QUEENSTOWN BANCORP OF MARYLAND, INC.

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2022 ANNUAL REPORT

QUEENSTOWN BANCORP OF MARYLAND INC. AND SUBSIDIARY
FINANCIAL PERFORMANCE SUMMARY & RATIOS

In thousands, Except Per Share Data	2022	2021	2020	2019	2018
PROFITABILITY					
Net interest income	$ 20,977	19,510	18,168	19,148	18,901
Noninterest income	1,709	1,653	1,394	1,536	1,349
Net gain (loss) on sales of real estate	-	6	8	51	53
Noninterest expenses	13,199	11,799	10,738	10,493	10,096
Provisions for credit losses	-	-	1,600	-	300
Income before taxes	9,487	9,370	7,232	10,242	9,907
Income tax expense	2,450	2,423	1,849	2,722	2,679
Net income	7,037	6,947	5,383	7,520	7,228
Return on average assets	1.05%	1.10%	1.01%	1.61%	1.53%
Return on average equity	9.22%	9.91%	7.88%	11.69%	12.00%
Net interest margin	3.21%	3.22%	3.55%	4.30%	4.16%
*Efficiency ratio	57.56%	55.15%	53.69%	50.24%	49.75%
Basic earnings per share	$ 5.87	5.79	4.50	6.31	5.99
Dividends per share	$ 2.50	2.50	2.50	2.75	2.25
BALANCE SHEET					
U.S. S.B.A. Paycheck Protection Program Loans	$ 9	430	15,019	-	-
Loans-other	429,297	384,674	386,661	395,909	381,897
Total Loans	429,306	385,104	401,680	395,909	381,897
Allowance for loan losses	7,565	7,401	7,170	5,752	5,966
Loans, net of allowance for loan losses	421,741	377,703	394,510	390,157	375,931
Interest bearing deposits with banks	35,112	70,295	69,897	40,935	46,652
Securities available for sale	148,141	177,863	81,941	15,327	15,542
Total assets	650,619	658,087	576,977	473,122	465,011
Deposits	586,004	584,569	505,564	404,913	401,766
Tier I capital	76,045	72,325	68,180	65,600	61,192
Stockholders' equity	55,690	70,135	68,316	65,614	60,948
Shares outstanding	1,195,223	1,200,048	1,195,786	1,192,281	1,188,081
Book value of regulatory capital	$ 63.62	60.26	57.02	55.02	51.50
Book value including unrealized loss on securities	$ 46.59	58.43	57.13	55.03	51.30
Loans / Deposits	73.26%	65.88%	79.45%	97.78%	95.05%
Allowance for loan losses / Loans	1.76%	1.92%	1.79%	1.45%	1.56%
REGULATORY CAPITAL RATIOS					
QUEENSTOWN BANK					
Tier I leverage ratio	11.27%	10.77%	11.89%	13.88%	12.95%
Common equity risk based	16.64%	17.13%	18.37%	18.01%	17.38%
Tier I risk-based capital ratio	16.64%	17.13%	18.37%	18.01%	17.38%
Total risk based capital ratio	17.89%	18.39%	19.64%	19.26%	18.64%
QUEENSTOWN BANCORP					
Tier I leverage (avg. equity / avg. assets) ratio	11.30%	10.81%	11.92%	13.89%	12.95%
Common equity risk based	16.69%	17.22%	18.41%	18.02%	17.39%
Tier I risk based capital ratio	16.69%	17.22%	18.41%	18.02%	17.39%
Total risk based capital ratio	17.94%	18.47%	19.67%	19.27%	18.64%

*Efficiency ratio: total noninterest expenses divided by tax equivalent net interest income plus noninterest income

Queenstown Bancorp of Maryland, Inc.

To Fellow Shareholders:

"Strength and growth come only through continuous effort and struggle."
~Napoleon Hill, author

We are off to a good start in 2023 but now is the time to reflect on 2022. We are pleased to share with you our 2022 financial report. The Bank continued to show strength and growth in 2022 as we have done for the past 123 years. While 2022 was a good year for the Bank, our success was earned through the direct efforts and struggles of our colleagues and customers alike. The first quarter started off with a similar dynamic to 2021 but things changed very rapidly once the Federal Reserve started to increase rates in March. Between March and December 2022, the Federal Reserve increased rates seven (7) times moving rates from 0.25% to 4.25%, one of the fastest rate increases in history. During this period, efforts were made to make the required adjustments to both our loan and deposit rates to maintain our profitability targets.

Our results for 2022 were very good, even in the midst of this period of economic uncertainty. I am proud of our team and how they navigated through this period to produce the results we delivered. Throughout all of this uncertainty, we managed to grow our loan portfolio and stabilize our deposit base. One of our biggest concerns has been how rate increases and inflation pressures would impact our customers and our portfolio. The credit profile of the loan portfolio remains strong, and the Bank maintains a healthy loan loss reserve. We are sensitive to the struggles that this economic environment has had on our customers and pledge to work with them through this period.

Net income for the year ended December 31, 2022, was $7 million ($5.87 per common share) compared to $6.9 million ($5.79 per common share) for the same period of 2021. These earnings resulted in a 1.05% Return on Average Assets and 9.22% Return on Average Tier I Capital. Net income for 2021 included one-time fee income from the S.B.A. Paycheck Protection Program. Excluding these fees, net income would have been $5.8 million ($4.84 per common share) for 2021. Net interest income increased $1.5 million to $21 million for 2022, compared to $19.5 for 2021. There was no loan loss provision for 2022, nor 2021. The Bank has experienced net recoveries of loan losses of $164 thousand for 2022, and net recoveries of loan losses of $231 thousand for 2021. The Bank remains very well capitalized with the ratio of common equity to risk-based total assets of 16.64% as of December 31, 2022. Tier I regulatory common equity grew from $72 million as of December 31 ,2021 to $75.8 million as of December 31, 2022.

We continue to deliver products and services that you, our customers, are looking for by investing in technology and introducing new services that add efficiency to your financial lives. We will continue to navigate through this period and keep our focus on prudent growth, credit quality and technology. In the near term, it is expected that economic uncertainty will persist, but we are confident that through the efforts of both our colleagues and customers, we will continue to serve the community well in 2023.

We appreciate your continued support and welcome your feedback. Please feel free to refer us to a friend or acquaintance who is looking for the kind of local bank that you have found here at Queenstown Bank. Also, please feel free to contact us should you have an interest in buying or selling stock in Queenstown Bancorp, Inc. We can be reached at 410-827-8881.

Yours truly,

Kevin B. Cashen
President & CEO

Patrick E. Thompson
Chairman of the Board

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SUMMARY FINANCIAL RESULTS

For the year ended December 31, 2022 net income was $7 million, compared to net income of $6.9 million for the year ended December 31, 2021. Net income per common share increased from $5.79 for 2021, to $5.87 for 2022. Dividends per share were $2.50 per share for 2022 and 2021. These earnings resulted in a 1.05% Return on Average Assets. Net income for 2021 included one-time fee income from the S.B.A. Paycheck Protection Program of $1.5 million. Excluding these fees, net income would have been $5.8 million ($4.84 per common share) for 2021.

Net interest income

Net interest income increased from $19.5 million for 2021, to $21 million for 2022. The yield on earning assets was 3.44% for 2022, compared to 3.26% for 2021, adjusted for the impact of the S.B.A. fees. Interest bearing deposits costs decreased from .47% in 2021, to.38 % for 2022. This yield decline of .09% resulted in interest costs savings of $214 thousand. Interest rates on deposits have risen significantly beginning in November of 2022 as Federal Funds rate hikes of 4.25% during 2022 are driving up deposit interest rates throughout the banking system.

Provisions for loan losses and allowance for loan losses

There was no loan loss provisioning necessary for 2022 nor 2021. (See Table 3: Allowance for Loan Losses) Net loan recoveries were $164 thousand for 2022, compared to loan recoveries of $231 thousand for 2021.

Noninterest income

Noninterest income increased $50 thousand, to $1.7 million for 2022. Service charges on deposit accounts increased $107 thousand for 2022. Other income decreased $57 thousand for 2022. Interchange fee income on debit card transactions and fee income on atm transactions account for the majority of this decrease.

Noninterest expenses

Noninterest expenses increased $1.4 million, from $11.8 million for 2021, to $13.1 million for 2022. Our efficiency ratio, the cost of producing $1 of revenue, was $.58 for 2022 compared to $.55 for 2021.

Income taxes

Income tax provisions are primarily adjusted for non-taxable income before applying applicable federal and state income tax rates. Income tax expense was $2.4 million for 2022 and 2021. The effective tax rate was 26% for 2022 and 2021.

FINANCIAL CONDITION

Total assets were $651 million at year end 2022, compared to $658 million at year end 2021. Loan balances grew $44 million for 2022. Loan growth was primarily achieved in our residential mortgages portfolios. (See Queenstown Bancorp of Maryland, Inc. and Subsidiary Consolidated Balance Sheets Page 1 and Table 3: Loans)

Unrealized Holding Losses-Securities Available for Sale

The rapid rise in interest rates during 2022 has caused declines in the market value of securities available for sale. The Bank maintains sizeable borrowing capacity with the Federal Home Loan Bank of Atlanta to address any unexpected liquidity issues. (See Table 8 Borrowings and Credit Facilitites)

Deposits

Total deposits at December 31, 2022 were $586 million, essentially unchanged from $585 million at December 31, 2021. The mix of our deposits was also stable from year end 2021 to year end 2022. Sharp increases in certificate deposit rates that began in the fourth quarter of 2022 are shifting deposits away from low cost non-maturity accounts into higher cost time deposits during the first quarter of 2023. The cost of total interest bearing deposits declined from .47% for 2021 to .38% for 2022. The cost of interest bearing deposits through the first two months of 2023 has risen to 1.08%. Non-maturity transaction and savings accounts comprised 77% of total deposits at December 31, 2022, compared to 76% at December 31, 2021. The rising interest rate environment has resulted in non-maturity transaction and savings accounts comprising 73% of total deposits at February 28, 2023. (See Table 7: Deposits).

Capital levels

Tier I regulatory capital increased $3.7 million, from $72.3 million at December 31, 2021, to $76 million at December 31, 2022. The increase is comprised primarily of net income less cash dividends of $4 million. All capital ratios remain well above the regulatory capital definition of a well capitalized. For the Company, the Tier I ratio decreased 53 basis points, from 17.22% to 16.69%. The total capital ratio decreased 53 basis points, from 18.47% to 17.94%. These ratios declined as loan balances grew and have become a larger percentage of total assets. The common equity leverage ratio increased 49 basis points, from 10.81% to 11.30%. (See Table 8: Stockholders' Equity)

For the Bank, the Tier I ratio decreased 49 basis points, from 17.13% to 16.64%. The total capital ratio decreased 50 basis points, from 18.39% to 17.89%. The common equity leverage ratio increased 50 basis points, from 10.77% to 11.27%. (See Table 8: Stockholders' Equity)

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	December 31	
	2022	**2021**
ASSETS		
Cash and due from banks	$ 7,077	4,536
Interest bearing deposits with banks	35,112	70,295
Total cash and cash equivalents	42,189	74,831
Securities available for sale (at fair value)	148,141	177,863
Securities held to maturity (at amortized cost)	3,239	-
Federal Home Loan Bank stock (at cost)	579	302
Loans	429,306	385,104
Less allowance for loan losses	(7,565)	(7,401)
Loans, net	421,741	377,703
Premises and equipment, net	6,236	6,301
Bank owned life insurance	15,224	14,829
Deferred income taxes	10,284	3,365
Accrued interest receivable	2,059	1,741
Prepaid expenses	378	296
Other assets	549	856
TOTAL ASSETS	$650,619	658,087
LIABILITIES AND STOCKHOLDERS' EQUITY		
Noninterest bearing deposits	$179,286	188,993
Interest bearing deposits	406,718	395,576
Total deposits	586,004	584,569
Advances from Federal Home Loan Bank	5,000	-
Accrued expenses and other liabilities	3,925	3,383
Total liabilities	594,929	587,952
Common stock - $10 par value; shares authorized 10,000,000, shares issued and outstanding 1,195,223 and 1,200,248 , respectively	11,952	12,002
Additional paid in capital	339	615
Retained earnings	63,754	59,708
Accumulated other comprehensive (loss) income	(20,355)	(2,190)
Total stockholders' equity	55,690	70,135
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$650,619	658,087

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share information)

	Years Ended		
	2022	**2021**	**2020**
INTEREST INCOME:			
Interest and fees on loans	$ 18,736	$ 19,378	19,837
Interest and dividends on investment securities	2,890	1,608	566
Other interest income	902	288	485
Total interest income	22,528	21,274	20,888
INTEREST EXPENSE:			
Interest on deposits	1,550	1,764	2,720
Interest on borrowings	1	-	-
Total interest expense	1,551	1,764	2,720
Net interest income	20,977	19,510	18,168
Provision for loan losses	-	-	1,600
Net interest income after provision for loan losses	20,977	19,510	16,568
NONINTEREST INCOME:			
Service charges on deposit accounts	470	363	402
Other income	1,239	1,290	992
Net gain on sales of real estate	-	6	8
Total noninterest income	1,709	1,659	1,402
NONINTEREST EXPENSES:			
Salaries and employee benefits	7,861	7,259	6,695
Data processing and electronic banking expenses	1,172	1,009	987
Occupancy expense	728	669	622
Equipment expenses	496	458	415
FDIC insurance premiums	181	166	110
Other expenses	2,761	2,238	1,909
Total noninterest expenses	13,199	11,799	10,738
Income before income taxes	9,487	9,370	7,232
Income tax expense	2,450	2,423	1,849
Net income	$ 7,037	$ 6,947	5,383
Basic net income per common share	$ 5.87	$ 5.79	4.50
Diluted net income per common share	$ 5.81	$ 5.75	4.47
Basic weighted average common shares outstanding	1,199,084	1,199,302	1,195,322
Diluted weighted average common shares outstanding	1,211,471	1,208,576	1,205,044

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)

	Years Ended		
	2022	2021	2020
Net income	$ 7,037	$ 6,947	5,383
Other comprehensive income (loss), before tax:			
Securities available for sale:			
Unrealized holding (losses) gains arising during the period	(25,061)	(3,211)	169
Other comprehensive (loss) income , before tax	(25,061)	(3,211)	169
Income tax effect	6,896	885	(47)
Other comprehensive (loss) income, net of tax	(18,165)	(2,326)	122
Total comprehensive (loss) income	$ (11,128)	$ 4,621	5,505

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2022, 2021 and 2020
(Dollars in thousands, except per share information)

	Common Stock		Additional paid- in capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Totals
	Shares	Par Value				
Balances at January 1, 2020	1,192,281	$ 11,923	309	53,368	14	65,614
Net Income	-	-	-	5,383	-	5,383
Other comprehensive income, net of tax	-	-	-	-	122	122
Stock options exercised	3,505	35	120	-	-	155
Stock option compensation	-	-	31	-	-	31
Cash dividends ($2.50 per share)	-	-	-	(2,989)	-	(2,989)
Balances at December 31, 2020	1,195,786	11,958	460	55,762	136	68,316
Net Income	-	-	-	6,947	-	6,947
Other comprehensive loss, net of tax	-	-	-	-	(2,326)	(2,326)
Restricted stock issued	562	5	28			33
Stock options exercised	3,900	39	95	-	-	134
Stock option compensation	-	-	32	-	-	32
Cash dividends ($2.50 per share)	-	-	-	(3,001)	-	(3,001)
Balances at December 31, 2021	1,200,248	12,002	615	59,708	(2,190)	70,135
Net Income	-	-	-	7,037	-	7,037
Other comprehensive (loss), net of tax	-	-	-	-	(18,165)	(18,165)
Restricted stock issued	1,055	11	55			66
Stock options exercised	1,920	19	54	-	-	73
Stock option compensation	-	-	15	-	-	15
Stock repurchases	(8,000)	(80)	(400)			(480)
Cash dividends ($2.50 per share)	-	-	-	(2,991)	-	(2,991)
Balances at December 31, 2022	1,195,223	$ 11,952	339	63,754	(20,355)	55,690

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Years Ended		
	2022	2021	2020
OPERATING ACTIVITIES:			
Net Income	$ 7,037	6,947	5,383
Adjustments to reconcile net income to net cash provided by operating activities:			
Premium amortization on securities	1,200	996	236
Depreciation and amortization	441	446	395
Provision for loan losses	-	-	1,600
Deferred tax (benefit)	(22)	(61)	(1,304)
Stock option compensation	15	32	31
Net changes in:			
Accrued interest receivable	(318)	499	(650)
Accrued expenses and other liabilities	542	286	502
Prepaid expenses	(82)	33	(32)
Other operating activities	107	(392)	384
Net cash provided by operating activities	8,920	8,786	6,545
INVESTING ACTIVITES:			
Purchases of securities available-for-sale	(12,646)	(116,620)	(73,589)
Proceeds from calls and maturities of securities available-for-sale	-	5,000	2,450
Prinicipal payments received on securities available-for-sale	12,923	11,509	4,458
Net (increase) decrease in loans	(44,327)	16,773	(6,635)
Purchases of FHLB stock	(277)	-	(7)
Proceeds from redemptions of FHLB stock	-	137	-
Purchases of bank owned life insurance	-	(3,000)	-
Purchases of premises and equipment	(376)	(421)	(942)
Proceeds from sales of real estate	104	29	97
Net cash (used) by investing activities	(44,599)	(86,593)	(74,168)
FINANCING ACTIVITIES:			
Net increase (decrease) in deposits	1,435	79,005	100,651
Proceeds from FHLB borrowings	5,000	-	-
Stock options exercised	73	134	155
Stock repurchases	(480)	-	-
Dividends paid	(2,991)	(3,001)	(2,989)
Net cash provided by financing activities	3,037	76,138	97,817
Net (decrease) increase in cash and cash equivalents	(32,642)	(1,669)	30,194
Cash and cash equivalents at beginning of year	74,831	76,500	46,306
Cash and cash equivalents at end of year	$42,189	$ 74,831	76,500
Supplemental disclosures:			
Interest payments	$ 1,490	1,904	2,747
Income tax payments	2,453	2,509	3,043
Noncash investing and financing activities:			
Transfers to other real estate	$ 104	-	-

TABLE 1: AVERAGE BALANCES AND NET INTEREST INCOME ANALYSIS

	Years Ended December 31								
Taxable Equivalent Basis - In Thousands (1)	2022			2021			2020		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
EARNING ASSETS									
Loans (2)	$ 404,290	18,747	4.64%	$ 391,351	19,395	4.96%	$ 398,398	19,866	4.99%
Securities (3)	182,969	2,914	1.59%	122,985	1,679	1.37%	32,941	583	1.77%
Interest bearing deposits with banks and federal funds sold	67,936	889	1.31%	94,562	288	0.30%	83,058	485	0.58%
Total earning assets	655,195	22,550	3.44%	608,898	21,362	3.51%	514,397	20,934	4.07%
NON-EARNING ASSETS									
Cash and due from banks	$ 3,321			$ 3,452			$ 2,897		
Premises and equipment, net	6,276			6,447			5,870		
All other assets, net	20,698			19,672			18,180		
Securities market value adjustment	(13,102)			(806)			100		
Less: allowance for loan losses	(7,471)			(7,239)			(6,136)		
Total assets	664,917			631,230			535,208		
INTEREST-BEARING LIABILITIES									
Savings and time deposits	$ 408,396	1,550	0.38%	$ 378,373	1,764	0.47%	$ 332,770	2,720	0.82%
FHLB borrowings	27	1	3.70%	-	-	-	-	-	-
Total interest bearing liabilities	$ 408,423	1,551	0.38%	$ 378,373	1,764	0.47%	$ 332,770	2,720	0.82%
OTHER LIABILITIES AND STOCKHOLDERS' EQUITY									
Demand deposits	$ 191,627			$ 179,472			$ 131,293		
Other liabilities	3,088			3,256			2,835		
Stockholders’ equity	61,779			70,129			68,310		
Total liabilities and stockholders’ equity	664,917			631,230			535,208		
Net interest income and net interest margin (4)		21,000	3.21%		19,598	3.22%		18,214	3.54%
Interest rate spread (5)			3.06%			3.04%			3.25%

(1) The taxable equivalent basis is computed using applicable federal and state tax rates.

(2) The average loan balances exclude nonaccrual loans.

(3) The average balances for debt and equity securities exclude the effect of their mark-to-market adjustment, if any.

(4) Net interest margin is computed by dividing net interest income by total earning assets.

(5) Interest rate spread equals the earning asset yield minus the interest-bearing liabilities yield.

TABLE 2: SECURITIES

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

	December 31, 2022			
Available-for-sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasuries and government agencies	$ 24,934	-	2,770	22,164
State and municipal	37,414	-	6,562	30,852
Mortgage backed	108,394	39	18,191	90,242
Corporate debt	5,482	-	599	4,883
Totals	$ 176,224	39	28,122	148,141

	December 31, 2022			
Held to maturity	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage backed	$ 3,239	-	186	3,053

	December 31, 2021			
Available-for-sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasuries and government agencies	$ 27,136	94	285	26,945
State and municipal	37,845	69	709	37,205
Mortgage backed	112,894	67	2,224	110,737
Corporate debt	3,011	-	35	2,976
Totals	$ 180,886	$ 230	$ 3,253	$ 177,863

The unrealized losses that exist are the result of changes in market interest rates since original purchases. These unrealized losses are considered temporary in nature and will recover over time as these securities approach maturity. The Company has sufficient liquidity to hold these securities for an adequate period of time, to allow for an eventual recovery in fair value.

TABLE 3: LOANS

At December 31, 2022 and 2021 loans were as follows:

	2022	2021
Real estate:		
Construction and land development	$ 39,138	37,215
Secured by farmland	27,214	31,253
Commercial	138,499	133,916
Residential	204,985	160,124
Commercial and agricultural	13,711	16,444
Consumer	5,759	6,152
Total	$ 429,306	385,104

A summary of current, past due, and nonaccrual loans as of December 31, 2022 and 2021 was as follows:

	Current	30-89 Days Past Due	90 Days or more Past Due and accruing	Nonaccrual	Total
As of December 31, 2022					
Real estate:					
Construction and land development loans	$ 39,138	-	-	-	39,138
Secured by farmland	27,214	-	-	-	27,214
Commercial	138,484	15	-	-	138,499
Residential	204,375	477	27	106	204,985
Commercial and agricultural	13,640	4	67	-	13,711
Consumer	5,759	-	-	-	5,759
Total	$ 428,610	496	94	106	429,306
Percentage of loan portfolio	99.84%	0.12%	0.02%	0.02%	100%
As of December 31, 2021					
Real estate:					
Construction and land development loans	$ 37,215	-	-	-	37,215
Secured by farmland	30,693	-	-	560	31,253
Commercial	132,708	128	314	766	133,916
Residential	159,643	238	104	139	160,124
Commercial and agricultural	16,444	-	-	-	16,444
Consumer	6,149	3	-	-	6,152
Total	$ 382,852	369	418	1,465	385,104
Percentage of loan portfolio	99.42%	0.10%	0.11%	0.38%	100%

TABLE 4: ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan losses for the year ended December 31, 2022 and 2021 were as follows:

As of December 31, 2022	
Beginning Balance	$ 7,401
Provision for loan losses	-
Net charge-offs:	
Charge-offs	(21)
Recoveries	185
Net recoveries (charge-offs)	164
Ending balance	$ 7,565

As of December 31, 2021	
Beginning Balance	$ 7,170
Provision for loan losses	-
Net charge-offs:	
Charge-offs	(109)
Recoveries	340
Net (charge-offs) recoveries	231
Ending balance	$ 7,401

TABLE 5: NONPERFORMING ASSETS

	As of December 31	
In Thousands	2022	2021
Nonaccrual loans	$ 106	1,465
Accruing loans 90 days or more past due	94	418
Total nonperforming assets	200	1,883
Tier I capital	$ 75,826	71,971
Percentage of nonperforming assets to Tier I capital	0.26%	2.62%
Allowance for loan losses	$ 7,565	7,401
Percentage of nonperforming assets to allowance for loan losses	2.64%	25.44%

TABLE 6: CRITICIZED LOANS

The following table summarizes the loan risk ratings applied to the Company's real estate mortgages and commercial loans as of December 31, 2022 and 2021. Criticized loans are considered inadequately protected by the current paying capacity of the borrower or of the collateral pledged, if any. These loans have weaknesses that may jeopardize the liquidation of the debt. Loans not meeting the definition of criticized are considered pass rated loans.

	Real estate construction	Real estate residential	Real estate commercial and farmland	Commercial and agriculture	Totals
As of December 31, 2022					
Pass	$ 39,138	203,788	160,780	13,644	417,350
Criticized accrual	-	1,091	4,933	67	6,091
Criticized nonaccrual	-	106	-	-	106
Total	$ 39,138	204,985	165,713	13,711	423,547
As of December 31, 2021					
Pass	$ 37,215	159,520	159,746	16,014	372,495
Criticized accrual	-	465	4,097	-	4,562
Criticized nonaccrual	-	139	1,326	-	1,465
Total	$ 37,215	160,124	165,169	16,014	378,522

	2022	2021
Criticized accrual loans	$ 6,091	4,562
Criticized nonaccrual loans	106	1,465
Total criticized loans	$ 6,197	6,027
Allowance for loan losses	$ 7,565	7,401
Tier I capital	75,826	71,971
Totals	$ 83,391	79,372
Total criticized loans to the allowance for loan losses plus Tier I capital	7.4%	7.6%

TABLE 7: DEPOSITS

A breakdown of interest bearing deposits at December 31, 2022 and 2021 by type of account were as follows:

	2022	2021
Savings and money market	$ 196,709	174,355
Interest bearing demand	74,086	84,273
Time deposits through $ 250,000	114,869	109,795
Time deposits of more than $250,000	21,054	27,153
Total interest bearing deposits	$ 406,718	395,576

At December 31, 2022, the scheduled maturities of time deposits were as follows:

2023	$ 89,689
2024	27,788
2025	7,845
2026	6,554
2027	4,047
	$ 135,923

Interest on deposits for the years ended December 31, 2022, 2021 and 2020 consisted of the following:

	2022	2021	2020
Savings and money market	$ 357	245	197
Interest bearing demand	473	213	253
Time deposits more than $ 250,000	133	325	583
Other time deposits	587	981	1,687
Total interest on deposits	$ 1,550	1,764	2,720

8. BORROWINGS AND CREDIT FACILITIES

Short-term borrowings consist of advances from the Federal Home Loan Bank of Atlanta with original maturities of up to one year and federal funds purchased from correspondent banks. There was a $5 million daily adjustable rate credit advance from the FHLB of Atlanta outstanding at December 31, 2022. There were no short term borrowings outstanding at December 31, 2021.

At December 31, 2022, credit available under the FHLB credit facility approximates $93 million with advances of $5 million and letters of credit issued for the benefit of public funds depositors of $37 million outstanding. The Bank is required to maintain an investment in stock of the FHLB in the amount of $579 thousand as a condition for the credit facility. The Bank has also pledged its portfolios of 1-4 family first and second mortgage loans, home equity loans, multi-family mortgages and mortgages secured by farmland as collateral for this credit facility. Certain qualifying commercial mortgages are also pledged as collateral for this credit facility. Principal balances outstanding on these mortgage loans total approximately $285 million at December 31, 2022.

TABLE 9: STOCKHOLDERS' EQUITY

The Company and the Bank are subject to various regulatory capital requirements. 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 Company's and the Bank's financial statements. Regulatory non-objection may be required to pay certain dividends. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance sheet items as calculated under regulatory capital practices. The Company'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 Company and the Bank to maintain amounts and ratios (as set forth in the following table) of total and Tier 1 Capital (as defined in the regulations) to risk-weighted assets (as defined). As of December 31, 2022, the capital levels of the Company and the Bank exceed all capital adequacy requirements to which they are subject.

As of December 31, 2022, the most recent notification from the Bank's primary regulators categorized the Bank as well capitalized under the prompt corrective action regulations. To be categorized as well capitalized, a bank must maintain a minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following tables. There are no conditions or events since the last notifications that management believes have changed the Bank's category. Actual capital amounts and ratios are presented in the following table for the Company and the Bank.

	Actual		For Capital	To Be Well Capitalized Under Prompt Corrective
	Amount	Ratio	Adequacy Purposes	Action Provisions
As of December 31, 2022				
Total capital (to risk weighted assets):				
Company (consolidated)	$81,764	17.94%	8%	
Bank	81,546	17.89%	8%	10%
Tier I capital (to risk weighted assets):				
Company (consolidated)	76,044	16.69%	6%	
Bank	75,826	16.64%	6%	8%
Common equity tier I				
Company (consolidated)	76,044	16.69%	4.50%	
Bank	75,826	16.64%	4.50%	6.50%
Tier I capital (to average assets):				
Company (consolidated)	76,044	11.30%	4%	
Bank	75,826	11.27%	4%	5%
As of December 31, 2021				
Total capital (to risk weighted assets):				
Company (consolidated)	$77,602	18.47%	8%	
Bank	77,248	18.39%	8%	10%
Tier I capital (to risk weighted assets):				
Company (consolidated)	72,325	17.22%	6%	
Bank	71,971	17.13%	6%	8%
Common equity tier I				
Company (consolidated)	72,325	17.22%	4.50%	
Bank	71,971	17.13%	4.50%	6.50%
Tier I capital (to average assets):				
Company (consolidated)	72,325	10.81%	4%	
Bank	71,971	10.77%	4%	5%

Queenstown Bank of Maryland

Main Office	**Grasonville Branch**	**Chester Branch**
7101 Main Street	3701 Main Street	1423 Main Street
P.O. Box 120	P.O. Box 138	P.O. Box 239
Queenstown, MD 21658	Grasonville, MD 21638	Chester, MD 21619
Phone: 410-827-8881	Phone: 410-827-6101	Phone: 410-643-2258
Fax: 410-827-8190	Fax: 410-827-4916	Fax: 410-643-7694
Branch Manager: Sam Creel	Branch Manager: Patricia Murchake	Branch Manager: Erin Collier
Benton's Crossing Branch	**Centreville Branch**	**Easton Branch**
101 Main Street	115 Coursevall Drive	274 North Washington Street
P.O. Box 1035	P.O. Box 177	P.O. Box 1899
Stevensville, MD 21666	Centreville, MD 21617	Easton, MD 21601
Phone: 410-604-0881	Phone: 410-758-8747	Phone: 410-819-8686
Fax: 410-604-0883	Fax: 410-758-8767	Fax: 410-819-5813
Branch Manager: Nitza Hall	Branch Manager: Karen Dean	Branch Manager: Cynthia Alt
Ridgely Branch	**Church Hill Branch**	**Cambridge Branch**
204 A East 6th Street	1005 Sudlersville Rd	110 Dorchester Ave
P.O. Box 1098	P.O. Box 269	
Ridgely, MD 21660	Church Hill, MD 21623	Cambridge, MD 21613
Phone: 410-634-2071	Phone: 410-556-6417	Phone: 410-330-8888
Fax: 410-634-2459	Fax: 410-556-6479	
Branch Manager: Kathy Kendall	Branch Manager: Kathy Kendall	Branch Manager: Michelle Airey

Patrick E. Thompson	Chairman of the Board
Kevin B. Cashen	President/CEO
James P. Shaw	Senior Vice President/CFO
Eric Johnson	Senior Vice President
Peggy E. Lewis	Senior Vice President/CRO
C. Franklin Russum	Senior Vice President
Tracy Whitby-Fairall	Senior Vice President/COO
Christina Wilkins	Senior Vice President
Brooke Horney	Senior Vice President/CCO
Jessica Fox	Senior Vice President
Deanna Lintz	Senior Vice President
Kathryn Clark	Senior Vice President
Michael Lucas	Senior Vice President
D.Trevor Carouge	Vice President
Karen Dean	Vice President
Teresa Hood	Vice President
Heather Jarrell	Vice President
Rose Kleckner	Vice President
Timothy McCarter	Vice President
Gene Spear	Vice President

Queenstown Bancorp of Maryland, Inc. & Queenstown Bank of Maryland

History

Queenstown Bank of Maryland is located in the town of Queenstown, in the State of Maryland. Queenstown Bank of Maryland was incorporated April 19, 1899, and officially opened for business on July 1, 1899. We are currently the second oldest locally established bank in Queen Anne's County. Originally it was known as Queenstown Savings Bank of Queen Anne's County, the name was changed to Queenstown Bank of Maryland by the actions of the Maryland State Legislature in 1910.

Presidents

DeCoursey W. Thom	Founder – 1899
Dr. Charles Cockey	1899 – 1904
William C. McConnor	1904 – 1919
Eugene L. Dudley	1919 – 1925
W. E. King	1925 – 1927
H. B. W. Mitchell	1928 – 1931
S. E. W. Friel, Sr.	1931
Dr. Norman R. Hitch	1932 – 1939
Thomas Marsalis	1940 – 1956
Horace M. Morgan	1957 – 1960
James R. Friel	1960 – 1983
Albert V. Stant	1983 – 1992
J. Thomas Rhodes, Jr.	1992 – 2017
Kevin B. Cashen	2017 – Present

Queenstown Bank
of Maryland

ESTABLISHED 1899

Member FDIC

QUEENSTOWN BANCORP OF MARYLAND, INC.

QUEENSTOWN
BANK

Just the bank you need.™

2022 AUDITED FINANCIAL STATEMENTS

AUDITED FINANCIAL STATEMENTS

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UHY LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of Queenstown Bancorp of Maryland, Inc. (a Maryland corporation) and subsidiary, which comprise the consolidated balance sheets as of December 31, 2022, and the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity, and cash flows for the year then ended and the related notes to the consolidated financial statements.

In our opinion, the 2022 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Queenstown Bancorp of Maryland, Inc. and subsidiary as of December 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Queenstown Bancorp of Maryland, Inc. and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Financial Statements

The consolidated financial statements of Queenstown Bancorp of Maryland, Inc. and subsidiary as of December 31, 2021 were audited by other auditors whose report dated March 10, 2022 expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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 consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the 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 Queenstown Bancorp of Maryland, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Queenstown Bancorp of Maryland, Inc.'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.

UHY LLP

Salisbury, Maryland
March 22, 2023

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	December 31	
	2022	**2021**
ASSETS		
Cash and due from banks	$ 7,077	$ 4,536
Interest bearing deposits with banks	35,112	70,295
Total cash and cash equivalents	42,189	74,831
Securities available for sale (at fair value)	148,141	177,863
Securities held to maturity (at amortized cost)	3,239	-
Federal Home Loan Bank stock (at cost)	579	302
Loans	429,306	385,104
Less allowance for loan losses	(7,565)	(7,401)
Loans, net	421,741	377,703
Premises and equipment, net	6,236	6,301
Bank owned life insurance	15,224	14,829
Deferred income taxes	10,284	3,365
Accrued interest receivable	2,059	1,741
Prepaid expenses	378	296
Other assets	549	856
TOTAL ASSETS	$650,619	$658,087
LIABILITIES AND STOCKHOLDERS' EQUITY		
Noninterest bearing deposits	$179,286	$188,993
Interest bearing deposits	406,718	395,576
Total deposits	586,004	584,569
Advances from Federal Home Loan Bank	5,000	-
Accrued expenses and other liabilities	3,925	3,383
Total liabilities	594,929	587,952
Common stock - $10 par value; shares authorized 10,000,000, shares issued and outstanding 1,195,223 and 1,200,248 , respectively	11,952	12,002
Additional paid in capital	339	615
Retained earnings	63,754	59,708
Accumulated other comprehensive (loss) income	(20,355)	(2,190)
Total stockholders' equity	55,690	70,135
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$650,619	$658,087

See accompanying notes to consolidated financial statements.

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share information)

	Years Ended		
	2022	**2021**	**2020**
INTEREST INCOME:			
Interest and fees on loans	$ 18,736	$ 19,378	19,837
Interest and dividends on investment securities	2,890	1,608	566
Other interest income	902	288	485
Total interest income	22,528	21,274	20,888
INTEREST EXPENSE:			
Interest on deposits	1,550	1,764	2,720
Interest on borrowings	1	-	-
Total interest expense	1,551	1,764	2,720
Net interest income	20,977	19,510	18,168
Provision for loan losses	-	-	1,600
Net interest income after provision for loan losses	20,977	19,510	16,568
NONINTEREST INCOME:			
Service charges on deposit accounts	470	363	402
Income on life insurance policies	380	404	309
Other income	859	886	683
Net gain on sales of real estate	-	6	8
Total noninterest income	1,709	1,659	1,402
NONINTEREST EXPENSES:			
Salaries and employee benefits	7,861	7,259	6,695
Data processing and electronic banking expenses	1,172	1,009	987
Occupancy expense	728	669	622
Equipment expenses	496	458	415
FDIC insurance premiums	181	166	110
Other expenses	2,761	2,238	1,909
Total noninterest expenses	13,199	11,799	10,738
Income before income taxes	9,487	9,370	7,232
Income tax expense	2,450	2,423	1,849
Net income	$ 7,037	$ 6,947	5,383
Basic net income per common share	$ 5.87	$ 5.79	4.50
Diluted net income per common share	$ 5.81	$ 5.75	4.47
Basic weighted average common shares outstanding	1,199,084	1,199,302	1,195,322
Diluted weighted average common shares outstanding	1,211,471	1,208,576	1,205,044

See accompanying notes to consolidated financial statements.

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Dollars in thousands)

	Years Ended		
	2022	2021	2020
Net income	$ 7,037	$ 6,947	5,383
Other comprehensive income (loss), before tax:			
Securities available for sale:			
Unrealized holding (losses) gains arising during the period	(25,061)	(3,211)	169
Other comprehensive (loss) income , before tax	(25,061)	(3,211)	169
Income tax effect	6,896	885	(47)
Other comprehensive (loss) income, net of tax	(18,165)	(2,326)	122
Total comprehensive (loss) income	$ (11,128)	$ 4,621	5,505

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2022, 2021 and 2020

(Dollars in thousands, except per share information)

	Common Stock Shares	Common Stock Par Value	Additional paid- in capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Totals
Balances at January 1, 2020	1,192,281	$ 11,923	309	53,368	14	65,614
Net Income	-	-	-	5,383	-	5,383
Other comprehensive income, net of tax	-	-	-	-	122	122
Stock options exercised	3,505	35	120	-	-	155
Stock option compensation	-	-	31	-	-	31
Cash dividends ($2.50 per share)	-	-	-	(2,989)	-	(2,989)
Balances at December 31, 2020	1,195,786	11,958	460	55,762	136	68,316
Net Income	-	-	-	6,947	-	6,947
Other comprehensive loss, net of tax	-	-	-	-	(2,326)	(2,326)
Restricted stock issued	562	5	28			33
Stock options exercised	3,900	39	95	-	-	134
Stock option compensation	-	-	32	-	-	32
Cash dividends ($2.50 per share)	-	-	-	(3,001)	-	(3,001)
Balances at December 31, 2021	1,200,248	12,002	615	59,708	(2,190)	70,135
Net Income	-	-	-	7,037	-	7,037
Other comprehensive (loss), net of tax	-	-	-	-	(18,165)	(18,165)
Restricted stock issued	1,055	11	55			66
Stock options exercised	1,920	19	54	-	-	73
Stock option compensation	-	-	15	-	-	15
Stock repurchases	(8,000)	(80)	(400)			(480)
Cash dividends ($2.50 per share)	-	-	-	(2,991)	-	(2,991)
Balances at December 31, 2022	1,195,223	$ 11,952	339	63,754	(20,355)	55,690

See accompanying notes to consolidated financial statements.

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	Years Ended		
	2022	2021	2020
OPERATING ACTIVITIES:			
Net Income	$ 7,037	6,947	5,383
Adjustments to reconcile net income to net cash provided by operating activities:			
Premium amortization on securities	1,200	996	236
Depreciation and amortization	441	446	395
Provision for loan losses	-	-	1,600
Deferred tax (benefit)	(22)	(61)	(1,304)
Stock option compensation	15	32	31
Net changes in:			
Accrued interest receivable	(318)	499	(650)
Accrued expenses and other liabilities	542	286	502
Prepaid expenses	(82)	33	(32)
Other operating activities	107	(392)	384
Net cash provided by operating activities	8,920	8,786	6,545
INVESTING ACTIVITES:			
Purchases of securities available-for-sale	(9,310)	(116,620)	(73,589)
Purchases of Securities held-to-maturity	(3,336)	-	-
Proceeds from calls and maturities of securities available-for-sale	-	5,000	2,450
Principal payments received on securities available-for-sale	12,815	11,509	4,458
Principal payments received on securities held-to-maturity	108	-	-
Net (increase) decrease in loans	(44,327)	16,773	(6,635)
Purchases of FHLB stock	(277)	-	(7)
Proceeds from redemptions of FHLB stock	-	137	-
Purchases of bank owned life insurance	-	(3,000)	-
Purchases of premises and equipment	(376)	(421)	(942)
Proceeds from sales of real estate	104	29	97
Net cash (used) by investing activities	(44,599)	(86,593)	(74,168)
FINANCING ACTIVITIES:			
Net increase (decrease) in deposits	1,435	79,005	100,651
Proceeds from FHLB borrowings	5,000	-	-
Stock options exercised	73	134	155
Stock repurchases	(480)	-	-
Dividends paid	(2,991)	(3,001)	(2,989)
Net cash provided by financing activities	3,037	76,138	97,817
Net (decrease) increase in cash and cash equivalents	(32,642)	(1,669)	30,194
Cash and cash equivalents at beginning of year	74,831	76,500	46,306
Cash and cash equivalents at end of year	$42,189	$ 74,831	76,500
Supplemental disclosures:			
Interest payments	$ 1,490	1,904	2,747
Income tax payments	2,453	2,509	3,043
Noncash investing and financing activities:			
Transfers to other real estate	$ 104	-	-

See accompanying notes to consolidated financial statements.

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020

(Dollars in thousands, except per share information)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Company, which includes Queenstown Bancorp of Maryland, Inc. and its wholly owned subsidiary, Queenstown Bank of Maryland (the Bank), conform to accounting principles generally accepted in the United States of America and to general practices in the banking industry. Certain reclassifications have been made to amounts previously reported to conform with the classifications made in 2022.

Basis of Presentations

The consolidated financial statements include the accounts of Queenstown Bancorp of Maryland, Inc. and its subsidiary, Queenstown Bank of Maryland, with all significant intercompany transactions eliminated.

Nature of Operations

The Company provides a full range of banking services to individuals and businesses through its main office and five branches in Queen Anne's County and one branch each in Talbot County and Caroline County Maryland.The Company also operates a loan production office in Dorchester County. Its primary deposit products are certificates of deposit and demand, savings, and money market accounts. Its primary lending products are commercial and consumer loans and real estate mortgages. The Company's loan portfolio has a concentration of residential and commercial real estate loans in Queen Anne's County and the surrounding area.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Securities

At the purchase date, the Company classifies securities as held to maturity or available for sale. Interest and dividend income on securities are recognized in interest income on the accrual basis. Premiums and discounts on securities are amortized as an adjustment to yield using the interest method. Premiums are amortized through the earliest call date. Discounts are accreted through the maturity date.

Debt securities acquired with both the intent and ability to hold to maturity are classified as held to maturity and reported at amortized cost. Federal Home Loan Bank stock is carried at cost and is restricted as to marketability.

Securities classified as available-for-sale are used as part of the Company’s asset/liability management strategy. Sales may occur in response to changes in interest rate conditions, balance sheet composition or other economic factors. All debt securities classified as available for sale are reported at estimated fair value, with unrealized gains and losses reported as accumulated other comprehensive income or loss, net of deferred income taxes, in the stockholders’ equity section of the Consolidated Balance Sheets.

Gains or losses realized from the sale of securities are determined by specific identification and are included in noninterest income. The Company evaluates each investment security in an unrealized loss position for other than temporary impairment. If management determines that all contractual obligations from an investment may not be received, then other than temporary impairment would be recognized. The unrealized loss for other than temporary impairment on debt securities are reported in current period earnings.

Loans

Loans are stated at their principal balance outstanding net of deferred loan fees and costs. Overdrafts are included in loans outstanding. Interest income on loans is accrued at the contractual rate on the principal amount outstanding. The Company places loans, except for consumer, on nonaccrual when any portion of the principal or interest is ninety days past due and collateral is insufficient to discharge the debt in full. Interest accrual may also be discontinued earlier if, in management's opinion, collection is unlikely. Generally, consumer loans are not placed on nonaccrual, but are charged off when they are over 100 days past due. Interest received on impaired loans placed on nonaccrual status is generally applied to reduce the carrying value of the loan or, if principal is considered fully collectible, recognized as interest income. For all other loans, loan balances are charged off when it becomes evident that such balances are not fully collectible. For loans secured by real estate, the excess of the loan balances over the net realizable value of the property collateralizing the loan is charged off. Accrual of interest resumes when the loan is brought current and the borrower demonstrates the ability to service the debt on a current basis.

Loans are considered impaired, based upon current information and circumstances, if it is probable that the Company will not collect all principal and interest payments according to contractual terms. Restructured loans, meeting the definition of troubled debt restructurings, are considered impaired loans. Impaired loans do not include large groups of smaller balance homogeneous loans that are evaluated collectively for impairment such as consumer installment loans. The impairment of a loan is measured by the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral if the repayment is expected to be provided by the collateral.

Loan origination fees and certain direct loan origination costs are being deferred and the net amount is amortized over the contractual life of the loan as an adjustment to the loan's yield.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The allowance is determined by management's evaluation of the loan and lease portfolio based on such factors as the differing economic risks associated with each loan category, the current financial condition of specific borrowers, the economic environment in which borrowers operate, the level of delinquent loans, the value of any collateral and, where applicable, the existence of any guarantees or indemnification. As a result, these judgments are inherently subjective and involve material estimates that may be susceptible to significant change. The allowance is increased by the loan loss provision charged to operating expenses and reduced by charge-offs, net of recoveries. The provision for loan losses is based on the ongoing review of the loan portfolios, past loss experience and current economic conditions which could impact the borrowers' repayment performance.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Land is stated at cost. The Company's policy is to provide for depreciation of physical properties over their estimated useful lives or the lease term (whichever is shorter) as a charge to operations at straight-line rates. Expenditures for maintenance, repairs and minor renewals are charged to operations; expenditures for betterments are charged to the property accounts. Upon retirement or other disposition of properties, the carrying value and the related accumulated depreciation or amortization are removed from the accounts.

Advertising Costs

Advertising costs are expensed as incurred.

Off-Balance Sheet Credit Risk

The Company issues financial or standby letters of credit that represent conditional commitments to fund transactions by the Company, typically to guarantee performance of a customer to a third party related to borrowing arrangements. The credit risk associated with issuing letters of credit is essentially the same as occurs when extending loan facilities to borrowers. The Company monitors the exposure to the letters of credit as part of its credit review process. Extensions of letters of credit, if any, would become part of the loan balance outstanding and would be evaluated in accordance with the Company's credit policies. Potential exposure to loss for unfunded letters of credit if deemed necessary would be recorded in other liabilities.

Other Real Estate

Real estate properties acquired through, or in lieu of, loan foreclosure are held for sale and carried at the lower of fair value minus estimated costs of disposal or cost. Fair value is based on independent appraisals and other relevant factors. At the time of acquisition any excess of loan balance over fair value is charged to the allowance for loan losses.

Income Taxes

Deferred income taxes are calculated by applying enacted statutory tax rates to temporary differences consisting of all significant items which are reported for tax purposes in different years than for accounting purposes. Deferred tax assets are recognized only to the extent that it is more likely than not that such amounts will be realized based on considerations of available evidence. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Per Share Data

Basic net income per share is computed by dividing the net income by the weighted average number of shares of common stock outstanding during the year presented. Diluted net income per share is computed by dividing net income by the weighted average number of shares of common stock plus the assumed conversions of common stock equivalents outstanding using the treasury method.

Subsequent Events

Subsequent events have been evaluated for potential recognition and disclosure through the date of the independent auditors' report, the date these consolidated financial statements were available to be issued. No subsequent events were identified that would affect the presentation of the consolidated financial statements.

Statement of Cash Flows

For purposes of reporting cash flows, cash equivalents are composed of cash and due from banks and interest bearing deposits with banks.

Comprehensive Income

Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains, and losses be included in net income. However, certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the stockholders' equity section of the consolidated balance sheet. Such items, along with net income, are componets of comprehensive income.

Noninterest income

Service charges on deposit accounts – Service charges on deposit accounts consist of monthly service fees, check orders, and other deposit account related fees. The Company's performance obligation for 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 Company'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.

Other noninterest income – Other noninterest income consists of fees, other service charges, safety deposit box rental fees, and other miscellaneous revenue streams. Fees and other service charges are primarily comprised of debit card income, ATM fees, merchant services income, and other service charges. Debit card income is primarily comprised of interchange fees earned whenever the Company's debit cards are processed through card payment networks. ATM fees are primarily generated when a Company cardholder uses a non-Company ATM. Merchant services income mainly represents fees charged to merchants to process their debit card transactions, in addition to account management fees. Other service charges include revenue from processing wire transfers, cashier's checks, and other services. The Company's performance obligation for fees 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 in the following month. Safe deposit box rental fees are charged to the customer on an annual basis and recognized upon receipt of payment.

Recent Accounting Pronouncements

During June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The amendments in this ASU, among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted. . In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The FASB has issued multiple updates to ASU 2016- 13 as codified in Topic 326, including ASU's 2019-04, 2019-05, 2019-10, 2019-11, 2020-02, and 2020-03. The ASU is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company does not expect the adoption to have a material impact on the consolidated financial statements.

During December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740) – Simplifying the Accounting for Income Taxes.", which simplifies the accounting for income taxes by removing multiple exceptions to the general principals in Topic 740. The amendments are effective for fiscal years beginning after December 15,2021 and interim periods within fiscal years beginning after December 15,2022. The Company does not expect the adoption to have a material impact on the consolidated financial statements.

In March 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2020-04 "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The new standard results from the London Interbank Offered Rate ("LIBOR") being discontinued as an available benchmark rate. The standard is elective and provides optional expedients and exceptions for applying GAAP to contracts, hedging, or other transactions that reference LIBOR, or another reference rate expected to be discontinued. The amendments in the update are effective for all entities between March 12,2020 and December 31, 2022. The Company has few transactions referencing LIBOR and has begun transitioning to alternative rates, consistent with industry guidelines.

2. SECURITIES

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

	December 31, 2022			
Available for sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasuries and government agencies	$ 24,934	-	2,770	22,164
State and municipal	37,414	-	6,562	30,852
Mortgage backed	108,394	39	18,191	90,242
Corporate debt	5,482	-	599	4,883
Totals	$ 176,224	39	28,122	148,141

	December 31, 2021			
Available for sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasuries and government agencies	$ 27,136	94	285	26,945
State and municipal	37,845	69	709	37,205
Mortgage backed	112,894	67	2,224	110,737
Corporate debt	3,011	-	35	2,976
Totals	$ 180,886	230	3,253	177,863

	December 31, 2022			
Held to maturity	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage backed	$ 3,239	-	186	3,053

The table below shows our securities' gross unrealized losses and fair value, aggregated by 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 more		Totals	
As of December 31, 2022	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available for sale						
U.S. treasuries and government agencies	$ 633	1	15,725	2,808	16,358	2,809
State and municipal	346	18	30,506	6,544	30,852	6,562
Mortgage backed	7,963	649	82,187	17,503	90,150	18,152
Corporate debt	2,247	226	2,635	373	4,882	599
Totals	$ 11,189	894	131,053	27,228	142,242	28,122
Held to maturity						
Mortgage backed	$ 3,053	186	-	-	3,053	186
As of December 31, 2021						
U.S. treasuries and government agencies	$ 14,693	182	1,457	103	16,150	285
State and municipal	22,843	418	7,787	291	30,630	709
Mortgage - backed	82,172	1,434	22,731	790	104,903	2,224
Corporate debt	2,976	35	-	-	2,976	35
Totals	$ 122,684	2,069	31,975	1,184	154,659	3,253

The unrealized losses that exist are the result of changes in market interest rates since original purchases. These unrealized losses are considered temporary in nature and will recover over time as these securities approach maturity. The Company has sufficient liquidity to hold these securities for an adequate period of time, to allow for an eventual recovery in fair value.

The amortized cost and fair values of debt securities at December 31, 2022 by contractual maturity are shown below. Expected maturities will 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 Value	Amortized Cost	Fair Value
As of December 31, 2022				
One to five years	$ 13,734	12,149	$ -	-
Five to ten years	33,227	27,870	-	-
After ten years	20,869	17,880	-	-
	67,830	57,899	-	-
Mortgage backed	108,394	90,242	3,239	3,053
Totals	$ 176,224	148,141	$ 3,239	3,053

There were no sales of securities in 2022, 2021 nor 2020.

At December 31, 2022 and 2021, securities with a carrying value of $36,258 thousand and $22,856 thousand respectively, were pledged as collateral for certain government deposits and for other purposes as required or permitted by law.

3. LOANS

At December 31, 2022 and 2021, loans are as follows:

	2022	2021
Real estate:		
Construction and land development	$ 39,138	37,215
Secured by farmland	27,214	31,253
Commercial	138,499	133,916
Residential	204,985	160,124
Commercial and agricultural	13,711	16,444
Consumer	5,759	6,152
Totals	$ 429,306	385,104

Unamortized net deferred loan costs amounted to $554 thousand and $397 thousand at December 31, 2022 and 2021.
A summary of current, past due, and nonaccrual loans as of December 31, 2022 and 2021 was as follows:

	Current	30-89 Days Past Due	90 Days or more Past Due and accruing	Nonaccrual	Total
As of December 31, 2022					
Real estate:					
Construction and land development	$ 39,138	-	-	-	39,138
Secured by farmland	27,214	-	-	-	27,214
Commercial	138,484	15	-	-	138,499
Residential	204,375	477	27	106	204,985
Commercial and agricultural	13,640	4	67	-	13,711
Consumer	5,759	-	-	-	5,759
Totals	$ 428,610	496	94	106	429,306

	Current	30-89 Days Past Due	90 Days or more Past Due and accruing	Nonaccrual	Totals
As of December 31, 2021					
Real estate:					
Construction and land development	$ 37,215	-	-	-	37,215
Secured by farmland	30,693	-	-	560	31,253
Commercial	132,708	128	314	766	133,916
Residential	159,643	238	104	139	160,124
Commercial and agricultural	16,444	-	-	-	16,444
Consumer	6,149	3	-	-	6,152
Totals	$ 382,852	369	418	1,465	385,104

Loans on which the accrual of interest has been discontinued totaled $106 thousand and $1,465 thousand at December 31, 2022 and 2021 respectively. Interest that would have been accrued on these loans totaled $18 thousand and $93 thousand for the years ended December 31, 2022 and 2021 respectively. At December 31, 2022 there were residential mortgages in the process of foreclosure totaling $27 thousand.

4. ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS

Changes in the allowance for credit losses for the year ended December 31, 2022 and 2021 were as follows:

	Real estate construction	Real estate residential	Real estate commercial and farmland	Commercial and agriculture	Consumer	Totals
As of December 31, 2022						
Beginning Balance	$ 298	1,056	5,889	138	20	7,401
Provision for loan losses	(43)	1,812	(1,798)	40	(11)	-
Net charge-offs:						
Charge-offs	-	(9)	(3)	-	(9)	(21)
Recoveries	17	30	106	12	20	185
Net (charge-offs) recoveries	17	21	103	12	11	164
Ending balance	$ 272	2,889	4,194	190	20	7,565
As of December 31, 2021						
Beginning Balance	$ 741	1,751	4,496	136	46	7,170
Provision for loan losses	(457)	(823)	1,306	(1)	(25)	-
Net charge-offs:						
Charge-offs	-	(45)	-	(42)	(22)	(109)
Recoveries	14	173	87	45	21	340
Net (charge-offs) recoveries	14	128	87	3	(1)	231
Ending balance	$ 298	1,056	5,889	138	20	7,401

Although the above allocation is performed, the allowance for loan losses is general in nature and is available to absorb losses from any loan type.

The process for calculating the adequacy of the allowance for loan losses encompasses loss estimates attributable to specific troubled credits identified during the credit review process and estimates of losses inherent in other loans not reviewed specifically. The process of determining the level of the allowance for loan losses involves classifying the loans according to characteristics of loss risk for nonperforming and criticized loans and by type of loan for all other loans. For nonaccrual loans, loans over 89 days past due accruing and any other criticized loans according to the Company's loan rating system, the loans are first reviewed for specific loss measurement. Measurement of the specific loss component is based on expected future cash flows, collateral values and other relevant factors impacting the borrower's ability to pay. The Company utilizes a loan rating system which is applied to all loans but is particularly designed for monitoring loss characteristics of the real estate and commercial loan portfolios. Loan ratings are continually monitored by the loan officer and the credit review department in accordance with the loan rating guidelines established in the loan policy. Factors considered in assigning loan ratings include borrower specific cash flows and financial condition analyses, collateral values, payment status and other relevant data impacting repayment ability. Loss allocations assigned to the various loan type pools are continually monitored and adjusted for adequacy based on trends in portfolio charge-offs and recoveries, trends in portfolio delinquencies and impaired loans, changes in the risk profile of the pools, and changes in trends within the local economy.

Loans that have their terms restructured (e.g., interest rates, loan maturity date, payment and amortization period, etc.) in circumstances that provide payment relief or other concessions to a borrower experiencing financial difficulty are considered trouble debt restructured loans. All restructurings that constitute concessions to a troubled borrower are considered impaired loans that may either be in accruing status or non-accruing status. Troubled debt restructurings are considered to be impaired loans and for purposes of establishing the allowance for loan losses are evaluated for impairment giving consideration to the impact of the modified loan terms and the present value of the loan's expected cash flows. Impairment of troubled debt restructurings that have subsequently defaulted may also be measured based on the loan's observable market price or the fair value of collateral if the loan is collateral-dependent. Non-accruing restructured loans may return to accruing status provided there is a sufficient period of payment performance in accordance with the restructure terms. Loans may be removed from the restructured category in the year subsequent to the restructuring if their revised terms are considered to be consistent with terms that can be obtained in the credit market for loans with comparable risk. At December 31, 2022 restructured loans totaled $4,968 thousand, all of which were accruing interest. Restructured loans at December 31, 2021 totaled $5,735 thousand, of which $4,387 thousand were accruing and $1,348 thousand were non-accruing.

The following table provides information with respect to impaired loans as of and for the years ended December 31, 2022 and 2021.

	2022	2021
Impaired loans with a valuation allowance	$ 2,301	2,474
Impaired loans without a valuation allowance	2,866	3,483
Total impaired loans	$ 5,167	5,957
Allowance for loan losses applicable to impaired loans	$ 183	228
Allowance for loan losses applicable to other loans	7,382	7,173
Total allowance for loan losses	$ 7,565	7,401
Average recorded investment in impaired loans	$ 5,562	6,876

The following table provides information on impaired loans by loan category as of December 31, 2022 and 2021:

	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment
As of December 31, 2022				
With a related allowance recorded:				
Real estate – residential	$ 1,755	1,760	142	1,834
Real estate – commercial & farmland	546	546	41	553
Totals	$ 2,301	2,306	183	2,387
As of December 31, 2022				
Without a related allowance recorded:				
Real estate – residential	$ 1,522	1,919	-	1,694
Real estate – commercial & farmland	1,277	1,509	-	1,362
Commercial & agricultural	67	67	-	118
Totals	$ 2,866	3,495	-	3,174
As of December 31, 2021				
With a related allowance recorded:				
Real estate – residential	1,913	1,917	182	2,019
Real estate – commercial & farmland	561	561	46	563
Totals	$ 2,474	2,478	228	2,582
As of December 31, 2021				
Without a related allowance recorded:				
Real estate – residential	1,867	2,266	-	2,500
Real estate – commercial & farmland	1,447	1,898	-	1,520
Commercial & Agricultural	169	169	-	274
Totals	$ 3,483	4,333	-	4,294

The following table summarizes the loan risk ratings applied to the Company's real estate mortgages and commercial loans as of December 31, 2022 and 2021. Criticized loans are considered inadequately protected by the current paying capacity of the borrower or of the collateral pledged, if any. These loans have weaknesses that jeopardize the liquidation of the debt. Loans not meeting the definition of criticized are considered pass rated loans. Consumer Loans are not risk rated by the Company, so they are excluded from the tables below.

		Real estate construction	Real estate residential	Real estate commercial and farmland	Commercial and agriculture	Totals
As of December 31, 2022						
Pass	$	39,138	203,788	160,780	13,644	417,350
Criticized accrual		-	1,091	4,933	67	6,091
Criticized nonaccrual		-	106	-	-	106
Total	$	39,138	204,985	165,713	13,711	423,547
As of December 31, 2021						
Pass	$	37,215	159,520	159,746	16,014	372,495
Criticized accrual		-	465	4,097	-	4,562
Criticized nonaccrual		-	139	1,326	-	1,465
Totals	$	37,215	160,124	165,169	16,014	378,522

At December 31, 2022 and 2021 the allocation of the allowance for loan losses summarized on the basis of impairment methodology was as follows:

		Real estate construction	Real estate residential	Real estate commercial and farmland	Commercial and agriculture	Consumer	Totals
As of December 31, 2022							
Individually evaluated for impairment	$	-	142	41	-	-	183
Collectively evaluated for impairment		272	2,747	4,153	190	20	7,382
Total	$	272	2,889	4,194	190	20	7,565
As of December 31, 2021							
Individually evaluated for impairment	$	-	182	46	-	-	228
Collectively evaluated for impairment		298	874	5,843	138	20	7,173
Totals	$	298	1,056	5,889	138	20	7,401

The recorded investment in loans summarized based on impairment methodology as of December 31, 2022 and 2021 was as follows:

	Real estate construction		Real estate residential	Real estate commercial and farmland	Commercial and agriculture	Consumer	Total
As of December 31, 2022							
Individually evaluated for impairment	$	-	3,277	1,823	67	-	5,167
Collectively evaluated for impairment		39,138	201,708	163,890	13,644	5,759	424,139
Total	$	39,138	204,985	165,713	13,711	5,759	429,306
As of December 31, 2021							
Individually evaluated for impairment	$	-	3,780	2,008	169	-	5,957
Collectively evaluated for impairment		37,215	156,344	163,161	16,275	6,152	379,147
Total	$	37,215	160,124	165,169	16,444	6,152	385,104

Information on troubled debt restructurings for the year ended December 31, 2022 and 2021 is as follows:

	Number of contracts		Pre-modification outstanding recorded investment		Post-modification outstanding recorded investment
As of December 31, 2022					
Real estate – residential accrual	17	$	4,390	$	3,145
Real estate – commercial accrual	3		1,754		1,282
Real estate – farmland accrual	1		818		541
Totals	21	$	6,962	$	4,968
As of December 31, 2021					
Real estate – residential accrual	18	$	4,541	$	3,537
Real estate – commercial accrual	2		893		681
Commercial & agricultural accrual	1		274		169
Real estate – residential nonaccrual	1		129		22
Real estate- commercial nonaccrual	2		1,149		766
Real estate – farmland nonaccrual	1		818		560
Totals	25	$	7,804	$	5,735

During 2022 and 2021, there were no additional loans modified that were considered TDRs. At December 31, 2022 there are no commitments to lend additional funds to any borrower whose loan terms have been modified in a troubled debt restructuring. Information on the payment status of troubled debt restructurings is as follows:

		2022	2021
Current	$	4,930	4,196
30-89 days past due accruing		38	191
90 days or more past due accruing		-	-
Nonaccruals		-	1,348
Totals	$	4,968	5,735

5. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	December 31	
	2022	2021
Land	1,885	1,885
Leasehold improvements	161	161
Buildings and land improvements	7,507	7,339
Furniture and equipment	3,641	3,440
	13,194	12,825
Accumulated depreciation and amortization	(6,958)	(6,524)
Premises and equipment – net	$ 6,236	6,301

Depreciation expense was $441 thousand, $446 thousand and $395 thousand for each of the years ended December 31, 2022, 2021 and 2020, respectively.

Rent expense applicable to operating leases amounted to $60 thousand for 2022, $44 thousand for 2021, and $34 thousand for 2020. The Bank has short-term lease obligations for office locations. Future minimum lease payments subsequent to 2022 are $47 thousand for 2023 and $19 thousand for 2024.

6. DEPOSITS

A breakdown of interest bearing deposits at December 31, 2022 and 2021, by type of account is as follows:

	2022	2021
Savings and money market	$ 196,709	174,355
Interest bearing demand	74,086	84,273
Time deposits through $250,000	114,869	109,795
Time deposits of more than $250,000	21,054	27,153
Total interest bearing deposits	$ 406,718	395,576

At December 31, 2022, the scheduled maturities of time deposits are as follows:

2023	$ 89,689
2024	27,788
2025	7,845
2026	6,554
2027	4,047
	$ 135,923

Interest on deposits for the years ended December 31, 2022, 2021 and 2020 consisted of the following:

	2022	2021	2020
Savings and money market	$ 357	245	197
Interest bearing demand	473	213	253
Time deposits more than $ 250,000	133	325	583
Other time deposits	587	981	1,687
Total interest on deposits	$ 1,550	1,764	2,720

7. BORROWINGS AND CREDIT FACILITIES

Short-term borrowings consist of advances from the Federal Home Loan Bank of Atlanta with original maturities of up to one year and federal funds purchased from correspondent banks. There was a $ 5 million daily adjustable rate credit advance from the FHLB of Atlanta outstanding at December 31, 2022. There were no short term borrowings outstanding at December 31, 2021. The interest rate on the FHLB advance outstanding at December 31, 2022 was 4.57%.

At December 31, 2022, credit available under the FHLB credit facility approximates $93 million with advances of $5 million and letters of credit issued for the benefit of public funds depositors of $37 million outstanding. The Bank is required to maintain an investment in stock of the FHLB in the amount of $579 thousand as a condition for the credit facility. The Bank has also pledged its portfolios of 1-4 family first and second mortgage loans, home equity loans, multi-family mortgages and mortgages secured by farmland as collateral for this credit facility. Certain qualifying commercial mortgages are also pledged as collateral for this credit facility. Principal balances outstanding on these mortgage loans total approximately $285 million at December 31, 2022.

8. STOCKHOLDERS' EQUITY

The Board of Directors has approved plans authorizing the Company to purchase shares of its common stock. Purchased shares will be used for corporate purposes including issuance under the Company’s stock based compensation plans. The number of shares remaining available for purchase under the plans was 103,641 shares at December 31, 2022.

Cash dividends paid to the holding company by its wholly owned subsidiary, Queenstown Bank of Maryland were $3,191 thousand for 2022.

The Company and the Bank are subject to various regulatory capital requirements. 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 Company's and the Bank's financial statements. Regulatory non-objection may be required to pay certian dividends. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance sheet items as calculated under regulatory capital practices. The Company'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 Company and the Bank to maintain amounts and ratios (as set forth in the following table) of total and Tier I Capital (as defined in the regulations) to risk-weighted assets (as defined). As of December 31, 2022, the capital levels of the Company and the Bank exceed all capital adequacy requirements to which they are subject.

As of December 31, 2022, the most recent notification from the Bank's primary regulators categorized the Bank as well capitalized under the prompt corrective action regulations. To be categorized as well capitalized, a bank must maintain a minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following tables. There are no conditions or events since the last notifications that management believes have changed the Company's and Bank's category. Actual capital amounts and ratios are presented in the following table for the Company and the Bank.

	Amount	Actual Ratio	For Capital Adequacy Purposes	To Be Well Capitalized Under Prompt Corrective Action Provisions
As of December 31, 2022				
Total capital (to risk weighted assets):				
Company (consolidated)	$ 81,764	17.94%	8%	
Bank	81,546	17.89%	8%	10%
Tier I capital (to risk weighted assets):				
Company (consolidated)	76,044	16.69%	6%	
Bank	75,826	16.64%	6%	8%
Common equity tier I				
Company (consolidated)	76,044	16.69%	4.50%	
Bank	75,826	16.64%	4.50%	6.50%
Tier I capital (to average assets):				
Company (consolidated)	76,044	11.30%	4%	
Bank	75,826	11.27%	4%	5%
As of December 31, 2021				
Total capital (to risk weighted assets):				
Company (consolidated)	$ 77,602	18.47%	8%	
Bank	77,248	18.39%	8%	10%
Tier I capital (to risk weighted assets):				
Company (consolidated)	72,325	17.22%	6%	
Bank	71,971	17.13%	6%	8%
Common equity tier I				
Company (consolidated)	72,325	17.22%	4.50%	
Bank	71,971	17.13%	4.50%	6.50%
Tier I capital (to average assets):				
Company (consolidated)	72,325	10.81%	4%	
Bank	71,971	10.77%	4%	5%

9. INCOME TAXES

Applicable income taxes on net income for 2022, 2021 and 2020 consist of the following:

	2022	2021	2020
Current income tax expense:			
Federal	$ 1,758	1,745	2,202
State	714	739	951
	2,472	2,484	3,153
Deferred income tax (benefit) expense:			
Federal	(24)	(36)	(899)
State	2	(25)	(405)
	(22)	(61)	(1,304)
Total income tax expense	$ 2,450	2,423	1,849

Components of deferred income tax (benefit) expense for 2022, 2021 and 2020 consist of the following:

	2022	2021	2020
Provision for loan losses	$ (45)	(64)	(1,257)
Loan fees and costs	53	85	(132)
Deferred compensation	(61)	(62)	(60)
Depreciation and amortization	(7)	36	70
Interest income	52	(57)	(7)
Other real estate owned sales	-	-	73
Stock based compensation	(14)	1	9
Total deferred income tax (benefit) expense	$ (22)	(61)	(1,304)

A reconciliation of income taxes computed at the maximum statutory federal tax rate to total income taxes for the years ended December 31, 2022, 2021, and 2020 follows:

	2022		2021		2020	
	Amount	Percent	Amount	Percent	Amount	Percent
Tax computed at statutory rate	$ 1,992	21.0%	1,968	21.0%	1,519	21.0%
Increase (decrease) resulting from						
Tax-exempt interest income	(35)	-0.4%	(36)	-0.4%	(28)	-0.4%
Bank owned life insurance income	(80)	-0.8%	(85)	-0.9%	(65)	-0.9%
State income tax, net of federal income tax benefit	564	5.9%	562	6.0%	431	6.0%
Other	9	0.1%	14	0.2%	(8)	-0.1%
Total income taxes	$ 2,450	25.8%	2,423	25.9%	1,849	25.6%

Significant components of the Company's deferred tax assets and liabilities at December 31, 2022 and 2021 are as follows:

	2022	2021
Deferred tax assets:		
Allowances for credit losses	$ 2,081	2,036
Deferred compensation	704	643
Interest income	201	254
Stock based compensation	32	18
Others	3	3
Unrealized loss on securities available-for-sale	7,730	832
Total deferred tax assets	10,751	3,786
Deferred tax liabilities:		
Accumulated depreciation and amortization	315	322
Loan fees and costs	152	99
Unrealized gain on securities available-for-sale	-	-
Total deferred tax liabilities	467	421
Net deferred tax assets	$10,284	3,365

Management has determined that no valuation allowance is required as it is more likely than not that the net deferred tax assets will be fully realizable in future years. The Company remains subject to examination of income tax returns for the years ending after December 31, 2018.

10. RETIREMENT PLANS AND OTHER EMPLOYEE BENEFIT AGREEMENTS

The Company has a Section 401(k) profit sharing plan which covers substantially all employees who meet certain service requirements. Employer contributions to the plan include a discretionary contribution and matching contributions of a percentage of employee elective salary deferral contributions. Employer contributions included in operating expenses for 2022, 2021 and 2020 were $196 thousand, $181 thousand, and $152 thousand, respectively.

The Company has provided additional retirement benefits as well as pre-retirement death benefits to selective executives through deferred compensation agreements. The deferred compensation plan agreements provide for monthly benefit payments for fifteen years after retirement. Benefit payments were $120 thousand, $109 thousand, and $109 thousand, for 2022, 2021 and 2020, respectively. The Company is accruing the present value of these benefits over the remaining number of years to the employees' retirement dates. Benefit accruals included in operating expenses for 2022, 2021 and 2020 were $321 thousand, $292 thousand, and $218 thousand, respectively. The accrued liability for deferred compensation agreements were $2,164 thousand at December 31, 2022 and $1,962 thousand at December 31, 2021.

The Company provides retirement benefits to directors. The agreements provide for annual benefit payments for ten years after retirement. Benefit payments were $23 thousand, $23 thousand and $23 thousand for 2022, 2021 and 2020, respectively. The Company is accruing the present value of these benefits over the remaining number of years to the directors' retirement dates. Benefit accruals included in operating expenses for 2022, 2021 and 2020, were $43 thousand, $68 thousand and $97 thousand, respectively. The accrued liability for deferred compensation for directors was $393 thousand at December 31, 2022 and $373 thousand at December 31, 2021.

11. STOCK-BASED COMPENSATION

The Company has a qualified incentive stock option plan for officers and employees and a nonqualified stock option plan for directors. The total number of shares of Common Stock that may be granted is 126,000 for the incentive plan and 63,000 for the nonqualified plan. Information with respect to the options granted is as follows:

	2022			2021			2020		
	Options Outstanding		Weighted Average Exercise price	Options Outstanding		Weighted Average Exercise price	Options Outstanding		Weighted Average Exercise price
Balance, January 1	23,325	$	37.19	27,225	$	36.78	37,130	$	38.61
Options granted	-		-	-		-	-		-
Options exercised	(1,920)		38.06	(3,900)		34.31	(3,505)		43.13
Options forfeited	-		-	-		-	(1,000)		34.00
Options expired	-		-	-		-	(5,400)		45.78
Balance, December 31	21,405	$	37.11	23,325	$	37.19	27,225	$	36.78
Options exercisable, December 31	21,405	$	37.11	20,725	$	36.84	19,625	$	36.26

Stock options outstanding at December 31, 2022 were as follows:

	Issued and Outstanding Options				Exercisable (Vested) Options			
Exercise Price Range	Number Outstanding	Weighted Average Remaining Life (years)		Weighted Average Exercise Price	Number Exercisable	Weighted Average Remaining Life (years)		Weighted Average Exercise Price
$0.00 through $34.99	10,305	4.34	$	34.00	10,305	4.34	$	34.00
$35.00 through $54.99	11,100	5.28	$	40.00	11,100	5.28	$	40.00
Totals:	21,405	4.83	$	37.11	21,405	5.59	$	37.11

The maximum term of stock options granted under the plans is 10 years.
There were no options granted in 2022, 2021 or 2020.

Additionally, the Company has a restricted stock plan to provide designated employees and directors the opportunity to receive grants of stock awards. The Restricted Stock Plan authorizes the issuance of up to 10,000 shares of common stock, of which 9,438 shares are available for issuance at December 31, 2022. Restricted stock awards are subject to a three year vesting schedule. Restricted shares granted in 2022 were 1,508 shares, shares vested were 506 shares. The fair market value at the date of grant was $62 per share. Compensation costs are recognized on a straight line basis over the vesting period.

Stock based compensation costs for 2022, 2021, and 2020, were $130 thousand, $99 thousand and $64 thousand, respectively. As of December 31, 2022, the total remaining unrecognized compensation cost related to the issuance of stock options was $14 thousand, which will be amortized over the expected life of these options. The intrinsic value for the stock options exercised was $47 thousand, $108 thousand, and $55 thousand in the years ended December 31, 2022, 2021 and 2020, respectively. The total intrinsic value of outstanding stock options was $490 thousand at December 31, 2022. The total intrinsic value of exercisable stock options was $490 thousand at December 31, 2022.

12. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company makes extensions of credit to its directors and their associates and several of its policy making officers on substantially the same terms, including interest rates and collateral, as those prevailing for comparable transactions with other customers. Extensions of credit outstanding, both direct and indirect, to directors and policy making officers were $3,612 thousand at December 31, 2022 and $2,186 thousand at December 31, 2021. New or additional extensions of credit during 2022 were $2,061 thousand. Credit reductions and retirements were $635 thousand during 2022. Deposit balances of directors and policy making officers were $3,258 thousand and $4,360 thousand at December 31, 2022 and 2021, respectively.

13. CORRESPONDENT BANK BALANCES

The company has balances due from correspondent banks in excess of FDIC insured deposit limits. These correspondent banks meet the regulatory definitions of well capitalized financial institutions. The uninsured deposit balances with FDIC insured correspondent banks were $1 million at December 31, 2022.

14. OTHER EXPENSES

Additional details on other expenses are as follows:

	2022	2021	2020
Consulting fees	528	429	294
Directors fees	312	315	295
Electronic banking expenses	256	216	210
Debit card transaction fees	254	242	203
Marketing and advertising	185	144	83
Auditing expenses	139	139	125
Postage	112	86	92
Other expenses	975	667	607
Total other expenses	2,761	2,238	1,909

15. FINANCIAL INSTRUMENTS

The Company 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 financial instruments include commitments to extend credit and standby letters of credit.

The Company's exposure to credit losses in the event of nonperformance by the other party to these financial instruments are represented by the contractual amount of the instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Included in other liabilities are allowances for losses on unfunded credit commitments of $24 thousand at December, 2022 and December 2021 respectively. There were no provisions for losses on unfunded letters of credit in 2022, 2021 and 2020.

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 many of the commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

A summary of the contract amounts of the Company's financial instruments with off-balance sheet risk at December 31, 2022 is as follows:

Commitments to extend credit	$59,940 thousand
Standby letters of credit	$2,656 thousand

16. FAIR VALUE MEASUREMENTS

The Company discloses fair value information about financial instruments for which it is practicable to estimate the value, whether or not such financial instruments are recognized on the balance sheet. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by quoted market price, if one exists.

Quoted market prices, if available, are shown as estimates of fair value. Because no quoted market prices exist for a substantial portion of the Company's financial instuments, the fair value of such instruments has been derived based on management's assumptions with respect to future economic conditions, the amount and timing of future cash flows and estimated discount rates. Different assumptions could significantly affect these estimates. Accordingly, the net realizable value could be materially different from the estimates presented. In addition, the estimates are only indicative of individual financial instrument values and should not be considered an indication of the fair value of the Company taken as a whole.

The following methods and assumptions were used to estimate the fair value of each category of financial instrument for which it is practicable to estimate value:

- Cash and due from banks and federal funds sold: The carrying amounts reported are considered to approximate their fair values. Time deposits fair values are based on quoted market values.
- Investment securities: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.
- Loans: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for other loans are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics. The carrying amount of accrued interest receivable approximates its fair value.
- Deposits: The fair value disclosed for deposits with no defined maturity are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated contractual maturities on such time deposits. The carrying amount of accrued interest payable approximates fair value.
- Borrowings: The fair value is estimated based on interest rates currently available for debt with similar terms and remaining maturities.

The estimated fair values of the Company's financial instruments as December 31, 2022 and 2021 are as follows:

	2022		2021	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Total Cash and due from banks	$ 7,077	7,077	$ 4,536	4,536
Interest bearing deposits with banks	35,112	34,619	70,295	70,315
Investment securities:				
Available for sale	148,141	148,141	177,863	177,863
Held to maturity	3,239	3,053	-	-
Federal Home Loan Bank stock	579	579	302	302
Loans, net of allowance	421,741	400,486	377,703	384,526
Accrued interest receivable	2,059	2,059	1,741	1,741
Financial liabilities:				
Deposits	586,004	581,543	584,569	584,208
Advances from Federal Home Loan Bank	5,000	5,000	-	-
Accrued interest payable	162	162	101	101

The Company has adopted the Financial Accounting Standard Board's ("FASB") guidance on *Fair Value Measurements* which provides a framework for measuring and disclosing fair value under generally accepted accounting principles. This guidance requires disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis (for example, available-for-sale investment securities) or on a nonrecurring basis (for example, impaired loans).

FASB's guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This guidance also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

Fair Value Hierarchy

Level 1 – Quoted prices in active markets for identical assets or liabilities

Level 2 – Other significant observable inputs (including quoted prices in active markets for similar assets or liabilities)

Level 3 – Significant unobservable inputs (including the Company's own assumptions in determining the fair value of assets or liabilities)

The following table presents fair value measurements on a recurring basis as of December 31, 2022 and 2021:

2022

Securities available for sale	**Level 1**	**Level 2**	**Level 3**	**Fair Value**
U.S. treasuries and government agencies	$ -	22,164	-	22,164
State and municipal	-	30,852	-	30,852
Mortgage backed	-	90,242	-	90,242
Corporate debt		4,883		4,883
Total available for sale securities	-	148,141	-	148,141
Securities held to maturity				
Mortgage backed	$ -	3,053	-	3,053

2021

Securities	**Level 1**	**Level 2**	**Level 3**	**Fair Value**
U.S. treasuries and government agencies	$ -	26,945	-	26,945
State and municipal	-	37,205	-	37,205
Mortgage-backed	-	110,737	-	110,737
Corporate debt		2,976		2,976
Total available for sale securities	$ -	177,863	-	177,863

Securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

The Bank may also be required, from time to time, to measure certain other financial assets and liabilities at fair value on a nonrecurring basis in accordance with accounting principles generally accepted in the United States of America. The following table presents fair value measurements on a non-recurring basis as of December 31, 2022 and 2021:

2022

	Level 1	Level 2	Level 3	Fair Value
Impaired loans	$ -	-	4,984	4,984

2021

	Level 1	Level 2	Level 3	Fair Value
Impaired loans	$ -	-	5,729	5,729

Loans which are deemed to be impaired are primarily valued on a nonrecurring basis at the fair values of the underlying real estate collateral. Such fair values are derived as follows:

Level 3 inputs are independent appraisals and other available market evaluations used by management in estimating fair value.