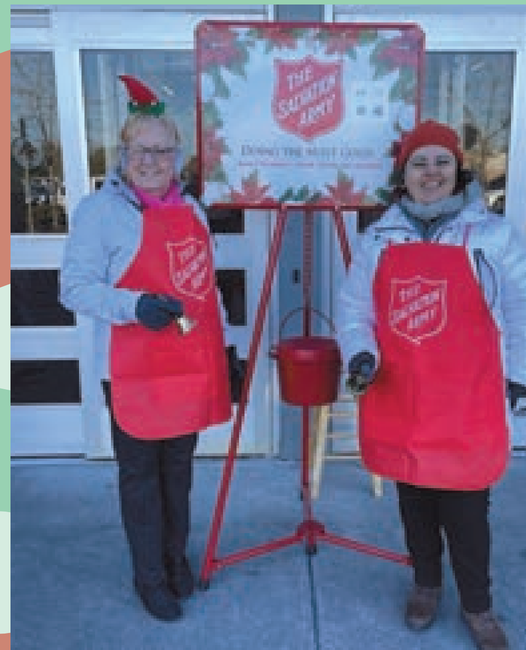


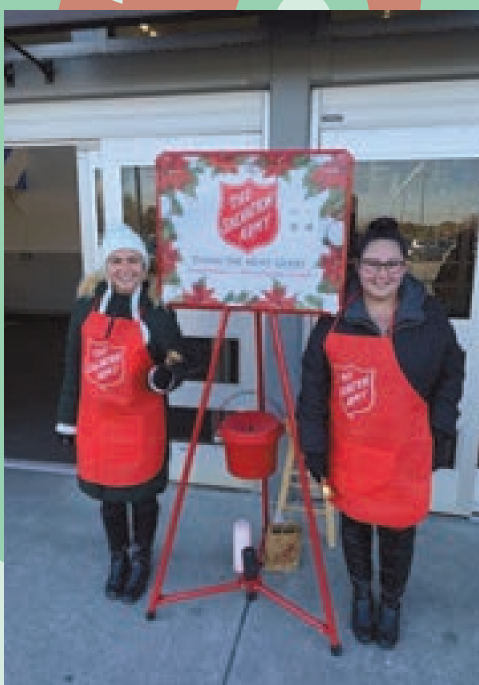

Chesapeak
Housing
Mission
LIVE UNITED
United Way
United Way of the
Lower Eastern Shore


TOGETHER WE
LIVE UNITED

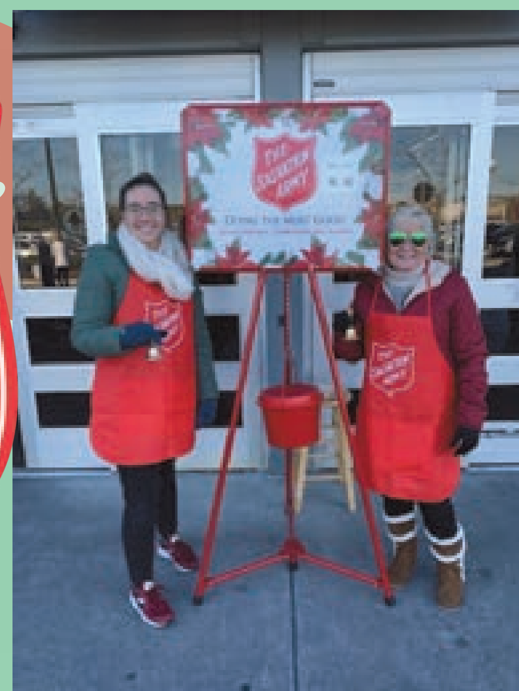

LIVE UNITED

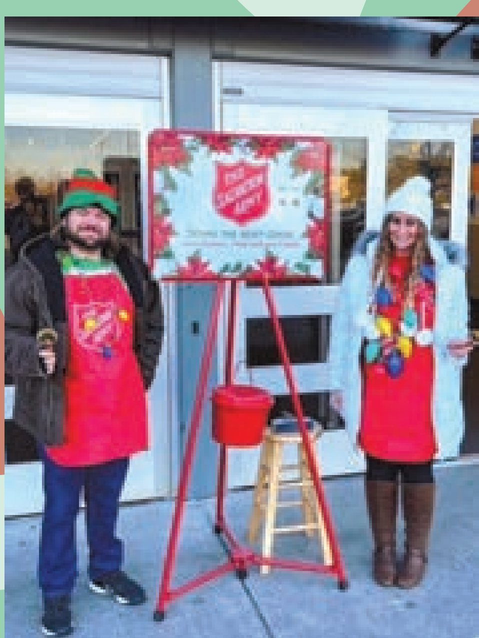


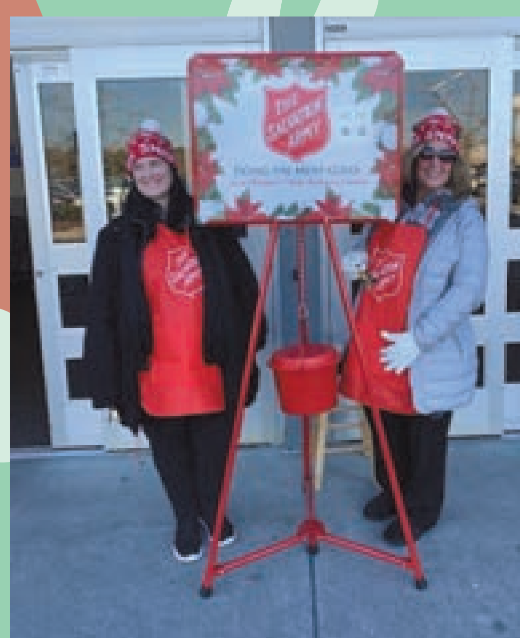


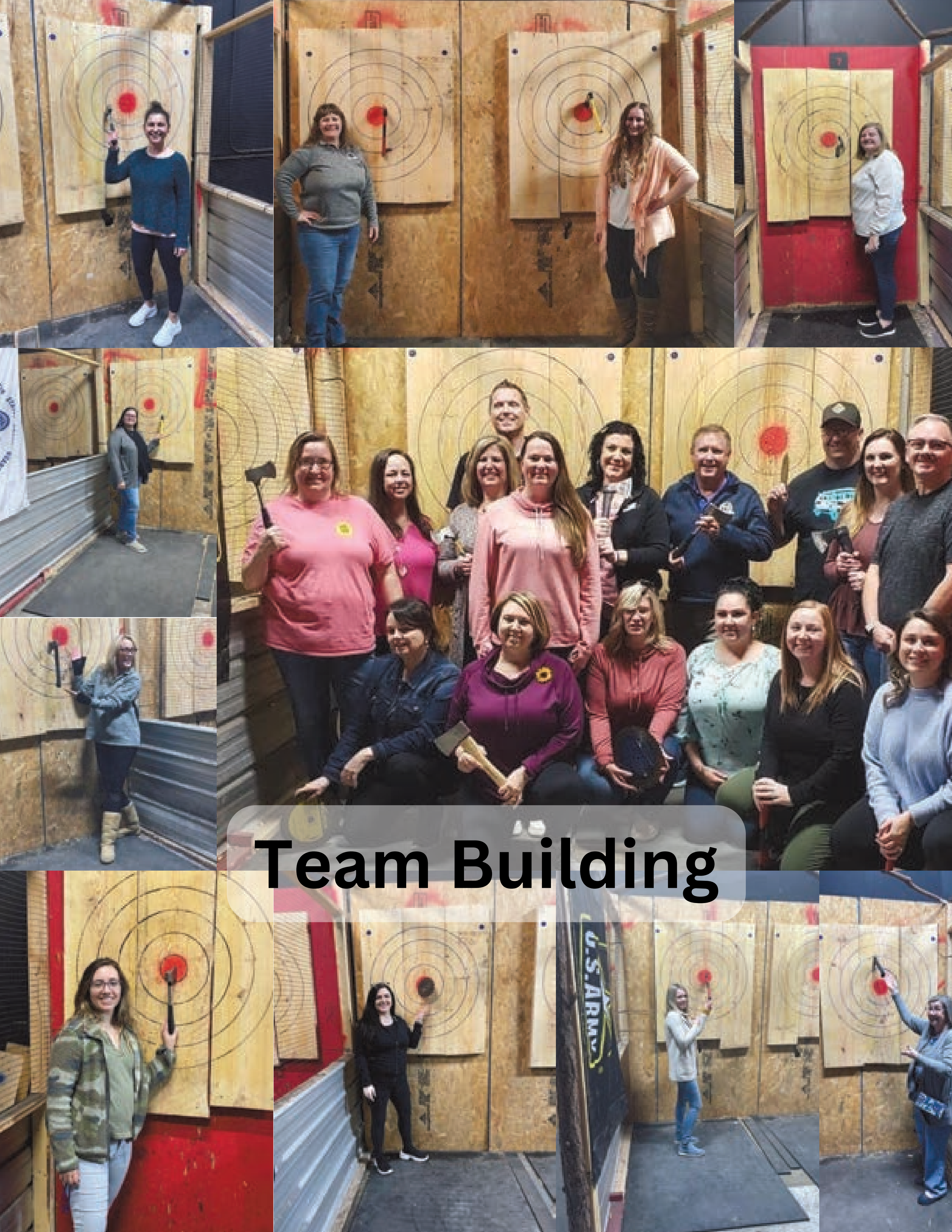


THE SALVATION ARMY ®








Team Building

Wicomico County, Maryland

7233 Main Street
Willards, MD 21874
410-835-2482
FAX: 410-835-2727
Manager: Tina Smack

365 Tilghman Road
Salisbury, MD 21804
410-742-1534
FAX: 410-548-5007
Manager: Leigh Ann Adams

102 Milford Street
Salisbury, MD 21804
443-260-4780
FAX: 443-260-4784
Manager: Wendy West

1150 Parsons Road
Salisbury, MD 21801
410-749-4027
FAX: 410-749-4287
Manager: Tammy Parker

Worcester County, Maryland

Unit 540, White Marlin Mall
12641 Ocean Gateway
Ocean City, MD 21842
410-213-2983
FAX: 410-213-2989
Manager: Alyssa Mitchell

12831 Coastal Highway
Ocean City, MD 21842
410-250-1512
FAX: 410-250-0895
Manager: Neli Gabby

Coming soon
87th Street
8700 Coastal Highway
Ocean City location

Sussex County, Delaware

28660 W. Dupont Highway
Millsboro, DE 19966
302-934-6300
FAX: 302-934-6333
Manager: Jessica Rogers

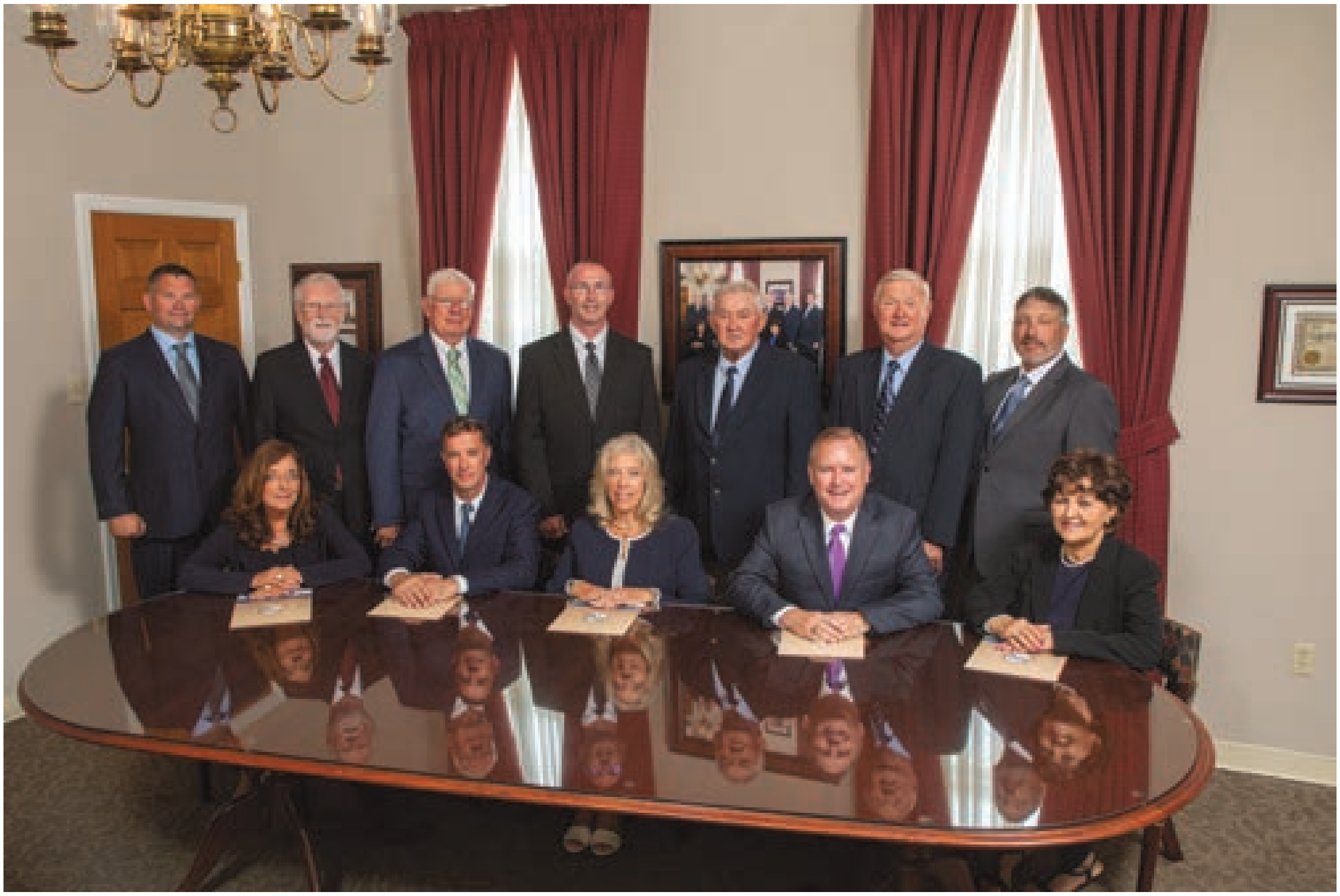
Other Information of Interest to Shareholders

Corporate Headquarters
7484 Market Street
P.O. Box 10
Willards, MD 21874
410-835-8906

Stock Processing
31522 Winterplace Parkway
Salisbury, MD 21804
410-219-2535

After Hours Support
support@fbwbank.com
Call any Branch,
Select option 2 from menu
5:00am - 8:00pm Monday - Thursday
6:00am - 8:00pm Friday
9:00am - 2pm Saturday

Customer Service
support@fbwbank.com
410-835-8906 ext 2006
9-5 Monday - Thursday
9-6 Friday



Notes

The Farmers Bank of Willards

Directors

Lois A. Sirman
Chairman of the Board

Christopher F. Davis
President

Ezra A. Rickards
1st Vice Chairman

Elaine W. Perdue
2nd Vice Chairman

Donald B. Bounds

Frank A. Davis, Advisory

James E. Lewis, II

Kimmerly A. Messick

Daniel T. Rayne

Lee W. Richardson

Keith E. Tull