



FBW

**ANNUAL REPORT
2023**

Where People
WILL ALWAYS
Matter



**Farmers
Bank
of Willards**
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SOON



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Farmers Bank
of Willards

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THE FARMERS BANK OF WILLARDS

Financial Highlights

	2023	2022	2021	2020	2019
At year end					
Assets	\$557,403,861	\$521,189,127	\$498,279,633	\$445,550,721	\$389,484,790
Deposits	436,520,866	448,872,260	433,174,437	367,738,349	298,118,304
Loans, net	375,493,325	333,539,915	287,091,890	309,544,222	331,455,253
Stockholders' equity	51,710,646	46,686,286	45,684,379	45,599,802	43,119,631
Average balances					
Assets	\$543,203,537	\$513,946,229	\$478,796,973	\$425,128,854	\$386,047,014
Deposits	448,053,105	462,185,863	404,452,899	342,151,221	302,709,983
Loans, net	353,282,247	305,762,744	295,074,235	321,937,236	329,341,317
Stockholders' equity	49,853,297	46,401,140	46,621,093	45,002,824	42,457,501
For the year					
Net interest income	\$ 20,269,391	\$ 18,283,055	\$ 15,575,264	\$ 15,793,087	\$ 16,287,242
Income before income taxes	7,363,927	6,470,418	5,067,275	5,217,655	5,603,985
Net income	5,535,307	4,817,201	3,755,231	3,875,848	4,155,019
Cash dividend declared	1,606,143	1,576,946	1,492,639	1,510,352	1,512,133
Per share data (restated giving retroactive effect to stock dividends declared)					
Net income	\$4.30	\$3.73	\$2.88	\$2.95	\$3.16
Cash dividend declared	1.25	1.22	1.15	1.15	1.15
Book value	40.24	36.12	35.27	34.73	32.80
Ratios					
Return on average assets	1.02%	0.94%	0.78%	0.91%	1.08%
Return on average equity	11.10%	10.38%	8.05%	8.61%	9.79%

THE FOLLOWING COMMENT IS REQUIRED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION.

This statement has not been reviewed or confirmed for accuracy or relevance by the Federal Deposit Insurance Corporation.



Farmers Bank of Willards

To our loyal shareholders, customers, and Farmers Bank team:

I am delighted to address you as the President of The Farmers Bank of Willards in our annual stockholder letter with the best news that we have had in 99 years. It is with immense pride and gratitude that I share this past year has been the most financially successful in our Bank's illustrious 99-year history.

For the second year in a row, we have broken all records with a net income of \$5,535,307. This equates to \$4.30 per share and follows last year's record setting year in which our after-tax income was \$4,817,201 or \$3.73 per share.

Your bank had a 14.91% increase in net after-tax profits over last year, with a return on average equity of 11.10%. It is especially gratifying for you our stockholders, that our book value has risen to \$40.24 per share.

Our net interest income shattered all records with \$20,269,391 which represents a 10.86% increase over our previous record in 2022. Increased interest income from both loans and securities contributed to this result with revenues growing by \$4,390,713 and \$1,189,773, respectively. These results were better than we had originally predicted; and were enhanced by our low loan delinquency rate. That low rate of defaults is the result of good lending practices and smart underwriting.

The Bank's, total assets grew by 6.95% in 2023, which was in line with the Board of Directors strategic planning goals for measured profitable growth. We did not experience the degree of deposit runoff that some of the other local banks experienced and thank our FBW Team for their extraordinary service to our customers.

We continue to adapt to the ultra-competitive marketplace for deposits and loans. In doing so, we have not forgotten our hometown roots. Always remembering our humble roots keeps us grounded. The Farmers Bank remains firmly and independently planted on the lower Eastern Shore. We have reached new heights, posting robust financial asset increases and record-breaking profits. It just doesn't get much better than that.

The success we celebrate today is a testament to the dedication and hard work of our talented team. Your unwavering commitment to our community, coupled with their financial acumen, has been instrumental in achieving these extraordinary results. We are fortunate to have a team that embodies the values upon which our bank was founded in 1925.

As we reflect upon this past year, marked by financial achievements and community engagement, we are reminded of the strong relationships we have built with our customers. Without them, we do not have a bank. Your trust in us is the bedrock upon which our success stands. Whether it's supporting local businesses, financing homes, or contributing to community development, we take pride in being a bank that not only serves, but also uplifts the communities that we serve.

Looking ahead to our centennial year, we are filled with anticipation and excitement. The Farmers Bank of Willards has not just witnessed history; it has actively contributed to the growth and prosperity of our region. As we approach our 100-year anniversary, we are inspired to continue this legacy of service and success.

While we are optimistic about 2024, there are economic headwinds that all financial institutions face in the months ahead. We are not exempt from those headwinds but are prepared with a talented and dedicated team to tackle those challenges should they materialize.

Finally, I express my deepest gratitude to our stockholders for your continued support and belief in our vision. Your investment has played a vital role in our achievements, and we are committed to delivering sustained value and growth. Thank you so much for being an integral part of The Farmers Bank of Willards family.

Sincerely,

A handwritten signature in cursive script that reads "Christopher F. Davis, Pres." The signature is written in dark ink and is positioned above the printed name and title.

Christopher F. Davis
President

THE FARMERS BANK OF WILLARDS

Balance Sheets

	December 31,	
	<u>2023</u>	<u>2022</u>
Assets		
Cash and due from banks	\$ 17,786,107	\$ 6,537,584
Federal funds sold	<u>7,650,489</u>	<u>738,159</u>
Total cash and cash equivalents	25,436,596	7,275,743
Certificates of deposit in other banks	1,475,000	972,000
Investment securities available for sale, at fair value	74,690,995	86,748,655
Investment securities held to maturity, at amortized cost; fair value \$48,541,360-2023 and \$59,688,976-2022	58,846,811	71,156,164
Federal Home Loan Bank stock, at cost	364,900	1,118,400
Loans, less allowance for credit losses of \$3,684,785 and \$3,280,987	375,493,325	333,539,915
Premises and equipment, net	8,275,853	7,100,724
Accrued interest receivable	2,015,981	1,614,721
Bank owned life insurance	5,126,928	4,987,739
Foreclosed real estate	2,053,078	2,768,702
Deferred income taxes	1,631,861	2,227,315
Other assets	<u>1,992,533</u>	<u>1,679,049</u>
	<u>\$ 557,403,861</u>	<u>\$ 521,189,127</u>
Liabilities and Stockholders' Equity		
Deposits		
Noninterest-bearing	\$ 134,084,110	\$ 152,912,919
Interest-bearing	<u>302,436,756</u>	<u>295,959,341</u>
Total deposits	436,520,866	448,872,260
Bank Term Funding Program advances	61,500,000	-
Federal Home Loan Bank advances	-	19,450,000
Accrued interest payable	1,223,609	181,580
Cash dividend payable	1,606,143	1,576,946
Other liabilities	<u>4,842,597</u>	<u>4,422,055</u>
	<u>505,693,215</u>	<u>474,502,841</u>
Stockholders' equity		
Common stock, par value \$1 per share, authorized 30,000,000 shares, issued and outstanding 1,284,914 shares in 2023 and 1,292,579 shares in 2022	1,284,914	1,292,579
Surplus	21,797,942	22,049,696
Undivided profits	30,692,757	26,847,420
Accumulated other comprehensive (loss)	<u>(2,064,967)</u>	<u>(3,503,409)</u>
	<u>51,710,646</u>	<u>46,686,286</u>
	<u>\$ 557,403,861</u>	<u>\$ 521,189,127</u>

THE FARMERS BANK OF WILLARDS

Statements of Income

	Years Ended December 31,		
	2023	2022	2021
Interest revenue			
Loans, including fees	\$21,669,635	\$17,278,922	\$16,980,221
Investment securities	3,349,796	2,160,023	663,509
Federal funds sold	208,492	52,977	-
Other	558,091	342,502	244,330
Total interest revenue	<u>25,786,014</u>	<u>19,834,424</u>	<u>17,888,060</u>
Interest expense			
Deposits	3,554,361	1,462,912	1,785,579
Borrowed funds	1,962,262	88,457	527,217
Total interest expense	<u>5,516,623</u>	<u>1,551,369</u>	<u>2,312,796</u>
Net interest income	20,269,391	18,283,055	15,575,264
Provision for (recovery of) credit losses	<u>360,995</u>	<u>563,500</u>	<u>(70,000)</u>
Net interest income after provision for (recovery of) credit losses	<u>19,908,396</u>	<u>17,719,555</u>	<u>15,645,264</u>
Noninterest revenue			
Card services	1,337,484	1,223,686	1,342,194
Service charges on deposit accounts	359,613	349,466	300,839
Increase in cash surrender value of life insurance	139,189	128,456	124,261
Gain (loss) on sale/valuation of foreclosed real estate	19,201	(1,178)	(115,769)
Gain (loss) on sale of available for sale securities	-	(18,982)	10,042
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 sale of premises and equipment	(48,739)	(72,053)	8,775
Other noninterest revenue	235,298	138,297	111,819
	<u>2,042,046</u>	<u>1,514,970</u>	<u>1,725,348</u>
Noninterest expense			
Salaries	5,559,718	5,068,852	5,076,006
Employee benefits	1,444,621	1,432,914	1,338,352
Occupancy	741,167	742,132	651,873
Furniture and equipment	602,195	544,188	536,235
Deposit insurance premiums	256,073	175,519	136,710
Data communications and processing costs	1,931,576	1,614,892	1,583,824
Foreclosed real estate holding costs	23,116	37,275	94,305
Card services	1,478,055	1,168,393	1,107,409
Promotional	479,537	496,614	397,848
Other operating	2,070,457	1,483,328	1,380,775
	<u>14,586,515</u>	<u>12,764,107</u>	<u>12,303,337</u>
Income before income taxes	7,363,927	6,470,418	5,067,275
Income taxes	<u>1,828,620</u>	<u>1,653,217</u>	<u>1,312,044</u>
Net income	<u>\$ 5,535,307</u>	<u>\$ 4,817,201</u>	<u>\$ 3,755,231</u>
Earnings per common share - basic and diluted	<u>\$ 4.30</u>	<u>\$ 3.73</u>	<u>\$ 2.88</u>

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

THE FARMERS BANK OF WILLARDS

Statements of Comprehensive Income

	Years Ended December 31,		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
Net income	<u>\$5,535,307</u>	<u>\$4,817,201</u>	<u>\$3,755,231</u>
Other comprehensive income (loss)			
Unrealized gain (loss) on investment securities available for sale	1,817,209	(1,607,493)	(2,244,729)
Unrealized losses on securities transferred from available for sale to held to maturity	-	(1,555,734)	-
Reclassify (gain) loss realized on sale of investment securities available for sale	-	18,982	(10,042)
Amortization on unrealized holding losses on available for sale securities transferred to held to maturity	167,328	167,005	-
Income tax relating to unrealized gain (loss) on investment securities available for sale	<u>(546,095)</u>	<u>819,208</u>	<u>620,048</u>
Other comprehensive income (loss)	<u>1,438,442</u>	<u>(2,158,032)</u>	<u>(1,634,723)</u>
Comprehensive income	<u>\$6,973,749</u>	<u>\$2,659,169</u>	<u>\$2,120,508</u>

THE FARMERS BANK OF WILLARDS

Statements of Changes in Stockholders' Equity

	<u>Common stock</u>			Undivided	Accumulated
	<u>Shares</u>	<u>Par value</u>	<u>Surplus</u>	<u>profits</u>	other comprehensive income (loss)
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	-	-	-	-	<u>(1,634,723)</u>
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 \$819,208	-	-	-	-	<u>(2,158,032)</u>
Balance, December 31, 2022	1,292,579	1,292,579	22,049,696	26,847,420	(3,503,409)
Net income	-	-	-	5,535,307	-
Cash dividend, \$1.25 per share	-	-	-	(1,606,143)	-
Adoption of expected current credit loss accounting, ASU 2016-13	-	-	-	(83,827)	-
Stock repurchased	(7,665)	(7,665)	(251,754)	-	-
Unrealized gain on investment securities available for sale net of income taxes of \$546,095	-	-	-	-	<u>1,438,442</u>
Balance, December 31, 2023	<u>1,284,914</u>	<u>\$ 1,284,914</u>	<u>\$ 21,797,942</u>	<u>\$ 30,692,757</u>	<u>\$(2,064,967)</u>

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

THE FARMERS BANK OF WILLARDS

Statements of Cash Flows

	Years Ended December 31,		
	2023	2022	2021
Cash flows from operating activities			
Interest received	\$ 24,255,007	\$ 19,035,598	\$ 17,679,103
Fees and commissions received	1,920,406	1,676,057	1,884,216
Interest paid	(4,474,594)	(1,532,414)	(2,412,822)
Cash paid to suppliers and employees	(13,573,495)	(11,749,778)	(11,321,338)
Income taxes paid	(2,045,031)	(1,785,746)	(1,468,213)
	<u>6,082,293</u>	<u>5,643,717</u>	<u>4,360,946</u>
Cash flows from investing activities			
Proceeds from maturities and calls of investment securities available for sale	28,014,708	13,480,708	6,593,498
Proceeds from maturities of securities held to maturity	12,473,045	6,398,571	-
Proceeds from sale of securities available for sale	-	5,730,409	2,147,920
Net redemption (purchase) of Federal Home Loan Bank stock	753,500	(333,100)	755,300
Proceeds from disposition of premises, equipment and software	-	-	854,650
Proceeds from sale of foreclosed/repossessed assets	734,825	52,758	143,210
Loans advanced, net of principal collected	(42,513,301)	(46,965,596)	22,857,610
Proceeds from sale of certificates of deposit	-	1,185,519	-
Net redemption (purchase) of certificates of deposit	(503,000)	496,000	(296,000)
Purchases of investment securities available for sale	(13,068,483)	(54,926,016)	(94,089,018)
Purchases of investment securities held for maturity	-	(21,348,288)	-
Purchases of premises, equipment, and software	(1,717,382)	(1,867,393)	(221,982)
	<u>(15,826,088)</u>	<u>(98,096,428)</u>	<u>(61,254,812)</u>
Cash flows from financing activities			
Net increase (decrease) in			
Time deposits	13,314,911	(8,313,373)	(7,749,951)
Other deposits	(25,666,305)	24,011,196	73,186,039
Proceeds from Federal Home Loan Bank advances, net of repayments	(19,450,000)	4,207,784	(13,050,363)
Proceeds from Bank Term Funding advances, net of repayments	61,500,000	-	-
Proceeds from Federal funds purchased, net of repayments	-	-	(52,284)
Stock repurchased	(259,419)	(80,316)	(543,292)
Dividends paid	(1,576,946)	(1,492,639)	(1,510,352)
	<u>27,862,241</u>	<u>18,332,652</u>	<u>50,279,797</u>
Net increase (decrease) in cash and cash equivalents	18,118,446	(74,120,059)	(6,614,069)
Cash and cash equivalents at beginning of year	<u>7,275,743</u>	<u>81,395,802</u>	<u>88,009,871</u>
Cash and cash equivalents at end of year	<u>\$ 25,394,189</u>	<u>\$ 7,275,743</u>	<u>\$ 81,395,802</u>

THE FARMERS BANK OF WILLARDS

Statements of Cash Flows (Continued)

	Years Ended December 31,		
	2023	2022	2021
Reconciliation of net income to net cash provided by operating activities			
Net income	\$ 5,535,307	\$4,817,201	\$3,755,231
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	493,514	478,239	484,408
Amortization of computer software	10,392	32,785	42,572
Provision for (recovery of) credit losses	360,995	563,500	(70,000)
Deferred income taxes	49,359	(225,061)	(120,498)
Amortization of premiums and (accretion) of discounts, net	(1,067,720)	(152,119)	107,107
Loss (gain) on sale and writedown of assets			
Foreclosed real estate, net of deferred gain realized	(19,201)	3,450	123,649
Repossessed assets	-	8,024	6,450
Premises, equipment and software	48,739	41,186	(8,775)
Investment securities available for sale	-	18,982	(10,042)
Certificates of deposit in other banks	-	(17,518)	-
Early extinguishment of debt	-	242,216	50,363
Abandoned lease	(14,202)	30,867	-
Decrease (increase) in			
Cash surrender value of life insurance	(139,189)	(128,456)	(124,261)
Accrued interest receivable	(401,260)	(549,385)	31,423
Prepaid income taxes net of income taxes payable	(265,770)	92,532	(35,671)
Other assets	(199,435)	(1,271,125)	(12,350)
Increase (decrease) in			
Deferred origination fees, net	77,162	31,134	(223,226)
Accrued interest payable	1,042,029	18,955	(100,026)
Other liabilities	571,573	1,608,310	464,592
	<u>\$ 6,082,293</u>	<u>\$5,643,717</u>	<u>\$4,360,946</u>
Noncash investing activity			
Real estate acquired through foreclosure or deed in lieu of foreclosure	\$ -	\$ 36,585	\$ -
Repossessed assets	-	17,482	26,250
Lease abandoned	-	30,867	-
	<u>\$ -</u>	<u>\$ 84,934</u>	<u>\$ 26,250</u>

THE FARMERS BANK OF WILLARDS

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 credit 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 foreclosed real estate holding costs.

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 1,287,985, 1,293,011, and 1,306,038 for the years ended December 31, 2023, 2022, and 2021 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, 2023, 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.

Certificates of deposit in other banks

Certificates of deposit in other banks are recorded at cost.

THE FARMERS BANK OF WILLARDS

Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)

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. The securities had a market value of \$56,037,348. The \$1,555,734 unrealized loss at the time of the transfer is being amortized over the remaining lives of the securities.

Allowance for credit losses: held to maturity securities

Management measures expected credit losses on held to maturity securities on a collective basis by major security types. Both the mortgage-backed securities and the collateralized mortgage obligations are issued by U.S. government entities and agencies and are either explicitly or implicitly guaranteed by the U.S. government and its agencies, are highly rated by major rating agencies and have a long history of no credit losses. In addition to these portfolios, the Bank has agencies and municipal securities that are highly rated by major rating agencies. The Bank holds four corporate bonds as held to maturity with a book value of less than \$1,000,000. No security in our held to maturity portfolio has a risk rating of less than BBB+. No estimate of credit losses was deemed necessary for this portfolio. Accrued interest on our held to maturity portfolio totals \$155,650 and \$194,331 as of December 31, 2023, and 2022, respectively, and is excluded from the estimate of credit losses.

Allowance for credit losses: available for sale securities

For securities in an unrealized loss position, management assesses whether it has the intent and ability to hold the security until it has recovered its amortized cost basis. If both criteria are not met, the security's amortized cost is written down to fair value through income. Management also determines if the fair value decline has resulted from credit losses or other factors. As of December 31, 2023 and 2022, management does not estimate that there is any credit loss in the portfolio. Accrued interest on our available for sale portfolio totals \$342,833 and \$333,099 as of December 31, 2023, and 2022, respectively, and is excluded from the estimate of credit losses.

Loans and allowance for credit losses

Loans are stated at face value adjusted for deferred origination fees, costs, and the allowance for credit 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 were generally accounted for as a reduction in principal with interest recognized after all principal had been collected. Loans were returned to accrual status when all principal and interest amounts contractually due were brought current and future payments were reasonably assured. Prior to the adoption of the current expected credit loss methodology, loans were considered impaired when, based on current information, it is probable that the Bank would not collect all principal and interest payments according to contractual terms. Impaired loans included loan relationships where management of the Bank has worked with the

Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)

borrowers to restructure the original terms of the loan. This included reducing the payments to interest only for a set period or reducing the interest rate on the loan. To determine impairment, management considered the financial condition of the borrower, cash flows of the borrowers to restructure the original terms of the loan. This included reducing the payments to interest only for a set period or reducing the interest rate on the loan.

To determine impairment, management considered the financial condition of the borrower, cash flows of the loan, and the value of the related collateral. Impaired loans were measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that the Bank measured impairment based on the fair value of the collateral, if the loan was collateral dependent. For collateral dependent real estate loans, management reviewed its current appraisal, obtained either a new appraisal or made adjustments to the original appraised value based on current trends in the real estate market. For other collateral dependent loans, the Bank used other estimation methods.

The allowance for credit losses is a valuation account used to present the net amount expected to be collected on loans. It is established through a provision for credit losses charged to expense or a recovery credited to expense. Loans are charged against the allowance for credit 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 estimated 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, and review of individually evaluated loans that do not share characteristics with loans collectively evaluated.

In January, 2023 the bank adopted the current expected credit losses methodology for measuring its allowance. The cumulative adjustment for this adoption effected the allowance, deferred income taxes and undivided profits.

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. 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 a past recession. For each of these segments, the model calculates an average loan loss by year, which is reduced to a single loss rate. This rate is applied to each remaining year of the expected weighted average life of the portfolio to calculate the historical loss rate. To further adjust the allowance 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 and Maryland unemployment rates, and both current and projected economic climates. Currently management includes in its economic adjustments a factor for the possibility of a recession, and other risks not embedded in the data used by the model. These factors are applied using different rates for loan segments.

Loans that do not meet the criteria to be included in the segments, are individually evaluated. When management determines that foreclosure with loss is probable, or when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially from the operation or sale of the collateral, an individual analysis is performed. Expected credit losses are based on the fair value of the collateral as of the reporting date, adjusted for selling costs. When the discounted cash flow method is used to determine the allowance for credit losses, management does not adjust the effective interest rate for expected prepayments.

Management believes it has established the allowance for credit losses in accordance with generally accepted accounting principles and has taken into account the views of its regulators and the current and forecasted 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.

THE FARMERS BANK OF WILLARDS

Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)

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 two of its current executive officers and one retired executive officer. 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 credit 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.

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.

Adoption of new accounting pronouncements

On January 1, 2023, the Bank adopted ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The amendments in this ASU, among other things, required 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. The adoption of this pronouncement resulted in a \$115,652 increase to the allowance for credit losses, a reduction of \$83,827 of undivided profits and a decrease of \$31,824 in deferred income taxes.

The adoption of this pronouncement requires that the Bank provide credit allowance for both off-balance sheet commitments and held to maturity securities. The held to maturity securities required no provision. The Bank was recording credit losses on securities prior to this adoption. The allowance under both old and new standards did not require an adjustment. The Bank estimates the amount of unfunded loans we expect to fund and then applies the loan loss factors use in the allowance for credit losses calculations.

ASU 2022-02, "Financial Instruments-Credit Losses (Topic 326): Troubled Debt Restructures and Vintage Disclosures eliminates accounting guidance for troubled debt restructurings and enhances the disclosure requirements for loan restructurings made with borrowers experiencing financial difficulty. The adoption of the standard did not have a material impact on the Bank.

THE FARMERS BANK OF WILLARDS

Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)

Newly issued pronouncements

The Bank has evaluated the other newly issued pronouncements and determined that these pronouncements will have an immaterial effect on the financial statements.

Restatements

Prior period presentations have been restated to conform to 2023 classifications.

Subsequent events

The Bank has evaluated events and transactions subsequent to December 31, 2023, through March 8, 2024, 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 \$5,360,077 and \$5,535,901 for 2023 and 2022, respectively. The balance maintained at the Federal Reserve Bank is excluded from this average.

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	2023	2022
One year or less	\$ 750,000	\$ 497,000
Over one to two years	225,000	-
Over two to three years	500,000	225,000
Over three to four years	-	250,000
	<u>\$ 1,475,000</u>	<u>\$ 972,000</u>

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 \$17,518.

THE FARMERS BANK OF WILLARDS

Notes to Financial Statements

4. Investment Securities

Investment securities as of December 31, 2023 are summarized as follows:

December 31, 2023	Amortized cost	Unrealized gains	Unrealized losses	Allowance for credit losses	Fair value
<i>Available for sale</i>					
U.S. Treasury	\$ 50,899,566	\$ 8,772	\$ 751,213	\$ -	\$ 50,157,125
U.S. government agency	8,864,377	9,124	126,644	-	8,746,857
Corporate	11,024,791	-	481,413	-	10,543,378
State and municipal	5,554,466	-	310,831	-	5,243,635
	<u>\$ 76,343,200</u>	<u>\$ 17,896</u>	<u>\$ 1,670,101</u>	<u>\$ -</u>	<u>\$ 74,690,995</u>
<i>Held to maturity</i>					
U.S. government agency	\$ 5,800,980	\$ -	\$ 561,902	\$ -	\$ 5,239,078
Corporate	989,535	-	119,971	-	869,564
State and municipal	10,254,076	-	1,375,774	-	8,878,302
Mortgage-backed securities	41,802,220	-	8,247,803	-	33,554,417
	<u>\$ 58,846,811</u>	<u>\$ -</u>	<u>\$ 10,305,450</u>	<u>\$ -</u>	<u>\$ 48,541,361</u>

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

December 31, 2022	Amortized cost	Unrealized gains	Unrealized losses	Allowance for credit losses	Fair value
<i>Available for sale</i>					
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
	<u>\$90,218,069</u>	<u>\$ -</u>	<u>\$ 3,469,414</u>	<u>\$ -</u>	<u>\$ 86,748,655</u>
<i>Held to maturity</i>					
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
	<u>\$71,156,164</u>	<u>\$ -</u>	<u>\$ 11,467,188</u>	<u>\$ -</u>	<u>\$ 59,688,976</u>

Interest on investment securities are summarized as follows:

Investment Type	2023	2022	2021
U.S. Treasury	\$1,656,081	\$ 803,159	\$ 7,962
U.S. government agency	361,915	166,967	110,738
Corporate	383,823	285,818	52,497
State and municipal	401,077	291,535	189,321
Mortgage-backed securities	546,900	612,544	302,991
	<u>\$3,349,796</u>	<u>\$2,160,023</u>	<u>\$663,509</u>

The decline in fair values of debt securities is a result of the fluctuations in interest rates and not to credit related factors. The Bank does not have the intent to sell any of these securities and believes it is more likely

THE FARMERS BANK OF WILLARDS

4. Investment Securities (Continued)

than not that the Bank will not have to sell any such securities before a recovery of cost. No allowance for credit losses on securities available for sale was recorded as of December 31, 2023. 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. No securities were sold in 2023.

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.

December 31, 2023	Available for Sale		Held to Maturity	
	Amortized cost	Fair value	Amortized cost	Fair value
One year or less	\$ 43,535,698	\$43,062,568	\$ -	\$ -
One through five years	27,660,472	26,662,499	5,236,242	4,946,036
Five through ten years	5,147,030	4,965,928	5,032,506	4,364,664
After ten years	-	-	6,040,008	5,017,365
Mortgage-backed securities	-	-	41,802,220	33,554,417
Small Business Administration agencies	-	-	735,835	658,879
	<u>\$ 76,343,200</u>	<u>\$74,690,995</u>	<u>\$58,846,811</u>	<u>\$48,541,361</u>
Pledged securities	<u>\$ 18,904,993</u>	<u>\$18,396,466</u>	<u>\$52,075,332</u>	<u>\$42,444,209</u>
December 31, 2022				
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
	<u>\$ 90,218,069</u>	<u>\$86,748,655</u>	<u>\$71,156,164</u>	<u>\$59,688,976</u>
Pledged securities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,605,363</u>	<u>\$ 6,138,687</u>

The Bank monitors the credit quality of the debt securities through the use of Moody's and S&P, on a quarterly basis. Held to maturity securities are aggregated below by credit quality as of December 31, 2023:

	Aaa	A1-A	Aa1-Aa	not rated	Totals
U.S. government agency	\$ 5,301,752	\$ -	\$ -	\$ 735,835	\$ 5,800,980
Corporate	209,825	779,710	-	-	989,535
State and municipal	5,271,052	1,661,605	3,321,419	-	10,254,076
Mortgage-backed securities	-	-	-	41,565,613	41,802,220
Total	<u>\$10,782,629</u>	<u>\$2,441,315</u>	<u>\$3,321,419</u>	<u>\$42,301,448</u>	<u>\$58,846,811</u>

THE FARMERS BANK OF WILLARDS

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	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
December 31, 2023						
<i>Available for sale</i>						
U.S. Treasury	\$ 2,330,369	\$ 830	\$ 40,645,460	\$ 750,383	\$42,975,829	\$ 751,213
U.S. government agency	999,056	944	5,773,413	125,700	6,772,469	126,644
Corporate	-	-	10,543,378	481,413	10,543,378	481,413
State and municipal	-	-	5,243,635	310,831	5,243,635	310,831
	<u>\$ 3,329,425</u>	<u>\$ 1,774</u>	<u>\$ 62,205,886</u>	<u>\$ 1,668,327</u>	<u>\$65,535,311</u>	<u>\$ 1,670,101</u>
<i>Held to maturity</i>						
U.S. government agency	\$ -	\$ -	\$ 5,239,078	\$ 561,902	\$ 5,239,078	\$ 561,902
Corporate	-	-	869,564	119,971	869,564	119,971
State and municipal	-	-	8,878,302	1,375,774	8,878,302	1,375,774
Mortgage-backed securities	-	-	33,554,417	8,247,803	33,554,417	8,247,803
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,541,361</u>	<u>\$ 10,305,450</u>	<u>\$48,541,361</u>	<u>\$ 10,305,450</u>
December 31, 2022						
<i>Available for sale</i>						
U.S. Treasury	\$41,599,297	\$ 1,082,670	\$ 7,669,217	\$ 336,383	\$49,268,514	\$ 1,419,053
U.S. government agency	4,902,866	94,444	2,765,342	158,727	7,668,208	253,171
Corporate	4,991,145	256,008	17,331,840	891,333	22,322,985	1,147,341
State and municipal	2,685,686	204,583	4,788,112	374,359	7,473,798	578,942
Mortgage-backed securities	-	-	-	-	-	-
	<u>\$54,178,994</u>	<u>\$ 1,637,705</u>	<u>\$ 32,554,511</u>	<u>\$ 1,760,802</u>	<u>\$86,733,505</u>	<u>\$ 3,398,507</u>
<i>Held to maturity</i>						
U.S. Treasury	\$ 6,841,329	\$ 61,279	\$ -	\$ -	\$ 6,841,329	\$ 61,279
U.S. government agency	2,635,650	235,423	2,725,046	559,866	5,360,696	795,289
Corporate	231,035	32,649	625,303	105,268	856,338	137,917
State and municipal	6,389,743	415,844	4,179,905	1,370,687	10,569,648	1,786,531
Mortgage-backed securities	3,966,870	754,036	32,109,245	7,916,837	36,076,115	8,670,873
	<u>\$20,064,627</u>	<u>\$ 1,499,231</u>	<u>\$ 39,639,499</u>	<u>\$ 9,952,658</u>	<u>\$59,704,126</u>	<u>\$ 11,451,889</u>

THE FARMERS BANK OF WILLARDS

Notes to Financial Statements

5. Loans

Major classifications of loans are as follows:

	December 31,	2023	2022
Mortgage			
Residential		\$ 200,718,227	\$ 170,372,217
Commercial		79,513,485	72,961,093
Farm		11,748,626	11,994,963
Construction		41,911,635	39,738,548
Commercial and agricultural		33,002,133	31,595,790
Consumer		<u>12,284,004</u>	<u>10,158,291</u>
		379,178,110	336,820,902
Allowance for credit losses		<u>3,684,785</u>	<u>3,280,987</u>
Loans, net		<u>\$ 375,493,325</u>	<u>\$ 333,539,915</u>

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 \$279,720 and \$202,558 as of December 31, 2023 and 2022, respectively.

The Bank has the following loan commitments outstanding:

	December 31,	2023	2022
Construction loans		\$ 14,690,612	\$ 17,555,620
Home equity and revolving residential lines		10,676,466	8,304,696
Other lines of credit		21,892,017	23,525,799
Standby letters of credit		757,642	658,253
Payment letters of credit		<u>5,000</u>	<u>5,000</u>
		<u>\$ 48,021,737</u>	<u>\$ 50,049,368</u>

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.

The Bank has an allowance for credit losses of \$7,599 and \$18,181 as of December 31, 2023 and 2022, respectively included in other liabilities. Prior to the adoption of the current expected credit losses methodology, the related expense was included in other operating expenses. With the adoption of the current expected credit losses methodology, the related credit loss is included in the provision for credit losses on the income statement.

THE FARMERS BANK OF WILLARDS

Notes to Financial Statements

5. Loans (Continued)

Nonaccrual loans and loans past due over 89 days are as follows :

	Nonaccrual with no allowance for credit loss	Nonaccrual with an allowance for credit loss	Loans past due over 89 days still accruing
December 31, 2023			
Mortgage			
Residential	\$ -	\$ -	\$ 179,300
Commercial	45,080	-	-
Farm	-	-	-
Construction	-	-	-
Commercial and agricultural	-	40,075	-
Consumer	-	10,122	-
	<u>\$ 45,080</u>	<u>\$ 50,197</u>	<u>\$ 179,300</u>
December 31, 2022			
Mortgage			
Residential	\$ -	\$ -	\$ 99,862
Commercial	-	-	-
Farm	-	-	-
Construction	977,166	100,580	-
Commercial and agricultural	-	-	-
Consumer	-	6,554	7,759
	<u>\$ 977,166</u>	<u>\$ 107,134</u>	<u>\$ 107,621</u>

If the nonaccrual loans had been accruing, the related interest would be \$3,822 and \$92,480 as of December 31, 2023 and 2022, respectively.

As of December 31, 2023, loans that are nonaccrual and delinquent 30-59 days total \$10,122, while nonaccrual and delinquent loans over 90 days total \$85,155.

Outstanding loan balances are as follows:

	December 31, 2023		December 31, 2022	
	Individually evaluated	Collectively evaluated	Individually evaluated	Collectively evaluated
Mortgage				
Residential	\$ 488,743	\$ 200,229,484	\$ 1,277,712	\$ 169,094,505
Commercial	45,080	79,468,405	-	72,961,093
Farm	-	11,748,626	-	11,994,963
Construction	-	41,911,635	1,187,977	38,550,571
Commercial and agricultural	40,075	32,962,058	46,850	31,548,940
Consumer	14,712	12,269,292	65,517	10,092,774
	<u>\$ 588,610</u>	<u>\$ 378,589,500</u>	<u>\$ 2,578,056</u>	<u>\$ 334,242,846</u>

THE FARMERS BANK OF WILLARDS

Notes to Financial Statements

5. Loans (Continued)

Composition of the allowance for credit losses, by loan classification and based on individual or collective analysis, is as follows:

	December 31, 2023		December 31, 2022	
	Individually evaluated	Collectively evaluated	Individually evaluated	Collectively evaluated
Mortgage				
Residential	\$ 102,940	\$ 1,084,675	\$ 112,328	\$ 361,761
Commercial	-	943,660	-	974,504
Farm	-	259,723	-	75,032
Construction	-	553,966	19,331	1,039,524
Commercial and agricultural	32,395	514,613	-	476,548
Consumer	10,402	175,800	24,422	151,645
Unallocated	6,611	-	45,892	-
	<u>\$ 152,348</u>	<u>\$ 3,532,437</u>	<u>\$ 201,973</u>	<u>\$ 3,079,014</u>

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

	Unpaid contractual principal balance	Recorded Investment	Related allowance	Average recorded investment	Interest income recognized
<u>With no related allowance</u>					
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
	<u>1,472,668</u>	<u>1,267,644</u>	<u>-</u>	<u>1,441,045</u>	<u>19,975</u>
<u>With related allowance</u>					
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
	<u>1,495,911</u>	<u>1,310,412</u>	<u>156,081</u>	<u>1,397,240</u>	<u>64,540</u>
<u>Totals</u>					
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
	<u>\$ 2,968,579</u>	<u>\$ 2,578,056</u>	<u>\$ 156,081</u>	<u>\$ 2,838,285</u>	<u>\$ 84,515</u>

THE FARMERS BANK OF WILLARDS

Notes to Financial Statements

5. Loans (Continued)

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

	Beginning balance	Adoption ASC 326	Provision for credit losses	Charge-offs	Recoveries	Ending balance
<u>December 31, 2023</u>						
Mortgage						
Residential	\$ 474,089	\$ 249,502	\$ 445,264	\$ 98,271	\$ 117,031	\$ 1,187,615
Commercial	974,504	20,205	(51,049)	-	-	943,660
Farm	75,032	184,596	95	-	-	259,723
Construction	1,058,855	(228,376)	(264,081)	12,432	-	553,966
Commercial and agricultural	476,548	(96,934)	209,484	67,256	25,166	547,008
Consumer	176,067	(13,341)	71,145	71,881	24,212	186,202
Unallocated	45,892	-	(39,281)	-	-	6,611
	<u>\$ 3,280,987</u>	<u>\$ 115,652</u>	<u>\$ 371,577</u>	<u>\$ 249,840</u>	<u>\$ 166,409</u>	<u>\$ 3,684,785</u>
<u>December 31, 2022</u>						
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
	<u>\$ 2,926,133</u>	<u>\$ -</u>	<u>\$ 563,500</u>	<u>\$ 459,014</u>	<u>\$ 250,368</u>	<u>\$ 3,280,987</u>

An analysis of past due loans follows:

	Loans 30-59 days past due	Loans 60-89 days past due	Loans 90 or more days past due	Total past due loans	Current loans	Total loans
<u>December 31, 2023</u>						
Mortgage						
Residential	\$ 203,453	\$ -	\$ 179,300	\$ 382,753	\$ 200,335,474	\$ 200,718,227
Commercial	-	-	45,080	45,080	79,468,405	79,513,485
Farm	-	296,571	-	296,571	11,452,055	11,748,626
Construction	-	-	-	-	41,911,635	41,911,635
Commercial and agricultural	63,082	23,957	40,075	127,114	32,875,019	33,002,133
Consumer	43,569	10,464	-	54,033	12,229,971	12,284,004
	<u>\$ 310,104</u>	<u>\$ 330,992</u>	<u>\$ 264,455</u>	<u>\$ 905,551</u>	<u>\$ 378,272,559</u>	<u>\$ 379,178,110</u>
<u>December 31, 2022</u>						
Mortgage						
Residential	\$ 163,734	\$ 35,890	\$ 99,862	\$ 299,486	\$ 170,072,731	\$ 170,372,217
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	21,536	57,603	7,759	86,898	10,071,393	10,158,291
	<u>\$ 185,270</u>	<u>\$ 93,493</u>	<u>\$ 1,185,367</u>	<u>\$ 1,464,130</u>	<u>\$ 335,356,772</u>	<u>\$ 336,820,902</u>

THE FARMERS BANK OF WILLARDS

Notes to Financial Statements

5. Loans (Continued)

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.

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.

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.

THE FARMERS BANK OF WILLARDS

Notes to Financial Statements

5. Loans (Continued)

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

December 31, 2023	Pass credits	Special Mention	Substandard	Doubtful	Loss	Total loans
Mortgage						
Residential	\$ 200,229,484	\$ 488,743	\$ -	\$ -	\$ -	\$ 200,718,227
Commercial	79,468,405	-	45,080	-	-	79,513,485
Farm	11,748,626	-	-	-	-	11,748,626
Construction	41,911,635	-	-	-	-	41,911,635
Commercial and agricultural	32,962,058	-	40,075	-	-	33,002,133
Consumer	12,269,292	4,590	10,122	-	-	12,284,004
	<u>\$ 378,589,500</u>	<u>\$ 493,333</u>	<u>\$ 95,277</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 379,178,110</u>
December 31, 2022						
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
	<u>\$ 334,858,981</u>	<u>\$ 877,621</u>	<u>\$ 1,084,300</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 336,820,902</u>

Summarized below are the balances of individually evaluated loans that are also collateral-dependent.

December 31,	2023
Mortgage	
Residential	\$ 488,743
Commercial	45,080
Farm	-
Construction	-
Commercial and agricultural	40,075
Consumer	<u>11,693</u>
	<u>\$ 585,591</u>

The Bank writes most of its mortgages as on demand. For purposes of categorizing these loans as either fixed or variable, the Bank showed its demand mortgages as fixed since it rarely calls these loans. There are a few demand commercial loans but they are treated as variable.

The Bank works with customers to modify loans to borrowers in financial distress by changing the interest rate, modifying the payment term, and writing off principal and accrued interest. Principal forgiveness is charged off against the allowance for credit losses.

THE FARMERS BANK OF WILLARDS

Notes to Financial Statements

5. Loans (Continued)

The Bank modified the following loans during 2023. Also shown is the financial effect of the loan modifications. The percentage of the amortized cost bases of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of each class of loans is also shown as follows:

December 31, 2023	Modified balance	Total class of loans	Amount of Principal forgiveness	Average interest rate reduction
Mortgage				
Residential	\$ 237,515	0.12%	\$ 10,000	0.00%
Commercial	-	0.00%	-	0.00%
Farm	-	0.00%	-	0.00%
Construction	-	0.00%	-	0.00%
Commercial and agricultural	-	0.00%	-	0.00%
Consumer	<u>2,759</u>	0.02%	-	4.00%
	<u>\$ 240,274</u>		<u>10,000</u>	

The Bank has no commitment to advance future funds to any of the borrowers in the previous chart. The loans in the previous chart are all performing with no current delinquencies.

The Bank has outstanding troubled debt restructured (TDR) loans as follows as of December 31, 2022:

December 31, 2022	Count	Contract balance	Modified balance
<i>Performing</i>			
Mortgage			
Residential	4	\$ 496,860	\$ 496,860
Commercial	-	-	-
Farm	-	-	-
Construction	1	146,172	110,231
Commercial and agricultural	-	-	-
Consumer	1	9,547	9,043
	<u>6</u>	<u>652,579</u>	<u>616,134</u>
<i>Nonperforming</i>			
Mortgage			
Residential	-	-	-
Commercial	-	-	-
Farm	-	-	-
Construction	1	241,752	100,580
Commercial and agricultural	-	-	-
Consumer	-	-	-
	<u>1</u>	<u>241,752</u>	<u>100,580</u>
<i>Total</i>	<u>7</u>	<u>\$ 894,331</u>	<u>\$ 716,714</u>

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Notes to Financial Statements

6. Premises and Equipment

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

	Useful life	2023	2022
Land		\$ 2,480,462	\$ 1,948,831
Buildings and improvements	10-40 years	5,133,729	4,529,206
Leasehold improvements	10-40 years	1,740,096	1,814,491
Furniture and equipment	5-10 years	4,602,563	4,110,307
Automobiles	4-5 years	240,648	224,148
		<u>14,197,498</u>	<u>12,626,983</u>
Accumulated depreciation and amortization		<u>5,921,645</u>	<u>5,526,259</u>
Net premises and equipment		<u>\$ 8,275,853</u>	<u>\$ 7,100,724</u>
Depreciation and amortization		<u>\$ 493,514</u>	<u>\$ 478,239</u>

During 2023, the Bank finished the remodel of the branch purchased in 2022. It also purchased a parcel of land for a second branch, which is expected to open in the Fall of 2024.

Included in other assets at December 31, 2023 and 2022, is computer software carried at an amortized cost of \$3,585 and \$13,977, respectively. Software amortization expense was \$10,392 and \$32,785 in 2023 and 2022, 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 or 2023.

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 FARMERS BANK OF WILLARDS

Notes to Financial Statements

7. Leases (Continued)

The following table presents information about the Bank's leases as follows:

	2023	2022
Lease liabilities	\$ 986,556	\$ 1,190,551
Right-of-use assets	\$ 967,802	\$ 1,157,564
Weighted average remaining lease term (years)	10.99	10.56
Weighted average discount rate	2.07%	1.94%

A maturity analysis of operating lease liabilities and reconciliation of the undiscounted cash flows to the total of operating lease liabilities as of December 31, 2023, is as follows:

Period	Amount
2024	190,095
2025	140,612
2026	59,322
2027	61,399
2028	63,547
Remaining years	604,184
Total undiscounted cash flows	1,119,159
Discount	(132,603)
Lease liabilities	\$ 986,556

8. Foreclosed Real Estate

Transactions in foreclosed real estate are as follows:

	2023	2022	2021
Beginning of year balance	\$2,768,702	\$2,894,697	\$3,299,858
Additions and improvements	-	36,585	-
Sale deferred (recognized)	-	(131,130)	(146,182)
Sales and collections	(734,825)	(25,200)	(143,210)
Writedowns and gains (losses), net	19,201	(6,250)	(115,769)
End of year balance	<u>\$2,053,078</u>	<u>\$2,768,702</u>	<u>\$2,894,697</u>

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 and \$7,880 were recognized on loans transferred out of foreclosed real estate in 2022 and 2021, respectively. There were no transfers of financed properties, nor any new financed properties during 2023. Financed properties reported as foreclosed real estate as of December 31, 2023, 2022, and 2021 totaled \$317,583, \$323,122, and \$454,252, respectively.

Loans totaling \$452,511 and \$137,462 were in the process of foreclosure as of December 31, 2023, and 2022, respectively.

THE FARMERS BANK OF WILLARDS

Notes to Financial Statements

9. Deposits

Major classifications of interest-bearing deposits are as follows:

December 31,	2023	2022
Money market and NOW	\$ 104,577,166	\$ 98,908,603
Savings	73,769,992	86,276,051
Certificates of deposit over \$250,000	18,373,969	14,821,631
Other time	<u>105,715,629</u>	<u>95,953,056</u>
	<u>\$ 302,436,756</u>	<u>\$ 295,959,341</u>

Demand deposits and interest-bearing escrow accounts, in an overdraft status, totaling \$111,195 and \$96,618, as of December 31, 2023 and 2022, respectively have been reclassified as loans.

The maturity and repricing distributions of time deposits follows:

December 31, 2023	Over \$250,000	Other	Total
One year or less	\$ 13,703,115	\$ 70,361,114	\$ 84,064,229
Over one to two years	1,825,633	19,520,850	21,346,483
Over two to three years	1,914,154	8,108,652	10,022,806
Over three to four years	679,807	5,268,443	5,948,250
Over four to five years	<u>251,260</u>	<u>2,456,570</u>	<u>2,707,830</u>
	<u>\$ 18,373,969</u>	<u>\$ 105,715,629</u>	<u>\$ 124,089,598</u>
December 31, 2022			
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	<u>-</u>	<u>6,287,098</u>	<u>6,287,098</u>
	<u>\$ 14,821,631</u>	<u>\$ 95,953,056</u>	<u>\$ 110,774,687</u>

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

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, 2023 and 2022.

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, 2023 and 2022 was \$69,409,906 and \$44,007,539, 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.

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Notes to Financial Statements

10. Lines of Credit (Continued)

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, 2023 and 2022 was \$87,059,993 and \$25,251,410, respectively.

During 2023, the Federal Reserve Bank (FRB) offered loans under the Bank Term Funding Program. This program was to assist banks with liquidity after the failure of two prominent banks. It offered advances with certain securities available as collateral at 100% of their face value. The terms of the advances were for one year and could be paid off or refinanced without any penalty. In 2024, the program changed so that new advances are now at least as high as the interest rate that the Federal Reserve credits on funds deposited with it. The program will continue to issue loans until March 11, 2024.

The Federal Home Loan Bank 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.

A summary of outstanding advances is as follows:

Description	Rate	December 31,		Maturity
		2023	2022	
FHLB one year line	floating	\$ -	\$ 19,450,000	March 13, 2023
FRB one year advance	4.80%	20,000,000	-	April 9, 2024
FRB one year advance	4.89%	41,500,000	-	December 13, 2024
		<u>\$ 61,500,000</u>	<u>\$ 19,450,000</u>	

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 2023, 2022, and 2021 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 \$162,983, \$160,895, and \$148,189, 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 \$151,011, \$211,840, and \$205,402 for the years ended December 31, 2023, 2022, and 2021, 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.

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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, 2023 and 2022, the deposits of executive officers and directors were \$8,865,579 and \$10,507,872, 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:

	2023	2022
Beginning balance	\$ 5,538,861	\$ 4,915,430
Advances	3,985,962	1,210,652
Repayments	<u>(579,089)</u>	<u>(587,221)</u>
Ending balance	<u>\$ 8,945,734</u>	<u>\$ 5,538,861</u>

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 totaled \$49,149 with additional executory costs of \$5,083. During 2021, the Bank also purchased supplies totaling \$220 from a store owned by this director. 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 \$53,835, \$49,679, and \$46,923 for 2023, 2022, and 2021, respectively. This director owned an auto body shop that performed \$2,045 in repairs on the Bank automobile in 2020.

At the November 2020 auction of foreclosed property owned by the Bank, this director purchased most of the equipment at a price of \$825,000. The Bank rents the land to the director. During 2023, 2022 and 2021, the Bank collected \$13,413, \$12,000 and \$8,000 rent, respectively.

In 2023 and 2022, the Bank paid \$2,693 and \$1,268, respectively for services from a used car dealership owned by a director.

13. Income Taxes

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

	2023		2022		2021	
Statutory federal income taxes	\$ 1,546,424	21.0%	\$ 1,358,788	21.0%	\$ 1,064,127	21.0%
Increase (decrease) in tax resulting from:						
Tax-exempt income	(51,499)	(0.7)	(57,283)	(0.8)	(54,891)	(1.1)
State tax, net of federal tax benefit	317,854	4.3	336,178	5.2	299,663	5.9
Other, net	<u>15,841</u>	<u>0.2</u>	<u>15,534</u>	<u>0.2</u>	<u>3,145</u>	<u>0.1</u>
Income tax expense	<u>\$ 1,828,620</u>	<u>24.8%</u>	<u>\$ 1,653,217</u>	<u>25.6%</u>	<u>\$ 1,312,044</u>	<u>25.9%</u>

THE FARMERS BANK OF WILLARDS

Notes to Financial Statements

13. Income Taxes (Continued)

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

	2023	2022	2021
Current			
Federal	\$1,374,760	\$1,399,023	\$1,028,401
State	<u>404,501</u>	<u>479,255</u>	<u>404,141</u>
	1,779,261	1,878,278	1,432,542
Deferred	<u>49,359</u>	<u>(225,061)</u>	<u>(120,498)</u>
	<u>\$1,828,620</u>	<u>\$1,653,217</u>	<u>\$1,312,044</u>

The components of the deferred taxes are as follows:

	2023	2022	2021
Provision for credit losses	\$ (119,241)	\$ (155,061)	\$ 19,262
Writedowns of foreclosed real estate	115,594	2,589	(44,796)
Deferred gain on foreclosed property sales	-	625	2,168
Supplemental executive retirement plan	(28,731)	(45,483)	(43,698)
Interest on nonaccrual loans	24,396	(2,399)	11,522
Bonuses and vacations	(1,234)	8,545	(31,821)
Leases	(3,352)	9,077	-
Depreciation	<u>61,927</u>	<u>(42,954)</u>	<u>(33,135)</u>
	<u>\$ 49,359</u>	<u>\$ (225,061)</u>	<u>\$ (120,498)</u>

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

	2023	2022	2021
Deferred tax assets			
Allowance for credit and letter of credit losses	\$ 742,999	\$ 623,758	\$ 468,697
Foreclosed real estate writedowns	1,009	116,603	119,192
Deferred gain on foreclosed property sales	-	-	625
Supplemental executive retirement plan	542,779	514,048	468,565
Interest on nonaccrual loans	1,052	25,448	23,049
Bonuses and vacations	24,510	23,276	31,821
Unrealized loss on securities	<u>783,951</u>	<u>1,330,046</u>	<u>510,609</u>
	<u>2,096,300</u>	<u>2,633,179</u>	<u>1,622,558</u>
Deferred tax liability			
Leases	5,725	9,077	-
Depreciation	<u>458,714</u>	<u>396,787</u>	<u>439,741</u>
	<u>464,439</u>	<u>405,864</u>	<u>439,741</u>
	<u>\$ 1,631,861</u>	<u>\$ 2,227,315</u>	<u>\$ 1,182,817</u>

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, 2020.

Notes to Financial Statements

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 credit 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.

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.

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Notes to Financial Statements

14. Capital Standards (Continued)

The following table presents actual and required capital ratios as of December 31, 2023, and December 31, 2022, for the Bank under the Basel III Capital Rules.

December 31, 2023	Actual		Minimum capital adequacy		To be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)	\$ 57,469	16.89%	\$ 27,218	8.00%	\$ 34,023	10.00%
Tier 1 capital (to risk-weighted assets)	\$ 53,776	15.81%	\$ 20,414	6.00%	\$ 27,218	8.00%
Common equity tier 1 capital (to risk-weighted assets)	\$ 53,776	15.81%	\$ 15,310	4.50%	\$ 22,115	6.50%
Capital conservation buffer			\$ 8,506	2.50%		
Tier 1 capital (to average assets)	\$ 53,776	9.68%	\$ 22,210	4.00%	\$ 27,763	5.00%
<hr/>						
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%

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.

THE FARMERS BANK OF WILLARDS

Notes to Financial Statements

15. Fair Value Measures (Continued)

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

December 31, 2023	Total	Fair value measurements using:		
		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	50,157,125	\$ -	\$ 50,157,125	\$ -
U.S. government agency	8,746,857	-	8,746,857	-
Corporate	10,543,378	-	10,543,378	-
State and municipal	5,243,635	-	5,243,635	-
	<u>\$ 74,690,995</u>	<u>\$ -</u>	<u>\$ 74,690,995</u>	<u>\$ -</u>
December 31, 2022				
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	-
	<u>\$ 86,748,655</u>	<u>\$ -</u>	<u>\$ 86,748,655</u>	<u>\$ -</u>

Individually evaluated 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, 2023 and 2022, the fair values of individually evaluated loans are estimated to be \$246,112 and \$601,072, respectively. As of December 31, 2023 and 2022, the fair values of these loans consist of recorded investment in loan balances of \$390,919 and \$753,416, net of valuation allowances of \$144,807 and \$152,344, respectively.

The Bank measures its foreclosed real estate, on a nonrecurring basis at fair value less costs to sell. As of December 31, 2023 and 2022, the fair value was estimated to be \$2,053,078 and \$2,768,702, 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.



INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
The Farmers Bank of Willards

Opinion

We have audited the financial statements of The Farmers Bank of Willards (the Bank), which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the three years in the period ended December 31, 2023, and the related notes to the financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023, 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 Bank 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 financial statements, the Bank has 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*.

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



Auditors' Responsibilities for the Audit of the 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 Bank'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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bank'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 Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the President's Letter and selected financial data 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 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 & Barbours, P.C.

Roanoke, Virginia
March 8, 2024

THE FARMERS BANK OF WILLARDS

Average Balances, Interest, and Yields

	For the Year Ended December 31, 2023			For the Year Ended December 31, 2022		
	Average balance	Interest	Yield	Average balance	Interest	Yield
Assets						
Federal funds sold	\$ 3,910,884	\$ 208,492	5.33%	\$ 2,739,119	\$ 52,977	1.93%
Interest bearing deposits *	13,077,379	542,742	4.15%	43,448,816	338,507	0.78%
Investment securities						
U. S treasury *	53,730,173	1,771,019	3.30%	38,570,796	858,632	2.23%
U. S. agency and MBS *	57,489,143	933,926	1.62%	57,330,027	791,039	1.38%
State and municipal *	17,383,130	424,952	2.44%	17,362,055	310,065	1.79%
Other	<u>19,233,424</u>	<u>383,823</u>	2.00%	<u>24,062,644</u>	<u>285,818</u>	1.19%
Total investment securities	<u>147,835,870</u>	<u>3,513,720</u>	2.38%	<u>137,325,522</u>	<u>2,245,554</u>	1.64%
Bank stock *	<u>628,145</u>	<u>51,040</u>	8.13%	<u>327,472</u>	<u>18,032</u>	5.51%
Loans						
Commercial	33,394,609	2,190,313	6.56%	30,327,449	1,732,392	5.71%
Mortgage	312,145,594	18,529,239	5.94%	268,702,379	14,750,229	5.49%
Consumer	<u>11,274,196</u>	<u>968,432</u>	8.59%	<u>9,808,442</u>	<u>815,847</u>	8.32%
Total loans	356,814,399	21,687,984	6.08%	308,838,270	17,298,468	5.60%
Allowance for credit losses	<u>3,532,152</u>			<u>3,075,526</u>		
Total loans, net of allowance	<u>353,282,247</u>	<u>21,687,984</u>	6.14%	<u>305,762,744</u>	<u>17,298,468</u>	5.66%
Total interest-earning assets	<u>518,734,525</u>	<u>26,003,978</u>	5.01%	<u>489,603,673</u>	<u>19,953,538</u>	4.08%
Noninterest-bearing cash	3,562,077	-		7,078,157	-	
Premises and equipment, net	9,006,932	-		6,045,597	-	
Other assets	<u>11,900,003</u>	<u>-</u>		<u>11,218,802</u>	<u>-</u>	
Total assets	<u>\$ 543,203,537</u>	<u>\$ 26,003,978</u>		<u>\$ 513,946,229</u>	<u>\$ 19,953,538</u>	
Liabilities and Stockholders' Equity						
Interest-bearing deposits						
Savings and NOW deposits	\$ 116,215,051	\$ 287,880	0.25%	\$ 122,535,291	\$ 260,927	0.21%
Money market	69,549,905	1,117,581	1.61%	61,055,270	185,702	0.30%
Other time deposits	<u>114,070,395</u>	<u>2,148,900</u>	1.88%	<u>117,144,800</u>	<u>1,016,283</u>	0.87%
Total interest-bearing deposits	299,835,351	3,554,361	1.19%	300,735,361	1,462,912	0.49%
Borrowed funds	<u>39,833,463</u>	<u>1,962,262</u>	4.93%	<u>2,327,400</u>	<u>88,457</u>	3.80%
Total interest-bearing liabilities	339,668,814	5,516,623	1.62%	303,062,761	1,551,369	0.51%
Noninterest-bearing deposits	<u>148,217,754</u>	<u>-</u>		<u>161,450,502</u>	<u>-</u>	
	487,886,568	<u>5,516,623</u>		464,513,263	<u>1,551,369</u>	
Other liabilities	5,463,672	-		3,031,826	-	
Stockholders' equity	<u>49,853,297</u>	<u>-</u>		<u>46,401,140</u>	<u>-</u>	
Total liabilities and stockholders' equity	<u>\$ 543,203,537</u>	<u>\$ 5,516,623</u>		<u>\$ 513,946,229</u>	<u>\$ 1,551,369</u>	
Net interest spread			<u>3.39%</u>			<u>3.57%</u>
Net interest income		<u>\$ 20,487,355</u>			<u>\$ 18,402,169</u>	
Net margin on interest-earning assets			<u>3.95%</u>			<u>3.76%</u>

* Interest has been adjusted so yields are calculated on a tax-equivalent basis.

EXECUTIVE and SENIOR OFFICERS

CHRISTOPHER F. DAVIS

President

WILLIAM S. TURNER

*Executive Vice President/
Chief Lending Officer*

RENEE M. LOVELL

Chief Financial Officer

MATTHEW C. DAVIS

Chief Strategy Officer

KIMBERLY A. BENTON

Vice President, Branch Operations

HEATHER R. MARINE

Vice President, Digital Operations

TERRY B. SPARROW

Vice President of Information Systems

KRIS N. 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

NATALIE N. BINDER

Treasurer

OTHER MANAGEMENT STAFF

ANDREW P. DAVIS

Branding and Marketing Officer

TINA A. SMACK

Assistant Vice President

MARY W. DRYDEN

Assistant Vice President Special Assets

VICKIE L. DAVIS

Compliance, Bank Secrecy Act & Security Officer

IRINA A. POTAPENKO

Internal Auditor

SARAH L. STRICKLAND

Assistant Vice President, Loan Administration

SHERRY L. HAYMAKER

Assistant Vice President, Real Estate Settlements

ELIZABETH WALKER

CRA Officer

RYAN P. MCEVOY

Capital Markets Manager/Loan Officer

ZACHARY P. NORMAN

Credit Analyst/Loan Officer

JAMES E. LEWIS

Loan Officer

ROBERT A. CHRISTINCK

Loan Officer









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🔧 FBW Ramp Build 🔧





Coming 2024









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7233 Main Street
Willards, MD 21874
410-835-2482
FAX: 410-835-2727
Manager: Abigail Bradley



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



102 Milford Street
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443-260-4780
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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



Midtown Ocean City
8700 Coastal Highway
Ocean City, MD 21842
FAX: 410-250-0895
Manager: Neli Gabby

Sussex County, Delaware



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Millsboro, DE 19966
302-934-6300
FAX: 302-934-6333
Manager: Jessica Rogers

Other Information of Interest to Shareholders

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410-835-8906

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

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

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

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

Mary K. O'Connell