Jeffersonville Bancorp

110TH ANNIVERSARY

2023 Annual Report

A letter from the President & Chairman of the Board

Last year, we ended our letter to shareholders stating that the bar was set very high for our future based upon the record financial performance achieved in 2022. We are raising the bar even higher this year. Jeffersonville Bancorp (the "Company") is pleased to report net income totaling $11,175,000 for 2023, exceeding the 2022 record by $1,871,000 or 20.1%. The Company earned higher levels of interest income on the loan portfolio, securities portfolio, and on cash held at the Federal Reserve Bank where we benefitted from higher interest rates. While rates on new and variable interest-bearing assets priced upwards, our deposit liabilities remained in a favorably lower-cost position despite increased pressure from various competitors. Our conservative strategy proved successful in 2023, as evidenced by above average financial performance compared to peers.

In March 2022, the Federal Reserve Board began raising interest rates and continued to do so, eleven times, bringing the federal funds rate to a target range of 5.25-5.50%, the highest level since 2001. This dramatic use of monetary policy was undertaken to combat stubbornly persistent inflation and had negative consequences for the banking industry. As interest rates rose, the value of bank assets such as loans and securities declined. Since these assets are used to secure borrowing lines of credit, liquidity in the banking system was drastically reduced. In addition, bank deposits and borrowings reprice faster than bank assets. This created two problems for banks. First, over a trillion dollars left the banking system for higher earning alternative investments, like money market mutual funds, which further impacted liquidity. Second, as banks struggled to maintain liquidity, deposit and borrowing interest costs rose faster than loans and securities could reprice higher, causing net interest margins, and thus profits, to decrease.

In March 2023, two bank failures, caused by these liquidity issues, created significant concern in the banking industry as fear grew that more banks who pursued aggressive loan and security acquisition strategies with dependence on large deposit customers for funding would also fail. The Company took proactive measures to bolster its liquidity profile during that turbulent time and remains in a favorable liquidity position, with ample cash and access to available lines of credit. As with most industry "crises" there were lessons to learn for all banks, especially those heavily reliant on large, uninsured depositors or significant industry concentrations – neither of which are characteristics of Jeff Bank's large and diversified customer base. Jeff Bank remained safely and soundly managed and weathered the proverbial storm, celebrating our 110th year in business.

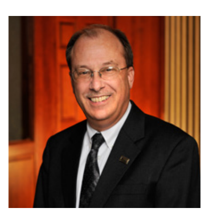
The Company's assets declined slightly during 2023, ending the year at $687,932,000 as compared to $693,027,000 at year end 2022. Given elevated deposit levels gathered during the pandemic and absent significant demand for loan funding, management elected not to aggressively pursue high interest-bearing deposit products, but rather focused on retention of lower-cost demand deposits. In line with industry trends, deposits decreased from $616,932,000 to $574,405,000. While the Company has not utilized wholesale funding in recent years, this balance sheet strategy was deployed to a small degree in 2023 and provided stability and certainty while helping to contribute to our financial success. The bank continues to have among the lowest cost of funding in our peer group. The bank's team of retail bankers continue to provide exceptional customer service as evidenced by Jeff Bank's dominant deposit market share position in Sullivan County, NY.

Jeff Bank's loan portfolio grew from $320,177,000 to $334,187,000 during the year, representing another successful year of loan generation. Non-performing loans, loans where the collection of principal and interest is in doubt, continued to decrease. Credit quality in the loan portfolio continues to improve with recoveries exceeding charge-offs for the year, and past due loans at low levels. The Bank had a negative provision for credit losses totaling $527,000 due in part to a large loan recovery. Real estate market conditions have been favorable with low levels of inventory and elevated sales prices. As with all credit cycles, there are some early indicators of changing conditions and management continues to prudently make decisions to balance credit risk with meeting the needs of our community while earning a fair return.

During 2023, we renegotiated a contract with a core technology provider to offer various new products/services that our customers have been asking for. These changes aligned our technology platforms and provided a more secure infrastructure for the bank and our customers. While some solutions have already been adopted, others will be launched in 2024. We strive to continue to provide the best digital banking solutions for both consumers and businesses.

We are proud of the financial performance achieved in 2023. As a result of that performance, the board of directors was pleased to announce a special cash dividend of fifteen cents ($0.15) per share in January 2024. Beyond financial metrics, Jeff Bank continues to be deeply committed to the communities that we serve, deploying customer deposits back into loans to consumers and small businesses. The board of directors and officers are dedicated professionals who volunteer their time and skills for the benefit of various civic and charitable organizations as officers/directors, helping to fulfill our mission as an organization. As always, thank you for your continued confidence as shareholders. Please do not hesitate to contact us should you have any questions about this report.

George W. Kinne, Jr.,
President & Chief Executive Officer



Kenneth C. Klein,
Chairman of the Board

SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders
Jeffersonville Bancorp
Jeffersonville, New York

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company changed its method of accounting for credit losses effective January 1, 2023, due to the adoption of Accounting Standards Codification (ASC) Topic 326, *Financial Instruments – Credit Losses*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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S.R. Snodgrass, P.C. d/b/a S.R. Snodgrass, A.C. in West Virginia

Responsibilities of Management for the Financial Statements (Continued)

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Other Information Included in Annual Report

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

Other Information Included in Annual Report (Continued)

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

S. R. Snodgrass, P.C.

Cranberry Township, Pennsylvania
March 15, 2024

Jeffersonville Bancorp and Subsidiary
Consolidated Balance Sheets
(In thousands, except share and per share data)

As of December 31,	2023	2022
ASSETS		
Cash	$ 8,300	$ 7,124
Federal Reserve Bank	73,908	69,626
Total Cash and Cash Equivalents	82,208	76,750
Securities available for sale, at fair value	220,987	243,736
Equity securities at fair value	517	1,682
Securities held to maturity, net of allowance for credit losses of $0 at December 31, 2023 and fair value of $6,643 at December 31, 2023 and $8,091 at December 31, 2022	6,703	8,196
Loans, net of allowance for credit losses of $4,311 at December 31, 2023 and $4,570 at December 31, 2022	334,187	320,177
Accrued interest receivable	2,965	2,985
Bank-owned life insurance	20,309	20,005
Foreclosed real estate	492	492
Premises and equipment including right of use assets, net	5,753	5,562
Restricted investments	506	483
Prepaid pension	6,592	5,545
Other assets	6,713	7,414
Total Assets	$ 687,932	$ 693,027
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits:		
Demand deposits (non-interest bearing)	$ 180,096	$ 194,258
NOW and super NOW accounts	108,905	124,671
Savings and insured money market deposits	195,608	236,890
Brokered Deposits	25,004	—
Time deposits	64,792	61,113
Total Deposits	574,405	616,932
FRB borrowing	25,000	—
Operating lease liability for right of use assets	346	427
Other liabilities	7,414	6,887
Total Liabilities	607,165	624,246
Stockholders' equity		
Series A preferred stock, no par value; 2,000,000 shares authorized, none issued	—	—
Common stock, $0.50 par value; 11,250,000 shares authorized, 4,767,786 shares issued with 4,234,505 outstanding	2,384	2,384
Paid-in capital	6,483	6,483
Treasury stock, at cost; 533,281 shares	(4,965)	(4,965)
Retained earnings	89,055	81,049
Accumulated other comprehensive loss	(12,190)	(16,170)
Total Stockholders' Equity	80,767	68,781
Total Liabilities and Stockholders' Equity	$ 687,932	$ 693,027

See accompanying notes to consolidated financial statements.

Jeffersonville Bancorp and Subsidiary
Consolidated Statements of Income
(In thousands, except per share data)

For the Years Ended December 31,	2023	2022
INTEREST AND DIVIDEND INCOME		
Loan interest and fees	$ 17,733	$ 15,109
Securities:		
Taxable	4,779	3,916
Tax-exempt	2,654	2,822
Other interest and dividend income	4,242	1,866
Total Interest and Dividend Income	29,408	23,713
INTEREST EXPENSE		
FRB Borrowings	530	—
Deposits	2,086	360
Total Interest Expense	2,616	360
Net interest income	26,792	23,353
Provision for (reversal of) credit losses – loans	(419)	450
Provision for (reversal of) credit losses – off balance sheet commitments	(108)	—
Net Interest Income after Provision (Reversal of) for Credit Losses	27,319	22,903
NON-INTEREST INCOME		
Service charges on deposit accounts	913	951
Fee income	1,922	1,915
Earnings on bank-owned life insurance	304	302
Net loss on securities available for sale sold or called	(883)	(93)
Net gain on equity securities sold	51	42
(Loss) gain on equity securities, change in fair value, net	(123)	221
Gain on sale of premises	338	16
Other non-interest income	251	395
Total Non-Interest Income	2,773	3,749
NON-INTEREST EXPENSES		
Salaries and employee benefits	9,881	9,403
Occupancy and equipment expenses	1,643	1,718
Advertising expense	155	115
Foreclosed real estate expense	20	24
Fees for professional services	332	343
Data processing expense	1,190	1,093
Other non-interest expenses	2,768	2,464
Total Non-Interest Expenses	15,989	15,160
Income before income tax expense	14,103	11,492
Income tax expense	2,928	2,188
Net Income	$ 11,175	$ 9,304
Basic earnings per common share	$ 2.64	$ 2.20
Average common shares outstanding	4,235	4,235
Cash dividends declared per share	$ 0.70	$ 0.60

See accompanying notes to consolidated financial statements.

Jeffersonville Bancorp and Subsidiary
Consolidated Statements of Comprehensive Income (Loss)
(In thousands)

For the Years Ended December 31,	2023	2022
Net Income	$ 11,175	$ 9,304
Other comprehensive income (loss)		
Securities available for sale:		
Net unrealized holding gains (losses)	3,615	(23,564)
Income tax (expense) benefit	(944)	6,158
Net unrealized holding gains (losses), net of tax	2,671	(17,406)
Reclassification adjustment for net realized losses included in income (1) (3)	883	93
Income tax expense	(231)	(24)
Reclassification adjustment for net realized losses included in income, net of tax	652	69
Change in pension and post retirement liabilities (2)	842	344
Income tax expense (3)	(220)	(90)
Amortization of pension and post retirement liabilities' gains, net of tax	622	254
Reclassification adjustment for amortization of unrecognized pension loss (2)	47	36
Income tax benefit	(12)	(9)
Amortization of unrecognized pension loss, net of tax	35	27
Other comprehensive income (loss), net of tax	3,980	(17,056)
Comprehensive income (loss)	$ 15,155	$ (7,752)

(1) Amounts are included in net gain on sales of securities on the Consolidated Statements of Income as a separate element in total non-interest income.

(2) Amounts are included in the computation of net periodic benefit cost and are included in salaries and employee benefits as a separate element within total non-interest expense on the Consolidated Statements of Income.

(3) Income tax amounts are included in income tax expense on the Consolidated Statements of Income.

See accompanying notes to consolidated financial statements.

Jeffersonville Bancorp and Subsidiary
Consolidated Statements of Changes in Stockholders' Equity
(In thousands, except per share data)

For the Years Ended December 31, 2023 and 2022	Common stock	Paid-in capital	Treasury stock	Retained earnings	Accumulated other compre-hensive gain (loss)	Total stockholders' equity	Common shares issued and outstanding
Balance at January 1, 2022	$ 2,384	$ 6,483	$ (4,965)	$ 74,286	$ 886	$ 79,074	4,235
Net income	—	—	—	9,304	—	9,304	—
Other comprehensive loss	—	—	—	—	(17,056)	(17,056)	—
Cash dividends ($0.60 per share)	—	—	—	(2,541)	—	(2,541)	—
Balance at December 31, 2022	2,384	6,483	(4,965)	81,049	(16,170)	68,781	4,235
Cumulative adjustment for change in accounting principal for adoption of ASU 2016-13	—	—	—	(204)	—	(204)	—
Net income	—	—	—	11,175	—	11,175	—
Other comprehensive income	—	—	—	—	3,980	3,980	—
Cash dividends ($0.70 per share)	—	—	—	(2,965)	—	(2,965)	—
Balance at December 31, 2023	$ 2,384	$ 6,483	$ (4,965)	$ 89,055	$ (12,190)	$ 80,767	4,235

See accompanying notes to consolidated financial statements.

Jeffersonville Bancorp and Subsidiary
Consolidated Statements of Cash Flows
(In thousands)

For the Years Ended December 31,	2023	2022
OPERATING ACTIVITIES:		
Net income	$ 11,175	$ 9,304
Adjustments to reconcile net income to net cash provided by operating activities:		
(Reversal of) provision for credit losses - loans	(419)	450
Reversal of expected credit losses – off balance sheet commitments	(108)	—
Depreciation and amortization	535	549
Repayment of operating lease liabilities	(81)	(74)
Amortization of bond premium, net	1,161	1,417
Net gain on disposal of premises and equipment	(338)	(16)
Net gain on revaluation and sale of foreclosed real estate	—	(84)
Earnings on bank-owned life insurance	(304)	(302)
Net losses on securities available for sale sold or called	883	93
Net gains on equity securities sold	(51)	(42)
Loss (gain) on equity securities due to the change in fair value	123	(221)
Deferred income tax income	(89)	(23)
Decrease (increase) in prepaid pension expense	6	(1,116)
Decrease (increase) in accrued interest receivable	20	(666)
(Increase) decrease in other assets	(546)	172
Increase in other liabilities	416	843
Net Cash Provided by Operating Activities	12,383	10,284
INVESTING ACTIVITIES:		
Proceeds from maturities and calls:		
Securities available for sale	16,327	15,582
Securities held to maturity	5,001	6,149
Proceeds from sales of available for sale	8,877	1,007
Proceeds from sales of equity securities	1,093	490
Purchases:		
Securities available for sale	—	(80,017)
Securities held to maturity	(3,509)	(4,936)
Equity securities	—	(215)
Net increase in loans	(13,811)	(32,141)
Purchase of restricted investments	(25)	(3)
Redemption of restricted investments	2	7
Proceeds from sale of premises and equipment	432	450
Purchases of premises and equipment	(820)	(414)
Proceeds from sales of foreclosed real estate	—	140
Net Cash Provided (Used) in Investing Activities	13,567	(93,901)
FINANCING ACTIVITIES:		
Net decrease in deposits	(42,527)	(2,229)
Increase in FRB borrowing	25,000	—
Cash dividends paid	(2,965)	(2,541)
Net Cash Used in Financing Activities	(20,492)	(4,770)
Net Increase (Decrease) in Cash	5,458	(88,387)
Cash and cash equivalents at Beginning of Year	76,750	165,137
Cash and cash equivalents at End of Year	$ 82,208	$ 76,750
SUPPLEMENTAL INFORMATION:		
Cash paid for interest	$ 2,193	$ 358
Cash paid for income taxes	3,219	1,553
Cumulative Adjustment for adoption of ASU 326	(204)	—

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

Basis of Presentation
The consolidated financial statements of Jeffersonville Bancorp (the Parent Company) include its wholly owned subsidiary, Jeff Bank (the Bank). Collectively, Jeffersonville Bancorp and its subsidiary are referred to herein as the “Company” with all significant intercompany transactions having been eliminated.

The Parent Company is a bank holding company whose principal activity is the ownership of all outstanding shares of the Bank’s stock. The Bank is a commercial bank providing community banking services to individuals, small businesses, and local municipal governments primarily in Sullivan County, New York. Management makes operating decisions and assesses performance based on an ongoing review of the Bank’s community banking operations, which constitute the Company’s only operating segment for financial reporting purposes.

The consolidated financial statements have been prepared, in all material respects, in conformity with accounting principles generally accepted in the United States of America. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Material estimates that are particularly susceptible to near-term change include the allowance for credit losses, the review of available for sale securities for impairment and the assets, liabilities and expenses associated with benefit plans which are described below. Actual results could differ from these estimates.

For purposes of the consolidated statements of cash flows, the Company considers cash, due from banks, and federal funds sold, if any, to be cash equivalents.

Reclassifications have been made to prior year’s consolidated financial statements whenever necessary to conform to the current year’s presentation. These reclassifications, if any, had no impact on net income or stockholders’ equity.

The Company has evaluated subsequent events and transactions occurring through March 15, 2024; the date these consolidated financial statements were available for issuance.

Investment Securities
Management determines the appropriate classification of securities at the time of purchase. If management has the positive intent and ability to hold debt securities to maturity, they are classified as securities held to maturity (HTM) and are stated at amortized cost. All other debt and marketable securities are classified as securities available for sale (AFS). Both available for sale and equity securities are reported at fair value. Net unrealized gains or losses on securities available for sale are reported (net of income taxes) in stockholders’ equity as a component of accumulated other comprehensive income (loss). Both changes in fair value and gains or losses on disposal of equity securities are recognized through profit or loss and included under non-interest income. Restricted investments, which are nonmarketable equity securities, are carried at cost.

Gains and losses on sales of debt securities are based on the net proceeds and the amortized cost of the debt securities sold, using the specific identification method. The amortization of premiums on debt securities is calculated using the level-yield interest method to the earlier of the call date or maturity date while the accretion of discounts on debt securities is calculated using the level yield method to the maturity date.

For securities held in the AFS portfolio, the Bank must determine whether a decline in fair value below the amortized cost basis has resulted from a credit loss or other factors. The Bank must record impairment relating to credit losses through an allowance for credit losses. The allowance shall be limited by the amount that the fair value is less than the amortized cost basis. An unrealized loss that has not been recorded through an allowance for credit losses is recorded through other comprehensive income, net of applicable taxes. A determination as to whether a decline in fair value below cost represents a credit loss will, at a minimum, be made at each quarter-end. To evaluate securities for credit losses, the Bank first identifies securities which are in a loss position at quarter end. All “under-water” AFS securities are considered for credit losses by both the Controller and the Chief Financial Officer in this initial review based on the criteria cited in this policy. The Chief Financial Officer and/or Controller may consult the Bank’s approved brokers and research other sources of financial information to assist in their review. A final determination of whether a security has credit losses is then made by the Chief Financial Officer considering input from various sources using the criteria cited below. The meaning of a credit loss will be determined in accordance with ASC 326-35-6. In general, If the present value of cash flows expected to be collected is less than the amortized cost basis of the security, a credit loss exists and an allowance for credit losses shall be recorded for the credit loss. If unrealized losses are caused by changes in interest rates or other temporary factors and not credit quality, and the Bank does not intend to sell the investments and it is not more likely than not that the Bank will be required to sell the investments before recovery of their amortized cost basis, the investment is not considered to have a credit loss. If a security is deemed to have a credit loss based on the above factors or if the bank has developed a plan to sell the security or it is likely that the bank will be forced to sell the security in the near future, then the unrealized loss will be deemed a credit loss and the carrying value will be written down to the current fair value with the difference between the new carrying value and the amortized cost charged to earnings and offset by a credit to allowance for credit losses. Accrued interest receivable of AFS debt securities totaled $1,817,000 at December 31, 2023 and is included within accrued interest receivable on the consolidated balance sheet. No credit losses were recognized for the years ended December 31, 2023 or 2022. For further discussion see Note 3.

The Bank measures expected credit losses on HTM debt securities, which are comprised of obligations of state and political subdivisions. These securities are issued by governmental entities, are highly rated and have a long history of no credit losses. Accrued interest receivable on HTM debt securities totaled $122,000 at December 31, 2023 and is included within the accrued interest receivable on the consolidated balance sheet. This amount is excluded from the estimate of expected credit losses. HTM debit securities are typically classified as nonaccrual when the contractual payment of principal or interest has become 90 days past due or management has doubts about the further collectability of principal or interest. When HTM debt securities are placed on nonaccrual status, unpaid interest credited to income is reversed.

Loans
Loans are stated at unpaid principal balances, less deferred loan fees and costs, and the allowance for credit losses. Deferred loan fees and costs are accreted into income using a level-yield interest method. Accrued interest receivable totaled $1,026,000 at December 31, 2023 and is reported in accrued interest receivable on the consolidated balance sheet and is excluded from the estimate of credit losses. Interest income is recognized on the accrual basis of accounting. When, in the opinion of management, the collection of interest or principal is in doubt, the loan is classified as nonaccrual. Loans past due more than 90 days are classified as nonaccrual except for residential mortgages that are well secured (loan to value 60% or less) and in the process of collection. When a loan is placed on nonaccrual status, unpaid interest credited to income is reversed. Thereafter, no interest is recognized as income until it is received in cash, and the loan's collateral is adequate to support both the interest recognized and the loan balance, or until the borrower demonstrates the ability to make scheduled payments of interest and principal, and the loan has remained current for a period of at least six months. Interest received on nonaccrual loans, including impaired loans, generally is applied against principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments. For further discussion see Note 5.

Allowance for Credit Losses
The allowance for credit losses is a valuation reserve established and maintained by charges against income and is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loans. Loans, or a portion thereof, are charged off against the ACL when they are deemed uncollectible. Expected recoveries do not exceed the aggregate amounts previously charged off and expected to be charged off.

A loan is individually evaluated when, based on current information and events, it is probable that the Company will be unable to collect all principal and interest contractually due. Individually evaluated loan disclosures and classification apply to loans that are individually evaluated for collectability in accordance with the Company's ongoing loan review procedures, principally commercial mortgage loans and commercial loans. Smaller balance, homogeneous loans, which are collectively evaluated, such as consumer and residential mortgage loans, are individually evaluated only when such loans are placed in nonaccrual status. Individually evaluated loans are measured based on (i) the present value of expected future cash flows discounted at the loan's effective interest rate, (ii) the loan's observable market price or (iii) the fair value of the collateral if the loan is collateral dependent. Impairment for a majority of the Company's individually evaluated loans is based on the value of the underlying collateral. If the approach used results in a measurement that is less than an individually evaluated loan's recorded investment, a loss is recognized as part of the allowance for credit losses.

Management uses the SCALE method which is a simple, spreadsheet-based method developed by the Federal Reserve to assist smaller community banks, under $1 billion in assets, in calculating CECL compliant allowances for credit losses (ACLs). For further discussion see note 5.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures

The Bank has various unfunded loan commitments that are not reflected on its balance sheet. Because off-balance sheet exposures are legally binding agreement to extend credit under certain terms and conditions, they can expose the Bank to credit losses. The bank is required to record a liability for expected credit losses (ECL) on unfunded loan commitments, estimated over the contractual period in which the Bank is exposed to credit risk, unless that obligation is unconditionally cancellable by the Bank. The liability for expected credit losses for the year ended December 31, 2023 was $112,000 and is included in other liabilities on the balance sheet.

Allowance for Loan Losses Prior to adopting ASU 2016-13
The allowance for credit losses is established through a provision for loan losses charged to expense. Loans are charged off against the allowance when management believes that the collectability of all or a portion of the principal is unlikely. Recoveries of loans previously charged off are credited to the allowance when realized.

A loan is considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all principal and interest contractually due. Impaired loan disclosures and classification apply to loans that are individually evaluated for collectability in accordance with the Company's ongoing loan review procedures, principally commercial mortgage loans and commercial loans. Smaller balance, homogeneous loans, which are collectively evaluated, such as consumer and residential mortgage loans, are specifically excluded from the classification of impaired loans. Impaired loans are measured based on (i) the present value of expected future cash flows discounted at the loan's effective interest rate, (ii) the loan's observable market price or (iii) the fair value of the collateral if the loan is collateral dependent. Impairment for a majority of the Company's impaired loans is based on the value of the underlying collateral. If the approach used results in a measurement that is less than an impaired loan's recorded investment, an impairment loss is recognized as part of the allowance for loan losses.

The allowance for credit losses is maintained at a level deemed adequate by management based on an evaluation of such factors as economic conditions in the Company's market area, past loan loss experience, the financial condition of individual borrowers, and underlying collateral values based on independent appraisals. While management uses available information to recognize losses on loans, future additions to the allowance for loan losses may be necessary based on changes in economic conditions, particularly in the Bank's market area. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. For further discussion see Note 5.

Bank-Owned Life Insurance
The investment in bank-owned life insurance, which covers certain officers of the Bank, is carried at the policies' cash surrender value. Additional investments are initially recorded at cost. Increases in the cash surrender value of bank-owned life insurance, net of premiums paid, are included in non-interest income. Liabilities and related compensation costs for employees that are not limited to the employee's active service period are recognized according to ASC Topic 715 *Compensation-Retirement Benefits.*

The Company follows accounting guidance for deferred compensation and post-retirement aspects of endorsement and split dollar life insurance arrangements. This guidance applies to life insurance arrangements that provide an employee with a specified benefit that is not limited to the employee's active service period, including certain bank-owned life insurance policies, and requires an employer to recognize a liability and related compensation costs for future benefits that extend to post-retirement periods.

Foreclosed Real Estate
Foreclosed real estate consists of properties acquired through foreclosure or voluntary forfeiture and is stated on an individual-asset basis at fair value less estimated costs to sell at initial foreclosure, establishing a new cost basis. When a property is acquired, any excess of the loan balance over the fair value of the property is charged to the allowance for loan losses. If necessary, subsequent write downs to reflect further declines in fair value are included in non-interest expense. Fair value estimates are based on independent appraisals and other available information. While management estimates losses on foreclosed real estate using the best available information, such as independent appraisals, future write downs may be necessary based on changes in real estate market conditions and the results of regulatory examinations. Operating costs associated with the properties are charged to expense as incurred and any rental income received from these properties is recognized as foreclosed real estate income in the period collected.

Premises and Equipment
Premises and equipment are stated at cost, less accumulated depreciation and amortization. Land is stated at cost. Depreciation and amortization are provided over the estimated useful lives of the assets using straight-line or accelerated methods. Leasehold improvements are amortized over the shorter of their estimated useful lives or their respective lease terms. For further discussion see Note 6.

Restricted Investments
As a member institution of the Federal Home Loan Bank of New York ("FHLB") and other institutions, the Bank is required to hold a certain amount of these equity stocks. For further discussion see Note 4.

Advertising Costs
Advertising costs are expensed as incurred and are included in non-interest expenses.

Leases
Lease agreements with terms greater than 12 months are reviewed at inception or extension to determine whether the lease qualifies as an operating lease. A discount rate is applied to determine the present value of the lease payments and the value of the accompanying right of use asset. The Company uses its risk-free borrowing rate at lease inception and management's estimate of a reasonable lease term. For further discussion see Note 6.

Revenue Recognition
Management has determined that the primary sources of revenue from interest and dividend income on loans and investments along with non-interest revenue from security gains, loan fees, and bank-owned life insurance income are not within the scope of ASC 606 *Revenue from Contracts with Customers*. As a result, no changes were made to these sources of revenue.

Service charges on deposit accounts:
The Bank has Terms and Conditions Agreements with its deposit customers where fees are charged if the account balance falls below predetermined levels defined as compensating balances. These agreements can be modified with at least 30 days written notice to the customer. Revenue from these transactions is recognized on a monthly basis as the Bank has an unconditional right to the fee consideration. The Bank also has transaction fees that include overdraft fees, wire transfer fees, stop payment fees, and other transactional fees. These fees are attributable to specific performance obligations of the Bank where the revenue is recognized at a defined point in time and at the completion of the requested service or transaction.

Interchange fees:
The Bank has contracts with third party affiliates which manage the Bank's debit cards. Revenues are generated by the interchange charged by the card networks on point-of-sale transactions and debit transactions. Income is recognized upon completion of the transaction.

Other non-interest income:
Other non-interest income consists of fees for certain services provided by the Bank. These services include safe deposit box rentals, teller checks, and wire transfers. The income for these services is recognized at the time the service is provided. Gains and losses on the sale of other real estate is recognized at the completion of the sale of the property.

The following table shows the disaggregation of revenue derived from contracts with customers by nature, amount, and timing as of December 31, 2023 and 2022:

Revenue Streams	**2023**	**2022**
Service charges on deposit accounts:		
Overdraft fees	$ 681	$ 735
Service charges	216	199
Other customer service charges	16	17
Total Service Charges on Deposit Accounts	$ 913	$ 951
Fee Income:		
Interchange income, net:		
Interchange fees	$ 1,945	$ 1,939
Interchange expenses	(63)	(65)
Other fee income	40	41
Net Interchange Income	$ 1,922	$ 1,915
Other Non-Interest Income	$ 251	$ 311
Gain on Sale of Foreclosed Real Estate	$ —	$ 84

Income Taxes
Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the consolidated financial statement carrying amounts of existing assets and liabilities reported in the consolidated financial statements and their respective tax bases. Deferred tax assets are reduced by a valuation allowance when management determines that it is more likely than not that all or a portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred tax assets

and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company recognizes the benefit of an uncertain tax position in the financial statements only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the consolidated financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant taxing authority. For these analyses, the Company may engage attorneys to provide opinions related to the positions. The Company applies this policy to all tax positions for which the statute of limitations remains open. There are no uncertain tax positions that materially impact the Company's consolidated balance sheet or statement of operations. The Company records any interest and penalties related to uncertain tax positions in income tax expense in the consolidated statement of operations in the year assessed. For further discussion see Note 10.

Earnings Per Common Share

The Company has a simple capital structure. Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding for the period.

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses - Measurement of Credit Losses on Financial Instruments Subtopic (326*), and amended by ASU 2018-19 issued in November 2018, and by ASU 2019-10 issued in November 2019, and as clarified in ASU 2017-03, this ASU requires credit losses on most financial assets measured at amortized cost and certain other instruments to be measured using an expected credit loss model (referred to as the current expected credit loss (CECL) model). Under this model, entities will estimate credit losses over the entire contractual term of the instrument (considering estimated prepayments, but not expected extensions or modifications unless reasonable expectation of a troubled debt restructuring exists) from the date of initial recognition of that instrument.

The ASU also replaces the current accounting model for purchased credit impaired loans and debt securities. The allowance for credit losses for purchased financial assets with a more than insignificant amount of credit deterioration since origination ("PCD assets"), should be determined in a similar manner to other financial assets measured on an amortized cost basis. However, upon initial recognition, the allowance for credit losses is added to the purchase price ("gross up approach") to determine the initial amortized cost basis. The subsequent accounting for PCD financial assets is the same expected loss model described above.

Further, the ASU made certain targeted amendments to the existing impairment model for available-for-sale (AFS) debt securities. For an AFS debt security for which there is neither the intent nor a more-likely-than-not requirement to sell, an entity will record credit losses as an allowance rather than a write-down of the amortized cost basis. Certain incremental disclosures are required.

The new standard is effective for fiscal years beginning after December 15, 2022. As a result of adopting this standard effective January 1, 2023, the Company recorded an accumulative effective decrease to retained earnings of $204,000, net of tax, of which $41,000 was related to loans and $163,000 was related to unfunded commitments. At adoption, no allowance was recorded related to HTM or AFS debt securities.

In March 2022, the FASB issued ASU 2022-02, *Financial Instrument - Credit Losses – Troubled Debt Restructuring and Vintage Disclosures.* The amendments in this update eliminate the Troubled Debt Restructuring (TDR) recognition and measurement guidance and, instead, requires that the Company evaluate (consistent with the accounting for other loan modifications) whether the modification represents a new loan or a continuation of an existing loan. The amendments enhance existing disclosure requirements and introduce new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. For Companies that have adopted ASU 2016-13, ASU 2022-02 is effective for the fiscal years beginning after December 15, 2022. The adoption of this amendment is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic)280): Improvements to reportable Segment Disclosures* which requires a public entity to disclose its significant segment expense categories and amounts for each reportable segment. Significant expense categories are derived from expenses that are regularly reported to an entity's chief operating decision-maker and included in a segment's reported profit or loss. Entities with a single reportable segment are subject to both new and existing segment reporting requirements under Topic 280. An entity is permitted to disclose multiple measures of segment profit and loss, provided certain criteria are met. ASU 2023-07 is effective for the fiscal years beginning after December 15,2024. Early adoption is permitted.

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures.* Under the ASU, public business enterprises must annually disclose specific categories in the rate reconciliation and provide additional information for researching items that meet a quantitative threshold. In addition, the amount of income taxes paid, net of refunds received, disaggregated by federal, state and foreign jurisdictions are to be disclosed. For public entities, the ASU is effective for annual periods beginning after December 15, 2024.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

2) Cash

The Bank maintains certain reserves in the form of vault cash and/or deposits with the Federal Reserve Bank (FRB). There was no reserve requirement by the FRB at December 31, 2023 or 2022. Cash and due from banks includes interest earning deposits at the FRB. As of December 31, 2023 and 2022, the Bank had deposits with correspondent banks in excess of federally insured limits in the amount of $1.7 million and $0.2 million, respectively.

(3) Investment Securities

The amortized cost, allowance for credit losses (ACL), and fair value of available for sale and held to maturity securities at December 31 are as follows (in thousands):

Investment Securities	Amortized Cost	Gross unrealized Gains	Gross unrealized Losses	ACL	Fair value
December 31, 2023					
Securities Available for Sales:					
Government Sponsored Enterprises (GSE)	$ 26,945	$ —	$ (722)	$ —	$ 26,223
Obligations of states and political subdivisions	124,834	168	(6,658)	—	118,344
Mortgage-backed securities and collateralized mortgage obligations – GSE residential	11,844	2	(1,135)	—	10,711
Corporate debt	71,960	27	(6,278)	—	65,709
Total securities available for sale	$ 235,583	$ 197	$ (14,793)	$ —	$ 220,987

	Amortized Cost	Gross unrealized Gains	Gross unrealized Losses	Fair Value	ACL
Securities Held to Maturity – Obligations of:					
States and political subdivisions	$ 6,703	$ 17	$ (77)	$ 6,643	$ —

Investment Securities	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
December 31, 2022				
Securities Available for Sale:				
Government Sponsored Enterprises (GSE)	$ 27,331	$ —	$ (1,384)	$ 25,947
Obligations of states and political subdivisions	141,211	113	(9,750)	131,574
Mortgage-backed securities and collateralized mortgage obligations – GSE residential	14,086	1	(1,400)	12,687
Corporate debt	80,202	30	(6,704)	73,528
Total securities available for sale	$ 262,830	$ 144	$ (19,238)	$ 243,736
Securities Held to Maturity – Obligations of states and political subdivisions	$ 8,196	$ 21	$ (126)	$ 8,091

Included in securities available for sale are Government Sponsored Enterprises (GSE) including securities of the Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mac”), Government National Mortgage Association (GNMA or “Ginnie Mae”), and Federal National Mortgage Association (FNMA or “Fannie Mae”). FHLB, FHLMC, and FNMA securities are not backed by the full faith of the U.S. government. Also included are agency bonds issued by Federal Government agencies such as the Small Business Administration (SBA). Because of different structures, liquidity, and possible call risk, SBA’s may provide a slightly higher rate of interest than Treasury bonds. Substantially all mortgage-backed securities and collateralized mortgage obligations consist of residential mortgage securities and are securities guaranteed by Ginnie Mae, Freddie Mac, or Fannie Mae. Obligations of state and political subdivisions are primarily general obligation and revenue bonds of state and local municipalities, agencies, and authorities. General obligation bonds generally must have a nationally recognized statistical rating organization (NRSRO) investment grade rating in the top four categories (S&P “BBB-” or higher). Revenue bonds generally must have an NRSRO rating in the top three categories (S&P “A” or higher). Corporate debt securities are comprised of bonds with an NRSRO rating in the top four investment grades (S&P “BBB-” or higher).

The contractual terms of the government sponsored enterprise securities and the obligations of state and political subdivisions require the issuer to settle the securities at par upon maturity of the investment. The contractual cash flows of the mortgage-backed securities and collateralized mortgage obligations are guaranteed by various Government agencies or government sponsored enterprises such as FHLMC, FNMA, and GNMA.

Securities held to maturity consist of obligations of state and political subdivisions which are primarily general obligation bonds of municipalities local to the Company and are typically not rated by a NRSRO. In accordance with federal regulations, the Company performs an analysis of the finances of the municipalities to determine that the bonds are the credit equivalent of investment grade bonds.

There were no sales of securities held to maturity during the years ended December 31, 2023 or 2022.

Proceeds from sale, gross gains and gross losses realized on sales of securities were as follows for the years ended December 31 (in thousands).

Net Security Gains	2023	2022
Gross proceeds	$ 8,877	$ 1,007
Gross realized gains	$ 27	$ —
Gross realized losses	(825)	(93)
Net (loss) gain on sale of securities	$ (798)	$ (93)

In 2023, additional gains of $7,000 and losses of $92,000 were recognized on calls of $1,236,000 available for sale securities where the call amount did not equal the amortized cost of those securities. There were no gains or losses on called securities in 2022.

The amortized cost and estimated fair value of debt securities available for sale and held to maturity at December 31, 2023, by remaining period to contractual maturity, are shown in the following table (in thousands). Actual maturities will differ from contractual maturities because of security prepayments and the right of certain issuers to call or prepay their obligations.

Available for Sale Securities	Amortized cost	Fair value
Within one year	$ 66,414	$ 63,692
One to five years	132,838	124,319
Five to ten years	24,187	22,014
Over ten years	300	251
	223,739	210,276
Mortgage-backed securities	11,844	10,711
	$ 235,583	$ 220,987

Held to Maturity Securities	Amortized cost	Fair value
Within one year	$ 3,875	$ 3,872
One to five years	1,240	1,206
Five to ten years	908	881
Over ten years	680	684
	$ 6,703	$ 6,643

Equity securities totaled $517,000 at December 31, 2023 which incorporates a recognized loss of $123,000 due to the change in fair market value during the year. At December 31, 2022, equity securities totaled $1,682,000 which incorporates a recognized net gain on equity investments of $641,000 due to the change in fair market value during the year. For the year ended December 31, 2023, sales of equity securities generated proceeds of $1,093,000 and a net realized gain of $51,000. For the year ended December 31, 2022, sales of equity securities generated proceeds of $490,000 and a realized gain of $42,000. There were no purchases of equity securities in 2023. Purchases of equity securities totaled $215,000 for the year ended December 31, 2022.

Securities available for sale with an estimated fair value of $57,926,000 and $47,648,000 at December 31, 2023 and 2022, respectively, were pledged to secure public funds on deposit and for other purposes.

Investment securities classified as available for sale in a continuous unrealized loss position for which an allowance for credit losses has not been recorded are reflected in the following table which groups individual securities by length of time that they have been in a continuous unrealized loss position and then details by investment category the number of instruments aggregated with their gross unrealized losses and fair values at December 31, 2023 and 2022 (dollars in thousands):

	Less than 12 months			12 months or more			Total		
Investment Securities	**No.**	**Fair value**	**Unrealized losses**	**No.**	**Fair value**	**Unrealized losses**	**No.**	**Fair value**	**Unrealized losses**
December 31, 2023									
Securities Available for Sale:									
Government agencies	—	$ —	$ —	17	$ 26,223	$ (722)	17	$ 26,223	$ (722)
Obligations of states and political subdivisions	50	10,059	(50)	281	78,208	(6,608)	331	88,267	(6,658)
Mortgage-backed securities and collateralized mortgage obligations – GSE residential	3	42	(1)	43	10,449	(1,134)	46	10,491	(1,135)
Corporate debt	3	1,603	(87)	82	59,057	(6,191)	85	60,660	(6,278)
Total securities available for sale	56	$ 11,704	$ (138)	423	$173,937	$(14,655)	479	$185,641	$(14,793)

	Less than 12 months			12 months or more			Total		
Investment Securities:	**No.**	**Fair value**	**Unrealized losses**	**No.**	**Fair value**	**Unrealized losses**	**No.**	**Fair value**	**Unrealized losses**
December 31, 2022									
Securities Available for Sale:									
Government agencies	17	$ 25,947	$ (1,384)	—	$ —	$ —	17	$ 25,947	$ (1,384)
Obligations of states and political subdivisions	257	81,610	(5,343)	102	23,057	(4,407)	359	104,667	(9,750)
Mortgage-backed securities and collateralized mortgage obligations – GSE residential	35	7,789	(621)	9	4,560	(779)	44	12,349	(1,400)
Corporate debt	78	54,529	(3,581)	21	11,857	(3,123)	99	66,386	(6,704)
Total securities available for sale	387	$169,875	$(10,929)	132	$ 39,474	$ (8,309)	519	$209,349	$(19,238)
Securities Held to Maturity:									
Obligation of states and political subdivisions	14	$ 2,472	$ (126)	—	$ —	$ —	14	$ 2,472	$ (126)

Under FASB's ASC 326-30, for securities held in the AFS portfolio, the Bank must determine whether a decline in fair value below the amortized cost basis has resulted from a credit loss or other factors. The Bank must record related to credit losses through an allowance for credit losses. The allowance shall be limited by the amount that the fair value is less than the amortized cost basis. Impairment that has not been recorded through an allowance for credit losses is recorded through other comprehensive income, net of applicable taxes. A determination as to whether a decline in market value below cost represents a credit loss will, at a minimum, be made at each quarter-end. To evaluate securities for credit losses, the Bank first identifies securities which are in a loss position at quarter end. All "under-water" AFS securities are considered for credit losses by both the Controller and the Chief Financial Officer in this initial review based on the criteria cited in this policy. The Chief Financial Officer and/or Controller may consult the Bank's approved brokers and research other sources of financial information to assist in their review. A final determination of whether a security has credit losses is then made by the Chief Financial Officer considering input from various sources using the criteria cited below.

The meaning of a credit loss will be determined in accordance with ASC 326-35-6. In general, If the present value of cash flows expected to be collected is less than the amortized cost basis of the security, a credit loss exists and an allowance for credit losses shall be recorded for the credit loss. If unrealized losses are caused by changes in interest rates or other temporary factors and not credit quality, and the Bank does not intend to sell the investments and it is not more likely than not that the Bank will be required to sell the investments before recovery of their amortized cost basis, the investment is not considered to have a credit loss. A credit loss may be indicated by one or more of the following factors: 1) The extent to which the fair value is less than the amortized cost basis. 2) Adverse conditions specifically related to the security, an industry, or geographic area; for example, changes in the financial condition of the issuer of the security, or in the case of an asset-backed debt security, changes in the financial condition of the underlying loan obligors. Examples of those changes include any of the following: a) Changes in technology b) The discontinuance of a segment of the business that may affect the future earnings potential of the issuer or underlying loan obligors of the security c) Changes in the quality of the credit enhancement. 3) The payment structure of the debt security (for example, nontraditional loan terms) and the likelihood of the issuer being able to make payments that increase in the future. 4) Failure of the issuer of the security to make scheduled interest or principal payments. 5) Any changes to the rating of the security by a rating agency.

If a security is deemed to have a credit loss based on the above factors or if the bank has developed a plan to sell the security or it is likely that the bank will be forced to sell the security in the near future, then the impairment will be deemed a credit loss and the carrying value will be written down to the current fair value with the difference between the new carrying value and the amortized cost charged to earnings and offset by a credit to allowance for credit losses.

Management believes that none of the unrealized losses on debt at December 31, 2023 are due to the underlying credit quality of the issuers of the securities, but instead are primarily related to market interest rates, and the full value of the securities will be realized. Additionally, the Company does not intend to sell the securities and it is more-likely-than-not that the Company will not be required to sell the securities before recovery of their amortized cost. Therefore, no credit losses were recognized for the years ended December 31, 2023 or 2022.

(4) Restricted Investments

Restricted investments include stock held in correspondent banks: the Federal Home Loan Bank of New York (FHLB) and Atlantic Community Bankers Bank (ACBB). As a member of the FHLB, the Company is required to purchase and hold stock in the FHLB to satisfy membership and borrowing requirements. This stock is restricted in that it can only be sold to the FHLB or to another member institution and all sales of FHLB stock must be at par value. As a result of these restrictions, FHLB stock is unlike the Company's other investment securities insofar as there is no trading market for FHLB stock and the transfer price is determined by FHLB membership rules, not by market participants. As of December 31, 2023 and 2022, FHLB and ACBB stock totaled $506,000 and $483,000, respectively, and is included as a part of restricted investments on the consolidated balance sheets.

(5) Loans and Allowance for Credit Losses

The major classifications of loans are as follows at December 31 (in thousands):

Loans, Net	**2023**	**2022**
Commercial		
Commercial real estate loans:		
Commercial mortgage	$ 133,167	$ 131,564
Farmland	3,645	4,089
Construction	11,086	8,592
Total commercial real estate loans	147,898	144,245
Other commercial loans:		
Commercial loans	34,913	33,863
Agricultural loans	1,558	1,447
Total other commercial loans	36,471	35,310
Total commercial loans	184,369	179,555
Consumer		
Consumer real estate loans:		
Residential mortgage	136,010	119,782
Home equity	11,173	11,055
Construction	4,384	11,978
Total residential real estate loans	151,567	142,815

Loans, Net, Continued:	2023	2022
Consumer, Continued		
Other consumer loans:		
Consumer installment loans	2,080	1,952
Other consumer loans	482	425
Total other loans	2,562	2,377
Total consumer loans	154,129	145,192
Total gross loans	338,498	324,747
Allowance for credit losses	(4,311)	(4,570)
Total loans, net	$ 334,187	$ 320,177

Included in the above loan amounts are deferred loan fees and origination costs of $63,000 and $41,000 as of December 31, 2023 and 2022, respectively.

The Company originates consumer and commercial loans primarily to borrowers in Sullivan County, New York and surrounding areas. A substantial portion of the loan portfolio is real estate secured. The ability of the Company's borrowers to make principal and interest payments is dependent upon, among other things, the level of overall economic activity and the real estate market conditions prevailing within the Company's concentrated lending area.

Nonperforming Loans

Nonperforming loans are loans where the collection of interest or principal is in doubt, or loans that are past due more than 90 days and still considered an accruing loan with the exception of residential mortgages that are well secured and in the process of collection. Individually reviewed loan disclosures and classification apply to loans that are individually evaluated for collectability. A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement.

Information on nonperforming loans is summarized as follows at December 31 (in thousands):

Nonperforming Loans	Total Loans	Commercial Real Estate	Commercial Other	Residential Real Estate
December 31, 2023				
Nonaccrual loans with no ACL	$ 2,154	$ 1,054	$ —	$ 1,100
Nonaccrual loan with ACL	—	—	—	—
Total nonaccrual loans	2,154	1,054	—	1,100
Loans past due 90 days or more and still accruing interest	171	—	—	171
Total nonperforming loans	$ 2,325	$ 1,054	$ —	$ 1,271
December 31, 2022				
Nonaccrual loans	$ 4,481	$ 2,190	$ 1,175	$ 1,116
Troubled debt restructures	1,022	928	—	94
Total nonaccrual loans	5,503	3,118	1,175	1,210
Loans past due 90 days or more and still accruing interest	132	—	—	132
Total nonperforming loans	$ 5,635	$ 3,118	$ 1,175	$ 1,342

There were no nonperforming loans in the consumer loan classes at December 31, 2023 or 2022.

The nonaccrual loan income recognition policy of the Bank is that interest is not recognized as income until it is received in cash and the loan's collateral is adequate to support both the interest recognized plus the loan balance, or until the borrower demonstrates the ability to make scheduled payments of interest and principal and the loan has remained current for a period of at least six months. Until such time, these cash payments are applied to the principal balance of the loan. The amount of nonaccrual loan interest forgone for the years ended December 31, 2023 and 2022 was $168,000 and $435,000, respectively.

The recorded investment in consumer mortgage loans secured by residential real estate properties where formal foreclosure procedures are in process at December 31, 2023 and 2022 was $1,247,000 and $1,167,000, respectively. There were no residential real estate properties in foreclosed real estate at December 31, 2023 and 2022.

Individually evaluated loans are also included in nonperforming loans in the table above. The table below presents impaired loans, as of December 31, 2022, and their effect on interest income for the periods then ended (in thousands).

Individually Evaluated Loans	Total Loans	Commercial Real Estate	Commercial Other	Residential Real Estate
December 31, 2022				
Unpaid principal balance	$ 5,260	$ 3,783	$ 1,175	$ 302
Recorded investment	$ 4,456	$ 3,118	$ 1,175	$ 163
Average balance	$ 7,401	$ 7,225	$ 3	$ 173
Interest income:				
Interest contractually due at original rates	$ 435	$ 426	$ 1	$ 8
Interest income recognized	$ 462	$ 341	$ 105	$ 16
Impaired loans:				
With no allowance	$ 3,281	$ 3,118	$ —	$ 163
With an allowance recorded	$ 1,175	$ —	$ 1,175	$ —
Related specific allowance	$ 1,175	$ —	$ 1,175	$ —

The following table presents the amortized cost basis of collateral-dependent loans which are loans in which foreclosure is probable and the repayment is expected to be provided substantially through the of the collateral.

Collateral Type	Vacant Land	Commercial Property	Residential Property
December 31, 2023			
Real Estate:			
Commercial	$ 412	$ 399	$ 243
Consumer	—	—	1,139
Total	$ 412	$ 399	$ 1,382

The Bank will occasionally modify loans to borrowers experiencing financial difficulties by providing principal or interest forgiveness or rate reductions. If a principal forgiveness is granted, the amount of the forgiveness is charged-off against the allowance for credit losses. The following table shows the amortized cost basis, as of December 31, 2023, of the loans modified to borrowers experiencing financial difficulty:

Loan Modifications Made to Borrowers Experiencing Financial Difficulties

Term Restructuring

	Amortized Cost Basis	% of Total Class of Receivable
Consumer Real Estate	$ 25	0.02%

Loans are classified as loan modifications to borrowers experiencing financial difficulty ("TLM") when a borrower is experiencing financial difficulties and the modification is a direct change in the contractual cash flows, excluding insignificant payment delays. If the loan modification results in a new loan i.e 1) the terms of the loan are at least as favorable to the Bank as the terms of other loans to similar borrowers and 2) the modification to the terms of the loan are more than minor. If the modification does not meet these two requirements it will be deemed a TLM. The Bank may also increase loan balances for unpaid interest and fees or acquire additional collateral to secure its position.

The bank closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. As of December 31, 2023, all trouble loan modifications were current.

Loans restructured under the guidelines of *ASC 310-40 Receivables Troubled Debt Restructures by Creditors* are disclosed below as of and for the year ended December 31, 2022 (in thousands):

Troubled Debt Restructuring	No.	Pre-Modification Recorded investment	Post-Modification recorded investment	Current recorded investment
December 31, 2022				
Real Estate:				
Commercial	7	$ 2,278	$ 1,694	$ 928
Consumer	4	459	477	163

A loan is classified as a troubled debt restructuring ("TDR") when a concession that the Bank would not otherwise have considered is granted to a borrower experiencing financial difficulty. Most of the Bank's TDRs involve the restructuring of loan terms to reduce the total payment amount in order to assist those borrowers who are experiencing temporary financial difficulty. In a TDR, the Bank may also increase loan balances for unpaid interest and fees or acquire additional collateral to secure its position.

During the year ended December 31, 2022, there were no new loans that qualified as a TDR. As of December 31, 2022, the Bank had total charge offs of $323,000, for borrowers whose loan terms have been modified as TDRs. There were no additional charge offs during 2022. During 2022, there was $14,000 recovered principal from previous charge offs on a loan which qualified as a TDR. At December 31, 2022, the Bank had a total of $1,091,000 in TDRs which did not require a specific reserve. The Bank has not committed to lend any additional funds to customers whose loans are classified as a TDR as of December 31, 2022. The Bank evaluates TDRs that are over 60 days past due to determine whether or not they are in default. However, all TDRs over 90 days past due are reported as in default. For the year ended December 31, 2022, one residential real estate loan with a recorded investment of $54,000 was considered to be in default.

Loan Credit Quality Information

The Bank's management and board of directors are actively engaged in the underwriting and monitoring of loans. Loans are underwritten and reviewed in conjunction with board of directors' approved loan credit policies with the balanced goal of maintaining underwriting, documentation, and review standards with satisfactory interest income and minimal credit losses. Loans are reviewed and approved at various levels depending upon the amount of credit exposure including: board of directors, board loan committee, senior loan committee, and individual loan officer level. At underwriting, consumer loan approval is based upon an independent analysis of the applicant's financial strength. Commercial loans are underwritten and reviewed consistent with the Bank's loan credit policy. The Bank monitors the commercial loan portfolio based upon a board of directors approved loan review and risk identification policy. The policy dictates the process for internal loan risk identification, periodic annual review of larger commercial loan relationships, and external loan review.

The credit policy of the Bank ensures conformity in loan pricing, sets forth standards for distribution of loans by class, types of credit, limitations on concentrations of credit, maximum maturities by types of credit, legal documentation requirements, commercial loan underwriting standards, acceptable forms of collateral, use of financial covenants for commercial loans, financial statement requirements, loan participations, and appraisal standards, among many other items.

At underwriting, all unsecured commercial loans in excess of $10,000 and secured commercial loans in excess of $25,000 are assigned a risk rating in conformity with the loan review and risk identification policy. All commercial loans with aggregate relationship exposure of $100,000 or more are required to be reviewed annually. The analysis is compared to any financial covenants to ensure conformity with the loan agreement. If the analysis reveals non-conformity, the applicable lending officer or loan committee may recommend corrective action including a revised loan risk rating, non-renewal of lines of credit, reduction in lines of credit, or collection action. Once a loan is underwritten, the risk rating is updated if the lending officer notes either positive or negative characteristics in the loan.

The Bank has a loan rating system that ranges from "Pass" to "Loss" based upon the commensurate severity of credit risk. "Pass" rated loans are generally loans to unleveraged borrowers with strong liquidity, available cash flow to service debt obligations, and the ability to make payments as agreed. "Pass Watch" loans are stronger than loans in the Special Mention category, as discussed below, but would not fall in the "Pass" category for reasons such as the following: the loans are to financially strong individuals not meeting agreed upon repayment programs, are unseasoned smaller loans, or have excessive vulnerability to competition or other dependencies. "Special Mention" loans currently have a protected credit position but are potentially weak. These loans have relatively minor credit risk; however, in light of circumstances, they constitute undue and unwarranted risks, but not to the point of justifying a classification of substandard. The loan may have potential weaknesses which may, if not checked or corrected, weaken the loan or inadequately protect the Bank's credit position at some future date. "Substandard" loans have a well-defined weakness that jeopardizes the liquidity of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. "Doubtful" loans have all the weaknesses inherent in a loan classified as substandard, with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors which may work to the advantage and strengthening of the assets, the loan's classification as a loss is deferred until its more exact status may be determined. Loans which become "Loss" rated are fully charged off as they are considered uncollectible. Their continuance as bankable assets is no longer warranted and are therefore excluded below. Loans that are not reviewed on an ongoing basis are consumer loans and small balance commercial loans which pose less of a credit risk.

Management reviews risk ratings for commercial loans on a monthly basis and the following illustrates total commercial loans by credit risk profiles based on internally assigned grades and category as of December 31 (in thousands):

	Loans Amortized Costs Basis by Origination Year				
	2023	2022	2021	Prior	Total
December 31, 2023					
Commercial real estate					
Risk Rating					
Pass	$ 5,501	$ 20,911	$ 8,363	$ 53,511	$ 88,286
Pass Watch	7,980	11,390	7,950	27,362	54,682
Special Mention	—	—	—	3,817	3,817
Substandard	—	284	—	829	1,113
Doubtful	—	—	—	—	—
Total	$ 13,481	$ 32,585	$ 16,313	$ 85,519	$ 147,898
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —
Commercial other					
Risk Rating					
Pass	$ 3,973	$ 3,307	$ 3,654	$ 3,433	$ 14,367
Pass Watch	4,596	9,547	2,829	5,017	21,989
Special Mention	—	—	—	105	105
Substandard	—	—	—	10	10
Doubtful	—	—	—	—	—
Total	$ 8,569	$ 12,854	$ 6,483	$ 8,565	$ 36,471
Current period gross charge-offs	$ —	$ —	$ —	$ 23	$ 23

		Commercial		Consumer		
Loans by Risk Ratings	**Total**	**Real Estate**	**Other**	**Real Estate**	**Installment**	**Other**
December 31, 2022						
Pass	$ 90,757	$ 76,135	$ 14,622			
Pass Watch	79,516	60,621	18,895			
Special Mention	2,042	1,831	211			
Substandard	3,257	3,228	29			
Doubtful	1,175	—	1,175			
Non-reviewed	148,000	2,430	378	$ 142,815	$ 1,952	$ 425
Total	$ 324,747	$ 144,245	$ 35,310	$ 142,815	$ 1,952	$ 425

The Bank monitors the credit risk profile by payment activity for residential and consumer loans. Loans past due 90 days or more and on nonaccrual status are considered nonperforming. Nonperforming loans are reviewed monthly. The following table presents the amortized cost in residential and consumer loans based on payment activity (in thousands):

	Loans Amortized Costs Basis by Origination Year				
	2023	2022	2021	Prior	Total
December 31, 2023					
Residential real estate					
Payment Performance					
Performing	$ 14,564	$ 42,001	$ 28,678	$ 65,077	$ 150,320
Nonperforming	—	—	—	1,271	1,271
Total	$ 14,564	$ 42,001	$, 28,678	$ 66,324	$ 151,567
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —
Consumer Loans					
Payment Performance					
Performing	$ 1,286	$ 642	$ 202	$ 411	$ 2,541
Nonperforming	—	—	—	—	—
Total	$ 1,286	$ 642	$ 202	$ 411	$ 2,541
Current period gross charge-offs	$ 38	$ 7	$ 2	$ 6	$ 53

The following table illustrates the aging of past due loans by category as of December 31 (in thousands):

Category of loans	30-59 Days past due	60-89 Days past due	Greater than 90 Days	Total past due	Current	Total loans	Over 90 and accruing
2023							
Commercial real estate	$ 19	$ 284	$ 128	$ 431	$ 147,467	$ 147,898	$ —
Commercial other	—	95	—	95	36,376	36,471	—
Residential real estate	307	734	1,247	2,288	149,279	151,567	171
Consumer installment	13	—	—	13	2,067	2,080	—
Other consumer	—	—	—	—	482	482	—
Total	$ 339	$ 1,113	$ 1,375	$ 2,827	$335,671	$ 338,498	$ 171
2022							
Commercial real estate	$ 938	$ 21	$ 224	$ 1,183	$ 143,062	$ 144,245	$ —
Commercial other	1,014	107	190	1,311	33,999	35,310	—
Residential real estate	1,405	370	1,303	3,078	139,737	142,815	132
Consumer installment	8	6	—	14	1,938	1,952	—
Other consumer	6	—	—	6	419	425	—
Total	$ 3,371	$ 504	$ 1,717	$ 5,592	$319,155	$ 324,747	$ 132

As of December 31, 2023 and 2022, nonaccrual loans included $0.9 million and $3.9 million of loans, respectively, which are paying currently but have not met the specific criteria to be placed on accrual status.

Allowance for Credit Losses

The allowance for credit losses (ACL) is a valuation reserve established and maintained by charges against income and is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loans. Loans, or portions thereof, are charged off against the ACL when they are deemed uncollectible. Expected recoveries do not exceed the aggregate of amounts previously charged off and expected to be charged off. The ACL is an estimate of expected credit losses, measured over the contractual life of a loan, that considers our historical loss experience, current conditions, and forecasts of future economic conditions. The methodology for determining the ACL has two main components: evaluation of expected credit losses for certain groups of homogeneous loans that share similar risk characteristics and evaluations of loans that do not share risk characteristics with other loans.

The SCALE method is a simple, spreadsheet-based method developed by the Federal Reserve to assist smaller community banks, under $1 billion in assets, in calculating CECL compliant allowances for credit losses (ACLs) using proxy expected lifetime loss rates. The Bank's management has determined that due to the complex modeling techniques and granularity of data required by other ACL methods, the SCALE method is the most appropriate method of determining it's ACL given the size and the nature, scope, and risk of its lending and investing activities.

The Bank has chosen four segments of loans with similar risk characteristics for purposes of estimating credit losses for the ACL under the SCALE method – Commercial Mortgages, Commercial Loans, Residential Mortgages, and Consumer Loans. Residential and commercial construction loans are included within the Commercial and Residential Mortgage segments as appropriate because the Bank's construction loans typically fall into those segments upon completion of the construction phase and therefore possess a similar risk profile. Historically, the Bank has incurred no losses during the construction phase of either category.

The Bank reviews all non-accrual loans as well as loans that are classified substandard on an individual basis. A determination of the amount of the impairment to be included in the ACL will be made using one of the three allowable methods: the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. In determining the amount of impairment using the fair value method, information used by the Bank will include but not be limited to:

- Most recent Loan Action Plan and Status Report, including special note of changes from prior reports;
- Current appraisal and estimated cost to sell collateral;
    - The impaired value will be calculated by using the appraised value less the cost to sell. The cost to sell includes a 6% commission based on the appraised amount, transfer tax of $4 per thousand of the appraised value and legal and recording fees.
    - Properties will be periodically inspected to note any change or deterioration in condition.
    - Value will be periodically reviewed using online tools such as Zillow and Real Info.com.
    - Properties will be reappraised on an as needed basis.
- Current financial statements, aging, etc., of obligors; and
- Other information provided by the handling loan officer, credit references, tax status, etc.

The resulting determination will be stated as a specific reserve.

Proxy expected lifetime loss rates used in the SCALE tool are derived from disaggregated data on the ACLs reported on Schedule RI-C of the Call Report. Management accesses this data from the Federal Reserve CECL Resource Center on the SCALE tab in the resources section or at RI-C - CECL Resource Center. The data is generally posted within 15 days after the financial data is finalized for each quarter. The proxy expected lifetime loss rates are based on an aggregated national rate of all institutions required to complete Schedule RI-C. The aggregated national rate was chosen over a custom peer group due to a lack of information available to determine if a custom peer group would be more representative of the Bank's specific loan characteristics. Since the proxy expected lifetime loss rates are based on information from the previous reporting period, there will be a lag between the proxy data and the reporting date. Management will consider whether a qualitative adjustment is necessary to reflect any changes in economic and business conditions at the reporting date that affect the collectability of the Bank's financial assets that were not present at the time the proxy expected lifetime loss rates were calculated.

While proxy expected lifetime loss rates are the starting point for the ACL, management will apply adjustments to the rates for qualitative or environmental factors that are likely to cause estimated credit losses associated with the Bank's existing portfolio to differ from historical loss experience. The adjustment factors may include:

- The nature and volume of the institution's financial assets;
- The existence, growth, and effect of any concentrations of credit;
- The volume and severity of past due financial assets, the volume of nonaccrual assets, and the volume and severity of adversely classified or graded assets;
- The value of the underlying collateral for loans that are not collateral-dependent;
- The institution's lending policies and procedures, including changes in underwriting standards and practices for collections, write-offs, and recoveries;
- The quality of the institution's credit review function;
- The experience, ability, and depth of the institution's lending, investment, collection, and other relevant management and staff;
- The effect of other external factors such as the regulatory, legal and technological environments; competition; and events such as natural disasters; and
- Actual and expected changes in international, national, regional, and local economic and business conditions and developments in which the institution operates that affect the collectability of financial assets.

Adjustments for qualitative factors are made in a range calculated as the Bank's historical loss ratio from the average of the five lowest years to the average of the five highest years based on the current conditions at the time of the evaluation. Adjustments will be applied on a weighted basis, with 40% attributed to economic and business conditions, 25% to the level of past due loans and 5% for each remaining category. The Bank believes this weighting is appropriate as areas with the higher weights are the most likely to impact business profitability and consumer discretionary income which would lead to potentially higher loan losses. Since significant judgment is used when evaluating the effect of qualitative factors on the amount of the ACL, the Bank's management explains how the adjustments reflect current information, events, circumstances, and conditions and to which segments of the ACL the adjustment applies. Not all of the above qualitative factors will apply to one or any ACL segment and the list of possible qualitative adjustments is not exhaustive. Management maintains reasonable documentation to support which factors affected the analysis and the impact of those factors on the loss measurement. Support and documentation include management's analysis of how each factor has changed over time, which loan groups' loss rates have been adjusted, and other available data that supports the reasonableness of the adjustments. Examples of underlying supporting evidence could include, but are not limited to, relevant articles from newspapers and other publications that describe economic events affecting a particular geographic area, economic reports and data, and notes from discussions with borrowers.

Proxy expected lifetime loss rates derived from Schedule RI-C data may be adjusted to more accurately reflect the Bank's own historical loss experience and that of its peers that is not captured in the aggregated lifetime loss rate of its peers or industry. The adjustment is made by comparing the Bank's historical net charge-off performance relative to peers using a fifteen-year average.

The ACL is arrived at using the best information available to management as of the evaluation date. However, due to the inherently subjective and judgmental nature of estimating credit losses, the Bank maintains an unallocated reserve to cover areas which have been historically difficult to quantify. These areas include:

- **Collateral Risk -** It is impossible to have an up-to-the-minute valuation of all collateral. There are also instances where liens have not been perfected.
- **Information Risk -** There is sometimes a lack of current financials and operating figures for some borrowers.
- **Historical Charge-Off Risk -** Past performance is a guide and not indicative of future performance.

While the amount of the unallocated reserve will fluctuate with changes to the underlying loan portfolio, it is the goal of management to maintain an unallocated reserve within a range of 2% to 7% of the total ACL.

Upon completion of all of the components of the ACL, the amounts reserved will be aggregated and compared to the actual ACL per the Bank's financial statements. The Bank uses ratio analysis as a supplemental tool for evaluating the overall reasonableness of the ACL. Ratio analysis can be useful in identifying divergent trends in the relationship of the ACL to adversely classified or criticized loans, past due and nonaccrual loans, total loans, and historical net charge-offs. Based on such analysis, the Bank may identify additional issues or factors that previously had not been considered in the ACL estimation process, which may warrant adjustments to estimated credit losses. Such adjustments will be appropriately supported and documented.

The Bank has various unfunded loan commitments that are not reflected on its balance sheet. Because off-balance sheet exposures are legally binding agreements to extend credit under certain terms and conditions, they can expose the Bank to credit losses. ASC 326 requires the Bank to record a liability for expected credit losses on unfunded loan commitments, estimated over the contractual period in which the Bank is exposed to credit risk, unless that obligation is unconditionally cancellable by the Bank. The estimate of credit losses must consider the likelihood that funding will occur and if funded, the related estimate of expected credit losses. The liability for expected credit losses is separate from the ACL calculation.

The Bank segments its unfunded loan commitments into several categories:

- Demand lines of credit – unused loan commitments with a demand feature, which allows the Bank to unilaterally and unconditionally cancel the commitment and refuse to fund further credit advances, are identified and per ASC 326 are not assigned any liability.
- Home Equity Lines of Credit (HELOC) – HELOC's have terms and conditions that allow for the Bank to refuse further advances are not unilaterally and unconditionally cancelable. To establish an expected credit loss estimate for HELOC's, the Bank will perform a three year look back of the percentage of HELOC credit lines which are unused in relation to the total amount of HELOC commitments for each calendar quarter to establish an average baseline. The Bank will then apply the allowance for credit loss rate for the category containing HELOC balances to the product of the total amount of unused HELOC commitments times the difference between the baseline percentage and the percentage of the current quarter's unused HELOC lines to total HELOC commitments. If the calculation results in a negative number, zero percentage will be used.
- Residential 1-4 family construction – unused loan commitments for the construction of 1-4 family residences are typically expected to be used within one year. Therefore, the Bank will apply the allowance for credit loss rate for the category containing residential mortgage balances to the total amount of unused Residential 1-4 family construction commitments at each quarter end.
- Commercial construction – unused loan commitments for the construction of commercial property are typically expected to be used within one year. Therefore, the Bank will apply the allowance for credit loss rate for the category containing commercial mortgage balances to the total amount of unused Commercial construction commitments at each quarter end.
- Unclosed loan commitments – the Bank will identify commitments issued to customers which have not yet been established through loan closing documents. The Bank will estimate the probability of the issued commitment eventually being originated. A liability will be calculated for the commitments identified as likely to be originated based on the category in this section in which they will be assigned after a closing takes place.

Changes in the allowance for credit losses and the related loans evaluated for credit loss are summarized as follows as of and for the years ended December 31 (in thousands):

		Commercial		Consumer			
Allowance for Credit Losses	**Total**	**Real Estate**	**Other**	**Real Estate**	**Installment**	**Other**	**Unallocated**
December 31, 2023							
Beginning balance January 1	$ 4,570	$ 1,765	$ 1,521	$ 1,070	$ 15	$ 28	$ 171
Impact of Adopting ASC 326	56	(65)	911	(615)	(15)	11	(171)
Charge-offs	(76)	—	(23)	—	—	(53)	—
Recoveries	180	5	2	151	—	22	—
Provision (credit)	(419)	205	(1,857)	936	—	47	250
Ending balance December 31	$ 4,311	$ 1,910	$ 554	$ 1,542	$ —	$ 55	$ 250
Ending balance as related to allowance:							
Evaluated collectively [general reserve]	$ 4,311	$ 1,910	$ 554	$ 1,542	$ —	$ 55	$ 250
Evaluated individually [specific reserve]	—	—	—	—	—	—	—
Total Allowance for Credit Losses	$ 4,311	$ 1,910	$ 554	$ 1,542	$ —	$ 55	$ 250
Ending balance as related to loans:							
Loans evaluated collectively	$ 335,984	$ 146,523	$ 36,471	$ 150,428	$ 2,080	$ 482	
Loans evaluated individually	2,514	1,375	—	1,159	—	—	
Total Loans	$ 338,498	$ 147,898	$ 36,471	$ 151,567	$ 2,080	$ 482	
December 31, 2022							
Beginning balance January 1	$ 4,005	$ 2,284	$ 349	$ 976	$ 11	$ 16	$ 369
Charge-offs	(143)	(82)	—	—	(8)	(53)	—
Recoveries	258	—	2	243	2	11	—
Provision (credit)	450	(437)	1,170	(149)	10	54	(198)
Ending balance December 31	$ 4,570	$ 1,765	$ 1,521	$ 1,070	$ 15	$ 28	$ 171
Ending balance as related to allowance:							
Evaluated collectively [general reserve]	$ 3,395	$ 1,765	$ 346	$ 1,070	$ 15	$ 28	$ 171
Evaluated individually [specific reserve]	1,175	—	1,175	—	—	—	—
Total Allowance for Loan Losses	$ 4,570	$ 1,765	$ 1,521	$ 1,070	$ 15	$ 28	$ 171
Ending balance as related to loans:							
Loans evaluated collectively	$ 320,291	$ 141,127	$ 34,135	$ 142,652	$ 1,952	$ 425	
Loans evaluated individually	4,456	3,118	1,175	163	—	—	
Total Loans	$ 324,747	$ 144,245	$ 35,310	$ 142,815	$ 1,952	$ 425	

There are no commitments to lend additional funds on the above noted non-performing loans. Management has determined that the majority of these non-performing loans remain well collateralized. Based on its comprehensive analysis of the loan portfolio, and since the Company has no exposure to subprime loans, management believes the current level of the allowance for credit losses is adequate. However, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for credit losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management.

(6) Premises and Equipment

The major classifications of premises and equipment were as follows at December 31 (in thousands):

Premise and Equipment, Net	2023	2022
Land	$ 1,891	$ 1,966
Buildings and improvements	8,302	8,340
Right of use asset (ROU Asset)	323	404
Furniture and fixtures	482	475
Equipment	3,822	3,857
Total premises and equipment	14,820	15,042
Less accumulated depreciation and amortization	(9,067)	(9,480)
Premises and equipment, net	$ 5,753	$ 5,562

Depreciation and amortization expense was $454,000 and $549,000 in 2023 and 2022, respectively. The Company has three operating leases for branches located in Port Jervis, Callicoon, and Wurtsboro which expire in 2026, 2027, and 2030, respectively.

Operating Lease Costs	2023	2022
Operating lease costs	$ 90	$ 89
Operating lease liability	$ 346	$ 427

Weighted-average remaining lease term	5 years
Weighted-average discount rate	2.28%

The Company's contractual obligation on future minimum non-cancellable lease payments as of December 31, 2023, is as follows (in thousands):

Future Minimum Lease Payments, for the years ending:	
2024	$ 90
2025	91
2026	71
2027	41
2028	32
2029 and thereafter	41
Total undiscounted cash flows	366
Impact of present value discount	(20)
Operating lease liability	$ 346

(7) Time Deposits

The following is a summary of time deposits at December 31, 2023 by remaining period to contractual maturity (in thousands):

Within one year	$ 49,736
One to two years	9,230
Two to three years	2,700
Three to four years	2,008
Four to five years	1,118
Over five years	—
Total time deposits	$ 64,792

Time deposits of $250,000 or more totaled $8,354,000 and $8,582,000 at December 31, 2023 and 2022, respectively. The December 31, 2023 balance is exclusive of the brokered deposit for $25,004,000.

(8) Short-Term Borrowings

In August 2023, the Bank took a loan in the amount of $25,000,000 with the Federal Reserve Discount Window as part of the Bank Term Funding Program. The loan was refinanced twice in 2023. As of December 31, 2023, the loan balance was $25,000,000 at 4.88%, due December 20, 2024. There were no short-term borrowings as of December 31, 2022. At December 31, 2023, the Bank maintained unsecured lines of credit with Atlantic Community Bankers Bank for $7.0 million and First Horizon Bank for $5.0 million. The Bank also has access to a primary credit line with the Federal Reserve Discount Window (Discount Window) which would be available upon collateralization by securities held in trust. At December 31, 2023 the available credit was $30,553,000. The Bank, as a member of the FHLB, has access to a line of credit program with a maximum borrowing capacity of $75.1 million as of December 31, 2023, which is collateralized by mortgage loans and FHLB stock. Other than the FRB borrowing, during 2023 and 2022, there were no borrowings at any month end. During the year ended 2023, the Bank borrowed an average balance of $9,870,000 with an average interest rate of 6.41%. During 2022, the Bank borrowed an average balance of $5,000 with an average interest rate of 3.20%.

(9) Federal Home Loan Bank Borrowings

As of December 31, 2023 and 2022, the Bank had no Federal Home Loan Bank Borrowings. The Bank has a blanket security agreement with FHLB to secure borrowings with FHLB stock (see Note 4) and by maintaining as collateral certain qualifying assets (principally residential mortgage loans) not otherwise pledged. At December 31, 2023, the maximum borrowing capacity was $75.1 million.

(10) Income Taxes

Income taxes for the years ended December 31 consisted of the following (in thousands):

Income Tax Expense	2023	2022
Current:		
Federal	$ 2,577	$ 1,990
State	440	221
Deferred tax income	(89)	(23)
	$ 2,928	$ 2,188

Items creating the differences between income tax expense and taxes computed by applying the statutory Federal tax rate of 21% to income before income taxes are as follows (dollars in thousands):

Income Tax Expense (Benefit)	2023 Amount	2023 % (1)	2022 Amount	2022 % (1)
Tax at statutory rate	$ 2,962	21%	$ 2,413	21%
State taxes, net of Federal Tax benefit	348	3	175	2
Tax-exempt interest and dividends	(336)	(2)	(337)	(3)
Interest expense allocated to tax-exempt securities	9	—	1	—
Bank-owned life insurance	(64)	(1)	(63)	(1)
Other adjustments	9	—	(1)	—
Income tax expense	$ 2,928	21%	$ 2,188	19%

(1) *Percentage is of pre-tax income*

The tax effects of temporary differences that give rise to deferred tax assets and liabilities at December 31 are presented below (in thousands):

Deferred Tax Asset, Net	2023	2022
Deferred tax assets:		
Allowance for credit losses in excess of tax bad debt reserve	$ 1,143	$ 1,182
Depreciation	350	352
Foreclosed real estate	52	52
Other comprehensive income (retirement benefits)	499	731
Unrealized loss on securities available for sale	3,815	4,990
Other	—	—
Total deferred tax assets	5,859	7,307
Deferred tax liabilities:		
Prepaid expenses	(5)	(178)
Other comprehensive income:		
Retirement benefits	(744)	(803)
Other	(96)	(68)
Total deferred tax liabilities	(845)	(1,049)
Net deferred tax asset (included in other assets)	$ 5,014	$ 6,258

In assessing the ability to realize the Company's total deferred tax assets, management considers whether it is more-likely-than not that some portion or all those assets will not be realized. Based upon management's consideration of historical and anticipated future pre-tax income, as well as the reversal period for the items giving rise to the deferred tax assets and liabilities, a valuation allowance for deferred tax assets was not considered necessary at December 31, 2023 and 2022.

No unrecognized tax benefits are expected to arise within the next twelve months. The Company files income tax returns in both the US Federal and New York State tax jurisdictions. The Company is no longer subject to examination by the US Federal for years before 2020 and NYS taxing authorities for years before 2020.

(11) Regulatory Capital Requirements

State-chartered, nonmember banks are required to maintain minimum levels of regulatory capital in accordance with regulations of the Federal Deposit Insurance Corporation ("FDIC") as amended January 1, 2015. FDIC regulations require a minimum leverage ratio of Tier 1 capital to total adjusted assets of 4.0%, and minimum ratios of Common Equity Tier 1 (CET1) capital, Tier 1 capital and Total capital to risk-weighted assets of 4.5%, 6.0% and 8.0%, respectively. Risk based capital ratios are based in part on specific quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgements by the regulators about capital components, risk weightings and other factors.

Under its prompt corrective action regulations, the FDIC is required to take certain supervisory actions (and may take additional discretionary actions) with respect to an undercapitalized bank. Such actions could have a direct material effect on banks' financial statements. The regulation establishes a framework for the classification of banks into four categories: well capitalized, adequately capitalized, undercapitalized, and significantly undercapitalized. Generally, a bank is considered well capitalized if it has a leverage capital ratio of at least 5% and a CET1 capital ratio of at least 6.5%, a Tier 1 risk-based capital ratio of at least 8.0%, and a total risk-based capital ratio of at least 10.0%. The Basel III rules also establish a "capital conservation buffer" of 2.5% above the new regulatory minimum capital requirements, which must consist entirely of Common Equity Tier 1 capital. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions. An institution would be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses to executive officers if its capital level falls below the buffer amount.

In November 2019, Federal bank regulatory agencies finalized a rule that simplifies capital requirements for community banks by allowing them to optionally adopt a simple leverage ratio to measure capital adequacy, which removes requirements for calculating and reporting risk-based capital ratios for a qualifying community bank that has less than $10 billion in total consolidated assets, limited amounts of off-balance sheet exposures and trading assets and liabilities, and a leverage ratio greater than 9 percent. Additionally, such insured depository institutions are considered to have met the well-capitalized ratio requirements for purposes of the FDIC's prompt corrective action framework. The community bank leverage ratio framework was effective January 1, 2020. The Company elected to adopt the optional community bank leverage ratio framework in the first quarter of 2020.

Management believes that, as of December 31, 2023 and 2022, the Bank met all capital adequacy requirements to which it is subject. Further, the most recent FDIC notification categorized the Bank as a well-capitalized bank under the prompt corrective action regulations. There have been no conditions or events since that notification that management believes have changed the Bank's capital classification.

The following is a summary of the actual capital amounts and ratios as of December 31, 2023 and 2022 for the Bank compared to the required ratios for minimum capital adequacy and for classification as well-capitalized (dollars in thousands):

	Actual		Required Ratios	
Regulatory Capital	Amount	Ratio	Minimum capital Buffer adequacy	Well capit-alized
December 31, 2023:				
Leverage (Tier 1) capital	$80,950	11.9%	9.0%	N/A
December 31, 2022:				
Leverage (Tier 1) capital	$72,430	10.5%	9.0%	N/A

Jeffersonville Bancorp is a small bank holding company and is exempt from regulatory capital requirements administered by the Federal banking agencies.

(12) Stockholders' Equity

Dividend Restrictions

Dividends paid by the Bank are the primary source of funds available to the Parent Company for payment of dividends to its stockholders and for working capital needs. Applicable federal and state statutes, regulations, and guidelines impose restrictions on the amount of dividends that may be declared by the Bank. Under these restrictions, the dividends declared and paid by the Bank to the Parent Company may not exceed the total amount of the Bank's net profit retained in the current year plus its retained net profits, as defined, from the two preceding years. The Bank's retained net profits available for dividends at December 31, 2023 totaled $18,804,000.

(13) Comprehensive Income (Loss)

Comprehensive income represents the sum of net income and items of other comprehensive (loss) income which are reported directly in stockholders' equity, such as the net unrealized gain or loss on securities available for sale and changes in liabilities associated with the Company's defined benefit pension plan and the supplemental retirement plans. These items are reflected in the consolidated statements of comprehensive income, net of income taxes.

At December 31, 2023 and 2022, the components of accumulated other comprehensive (loss) income reflected on the consolidated balance sheets are as follows (in thousands):

Accumulate Other Comprehensive Loss, Net of Tax	2023	2022
Supplemental executive retirement plan	$ (456)	$ (293)
Defined benefit pension liability	(1,451)	(2,504)
Net unrealized holding losses on securities available for sale	(14,596)	(19,094)
Accumulated other comprehensive loss, before income tax	(16,503)	(21,891)
Income tax related to accumulated other comprehensive loss	4,313	5,721
Accumulated other comprehensive loss, net of tax	$ (12,190)	$ (16,170)

The following table presents the changes in accumulated other comprehensive loss by component net of tax for the years ended December 31, 2023 and 2022.

	Unrealized gain (loss) on AFS Securities	Defined Benefit Pension Items	Total
Balance as of December 31, 2021	$ 3,233	$ (2,347)	$ 886
Other comprehensive income (loss) before reclassification (net of tax)	(17,406)	254	(17,152)
Amounts reclassified from accumulated other comprehensive Income (loss) (net of tax)	69	27	96
Net current period other comprehensive income (loss)	(17,337)	281	(17,056)
Balance as of December 31, 2022	$ (14,104)	$ (2,066)	$ (16,170)
Balance as of December 31, 2022	$ (14,104)	$ (2,066)	$ (16,170)
Other comprehensive income (loss) before reclassification (net of tax)	2,671	622	3,293
Amounts reclassified from accumulated other comprehensive Income (loss) (net of tax)	652	35	687
Net current period other comprehensive income (loss)	3,323	657	3,980
Balance as of December 31, 2023	$ (10,781)	$ (1,409)	$ (12,190)

The following table present the significant amounts reclassified out of each component of accumulated other comprehensive loss for the years ended December 31, 2023 and 2022 (in thousands):

Details about accumulated other comprehensive Income (loss)	Amount reclassified from accumulated Comprehensive income (loss) December 31, 2023	2022	Affected line item in the Consolidated Statement of Income
Unrealized gains and losses on available for sale securities			
	$ 883	$ 93	Available for sale securities losses, net
	(231)	(24)	Provision for income taxes
	$ 652	$ 69	Net of tax
Defined benefit pension items			
	$ 47	$ 36	Other expenses
	(12)	(9)	Provision for income taxes
	$ 35	$ 27	Net of tax

(14) Related Party Transactions

Certain directors and executive officers of the Company, as well as certain affiliates of these directors and officers, have engaged in loan transactions with the Company.

Outstanding loans to these related parties are summarized as follows at December 31 (in thousands):

Related Party Transactions	2023	2022
Directors	$ 1,266	$ 1,440
Executive officers (non-directors)	28	31
	$ 1,294	$ 1,471

During 2023, total advances to these directors and officers were $54,000 and total loan payments were $231,000. Directors and officers had unused lines of credit with the Company of $359,000 and $356,000 at December 31, 2023 and 2022, respectively. As of December 31, 2023 and 2022, the amount of deposits of related parties was $3,572,000 and $5,345,000, respectively.

(15) Employee Benefit Plans

Pension Benefits

The Company has a noncontributory defined benefit pension plan. The plan is closed to new participants hired after September 30, 2010. The Company's funding policy is to contribute annually an amount sufficient to satisfy the minimum funding requirements of the Employee Retirement Income Security Act, but not greater than the maximum amount that can be deducted for Federal income tax purposes. Contributions are intended to provide not only for benefits attributed to service to date, but also for benefits expected to be earned in the future.

The Company has no minimum required pension contribution for 2024. The Company does not expect to contribute to its pension plan in 2024. Benefits, which reflect estimated future employee service, are expected to be paid as follows (in thousands):

Estimated Future Benefits	
2024	$ 943
2025	985
2026	1,011
2027	1,021
2028	1,042
Years 2029-2033	5,367

The following is a summary of changes in the benefit obligations and plan assets for the pension plan for the December 31, 2023 and 2022 measurement dates, together with a reconciliation of the plan's funded status to the amounts recognized in the consolidated balance sheets (in thousands):

Changes in Benefit Obligations, Plan Assets and Funded Status As of the Measurement Date, December 31,	**2023**	**2022**
Change in benefit obligation:		
Beginning of year	$ 15,112	$ 20,288
Service cost	258	408
Interest cost	797	596
Actuarial loss (gain)	1,157	(5,324)
Benefits paid and expected expenses	(787)	(857)
End of year	16,537	15,111
Changes in fair value of plan assets:		
Beginning of year	20,656	24,426
Actual return on plan assets	3,355	(3,796)
Employer contributions	—	1,000
Benefits paid and actual expenses	(882)	(974)
End of year	23,129	20,656
Funded status at end of year, recognized in other assets on the balance sheet	$ 6,592	$ 5,545
Amounts recognized in accumulated other comprehensive loss consists of:		
Unrecognized actuarial loss	$ (1,451)	$ (2,504)
Net amount recognized	$ (1,451)	$ (2,504)

The projected benefit obligation for the pension plan was $16,537,000 and $15,111,000 at December 31, 2023 and 2022, respectively. The accumulated benefit obligation for the pension plan was $15,515,000 and $14,455,000 at December 31, 2023 and 2022, respectively.

The components of the net periodic benefit cost for the years ended December 31, the plan was as follows (in thousands):

Net Periodic Benefit Cost For the year ended December 31,	**2023**	**2022**
Net periodic benefit cost:		
Service cost	$ 258	$ 408
Interest cost	797	596
Expected return on plan assets	(1,096)	(1,155)
Recognized net actuarial loss	47	36
Total net periodic benefit cost (income)	$ 6	$ (115)

Net Periodic Benefit Cost (continued) For the year ended December 31,	**2023**	**2022**
Net gain	$ (1,006)	$ (255)
Amortization of net loss	(47)	(36)
Total recognized in other comprehensive loss	$ (1,053)	$ (291)
Total recognized in net periodic benefit cost and other comprehensive loss	$ (1,047)	$ (406)

The components of net periodic benefit cost other than the service cost component are included in the line item "Other non-interest expense" in the *Consolidated Statements of Income*.

The company measures its pension obligation using the PRI-2012 total data set employee/retiree sex-distinct morality tables, with contingent survivor tables for current beneficiaries, with full generational projection using scale MP-2021. The decrease in the discount rate from 5.43% to 5.10% increased the Projected Benefit Obligation by approximately $0.6 million. Assumptions used to determine benefit obligations for the pension plan and for the other post-retirement benefits plan as of the December 31 measurement date were as follows:

Benefit Obligation Assumptions	**2023**	**2022**
Discount rate	5.10%	5.43%
Rate of compensation increase	4.00	3.00

As of December 31, 2023, the pension plan discount rate increased to 5.43% compared to 3.00% as of December 31, 2022 due to observations of estimates inherent in market data. Assumptions used to determine net periodic benefit cost were as follows:

Net Periodic Benefit	**2023**	**2022**
Discount rate	5.43%	3.00%
Expected long-term rate of return on plan assets	6.00	5.25
Rate of compensation increase	3.00	3.00

The Company's expected long-term rate of return on plan assets reflects long-term earnings expectations and was determined based on historical returns earned by existing plan assets adjusted to reflect expectations of future returns as applied to the plan's targeted allocation of assets.

The Company's pension plan asset allocation at December 31, by asset category is as follows:

Pension Plan Asset Allocation	**2023**	**2022**
Asset category:		
Equity securities	0%	37%
U.S. Government securities	0	2
Debt securities	0	3
Mutual funds	50	55
Other (cash and Cash equivalents)	50	3

The following table presents pension plan assets measured at fair value on a recurring basis by their level within the fair value hierarchy as of December 31, 2023 and 2022, (in thousands). Financial assets are classified based on the lowest level of input that is significant to their fair value measurement.

Fair Value Hierarchy For Pension Plan Assets	**Total**	**(Level 1) Quoted Prices in Active Markets for Identical Assets**	**(Level 2) Significant Other Observable Inputs**	**(Level 3) Significant Unobservable Inputs**
Asset category as of December 31, 2023				
Cash and cash equivalents	$ 11,557	$ 11,557	$ —	$ —
Mutual funds:				
U.S. companies	1,677	1,677	—	—
International companies	829	829	—	—
U.S. companies – fixed income	2,967	2,967	—	—
International companies – fixed income	5,650	5,650	—	—
International Commodities	206	206	—	—
Real estate	243	243	—	—
	$ 23,129	$ 23,129	$ —	$ —
Asset category as of December 31, 2022				
Cash and cash equivalents	$ 581	$ 581	$ —	$ —
Bonds:				
U.S. government agency	386	—	386	—
U.S. treasury	280	—	280	—
. U.S. corporate	385	—	385	—
Equity securities:				
U.S. companies	6,886	6,886	—	—
International companies	813	813	—	—
Mutual funds:				
U.S. companies	3,071	3,071	—	—
International companies	1,721	1,721	—	—
U.S. companies – fixed income	6,533	6,533	—	—
International companies - fixed income	—	—	—	—
	$ 20,656	$ 19,605	$ 1,051	$ —

In 2023, the Company moved the investment manager and custodian for the Jeff Bank Pension Plan from Citizens to Milliman Advisors,LLC and Matrix Trust Company, respectively. . Matrix has been given direction by the Company to determine the appropriate strategic asset allocation as governed by the Company's Investment Policy Statement and Guidelines which provides specific targeted asset allocations for each investment category as follows:

Asset Allocation Targets	**Allocation**
US Cash	51%
Government/Credit Bonds	24%
US High Yield Bonds	2%
US TIPS (inflation-indexed bonds)	2%
US Long STRIPS	8%
US Cap Equity	7%
Foreign Developed Equity	2%
Emerging Markets Equity	1%
Global REITs	1%
Infrastructure - Public	1%
Commodities	1%

Profit Incentive Program
The Company maintains a profit incentive program for all employees. The accrued benefit at December 31, 2023 and 2022 was $744,000 and $690,000, respectively. The Company recorded an expense of $744,000 and $690,000 relating to this plan during the years ended December 31, 2023 and 2022, respectively.

Tax-Deferred Savings Plan
The Company maintains a qualified 401(k) plan for all full-time employees, which permits tax-deferred employee contributions up to the greater of 75% of salary or the maximum allowed by law and provides for matching contributions by the Company. The Company matches 100% of employee contributions up to 4% of the employee's salary and 25% of the next 2% of the employee's salary. The Company incurred annual expenses of $275,000 and $257,000 in 2023 and 2022, respectively.

Supplemental Executive Retirement Plan
The Company maintains a Supplemental Executive Retirement Plan for certain executive officers primarily to restore benefit reductions in certain employee benefit plans due to Internal Revenue Service regulations. The benefits accrued under this plan totaled $4,183,000 at December 31, 2023 and $3,842,000 at December 31, 2022 and are unfunded. The Company recorded an expense of $404,000 and $375,000 relating to this plan during the years ended December 31, 2023 and 2022, respectively. The components of net periodic benefit cost other than the service cost component are included in the line item "Other non-interest expense" in the *Consolidated Statements of Income*.

Director Retirement Plan
The Company maintains a Director Retirement Plan in order to provide certain retirement benefits to participating directors. Generally, each participating director receives an annual retirement benefit of eighty percent of their average annual cash compensation during the three highest calendar years, as defined in the plan. This annual retirement benefit is payable until death and may not exceed $40,000 per year. The benefits accrued under this plan totaled $790,000 and $771,000 at December 31, 2023 and 2022, respectively, and are unfunded. The Company recorded an expense of $120,000 and $111,000, relating to this plan during the years ended December 31, 2023 and 2022, respectively.

(16) Commitments and Contingent Liabilities

Legal Proceedings
The Company and the Bank are, from time to time, defendants in routine legal proceedings relating to the ordinary conduct of their business. In the best judgment of management, the consolidated financial position and results of operations of the Company will not be affected materially by the outcome of any pending legal proceedings.

Off-Balance-Sheet Financial Instruments
The Company is a party to certain financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These are limited to commitments to extend credit and standby letters of credit which involve, to varying degrees, elements of credit risk in excess of the amounts recognized in the consolidated balance sheets. The contract amounts of these instruments reflect the extent of the Company's involvement in particular classes of financial instruments.

The Company's maximum exposure to credit loss, in the event of nonperformance by the other party to these instruments, would be the contract amount, assuming that they are fully funded at a later date and any collateral proves to be worthless. The Company uses the same credit policies in making commitments as it does for on-balance-sheet extensions of credit.

Contractual amounts of financial instruments that represent agreements to extend credit are as follows at December 31 (in thousands):

Off-Balance Sheet Financial Instruments	**2023**	**2022**
Loan origination commitments and unused lines of credit:		
Commercial and residential mortgages	$ 28,904	$ 40,548
Commercial loans	24,488	25,991
Home equity lines	4,868	5,574
Other consumer lines	2,245	2,338
	60,505	74,451
Standby letters of credit	868	650
	$ 61,373	$ 75,101

These agreements to extend credit have been granted to customers within the Company's lending area described in Note 5 and relate primarily to fixed and variable rate loans. An allowance for expected credit loss (ECL) was established as a part of the implementation of ASU 2016-13. As of December 31, 2023, the balance for ECL was $112,000 which is included with other liabilities on the consolidated balance sheet.

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

The Company evaluates each customer's creditworthiness on a case-by-case basis. Mortgage commitments are secured by liens on real estate. Collateral on extensions of credit for commercial loans vary but may include accounts receivable, equipment, inventory, livestock, and income-producing commercial property.

The Company does not issue any guarantees that would require liability-recognition or disclosure, other than its standby letters of credit. The Company has issued unconditional commitments in the form of standby letters of credit to guarantee payment on behalf of a customer and guarantee the performance of a customer to a third party. Standby letters of credit generally arise in connection with lending relationships. The credit risk involved in issuing these instruments is essentially the same as that involved in extending loans to customers. Contingent obligations under standby letters of credit totaled $868,000 at December 31, 2023 and $650,000 at December 31, 2022 and represent the maximum potential future payments the Company could be required to make. Typically, these instruments have terms of twelve months or less and expire unused; therefore, the total amounts do not necessarily represent future cash requirements. Each customer is evaluated individually for creditworthiness under the same underwriting standards used for commitments to extend credit and on-balance-sheet instruments. Company policies governing loan collateral apply to standby letters of credit at the time of credit extension. Loan-to-value ratios are generally consistent with loan-to-value requirements for other commercial loans secured by similar types of collateral. The fair value of the Company's standby letters of credit at December 31, 2023 and 2022 was not significant.

(17) Fair Values of Financial Instruments

The Company follows ASC Topic 820 *Fair Value Measurements and Disclosures* ("ASC 820"), which provides a framework for measuring and disclosing fair value under generally accepted accounting principles. ASC 820 requires disclosures about the fair value of assets and liabilities recognized in the consolidated balance 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).

ASC 820 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. ASC 820 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 established a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, an asset's or liability's level is based on the lowest level of input that is significant to the fair value measurement.

For assets measured at fair value on a recurring and non-recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2023 and 2022, respectively, are as follows (in thousands):

Fair Value Hierarchy For Assets Valued on a Recurring and Non-recurring Basis	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
December 31, 2023:				
Recurring:				
Available for sale securities				
Government sponsored enterprises (GSE)	$ 26,223	$ —	$ 26,223	$ —
Obligations of states and political subdivisions [(a)]	118,344	—	118,344	—
Mortgage backed securities and collateralized mortgage obligations – GSE residential [(a)]	10,711	—	10,711	—
Corporate debt	65,709	—	65,709	—
Equity securities held at fair value	517	517	—	—
	$ 221,504	$ 517	$ 220,987	$ —
Non-recurring:				
Collateral dependent loans	—	—	—	—
	$ —	$ —	$ —	$ —
December 31, 2022:				
Recurring:				
Available for sale securities				
Government sponsored enterprises (GSE)	$ 25,947	$ —	$ 25,947	$ —
Obligations of states and political subdivisions [(a)]	131,574	—	131,574	—
Mortgage backed securities and collateralized mortgage obligations – GSE residential [(a)]	12,687	—	12,687	—
Corporate debt	73,528	—	73,528	—
Equity securities held at fair value	1,682	1,682	—	—
	$ 245,418	$ 1,682	$ 243,736	$ —
Non-recurring:				
Impaired loans	565	—	—	565
	$ 565	$ —	$ —	$ 565

(a) *Based on its analysis of the nature and risks of these investments, the Company has determined that presenting them as a single class is appropriate.*

ASC Topic 825 *Financial Instruments* ("ASC 825") requires disclosure of fair value information about financial instruments whether or not recognized on the balance sheet, for which it is practicable to estimate fair value. Fair value estimates are made as of a specific point in time based on the characteristics of the financial instruments and the relevant market information. Where available, quoted market prices are used. In other cases, fair values are based on estimates using present value or other valuation techniques. These techniques involve uncertainties and are significantly affected by the assumptions used and the judgments made regarding risk characteristics of various financial instruments, discount rates, prepayments, estimates of future cash flows, future expected loss experience, and other factors. Changes in assumptions could significantly affect these estimates. Derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, may or may not be realized in an immediate sale of the instrument.

Under ASC 825, fair value estimates are based on existing financial instruments without attempting to estimate the value of anticipated future business and the value of the assets and liabilities that are not financial instruments. Accordingly, the aggregate fair value amounts of existing financing instruments do not represent the underlying value of those instruments on the books of the Company.

Securities

The fair value of equity securities are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1). The fair value of securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices. The carrying values for securities maturing within 90 days approximate fair values because there is little interest rate or credit risk associated with these instruments.

Collateral Dependent Loans

Collateral dependent loans, which are predominately commercial and consumer real estate loans, where the customer is experiencing financial difficulty and where it is probable that the Bank will be unable to collect all amounts due per the contractual terms of the loan agreement. These loans are placed on non-accrual unless it is a residential mortgage with a loan to value of 60% or more, The Bank will measure impairment based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, liquidation value or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. Collateral dependent loans are transferred out of the Level 3 fair value hierarchy when payments reduce the outstanding loan balance below the fair value of the loan's collateral or the loan is foreclosed upon. If the financial condition of the borrower improves such that collectability of all contractual amounts due is probable, and payments are current for six months, the loan is transferred out of individually reviewed status. As of December 31, 2023 the fair values of collateral-dependent individually reviewed loans were calculated using an outstanding balance of $4,558,000 net of charge-offs with no specific valuation allowance. At December 31, 2022, the fair values of collateral-dependent impaired loans were calculated using an outstanding balance of $565,000, net of charge-offs with no specific valuation allowance. Impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans.

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis for which the Company has computed fair value based on Level 3 values:

Nonrecurring Assets	**Fair value estimate As of December 31, 2023**	**2022**	**Valuation techniques**	**Unobservable input**	**Range**
Impaired loans	$ —	$ 565	Appraisal of collateral (1)	Appraisal adjustments (2)	0% to -10%
				Liquidation expenses (2)	0% to -8%

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally includes various Level 3 inputs which are not identifiable.

(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and desired turn-over rate. Liquidation expenses are determined on an asset by asset basis and include expenses such as realtor fees, legal fees, transfer tax and other costs.

The following table presents financial assets and financial liabilities that were measured or disclosed at carrying and fair value on a recurring and nonrecurring basis by level within the fair value hierarchy as of December 31, 2023 and 2022.

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Financial Assets and Liabilities (in thousands)	Carrying Value	Fair Value	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
December 31, 2023					
Financial assets:					
Cash and cash equivalents (2)	$ 82,208	$ 82,208	$ 82,208	$ —	$ —
Securities available for sale (1)	220,987	220,987	—	220,987	—
Equity securities held at fair value (3)	517	517	517	—	—
Securities held to maturity	6,703	6,643	—	6,643	—
Loans, net	334,187	308,774	—	—	308,774
Accrued interest receivable (2)	2,965	2,965	2,965	—	—
Restricted investments (2)	506	506	—	506	—
Financial liabilities:					
Savings, money market and checking accounts (2)	484,609	484,609	484,609	—	—
Time deposits and brokered deposits	89,796	94,848	—	94,848	—
FRB borrowing	25,000	24,985	—	—	24,985
Accrued interest payable (2)	450	450	450	—	—
December 31, 2022					
Financial assets:					
Cash and cash equivalents (2)	$ 76,750	$ 76,750	$ 76,750	$ —	$ —
Securities available for sale (1)	243,736	243,736	—	243,736	—
Equity securities held at fair value (3)	1,682	1,682	1,682	—	—
Securities held to maturity	8,196	8,091	—	8,091	—
Loans, net	320,177	295,525	—	—	295,525
Accrued interest receivable (2)	2,985	2,985	2,985	—	—
Restricted investments (2)	483	483	—	483	—
Financial liabilities:					
Savings, money market and checking accounts (2)	555,819	555,819	555,819	—	—
Time deposits	61,113	61,165	—	61,165	—
Accrued interest payable (2)	27	27	27	—	—

(1) The financial instruments are carried at fair value through accumulated other comprehensive income.
(2) The financial instrument is carried at cost which approximated the fair value of the instrument.
(3) The financial instruments are carried at fair value through non-interest income.

Directors

David W. Bodenstein
President
Mike Preis, Inc.

Philip Coombe, III
Owner
Coombe Financial Services, Inc.
Partner
Coombe Bender & Company, LLC.

Karen Fisher
President & Co-Owner
Fisher Mears Associates

George W. Kinne, Jr.
President
Chief Executive Officer
Jeffersonville Bancorp

Kenneth C. Klein, Esquire
Kenneth C. Klein, Esq.

Andrew J. Pavloff, CPA, CGMA
Partner
Waschitz Pavloff, CPA, LLP

Elizabeth B. Rowley, CFRE
President
Chief Executive Officer
Community Foundation of Orange
& Sullivan

Frederick W. Stabbert, III
President
Catskill Delaware Publications
Publisher
Sullivan County Democrat

Edward T. Sykes
President
Callicoon Co-op Insurance

Officers

George W. Kinne, Jr.
President
Chief Executive Officer

John A. Russell
Executive Vice President
Chief Financial Officer

Tatiana C. Hahn
Executive Vice President
Chief Lending Officer

Rhonda L. Decker
Senior Vice President
Retail Banking Administrator
Security Officer

Jill Atkins
Assistant Vice President
Assistant Controller

Amber Benson
Vice President
Compliance Officer /
Audit Coordinator

Jillian Bertot
Assistant Vice President
Branch Manager
Eldred

Margaret Blaut
Vice President
Regional Branch Manager

Michelle Brockner
Assistant Vice President
Training Officer

Linda Browne
Quality Control Officer

Kelsey Conklin
Assistant Vice President
Assistant Loan Servicing Manager

Ursula Curry
Assistant Vice President
Assistant Deposit Operations
Manager

Bertha Donohue
Vice President
Branch Manager
Liberty

Stephanie Drongoski
Branch Manager
White Lake

Linda Fisk
Vice President
Regional Branch Manager
Livingston Manor

Bryan Flynn
Vice President
Commercial Loan Officer

Jill Goodall
Assistant Vice President
Commercial Loan Administrator

Marisa Heisler
Vice President
Information Technology Director

Florence Horecky
Vice President
Operations Officer

Dawn Kaplan
Assistant Branch Manager
Monticello

Melanie Karkos
Assistant Vice President
Deposit Operations Manager

Patricia Korth
Branch Manager
Port Jervis

Diane McGrath
Vice President
Loan Servicing Manager

Tanja McKerrell
Senior Vice President
Senior Loan Officer

Sherry McNutt
Float Assistant Manager /
Retail Trainer

Deborah Muzuruk
Assistant Vice President
Executive Assistant
Facility Manager

Mark Nelson
Assistant Vice President
Senior Network Engineer

Edwin Neumann
Assistant Vice President
Senior Credit Analyst
Portflio Manager

Amber Novikov
Assistant Vice President
Branch Manager / Sales Coordinator
Jeffersonville

Abigail Opper
Vice President
Controller

Valerie Panich
Vice President
Loan Origination Manager

Lale Perez
Branch Manager
Anawana Lake

LeighAnne Pfriender
Vice President
Commercial Processing Manager

Barbara Pietrucha
Assistant Vice President
Senior Human Resources Generalist

Jaclene Poley
Marketing Coordinator

Cassandra Rhodes
Assistant Branch Manager
Jeffersonville

Sandra Ross
Branch Manager
Callicoon

Brandy Smith
Assistant Vice President
Assistant Loan Origination Manager

Lisa Stewart
Assistant Branch Manager
Liberty

Melinda Stratton
Assistant Vice President
Branch Manager
Monticello

Heinrich Strauch
Vice President
Commercial Loan Officer

Leanne Stuhlmiller
Vice President
BSA Officer / Information Security
Officer

Matthew Sush
Business Relationship Officer

Claire Taggart
Senior Vice President
Human Resources Director

Alicia Tuleweit
Assistant Branch Manager
Livingston Manor

Kimberly White
Branch Manager
Wurtsboro

Staff

Donna Abplanalp
Meagan Avellino
Tim Bernhardt
Guy Bostian
Kayla Brockner
Paul Brockner
Yolanda Bruno
Andrew Carmona
Casey Cooney
Dina Conklin
Amanda Craft
Anthony Curcio
Coriann Decker
Rebeckah Decker
Gina DeRobertis
Ariana Fassetta
Julian Gaytan
Jessica Glassel
Gabriella Goldsmith
Noah Henwood
Rachel Hofaker
Audra Hubert
Khafifa Javed
Triston Jaycox
Jenna Keesler
Jessica Kenyon
Noma Lacey
Jessica Leonard
Andrea Licona Palma
Robert Lohr
Lisa Malaspina
Jennifer Mapes
Keturah Mayers
Alexis McCarthy
Kassidy McCauley
Cathy Mickelson
Shania Morales
Elena Morris
Shannon Nieke
Jessica O’Brien
Bruce Pecsi, Jr.
Stefani Radcliff
Sherri Rhyne
Alberta Riker
Ezekiel Romero
Jenna Rowlette
John Rudy
Patrick Schadt
Michaela Schaefer
Therese Schanil
Nikki Schreiner
Sarah Senol
Denise Smestad
Terri Specht
Kristan Spurling
Luke Starkweather
Tanner Stephens
Audrey Subeh
Diana Sunnekalb
Jackie Thomaz
Mckenzie Townsend
Natalie Turner
Shannon Umbaugh
Linda Vetere
Rebecca Wegman
Angelina Yearwood
Jenna Yearwood
Mirjana Yearwood
Monika Zalewska

Shareholder Information

The Company’s common stock is traded on the OTC Markets Group OTCQB Marketplace under the symbol JFBC. The following companies are known to make a market in our stock: Stifel, Nicolaus & Company, Incorporated, Monroe Financial Partners, Inc., Canaccord Genuity, Inc., Citadel Securities. The following table shows the range of high and low sales for the Company’s stock and cash dividends paid for the quarters indicated.

For the Quarter End:	Sales Low	Sales High	Cash Dividends Paid
December 31, 2023	$16.13	$18.70	$ 0.15
September 30, 2023	$17.11	$20.31	$ 0.15
June 30, 2023	$15.00	$20.00	$ 0.15
March 31, 2023	$16.00	$20.00	$ 0.25
December 31, 2022	$19.00	$21.07	$ 0.15
September 30, 2022	$19.90	$23.45	$ 0.15
June 30, 2022	$21.10	$24.25	$ 0.15
March 31, 2022	$21.08	$24.50	$ 0.15

Trust ***Integrity*** ***Respect***

Jeff Bank Offices

Callicoon Office
4499 State Route 17B, Callicoon, NY 12723 **(845) 887-4866**

Eldred Office
561 State Route 55, Eldred, NY 12732 **(845) 557-8513**

Jeffersonville Office
4864 State Route 52, Jeffersonville, NY 12748 **(845) 482-4000**

Liberty Office
19 Church Street, Liberty, NY 12754 **(845) 292-6300**

Livingston Manor Office
33 Main Street, Livingston Manor, NY 12758 **(845) 439-8123**

Monticello - Anawana Lake Road
18 Anawana Lake Road, Monticello, NY 12701 **(845) 794-3988**

Monticello - Forestburgh Road
19 Forestbugh Road, Monticello, NY 12701 **(845) 791-4000**

Port Jervis Office
20-22 Fowler Street, Port Jervis, NY 12771 **(845) 858-5333**

White Lake Office
1460 State Route 17B, White Lake, NY 12786 **(845) 583-4074**

Wurtsboro Office
230 State Route 209, Wurtsboro, NY 12790 **(845) 888-5890**

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