2022 ANNUAL REPORT

The FARMERS BANK of APPOMATTOX

MEMBER FDIC

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The Farmers Bank Of Appomattox and Subsidiary

As of and for the years ended December 31, 2022 and December 31, 2021

Notice of Annual Meeting

The Annual Meeting of Shareholders will be held at 7:00 p.m. on May 16, 2023 at Appomattox Inn & Suites, 447 Old Courthouse Road, Appomattox, Virginia 24522. All shareholders are invited to attend.

Independent Auditor

Yount, Hyde & Barbour, P.C.
9954 Mayland Drive, Suite 2300
Richmond, VA 23233

Corporate Headquarters

The Farmers Bank of Appomattox
223 Main Street
Appomattox, Virginia 24522

Branches

Concord Branch
Cindy Martin, Manager
10272 Village Highway
Concord, VA 24538

Main Street Branch
Jessica Hall, Manager
223 Main Street
Appomattox, VA 24522

Dillwyn Branch
Lisa Warner, Manager
16086 N. James Madison Highway
Dillwyn, VA 23936

Triangle Plaza Branch
Dianne Rudder, Manager
169 Old Courthouse Road
Appomattox, VA 24522

Farmville Branch
Anabelle Rodriguez-Thurston, Manager
1508 South Main Street
Farmville, VA 23901

The President's Message

Dear Shareholders,

On behalf of the Board of Directors and management of The Farmers Bank of Appomattox, I am pleased to present our annual report of the financial condition and results of operations of the Bank for the years ended December 31, 2022 and 2021. Our previous year of operations has proven once again to be a profitable year with net income exceeding $3.0 million for the second consecutive year. Net income for the year ended December 31, 2022 was $3.2 million, a $103 thousand (3.10%) decrease compared to year end 2021. Our earnings were greatly impacted by increased loan interest income resulting from substantial loan growth which offset the $672 thousand decrease in fees associated with the Bank's 2021 participation in the Small Business Administration (SBA) – Paycheck Protection Program. The Bank's return on average assets (ROAA) of 1.03% outperformed the Virginia Bank peer group average of 0.96% and the Bank's return on average equity (ROAE) of 10.47% outperformed Virginia peer average of 10.38%.

The year 2022 was marked by very strong loan growth of $29.6 million (16%), with a composite loan yield of 4.64%. Loan growth primarily consisted of $22.1 million in real estate lending, $3.5 million in commercial & industrial, $2.0 million in consumer, $1.1 million in other loans and an additional $5.3 million in purchased real estate loans. The loan growth figures also included a decrease of $3.4 million in indirect dealer loans and a decrease of $1.0 million in other real estate loans during 2022. The Bank's deposits grew $1.4 million during 2022, while total assets remained relatively consistent at $316.2 million. Net interest income of $10.4 million at year end 2022 exceeded 2021 net interest income of $9.9 million. Interest and fees on loans of $9.5 million increased by $619 thousand attributed to loan growth. Investment income decreased by $7 thousand given that certain investments matured or were sold in 2022 to meet funding needs. Interest expense increased by $152 thousand given the rise of interest rates through the year and interest on repurchase agreements and other borrowings increased by $99 thousand.

Noninterest income of $1.2 million was marked by an increase of $78 thousand due to increases in income from bank owned life insurance, deposit related fees and penalties, and increased insurance commissions. Noninterest expense increased by $511 thousand. The increase in the Bank's noninterest expense was primarily the result of cost-of-living salary adjustments made during 2022 and increased pension expense due to settlement accounting requirements brought on by certain retirements. Other factors affecting the increase included higher data processing expense, marketing expense, franchise tax expense and a charged-off deposit account expense due to fraudulent activity. Management continues our focus on the ever-changing salary environment in which we operate and examine various efficiency and fraud measures and ways to manage expenses.

The President's Message

Our Bank, as the case with most entities that hold investments, ended 2022 with a rather large unrealized loss in the investment portfolio which is reflected on the Bank's balance sheet. As indicated in the title, this loss is unrealized and due to coupon rates of investments we hold being so much lower than current market rates. The unrealized loss of $13.8 million would only be realized if the Bank chose to liquidate these investments, an action we do not anticipate having to make. Management has completed due diligence to verify that the loss in market value is due to interest rates and no other underlying weakness of the investments.

As we approach 2023, we continue to maintain a very strong capital position that is well above the threshold for being well-capitalized under the Federal Reserve Bank's benchmarks. Given that we continue to operate in an ever-changing, unpredictable economic environment, we are pleased with the results we present to you. We understand that during these unprecedented times, our value continues to lie in our customers and employees whom we are given the opportunity to serve. I am thankful for each and every member of the Farmers Bank family.

We remain committed to you, our shareholders, and the communities in which we serve. We have met as a Bank and recommitted to providing excellence in service in the year ahead and remain ready to face whatever is ahead. We could not have experienced the success that we have today without the support of you, our shareholders.

I remain thankful for all of our dedicated and talented directors, officers and employees who have given so much this past year. As always, we remain committed to delivering great value for your investment. We ask you to invite your friends, associates and colleagues to bank with us. There has never been a better time to bank with a true community bank that is responsive, flexible and knowledgeable.

Sincerely,

John R. Caldwell
President and Chief Executive Officer

THE FARMERS BANK OF APPOMATTOX AND SUBSIDIARY

Five-year Summary of Selected Financial Data
(In Thousands, Except Per Share Data and Selected Ratios)

	Years Ended December 31				
Income statement data	2022	2021	2020	2019	2018
Interest income	$ 11,335	$ 10,693	$ 9,718	$ 9,765	$ 9,548
Interest expense	975	822	982	1,031	862
Net interest income	10,360	9,871	8,736	8,734	8,686
Provision for loan losses	329	103	139	69	772
Net interest income after provision for loan losses	10,031	9,768	8,597	8,665	7,914
Noninterest income	1,137	1,091	1,119	1,003	1,114
Noninterest expense	7,505	7,025	6,598	6,606	6,342
Income tax expense	455	523	466	472	369
Net income	$ 3,208	$ 3,311	$ 2,652	$ 2,590	$ 2,317
Per share data:					
Basic earnings per share	$ 2.96	$ 3.06	$ 2.45	$ 2.39	$ 2.14
Cash dividends per share	$ 1.15	$ 1.03	$ 0.90	$ 0.82	$ 0.87
Book value at year end	$ 25.65	$ 34.86	$ 33.43	$ 31.00	$ 28.91
Balance sheet data at end of year					
Available-for-sale securities	$ 72,463	$ 95,175	$ 69,919	$ 37,234	$ 36,496
Held to maturity securities	-	10,607	11,701	19,477	21,525
Total loans, net	214,894	185,289	164,571	155,061	153,678
Total assets	316,208	318,938	274,364	235,751	229,936
Deposits	279,177	277,743	233,621	199,227	196,056
Stockholders' equity	27,798	37,781	36,225	33,598	31,327
Selected ratios					
Return on average assets	1.03%	1.12%	1.04%	1.11%	0.98%
Return on average equity	10.47	9.06	7.63	7.93	7.53
Dividend payout ratio	38.84	33.71	36.77	34.30	40.68
Average equity to average assets	9.83	12.39	13.60	14.01	13.02

Common Stock Prices and Dividends Paid

The common stock of the Bank is not listed on a registered exchange. However, the investment firm of Davenport and Company, LLC has agreed to execute trades.

Following are listings of the quarterly high and low sales prices of Bank stock during 2022 and 2021, based on actual sales prices known to the Bank, along with the dividends that were paid during those periods. Prices do not necessarily reflect unreported trades, which may have been at lower or higher prices.

2022	High	Low	Dividends
1st Quarter	$ 32.50	$ 28.00	$ 0.65
2nd Quarter	$ 31.50	$ 29.00	-
3rd Quarter	$ 29.50	$ 26.75	$ 0.50
4th Quarter	$ 26.90	$ 26.50	-

2021	High	Low	Dividends
1st Quarter	$ 27.50	$ 25.00	$ 0.53
2nd Quarter	$ 27.50	$ 25.75	-
3rd Quarter	$ 50.00	$ 26.85	$ 0.50
4th Quarter	$ 30.00	$ 27.62	-

As of December 31, 2022, there were 1,083,660 outstanding shares of Bank common stock, par value $2.00 per share, held by 883 shareholders of record.

The Bank is subject to certain regulatory restrictions pertaining to the amount of dividends that it may pay. The Federal Reserve restricts, without prior approval, the total dividend payments of a member bank in any calendar year to the bank's net income of that year, as defined, combined with its retained net income of the preceding two calendar years, less any required transfers to surplus. At December 31, 2022, retained earnings which are free of such restrictions amounted to approximately $5,833,535. Please reference Note 11 of the Notes to Consolidated Financial Statements for a discussion of dividend restrictions and capital requirements.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
The Farmers Bank of Appomattox
Appomattox, VA

Opinion
We have audited the consolidated financial statements of The Farmers Bank of Appomattox and its Subsidiary (the Bank), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, the related consolidated statements of income, comprehensive (loss) income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

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

Basis for Opinion
We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the 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.

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 for 12 months beyond the date of the financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment 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 judgment, 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

Management is responsible for the other information included in the annual report. The other information comprises the President's Letter and schedule of 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 form of assurance thereon.

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

Yount, Hyde & Barbour, P.C.

Richmond, VA
March 13, 2023

THE FARMERS BANK OF APPOMATTOX AND SUBSIDIARY
Consolidated Balance Sheets
December 31, 2022 and 2021
(In thousands, except share and per share data)

Assets	2022	2021
Cash and cash equivalents		
Cash and due from banks	$ 4,285	$ 5,154
Federal funds sold	4,361	4,750
Total cash and cash equivalents	8,646	9,904
Securities		
Available-for-sale, at fair value	72,463	95,175
Held-to-maturity, at amortized cost	-	10,607
Loans, net of allowance for loan losses ($1,100 and $987)	214,894	185,289
Bank premises and equipment, net	2,577	2,651
Accrued interest receivable	1,330	1,326
Investment in bank-owned life insurance	9,753	9,527
Prepaid pension expense	1,192	2,055
Deferred income tax	2,811	-
Other real estate owned, net of valuation allowance	118	186
Other assets	2,424	2,218
Total assets	$ 316,208	$ 318,938
Liabilities and Stockholders' Equity		
Deposits		
Demand – noninterest bearing	$ 58,354	$ 72,410
Demand – interest bearing	71,376	66,945
Savings	73,520	70,789
Time:		
Certificates of deposit of $250 and over	19,676	12,875
Other	56,251	54,724
Total deposits	279,177	277,743
Securities sold under repurchase agreements and other borrowings	7,976	2,005
Accrued interest payable	156	87
Deferred income taxes	-	452
Other liabilities	1,101	870
Total liabilities	288,410	281,157
Stockholders' equity		
Common stock, $2 par value. Authorized 1,600,000 shares: issued and outstanding 1,083,660 shares	2,167	2,167
Additional paid-in capital	1,000	1,000
Retained earnings	37,261	35,299
Accumulated other comprehensive loss	(12,630)	(685)
Total stockholders' equity	27,798	37,781
Total liabilities and stockholders' equity	$ 316,208	$ 318,938

See notes to consolidated financial statements

THE FARMERS BANK OF APPOMATTOX AND SUBSIDIARY
Consolidated Statements of Income and Comprehensive Income
Years Ended December 31, 2022 and 2021
(In thousands, except per share data)

	2022	2021
Interest income		
Interest and fees on loans	$ 9,486	$ 8,866
Interest on securities		
U.S. Government agencies	82	121
Obligations of states and political subdivisions – nontaxable	1,072	1,127
Obligations of states and political subdivisions – taxable	355	362
Corporate obligations	193	156
Mortgage backed securities	112	55
Interest on federal funds sold	35	6
Total interest income	11,335	10,693
Interest expense		
Interest on deposits	867	814
Interest on securities sold under repurchase agreements and other borrowings	108	8
Total interest expense	975	822
Net interest income	10,360	9,871
Provision for loan losses	329	103
Net interest income after provision for loan losses	10,031	9,768
Noninterest income		
Service charges on deposit accounts	490	476
Gain on sales, calls or maturities of securities	3	1
Income from bank-owned life insurance	226	191
Other	418	423
Total noninterest income	1,137	1,091
Noninterest expense		
Salaries and employee benefits	4,012	3,748
Expenses of premises and equipment	671	670
Other operating expenses	2,822	2,607
Total noninterest expense	7,505	7,025
Income before income tax expense	3,663	3,834
Income tax expense	455	523
Net income	3,208	3,311
Other comprehensive loss		
Unrealized (loss) on available-for-sale securities, net of deferred income tax (benefit) of $(3,026) and $(258) in 2022 and 2021, respectively.	(11,385)	(970)
Reclassification of gains recognized in net income, net of income tax of $1 and $0 in 2022 and 2021, respectively.	(2)	(1)
Change in funded status of pension, net of deferred income tax (benefit) expense of $(149) and $88 in 2022 and 2021, respectively.	(558)	333
Total other comprehensive loss	(11,945)	(638)
Comprehensive (loss) income	$ (8,737)	$ 2,673
Per share data:		
Earnings per share, basic and diluted	$ 2.96	$ 3.06
Cash dividends per share	$ 1.15	$ 1.03

See notes to consolidated financial statements

THE FARMERS BANK OF APPOMATTOX AND SUBSIDIARY
Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2022 and 2021
(In thousands, except per share data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)	Total Stockholders' Equity
Balances at January 1, 2021	$ 2,167	$ 1,000	$ 33,105	$ (47)	$ 36,225
Net income	-	-	3,311	-	3,311
Cash dividends ($1.03 per share)	-	-	(1,117)	-	(1,117)
Other comprehensive loss	-	-	-	(638)	(638)
Balances at December 31, 2021	**2,167**	**1,000**	**35,299**	**(685)**	**37,781**
Net income	-	-	3,208	-	3,208
Cash dividends ($1.15 per share)	-	-	(1,246)	-	(1,246)
Other comprehensive loss	-	-	-	(11,945)	(11,945)
Balances at December 31, 2022	**$ 2,167**	**$ 1,000**	**$ 37,261**	**$ (12,630)**	**$ 27,798**

See notes to consolidated financial statements

THE FARMERS BANK OF APPOMATTOX AND SUBSIDIARY
Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021
(In thousands)

	2022	2021
Cash flow from operating activities:		
Net income	$ 3,208	$ 3,311
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of bank premises and equipment	254	258
Net gain on sale, call or maturity of investment securities	(3)	(1)
Net amortization and accretion of premiums and discounts on securities	672	653
Provision for loan losses	329	103
Provision for deferred income taxes	(88)	14
Net increase in cash surrender value of bank-owned life insurance	(226)	(191)
Net gain on the sale of other real estate	-	(6)
Net loss on disposition of bank premises and equipment	17	-
Net (increase) decrease in:		
Accrued interest receivable	(4)	(161)
Prepaid pension expense	156	28
Other assets	(205)	(22)
Net increase (decrease) in:		
Accrued interest payable	69	(2)
Other liabilities	231	(21)
Net cash provided by operating activities	4,410	3,963
Cash flow from investing activities:		
Proceeds from sales of available-for-sale securities	$ 7,753	$ -
Proceeds from maturities and calls of available-for-sale securities	14,030	12,995
Proceeds from maturities and calls of held to maturity securities	900	1,020
Principal payments from mortgage-backed securities	723	1,306
Net proceeds from the sale of other real estate	68	56
Purchases of available-for-sale securities	(5,170)	(41,364)
Net increase in loans	(29,934)	(20,909)
Purchases of bank premises and equipment	(197)	(156)
Purchase of bank-owned life insurance	-	(2,800)
Net cash used in investing activities	(11,827)	(49,852)
Cash flow from financing activities:		
Net (decrease) increase in demand deposits and savings accounts	(6,894)	36,911
Net increase in time deposits	8,328	7,211
Net increase (decrease) in securities sold under repurchase agreements	721	(925)
Proceeds from short term borrowings	5,250	-
Cash dividends paid	(1,246)	(1,117)
Net cash provided by financing activities	6,159	42,080
Net decrease in cash and cash equivalents	(1,258)	(3,809)
Cash and cash equivalents, beginning of year	9,904	13,713
Cash and cash equivalents, end of year	$ 8,646	$ 9,904

THE FARMERS BANK OF APPOMATTOX AND SUBSIDIARY
Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021
(In thousands)

		2022		2021
Supplemental disclosure of cash flow information				
Interest paid during the period	$	906	$	824
Federal income tax paid during the period	$	357	$	549
Supplemental schedule of noncash investing and financing activities				
Transfers from loans to other real estate owned	$	-	$	88
Unrealized losses on available-for-sale securities, net of income tax benefit of $3,026 and $258 in 2022 and 2021, respectively	$	(14,414)	$	(1,229)
Unrecognized net actuarial gain (loss) in defined benefit plan, net of an income tax expense (benefit) of $(149) and $88 in 2022 and 2021, respectively	$	(558)	$	333
Transfer of held to maturity securities to available-for-sale securities	$	9,659	$	-

See notes to consolidated financial statements

Note 1 - Summary of significant accounting policies

The accounting and reporting policies of The Farmers Bank of Appomattox and its wholly owned subsidiary, Farmers Bank Financial Services, Inc., conform to accounting principles generally accepted in the United States of America ("GAAP") and general practices within the banking industry. The following is a summary of the more significant accounting policies:

Consolidation

The consolidated financial statements include the accounts of The Farmers Bank of Appomattox and its wholly owned subsidiary (collectively, "the Bank"). The wholly owned subsidiary, Farmers Bank Financial Services, Inc., is utilized to account for the Bank's investment in two insurance companies. All significant intercompany balances and transactions have been eliminated in the consolidation.

Use of estimates

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the consolidated balance sheets and income and expenses for each year. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to determination of the allowance for loan losses, the fair value of investment securities, and pension benefit obligations.

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold.

Securities

The Bank classifies its securities in two categories: (1) debt securities that the Bank has the positive intent and ability to hold to maturity are classified as "held to maturity securities" and reported at amortized cost. Amortization of premiums and accretion of discounts are adjusted on a basis which approximates the level yield method; and (2) debt securities not classified as held to maturity securities are classified as "available-for-sale securities" and reported at fair value, with unrealized gains and losses excluded from net income and reported in a separate component of stockholders' equity.

Gains or losses on disposition of securities are based on the net proceeds and adjusted carrying values of the securities matured, called or sold, using the specific identification method on a trade date basis. A decline in the market value of any available-for-sale or held to maturity security below cost that is deemed other than temporary is charged to net income, resulting in the establishment of a new cost basis for the security.

The Bank is required to maintain an investment in the capital stock of the Federal Reserve Bank, Community Bankers' Bank, and the Federal Home Loan Bank of Atlanta. No ready market exists for this stock, and it has no quoted market value. The Bank's investment in these stocks is recorded at cost and is included in other assets on the Bank's consolidated balance sheet.

Note 1 - Summary of significant accounting policies (continued)

Securities

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell or it is more likely than not it will be required to sell a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings.

For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) impairment related to credit loss, which must be recognized in the income statement, and 2) impairment related to other factors, which is recognized in other comprehensive loss. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

Loans and allowance for loan losses

Loans are stated at the amount of unpaid principal, reduced by unearned income and fees on loans and an allowance for loan losses. The allowance for loan losses is a valuation allowance consisting of the cumulative effect of the provision for loan losses, plus any amounts recovered on loans previously charged off, minus loans charged off. The provision for loan losses is charged to expense. Loans are charged against the allowance for loan losses when management believes the collectability of the principal is unlikely.

Modifications to a borrower's debt agreement are considered troubled debt restructurings ("restructurings") if a concession is granted for economic or legal reasons related to a borrower's financial difficulties that otherwise would not be considered. Restructurings are undertaken in order to improve the likelihood of recovery on the loan and may take the form of modifications made with the stated interest rate lower than the current market rate for new debt with similar risk; modifications to the terms and conditions of the loan that fall outside of normal underwriting policies and procedures; or a combination of these modifications. Restructurings can involve loans remaining in nonaccrual status, moving to nonaccrual status, or continuing in accruing status, depending on the individual facts and circumstances of the borrower.

Loans are considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts according to the contractual terms of the loan agreement when due. Impaired loans are measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate or at the fair value of the collateral less the estimated selling costs, if the loan is collateral dependent.

Larger groups of homogeneous loans such as real estate mortgage loans, individual consumer loans and home equity loans are evaluated collectively for impairment. Impairment losses are recorded as a charge to the allowance for loan losses.

Note 1 - Summary of significant accounting policies (continued)

Loans and allowance for loan losses

The allowance for loan losses is an amount management believes will be adequate to absorb probable and estimable losses inherent in the loan portfolio. Management determines the adequacy of the allowance based upon reviews of individual credits, delinquencies, current economic conditions, the risk characteristics of the various categories of loans, recent loan loss experience and other pertinent factors. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. It is reasonably possible that management's estimate of loan losses and the related allowance may change materially in the near term. However, the amount of that change cannot be estimated. Various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance for loan losses based on their judgments about information available at the time of their examinations.

Loans are considered past due when the contractual amounts due with respect to principal and interest are not received within 30 days of their contractual due date. Loans are generally placed in non-accrual status if they are 90 or more days past due unless they are in the process of collection. Interest related to non-accrual loans is recognized on the cash basis. Loans in non-accrual status are generally the collectible portion of bankrupt accounts. Loans are generally charged off when the collection of principal and interest is 90 days or more past due and the loan is considered uncollectible.

Loan origination fees and the corresponding loan origination costs are deferred, and the net amount is amortized over the contractual life of the related loans as an adjustment of yield.

Bank premises and equipment

Land is carried at cost, while bank premises and equipment are stated at cost, net of accumulated depreciation. Depreciation on bank premises and equipment is charged to expense over the estimated useful lives of the assets which range from three to forty years, principally on the straight-line method. The cost of assets retired and sold and the related accumulated depreciation are eliminated from the accounts and the resulting gains or losses are included in determining net income. Expenditures for maintenance and repairs are charged to expense as incurred, and improvements and betterments are capitalized.

Other real estate owned

Other real estate owned consists of properties acquired through foreclosure sales or deed in lieu of foreclosure. At the time of the foreclosure, the properties are recorded at the fair value less estimated costs to sell the property, establishing a new cost basis. Subsequently these properties are carried at the lower of cost or fair value less the estimated costs to sell the property. Losses from the acquisition of property in full or partial satisfaction of loans are charged against the allowance for loan losses. Subsequent write-downs, if any, are charged to expense. Gains and losses on the sales of foreclosed properties are included in determining net income in the year of the sale.

Note 1 - Summary of significant accounting policies (continued)

Defined benefit pension plan

The Bank maintains a noncontributory defined benefit pension plan covering substantially all of its employees. The overfunded or underfunded status of the pension plan is recognized as an asset or liability on the consolidated balance sheet, and changes in the funded status are recognized in comprehensive (loss) income. The net periodic pension expense includes a service cost component, interest on the projected benefit obligation, a component reflecting the actual return on plan assets, and the effect of deferring and amortizing certain actuarial gains and losses. The Bank's normal funding policy is to contribute to the pension plan amounts necessary to satisfy the Internal Revenue Service's funding standards and to the extent that they are deductible for federal income tax purposes.

Bank-owned life insurance

The Bank has purchased life insurance on key employees. The insurance is recorded at the cash surrender value on the consolidated balance sheet. Income generated from the policies is recorded as non-interest income.

Advertising

The Bank expenses advertising costs as incurred. These costs totaled $99 and $47 in 2022 and 2021, respectively.

Income taxes

Income taxes are recorded using the asset and liability method, whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in net income in the period that includes the enactment date.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes that it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheets, along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Note 1 - Summary of significant accounting policies (continued)

Earnings per share

Basic and diluted earnings per share is computed based on the weighted-average number of shares outstanding during each year. The weighted-average number of common shares outstanding was 1,083,660 for 2022 and 2021. The Bank has no potentially dilutive common shares.

Comprehensive (loss) income

Accounting Standards Codification ("ASC") 220-10, *Comprehensive Income*, requires the Bank to classify items of "Other Comprehensive (Loss) Income" (such as net unrealized gains (losses) on available-for-sale securities) by their nature in a financial statement and present the accumulated balance of other comprehensive income separately from retained earnings and surplus in the equity section of a balance sheet. The Bank's other comprehensive (loss) income consists of the change in the net unrealized gains (losses) on securities available-for-sale, net of income taxes, and the change in the funded status of the Bank's defined benefit pension plan, net of income taxes.

Fair value measurements

ASC Topic 820, "Fair Value Measurements and Disclosures," defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and requires certain disclosures about fair value measurements. Please reference Note 15 addressing fair value measurements. In general, fair values of financial instruments are based on quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use as inputs observable market-based parameters. Any such valuation adjustments are applied consistently over time.

Reclassifications

Certain immaterial reclassifications have been made to prior period balances to conform to the current year presentations. Reclassifications had no impact on prior year net income or stockholders' equity.

Recent accounting pronouncements

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The ASU, as amended, requires an entity to measure expected credit losses for financial assets carried at amortized cost based on historical experience, current conditions, and reasonable and supportable forecasts. Among other things, the ASU also amended the impairment model for available for sale securities and addressed purchased financial assets with deterioration. The Bank adopted ASU 2016-13 as of January 1, 2023 in accordance with the required implementation date and recorded the impact of adoption to retained earnings, net of deferred income taxes, as required by the standard. The adjustment recorded at adoption was not significant to the overall allowance for credit losses or shareholders' equity as compared to December 31, 2022, and consisted of adjustments to the allowance for credit losses on loans and an adjustment to the Bank's reserve for unfunded loan commitments. Subsequent to adoption, the Bank will record adjustments to its allowance(s) for credit losses and reserves for unfunded commitments through the provision for credit losses in the consolidated statements of income.

Note 1 - Summary of significant accounting policies (continued)

Recent accounting pronouncements

The Bank is utilizing a third-party model to tabulate its estimate of current expected credit losses, using a weighted average remaining maturity methodology. In accordance with ASC 326, the Bank has segmented its loan portfolio based on similar risk characteristics which included call report code and risk rating. The Bank primarily utilizes call report peer group data consisting of institutions of similar size for its reasonable and supportable forecasting of current expected credit losses. To further adjust the allowance for credit losses for expected losses not already included within the quantitative component of the calculation, the Bank may consider the following qualitative adjustment factors: lending policies and procedures, state/local economic factors, nature and volume of loans, lending management, non-performing assets and loan losses, loan review, valuation of collateral, loan concentrations, and other external factors. The Bank's CECL implementation process was overseen by the Chief Financial Officer and the Bank's Audit Committee, and included an assessment of data availability and gap analysis, data collection, consideration and analysis of multiple loss estimation methodologies, an assessment of relevant qualitative factors and correlation analysis of multiple potential loss drivers and their impact on the Bank's historical loss experience. During 2022, the Bank calculated its current expected credit losses model in parallel to its incurred loss model in order to further refine the methodology and model.

In March 2022, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2022-02, "Financial Instruments-Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures." ASU 2022-02 addresses areas identified by the FASB as part of its post-implementation review of the credit losses standard (ASU 2016-13) that introduced the CECL model. The amendments eliminate the accounting guidance for troubled debt restructurings by creditors that have adopted the CECL model and enhance the disclosure requirements for loan refinancings and restructurings made with borrowers experiencing financial difficulty. In addition, the amendments require a public business entity to disclose current-period gross write-offs for financing receivables and net investment in leases by year of origination in the vintage disclosures. The amendments in this ASU should be applied prospectively, except for the transition method related to the recognition and measurement of TDRs, an entity has the option to apply a modified retrospective transition method, resulting in a cumulative-effect adjustment to retained earnings in the period of adoption. For entities that have adopted ASU 2016-13, ASU 2022-02 is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. For entities that have not yet adopted ASU 2016-13, the effective dates for ASU 2022-02 are the same as the effective dates in ASU 2016-13. Early adoption is permitted if an entity has adopted ASU 2016-13. An entity may elect to early adopt the amendments about TDRs and related disclosure enhancements separately from the amendments related to vintage disclosures. The Bank is currently assessing the impact that ASU 2022-02 will have on its consolidated financial statements.

Recently Adopted Pronouncements

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740) – Simplifying the Accounting for Income Taxes." The ASU is expected to reduce cost and complexity related to the accounting for income taxes by removing specific exceptions to general principles in Topic 740 (eliminating the need for an organization to analyze whether certain exceptions apply in a given period) and improving financial statement preparers' application of certain income tax-related guidance. This ASU is part of the FASB's simplification initiative to make narrow-scope simplifications and improvements to accounting standards through a series of short-term projects. ASU 2019-12 was effective for the Bank on January 1, 2021. The adoption of ASU 2019-12 had no material impact on the Bank's consolidated financial statements.

(In thousands, except share and per share data)

Note 2 - Securities

The amortized costs, gross unrealized gains, gross unrealized losses and fair values of securities are as follows:

	December 31, 2022			
	Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Fair Values
Available-for-sale				
U.S. Government agencies	$ 6,984	$ -	$ (1,077)	$ 5,907
Obligations of states and political subdivisions – nontaxable	50,625	1	(7,649)	42,977
Obligations of states and political subdivisions – taxable	15,247	-	(3,652)	11,595
Mortgage-backed securities	5,824	-	(875)	4,949
Corporate	7,663	-	(628)	7,035
Total	$ 86,343	$ 1	$ (13,881)	$ 72,463
Held to maturity				
Total	$ -	$ -	$ -	$ -

	December 31, 2021			
	Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Fair Values
Available-for-sale				
U.S. Treasury Bills	$ 10,000	$ -	$ -	$ 10,000
U.S. Government agencies	8,979	26	(223)	8,782
Obligations of states and political subdivisions – nontaxable	48,731	710	(86)	49,355
Obligations of states and political subdivisions – taxable	15,821	201	(184)	15,838
Mortgage-backed securities	4,431	49	(37)	4,443
Corporate	6,679	118	(40)	6,757
Total	$ 94,641	$ 1,104	$ (570)	$ 95,175
Held to maturity				
Held to maturity				
U.S. Government agencies	$ 500	$ 1	$ -	$ 501
Obligations of states and political subdivisions – nontaxable	10,107	481	-	10,588
Total	$ 10,607	$ 482	$ -	$ 11,089

On September 14, 2022, the Bank transferred securities classified as held to maturity with amortized costs and fair values of $9,659 and $9,439, respectively, to securities classified as available-for-sale. At December 31, 2022, these securities are included in the totals for securities available-for-sale at fair value.

(In thousands, except share and per share data)

Note 2 – Securities (continued)

The amortized costs and fair values of securities at December 31, 2022, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale		Held to Maturity	
	Amortized Cost	Fair Values	Amortized Cost	Fair Values
Due in one year or less	$ 4,135	$ 3,616	$ -	$ -
Due after one year through five years	20,454	18,839	-	-
Due after five years through ten years	53,388	43,891	-	-
Due after ten years	8,366	6,117	-	-
Total	$ 86,343	$ 72,463	$ -	$ -

The amortized costs of securities pledged to collateralize public deposits and securities sold under repurchase agreements and for other purposes as required or permitted by law were approximately $46,675 and $27,480 (fair value of $38,662 and $27,674) at December 31, 2022 and 2021, respectively.

During 2022 and 2021, the Bank had called and matured securities with amortized costs totaling $14,930 and $14,014, respectively. Gross realized gains on the called and matured securities were zero and $1, respectively, while there were no gross realized losses during either period. During 2022, the Bank sold available-for-sale securities with amortized costs totaling $7,750. Gross realized gains on these sales were $27, while gross realized losses on these sales were $24. During 2021 there were no available-for-sale securities that were sold.

The following table shows the gross unrealized losses and fair value of the Bank's investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2022 and 2021:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2022:						
U. S. Government agencies	$ -	$ -	$ 5,907	$ (1,077)	$ 5,907	$ (1,077)
Obligations of state and political subdivisions	19,187	(1,965)	34,793	(9,336)	53,980	(11,301)
Mortgage-backed securities	2,613	(349)	2,336	(526)	4,949	(875)
Corporate	5,645	(406)	1,390	(222)	7,035	(628)
Total	$ 27,445	$ (2,720)	$ 44,426	$ (11,161)	$ 71,871	$ (13,881)

(In thousands, except share and per share data)

Note 2 – Securities (continued)

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2021:						
U. S. Government agencies	$ 2,902	$ (79)	$ 3,856	$ (144)	$ 6,758	$ (223)
Obligations of state and political subdivisions	23,086	(214)	2,014	(56)	25,100	(270)
Mortgage-backed securities	2,893	(37)	-	-	2,893	(37)
Corporate	2,074	(40)	-	-	2,074	(40)
Total	$ 30,955	$ (370)	$ 5,870	$ (200)	$ 36,825	$ (570)

As of December 31, 2022, there were 104 securities identified above with unrealized losses, of which sixty were in an unrealized loss position of 12 months or more. As of December 31, 2021, there were 40 securities identified above with unrealized losses, of which seven were in an unrealized loss position of 12 months or more. These unrealized losses are all related to the change in market interest rates and not to the credit quality of the issuers. When analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. As management has the ability and intent to hold debt securities for the foreseeable future and believes these securities will recover their amortized cost, no declines are deemed to be other-than-temporary at December 31, 2022 and 2021.

Note 3 - Loans and allowance for loan losses

A summary of loans, net is as follows:

	December 31	
	2022	2021
Commercial loans	$ 12,952	$ 11,234
Real estate construction loans	13,666	14,316
Real estate mortgage loans	141,383	112,653
Consumer loans	39,877	41,474
Other loans	8,652	7,000
Total loans, gross	216,530	186,677
Less unearned income and fees, net	(536)	(401)
Loans, net of unearned income and fees	215,994	186,276
Less allowance for loan losses	(1,100)	(987)
Loans, net	$ 214,894	$ 185,289

(In thousands, except share and per share data)

Note 3 - Loans and allowance for loan losses (continued)

Following is a breakdown of real estate mortgage loans:

	December 31	
Real estate mortgage loans:	2022	2021
Commercial mortgage loans	$ 33,699	$ 31,760
1 – 4 family residential mortgages	91,828	64,634
Home equity lines of credit	12,246	12,889
Other mortgages	3,610	3,370
Total real estate mortgage loans	$ 141,383	$ 112,653

Loan origination / Risk management. The Bank has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions. The primary categories of loans originated by the Bank are real estate mortgage loans, real estate construction and land development loans, commercial loans and consumer loans.

Real estate mortgage loans are primarily underwritten as cash flow loans and secondarily as loans secured by real estate. Commercial real estate mortgage loans are subject to underwriting standards and processes similar to commercial loans where evaluation of the borrower's ability to operate profitably and repay their obligations as agreed is critical to the underwriting process. Commercial real estate lending typically involves higher loan principal amounts, and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy.

Real estate construction and land development loans are generally based upon estimates of costs and value associated with the complete project. These loans often involve the disbursement of substantial funds, with repayment dependent on the ultimate success of the project. Management is aware that cost estimates may be inaccurate; thus, physical inspections of the property during the construction phase to assess whether the estimated percentage of completeness is in line with the requested loan advance are critical to the loan management process. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property, or some other interim loan commitment provided while permanent financing is being obtained. These loans are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of the property, general economic conditions, and the availability of permanent financing.

Note 3 - Loans and allowance for loan losses (continued)

Residential real estate mortgage loans are primarily underwritten based on an assessment of the borrower's credit history and estimated ability to repay the mortgage loan based on a comparison of the borrower's verified income and current obligations, including the requested loan. The value of the property securing the loan is generally determined by an independent real estate appraisal. The Bank generally lends up to 80% of the value of the property, thus mitigating the risk associated with these loans. Home equity loans are also underwritten utilizing a maximum loan to value percentage of 80%.

Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. Once it is determined that the borrower's management possesses sound ethics and solid business acumen, the Bank's management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. Management is aware that the cash flows of the borrower may not match projections and collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets such as inventory or equipment and may incorporate a personal guarantee. Some smaller amount, short-term loans are made on an unsecured basis.

The Bank typically originates consumer loans utilizing an independent, third-party credit bureau report to supplement the underwriting process. Consumer loans are primarily made based on an assessment of the borrower's credit history and the estimated ability to repay the borrower's obligations based on a comparison of the borrower's stated income to existing obligations, including the loan being requested. These loans are generally secured by the asset being purchased, secured by unencumbered assets already owned by the borrower or unsecured. The risk associated with consumer loans is minimized by the relatively small amount of the loans spread among a large number of borrowers.

During 2021 and 2020, the Bank originated loans under the Paycheck Protection Program (PPP) of the Small Business Administration (SBA). These PPP loans totaled zero and $364 as of December 31, 2022 and 2021, respectively, and are included in commercial loans. As these loans are 100% guaranteed by the SBA, no loan loss allowance is required. The majority of the PPP loans have a two-year term; however, as of December 31, 2022, all of these loans had been forgiven by the SBA. These loan balances included net fees of zero and $42 at December 31, 2022 and 2021, respectively, which were being amortized as an adjustment of the related loan yield on a straight-line basis, which is substantially equivalent to the results obtained using the effective interest method. Any unamortized net fee remaining on loans forgiven or prepaid by the borrower was recorded as income.

The Bank maintains an independent loan administration department that reviews all loan documentation for accuracy, completeness, and compliance with Bank policies and procedures. Results of these reviews are presented to management. The loan administration process compliments and reinforces the risk identification and assessment decisions made by lenders.

(In thousands, except share and per share data)

Note 3 - Loans and allowance for loan losses (continued)

In the ordinary course of business, the Bank has granted loans to certain directors, executive officers, and their affiliates (collectively referred to as "related parties"). These loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other unaffiliated persons and do not involve more than normal risk of collectability. Activity in related party loans in 2022 and 2021 is presented in the following table:

	2022	2021
Balance of related party loans, January 1	$ 901	$ 1,210
Principal additions	133	110
Principal reductions	(52)	(419)
Reclassifications [(1)]	(213)	-
Balance of related party loans, December 31	$ 769	$ 901

(1) Reclassifications relate to a director who exercised control over a related party affiliate in 2021, and through a retirement in 2022, no longer exercised control over the related party affiliate as of December 31, 2022.

Non-accrual loans, segregated by type of loan, as of December 31, 2022 and 2021, were as follows:

	2022	2021
1-4 family residential real estate mortgages	$ 404	$ 199
Commercial mortgage loans	-	-
Other mortgage loans	28	35
Real estate construction loans	94	107
Commercial loans	433	744
Consumer loans	221	193
Total non-accrual loans	$ 1,180	$ 1,278

Had non-accrual loans performed in accordance with their original contract terms, the Bank would have recognized additional interest income, net of income tax, of approximately $73 in 2022 and $83 in 2021.

(In thousands, except share and per share data)

Note 3 - Loans and allowance for loan losses (continued)

An age analysis of past due loans, segregated by type of loan, net of unearned income and fees, as of December 31, 2022 and 2021 is as follows:

	Loans 30-89 Days Past Due	Loans 90 or more Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
December 31, 2022:						
Real estate mortgage loans:						
Commercial mortgages	$ -	$ 162	$ 162	$ 33,455	$ 33,617	$ 162
1-4 family res. mortgages	3,655	222	3,877	87,438	91,315	-
Home equity lines of credit	47	-	47	12,212	12,259	-
Other mortgages	25	3	28	3,566	3,594	-
Real estate construction loans	214	-	214	13,389	13,603	-
Commercial loans	102	433	535	12,420	12,955	-
Consumer loans	2,799	191	2,990	37,009	39,999	13
Other loans	-	-	-	8,652	8,652	-
Total	$ 6,842	$ 1,011	$ 7,853	$ 208,141	$ 215,994	$ 175
December 31, 2021:						
Real estate mortgage loans:						
Commercial mortgages	$ 391	$ -	$ 391	$ 31,299	$ 31,690	$ -
1-4 family res. mortgages	4,060	199	4,259	60,005	64,264	-
Home equity lines of credit	-	-	-	12,907	12,907	-
Other mortgages	-	35	35	3,319	3,354	-
Real estate construction loans	103	107	210	14,049	14,259	-
Commercial loans	65	750	815	10,381	11,196	6
Consumer loans	2,245	183	2,428	39,178	41,606	20
Other loans	-	-	-	7,000	7,000	-
Total	$ 6,864	$ 1,274	$ 8,138	$ 178,138	$ 186,276	$ 26

Loans are considered impaired when, based on current information and events, it is probable the Bank will be unable to collect all amounts in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments when due. Impairment is evaluated in total for smaller-balance loans of a similar nature and on an individual loan basis for other loans. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's effective rate or at the fair value of collateral if repayment is expected solely from the collateral. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

(In thousands, except share and per share data)

Note 3 - Loans and allowance for loan losses (continued)

The following table provides a breakdown of the Bank's recorded investment of impaired loans by loan type as of December 31, 2022 and 2021. The Bank received interest payments totaling $64 and $59 on these loans during 2022 and 2021, respectively. The unpaid principal balance of impaired loans totaled $1,957 and $2,138 as of December 31, 2022 and 2021, respectively.

	Impaired Loans with no Allowance	Impaired Loans with Allowance	Total Impaired Loans	Related Allowance	Average Impaired Loans
December 31, 2022:					
Real estate mortgage loans:					
Commercial mortgages	$ -	$ -	$ -	$ -	$ -
1-4 family residential mortgages	980	-	980	-	1,012
Home equity lines of credit	9	48	57	5	45
Other mortgages	28	-	28	-	32
Real estate construction loans	94	-	94	-	101
Commercial loans	426	198	624	48	692
Consumer loans	36	67	103	24	98
Total	$ 1,573	$ 313	$ 1,886	$ 77	$ 1,980
December 31, 2021:					
Real estate mortgage loans:					
Commercial mortgages	$ -	$ -	$ -	$ -	$ -
1-4 family residential mortgages	1,027	-	1,027	-	1,147
Home equity lines of credit	9	-	9	-	15
Other mortgages	35	-	35	-	36
Real estate construction loans	107	-	107	-	108
Commercial loans	190	581	771	122	854
Consumer loans	112	32	144	11	192
Total	$ 1,480	$ 613	$ 2,093	$ 133	$ 2,352

Note 3 - Loans and allowance for loan losses (continued)

Credit Quality Indicators. As part of the ongoing monitoring of the credit quality of the Bank's loan portfolio, management reviews certain credit quality indicators including (i) borrowers with outstanding loan balances totaling $750 or greater; (ii) loans which are past due more than 30 days; (iii) loan charge offs and recoveries; (iv) non-accrual loans and (v) the general economic conditions in the Bank's market and surrounding areas. Loans with a total outstanding balance of $750 or greater are reviewed semi-annually to determine whether the loans should be classified. Management reviews all loans which are past due more than 30 days and two or more payments on a monthly basis. These loans are discussed with the Board of Directors at its monthly meeting. Loan charge offs and recoveries and non-accrual loans are also reported to the Board of Directors on a monthly basis. The local general economic conditions are detailed in a written report presented to management on a quarterly basis. This report is also included in the Bank's quarterly classified loan report. Management utilizes sources such as the state realtor reports; local, state and national economic statistics (such as unemployment statistics); and other business articles to prepare this report.

The Bank utilizes a risk rating matrix to assign a risk grade to each of its loans. A description of the general characteristics of the risk grades is as follows:

Excellent / Satisfactory – These loans range from having minimal to acceptable credit risk.

Watch – These loans have acceptable credit risk but are beginning to develop potential weaknesses that may be temporary in nature but must be watched.

Other Assets Especially Mentioned ("OAEM") – These loans have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan at some future date.

Substandard – These loans are inadequately protected by the net worth or paying capacity of the borrower, and repayment may become dependent on liquidation of the underlying collateral. These loans have well-defined weaknesses, with the Bank likely sustaining a loss if the deficiencies are not corrected.

Doubtful – These loans have all of the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of the currently existing facts, conditions and values, highly questionable and improbable.

Loss – These loans are in a non-accrual status and in the process of collateral liquidation.

(In thousands, except share and per share data)

Note 3 - Loans and allowance for loan losses (continued)

The following table provides a breakdown of the Bank's loans by risk grade as of December 31, 2022 and 2021.

	Real estate mortgage loans	Real estate construction loans	Commercial loans	Consumer loans	Other loans	Total
December 31, 2022						
Excellent / Satisfactory	$ 132,566	$ 13,403	$ 12,118	$ 39,494	$ 8,652	$ 206,233
Watch	3,409	-	151	122	-	3,682
OAEM	1,197	109	-	-	-	1,306
Substandard	3,613	91	260	383	-	4,347
Doubtful	-	-	426	-	-	426
Loss	-	-	-	-	-	-
Total	$ 140,785	$ 13,603	$ 12,955	$ 39,999	$ 8,652	$ 215,994
December 31, 2021						
Excellent / Satisfactory	$ 105,716	$ 14,111	$ 10,020	$ 41,139	$ 7,000	$ 177,986
Watch	2,808	42	326	52	-	3,228
OAEM	242	-	-	25	-	267
Substandard	3,449	106	118	390	-	4,063
Doubtful	-	-	732	-	-	732
Loss	-	-	-	-	-	-
Total	$ 112,215	$ 14,259	$ 11,196	$ 41,606	$ 7,000	$ 186,276

The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's best estimate of probable and estimable losses inherent within the existing portfolio of loans. The Bank's allowance for loan loss methodology includes allowance allocations calculated in accordance with ASC Topic 310, "*Receivables*" and allowance allocations calculated in accordance with ASC Topic 450, "*Contingencies.*" Accordingly, the methodology is based on historical loss experience by type of credit, specific homogeneous risk pools and specific loss allocations with adjustments for current events and conditions. The Bank's process for determining the appropriate level of the allowance for loan losses is designed to account for credit deterioration as it occurs. The provision for loan losses reflects loan quality trends, including the levels of and trends related to non-accrual loans, past due loans, potential problem loans, criticized loans and charge offs and recoveries, among other factors. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond management's control, including, among other things, the performance of the Bank's loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

Note 3 - Loans and allowance for loan losses (continued)

The Bank's allowance for loan losses consists of three elements: (i) specific valuation allowances determined in accordance with ASC Topic 310 based on probable losses on specific loans; (ii) historical valuation allowances determined in accordance with ASC Topic 450 based on historical loan loss experience for similar loans with similar characteristics and trends, adjusted, as necessary, to reflect the impact of current conditions; and (iii) general valuation allowances determined in accordance with ASC Topic 450 based on general economic conditions and other qualitative risk factors both internal and external to the Bank.

The allowances for loan losses on specific loans are based on a regular analysis and evaluation of the specific loans. On a quarterly basis, borrowers with outstanding loan balances totaling $750 or greater are evaluated. Certain of these loans with potential problems are given an internal classification which reflects management's assessment of the borrower's ability to repay the loan, the estimated value of the underlying collateral and the economic environment and industry in which the borrower operates. The regular analysis and evaluation of problem loans is performed by the loan officers and independently reviewed and approved by management. Generally specific allowances are based on the difference between the estimated value of the underlying collateral and the balance of the loan if the loan is deemed collateral dependent. The specific allowances are determined by the Chief Executive Officer.

The Bank also determines specific valuation allowances for certain past due loans and non-accrual loans. Estimated loss ratios are applied to the balances of these loans collectively to determine the amount of the allowance. Loans past due 60 or more days are grouped in pools of similar loans with similar characteristics which currently include consumer, commercial and industrial and real estate loans. The estimated loss ratio is applied to each pool of past due loans less any loans in the pool for which a specific allowance valuation has already been determined. Likewise, non-accrual loans are grouped into pools of secured and unsecured loans, from which non-accrual loans with specific valuation allowances are subtracted prior to application of the historical loss ratios.

Historical valuation allowances are calculated based on the historical loss experience of specific types of loans. Management calculates historical loss ratios for pools of similar loans with similar characteristics based on the proportion of net charged-off loans to the total populations of loans in the pool. The historical loss ratios are updated quarterly based on the charge-off loan totals for the most recent twelve quarters. The historical valuation allowance is established for each pool of similar loans based on the product of the historical loss ratio and the total dollar amount of loans in the pool less those loans in the pool for which a specific valuation allowance has been determined. The Bank's pools of similar loans currently include consumer, commercial and industrial, real estate and real estate construction loans.

A general valuation allowance based on general economic conditions is also calculated. An economic analysis is performed by the Chief Financial Officer based on such factors as the Bank's market area industries; local, state and national unemployment statistics; general local economic conditions; and local real estate market conditions. The Bank has identified five categories of economic conditions ranging from "very good economic conditions" to "major problematic economic conditions," and a loss rate is estimated for each category. The economic allowance is calculated by applying the estimated loss rate to the total loan population less loans for which a specific valuation has been determined.

(In thousands, except share and per share data)

Note 3 - Loans and allowance for loan losses (continued)

The following table details activity in the allowance for loan losses by loan category for the years ended December 31, 2022 and 2021. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

	Real estate mortgage loans	Real estate construction loans	Commercial loans	Consumer loans	Total
Balance, December 31, 2021	$ 303	$ 36	$ 178	$ 470	$ 987
Charged-off loans	(6)	(9)	-	(317)	(332)
Loan recoveries	-	-	2	114	116
Provision for loan losses	163	18	(60)	208	329
Balance, December 31, 2022	$ 460	$ 45	$ 120	$ 475	$ 1,100
Allowance for loan losses allocated to:					
Loans individually evaluated for Impairment	$ 5	$ -	$ 48	$ 24	$ 77
Loans collectively evaluated for Impairment	455	45	72	451	1,023
Allowance for loan losses, Dec. 31, 2022	$ 460	$ 45	$ 120	$ 475	$ 1,100

	Real estate mortgage loans	Real estate construction loans	Commercial loans	Consumer loans	Total
Balance, December 31, 2020	$ 301	$ 21	$ 118	$ 641	$ 1,081
Charged-off loans	(35)	-	(17)	(253)	(305)
Loan recoveries	1	-	1	106	108
Provision for loan losses	36	15	76	(24)	103
Balance, December 31, 2021	$ 303	$ 36	$ 178	$ 470	$ 987
Allowance for loan losses allocated to:					
Loans individually evaluated for Impairment	$ -	$ -	$ 122	$ 11	$ 133
Loans collectively evaluated for Impairment	303	36	56	459	854
Allowance for loan losses, Dec. 31, 2021	$ 303	$ 36	$ 178	$ 470	$ 987

(In thousands, except share and per share data)

Note 3 - Loans and allowance for loan losses (continued)

The Bank's total loans related to each balance in the allowance for loan losses by loan type and disaggregated on the basis of the Bank's impairment methodology as of December 31, 2022 and 2021 were as follows:

	Real estate mortgage loans	Real estate construction loans	Commercial loans	Consumer loans	Other loans	Total
December 31, 2022:						
Loans individually evaluated for impairment	$ 1,065	$ 94	$ 624	$ 103	$ -	$ 1,886
Loans collectively evaluated for impairment	139,720	13,509	12,331	39,896	8,652	214,108
Total loans evaluated for impairment	$ 140,785	$ 13,603	$ 12,955	$ 39,999	$ 8,652	$215,994
December 31, 2021:						
Loans individually evaluated for impairment	$ 1,071	$ 107	$ 771	$ 144	$ -	$ 2,093
Loans collectively evaluated for impairment	111,144	14,152	10,425	41,462	7,000	184,183
Total loans evaluated for impairment	$ 112,215	$ 14,259	$ 11,196	$ 41,606	$ 7,000	$186,276

Note 4 – Troubled Debt Restructurings

ASC 310-40-20 defines a troubled debt restructuring as a restructuring of debt where a creditor for economic or legal reasons related to a debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The concession is granted by the creditor in an attempt to protect as much of its investment as possible. The concession either stems from an agreement between the creditor and the debtor or is imposed by law or a court. Troubled debt restructurings include modification of the terms of a debt, such as a reduction of the stated interest rate for the remaining original life of the debt, an extension of the maturity date or dates at a stated interest rate lower than the current market rate for new debt with similar risk, a reduction of the face amount or maturity amount of the debt as stated in the instrument or other agreement, or a reduction of accrued interest.

Management reviews all restructured loans that occur during the year for identification as troubled debt restructurings. Management identified as troubled debt restructurings certain loans for which the allowance for loan losses had previously been measured under a general allowance for loan losses methodology (ASC 450-20). Upon identifying the reviewed loans as troubled debt restructurings, management also identified them as impaired under the guidance in ASC 310-10-35.

(In thousands, except share and per share data)

Note 4 – Troubled Debt Restructurings (continued)

The Bank is working with borrowers who have currently expressed a need for relief due to the effects of COVID-19. The Bank granted relief in the form of various types of payment concessions, including interest only for up to six months or payment deferrals up to the same time frame for loans with outstanding balances of $2.1 million and $5.5 million at December 31, 2022 and 2021, respectively.

The following table presents loans in deferral by type and amount as of December 31, 2022 and 2021:

	December 31, 2022		December 31, 2021	
	Number of Loans	Principal Balance	Number of Loans	Principal Balance
Real estate mortgage loans:				
Commercial mortgages	4	$ 342	7	$ 1,903
1-4 Family residential mortgages	17	1,179	27	2,394
Other mortgages	1	221	2	253
Real estate construction loans	-	-	1	37
Commercial loans	3	69	6	141
Consumer loans	36	263	82	766
Total	61	$ 2,074	125	$ 5,494

In accordance with current regulatory guidance, none of these loans were deemed to be TDRs, as they were all current under their terms as of December 31, 2019.

Modification Categories. The Bank offers a variety of modifications to borrowers. The modification categories offered can generally be described in the following categories:

Rate Modification – A modification in which the interest rate is changed.

Term Modification – A modification in which the maturity date, timing of payments, or frequency of payments is changed.

Interest Only Modification – A modification in which the loan is converted to interest only payments for a period of time.

Payment Modification – A modification in which the dollar amount of the payment is changed, other than an interest only modification as described above.

Combination Modification – Any other type of modification, including the use of multiple categories above.

(In thousands, except share and per share data)

Note 4 – Troubled Debt Restructurings (continued)

The following tables present troubled debt restructurings as of December 31, 2022 and 2021:

	December 31, 2022			
	Number of Contracts	Accrual Status	Non-Accrual Status	Total Modifications
Real estate mortgage loans:				
Commercial mortgages	-	$ -	$ -	$ -
1-4 Family residential mortgages	2	182	-	182
Home equity lines of credit	-	-	-	-
Other mortgages	-	-	-	-
Real estate construction loans	-	-	-	-
Commercial loans	1	110	-	110
Consumer loans	5	12	-	12
Total	8	$ 304	$ -	$ 269

	December 31, 2021			
	Number of Contracts	Accrual Status	Non-Accrual Status	Total Modifications
Real estate mortgage loans:				
Commercial mortgages	-	$ -	$ -	$ -
1-4 Family residential mortgages	3	194	-	194
Home equity lines of credit	-	-	-	-
Other mortgages	-	-	-	-
Real estate construction loans	-	-	-	-
Commercial loans	1	40	-	40
Consumer loans	8	31	4	35
Total	12	$ 265	$ 4	$ 269

During the year ended December 31, 2022, the Bank had one newly restructured loan with pre-modification balances totaling $113 and post-modification balances totaling $113. During the year ended December 31, 2021, the Bank had one newly restructured loan with pre-modification balances totaling $42 and post-modification balances totaling $40. There were no troubled debt restructurings that had been restructured during the previous 12 months that resulted in default during the year ended December 31, 2022. During the year ended December 31, 2021, one newly restructured loan with a balance of $40 defaulted within the first 12 months following modification.

Loans secured by 1-4 family residential properties in process of foreclosure totaled zero and $160 at December 31, 2022 and 2021, respectively.

(In thousands, except share and per share data)

Note 5 - Bank premises and equipment

A summary of bank premises and equipment stated at cost, less accumulated depreciation, follows:

	December 31	
	2022	2021
Land	$ 465	$ 465
Buildings and improvements	3,961	3,953
Equipment, furniture and fixtures	1,775	1,750
	6,201	6,168
Less accumulated depreciation	(3,624)	(3,517)
Net bank premises and equipment	$ 2,577	$ 2,651

The bank incurred depreciation expense of $254 and $258 in the years ended December 31, 2022 and 2021, respectively.

Note 6 – Bank-owned life insurance

At December 31, 2022 and 2021, the Bank owned life insurance policies on key employees with total insurance in force of $21,984 and $21,972, respectively. Generally accepted accounting standards require that these policies be recorded at the cash surrender value, net of surrender charges and/or early termination charges. As of December 31, 2022 and 2021, the BOLI cash surrender value was $9,753 and $9,527, respectively, resulting in other noninterest income of $226 and $191 in 2022 and 2021, respectively. The increases in the cash surrender values resulted in an annualized net yield of 2.34% (2.96% on a pre-tax equivalent basis) in 2022 and 2.33% (2.95% on a pre-tax equivalent basis) in 2021.

Note 7 - Pension plans

Effective January 1, 2012, the Bank amended its defined benefit pension plan (the "Plan") converting it to a cash-balance pension plan whereby benefits earned by participants under the plan through December 31, 2011 were converted to an opening account balance for each participant. The opening balance was calculated based on IRS mandated assumptions for lump sum payouts. Eligibility under the cash-balance plan is the same as the previous defined benefit pension plan except the vesting period was shortened from five years to three years. Benefits under the cash-balance plan are computed based on graduated earnings rates determined by employees' years of credited service as of December 31, 2011, plus interest at rates pre-set by management and the cash-balance plan administrators. As with the previous defined benefit pension plan, assets are invested in a balanced fund, fixed income fund and equity fund administered by the Virginia Bankers Association. As of December 31, 2011, no new entrants will be allowed into the Plan.

The Bank complies with ASC 715, *Compensation – Retirement Benefits,* which requires management to present in the statement of financial position the funded status of the plan as an asset (overfunded) or liability (underfunded) with any unrecognized actuarial gain (loss), prior service costs, or transition amount from the adoption of ASC 715, shown as an adjustment to the accumulated other comprehensive income.

(In thousands, except share and per share data)

Note 7 - Pension plans (continued)

Because plan assets are held in a qualified trust, anticipated returns are not reduced for taxes. Further, solely for this purpose, the plan is assumed to continue in force and not terminate during the period during which assets are invested. However, consideration is given to the potential impact of current and future investment policy, cash flow into and out of the trust, and expenses (both investment and non-investment) typically paid from plan assets (to the extent such expenses are not explicitly estimated within periodic cost).

Asset Allocation

The plan's weighted-average asset allocations at December 31, 2022 and 2021, by asset category, are as follows:

	December 31,	
	2022	2021
Mutual Funds - Fixed Income	58%	58%
Mutual Funds - Equity	42%	42%
Total	100%	100%

The trust fund is sufficiently diversified to maintain a reasonable level of risk without imprudently sacrificing return, with a targeted asset allocation of 50% fixed income and 50% equities. The Investment Manager selects investment fund managers with demonstrated experience and expertise, and funds with demonstrated historical performance, for the implementation of the Plan's investment strategy. The Investment Manager will consider both actively and passively managed investment strategies and will allocate funds across the asset classes to develop an efficient investment structure.

It is the responsibility of the Trustee to administer the investments of the trust within reasonable costs, being careful to avoid sacrificing quality. These costs include, but are not limited to, management and custodial fees, consulting fees, transaction costs and other administrative costs chargeable to the trust.

The investment strategy for plan assets is to provide allocation models with varying degrees of investment return and risk consistent with sound funding objectives and participant demographics utilizing various types of assets such as large cap stocks, S&P 500 index fund, small and mid-cap stocks, cash equivalents and short term bonds. The performance goal for the investments of the plan is to exceed the investment benchmarks over the most recent 3- and 5-year periods while taking less risk than the market.

Plan investments are stated at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The following table presents the fair value of the net assets, by asset category, at December 31, 2022 and 2021:

Description of Assets:	2022	2021
Mutual Funds / Equity	$ 1,985	$ 3,168
Mutual Funds / Fixed Income	2,750	4,366
Total plan assets	$ 4,735	$ 7,534

(In thousands, except share and per share data)

Note 7 – Pension plans (continued)

All of the plan assets are considered to be Level 1 assets, within the fair value hierarchy, as of December 31, 2022 and 2021. Level 1 assets are those with quoted prices in active markets for identical assets or liabilities.

Other disclosures for the year ended December 31, 2022 and 2021:

Change in benefit obligation

	2022	2021
Projected benefit obligation – beginning of year	$ 5,479	$ 5,724
Service cost	125	135
Interest cost	144	130
Actuarial (gain)	(1,059)	(172)
Benefits paid	(1,093)	(354)
(Gain) loss due to settlement	(53)	16
Projected benefit obligation – end of year	$ 3,543	$ 5,479

Change in plan assets

	2022	2021
Fair value of assets – beginning of the year	$ 7,534	$ 7,386
Actual return (loss) on plan assets	(1,707)	502
Employer contribution	-	-
Benefits paid	(1,092)	(354)
Fair value of assets – end of the year	$ 4,735	$ 7,534
Deferred asset (gain) loss	$ 2,177	$ (56)

Funded status

	2022	2021
Projected benefit obligation – end of year	$ (3,543)	$ (5,479)
Fair value of assets – end of year	4,735	7,534
Funded status at the end of the year	$ 1,192	$ 2,055

Other changes in plan assets and benefit obligations recognized in other comprehensive income:

	2022	2021
Net (gain) loss	$ 625	$ (503)
Amortization of prior service cost	82	82
Total amount recognized	$ 707	$ (421)

(In thousands, except share and per share data)

Note 7 – Pension plans (continued)

The following tables set forth the disclosures regarding the defined benefit plan:

Components of net periodic benefit costs

	2022	2021
Service cost	$ 125	$ 135
Interest cost	144	130
Expected return on plan assets	(470)	(447)
Net amortization of prior service cost	(82)	(82)
Recognized net loss due to settlement	317	119
Recognized net actuarial loss	122	171
Net periodic benefit cost	$ 156	$ 28

The end of year weighted-average assumptions are:

	2022	2021
Discount rate used for net periodic pension cost	2.75%	2.50%
Discount rate used for disclosure	5.00%	2.75%
Expected return on plan assets	6.50%	6.50%
Rate of compensation increase for disclosure	3.00%	3.00%
Rate of compensation increase for net periodic pension cost	3.00%	3.00%
Expected future interest crediting rate	3.00%	3.00%

Additional disclosure information

Accumulated benefit obligation, December 31, 2022	$ 3,543
Vested benefit obligation, December 31, 2022	$ 3,543

The projected benefit payments for the next ten years are as follows:

Year	Amount
2023	$ 21
2024	643
2025	700
2026	498
2027	589
2028 – 2032	1,465

(In thousands, except share and per share data)

Note 7 – Pension plans (continued)

401(k) plan

In addition to the defined benefit plan described above, the Bank also sponsors a 401(k) defined contribution plan. The Bank makes a matching contribution to the plan in the amount of 100% of the first 3% and 50% of the next 3% of the elective contributions made by the participants. Participants have the right to contribute up to the maximum allowed under section 401(g) of the Internal Revenue Code.

The Bank also made supplemental contributions to the 401(k) accounts of employees hired January 1, 2012 or later who were not eligible for participation in the cash-balance defined benefit plan. The supplemental contribution was equal to 2.0% of the employee salary and will be paid at the end of each year, beginning December 31, 2012. The Bank's expense for all 401(k) contributions totaled $128 and $122 for 2022 and 2021, respectively.

Note 8 - Income taxes

Income tax expense attributable to income before income tax expense is summarized as follows:

	December 31,	
	2022	2021
Current federal income tax expense	$ 543	$ 509
Deferred federal income tax expense (benefit)	(88)	14
Total	$ 455	$ 523

Income tax expense differed from amounts computed by applying the U.S. Federal income tax rate of 21% for 2022 and 2021 to income before income tax expense as a result of the following:

	December 31,	
	2022	2021
Income tax expense at the statutory rate	$ 769	$ 805
Increase (reduction) in income tax expense resulting from		
Tax-exempt interest	(278)	(250)
Disallowance of interest expense	9	8
Bank-owned life insurance	(47)	(40)
Other	2	-
Total	$ 455	$ 523

(In thousands, except share and per share data)

Note 8 - Income taxes (continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

	December 31	
	2022	2021
Deferred tax assets		
Loans, due to allowance for loan losses and net unearned fees	$ 163	$ 139
Other real estate, due to valuation allowances	10	10
Pension valuation adjustment	443	294
Unrealized loss on available-for sale securities	2,915	-
Other	171	162
Total gross deferred tax assets	3,702	605
Deferred tax liabilities		
Bank premises and equipment due to differences in depreciation	107	130
Prepaid pension, due to actual pension contribution in excess of accrual for financial reporting purposes	693	726
Unrealized gain on available-for-sale securities	-	111
Loan costs	91	90
Total gross deferred tax liabilities	891	1,057
Net deferred tax asset (liability)	$ 2,811	$ (452)

The Bank did not recognize any interest or penalties related to income tax during the years ended December 31, 2022 and 2021, and did not accrue interest or penalties as of December 31, 2022 and 2021. The Bank does not have an accrual for uncertain tax positions as of December 31, 2022 and 2021, as deductions taken and benefits accrued are based on widely understood administrative practices and procedures and are based on clear and unambiguous tax law. Tax returns for all years 2019 and thereafter are subject to future examination by tax authorities.

(In thousands, except share and per share data)

Note 9 - Deposits

The Bank's time deposits include accounts with balances of $250 or more of $20,138 and $12,875 as of December 31, 2022 and 2021, respectively. At December 31, 2022, maturities of time deposits are scheduled as follows:

Year Ending	Amount
2023	$ 40,585
2024	13,897
2025	8,867
2026	8,010
2027	4,568
Total	$ 75,927

In the ordinary course of business, certain directors, executive officers, and their affiliates (collectively referred to as "related parties") of the Bank have maintained deposit accounts with the Bank. These deposits were opened on substantially the same terms, including interest rates for interest-bearing accounts, as those prevailing at the time for comparable transactions with other unaffiliated persons. Balances for these deposits as of December 31, 2022 and 2021 were $651 and $941, respectively.

Note 10 - Securities sold under repurchase agreements and other borrowings

The Bank offers to its larger commercial customers a cash management service known as securities sold under repurchase agreements. These cash management accounts are administered by the Bank and pay a set interest rate determined by management. These accounts are secured by a pledge on a portion of the Bank's investments, which remain under management's control. The Bank had $2,726 and $2,005 outstanding in cash management accounts as of December 31, 2022 and 2021, respectively. The maximum month-end outstanding balances were $4,281 and $4,456 during 2022 and 2021, respectively, and the average outstanding balances were $3,556 and $3,208 during these periods.

The Bank maintains a line of credit secured by securities and residential mortgage loans under a blanket lien agreement with the Federal Home Loan Bank of Atlanta (FHLB). The Bank had available $22,458 and $1,493 of credit for future borrowings from FHLB at December 31, 2022 and 2021, respectively. In addition, the Bank had unused lines of credit with correspondent banks totaling $7,000 at each of December 31, 2022 and 2021, respectively.

The table below presents selected information on other borrowings:

	December 31,	
	2022	2021
Balance outstanding at year end	$ 5,250	$ -
Maximum balance at any month end during the year	10,000	-
Average balance for the year	4,455	-
Weighted average rate for the year	2.01%	-
Weighted average rate on borrowings at year end	4.25%	-

Note 11 - Dividend restrictions and capital requirements

The Bank is subject to certain regulatory restrictions pertaining to the amount of dividends that it may pay. The Federal Reserve restricts, without prior approval, the total dividend payments of a member bank in any calendar year to the bank's net income of that year, as defined, combined with its retained net income of the preceding two calendar years, less any required transfers to surplus. At December 31, 2022, retained earnings which are free of such restrictions amounted to approximately $5,834.

The Bank is subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's consolidated 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 amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 risk-based capital (as defined in the regulations), to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Effective January 1, 2015, the final rule implementing the Basel Committee on Banking Supervision's capital guidelines for U. S. banks (Basel III rules) began its phase-in. All requirements of the Basel III rules were phased in over a multi-year schedule, and became fully phased in by January 1, 2019. As part of the new requirements, the Common Equity Tier 1 ratio is calculated and utilized in the assessment of capital for all institutions. Management believes, as of December 31, 2022 and 2021, the Bank met all capital adequacy requirements to which it is subject.

In July 2013, the Federal Reserve issued final rules to include technical changes to its market risk capital rules to align them with the Basel III regulatory capital framework and meet certain requirements of the Dodd-Frank Act. Effective January 1, 2015, the final rules require the Bank to comply with the following minimum capital ratios: (i) a new common equity Tier 1 capital ratio of 4.5% of risk-weighted assets; (ii) a Tier 1 capital ratio of 6.0% of risk-weighted assets (increased from the prior requirement of 4.0%); (iii) a total capital ratio of 8.0% of risk-weighted assets (unchanged from the prior requirement); and (iv) a leverage ratio of 4.0% of total assets (unchanged from the prior requirement). The Basel III Final Rules establish a capital conservation buffer of 2.5%, which is added to the 4.5% CET1 to risk-weighted assets to increase the ratio to at least 7.0%. The Basel III Final Rules also establish risk weightings that applied to many classes of assets held by community banks, importantly including applying higher risk weightings to certain commercial real estate loans. The Basel III Final Rules became effective January 1, 2015, and the Basel III Final Rules capital conservation buffer was phased in from 2015 to 2019.

Now fully phased in, the Basel III Final Rules require banks to maintain (i) a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7.0%; (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of a least 6.0%, plus the capital conservation buffer, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation; (iii) a minimum ratio of total capital (Tier 1 plus Tier 2 capital) to risk-weighted assets of at least 8.0% plus the capital conservation buffer effectively resulting in a minimum total capital ratio of 10.5% upon full implementation, and (iv) a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures, computed as the average for each calendar quarter.

(In thousands, except share and per share data)

Note 11 - Dividend restrictions and capital requirements (continued)

As of December 31, 2022, the most recent notification from the Federal Reserve Bank of Richmond categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, common equity Tier 1 risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual regulatory capital amounts and ratios are also presented in the table below.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2022						
Total capital						
(to risk-weighted assets)	$ 41,528	18.81%	$ 17,660	8.0%	$ 22,075	>10.0%
Tier 1 capital						
(to risk-weighted assets)	$ 40,428	18.31%	$ 13,245	6.0%	$ 17,660	>8.0%
Common equity Tier 1 capital						
(to risk-weighted assets)	$ 40,428	18.31%	$ 9,934	4.5%	$ 14,349	>6.5%
Tier 1 capital (leverage)						
(to average assets)	$ 40,428	12.96%	$ 12,478	4.0%	$ 15,598	>5.0%
December 31, 2021						
Total capital						
(to risk-weighted assets)	$ 39,453	19.40%	$ 16,269	8.0%	$ 20,336	>10.0%
Tier 1 capital						
(to risk-weighted assets)	$ 38,466	18.91%	$ 12,202	6.0%	$ 16,269	>8.0%
Common equity Tier 1 capital						
(to risk-weighted assets)	$ 38,466	18.91%	$ 9,151	4.5%	$ 13,219	>6.5%
Tier 1 capital (leverage)						
(to average assets)	$ 38,466	12.47%	$ 12,338	4.0%	$ 15,423	>5.0%

Note 12 – Revenue Recognition

The Bank records revenue based on ASU No. 2014-09 *"Revenue from Contracts with Customers" (Topic 606).* Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. Topic 606 is applicable to noninterest revenue streams such as deposit related fees, interchange fees, merchant income, and insurance commissions. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Substantially all of the Bank's revenue is generated from contracts with customers. Noninterest revenue streams in-scope of Topic 606 are discussed below.

Note 12 – Revenue Recognition (continued)

Service Charges on Deposit Accounts

Service charges on deposit accounts consist of account analysis fees (i.e., net fees earned on analyzed business checking accounts), monthly service fees, check orders, and other deposit account related fees. The Bank's performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transactional based, and therefore, the Bank's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or at the end of the month through a direct charge to customers' accounts.

Fees, Exchange, and Other Service Charges

Fees, exchange, and other service charges are primarily comprised of debit and credit card income, ATM fees, merchant services income, and other service charges. Debit and credit card income is primarily comprised of interchange fees earned whenever the Bank's debit and credit cards are processed through card payment networks such as Visa. ATM fees are primarily generated when a Bank cardholder uses a non-Bank ATM or a non-Bank cardholder uses a Bank ATM. Merchant services income mainly represents fees charged to merchants to process their debit and credit card transactions, in addition to account management fees. Other service charges include revenue from processing wire transfers, bill pay service, cashier's checks, and other services. The Bank's performance obligation for fees, exchange, and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or at the end of the month.

Other

Other noninterest income consists of other recurring revenue streams such as safety deposit box rental fees and other miscellaneous revenue streams. Safe deposit box rental fees are charged to the customer on an annual basis and recognized upon receipt of payment. The Bank determined that since rentals and renewals occur fairly consistently over time, revenue is recognized on a basis consistent with the duration of the performance obligation.

(In thousands, except share and per share data)

Note 13 – Noninterest expense - Other operating expenses

Major items included in the other operating expenses component of noninterest expense are as follows:

	2022	2021
Office supplies	$ 82	$ 93
Data processing	935	904
Virginia franchise tax	331	297
Audit fees	140	144
Board expense	105	109
FDIC assessments	82	72
Marketing and advertising costs	99	47
Other	1,048	941
Total	$ 2,822	$ 2,607

Note 14 - Financial instruments with off-balance-sheet risk

The Bank is not a party to derivative financial instruments with off-balance-sheet risks such as futures, forwards, swaps and options. The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These instruments may involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheets. The contract amounts of these instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

Credit risk is defined as the possibility of sustaining a loss because the other party to a financial instrument fails to perform in accordance with the terms of the contract. The Bank's maximum exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of the instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

The Bank requires collateral or other security to support financial instruments when it is deemed necessary. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty and the Bank's access to the collateral. Types of collateral may include marketable securities, real estate and business equipment.

Note 14 - Financial instruments with off-balance-sheet risk (continued)

Financial instruments whose contract amounts represent credit risk are as follows:

	Contract Amounts at December 31	
	2022	2021
Commitments to extend credit	$ 27,790	$ 35,133
Standby letters of credit	$ 303	$ 442

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. The credit risk involved in issuing standby letters of credit is generally less than that involved in extending loans to customers because the Bank generally holds deposits equal to the commitment. Management does not anticipate any material losses as a result of these transactions.

The Bank's business activity is with customers located in the counties of Appomattox, Buckingham, Campbell, and Prince Edward, Virginia. Accordingly, operating results are closely correlated with the economic trends within the counties and influenced by the significant industries within the region, including agriculture, timber and logging, and light manufacturing. In addition, the ultimate collectability of the Bank's loan portfolio is susceptible to changes in the market conditions within the region.

Note 15 – Fair Value Measurements

Determination of Fair Value

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the Fair Value Measurements and Disclosures topic of FASB ASC, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability (an "exit price") in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Note 15 – Fair Value Measurements (continued)

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

In accordance with this guidance, the Bank groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – observable inputs other than the quoted prices included in Level 1.
- Level 3 – unobservable inputs.

Following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Fair Value on a Recurring Basis

<u>Securities Available-for-Sale</u>
Fair values of securities, excluding restricted investments in Federal Reserve Bank stock, Federal Home Loan Bank stock and Community Bankers' Bank stock are based on quoted prices available in an active market. If quoted prices are available, these securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow.

Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. Currently, all of the Bank's securities are considered to be Level 2 securities.

(In thousands, except share and per share data)

Note 15 – Fair Value Measurements (continued)

The following table summarizes the Bank's financial assets that were measured at fair value on a recurring basis during 2022 and 2021.

		Carrying Value at December 31, 2022		
Description	Balance as of December 31, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government agency securities	$ 5,907	$ -	$ 5,907	$ -
Municipal securities	54,572	-	54,572	-
Mortgage-backed securities	4,949	-	4,949	-
Corporate securities	7,035	-	7,035	-
Total available-for-sale securities	$ 72,463	$ -	$ 72,463	$ -

		Carrying Value at December 31, 2021		
Description	Balance as of December 31, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasury Bills	$ 10,000	$ -	$ 10,000	$ -
U.S. Government agency securities	8,782	-	8,782	-
Municipal securities	65,193	-	65,193	-
Mortgage-backed securities	4,443	-	4,443	-
Corporate securities	6,757	-	6,757	-
Total available-for-sale securities	$ 95,175	$ -	$ 95,175	$ -

Fair Value on a Non-recurring Basis

Impaired loans

Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected when due. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. Fair value is measured based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable.

(In thousands, except share and per share data)

Note 15 – Fair Value Measurements (continued)

The vast majority of the collateral is real estate. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Bank using observable market data (Level 2). However, in situations where the collateral is a house or building in the process of construction, the appraisal is more than 12 months old, management has determined the fair value of the collateral is further impaired below the appraised value, or the appraisal is not based solely on market comparables adjusted for observable inputs, the value is considered Level 3. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business' financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3). Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Consolidated Statements of Income.

Other real estate owned

Certain assets such as other real estate owned (OREO) are measured at fair value less cost to sell in accordance with ASC 820. Real estate acquired through foreclosure is transferred to OREO. The measurement of loss associated with OREO is based on the fair value of the collateral compared to the unpaid loan balance and anticipated costs to sell the property. The value of OREO property is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Bank using observable market data (Level 2).

Any fair value adjustments are recorded in the period incurred and expensed against current earnings. However, in situations where the collateral is a house or building in the process of construction, the appraisal is more than 12 months old, management has determined the fair value of the collateral is further impaired below the appraised value, or the appraisal is not based solely on market comparables adjusted for observable inputs, the value is considered Level 3.

The following tables summarize the Bank's impaired loans and OREO measured at fair value on a nonrecurring basis as of December 31, 2022 and 2021:

		Carrying Value at December 31, 2022		
Description	Balance as of December 31, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 236	$ -	$ -	$ 236
Other real estate owned	$ 118	$ -	$ -	$ 118

(In thousands, except share and per share data)

Note 15 – Fair Value Measurements (continued)

Description	Balance as of December 31, 2021	Carrying Value at December 31, 2021: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 480	$ -	$ -	$ 480
Other real estate owned	$ 186	$ -	$ -	$ 186

The following table sets forth information regarding the quantitative inputs used to value assets classified as Level 3:

Quantitative information about Level 3 Fair Value Measurements at December 31, 2022

Description	Fair Value	Valuation Technique(s)	Unobservable Inputs	Weighted Average Discount	Range of Weighted Average Discount
Assets:					
Impaired Loans					
Commercial	150	Business financial statement	Adjustment for marketability of collateral	37.5%	Range of 25.0% to 45.0%
Residential RE	43	Discounted appraised value	Estimation of selling costs	10.0%	Range of 2.0% to 10.0%
Consumer	43	NADA Retail Value of vehicle	Adjustment for condition of the vehicle	10.0%	Range of 5.0% to 15.0%
Total Impaired Loans	$ 236				
Other Real Estate Owned					
Residential vacant land	$ 118	Sales comparison approach	Estimation of selling costs	10.0%	Range of 7.5% to 15.0%
Total Other RE Owned	$ 118				

(In thousands, except share and per share data)

Note 15 – Fair Value Measurements (continued)

	Quantitative information about Level 3 Fair Value Measurements at December 31, 2021					
Description		Fair Value	Valuation Technique(s)	Unobservable Inputs	Weighted Average Discount	Range of Weighted Average Discount
Assets:						
Impaired Loans						
Commercial		459	Business financial statement	Adjustment for marketability of collateral	37.5%	Range of 25.0% to 45.0%
Consumer		21	NADA Retail Value of vehicle	Adjustment for condition of the vehicle	10.0%	Range of 5.0% to 15.0%
Total Impaired Loans	$	480				
Other Real Estate Owned						
Residential RE	$	68	Discounted appraised value	Estimation of selling costs	10.0%	Range of 5.0% to 15.0%
Residential vacant land	$	118	Sales comparison approach	Estimation of selling costs	10.0%	Range of 7.5% to 15.0%
Total Other RE Owned	$	186				

(In thousands, except share and per share data)

Note 15 – Fair Value Measurements (continued)

The estimated fair values, and related carrying or notional amounts, of the Bank's financial instruments and their placement in the fair value hierarchy as of December 31, 2022 and December 31, 2021 are as follows:

		Approximate Fair Value by Valuation Hierarchy		
As of December 31, 2022	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Cash and due from banks	$ 4,285	$ 4,285	$ -	$ -
Federal funds sold	4,361	4,361	-	-
Securities available-for-sale	72,463	-	72,463	-
Loans, net	214,894			201,906
Accrued interest receivable	1,330	-	1,330	
Bank-owned life insurance	9,753	-	9,753	-
Total financial assets	$ 307,086	$ 8,646	$ 83,546	$ 201,906
Financial liabilities				
Deposits	$ 279,177	$ -	$ 203,250	$ 71,486
Securities sold under repurchase Agreements and other Borrowings	7,976	-	7,976	-
Accrued interest payable	156	-	156	-
Total financial liabilities	$ 287,309	$ -	$ 211,382	$ 71,486

(In thousands, except share and per share data)

Note 15 – Fair Value Measurements (continued)

		Approximate Fair Value by Valuation Hierarchy		
As of December 31, 2021	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Cash and due from banks	$ 5,154	$ 5,154	$ -	$ -
Federal funds sold	4,750	4,750	-	-
Securities				
Available-for-sale	95,175	-	95,175	-
Held to maturity	10,607	-	11,089	-
Loans, net	185,289	-	-	183,544
Accrued interest receivable	1,326	-	1,326	-
Bank-owned life insurance	9,527	-	9,527	-
Total financial assets	$ 311,828	$ 9,904	$ 117,117	$ 183,544
Financial liabilities				
Deposits	$ 277,743	$ -	$ 210,145	$ 66,419
Securities sold under repurchase Agreements	2,005		2,005	-
Accrued interest payable	87	-	87	-
Total financial liabilities	$ 279,835	$ -	$ 212,237	$ 66,419

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Bank's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment, and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on-balance-sheet and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets that are not considered financial assets include deferred income taxes and bank premises and equipment; a significant liability that is not considered a financial liability is accrued pension benefits. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

Note 15 – Fair Value Measurements (continued)

The Bank assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of the Bank's financial instruments will change when interest rate levels change, and that change may be either favorable or unfavorable to the Bank. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment.

Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Bank's overall interest rate risk.

(In thousands, except share and per share data)

Note 16 – Accumulated Other Comprehensive Income (Loss)

Changes in each component of accumulated other comprehensive (loss) were as follows:

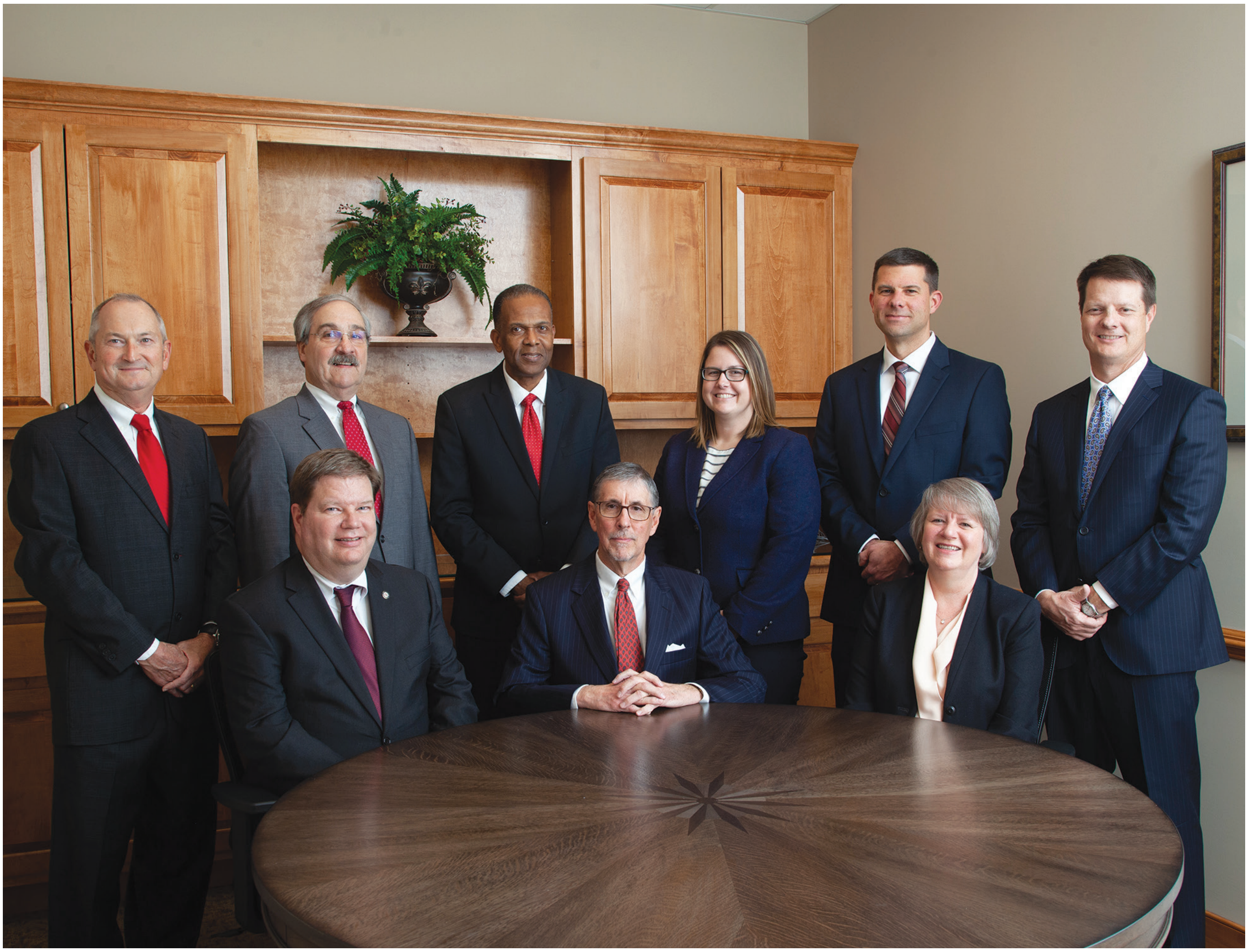
	Net Unrealized Gain (Loss) on Available-for-Sale Securities	Change in Unfunded Pension Liability	Accumulated Other Comprehensive Loss
Balance at December 31, 2020	$ 1,393	$ (1,440)	$ (47)
Unrealized gain on securities available-for-sale, net of deferred tax of $258	(970)		(970)
Reclassification adjustment for gain on sale of securities, net of tax of $0(1)	(1)		(1)
Change in pension plan assets and benefit obligations, net of deferred tax of $106(2)		397	397
Amortization of prior service cost, net of deferred tax (benefit) of $17(2)		(64)	(64)
Balance at December 31, 2021	$ 422	$ (1,107)	$ (685)
Unrealized loss on securities available-for-sale, net of deferred tax of $3,026	(11,385)		(11,385)
Reclassification adjustment for gain on sale of securities, net of tax of $1(1)	(2)		(2)
Change in pension plan assets and benefit obligations, net of deferred tax of $132(2)		(493)	(493)
Amortization of prior service cost, net of deferred tax (benefit) of $17(2)		(65)	(65)
Balance at December 31, 2022	$ (10,965)	$ (1,665)	$ (12,630)

(1) Included on income statement in “Gains on sales, calls and maturities of securities”
(2) Included on income statement in “Salaries and employee benefits”

Note 17 – Subsequent Events

Management has evaluated subsequent events for potential recognition and/or disclosure in the December 31, 2022 consolidated financial statements. This evaluation was through March 13, 2023, the date the consolidated financial statements were available to be issued. Management noted that on February 14, 2023, the Board of Directors declared a cash dividend of $0.60 per share payable March 6, 2023 to shareholders of record as of February 27, 2023.

The Board of Directors



L-R Standing: Benjamin H. Johnson, Luther C. Thomas, Alfred L. Jones, III, Allison F. Gobble, Christopher J. Dillon, R. Kinckle Robinson

L-R Seated: John R. Caldwell, Douglas M. Webb, Laurie S. Harris

The Senior Officers

L-R Front Row: Leila A. Paulette, Betty G. Craft, John R. Caldwell, Dawn S. Tolley, Stephanie O. Smith.

L-R Back Row: Brian D. Wilkerson, Bruce S. Drinkard, J. Christian Pemberton, Kenneth A. Shorter, Thomas L. Rasey, Jr.

2022 Farmers Bank Management

Executive Officers

John R. Caldwell	President & Chief Executive Officer
Dawn S. Tolley	Executive Vice President & Chief Financial Officer
Bruce S. Drinkard	Senior Vice President & Chief Lending Officer
Thomas L. Rasey, Jr.	Senior Vice President, Chief Operations Officer, & Corporate Secretary

Senior Officers

Kenneth A. Shorter	First Vice President & Chief Information Technology Officer
Betty G. Craft	First Vice President & Chief Human Resources Officer
Brian D. Wilkerson	First Vice President & Chief Retail Lending Officer
Leila A. Paulette	First Vice President & Chief Compliance Officer
J. Christian Pemberton	First Vice President, Controller
Stephanie O. Smith	First Vice President, Branch Administrator & Security Officer

Officers

Kristin M. McFadden	Vice President, Mortgage Loan Officer & Main Office Lending Manager
Jessica J. Hall	Vice President, Main Branch Manager
Dianne R. Rudder	Vice President, Triangle Plaza Branch Manager
Cynthia P. Martin	Vice President, Concord Branch Manager
Lisa H. Warner	Vice President, Buckingham Branch Manager
Anabelle Rodriguez-Thurston	Vice President, Farmville Branch Manager
Katherine A. Kraince	Vice President, Human Resources, Payroll, & Benefits Officer
Taylor W. Bradshaw	Vice President, Operations Services Manager
Timothy L. Smith	Business Development Officer
Alexa G. Layne-Stratton	Assistant Vice President, Marketing & Project Management Officer
Curtis H. Hancock	Assistant Vice President, Information Technology Specialist
Cassandra R. Mullins	Assistant Vice President, Compliance & HMDA Officer
Samantha A. Williams	Assistant Vice President, Payments Officer
Elaina M. Kivett	Assistant Vice President, Operations and Operations Training Officer
Christopher M. Peters	Bank Officer & Assistant Branch Manager, Triangle Plaza
Lacie C. Page	Bank Officer & Assistant Branch Manager, Concord
Uwana M. Litchford	Bank Officer, Accounting Assistant
Karleigh H. Ison	Bank Officer, Indirect Lending
Ellen K. McGarry	Bank Officer, Universal Banker
Beverly Jo DeVore	Bank Officer, Universal Banker
Joan B. Jamerson	Bank Officer, Collections Supervisor
Charity E. Oxner	Bank Officer, BSA Officer
Lauren E. Sadler	Bank Officer, Operations

2022 Employees

Employees Main

Alysia V. Baker

Janet M. Baker

James N. Bollinger

Amy L. Covington

Sandra L. Clapp

Zachary B. Dillon

Whitney D. Drew

Cody W. Drinkard

Alexus D. Ferguson

Elizabeth D. Ferguson

Penny P. Franklin

Cooper P. Fraser

Emily B. Hedrick

Tiana S. Hubbard

Michael W. Inglett

Michael E. Lewis

J. Tatum Martin

Heidi S. McCraw

Sarah M. Overstreet

Bailey G. Purcell

Richard E. Smith

Olivia J. Spiggle

Sarah J. Thomason

Lynn R. Wilmoth

Jefferson D. Wise

Triangle Plaza Branch

Matthew D. Cash

Delaphine L. Chambers

Alexis N. Keen

Jillian I. Phelps

Kelsie D. Ranson

Concord Branch

Sarah F. Glover

Cynthia A. Mayberry

Amber M. Thomson

Scottie H. Tyree

Buckingham Branch

Rachel V. Frank

Leslie C. Kelly

Stacy D. Perkins

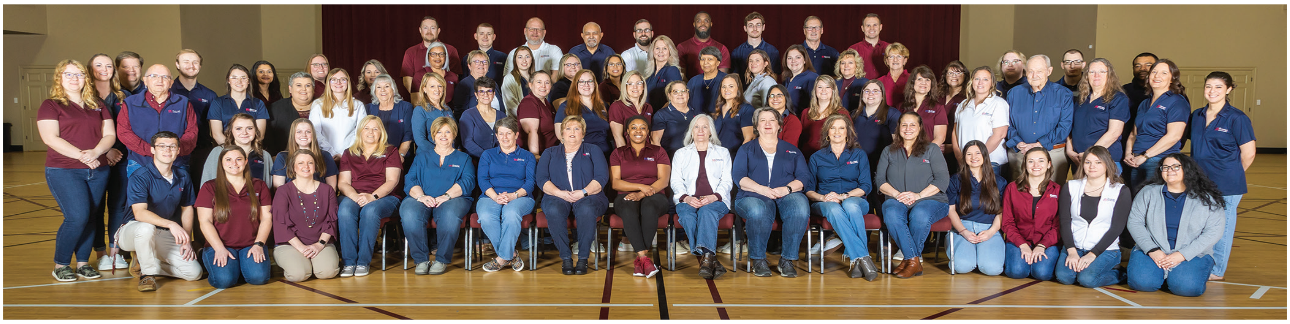
Farmville Branch

Kimberly F. Coleman

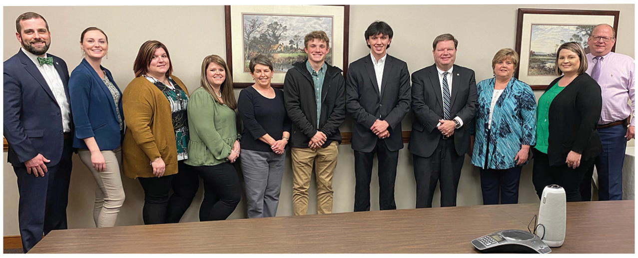
Rachel D. Overstreet

Viviana E. Rios

Highlights 2022

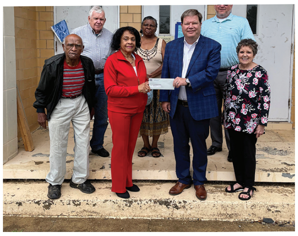


All Employees

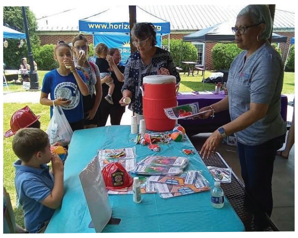


VBA Bank Day

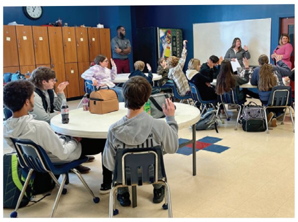
Loan Officers



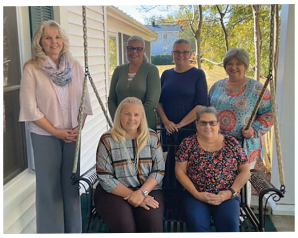
Carver-Price Legacy Museum



Fun Craft Day Abbitt Park



Get Smart About Credit Program (CCA)



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