

*Established  
1910*



**HSB Bancorp, Inc.  
& Subsidiary**

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**2022**  
*Annual Report*

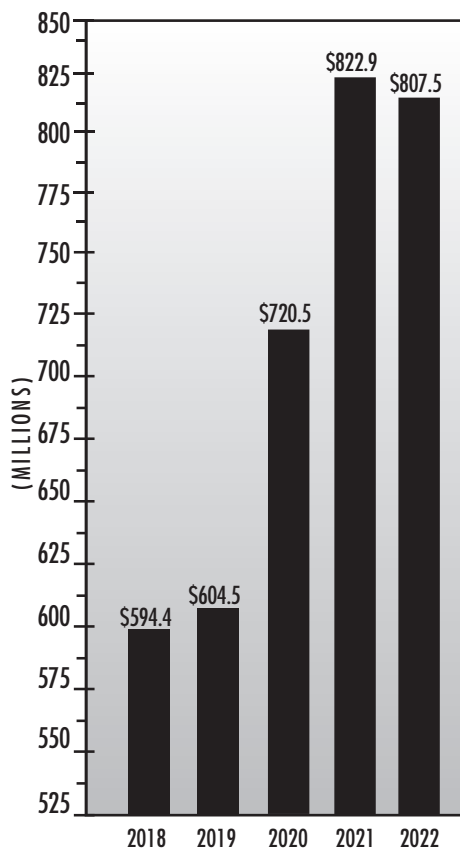
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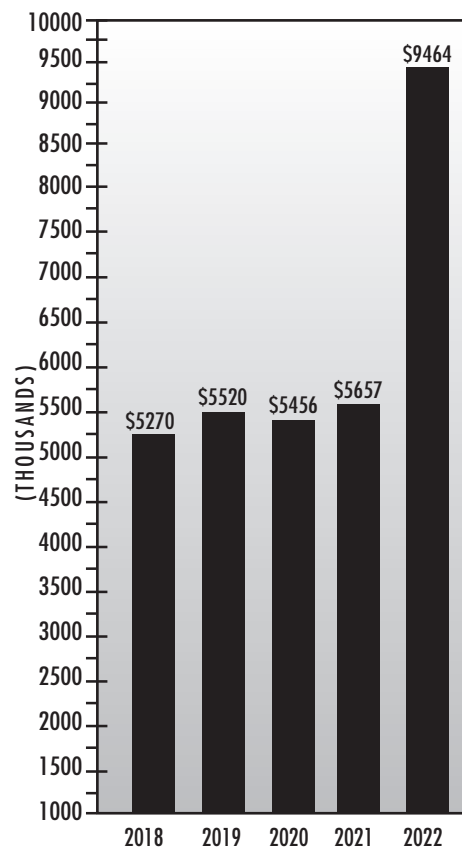


# HSB BANCORP, INC. & SUBSIDIARY FIVE YEAR FINANCIAL HIGHLIGHTS

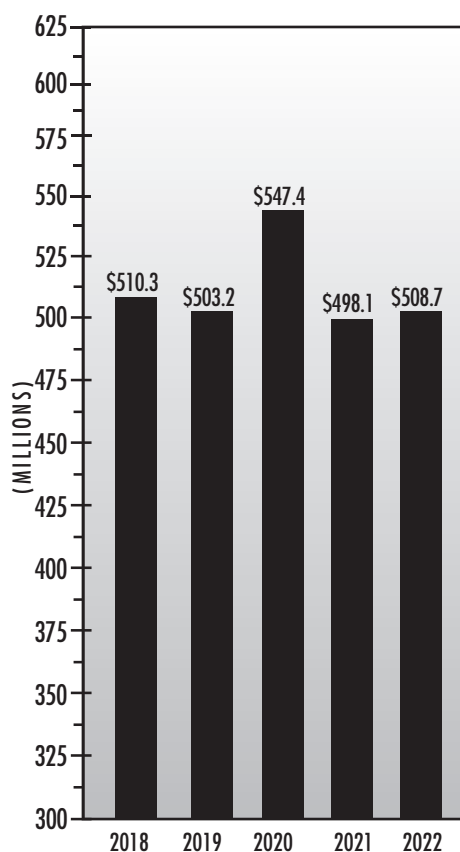
## TOTAL ASSETS



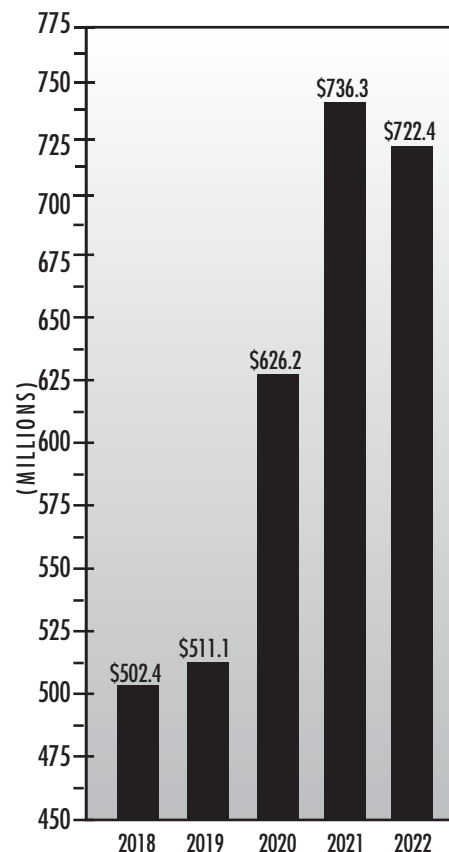
## NET INCOME



## TOTAL LOANS



## TOTAL DEPOSITS





## TO OUR STOCKHOLDERS:

2022 proved to be a banner year for HSB Bancorp, Inc. and its wholly-owned subsidiary, Hebron Savings Bank, as it marked the most profitable year, by far, in our 112-year history. Consolidated net income reached \$9.5 million, surpassing last year's historic record of \$5.7 million by \$3.8 million, a 67% increase! Several factors contributed to these extraordinary results. Loan growth, increased investments in securities, lower-cost deposits, and careful expense monitoring were all significant internal factors. We also benefited greatly from the Federal Reserve's interest rate hikes throughout the year, effectively increasing the prime rate from 3.25% to 7.5% at the end of the year. Through thoughtful and strategic management of the balance sheet, we were well-positioned for the long-anticipated rising rates.

At December 31, 2022, total assets were \$807.5 million, down slightly from last year's \$822.9 million, due to a similar decrease in deposits. There was an unprecedented surge in deposits in 2020 and 2021 due to the cash infusion by the Small Business Administration ("SBA") through the Paycheck Protection Program ("PPP"). Since the beginning of the pandemic in March 2020, our total customer deposits have increased just over \$200 million, from \$521 million to \$722 million, a phenomenal 39% increase. Likewise, our total assets increased \$193 million, or 32%, over that period.

Consequently, loan demand continued to be modest and particularly competitive in 2022. Our total loan balances increased \$10 million, with ordinary loans increasing \$21.4 million and PPP loans decreasing \$11.4 million. As a reminder, we were a strong participant in the PPP loan program, putting almost \$70 million into the hands of 567 small business owners in our area in 2020 and 2021. All of these loans have been forgiven and paid off by the SBA as of December 31, 2022.

To optimize our return on the excess deposits, during a period of low loan demand, we increased our investments in "grade A or better" debt securities by \$72.3 million. Interest income from investments and deposits in other banks increased \$4.3 million from 2021 to 2022. The mix of our customer deposits also shifted favorably with higher-cost time deposits decreasing \$34 million and core checking and savings accounts increasing \$20 million. The result was a decrease in interest expense of \$1.5 million from 2021 to 2022. Out of the 14 community banks on the Delmarva Peninsula, we remain the third largest in number of branches and hold the highest amount of customer deposits of any bank, large or small, in our three-county branch area of Wicomico, Dorchester, and Somerset Counties. We are also excited to announce that we are in the process of expanding into Worcester County, adding two additional branches within the next two years, increasing our network from 13 to 15 branches!

As a result of the decrease in assets and increase in net income, our Tier 1 Capital Ratio increased year over year from 8.3% to 9.0%. Although it is well above the regulatory definition of a "well-capitalized" bank (5%), it remains a strategic priority to further increase this ratio, to enhance the company's overall financial strength. With controlled asset growth and projected strong earnings, we anticipate reaching our target level of 10% by the end of 2023.

With the increase in profit, stockholder dividends also increased, from \$.85 per share in 2021 to \$1.00 per share in 2022. The total cash payout to our stockholders in 2022, \$1.6 million, was the highest in our company's history. The book value of the stock was approximately \$40 per share for both years, and the earnings per share were \$5.85 and \$3.50, respectively, for 2022 and 2021.

Lastly, I am pleased to announce to you, to better position us for our upcoming growth, a new executive officer was added to our senior management team on January 3<sup>rd</sup>. Jennifer ("Jenn") Poulsen will share the top responsibilities of the Bank with me, and, for that reason, we are splitting the offices of Chief Executive Officer and President. I will continue to serve as the Chief Executive Officer, and Jenn will serve as President. We will work together as partners as we continue to expand our products and branch network, committed to remaining a thriving independent community bank on the Delmarva Peninsula.

You can be proud to be a stockholder of HSB Bancorp, Inc. Rest assured that your investment is a solid one with a strong book value and generous dividends. On behalf of the directors, officers, and employees, we thank you for your relationships as both stockholders and customers, and we look forward to serving you for many more years to come!

Sincerely,

A handwritten signature in dark ink that reads "Donna K. Defino". The signature is written in a cursive, flowing style.

Donna K. Defino, CPA, MBA  
Chief Executive Officer

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## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
HSB Bancorp, Inc. & Subsidiary  
Hebron, Maryland

### **Opinion**

We have audited the accompanying consolidated financial statements of HSB Bancorp, Inc. and subsidiary, which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of HSB Bancorp, Inc. and subsidiary as of December 31, 2022 and 2021, and the results of their operations and their 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of HSB Bancorp, Inc. and subsidiary and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Consolidated Financial Statements**

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

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

## **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

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

The image shows the handwritten signature of UHY LLP in black ink. The letters are stylized and cursive, with 'UHY' being larger and more prominent than 'LLP'.

Salisbury, Maryland  
February 3, 2023

**HSB BANCORP, INC. & SUBSIDIARY**  
**CONSOLIDATED BALANCE SHEETS**  
**December 31, 2022 and 2021**

	2022	2021
<b>ASSETS</b>		
Cash and cash equivalents		
Cash and due from banks	\$ 11,177,228	\$ 9,749,783
Interest-bearing deposits in other banks	112,330,979	214,635,254
Total cash and cash equivalents	123,508,207	224,385,037
Debt securities available-for-sale, at fair value	136,292,691	64,045,400
Equity securities, at fair value	3,949,229	4,466,187
Loans, less allowance for credit losses		
2022 \$8,600,000; 2021 \$9,300,000	508,710,799	498,051,593
Accrued interest receivable on investment securities and loans	1,950,195	1,609,613
Bank premises and equipment, at cost,		
less accumulated depreciation	10,643,676	11,472,196
Federal Home Loan Bank stock, at cost	1,019,300	968,100
Common stock in the HSB Statutory Trust I	93,000	93,000
Operating lease right-of-use assets	911,949	-
Net deferred income tax benefits	5,556,248	2,926,134
Other real estate owned	174,975	234,975
Cash value of life insurance	13,604,142	13,280,277
Other assets	1,075,690	1,380,110
<b>Total assets</b>	<b>\$ 807,490,101</b>	<b>\$ 822,912,622</b>
<b>LIABILITIES</b>		
Deposits:		
Non-interest bearing demand	\$ 270,772,868	\$ 267,209,512
NOW and Super NOW	48,566,717	48,463,890
Money market	74,036,390	60,216,247
Savings	149,903,540	147,321,476
Time, more than \$250,000	28,424,182	38,075,221
Other time	150,665,151	175,061,421
	722,368,848	736,347,767
Accrued interest payable on deposits and borrowings	263,169	430,872
Short-term borrowings	34,833	-
Long-term borrowings	13,560,596	16,207,043
Junior subordinated debentures owed to unconsolidated subsidiary trust	3,093,000	3,093,000
Operating lease liabilities	921,662	-
Other liabilities	2,558,688	1,990,991
<b>Total liabilities</b>	<b>742,800,796</b>	<b>758,069,673</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, par value \$.01, authorized 10,000,000 shares, issued and outstanding 2022 1,617,069 shares and 2021 1,617,069 shares	16,171	16,171
Surplus	6,201,001	6,201,001
Retained earnings	66,619,209	58,772,644
Accumulated other comprehensive loss, net of deferred tax benefit 2022 \$3,092,984; 2021 \$55,757	(8,147,076)	(146,867)
<b>Total stockholders' equity</b>	<b>64,689,305</b>	<b>64,842,949</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 807,490,101</b>	<b>\$ 822,912,622</b>

*The Notes to Consolidated Financial Statements are an integral part of these statements.*

**HSB BANCORP, INC. & SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**Years Ended December 31, 2022 and 2021**

	2022	2021
<b>INTEREST INCOME ON</b>		
Loans, including fees	\$ 25,026,291	\$ 24,769,518
Investment securities:		
Taxable	2,261,057	533,170
Exempt from Federal income tax	197,689	133,048
Deposits in other banks	2,752,675	236,780
	<b>30,237,712</b>	<b>25,672,516</b>
<b>INTEREST EXPENSE ON</b>		
Deposits	2,966,319	4,093,553
Borrowings	321,959	715,291
Junior subordinated debentures	112,196	62,971
	<b>3,400,474</b>	<b>4,871,815</b>
<b>NET INTEREST INCOME</b>	<b>26,837,238</b>	<b>20,800,701</b>
Provision for credit losses	116,671	126,281
<b>NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES</b>	<b>26,720,567</b>	<b>20,674,420</b>
<b>NON-INTEREST INCOME</b>		
Service charges on deposit accounts	1,198,335	978,295
Visa debit income	1,166,159	1,123,289
Earnings of investment in life insurance	323,865	305,838
Gains (losses) on disposal of other assets, net	35,912	(2,596)
Unrealized losses on equity securities	(516,958)	(125,767)
Other	99,771	97,468
	<b>2,307,084</b>	<b>2,376,527</b>
<b>NON-INTEREST EXPENSES</b>		
Salaries and benefits	9,853,237	9,517,542
Occupancy	2,365,902	2,353,153
Losses on other real estate owned, net	698	20,807
Other expenses	4,090,229	3,654,396
	<b>16,310,066</b>	<b>15,545,898</b>
<b>INCOME BEFORE TAXES ON INCOME</b>	<b>12,717,585</b>	<b>7,505,049</b>
Federal and State income taxes	3,253,951	1,848,021
<b>NET INCOME</b>	<b>\$ 9,463,634</b>	<b>\$ 5,657,028</b>

*The Notes to Consolidated Financial Statements are an integral part of these statements.*



**HSB BANCORP, INC. & SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**Years Ended December 31, 2022 and 2021**

	2022	2021
<b>NET INCOME</b>	<b>\$ 9,463,634</b>	<b>\$ 5,657,028</b>
<b>Other comprehensive loss, net of tax:</b>		
Unrealized holding loss on debt securities available-for-sale arising during the period	(11,037,435)	(938,287)
Deferred income tax benefits	3,037,226	258,193
Other comprehensive loss, net of tax	(8,000,209)	(680,094)
<b>Total other comprehensive loss</b>	<b>(8,000,209)</b>	<b>(680,094)</b>
<b>Comprehensive income</b>	<b>\$ 1,463,425</b>	<b>\$ 4,976,934</b>

*The Notes to Consolidated Financial Statements are an integral part of these statements.*

**HSB BANCORP, INC. & SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**Years Ended December 31, 2022 and 2021**

	Common Stock	Series A Preferred Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balances, January 1, 2021	\$ 15,467	\$ 704	\$ 6,201,001	\$ 54,490,125	\$ 533,227	\$ 61,240,524
Net income	-	-	-	5,657,028	-	5,657,028
Other comprehensive loss, net of tax	-	-	-	-	(680,094)	(680,094)
Shares converted, 70,439 shares at \$.01 per share	704	(704)	-	-	-	-
Cash dividends paid, \$.85 per share	-	-	-	(1,374,509)	-	(1,374,509)
Balances, December 31, 2021	16,171	-	6,201,001	58,772,644	(146,867)	64,842,949
<b>Net income</b>	-	-	-	<b>9,463,634</b>	-	<b>9,463,634</b>
<b>Other comprehensive loss, net of tax</b>	-	-	-	-	<b>(8,000,209)</b>	<b>(8,000,209)</b>
<b>Cash dividends paid, \$1.00 per share</b>	-	-	-	<b>(1,617,069)</b>	-	<b>(1,617,069)</b>
<b>Balances, December 31, 2022</b>	<b>\$ 16,171</b>	<b>\$ -</b>	<b>\$ 6,201,001</b>	<b>\$ 66,619,209</b>	<b>\$ (8,147,076)</b>	<b>\$ 64,689,305</b>

*The Notes to Consolidated Financial Statements are an integral part of these statements.*

## HSB BANCORP, INC. & SUBSIDIARY

### CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2022 and 2021

	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 9,463,634	\$ 5,657,028
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses, net	116,671	126,281
Depreciation	636,775	686,274
Amortization and accretion	(223,368)	132,150
Income on investment in life insurance	(323,865)	(305,838)
Losses on other real estate owned	698	20,807
(Gains) losses on sale of other assets	(35,912)	2,596
Deferred income taxes	407,113	215,298
Fair value adjustment on equity securities	516,958	125,767
Non-cash lease expense	9,713	-
Changes in assets and liabilities:		
(Increase) decrease in accrued interest receivable	(340,582)	679,107
Decrease in deferred loan origination fees, net	(685,645)	(73,878)
(Decrease) increase in other assets	304,420	(423,149)
Decrease in accrued interest payable	(167,703)	(101,572)
Increase in other liabilities	567,697	41,446
<b>Net cash provided by operating activities</b>	<b>10,246,604</b>	<b>6,782,317</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase available-for-sale investment securities	(92,667,535)	(51,204,284)
Purchase of equity securities	-	(500,000)
Proceeds from maturities and paydowns of available-for-sale investment securities	9,606,176	6,868,474
Proceeds from sale of stock in Federal Home Loan Bank	(51,200)	745,000
(Increase) decrease in loans, net	(10,090,232)	49,077,478
Proceeds from sale of other real estate owned	59,302	594,261
Proceeds from sale of other assets	856,802	-
Purchase premises and equipment	(629,145)	(340,459)
<b>Net cash (used) provided by investing activities</b>	<b>(92,915,832)</b>	<b>5,240,470</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in demand, NOW, SUPER NOW, money market, and savings deposits, net	20,068,390	118,840,640
Decrease in time deposits, net	(34,047,309)	(8,677,679)
Repayment of borrowings	(2,611,614)	(11,296,351)
Cash dividends paid	(1,617,069)	(1,374,509)
<b>Net cash (used) provided by financing activities</b>	<b>(18,207,602)</b>	<b>97,492,101</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(100,876,830)</b>	<b>109,514,888</b>
<b>Cash and cash equivalents, beginning</b>	<b>224,385,037</b>	<b>114,870,149</b>
<b>Cash and cash equivalents, ending</b>	<b>\$ 123,508,207</b>	<b>\$ 224,385,037</b>

*The Notes to Consolidated Financial Statements are an integral part of these statements.*

## HSB BANCORP, INC. & SUBSIDIARY

### CONSOLIDATED STATEMENTS OF CASH FLOWS Years Ended December 31, 2022 and 2021

	2022	2021
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest paid	\$ 3,568,177	\$ 4,973,387
Income taxes paid	2,693,421	1,986,217
Right-of-use assets and corresponding lease liabilities	987,580	-
Unrealized depreciation on debt securities available-for-sale	(11,037,435)	(938,287)
SUPPLEMENTARY NON-CASH INVESTING ACTIVITIES		
Loans converted to other real estate owned	\$ -	\$ 174,975

*The Notes to Consolidated Financial Statements are an integral part of these statements.*

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 1. The Company and Its Significant Accounting Policies

Hebron Savings Bank provides financial services to individuals and corporate customers, and is subject to competition from other financial institutions. The Bank is also subject to the regulations of certain Federal and State agencies and undergoes periodic examinations by those regulatory authorities. The accounting policies of the Bank conform, in all material respects, to U.S. generally accepted accounting principles and general practices within the banking industry.

Significant accounting policies not disclosed elsewhere in the consolidated financial statements are as follows:

#### Principles of Consolidation

The consolidated financial statements include the accounts of HSB Bancorp, Inc., (the “Company”) and its wholly owned subsidiary, Hebron Savings Bank (the “Bank”). All significant intercompany accounts and transactions have been eliminated. The Parent Only financial information of the Company (see Note 18) accounts for the Bank using the equity method of accounting.

The Bank determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity under accounting principles generally accepted in the United States. Voting interest entities are entities in which the total equity investment at risk is sufficient to enable the entity to finance itself independently and provides the equity holders with the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity’s activities. The Company consolidates voting interest entities in which it has all, or at least a majority of, the voting interest. As defined in applicable accounting standards, variable interest entities (VIEs) are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in an entity is present when an enterprise has a variable interest, or a combination of variable interest, that will absorb a majority of the entity’s expected losses, receive a majority of the entity’s expected residual returns, or both. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE. The Company’s wholly owned subsidiary, HSB Statutory Trust I is a VIE for which the Company is not the primary beneficiary. Accordingly, the accounts of this entity are not included in the Company’s consolidated financial statements.

#### Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Certain of the critical accounting estimates are more dependent on such judgment and in some cases may contribute to volatility in the Company’s reported financial performance should the assumptions and estimates used change over time due to changes in circumstances. Actual results could differ from those estimates. The more significant areas in which management of the Company applies critical assumptions and estimates that are most susceptible to change in the short term include the calculation of the allowance for loan losses, the valuation of impaired loans, and the unrealized gain or loss on investment securities available for sale.

#### Securities Held-to-Maturity

Bonds, notes, and debentures for which the Bank has the positive intent and ability to hold to maturity are reported at cost, adjusted for premiums and discounts that are recognized in interest income using methods approximating the interest method over the periods to maturity. Securities transferred into held-to-maturity from the available-for-sale portfolio are recorded at fair value at time of transfer with unrealized gains or losses reflected in equity and amortized over the remaining life of the security.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 1. The Company and Its Significant Accounting Policies (Continued)

#### Securities Available-for-Sale

Securities designated as available-for-sale are stated at estimated fair value as determined by quoted market prices. They represent those securities, which management may decide to sell as part of the Bank's asset/liability strategy, or that may be sold in response to changing interest rates or liquidity needs. Changes in unrealized appreciation (depreciation) on securities available-for-sale are reported in other comprehensive income. Realized gains (losses) on securities available-for-sale are included in other income (expense) and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income. The gains and losses on securities sold are determined by the specific identification method. Premiums and discounts are recognized in interest income using the interest method over the period to maturity. Additionally, declines in the fair value of the individual investment securities below their cost that are other than temporary are reflected as realized losses in the consolidated statements of income.

#### Equity Securities

Equity securities with readily determinable fair values are carried at fair value, with changes in fair value reported in net income. Any equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments. The entirety of any impairment on equity securities is recognized in earnings.

#### Other Securities

Federal Home Loan Bank ("FHLB") stock is an equity interest in the FHLB, which does not have a readily determinable fair value because its ownership is restricted and it lacks a market. FHLB stock can be sold back only at its par value of \$100 per share and only to the FHLB or another member institution. FHLB stock is carried at cost and is periodically evaluated based on ultimate recovery of par.

#### Allowance for Credit Losses

Loans are generally carried at the amount of unpaid principal, adjusted for unearned loan fees, which are amortized over the term of the loan using the effective interest rate method. Interest on loans is accrued based on the principal amounts outstanding. It is the Bank's policy to discontinue the accrual of interest when a loan is specifically determined to be impaired or when principal or interest is delinquent for ninety days or more. When a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Interest income generally is not recognized on specific impaired loans unless the likelihood of further loss is remote. Cash collections on such loans are applied as reductions of the loan principal balance and no interest income is recognized on those loans until the principal balance has been collected. Interest income on other nonaccrual loans is recognized only to the extent of interest payments received. The carrying value of impaired loans is based on the present value of the loan's expected future cash flows or, alternatively, the observable market price of the loan or the fair value of the collateral.

The allowance for loan losses is maintained at a level believed adequate by management to absorb probable losses inherent in the loan portfolio and is based on the size and current risk characteristics of the loan portfolio, an assessment of individual problem loans and actual loss experience, the value of the underlying collateral, and current economic events in specific industries and geographical areas, including unemployment levels, and other pertinent factors, including regulatory guidance and general economic conditions.

Determination of the allowance is inherently subjective, as it requires significant estimates, including the amounts and timing on historical loss experience, and consideration of current economic trends, all of which may be susceptible to significant change. Loan losses are charged off against the allowance, while recoveries of amounts previously charged off are credited to the allowance. A provision for credit losses is charged to operations based on management's periodic evaluation of the factors previously mentioned, as well as other pertinent factors. Evaluations are conducted at least monthly and more often if deemed necessary.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 1. The Company and Its Significant Accounting Policies (Continued)

#### Allowance for Credit Losses (Continued)

The allowance for credit losses typically consists of an allocated component and an unallocated component. The allocated component of the allowance for credit losses reflects expected losses resulting from analyses developed through specific credit allocations for individual loans and historical loss experience for each loan category. The specific credit allocations are based on analyses of all significantly-impaired loans. The historical loan loss element is determined on a pooled basis by segmenting the portfolio by call report codes and then applying historical loss rate percentages, determined by annualizing the Bank's net charge-offs over the previous 12-quarter rolling period. These loss rate percentages are adjusted for eight qualitative factors. The analysis is performed quarterly and loss factors are updated regularly based on actual experience.

Any unallocated portion of the allowance reflects management's estimate of probable inherent but undetected losses within the portfolio due to uncertainties in economic conditions, delays in obtaining information, including unfavorable information about a borrower's financial condition, the difficulty in identifying triggering events that correlate perfectly to subsequent loss rates, and risk factors that have not yet manifested themselves in loss allocation factors. In addition, the unallocated allowance includes a component that explicitly accounts for the inherent imprecision in loan loss migration models. The historical losses used in the migration analysis may not be representative of actual unrealized losses inherent in the portfolio. It is management's intent to continually refine the methodology for the allowance for credit losses in an attempt to directly allocate potential losses in the loan portfolio and minimize the unallocated portion of the allowance for credit losses.

#### Other Real Estate Owned (OREO)

OREO comprises properties acquired in partial or total satisfaction of problem loans. The properties are recorded at the lower of cost or fair value (appraised value) at the date acquired. Losses arising at the time of acquisition of such properties are charged against the allowance for credit losses. Subsequent write-downs and losses realized from the sale of OREO totaled \$698 and \$20,807 for 2022 and 2021, respectively, and are included in other expenses. Expenses of operation are also included in other expenses as detailed in Note 11. Property acquired through foreclosure proceedings totaled \$0 and \$174,975 at December 31, 2022 and 2021, respectively. The Bank financed sales of OREO totaling \$0 and \$114,439 at December 31, 2022 and 2021, respectively. At December 31, 2022 and 2021, loans secured by residential real estate properties in process of foreclosure totaled approximately \$554,000 and \$599,000, respectively.

#### Reserve for Unfunded Commitments

The reserve for unfunded commitments is established through a provision for unfunded commitments charged to other expenses. The reserve is calculated by utilizing the same methodology and factors as the allowance for credit losses. The reserve, based on evaluations of the collectability of loans and prior loan loss experience, is an amount that management believes will be adequate to absorb possible losses on unfunded commitments (off-balance sheet financial instruments) that may become uncollectible in the future.

#### Long-Lived Assets

The carrying value of long-lived assets and certain identifiable intangibles, including goodwill, is reviewed by the Bank for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, as prescribed in ASC Topic 360 Property, Plant and Equipment. As of December 31, 2022, certain loans existed in which management considered impaired (See Note 4).

#### Premises, Equipment, and Depreciation

Land is carried at cost. Other premises and equipment are carried at cost net of accumulated depreciation. Depreciation is computed using the straight-line and accelerated methods over the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 1. The Company and Its Significant Accounting Policies (Continued)

#### Income Taxes

The provision for federal and state income taxes is based upon the results of operations, adjusted for tax exempt income. Deferred income taxes are provided for the temporary differences between carrying amounts and tax basis of assets and liabilities and are measured at the enacted tax rates that will be in effect when the differences reverse.

Temporary differences, which give rise to deferred tax benefits, relate principally to the allowance for credit losses, deferred subcontractor costs, OREO property, accrued vacation and net unrealized depreciation on securities available-for-sale. Temporary differences, which give rise to deferred tax liabilities, relate principally to accumulated depreciation, unearned income on loans and net unrealized appreciation on securities available-for-sale.

The benefit of an uncertain tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination by the applicable taxing authority, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. Interest and penalties associated with unrecognized tax benefits are recognized as a component of income tax expense.

#### Revenue Recognition

Revenue from contracts with customers are presented under ASU No. 2014-09 “Revenue from Contracts with Customers” (Topic 606) and all subsequent ASUs that modified Topic 606. Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. Topic 606 is applicable to noninterest revenue streams such as deposit related fees, interchange fees and merchant income. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Substantially all of the Company’s revenue is generated from contracts with customers. Noninterest revenue streams in-scope of Topic 606 are discussed below.

**Service Charges on Deposit Accounts.** Service charges on deposit accounts consist of monthly service fees, check orders, and other deposit account related fees. The Company’s performance obligation for monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transactional based, and therefore, the Company’s performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or at the end of the month through a direct charge to customers’ accounts.

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



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 1. The Company and Its Significant Accounting Policies (Continued)

#### Credit Risk

The Bank has deposits in other financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2022 and 2021, the balances carried in excess of the limit, including unsecured federal funds sold, were **\$22,238,683** and \$15,634,614, respectively.

#### Cash and Cash Equivalents

The Bank has included cash and due from banks, Federal funds sold, and interest-bearing deposits in other banks with maturities less than three months as cash and cash equivalents for the purposes of reporting cash flows.

Regulatory reserve requirements stipulate that the Bank maintain cash on hand or on deposit with the Federal Reserve Bank. Effective March 26, 2020, the Federal Reserve Bank reduced reserve requirement ratios to zero percent which reduces the Bank's reserve requirement to zero. The Bank had **\$91,562,725** and \$200,056,996 of cash on hand and on deposit with the Federal Reserve Bank as of December 31, 2022 and 2021, respectively. The amounts on deposit at the Federal Reserve Bank earn interest.

The Bank is required to maintain a non-interest bearing cash reserve at one of its correspondent banks against its corporate credit card account. Such reserve amounted to **\$100,000** during the years ended December 31, 2022 and 2021.

#### Dividend Restriction

Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the Company or by the Company to shareholders.

#### Other Comprehensive Income (Loss)

The Bank records unrealized gains and losses on available for sale securities in accumulated other comprehensive income, net of taxes. Unrealized gains and losses on available for sale securities are reclassified into earnings as the gains or losses are realized upon sale of the securities. The credit component of unrealized losses on available for sale securities that are determined to be other-than-temporarily impaired are reclassified into earnings at the time the determination is made.

#### Advertising Costs

The Bank expenses advertising costs for the period in which they are incurred. The Bank incurred advertising costs totaling **\$120,473** and \$84,397, for the years 2022 and 2021, respectively.

#### Financial Statement Presentation

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 2. Debt and Equity Securities

Securities available-for-sale are as follows:

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>U.S. Treasury and obligations of U.S. government agencies</b>	\$ 42,564,290	\$ 136,199	\$ 3,609,683	\$ 39,090,806
<b>Obligations of States and political subdivisions</b>	13,642,570	294	759,873	12,882,991
<b>Mortgage-backed securities and CMOs</b>	91,325,890	181,419	7,188,415	84,318,894
	<b>\$ 147,532,750</b>	<b>\$ 317,912</b>	<b>\$ 11,557,971</b>	<b>\$ 136,292,691</b>

	December 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of U.S. government agencies	\$ 17,462,173	\$ 4,301	\$ 158,260	\$ 17,308,214
Obligations of States and political subdivisions	8,867,468	236,907	14,625	9,089,750
Mortgage-backed securities and CMOs	37,918,384	128,171	399,119	37,647,436
	<b>\$ 64,248,025</b>	<b>\$ 369,379</b>	<b>\$ 572,004</b>	<b>\$ 64,045,400</b>

The following is a summary of gross unrealized losses and fair values, aggregated by investment category and length of time that individual securities have been in continuous unrealized loss position:

	December 31, 2022					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<b>U.S. Treasury and obligations of U.S. government agencies</b>	\$ 18,591,785	\$ 1,333,201	\$ 14,125,579	\$ 2,276,482	\$ 32,717,364	\$ 3,609,683
<b>Obligations of States and political subdivisions</b>	11,018,327	489,244	984,370	270,629	12,002,697	759,873
<b>Mortgage-backed securities and CMOs</b>	52,062,053	2,885,508	23,679,319	4,302,907	75,741,372	7,188,415
<b>Total securities with unrealized losses</b>	<b>\$ 81,672,165</b>	<b>\$ 4,707,953</b>	<b>\$ 38,789,268</b>	<b>\$ 6,850,018</b>	<b>\$ 120,461,433</b>	<b>\$ 11,557,971</b>

	December 31, 2021					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury and obligations of U.S. government agencies	\$ 16,191,750	\$ 157,353	\$ 110,422	\$ 907	\$ 16,302,172	\$ 158,260
Obligations of States and political subdivisions	1,240,375	14,625	-	-	1,240,375	14,625
Mortgage-backed securities and CMOs	31,617,619	398,850	38,756	269	31,656,375	399,119
<b>Total securities with unrealized losses</b>	<b>\$ 49,049,744</b>	<b>\$ 570,828</b>	<b>\$ 149,178</b>	<b>\$ 1,176</b>	<b>\$ 49,198,922</b>	<b>\$ 572,004</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 2. Debt and Equity Securities (Continued)

For individual securities classified as either available-for-sale or held-to-maturity, the Bank must determine whether a decline in fair value below the amortized cost basis is other than temporary. If the decline in fair value is considered to be other than temporary, the cost basis of the individual security shall be written down to the fair value as a new cost basis and the amount of the write-down shall be included in earnings (that is, accounted for as a realized loss). At December 31, 2022, the Bank held 21 obligations of U.S. government agencies, 8 U.S. Treasuries, 4 obligations of States and political subdivisions, 38 mortgage-backed securities, and 24 CMOs having continuous unrealized loss positions for more than 12 months. Management has reviewed the investment and determined through various valuation methods that the unrealized loss position as of December 31, 2022 is a temporary unrealized loss relating primarily to changes in market interest rates over the yields available at the time the underlying security was purchased and that the loss is not due to reasons of credit quality.

In addition to the above analysis, management feels it has the ability and intent to hold securities classified as available-for-sale for a period of time sufficient for a recovery of cost and has no plans to sell securities that are currently in a loss position.

The Company recorded a loss of **\$516,958** and \$125,767 on equity securities during the years ended December 31, 2022 and 2021, respectively, related to changes in fair value on equity securities.

Contractual maturities of investment securities at December 31, 2022 are shown below. Actual maturities may differ from contractual maturities because debtors may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities have no stated maturity and primarily reflect investments in various Pass-through and Participation Certificates issued by the Federal National Mortgage Association and the Government National Mortgage Association. Repayment of mortgage-backed securities is affected by the contractual repayment terms of the underlying mortgages collateralizing these obligations and the current level of interest rates.

The following is a summary of maturities of securities available-for-sale:

	December 31, 2022	
	Securities	
	Available-for-Sale	
	Amortized	Fair
Amounts maturing:	Cost	Value
<b>One year or less</b>	\$ 27,867,323	\$ 25,580,669
<b>After one year through five years</b>	67,816,135	64,240,429
<b>After five years through ten years</b>	51,849,292	46,471,593
<b>After ten years</b>	-	-
	<b>\$ 147,532,750</b>	<b>\$ 136,292,691</b>
	December 31, 2021	
	Securities	
	Available-for-Sale	
	Amortized	Fair
Amounts maturing:	Cost	Value
One year or less	\$ 9,536,255	\$ 9,486,954
After one year through five years	41,666,651	41,627,585
After five years through ten years	13,045,119	12,930,861
After ten years	-	-
	<b>\$ 64,248,025</b>	<b>\$ 64,045,400</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 2. Debt and Equity Securities (Continued)

The Bank has pledged certain debt securities as collateral for deposits of certain government agencies and municipalities. The carrying value of these securities totaled **\$11,535,942** and \$9,765,829 at December 31, 2022 and 2021, respectively.

### Note 3. Bank Owned Life Insurance

The Bank has purchased life insurance contracts on certain senior officers and is the sole owner and primary beneficiary of the policies. Income from these contracts will be used to offset or recover increasing costs associated with employee benefits. Cash value totaled **\$13,604,142** and \$13,280,277 at December 31, 2022 and 2021, respectively.

### Note 4. Loans and Allowances for Credit Losses

The Bank makes loans to customers primarily throughout the Lower Eastern Shore of the State of Maryland. The principal categories of the loan portfolio are as follows:

	2022	2021
Real estate loans:		
Construction	\$ 93,783,831	\$ 74,542,108
Residential Mortgages	167,909,006	168,781,625
Commercial Mortgages	207,185,161	191,382,178
	468,877,998	434,705,911
Commercial & industrial loans	46,664,735	69,992,557
Consumer loans	1,914,079	3,484,783
	517,456,812	508,183,251
Less: unearned income on loans	146,013	831,658
	517,310,799	507,351,593
Less: allowance for credit losses	8,600,000	9,300,000
	<b>\$ 508,710,799</b>	<b>\$ 498,051,593</b>

Management has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for loan losses, the Bank has segmented certain loans in the portfolio by product type. Loans are segmented into the following pools: real estate loans, commercial and industrial loans, and consumer loans. Real estate loans are further divided into the following three classes: construction, land development, and other land loans (“construction”), residential mortgages, and commercial mortgages. Each of these segments are reviewed and analyzed quarterly using the Bank’s annualized net charge-offs over the previous 12-quarter rolling period for their respective segments as well as the following qualitative factors:

1. Changes in the levels and trends in delinquencies, nonaccruals, classified assets and troubled debt restructurings.
2. Changes in the nature and volume of the portfolio.
3. Effects of any changes in lending policies, procedures, including underwriting standards and collections, charge off and recovery practices.
4. Changes in the experience, depth and ability of management.
5. Changes in the national and local economic conditions and developments, including the condition of various market segments.
6. Changes in the concentration of credits within each pool.
7. Changes in the quality of the Bank’s loan review system and the degree of oversight by the Board.
8. Changes in external factors such as competition and the legal environment.

The above factors result in a codified FASB ASC 450-10- 20 calculated reserve for environmental factors.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 4. Loans and Allowances for Credit Losses (Continued)

In accordance with FAS 114 (ASC Topic 310), significantly-impaired loans are specifically identified and individually analyzed to determine the amount of their expected loss. All nonaccrual and troubled debt restructured loans are considered to be impaired and are individually analyzed to determine their valuation and reserve amounts. Other loans risk rated 6 (Substandard), 7 (Doubtful) or 8 (Loss) (excluding nonaccrual and troubled debt restructured loans) are individually evaluated for potential impairment. Following such evaluation, any loans determined to be impaired are specifically identified and individually analyzed; any loans determined to be unimpaired are evaluated on a pooled basis under FAS 5 (ASC Topic 450). The establishment of a specific reserve does not necessarily mean that the loan with the specific reserve will definitely incur loss at the reserve level. It is only an estimation of potential loss based upon anticipated events. A specific reserve will not be established unless loss elements can be determined and quantified based on known facts. The total allowance reflects management's estimate of loan losses inherent in the loan portfolio as of December 31, 2022 and 2021.

In the normal course of loan portfolio management, loan originators are responsible for the continuous assessment of credit risk arising from the individual borrowers within their portfolio and for assigning appropriate risk ratings. Credit Administration is responsible for the subsequent review and approval of the risk ratings and for ensuring the integrity and operation of the risk rating system and maintenance of the Watch List. The Bank contracts with an independent third party loan review firm that reviews and validates the internal credit risk program on a quarterly basis. Results of these reviews and management's responses are presented to the Audit Committee for approval. The loan review process complements and reinforces the risk identification and assessment decisions made by the lenders and credit personnel as well as the Bank's policies and procedures.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 4. Loans and Allowances for Credit Losses (Continued)

The activity in the allowance for loan losses for 2022 and 2021 is as follows:

December 31, 2022							
	Real Estate Loans			Commercial and			Total
	Construction	Residential Mortgages	Commercial Mortgages	Industrial	Consumer	Unallocated	
<b>Beginning Balance</b>	\$ 1,459,118	\$ 3,065,360	\$ 2,926,511	\$ 1,605,411	\$ 149,662	\$ 93,938	\$ 9,300,000
<b>Charge-offs</b>	(38,008)	(289,273)	(154,367)	(304,021)	(92,203)	-	(877,872)
<b>Recoveries</b>	390	38,411	-	13,808	8,592	-	61,201
<b>Provision</b>	117,589	(86,570)	530,955	(460,329)	4,621	10,405	116,671
<b>Ending Balance</b>	<b>1,539,089</b>	<b>2,727,928</b>	<b>3,303,099</b>	<b>854,869</b>	<b>70,672</b>	<b>104,343</b>	<b>8,600,000</b>

**Ending Balance of:**

**Individually evaluated for impairment:**

Related loan balance	233,659	6,834,524	1,169,126	311,423	63,649	-	8,612,381
Balance in allowance	-	334,824	-	44,110	18,354	-	397,288

**Collectively evaluated for impairment:**

Related loan balance	93,550,172	161,074,482	206,016,035	46,353,312	1,850,430	-	508,844,431
Balance in allowance	1,539,089	2,393,104	3,303,099	810,759	52,318	104,343	8,202,712

**Total**

Related loan balance	93,783,831	167,909,006	207,185,161	46,664,735	1,914,079	-	517,456,812
Balance in allowance	1,539,089	2,727,928	3,303,099	854,869	70,672	104,343	8,600,000

December 31, 2021							
	Real Estate Loans			Commercial and			Total
	Construction	Residential Mortgages	Commercial Mortgages	Industrial	Consumer	Unallocated	
<b>Beginning Balance</b>	\$ 1,634,997	\$ 3,396,282	\$ 2,556,313	\$ 1,525,365	\$ 79,988	\$ 107,055	\$ 9,300,000
<b>Charge-offs</b>	(75,543)	(29,565)	(5,702)	(1,247)	(58,468)	-	(170,525)
<b>Recoveries</b>	-	3,723	-	24,242	16,279	-	44,244
<b>Provision</b>	(100,336)	(305,080)	375,900	57,051	111,863	(13,117)	126,281
<b>Ending Balance</b>	<b>1,459,118</b>	<b>3,065,360</b>	<b>2,926,511</b>	<b>1,605,411</b>	<b>149,662</b>	<b>93,938</b>	<b>9,300,000</b>

**Ending Balance of:**

**Individually evaluated for impairment:**

Related loan balance	2,926,893	9,662,176	1,784,557	1,273,470	86,101	-	15,733,197
Balance in allowance	336,210	448,769	113,038	387,914	24,171	-	1,310,102

**Collectively evaluated for impairment:**

Related loan balance	71,615,215	159,119,449	189,597,621	68,719,087	3,398,682	-	492,450,054
Balance in allowance	1,122,908	2,616,591	2,813,473	1,217,497	125,491	93,938	7,989,898

**Total**

Related loan balance	74,542,108	168,781,625	191,382,178	69,992,557	3,484,783	-	508,183,251
Balance in allowance	1,459,118	3,065,360	2,926,511	1,605,411	149,662	93,938	9,300,000

As of December 31, 2022, and 2021, the allowance for loan losses included an unallocated excess of **\$104,343** and \$93,938, respectively. Management is comfortable with these amounts as they feel the amounts are adequate to absorb additional inherent potential losses in the loan portfolio as further described in Note 1.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 4. Loans and Allowances for Credit Losses (Continued)

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was signed into law, which established the Paycheck Protection Program (“PPP”) and allocated \$349 billion of loans to be issued by financial institutions. Under the program, the Small Business Administration (“SBA”) will forgive loans, in whole or in part, made by approved lenders to eligible borrowers for Paycheck and other permitted purposes in accordance with the requirements of the program. These loans carry a fixed rate of 1.00% and a term of two years, if not forgiven, in whole or in part. The loans are 100% guaranteed by the SBA. The Bank receives a processing fee ranging from 1% to 5% based on the size of the loan from the SBA. The Paycheck Protection Program and Health Care Enhancement Act (“PPP/ HCEA Act”) was signed into law on April 24, 2020. The PPP/HCEA Act authorized additional funding under the CARES Act of \$310 billion for PPP loans to be issued by financial institutions through the SBA. In December 2020, the Consolidated Appropriations Act 2021 (“CAA”) was passed, which extended the PPP and allocated additional funds for 2021. The Second Draw PPP loans were generally subject to the same terms, conditions, and requirements as PPP loans issued under the CARES and PPP/HCEA Acts except the loan term was extended from two years to five years. The Company provided **\$69,034,653** in funding to over 500 customers through the PPP programs, of which **\$0** and **\$11,438,739** were outstanding as of December 31, 2022 and 2021, respectively. Because these loans were 100% guaranteed by the SBA they did not have an associated reserve.

Following is an aging analysis by loan class and amount as of December 31, 2022 and 2021:

	December 31, 2022					
	Real Estate Loans			Commercial and		
	Construction	Residential Mortgages	Commercial Mortgages	Industrial	Consumer	Total
30-89 Days Past Due	\$ -	\$ 554,387	\$ -	\$ -	\$ 10,311	\$ 564,698
Greater than 90 Days Past Due	-	-	-	-	-	-
Nonaccrual loans - non current	-	1,125,678	283,404	-	-	1,409,082
Total Past Due	-	1,680,065	283,404	-	10,311	1,973,780
Current nonaccrual loans	233,659	425,338	-	-	-	658,997
Current accrual loans	93,550,172	165,803,603	206,901,757	46,664,735	1,903,768	514,824,035
<b>Total Loans</b>	<b>\$ 93,783,831</b>	<b>\$ 167,909,006</b>	<b>\$ 207,185,161</b>	<b>\$ 46,664,735</b>	<b>\$ 1,914,079</b>	<b>\$ 517,456,812</b>

	December 31, 2021					
	Real Estate Loans			Commercial and		
	Construction	Residential Mortgages	Commercial Mortgages	Industrial	Consumer	Total
30-89 Days Past Due	\$ 89,802	\$ 693,061	\$ -	\$ -	\$ 6,279	\$ 789,142
Greater than 90 Days Past Due	-	-	-	-	-	-
Nonaccrual loans - non current	2,318,556	855,068	283,404	567,893	282	4,025,203
Total Past Due	2,408,358	1,548,129	283,404	567,893	6,561	4,814,345
Current nonaccrual loans	-	601,920	202,962	-	-	804,882
Current accrual loans	72,133,750	166,631,576	190,895,812	69,424,664	3,478,222	502,564,024
<b>Total Loans</b>	<b>\$ 74,542,108</b>	<b>\$ 168,781,625</b>	<b>\$ 191,382,178</b>	<b>\$ 69,992,557</b>	<b>\$ 3,484,783</b>	<b>\$ 508,183,251</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 4. Loans and Allowances for Credit Losses (Continued)

The Bank's policies, consistent with regulatory guidelines, provide for the classification of loans that are considered to be of lesser quality as special mention, substandard, or doubtful assets. Special mention is a warning or watch classification, which portrays one or more deficiencies in the credit quality of the borrower or the pledged collateral. Substandard loans include loans with a high loan-to-value ratio or credits that are unable to adjust due to unfavorable industry or economic conditions. Loans classified as doubtful are critical credits with an element of probable loss and insufficient collateral. The risk ratings are adjusted, as necessary, if loans become delinquent, if significant adverse information is discovered regarding the underlying credit, and if the normal periodic reviews of the underlying credits indicate that a change in risk rating is appropriate. A summary of the risk rating of loans receivable as of December 31, 2022 and 2021 is as follows:

December 31, 2022						
	Real Estate Loans			Commercial and		
	Construction	Residential Mortgages	Commercial Mortgages	Industrial	Consumer	Total
Pass	\$ 92,624,180	\$ 155,800,916	\$ 189,312,559	\$ 41,950,412	\$ 1,910,930	\$ 481,598,997
Special Mention	507,918	7,845,737	16,475,061	1,590,257	3,149	26,422,122
Substandard	651,733	4,262,353	1,397,541	3,124,066	-	9,435,693
Doubtful	-	-	-	-	-	-
	<b>\$ 93,783,831</b>	<b>\$ 167,909,006</b>	<b>\$ 207,185,161</b>	<b>\$ 46,664,735</b>	<b>\$ 1,914,079</b>	<b>\$ 517,456,812</b>

December 31, 2021						
	Real Estate Loans			Commercial and		
	Construction	Residential Mortgages	Commercial Mortgages	Industrial	Consumer	Total
Pass	\$ 69,033,840	\$ 154,892,083	\$ 177,052,288	\$ 65,655,261	\$ 3,478,653	\$ 470,112,125
Special Mention	2,128,987	6,873,390	12,021,811	3,322,754	5,848	24,352,790
Substandard	3,379,281	7,016,152	2,308,079	1,014,542	282	13,718,336
Doubtful	-	-	-	-	-	-
	<b>\$ 74,542,108</b>	<b>\$ 168,781,625</b>	<b>\$ 191,382,178</b>	<b>\$ 69,992,557</b>	<b>\$ 3,484,783</b>	<b>\$ 508,183,251</b>

Management considers a loan to be impaired when, based on current information and events, it is determined that the Bank will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Determination of impairment is treated the same across all classes of loans. When management identifies a loan as impaired, the impairment is measured based on the fair value of the collateral, less selling costs, or the present value of expected future cash flows, discounted at the loan's effective interest rate. If management determines that the value of the impaired loan is less than the carrying value of the loan, impairment is recognized through a reserve amount or charge-off to the allowance. The total allowance reflects management's estimate of loan losses inherent in the loan portfolio as of December 31, 2022 and 2021.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 4. Loans and Allowances for Credit Losses (Continued)

Impaired loans, which include loans on non-accrual status, TDRs and other specifically identified loans, as of December 31, 2022 and 2021, are as follows:

	December 31, 2022					
	Real Estate Loans			Commercial and Consumer		
	Construction	Residential Mortgages	Commercial Mortgages	Industrial	Consumer	Total
Recorded Investment with a related allowance	\$ -	\$ 2,525,801	\$ -	\$ 173,436	\$ 63,649	\$ 2,762,886
Recorded Investment with no related allowance	233,659	4,308,723	1,169,126	137,987	-	5,849,495
<b>Total Recorded Investment</b>	<b>\$ 233,659</b>	<b>\$ 6,834,524</b>	<b>\$ 1,169,126</b>	<b>\$ 311,423</b>	<b>\$ 63,649</b>	<b>\$ 8,612,381</b>
Unpaid Principal Balance	\$ 233,659	\$ 8,065,618	\$ 1,323,493	\$ 311,423	\$ 63,649	\$ 9,997,842
Related Allowance	-	334,824	-	44,110	18,354	397,288
Average Recorded Investment	874,527	7,198,300	1,281,718	327,721	69,166	9,751,432
Interest Income Recognized	64,044	297,299	51,089	10,290	2,121	424,843

	December 31, 2021					
	Real Estate Loans			Commercial and Consumer		
	Construction	Residential Mortgages	Commercial Mortgages	Industrial	Consumer	Total
Recorded Investment with a related allowance	\$ 2,880,931	\$ 2,929,740	\$ 1,155,002	\$ 1,128,376	\$ 74,964	\$ 8,169,013
Recorded Investment with no related allowance	45,962	6,732,436	629,555	145,094	11,137	7,564,184
<b>Total Recorded Investment</b>	<b>\$ 2,926,893</b>	<b>\$ 9,662,176</b>	<b>\$ 1,784,557</b>	<b>\$ 1,273,470</b>	<b>\$ 86,101</b>	<b>\$ 15,733,197</b>
Unpaid Principal Balance	\$ 2,935,555	\$ 10,921,049	\$ 1,784,557	\$ 1,494,274	\$ 89,274	\$ 17,224,709
Related Allowance	336,210	448,769	113,038	387,914	24,171	1,310,102
Average Recorded Investment	3,109,683	9,395,386	1,916,219	1,548,331	99,893	16,069,512
Interest Income Recognized	116,646	413,878	79,474	28,794	3,104	641,896

The Bank generally places loans on nonaccrual status when the full and timely collection of interest or principal becomes uncertain, part of the principal balance has been charged off and no restructuring has occurred, or the loan reaches 90 days past due. When a loan is placed on nonaccrual status, the accrued unpaid interest receivable is reversed against interest income, and future payments are applied to principal. Loans are returned to accrual status when the borrower makes at least six regularly scheduled payments and the collectability is no longer doubtful. The Bank classifies loans on nonaccrual status as impaired. Information regarding these loans as of December 31, 2022 and 2021 is summarized as follows:

	Real Estate Loans			Commercial and Consumer		
	Construction	Residential Mortgages	Commercial Mortgages	Industrial	Consumer	Total
	<b>December 31, 2022</b>	<b>\$ 233,659</b>	<b>\$ 1,551,016</b>	<b>\$ 283,404</b>	<b>\$ -</b>	<b>\$ -</b>
December 31, 2021	\$ 2,318,556	\$ 1,456,988	\$ 486,366	\$ 567,893	\$ 282	\$ 4,830,085

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 4. Loans and Allowances for Credit Losses (Continued)

In situations where, for economic or legal reasons related to a borrower's financial difficulties, the Bank may grant a concession for other than an insignificant period of time to the borrower that would not otherwise be considered, the related loan is classified as a Troubled Debt Restructuring (TDR). Management strives to identify borrowers in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal or interest forgiveness, or other actions intended to minimize the loss and to avoid foreclosure or repossession of the collateral. For TDRs with interest rates modified below market, the "specific" valuation allowance amounts were determined by comparing the discounted future expected present value of cash flows under the modified agreements against the carrying value of the original loan and a separate reserve in the allowance for loan losses has been established and identified as for TDRs. TDRs with principal reductions are individually evaluated for impairment and have been charged off to their net realizable value through the allowance for loan losses.

The following table includes the recorded investment and number of modifications for TDRs. The Bank reports the recorded investment in the loans prior to a modification and also the recorded investment in the loans after the loans were restructured.

December 31, 2022						
	Real Estate Loans			Commercial and Industrial      Consumer      Total		
	Construction	Residential Mortgages	Commercial Mortgages			
<b>Number of modifications</b>	1	44	3	6	4	58
<b>Recorded investment prior to modification</b>	\$ 1,478,206	\$ 8,163,578	\$ 1,965,580	\$ 485,953	\$ 104,367	\$ 12,197,684
<b>Recorded investment after modification</b>	\$ 233,659	\$ 5,911,204	\$ 1,169,126	\$ 298,021	\$ 63,649	\$ 7,675,659

December 31, 2021						
	Real Estate Loans			Commercial and Industrial      Consumer      Total		
	Construction	Residential Mortgages	Commercial Mortgages			
<b>Number of modifications</b>	1	51	3	10	7	72
<b>Recorded investment prior to modification</b>	\$ 2,144,778	\$ 9,034,729	\$ 1,965,580	\$ 2,311,179	\$ 158,213	\$ 15,614,479
<b>Recorded investment after modification</b>	\$ 739,093	\$ 7,403,000	\$ 1,394,309	\$ 995,528	\$ 85,819	\$ 10,617,749

TDRs, included in impaired loans, which are not performing as agreed in the current reporting period, are as follows:

December 31, 2022						
	Real Estate Loans			Commercial and Industrial      Consumer      Total		
	Construction	Residential Mortgages	Commercial Mortgages			
<b>Number of modifications</b>	1	5	1	-	-	7
<b>Recorded investment</b>	\$ 233,659	\$ 627,695	\$ 283,404	\$ -	\$ -	\$ 1,144,758

December 31, 2021						
	Real Estate Loans			Commercial and Industrial      Consumer      Total		
	Construction	Residential Mortgages	Commercial Mortgages			
<b>Number of modifications</b>	1	11	1	3	-	16
<b>Recorded investment</b>	\$ 739,093	\$ 952,968	\$ 283,404	\$ 505,846	\$ -	\$ 2,481,311

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 4. Loans and Allowances for Credit Losses (Continued)

Troubled debt restructurings (TDRs) with a commitment to lend additional funds were \$0 at December 31, 2022 and 2021.

The CARES Act permitted banks to suspend requirements under U.S. GAAP for loan modifications to borrowers affected by COVID-19 that would otherwise be characterized as TDRs and suspend any determination related thereto if (i) the loan modification was made between March 1, 2020 and the earlier of December 31, 2020 or 60 days after the end of the COVID-19 emergency declaration and (ii) the applicable loan was not more than 30 days past due as of December 31, 2019. Federal bank regulatory authorities also issued guidance to encourage banks to make loan modifications for borrowers affected by COVID-19 and to assure banks that they will not be criticized by examiners for doing so. On December 27, 2020, the Consolidated Appropriations Act, 2021 (the “Act”) was signed into law which extended the temporary relief granted to banking institutions under the CARES Act. Section 541, Extension of Temporary Relief from Trouble Debt Restructurings and Insurer Clarification, of the Act extended the timeline provided in the CARES Act to the earlier of (a) January 1, 2022 or (b) the date that is 60 days after the date in which the National Emergencies Act terminates. All other criteria specified in the CARES Act remains unchanged.

In the normal course of banking business, loans are made to senior officers and directors and their affiliated interests. In the opinion of management, these loans are consistent with sound banking practices, are within regulatory lending limitations, and do not involve more than the normal risk of collectability.

Loans to senior officers, directors, and their affiliates at December 31, 2022 and 2021 are summarized as follows:

	2022	2021
Loans, beginning	\$ 10,058,000	\$ 10,503,000
Additions	4,208,000	6,336,000
Repayments/eliminations	(3,237,000)	(6,781,000)
Loans, ending	\$ 11,029,000	\$ 10,058,000

Outstanding loan commitments and unused lines and letters of credit were approximately as follows:

	2022	2021
Loan commitments, including approved loans and unused lines of credit	\$ 163,036,000	\$ 163,441,000
Letters of credit	3,629,000	5,764,000

Loan commitments and lines of credit are agreements to lend to customers as long as there is no violation of any conditions of the contracts. Loan commitments generally have interest rates fixed at current market amounts, fixed expiration dates, and may require payment of a fee. Lines of credit generally have variable interest rates. Many of the loan commitments and lines of credit are expected to expire without being drawn upon; accordingly, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer’s creditworthiness on a case-by-case basis. The amount of collateral or other security obtained, if deemed necessary by the Bank upon extension of credit, is based on management’s credit evaluation. Collateral held varies but may include deposits held in financial institutions, U.S. Treasury securities, other marketable securities, accounts receivable, inventory, property and equipment, personal residences, income-producing commercial properties, and land under development. Personal guarantees are also obtained to provide added security for certain commitments.

Letters of credit are commitments issued to guarantee the performance of a customer to a third party. Loan commitments and letters of credit are made on the same terms, including collateral, as outstanding loans. The Bank has accrued credit losses of \$375,000, related to these financial instruments with off-balance sheet risk in other liabilities at December 31, 2022 and 2021.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 5. Premises, Equipment, and Depreciation

Bank premises and equipment are as follows:

				December 31, 2022		
		Cost		Accumulated Depreciation		Net
<b>Land</b>	\$	4,262,843	\$	-	\$	4,262,843
<b>Buildings and land improvements</b>		9,439,938		3,924,668		5,515,270
<b>Furniture and equipment</b>		9,010,959		8,145,396		865,563
	<b>\$</b>	<b>22,713,740</b>	<b>\$</b>	<b>12,070,064</b>	<b>\$</b>	<b>10,643,676</b>
				December 31, 2021		
		Cost		Accumulated Depreciation		Net
Land	\$	4,551,538	\$	-	\$	4,551,538
Buildings and land improvements		9,414,567		3,699,141		5,715,426
Furniture and equipment		8,962,231		7,756,999		1,205,232
	<b>\$</b>	<b>22,928,336</b>	<b>\$</b>	<b>11,456,140</b>	<b>\$</b>	<b>11,472,196</b>

Depreciation expense totaled **\$636,775** and **\$686,274** for the years ended December 31, 2022 and 2021, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 6. Income Taxes

Components of income tax expense for the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
Currently payable		
Federal	\$ 2,002,263	\$ 1,139,763
State	844,576	492,959
Total current	2,846,839	1,632,722
Deferred income taxes (benefits)		
Federal	285,056	150,750
State	122,056	64,549
Total deferred	407,112	215,299
	\$ 3,253,951	\$ 1,848,021

A reconciliation of tax computed at the federal statutory tax rate of 21% for the years ended December 31, 2022 and 2021 to the actual tax expense is as follows:

	2022	2021
Tax at federal statutory rate	\$ 2,670,694	\$ 1,576,060
Tax effect of:		
Tax exempt income	(185,896)	(176,307)
Other	5,514	7,983
State income taxes, net of federal benefit	763,639	440,285
	\$ 3,253,951	\$ 1,848,021

Income taxes included in other assets on the balance sheet are as follows:

	2022	2021
<b>Federal income tax (payable) refund claims</b>	\$ (92,285)	\$ 245,645
<b>State income tax (payable) refund claims</b>	(61,132)	143,444
Deferred tax benefits:		
Allowance for credit losses	\$ 2,366,504	\$ 2,559,127
OREO property	48,492	72,440
Accrued vacation	159,382	168,701
Unearned income on loans	16,842	212,578
Net unrealized depreciation on securities available-for-sale	3,092,984	55,757
	5,684,204	3,068,603
Deferred tax liabilities:		
Accumulated depreciation	127,956	142,469
	127,956	142,469
<b>Net deferred income tax benefits</b>	\$ 5,556,248	\$ 2,926,134

Management has determined that no valuation allowance is required as it believes it is more likely than not that all of the deferred tax assets will be fully realizable in the future. At December 31, 2022 and 2021, management believes there are no uncertain tax positions under ASC Topic 740 Income Taxes. The Bank's federal and state income tax returns for 2019, 2020, and 2021 are subject to examination by the IRS and/or state tax authorities, generally for three years after they were filed. The 2022 income returns will be filed in 2023.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 7. Junior Subordinated Debentures owed to Unconsolidated Subsidiary Trust

The Company sponsored a trust, HSB Statutory Trust I, of which 100% of the common equity is owned by the Company. Trust I was formed for the purpose of issuing Company-obligated mandatorily redeemable capital securities (the capital securities) to third-party investors and investing the proceeds from the sale of such capital securities solely in junior subordinated debt securities of the Company (the debentures). The debentures held by the trust are the sole assets of that trust. Trust I is a variable interest entity (VIE), however, since the Company is not the primary beneficiary of this arrangement, the accounts of this entity are not included in the consolidated financial statements. Distributions on the capital securities issued by the trust are payable quarterly at a 5.95% rate per annum for 5 years until June 2010, then floating at the 3-month LIBOR plus 1.85% thereafter. The capital securities are subject to mandatory redemption, in whole or in part, upon repayment of the debentures. The Company has entered into agreements which, taken collectively, fully and unconditionally guarantee the capital securities subject to the terms of each of the guarantees. Both the capital securities of the statutory trust and the junior subordinated debentures are scheduled to mature on June 2035, unless called by the Company.

Despite the fact that HSB Statutory Trust I is not included in the Company's consolidated financial statements, the trust preferred securities issued by these subsidiary trusts are included in the Tier 1 capital of the Company for regulatory capital purposes. Federal Reserve Board rules limit the aggregate amount of restricted core capital elements (which includes trust preferred securities, among other things) that may be included in the Tier 1 capital of most bank holding companies to 25% of all core capital elements, including restricted core capital elements, net of goodwill less any associated deferred tax liability. Amounts of restricted core capital elements in excess of these limits generally may be included in Tier 2 capital. The current quantitative limits do not preclude the Company from including the \$3.0 million in trust preferred securities outstanding in Tier 1 capital.

### Note 8. Deposits

Time deposits and their remaining maturities at December 31, 2022 are approximately as follows:

2023	\$	70,231,000
2024		49,347,000
2025		28,676,000
2026		16,819,000
2027		14,016,000
	\$	179,089,000

Interest expense on deposits for the years ended December 31, 2022 and 2021 is as follows:

		2022		2021
NOW, Super NOW and money market	\$	142,669	\$	171,147
Savings		109,610		110,580
Time, more than \$250,000		497,570		738,461
Other time		2,216,470		3,073,365
	\$	2,966,319	\$	4,093,553

Deposit balances of senior officers and directors and their affiliated interests totaled **\$13,931,044** and \$22,949,344 at December 31, 2022 and 2021, respectively.

Overdraft deposit balances, included in loans, totaled **\$135,133** and \$83,671 at December 31, 2022 and 2021, respectively.

The Bank began offering time deposits through the Certificate of Deposit Account Registry Service (CDARS) in 2019 through a third-party provider. These deposits totaled **\$15,508,972** and \$14,848,144 at December 31, 2022 and 2021, respectively, and are included in other time deposits on the balance sheet.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 9. Benefit Plans

The Bank has a 401(k) profit sharing plan covering substantially all full-time employees. The plan requires the Bank to match employee contributions up to 5% of compensation, as defined under the plan, and permits additional contributions at the discretion of management.

Expense under this plan totaled **\$259,162** and \$266,993 for the years ended December 31, 2022 and 2021, respectively.

### Note 10. Lease Commitments

The Company adopted ASU 2016-02, Leases (Topic 842) (“ASC 2016-02”), on January 1, 2022, using a modified-retrospective approach, whereby comparative periods were not restated. No cumulative effect adjustment to the opening balance of retained earnings was required. The Company also elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things allowed the Company to carry forward the historical lease classifications. Additionally, the Company elected the hindsight practical expedient to determine the lease term for existing leases.

The Bank leases one of its branch facilities, the land on which one of the Bank’s branch facilities resides, a portion of a parking lot at one of its branch facilities and a portion of a parking lot adjacent to one of its branch facilities. The leases are classified as operating leases. Leases with an initial term of 12 months or less as well as leases with a discounted present value of future cash flows below \$25,000 are not recorded on the balance sheet and the related lease expense is recognized over the lease term. The Company elected to use the practical expedient to not recognize short-term leases on the consolidated balance sheet and instead account for them as executory contracts.

Certain leases include options to renew, with renewal terms that can extend the lease term, typically for five years. Lease assets and liabilities include related renewal options that are reasonably certain of being exercised. The Company has determined that it will place a limit on exercises of available lease renewal options that would extend the lease term up to a maximum of fifteen years, from the adoption date of ASU 2016-02. The depreciable life of leased assets are limited by the expected lease term. Variable payments for the Company’s proportionate share of property taxes are not included in lease payments used to determine lease liability and are recognized as variable costs when incurred.

Adoption of this standard resulted in the Company recognizing a right of use asset and a corresponding lease liability of \$987,580.

The following tables present information about the Company’s leases for the year ended December 31, 2022:

	2022
Balance Sheet	
Operating Lease Amounts	
Right-of-use asset	\$ 911,949
Lease liability	921,662
Income Statement	
Operating lease cost classified as premises and equipment	\$ 102,569
Weighted average lease term - Operating Leases (Yrs.)	11.30
Weighted average discount rate - Operating Leases (1)	2.14%
Operating outgoing cash flows from operating leases	\$ 92,856

(1) The discount rate was developed by using the fixed rate credit advance borrowing rate at the Federal Home Loan Bank of Atlanta for a term correlating to the remaining term of each lease. Management believes this rate closely mirrors its incremental borrowing rate for similar terms.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 10. Lease Commitments (Continued)

Minimum lease payments for the next five years and thereafter, assuming renewal options are exercised, are approximately as follows:

Operating Leases:		
2023	\$	89,000
2024		90,000
2025		92,000
2026		93,000
2027		95,000
2028 and thereafter		577,000
Total undiscounted cash flows		1,036,000
Less: Discount		(114,000)
Lease Liabilities		\$ 922,000

### Note 11. Other Operating Expenses

Other operating expenses include the following:

	2022	2021
Advertising and marketing	\$ 155,219	\$ 124,210
ATM and debit card processing	644,007	736,099
Bank service charges	91,600	87,736
Courier and travel	175,838	133,796
Data processing outsourced	416,321	335,199
Directors' fees	362,884	289,522
Donations	70,707	50,891
Dues and subscriptions	93,052	85,567
FDIC and Maryland assessments	546,054	481,837
Insurance	159,397	126,384
Loan collection and OREO operating	114,088	117,741
Long and short	28,176	5,150
Other fees	44,156	39,249
Postage	168,126	160,679
Professional services	408,883	310,106
Seminars	36,616	14,856
Stationery, printing, and supplies	264,091	296,577
Telephone	311,014	258,797
	\$ 4,090,229	\$ 3,654,396



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 12. Borrowings and Credit Facilities

The Bank has borrowings from the FHLB totaling **\$13,595,429** and \$16,207,043 at December 31, 2022 and 2021, respectively. Interest rates on the borrowings are fixed and range from .63% to 5.94%, maturing at various dates through August 2038. Based on lendable collateral value, the Bank has available for future borrowings approximately **\$61,000,000** and \$69,000,000 at December 31, 2022 and 2021, respectively. The Bank has pledged approximately **\$105,000,000** and \$104,000,000 at December 31, 2022 and 2021, respectively, of its wholly owned residential (1-4 units) first mortgage loan portfolio, as collateral for this credit facility. The Bank has purchased stock of the FHLB as a condition for obtaining a credit facility from the FHLB.

The Company prepaid nine of its outstanding FHLB borrowings totaling **\$6,960,780** during year ended December 31, 2021, which resulted in the recognition of **\$221,486** in prepayment fees.

At December 31, 2022, the scheduled maturities of borrowings are approximately as follows:

2023	\$	35,000
2024		-
2025		1,874,000
2026		1,390,000
2027		5,065,000
2028 and thereafter		5,231,000
	\$	13,595,000

Additionally, the Bank has unsecured credit availability of \$10,000,000 with one correspondent bank and secured credit availability of \$8,000,000 with another correspondent bank for short-term liquidity needs, if necessary. The secured credit facility must be collateralized with securities at the time of usage. At December 31, 2022 and 2021, there were no borrowings outstanding under any of the credit facilities. At December 31, 2022, securities pledged under the secured credit facility had an amortized cost and fair value of **\$92,187** and **\$85,177**, respectively. At December 31, 2021, securities pledged under the secured credit facilities had an amortized cost and fair value of \$121,666 and \$123,827, respectively.

### Note 13. Regulatory Capital Requirements

The Company and the Bank are subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the individual and consolidated financial statements. The Company and the Bank must meet specific capital adequacy guidelines that involve quantitative measures of the assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The Common Equity Tier 1, Tier 1 and Total capital ratios are calculated by dividing the respective capital amounts by risk-weighted assets. Risk-weighted assets are calculated based on regulatory requirements and include total assets, with certain exclusions, allocated by risk weight category, and certain off-balance-sheet items, among other things. The leverage ratio is calculated by dividing Tier 1 capital by adjusted quarterly average total assets, which exclude goodwill and other intangible assets, among other things.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 13. Regulatory Capital Requirements (Continued)

The Bank is subject to the Basel III Capital Rules. The Basel III Capital Rules require the Bank to maintain (i) a minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% “capital conservation buffer” (which is added to the 4.5% Common Equity Tier 1 capital ratio, effectively resulting in a minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of at least 7.0%), (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio, effectively resulting in a minimum Tier 1 capital ratio of 8.5%), (iii) a minimum ratio of Total capital (that is, Tier 1 plus Tier 2) to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% Total capital ratio, effectively resulting in a minimum Total capital ratio of 10.5%) and (iv) a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average quarterly assets.

The implementation of the capital conservation buffer began on January 1, 2016 and was phased in over a four-year period (increasing by 0.625% on January 1, 2016 and by 0.625% on each subsequent January 1, until it reached 2.5% on January 1, 2019). The capital conservation buffer is designed to absorb losses during periods of economic stress and, as detailed above, effectively increases the minimum required risk-weighted capital ratios. The Basel III Capital Rules also provide for a “countercyclical capital buffer” that is applicable to only certain covered institutions and does not have any current applicability to the Company or Bank. Banking institutions with a ratio of Common Equity Tier 1 capital to risk-weighted assets below the effective minimum (4.5% plus the capital conservation buffer and, if applicable, the countercyclical capital buffer) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

Management believes, as of December 31, 2022 and 2021, that the Company and Bank meet all capital adequacy requirements to which it is subject. The most recent notification from the FDIC categorized the Bank as “well capitalized” under the regulatory framework for prompt corrective action. To be categorized as “well capitalized” the Bank must maintain minimum Common Equity Tier 1, Tier 1 and Total capital to risk-weighted assets and Tier I leverage ratios. There have been no conditions or events since that notification that management believes have changed the Bank’s category.

As discussed in Note 7, the capital securities held by the HSB Statutory Trust I qualifies as Tier 1 capital for the Company under Federal Reserve Board guidelines.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 13. Regulatory Capital Requirements (Continued)

A comparison of capital as of December 31, 2022 and 2021 for the Company and Bank is presented below. The minimum required capital amounts presented include the minimum required capital levels as of December 31, 2022 and December 31, 2021. Capital amounts and ratios for minimum capital adequacy presented in the following table do not include capital conservation buffers. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

As of December 31, 2022	Actual		For Minimum Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>Total Capital (to Risk-Weighted Assets)</b>						
Company	\$ 83,223,000	14.0%	\$ 47,522,000	8.0%	\$ -	N/A
Bank	83,187,000	14.0%	47,501,000	8.0%	59,377,000	10.0%
<b>Tier I Capital (to Risk-Weighted Assets)</b>						
Company	75,780,000	12.8%	35,633,000	6.0%	-	N/A
Bank	75,746,000	12.8%	35,617,000	6.0%	47,490,000	8.0%
<b>Common Equity Tier I Capital (to Risk-Weighted Assets)</b>						
Company	72,780,000	12.3%	26,714,000	4.5%	-	N/A
Bank	75,746,000	12.8%	26,713,000	4.5%	38,585,000	6.5%
<b>Tier I Capital (to Average Assets)</b>						
Company	75,780,000	9.0%	33,568,000	4.0%	-	N/A
Bank	75,746,000	9.0%	33,553,000	4.0%	41,941,000	5.0%
<b>As of December 31, 2021</b>						
	Actual		Adequacy Purposes		Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>Total Capital (to Risk-Weighted Assets)</b>						
Company	\$ 74,785,000	13.7%	\$ 43,606,000	8.0%	\$ -	N/A
Bank	74,754,000	13.7%	43,620,000	8.0%	54,525,000	10.0%
<b>Tier I Capital (to Risk-Weighted Assets)</b>						
Company	67,934,000	12.5%	32,713,000	6.0%	-	N/A
Bank	67,904,000	12.5%	32,699,000	6.0%	43,598,000	8.0%
<b>Common Equity Tier I Capital (to Risk-Weighted Assets)</b>						
Company	64,934,000	11.9%	24,534,000	4.5%	-	N/A
Bank	67,904,000	12.5%	24,524,000	4.5%	35,423,000	6.5%
<b>Tier I Capital (to Average Assets)</b>						
Company	67,934,000	8.3%	32,621,000	4.0%	-	N/A
Bank	67,904,000	8.3%	32,607,000	4.0%	40,759,000	5.0%

According to FDIC capital guidelines, the Bank is considered to be “Well Capitalized.”

Under Maryland banking law, the Board of Directors may declare cash dividends from undivided profits after providing for expenses, losses, interest and taxes accrued or due.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### **Note 14. Issuance of Preferred Stock**

On October 15, 2008, the Company issued Series A Preferred Stock (the “Preferred Shares”) to all Common stockholders with less than 1,000 shares on a one-for-one basis. No dividends or distributions will be given to Common stockholders unless the Series A Preferred stockholders receive at least an equal amount. Dividends on the Preferred Shares are not cumulative and no rights accrue. The Preferred Shares are not entitled to vote and are entitled to receive any liquidation amount, prior to payment to Common stockholders. Except as noted above, all pertinent rights and privileges of the Preferred Shares are the same as the Common Stock.

At the Annual Meeting of Shareholders of the Company held on April 20, 2021, the shareholders approved a proposal to amend the Company’s charter pursuant to which the Preferred Shares of the Company were to be classified as, and changed into, shares of common stock (the “Common Stock”), of the Company (the “Classification Amendment”). The Classification Amendment became effective on April 30, 2021 (the “Effective Date”). The effect of the Classification Amendment was that record holders of Preferred Shares as of the Effective Date no longer own Preferred Shares, but now own an equal number of shares of Common Stock.

### **Note 15. Fair Values of Financial Instruments**

*Disclosure about Fair Value of Financial Instruments* (“ASC Topic 825”) requires the disclosure of the estimated fair values of financial instruments. Quoted market prices, where available, are shown as estimates of fair values. Because no quoted market prices are available for a significant part of the Company’s financial instruments, the fair values of such instruments have been derived based on the amount and timing of future cash flows and estimated discount rates.

Present value techniques used in estimating the fair value of many of the Company’s financial instruments are significantly affected by the assumptions used. Fair values derived from using present value techniques are not substantiated by comparisons to independent markets and, in many cases, could not be realized in immediate settlement of the instruments.

ASC Topic 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 15. Fair Values of Financial Instruments (Continued)

The following table shows the estimated fair values and the related carrying values of the Bank's financial instruments at December 31, 2022 and 2021. Items that are not financial instruments are not included.

	2022		2021	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and due from banks	\$ 11,177,228	\$ 11,177,228	\$ 9,749,783	\$ 9,749,783
Interest-bearing deposits in other banks	112,330,979	112,330,979	214,635,254	214,635,254
Debt securities available-for-sale	136,292,691	136,292,691	64,045,400	64,045,400
Equity securities	3,949,229	3,949,229	4,466,187	4,466,187
Loans, net of allowance for credit losses	508,710,799	505,118,800	498,051,593	526,822,569
Accrued interest receivable	1,950,195	1,950,195	1,609,613	1,609,613
Federal Home Loan Bank stock	1,019,300	1,019,300	968,100	968,100
Common stock-Statutory Trust I	93,000	93,000	93,000	93,000
Cash value of life insurance	13,604,142	13,604,142	13,280,277	13,280,277
Financial liabilities:				
Deposits	\$ 722,368,848	\$ 668,341,859	\$ 736,347,767	\$ 730,564,769
Accrued interest payable	263,169	263,169	430,872	430,872
Short-term borrowings	34,833	34,833	-	-
Long-term borrowings	13,560,596	12,917,615	16,207,043	16,840,045
Junior subordinated debentures owed to unconsolidated subsidiary trust	3,093,000	1,869,933	3,093,000	1,799,171
Unrecognized financial instruments:				
Commitments to extend credit	163,036,000	163,036,000	163,441,000	163,441,000
Standby letters of credit	3,629,000	3,629,000	5,764,000	5,764,000

For purposes of the above disclosures of estimated fair value, the following assumptions were used:

#### Cash and cash equivalents

The estimated fair value for cash and due from banks, interest-bearing deposits in other banks, and Federal funds sold is considered to approximate cost because of their short-term nature.

#### Investment Securities

Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. See Note 16 for further discussion.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 15. Fair Values of Financial Instruments (Continued)

#### Loans

The estimated fair value for certain homogeneous categories of loans, such as residential mortgages, is based on the quoted market price for securities backed by similar loans, adjusted for differences in loan characteristics. The estimated fair value of other loans is determined by discounting future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

#### Deposits

The estimated fair value of deposits with no stated maturity, such as non-interest-bearing demand deposits, savings, NOW and super NOW accounts and money market accounts, is equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair value of certificates of deposit is based on the rates currently offered for deposits of similar maturities. The fair value estimates do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market.

#### Borrowings

The estimated fair value approximates carrying value for short-term borrowings. The fair value of long-term fixed rate borrowings is estimated by discounting future cash flows using current interest rates currently offered for similar financial instruments.

#### Junior Subordinated Debentures

Fair value is usually estimated based on quoted market prices of similar instruments. If quoted market prices are not available the fair value is determined by using the discounted value of expected cash flows using market rates.

#### Other Assets and Liabilities

The estimated fair value for cash and due from banks, interest-bearing deposits in other banks, and Federal funds sold is considered to approximate cost because of their short-term nature.

Other assets and liabilities of the Bank that are not defined as financial instruments are not included in the above disclosures, such as property and equipment. Also, non-financial instruments typically not recognized in the financial statements nevertheless may have value but are not included in the above disclosures. These include, among other items, the estimated earnings power of core deposit accounts, the trained work force, customer goodwill, and similar items.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 15. Fair Values of Financial Instruments (Continued)

The following table presents the carrying amount, fair value, and placement in the fair value hierarchy of the Bank's financial instruments not disclosed elsewhere as of December 31, 2022 and 2021. This table excludes financial instruments for which the carrying amount approximates fair value.

December 31, 2022					
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
<b>Financial Assets:</b>					
Loans, net	\$ 508,710,799	\$ 505,118,800	\$ -	\$ -	\$ 505,118,800
<b>Financial Liabilities:</b>					
Deposits	722,368,848	668,341,859	-	668,341,859	-
Long-term borrowings	13,560,596	12,917,615	-	12,917,615	-
Junior subordinated debentures owed to unconsolidated subsidiary trust	3,093,000	1,869,933	-	1,869,933	-
December 31, 2021					
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
<b>Financial Assets:</b>					
Loans, net	\$ 498,051,593	\$ 526,822,569	\$ -	\$ -	\$ 526,822,569
<b>Financial Liabilities:</b>					
Deposits	736,347,767	730,564,769	-	730,564,769	-
Long-term borrowings	16,207,043	16,840,045	-	16,840,045	-
Junior subordinated debentures owed to unconsolidated subsidiary trust	3,093,000	1,799,171	-	1,799,171	-

### Note 16. Fair Value Measurements

ASC Topic 820 Fair Value Measurements and Disclosures provides a framework for measuring and disclosing fair value under generally accepted accounting principles. ASC Topic 820 requires disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis (for example, available-for-sale investment securities) or on a nonrecurring basis (for example, impaired loans and OREO).

ASC Topic 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 Topic 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 describes three levels of inputs that may be used to measure fair value.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 16. Fair Value Measurements (Continued)

#### *Fair Value Hierarchy*

Level 1 – Valuation is based on quoted prices in active markets for identical assets or liabilities.

Level 2 – Valuation is based on observable inputs including quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.

Level 3 – Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

In determining the appropriate levels, the Bank performs a detailed analysis of assets and liabilities that are subject to ASC Topic 820.

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

December 31, 2022				
	Level 1	Level 2	Level 3	Fair Value
<b>Securities available-for-sale:</b>				
U.S. Treasury and obligations of U.S. government agencies	\$ -	\$ 39,090,806	\$ -	\$ 39,090,806
Obligations of States and political subdivisions	-	12,882,991	-	12,882,991
Mortgage-backed securities and CMOs	-	84,318,894	-	84,318,894
	-	136,292,691	-	136,292,691
<b>Equity</b>	-	3,949,229	-	3,949,229
<b>Total</b>	\$ -	\$ 140,241,920	\$ -	\$ 140,241,920
December 31, 2021				
	Level 1	Level 2	Level 3	Fair Value
<b>Securities available-for-sale:</b>				
U.S. Treasury and obligations of U.S. government agencies	\$ -	\$ 17,308,214	\$ -	\$ 17,308,214
Obligations of States and political subdivisions	-	9,089,750	-	9,089,750
Mortgage-backed securities and CMOs	-	37,647,436	-	37,647,436
	-	64,045,400	-	64,045,400
<b>Equity</b>	-	4,466,187	-	4,466,187
<b>Total</b>	\$ -	\$ 68,511,587	\$ -	\$ 68,511,587

Level 1 securities are based on quoted market prices. When quoted market prices are not available, Level 2 securities are based on the data provider's logic matrix table for quoted market prices of comparable instruments. Level 3 securities are valued by default matrix pricing. The Company obtains fair value measurements from an independent pricing service.

The Bank had no significant transfers of available-for-sale securities in which the fair value measurements are valued on a recurring basis between Level 1 and Level 2 during the periods ending December 31, 2022 or 2021.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 16. Fair Value Measurements (Continued)

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

December 31, 2022				
	Level 1	Level 2	Level 3	Fair Value
<b>Impaired loans</b>	\$ -	\$ -	\$ 8,215,093	\$ 8,215,093
<b>OREO</b>	-	174,975	-	174,975
<b>Total</b>	\$ -	\$ 174,975	\$ 8,215,093	\$ 8,390,068

December 31, 2021				
	Level 1	Level 2	Level 3	Value
Impaired loans	\$ -	\$ -	\$ 14,423,095	\$ 14,423,095
OREO	-	234,975	-	234,975
Total	\$ -	\$ 234,975	\$ 14,423,095	\$ 14,658,070

The Bank is predominantly a cash flow lender with real estate serving as collateral on a majority of loans. In accordance with ASC Topic 310 Receivables, loans which the Bank has deemed to be impaired financial assets are primarily valued on a nonrecurring basis at the fair values of the underlying real estate collateral. The Bank determines such fair values from independent appraisals. When appropriate, management may also reduce the independent appraised value based on the current listing price of real estate for sale, prior experience in selling similar real estate or other factors not considered in the independent appraisal. In addition, on non-collateral dependent TDRs the impairment is measured as the present value of expected future cash flows discounted at the loan's original effective interest rate. All impaired loans are classified as Level 3 inputs.

#### Non-Financial Assets and Non-Financial Liabilities:

Application of ASC Topic 820 to non-financial assets and non-financial liabilities became effective January 1, 2009. The Corporation has no non-financial assets or non-financial liabilities measured at fair value on a recurring basis. Certain non-financial assets and non-financial liabilities typically measured at fair value on a non-recurring basis include foreclosed assets (upon initial recognition or subsequent impairment), non-financial assets and non-financial liabilities measured at fair value in the second step of a goodwill impairment test, and intangible assets and other non-financial long-lived assets measured at fair value for impairment assessment.

In accordance with ASC Topic 360 Property, Plant and Equipment, foreclosed real estate (OREO) was adjusted to their fair values, resulting in an impairment charge, which was included in earnings for the year. Foreclosed real estate, which are considered to be non-financial assets, have been valued using a market approach. The values were determined using current market prices of similar real estate assets, less costs to sell, which the Bank considers to be Level 2 inputs.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 17. Date of Management's Review

In preparing the financial statements, the Bank has evaluated events and transactions for potential recognition or disclosure through February 3, 2023, the date that the financial statements were available to be issued.

### Note 18. Parent Company Financial Information

Comparative Balance Sheets, Statements of Income, and Statements of Cash Flows for HSB Bancorp, Inc. (Parent Only) are presented below:

#### BALANCE SHEETS December 31, 2022 and 2021

	2022	2021
<b>ASSETS</b>		
Cash and due from banks	\$ 72,003	\$ 70,731
Investment in Bank	67,599,052	67,756,029
Investment in the HSB Statutory Trust I	93,000	93,000
Other assets	26,780	18,834
Total assets	\$ 67,790,835	\$ 67,938,594
<b>LIABILITIES</b>		
Borrowed funds from subsidiary	\$ 3,093,000	\$ 3,093,000
Accrued interest payable on borrowed funds	8,530	2,645
Total liabilities	3,101,530	3,095,645
<b>STOCKHOLDERS' EQUITY</b>		
Common stock	16,171	16,171
Surplus	6,201,001	6,201,001
Retained earnings	66,619,209	58,772,644
Accumulated other comprehensive loss	(8,147,076)	(146,867)
Total stockholders' equity	64,689,305	64,842,949
Total liabilities and stockholders' equity	\$ 67,790,835	\$ 67,938,594

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 18. Parent Company Financial Information (Continued)

The borrowed funds from subsidiary balance represent the junior subordinated debt securities payable to the wholly owned subsidiary trust that was deconsolidated as a result of applying the provisions of FIN 46. The Company continues to guarantee the capital securities issued by the trust, which totaled **\$3,000,000** at December 31, 2022 (see Note 7 for further discussions on FIN 46R).

#### STATEMENTS OF INCOME Years Ended December 31, 2022 and 2021

	<b>2022</b>	2021
Dividend income from bank	\$ 1,720,184	\$ 1,435,603
Undistributed net income of bank	7,843,231	4,291,977
Other operating income	3,372	1,893
Other operating expenses	(129,677)	(91,199)
Income before taxes	9,437,110	5,638,274
Income tax benefits (*)	(26,524)	(18,754)
<b>NET INCOME</b>	<b>\$ 9,463,634</b>	<b>\$ 5,657,028</b>

(\*) Benefits from filing a consolidated federal income tax return.

#### STATEMENTS OF CASH FLOWS Years Ended December 31, 2022 and 2021

	<b>2022</b>	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 9,463,634	\$ 5,657,028
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed net income of subsidiary	(7,843,231)	(4,291,977)
Changes in assets or liabilities:		
(Increase) decrease in other assets	(7,947)	1,206
Increase (decrease) in liabilities	5,885	(18)
Net cash provided by operating activities	1,618,341	1,366,239
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid	(1,617,069)	(1,374,509)
Net cash used in financing activities	(1,617,069)	(1,374,509)
<b>Net increase (decrease) in cash</b>	<b>1,272</b>	<b>(8,270)</b>
<b>Cash, beginning of year</b>	<b>70,731</b>	<b>79,001</b>
<b>Cash, end of year</b>	<b>\$ 72,003</b>	<b>\$ 70,731</b>

# **OFFICERS & DIRECTORS**

*As of December 31, 2022*

## **OFFICERS – HSB BANCORP, INC.**

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**DONNA K. DEFINO, CPA, MBA, President**

**KIMBERLY T. THOMAS, CPA, Vice-President & Secretary/Treasurer**

**CATHY D. BRINSFIELD, Vice-President & Assistant Secretary**

## **SENIOR OFFICERS – HEBRON SAVINGS BANK**

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**DONNA K. DEFINO, CPA, MBA, President & Chief Executive Officer**

**CATHY D. BRINSFIELD, Executive Vice-President & Chief Operating Officer**

**KIMBERLY T. THOMAS, CPA, Executive Vice-President & Chief Financial Officer**

**JOHN A. CRAIG, Senior Vice-President & Chief Technology Officer**

**LORANCE J. ROHLFING, Senior Vice-President & Chief Credit Officer**

## **DIRECTORS – HSB BANCORP, INC. & HEBRON SAVINGS BANK**

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**VICTOR H. LAWS, III, Chairman of the Board**

**JOSEPH L. GAST**

**MARK S. HOLLOWAY**

**CHARLES W. KELLY**

**BRENT C. MILLER**

**MELANIE B. TAWES**

**THOMAS C. THOMPSON**

**SUSAN WILGUS-MURPHY**

## **HONORARY DIRECTORS – HSB BANCORP, INC. & HEBRON SAVINGS BANK**

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**ROBERT E. HOLLOWAY**

**E. SCOTT TAWES**

**EDWARD Q. WILGUS**

**EDWARD C. WRIGHT**

*This annual report has not been reviewed, or confirmed for accuracy or relevance, by the Federal Deposit Insurance Corporation.*

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## ***Branch Locations***

### **HEBRON**

101 N. Main Street • P.O. Box 59 • Hebron, MD 21830  
410.749.1185 • Fax 410.543.0703

### **SALISBURY**

415 E. Carroll Street • Salisbury, MD 21804  
410.742.8526 • Fax 410.742.8630

Quantico Square • 1008 W. Main Street • Salisbury, MD 21801  
410.543.9183 • Fax 410.543.9401

1310 Mt. Hermon Road • Salisbury, MD 21804  
410.546.8118 • Fax 410.546.8050

543C Riverside Drive • Salisbury, MD 21801  
410.341.6670 • Fax 410.341.6678

2730 North Salisbury Boulevard • Salisbury, MD 21801  
410.548.2233 • Fax 410.548.9706

### **FRUITLAND**

108 E. Cedar Lane • Fruitland, MD 21826  
410.860.4884 • Fax 410.860.2662

### **SHARPTOWN**

303 Main Street • P.O. Box 236 • Sharptown, MD 21861  
410.883.3121 • Fax 410.883.2322

### **VIENNA**

100 Market & Race Streets • P.O. Box 158 • Vienna, MD 21869  
410.376.3186 • Fax 410.376.0343

### **CAMBRIDGE**

6 Cedar Street • Cambridge, MD 21613  
410.228.9202 • Fax 410.228.5787

2801 Ocean Gateway • Cambridge, MD 21613  
410.228.2440 • Fax 410.228.2446

### **PRINCESS ANNE**

30499 Mount Vernon Road • Princess Anne, MD 21853  
410.651.1722 • Fax 410.749.5528

### **CRISFIELD**

57 Richardson Avenue • Crisfield, MD 21817  
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