Investing In Our
Communities

2022 ANNUAL REPORT

CHF Community Heritage Financial, Inc.

Letter to Our Shareholders

Dear Shareholders,

Throughout 2022, Community Heritage Financial, Inc. ("CHF" or the "Company") continued our unwavering commitment to investing in the communities we serve. We view community as more than just our customers, but also our shareholders, employees, and all those living and working in our geographic footprint. As we continue to grow and approach one billion dollars in assets, we must continuously reevaluate what we are doing and how we are doing it. Our leadership team knows we must stay true to the core values that helped us grow from $134 million in assets to $930 million in a span of just ten years. However, we recognize that past success does not guarantee future success. Our communities must believe they can rely on our direction and support during any season or economic condition. In the last year, we have continued investing in the local economy, the education of our future community leaders, and the development of team members.

Investing in Industry

The CHF footprint is continually growing. Ten years ago, Middletown Valley Bank ("MVB" or "the Bank") had five branches. Today, we have eight branches, three loan production offices, a credit servicing center, operations center, and a new commercial business development office. As we grow, we continue to develop new relationships and foster existing ones. The Company believes that reinvigorating existing spaces is a great way to support local economies. We put this belief into practice in 2022 when we moved our Credit Servicing Center to 498 North Potomac Street in Hagerstown, which shares a parking lot with our Operations Center. This provided a tremendous opportunity to bring our team members closer together and has allowed for a more collaborative working environment. Together, these facilities house over 85 employees, many of whom live locally and support local businesses.

Investing in Education

We recognize that today's youth are the leaders of tomorrow. In 2022, MVB proudly announced a partnership with Hagerstown Community College to provide four new scholarships annually to students in our region. For many years, our employees have partnered with local schools and civic organizations to provide financial literacy education, in addition to outreach efforts within the senior community regarding fraud awareness and prevention. Two financial literacy partnerships that stand out are the budgeting courses we have taught to the women from Brooke's House and the caretakers associated with Children of Incarcerated Parents Partnership (COIPP), many of whom ended up opening accounts with the Bank. Our employees give their time with several other organizations, volunteering over 1,600 hours in 2022. The Company also financially supports local youth organizations, such as Big Brothers Big Sisters, Girls, Inc., the Boys & Girls Club, COIPP, and Children in Need, among many others. Additionally, this is the Bank's third year offering a Bank On-certified checking account, SimpleSpend, which promotes learning positive and effective banking habits.

Investing in Our Team

As the Company has grown in assets, locations, and earnings, our team has also grown. We had 35 employees a decade ago, and today we have over 180. In that time, many talented and experienced professionals have joined the team. We recognize the importance of culture and inclusivity and attracting and retaining top-tier, diverse talent. We are committed to ensuring our employee compensation practices are in line with the market, and that employees receive the training they need to effectively perform their jobs. In 2022, we implemented two leadership programs referred to as Peer Coaching and Leadership Development. We also recognize the importance of having a board of directors diversified in their experiences to provide guidance and leadership for our team. We welcomed Frankie Corsi III to the CHF and MVB boards in 2022. Mr. Corsi is the President of Beachley Furniture Company in Hagerstown, MD, and previously served as the Chief Financial Officer of Ridgecrest Investments in Frederick, MD after serving time as a CPA with Linton, Shafer, Warfield & Garrett, a tax, accounting, and business consulting firm.

Investing for Results

The Company's strong financial performance year over year is a direct result of our team's investment and commitment to supporting our local economies. Total assets reached a record-breaking high of $930.1 million at 2022-year end, which is a 14% increase over year-end 2021. The Bank achieved 22% core loan growth and 14% in deposit growth

and recorded no borrowings or brokered funds at year end. Net income for the Company was $6.9 million, with earnings per share of $2.85, as compared to a net income of $6.0 million and earnings per share of $2.67 for the prior year.

Our credit quality remains strong with optimal loan portfolio diversity and segmentation. Our risk management measures, along with our team's expertise, has allowed us to achieve 0.03% delinquent loans as of December 31, 2022.

The continued organic growth of the organization necessitated the need for additional capital. In October of 2022, the Company successfully closed on its underwritten public offering of 649,526 shares at a price of $21.00 per share. The offering resulted in gross proceeds to the Company of approximately $12.2 million.

As we look ahead at the coming year, our focus will be on doing what we do best - providing our customers with the "Absolutely Exceptional Experience" and continuing to improve our communities. We appreciate the opportunity to have you as one of our customers and thank you for your continued loyalty and confidence.

Robert E. (BJ) Goetz, Jr.
President and Chief Executive Officer

James G. Pierne
Chairman of the Board

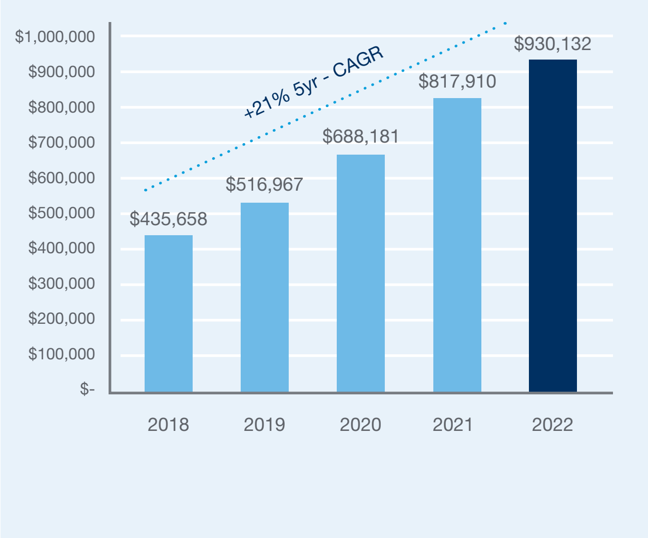
Financial Highlights

As of and for the years ended December 31
(dollars in thousands, except ratios and per common share data)

Earnings Data ($):	**2022**	**2021**	**2020**	**2019**	**2018**
Net interest income	27,459	24,174	19,641	16,602	13,646
PPP loan interest and fee income (included in net interest income above)	416	2,785	1,586	-	-
Provision for loan losses	813	3,079	3,253	763	582
Non-interest income	3,929	7,010	8,264	3,826	1,174
Non-interest expense	21,257	19,899	18,945	16,105	11,569
Net income	6,856	6,015	4,127	2,631	1,968
Common Share Data ($):					
Basic earnings per common share	2.85	2.67	1.83	1.17	0.88
Diluted earnings per share	2.84	2.67	1.83	1.17	0.88
Dividends paid per common share	0.16	0.16	0.16	0.12	0.09
Book value per common share (end of period)	23.10	25.30	23.52	21.60	20.12
Tangible book value per common share (end of period)	22.53	24.56	22.78	20.86	20.12
Weighted average common shares outstanding	2,408,516	2,251,320	2,251,320	2,250,064	2,233,820
Selected Statistical Data (%):					
Net interest margin	3.21	3.32	3.16	3.63	3.60
Return on average assets	0.78	0.80	0.64	0.55	0.53
Return on average common equity	11.99	10.86	8.08	5.55	4.74
Efficiency ratio	67.86	64.19	69.74	78.84	78.10
Financial Condition Data ($):					
Total assets	930,132	817,910	688,181	516,967	435,658
Loans	748,451	610,501	558,967	429,335	357,742
PPP loans (included in loans above)	-	13,274	50,026	-	-
Allowance for loan losses	7,330	6,500	7,480	4,235	3,593
Securities	140,516	144,019	72,439	42,641	47,967
Deposits	839,430	736,685	599,560	446,707	388,544
Borrowings	-	1,887	8,558	289	-
Subordinated debt	14,843	14,753	14,664	14,574	-
Shareholder's equity	67,141	56,955	52,960	48,635	44,944
Non-performing assets	1,728	2,091	1,007	1,856	3,184
Ratios (%):					
Loans to deposits	89.16	82.87	93.23	96.11	92.07
Allowance for loan losses to total loans	0.98	1.06	1.34	0.99	1.00
Allowance for loan losses to total loans (excl. PPP Loans)	0.98	1.09	1.47	-	-
Non-performing assets/loans + OREO	0.23	0.34	0.18	0.27	0.69
Non-performing assets/total assets	0.19	0.26	0.15	0.22	0.56
Average shareholders' equity to average total assets	6.54	7.41	7.99	9.87	11.20
Tangible common equity to tangible common assets	7.05	6.77	7.47	9.11	10.32
Tier 1 capital to risk-weighted assets	12.22	11.33	-	14.37	13.52
Total risk-based capital	13.33	12.58	-	15.37	14.77
Tier 1 leveraged capital to total average assets	9.53	8.57	-	11.76	10.64
Community Bank Leverage Ratio (CBLR)	-	-	9.11	-	-

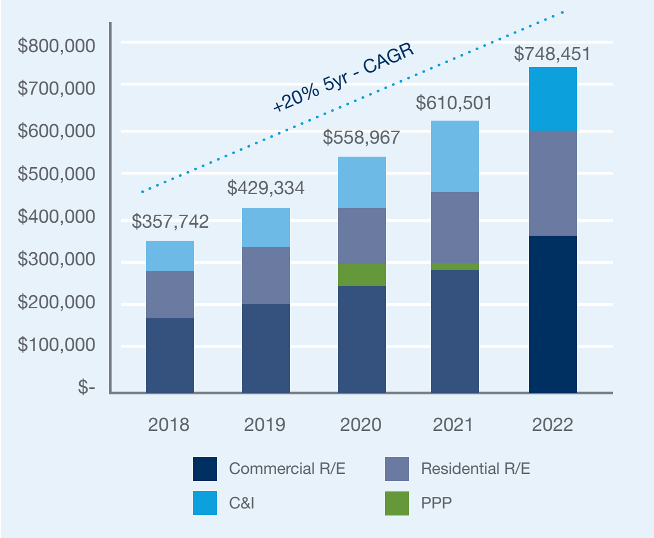
Management Discussion and Analysis

Total Assets



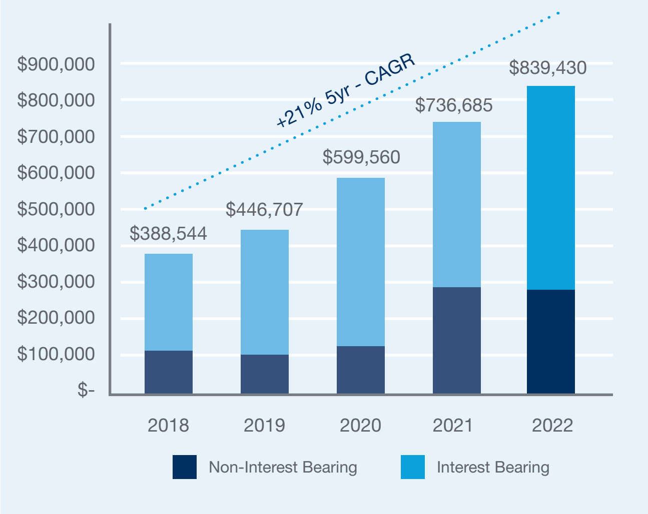
Total assets were $930 million at December 31, 2022, an increase of $112.2 million or 14% year over year. Balance sheet growth was driven by loan growth of $137.9 million or 23%, which included a decrease of $13.3 million in Paycheck Protection Program (PPP) loan payoffs and a decrease in securities of $3.5 million. The year over year growth was funded by core deposit growth of $66.5 million and net income of $6.9 million. The five-year compounded annual growth rate for total assets was 21%.

Loan Totals and Mix



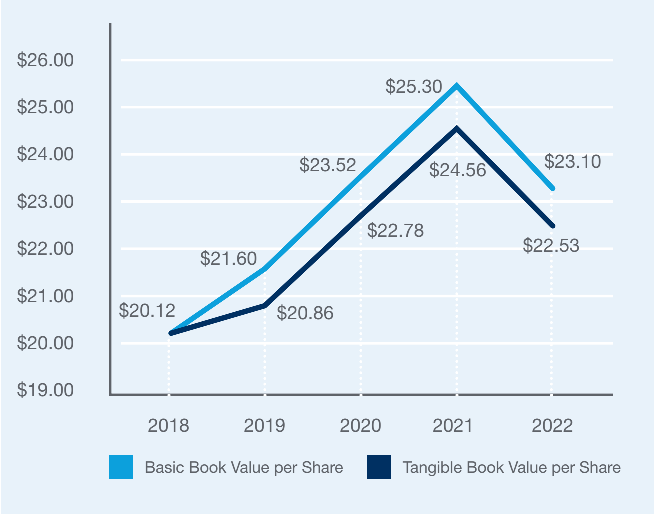
Total loans at December 31, 2022 were $748 million, comprised of commercial real estate (CRE) of $362 million (48% of total loans), residential real estate of $232 million (32% of total loans), commercial & industrial (C&I) of $150 million (20% of total loans), consumer loans of $1 million (less than 1% of total loans) and net deferred costs of $3.1 million (less than 1% of total loans). During 2022, growth in CRE (up $82 million) and residential real estate (up $75 million) accounted for the majority of the loan growth. The five-year compounded annual growth rate for the loan portfolio was 20%.

Deposit Totals and Mix



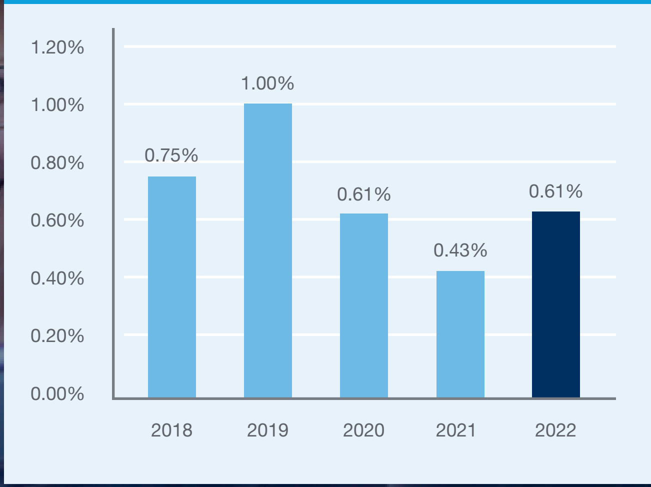
Total deposits were $839 million at December 31, 2022, an increase of $103 million or 14% when compared year over year to 2021. Non-interest bearing deposits totaled $277 million (33% of total deposits) at year-end 2022, up $4.4 million, or 1.6% for the year. Interest bearing deposits totaled $563 million (67% of total deposits) at year-end 2022, increased $98.3 million or 21.2% year over year. The five-year compounded annual growth rate was 21%.

Net Book Value Per Share



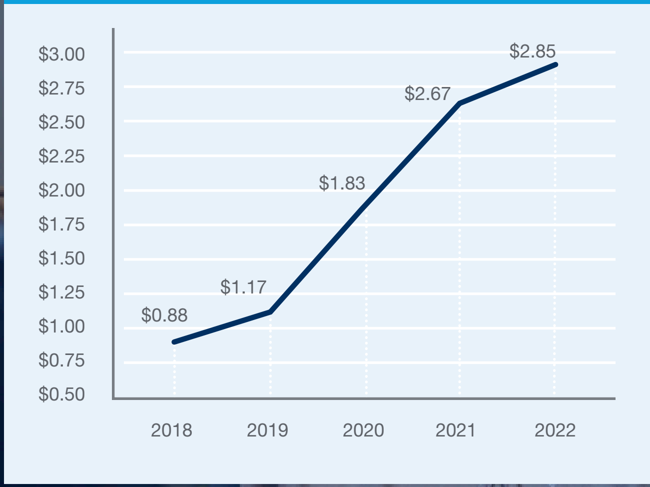
Book value per share decreased $2.20 or 8.7% per share and tangible book value decreased $2.03 or 8.3% per share in 2022. Tangible book value per share excludes goodwill of $1.7 million (no impairment) from the Mlend acquisition in 2019. The decrease in common share value results from an increased unrealized loss in accumulated other comprehensive income (AOCI) from $893 thousand as of December 31, 2021 to a loss of $9.5 million as of December 31, 2022.

Cost of Funds



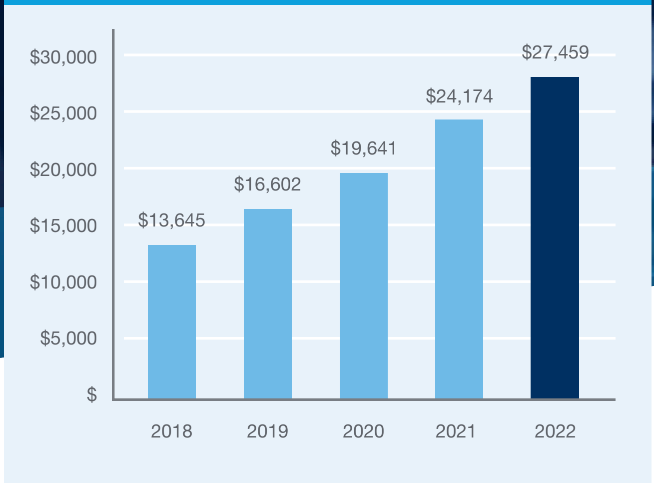
Cost of funds for the Bank increased to 0.61% for 2022, an 18 basis point increase from 0.43% in 2021. The seven Fed funds rate increases in 2022 brought the Fed funds rate to 4.50% - 4.75% at the end of 2022, thereby increasing rates locally and nationally throughout 2022.

Earnings Per Share



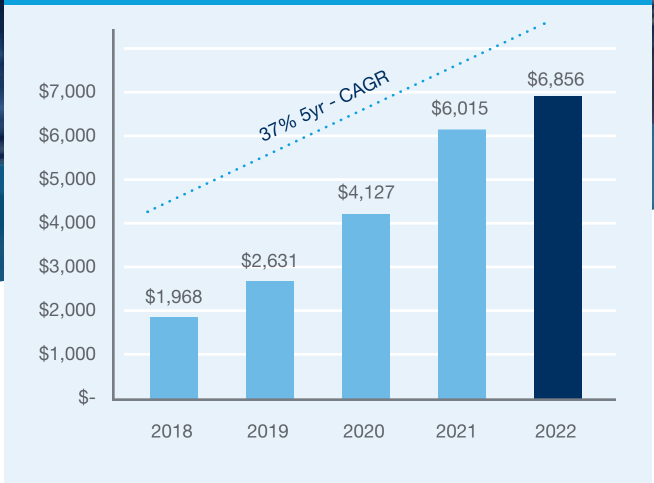
Earnings per share (EPS) increased $0.18 or 6.74% in 2022. Contributing to the increase in EPS was the increase in loan interest and fee income and the decrease in loan provision expense.

Net Interest Income



Net interest income increased by $3.3 million or 14%, in 2022 compared to 2021. Contributing to this increase was the strong loan growth of $137.9 million or 22.6%, off-setting the 18 basis point increase in the cost of funds to 0.61% in 2022 from 0.43% in 2021.

Net Income



Consolidated net income for 2022 was $6.9 million, an increase of $840 thousand or 14% compared to 2021. Interest income increased $5.3 million compared to 2021, contributing to the net income increase in 2022. The five-year compounded annual growth rate for net income was 37%.

Working for Our Communities in 2022

170

Supported over 170 organizations & families

1,680

Employees gave over 1,680 hours to local non-profit organizations

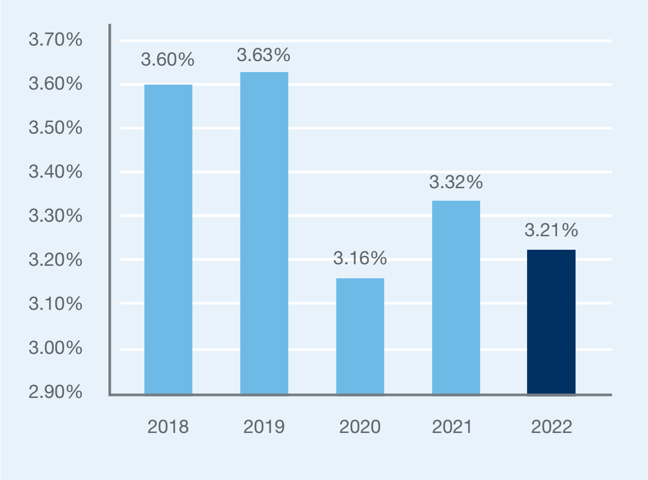
$1M

Invested $1 million in projects that impact LMI communities

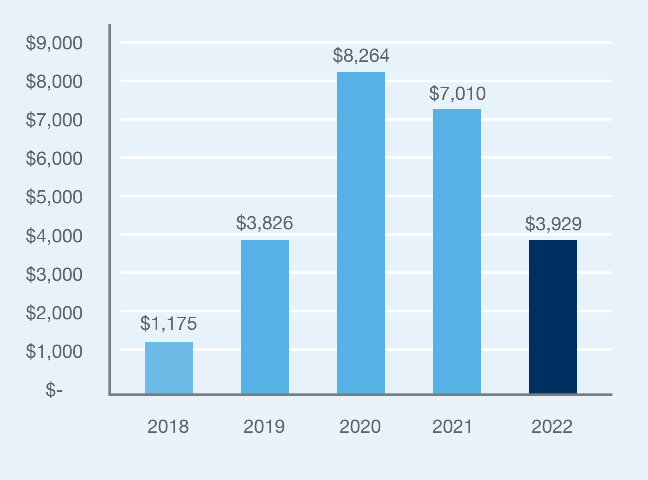
$5.8M

Funded over $5.8 million in community development loans

Net Interest Margin



Non-Interest Income



Net interest margin decreased by 11 basis points in 2022 versus 2021. A higher cost of funds of 0.61% was a contributing factor of the decrease in margin, partially offset by a slight increase in the yield on earning assets to 3.79%.

Non-interest income decreased $3.1 million compared to 2021. The majority of this decrease was due to a decrease in the gain on sale of loans by $3.6 million from year end 2022 compared to 2021.

Investing in Education

Hagerstown Community College

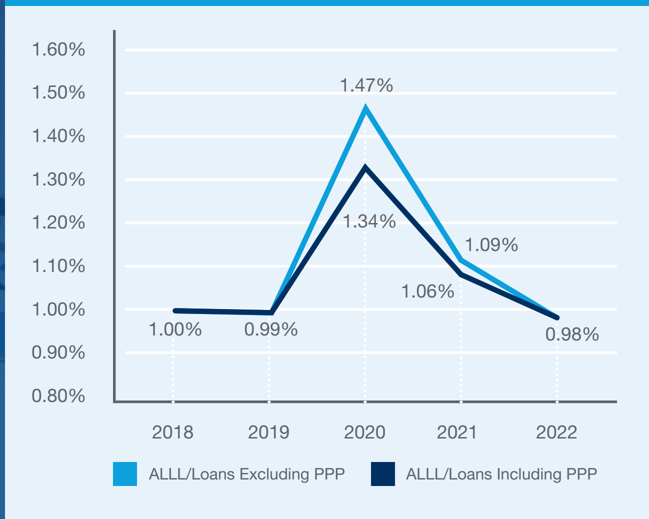
Hagerstown Community College (HCC) opened in 1946 as the first community college in Maryland. Since that time, the college has served more than 175,000 students and awarded over 25,000 degrees and certificates. HCC offers more than 100 programs of study, as well as non-credit continuing education classes, training programs, and developmental courses. Roughly two of three HCC students receive financial aid, with the HCC Foundation awarding more than $500,000 annually in student scholarships.

In April of 2022, Middletown Valley Bank announced it was donating $100,000 to establish four new scholarships at Hagerstown Community College. The scholarships will be for students with a focus in one of the following four areas: Business & Finance, Allied Health & Nursing, Technology & Computer Science, and Education & Childcare. The Bank chose these fields because they are viewed as essential to the health and economic development of the local communities. HCC students from Washington County and Frederick County, Maryland, as well as Franklin County, Pennsylvania and Berkeley County, West Virginia are eligible to apply for the scholarships.

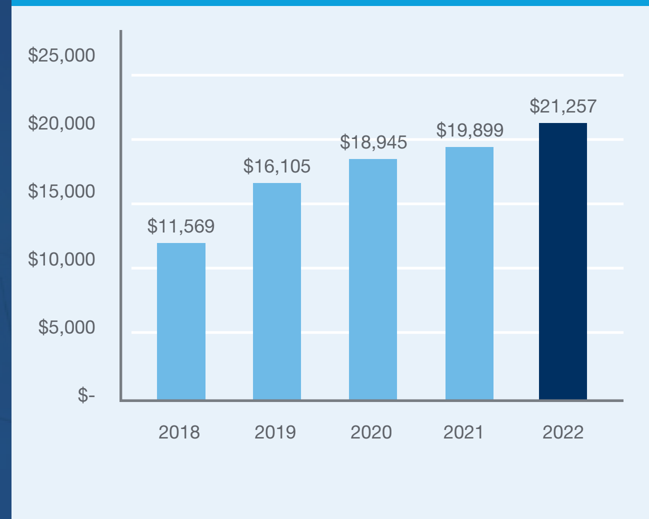
"Middletown Valley Bank is a true community partner and supporter. They have made a serious commitment to our students that will help them on the road to success. We are also grateful that many of our students have found rewarding careers working for Middletown Valley Bank after they graduated from HCC. Working together to grow a better trained workforce that leads to a greater community is what it is all about," said Dr. James Klauber, President of Hagerstown Community College.

Ryan Lampton, the Bank's Executive Vice President & Regional President West, adds, "The college is pivotal to the growth and wellbeing of Washington County and the surrounding counties in Pennsylvania and West Virginia. The local communities we serve are full of intelligent and promising young individuals, and we cannot wait to see how this investment positively impacts the lives of those students in the generations to come."

Allowance for Loan Losses to Total Loans



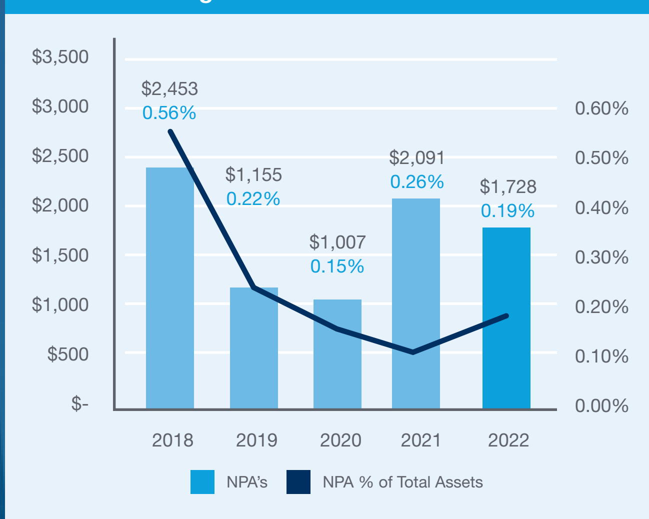
Non-Interest Expense



Due to improved economic and credit metrics used in the incurred loss model, the allowance for loan losses to total loans decreased to 0.98% as of December 31, 2022 compared to 1.06% as of December 31, 2021. In addition, contributing to the higher allowance for loan losses to loans in 2021 was an isolated charge off totaling $4.6 million with an associated recovery prior to year end 2021 of $540 thousand.

Non-interest expense increased $1.4 million or 6.8% in 2022, compared to 2021. The majority of the increase is related to salaries and employee benefits which increased $652 thousand. Data processing expense increased $399 thousand as a result of the balance sheet growth during 2022. Occupancy and equipment expense increased $298 thousand, mostly the result of opening a new branch in Pennsylvania in May of 2021. Deposit growth during 2022 contributed to an increase of $138 thousand in FDIC premiums. While assets grew 13.7% year over year, operating expenses were held at 6.8%.

Non-Performing Assets



Non-performing assets (NPAs) decreased as of December 31, 2022 by $363 thousand compared to year-end 2021. As a percent of total assets, NPAs decreased 7 basis points from 0.26% in 2021 to 0.19% in 2022. The Bank continues to have strong credit quality and stresses credit quality as a major initiative in conjunction with the rapid growth of the loan portfolio.

Investing in Industry

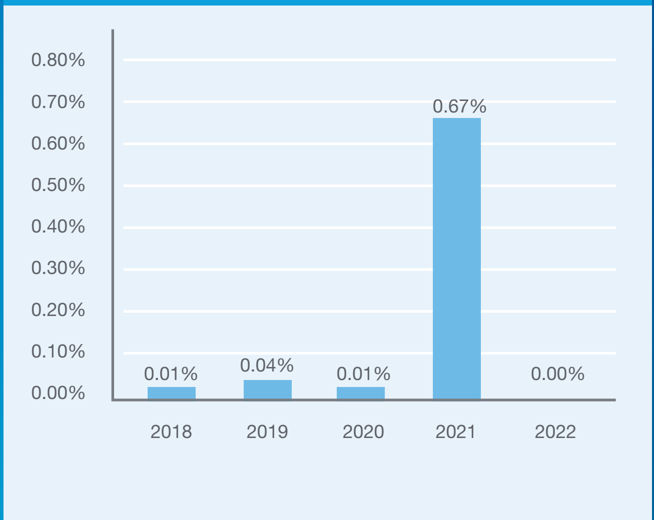
Maryland Metals

Maryland Metals Inc opened in 1937 and has been providing jobs in Hagerstown for over 85 years, employing skilled laborers such as fabricators, welders, class A CDL drivers, equipment operators, and workers who specialize in accounting, sales, and buying. The company provides metal recycling and processing for businesses and individuals, with two scrap metal recycling locations that can accommodate both small- and large-scale industrial recycling, as well as a steel products division. The latter location is their newest, providing steel products and fabrication services, including heavy bending, forming, and rolling.

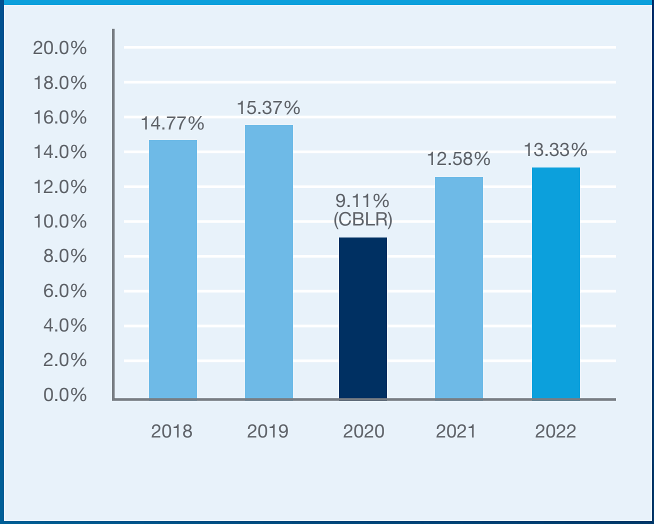
The business was purchased by John Baranowske and Barry Harbaugh in November of 2021, who bring a combined 62 years of experience in the metal recycling industry. Maryland Metals Inc began its relationship with Middletown Valley Bank during the COVID-19 pandemic. “Sam Buhrman and Kathy Stevens were instrumental in helping the company receive the PPP loan,” said owners John and Barry. “This loan led to a continued business relationship with Sam and MVB, as the Bank helped finance an equipment project. We ultimately returned to MVB again to provide us with the financing to purchase Maryland Metals Inc on November 15, 2021. MVB made our purchase and transition from employees to owners a pleasant and smooth one.”

The organization believes in the importance of philanthropy and sustainability. It supports the Hagerstown Community Concert Association, which provides live entertainment at The Maryland Theatre. Additionally, John and Barry recognize that recycling and reuse are important to a sustainable society, and they truly believe that their facilities and operations reflect that commitment.

Net Charge-Offs/Average Loans



Total Risk-Based Capital



Net charge-offs decreased due to a recovery of $18 thousand year-end 2022, resulting in net charge off to loans of 0.00%. In 2021, due to an isolated COVID related loan charge-offs totaling $4.6 million, the net charge-off to loans was 0.67%. The Bank entered into a forbearance agreement related to the charge-off and recorded $540 thousand in recoveries in 2021. Management has performed a thorough review of the loan portfolio throughout 2022 and credit quality remains strong.

During 2022, the Company added $12.2 million (approx.) in capital through an underwritten common stock offering of 649,526 shares, $11 million of which was allocated to the Bank to support continued asset growth. As of September 2021, the Bank reverted back to Basel III from the Community Bank Leverage Ratio (CBLR), which was implemented for the year 2020. Under Basel III, the minimum requirement for total risk-based capital is 8% to be considered well capitalized, and the Company was well capitalized for all periods reflected above.

Investing in Our Team

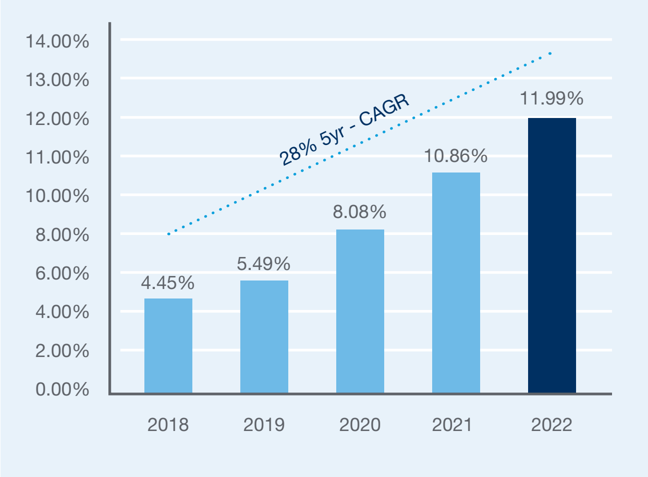
Brenda Shane and Michael Pallansch

Middletown Valley Bank implemented Peer Coaching and Leadership Training programs at the beginning of 2022 to help prepare employees for current and future leadership opportunities. Employees in these programs met monthly and participated in interactive workshops on topics such as effective communication tactics, relationship building, and giving and receiving feedback. As both groups concluded their sessions in December, it was clear that strong and lasting relationships were built across departments and locations. Throughout the workshops, several employees mentioned that, rather than sending an email to one of their peers, they now felt comfortable picking up the phone and making a call.

Brenda Shane, VP – Commercial Credit Manager, participated in Peer Coaching, and found the experience to be very beneficial. "For me, one of the most important aspects of the Peer Coaching program was that it was a direct investment by the Company in my personal growth and professional development," said Brenda. A few pieces of advice that stuck out most to her included, "Listen to understand, not to respond; feedback should be as detailed as possible to help others successfully achieve the desired outcome; be willing to give and receive constructive feedback; and tailor your communication in a way that best reaches your intended audience."

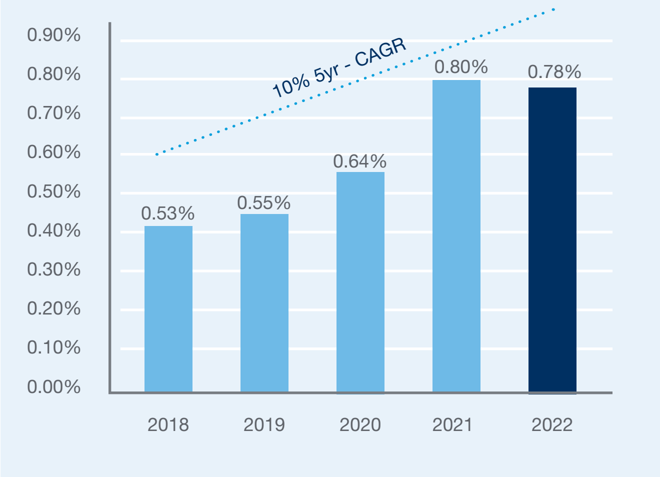
Michael Pallansch, AVP – Retail Branch Manager of the Middletown Branches, attended Leadership Training throughout 2022. He explained his experience by saying, "This program taught me a lot about myself and the type of leader I am. Leadership Training encouraged me to step out of my comfort zone for my team and to start operating a little differently. While I was very intimidated on day one, by the end of Leadership Training, I had a tool belt full of new ways to approach situations in the branch and with my team. However, the best part of Leadership Training, in my opinion, was the opportunity to spend time with other leaders in the organization and understanding that even though our jobs are so different, and we are so different as individuals, we are all in the same boat together working toward the same goal."

Return on Average Equity



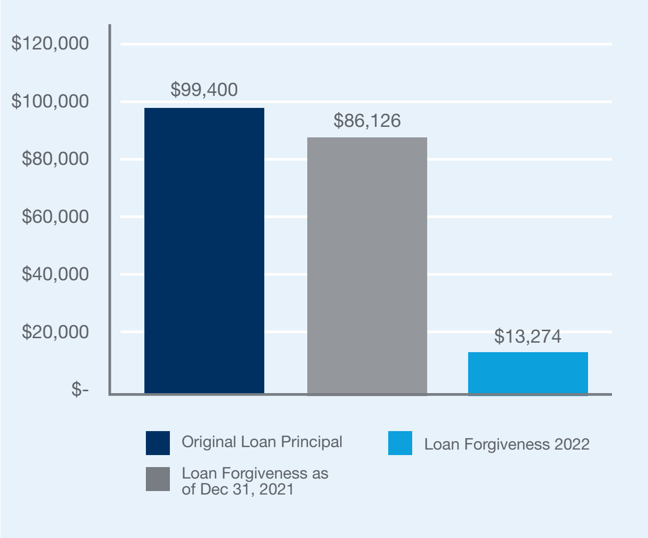
Return on average equity (ROAE) was 11.99% in 2022, an increase of 1.13% over 2021. Strong balance sheet growth of $112 million and record net income at $6.9 million in 2022 contributed to continued growth in shareholder value. The five-year compounded annual growth rate for ROAE is 28%.

Return on Average Assets



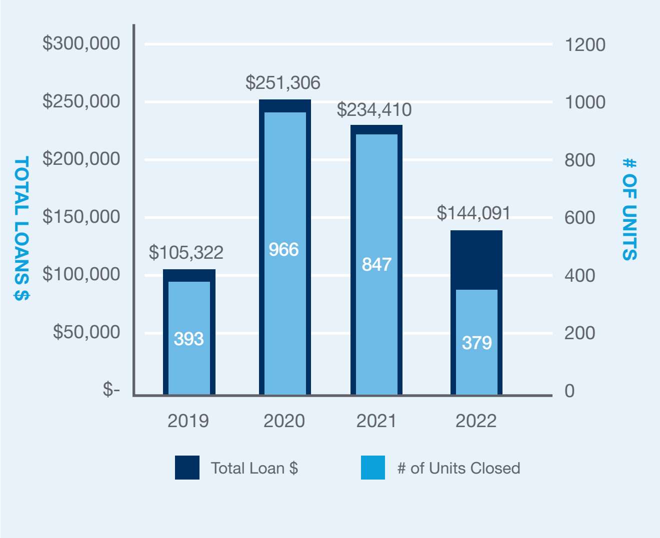
Return on average assets (ROAA) decreased 2 basis points to 0.78% in 2022 compared to 0.80% in 2021. In 2022, continued upgrades to the infrastructure supported the growth and earnings for the Company and shareholders. The Company grew in assets by $112 million or 14% when compared to 2021 and net income increased $840 thousand or 14% for 2022. The five-year compounded annual growth rate for ROAA is 10%.

Paycheck Protection Program



The Company participated in the SBA Paycheck Protection Program to extend small business loans to community businesses experiencing financial hardships during the pandemic. In doing so, the Company supported the retention of over 11,500 jobs in the local community through $99.4 million in PPP loans. At year end 2022, all PPP loans had been granted forgiveness.

Mlend Production



Mlend's mortgage loan production was $144.1 million (379 units) in 2022, compared to $234.4 million (847 units) in 2021. The decrease in production in 2022 was a result of higher market rates for mortgage related products, and lower consumer demand.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders
Community Heritage Financial, Inc.
Middletown, Maryland

Opinion

We have audited the consolidated financial statements of Community Heritage Financial, Inc. and its subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, the related consolidated statements of income, comprehensive (loss) income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 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 (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Other Information Included in the Annual Report

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

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

Yount, Hyde & Barbour, P.C.

Roanoke, Virginia
March 29, 2023

COMMUNITY HERITAGE FINANCIAL, INC. and SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

For the Years Ended December 31, 2022 and 2021

	December 31,	
	2022	**2021**
Assets		
Cash and due from banks	$ 15,393,207	$ 41,255,045
Securities available-for-sale, at fair value	39,510,486	144,019,313
Securities held-to-maturity (fair value - $90,685,097 as of December 31, 2022)	101,005,393	-
Total Securities	140,515,879	144,019,313
Restricted equity securities	406,400	337,700
Loans	748,450,525	610,501,481
Less allowance for loan loss	7,330,436	6,499,690
Loans, net	741,120,089	604,001,791
Loans held for sale	4,725,495	5,423,358
Premises and equipment, net	7,053,532	6,771,220
Right-of-use assets	2,841,736	2,300,829
Accrued interest receivable	2,616,879	1,971,018
Deferred tax assets	5,277,275	2,140,827
Bank-owned life insurance	6,817,058	6,475,067
Goodwill	1,656,507	1,656,507
Intangible assets	-	695
Other assets	1,708,412	1,556,354
Total Assets	**$ 930,132,469**	**$ 817,909,724**
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Non-interest-bearing demand	$ $276,829,209	$ $272,399,626
Interest-bearing	562,601,082	464,285,443
Total Deposits	839,430,291	736,685,069
Subordinated debt, net of amortized issuance cost	14,843,030	14,753,333
Other borrowings	-	1,887,060
Lease liabilities	2,908,707	2,367,676
Accrued interest payable	236,624	189,842
Other liabilities	5,572,659	5,071,853
Total Liabilities	**862,991,311**	**760,954,833**
Shareholders' Equity		
Preferred stock, par value $.01; shares authorized 1,000,000; no shares issued and outstanding,	-	-
Common stock, par value $.01; shares authorized 10,000,000; shares issued and outstanding at December 31, 2022 and 2021 2,905,973 and 2,251,320, respectively.	29,060	22,513
Additional paid-in-capital	40,861,802	28,537,379
Retained earnings	35,757,761	29,288,449
Accumulated other comprehensive (loss)	(9,507,465)	(893,450)
Total Shareholders' Equity	**67,141,158**	**56,954,891**
Total Liabilities and Shareholders' Equity	**$ 930,132,469**	**$ 817,909,724**

See accompanying notes to the Consolidated Financial Statements

COMMUNITY HERITAGE FINANCIAL, INC. and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2022 and 2021

	December 31, 2022	December 31, 2021
Interest Income		
Loans, including fees	$ 29,365,769	$ 25,386,383
Securities	2,804,729	1,653,013
Fed funds sold and other	200,851	57,272
Total interest income	32,371,349	27,096,668
Interest Expense		
Deposits	3,437,720	1,834,432
Borrowed funds	522,598	135,937
Subordinated debt	952,197	952,197
Total interest expense	4,912,515	2,922,566
Net interest income	27,458,834	24,174,102
Provision for loan losses	812,855	3,079,173
Net interest income after provision for loan losses	26,645,979	21,094,929
Non-interest income		
Service charges on deposits	747,100	734,710
Earnings bank owned life insurance	58,826	162,162
Gain sale of fixed assets	65,448	18,684
Gain sale of securities	-	178,265
Gain on sale of loans	1,220,206	4,809,175
Other secondary market income	854,021	289,049
Other non-interest income	983,348	818,162
Total non-interest income	3,928,949	7,010,207
Non-interest expense		
Salaries and employee benefits	12,098,456	11,446,557
Occupancy and equipment	3,110,087	2,811,633
Legal and professional fees	710,697	712,544
Advertising	276,520	297,595
Data processing	2,661,680	2,262,821
FDIC premiums	570,508	432,975
Other intangible amortization	695	8,333
Other	1,828,549	1,926,580
Total non-interest expense	21,257,192	19,899,038
Income before taxes	9,317,736	8,206,098
Income tax expense	2,462,232	2,190,813
Net Income	**$** 6,855,504	**$** 6,015,285
Basic earnings per share	$2.85	$2.67
Diluted earnings per share	$2.84	$2.67

See Notes to Consolidated Financial Statements

COMMUNITY HERITAGE FINANCIAL, INC. and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

For the Years Ended December 31, 2022 and 2021

	2022	2021
Net income	$ 6,855,504	$ 6,015,285
Other comprehensive (loss):		
Unrealized holding (loss) on securities available for sale (net of tax of $(730,200) and $(586,943), respectively)	(1,923,144)	(1,545,846)
Unrealized holding (loss) on securities transferred from available for sale to held to maturity (net of tax of $2,805,636)	(7,389,261)	-
Reclassification adjustment for amortization of unrealized holding loss from the transfer of available-for-sale securities to held-to-maturity (net of tax of $(265,173))	698,390	-
Reclassification adjustment for gains included in net income (net of tax of $(49,058))	-	(129,207)
Other comprehensive (loss), net of tax	(8,614,015)	(1,675,053)
Comprehensive net (loss) income	$ (1,758,511)	$ 4,340,232

See accompanying notes to the Consolidated Financial Statements

COMMUNITY HERITAGE FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2022 and 2021

	COMMON STOCK	ADDITIONAL PAID-IN-CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL
BALANCE, DECEMBER 31, 2020	$ 22,513	$ 28,523,004	$ 23,633,375	$ 781,603	$ 52,960,495
Net Income	-	-	6,015,285	-	6,015,285
Other comprehensive loss	-	-	-	(1,675,053)	(1,675,053)
Stock based compensation expense	-	14,375	-	-	14,375
Cash dividends ($0.16 per share)	-	-	(360,211)	-	(360,211)
BALANCE, December 31, 2021	$ 22,513	$ 28,537,379	$ 29,288,449	$ (893,450)	$ 56,954,891
BALANCE, DECEMBER 31, 2021	$ 22,513	$ 28,537,379	$ 29,288,449	$ (893,450)	$ 56,954,891
Net Income	-	-	6,855,504	-	6,855,504
Other comprehensive loss	-	-	-	(8,614,015)	(8,614,015)
Stock based compensation expense	-	141,627	-	-	141,627
2022 capital raise (649,526 shares @$21 par $0.01 per share)	6,496	12,195,091	-	-	12,201,587
Restricted stock units vested (7,474, net of 2,347 shares surrendered)	51	(12,295)	-	-	(12,244)
Cash dividends ($0.16 per share)	-	-	(386,192)	-	(386,192)
BALANCE, December 31, 2022	$ 29,060	$ 40,861,802	$ 35,757,761	$ (9,507,465)	$ 67,141,158

See Notes to Consolidated Financial Statements

COMMUNITY HERITAGE FINANCIAL, INC. and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2022 and 2021

	For the Years Ended December 31,	
CASH FLOWS FROM OPERATING ACTIVITIES:	2022	2021
Net Income	$ 6,855,504	$ 6,015,285
Adjustments to reconcile net income to cash resulting from operating activities:		
Depreciation and amortization of premises and equipment	880,914	797,409
Provision for loan losses	812,855	3,079,173
Gain on sales and calls of investment securities	-	(178,265)
Gain on premises and equipment	(65,448)	(18,684)
Gain on sales of loans	(1,220,206)	(4,809,175)
Originations of loans held for sale	(154,767,849)	(290,649,258)
Proceeds from sales of loans held for sale	156,685,918	302,661,556
Amortization of intangibles	695	8,333
Amortization of debt issuance cost	89,697	89,697
Amortization of right-of-use assets	446,502	453,892
Stock based compensation expense	141,627	14,375
Earnings on bank owned life insurance	(58,826)	(162,162)
Deferred tax expense	134,215	550,606
(Increase) decrease in accrued interest receivable	(645,861)	228,471
(Increase) decrease in other assets	(143,201)	558,535
Increase (decrease) in accrued interest payable	46,782	(25,648)
Increase (decrease) in other liabilities	45,571	(4,872,148)
Amortization of premium and discounts on investment securities, net	648,499	635,886
NET CASH PROVIDED BY OPERATING ACTIVITIES	9,887,388	14,377,878
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of securities available for sale and held to maturity	(20,039,542)	(102,477,651)
Proceeds from maturities, repayments and calls of available for sale and held to maturity securities	11,009,799	14,084,518
Proceeds from sales of securities available for sale and held to maturity	-	14,044,239
Proceeds from sales of fixed assets	102,858	57,000
Net (increase) in loans	(137,931,153)	(55,594,566)
(Purchase) sale of FHLB stock, net	(68,700)	124,400
Purchases of fixed assets	(1,200,636)	(1,206,926)
Purchases of the bank owned life insurance	(283,165)	(1,033,164)
NET CASH (USED IN) INVESTING ACTIVITIES	(148,410,539)	(132,002,150)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in non-interest-bearing demand deposits	4,429,583	75,102,421
Net increase in interest-bearing deposits	98,315,639	62,023,024
Net (repayment) of other borrowings	(1,887,060)	(6,671,119)
Net proceeds from sale of common stock	12,189,343	-
Cash dividends paid	(386,192)	(360,211)
NET CASH PROVIDED BY FINANCING ACTIVITIES	112,661,313	130,094,115
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(25,861,838)	12,469,843
CASH AND CASH EQUIVALENTS, BEGINNING BALANCE	41,255,045	28,785,202
CASH AND CASH EQUIVALENTS, ENDING BALANCE	$ 15,393,207	$ 41,255,045
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	$ 4,776,036	$ 2,858,517
Income taxes	$ 1,214,937	$ 3,690,826
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Unrealized (loss) on securities available for sale	$ (2,653,344)	$ (2,311,056)
Unrealized holding losses on securities prior to transfer to held to maturity	$ (10,194,897)	$ -
Amortization of unrealized holding losses on securities transferred to held to maturity	$ 963,563	$ -
Securities transferred from available for sale to held to maturity	$ (106,275,366)	$ -
Reduction in right-of-use assets from termination of lease liabilities	$ (335,588)	$ -
Lease liabilities arising from right-of-use assets	$ 1,331,854	$ 87,825

See accompanying notes to the Consolidated Financial Statements

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations:

Community Heritage Financial, Inc. ("CMHF" or the "Company" on a consolidated basis), the parent company for its wholly-owned subsidiary, Middletown Valley Bank (the "Bank") and subsidiary Millennium Financial Group, Inc. ("Mlend"), was established in November 2018 under the laws of the State of Maryland to serve as the holding company for the Bank. Establishment of the holding company occurred subsequent to an affirmative vote by shareholders and receipt of regulatory approval. Upon formation of the holding company, the Company's reorganization was completed through a one-for-one share exchange in which the Bank's shareholders received one share of CMHF's common stock with a par value of $0.01 in exchange for each share of their $1 par value common stock of the Bank. CMHF is regulated under the Bank Holding Company Act of 1956, as amended, and is subject to regulation, supervision, and examination by the Federal Reserve Board.

Middletown Valley Bank is an independent and community-oriented financial institution offering a full range of retail and commercial banking services to individuals and businesses in its market area. Services are primarily provided to customers located in Frederick County and Washington County, Maryland, as well as the surrounding communities through the Bank's network of eight branch locations. Its primary deposit products are demand, savings, and time deposits, and its primary lending products are real estate mortgages, commercial business loans and installment loans.

Middletown Valley Bank began serving customers in 1908 and is headquartered in Middletown, Maryland. The Bank is a Maryland chartered bank subject to regulation, supervision, and examination by the Maryland Office of Commissioner of Financial Regulation and the Federal Deposit Insurance Corporation ("FDIC"), and our deposits are insured by the FDIC up to $250,000 per depositor. In addition to two branch offices in Middletown, the Bank also has branches in:

- Jefferson, Maryland,
- Myersville, Maryland
- Boonsboro, Maryland
- Hagerstown, Maryland (2), and
- Waynesboro, Pennsylvania

Middletown Valley Bank is parent company to the wholly owned subsidiary Millennium Financial Group, Inc. Millennium Financial Group Inc., ("Mlend"), is a full-service residential mortgage company, headquartered in Middletown, Maryland with additional lending offices located in Crofton, Maryland and Oakland, Maryland. Mlend is licensed in Maryland, Pennsylvania, Virginia, West Virginia and the District of Columbia and offers a full range of residential mortgage products to homebuyers for home purchases, refinancing and construction. Programs include but are not limited to conventional, USDA, VA, FHA, and Maryland Mortgage Program loans.

The accounting and reporting policies of the Company conform to generally accepted accounting principles and to general practices of the banking and mortgage industries. The following is a summary of the more significant policies.

Principles of Consolidation:

The consolidated financial statements of Community Heritage Financial, Inc. and its wholly owned subsidiary, Middletown Valley Bank and subsidiary Millennium Financial Group, Inc., include the accounts of all three companies. All material intercompany balances and transactions have been eliminated in consolidation.

Business Segments:

We primarily operate two business segments, commercial banking, and mortgage banking. The commercial banking segment includes both commercial and consumer lending and provides customers with products such as commercial loans, real estate loans, other business financing and consumer loans. In addition, this segment provides customers with several choice deposit products, including demand deposit accounts, savings accounts, and certificates of deposit. The mortgage banking segment engages primarily in the origination of residential mortgages for sale into the secondary market. For additional information, refer to Note 4," Business Segments."

Use of Estimates:

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, valuation of goodwill and other-than-temporary impairment of securities.

Presentation of Cash Flows:

For the purposes of reporting cash flows, the Company considers cash and cash equivalents as those amounts that are highly liquid instruments with an original maturity of three months or less. They are included in the consolidated balance sheet captions, "Cash and due from banks".

Securities:

Investments in debt securities are classified as either held-to-maturity, available-for-sale, or trading. Currently, the Company holds available-for-sale and held-to-maturity securities. FHLB stock is classified as restricted and carried at cost. Available-for- sale securities are carried at fair value, with unrealized gains and losses excluded from earnings and reported in accumulated other comprehensive (loss) income. Held-to-maturity securities are carried at amortized cost. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Impairment of securities occurs when the fair value of a security is less than its amortized cost. For debt securities impairment is considered other-than-temporary and recognized in its entirety in net income if either (i) the Bank intends to sell the security or (ii) it is more likely than not that the Bank will be required to sell the security before recovery of its amortized cost basis. If the Bank does not intend to sell the security and it is not more-than-likely that the Bank will be required to sell the security before recovery, management must determine what portion of the impairment is attributable to a credit loss, which occurs when the amortized cost of the security exceeds the present value of the cash flows expected to be collected from the security. If there is no credit loss, there is no other-than-temporary impairment. If there is a credit loss, other-than-temporary impairment exists, and the credit loss must be recognized in net income and the remaining portion of impairment must be recognized in other comprehensive loss.

Management regularly reviews each security for other-than-temporary impairment based on criteria that includes the extent to which costs exceed market price, the duration of that market decline, the financial health of and specific prospects for the issuer, its best estimate of the present value of cash flows expected to be collected from debt securities, its intention with regard to holding the security to maturity and the likelihood that the Bank would be required to sell the security before recovery.

For restricted equity securities, impairment is based on the ultimate recovery of par value. The impairment of a restricted equity security results in a write-down included on the consolidated statements of income.

Gains or losses on disposition are based on the net proceeds and the adjusted carrying amount of the securities, using the specific identification method.

Loans:

Loans are reported at their recorded investment, which is the principal amount outstanding, as adjusted for net deferred fees or cost of loan originations. The balance of the allowance for loan losses is netted against the recorded investment in loans on the balance sheet. Interest income is accrued on the unpaid principal balance. Loan origination fees and certain direct origination costs are deferred and recognized as an adjustment of the yield on the related loans using the interest method. Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. Accrual of interest on all classes of loans is discontinued either when reasonable doubt exists as to the full, timely collection of interest or principal in accordance with the loan's contractual terms, or when a loan becomes contractually past due by ninety days or more with respect to principal or interest. All interest accrued but not collected for loans placed on nonaccrual or charged off is reversed against interest income. Income on such loans is then recognized only to the extent that cash is received and where the future collection of loan principal is probable. Accruals are resumed on loans only when they are brought fully current with respect to interest and principal and when, in the judgment of management, the loan is estimated to be fully collectible as to both principal and interest. Loans are considered past due when the borrower is not current with their payments in accordance with the contractual terms of their loan agreement.

Loans Held for Sale:

The Company engages in the sale of residential mortgages, with originations initiated through the Bank and subsidiary Millennium Financial Group, Inc.. Loans originated and intended for sale (Loans held for Sale) in the secondary market are carried at the lower of cost on an individual basis. Gains and losses on loans sold (sales proceeds minus carrying value) are recorded as a component of noninterest income in the consolidated statements of income. Direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon the sale of the loan. The servicing of loans held for sale is not retained once the sale is complete.

Allowance for Loan Losses:

An allowance for loan losses is maintained at a level deemed appropriate by management to provide for known and inherent losses that are probable within the loan portfolio. The allowance is an amount that management believes will be adequate to absorb probable losses on existing loans, based on evaluations of the collectability of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrowers' ability to pay. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Loans deemed uncollectible are charged off and deducted from the allowance, while subsequent recoveries are credited to the allowance.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, a specific allowance is established when the present value of expected future cash flows, the observable market price, or the fair value of the collateral, if the loan is collateral dependent, of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical losses adjusted for qualitative factors.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial real estate, residential real estate, and commercial loans by either the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance consumer loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

As the first step in determining the general component of the allowance for loan losses, management calculates the historical loss percentage. The historical loss percentage is calculated based on the Bank’s experience as well as the experience of its peers. In instances where the Bank has not experienced losses, peer information will be used. The historical loss percentage calculated is applied to the quarter end balance of each portfolio segment. The historical component is further adjusted by management’s evaluation of various conditions per segment including the economy, trends in portfolio volume, concentrations, changes in experience and depth of lending staff, trends in problem loans, and trends in collateral and debt ratio exceptions.

Management has an established internally developed methodology to determine the adequacy of the allowance for loan losses that assesses the risks inherent in the loan portfolio. For purposes of determining the allowance for loan losses, management has segmented certain loans in the portfolio by product type. The loan portfolio is segmented based on risk characteristics into the following segments: commercial real estate, residential real estate, commercial, and consumer loans. Particular characteristics associated with each segment are detailed below:

- Loans secured by commercial real estate carry risks associated with the success of the business and the ability to generate a positive cash flow sufficient to service debts. Real estate security diminishes risks only to the extent that a market exists for the subject collateral.
- Residential real estate loans carry risks associated with the continued creditworthiness of the borrower and changes in the value of the collateral.
- Commercial loans not secured by real estate carry risks associated with the successful operation of a business, and the repayments of these loans depend on the profitability and cash flows of the business. Additional risk relates to the value of collateral, if any, where depreciation occurs, and the valuation is less precise.
- Consumer loans carry risks associated with the continued creditworthiness of the borrower and the value of the collateral, such as automobiles which may depreciate more rapidly than other assets. In addition, these loans may be unsecured. Consumer loans are more likely than real estate loans to be immediately affected in an adverse manner by job loss, divorce, illness, or personal bankruptcy.

Troubled Debt Restructurings:

In situations where, for economic or legal reasons related to a borrower's financial condition, management may grant a concession to the borrower that it would not otherwise consider, 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 their loan to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans. At December 31, 2022 and 2021, there were loans in the amount of $1.58 million and $1.9 million, respectively that were modified in troubled debt restructurings. There were no commitments to lend additional funds to these borrowers as of December 31, 2022 and 2021.

During 2020, the Bank approved payment deferrals for customers experiencing hardships related to COVID-19. These deferrals were for no more than six months in duration and for loans that were not more than 30 days past due as of December 31, 2019. However, there were three loans included in the COVID-19 loan deferral program that payment deferrals were set until maturity. As such, they were not considered TDRs based on the relief provisions of the Coronavirus Aid, Relief and Economic Security ("CARES") Act and recent interagency regulatory guidance. As of December 31, 2022 and 2021 the three loans remaining on deferral until maturity totaled $2.69 million and $3.22 million, respectively.

Transfers of Financial Assets:

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank – put presumptively beyond reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Other Real Estate Owned:

Properties acquired by foreclosure, or deed in lieu of foreclosure are initially recorded at fair value less cost to sell and subsequently at the lower of the initially recorded amount and capitalized costs or estimated fair value less cost to sell. Costs of carrying the real estate are charged to expense. As of December 31, 2022, and 2021, the Bank had no other real estate owned. At December 31, 2022, and 2021, the Bank had no consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process.

Paycheck Protection Program:

Beginning in April 2020, the Bank originated loans under the Paycheck Protection Program (PPP) of the Small Business Administration (SBA). PPP loans are fully guaranteed by the SBA, and in some cases, borrowers may be eligible to obtain forgiveness of the loans, in which case loans would be repaid by the SBA. As repayment of the PPP loans is guaranteed by the SBA, the Bank does not recognize a reserve for PPP loans in its allowance for loan losses. The Bank received fees from the SBA of one percent to five percent of the principal amount of each loan originated under the PPP. Fees received from the SBA are recognized net of direct origination costs in interest income over the life of the related loans. Recognition of fees related to PPP loans is dependent upon the timing of ultimate repayment or forgiveness. Aggregate fees from the SBA of $3.6 million, net of direct costs, are being recognized in interest income over the life of the loans. The Company completed forgiveness on all PPP loans as of June 30, 2022, therefore as of December 31, 2022 there were no unamortized net deferred fees remaining. As of December 31, 2021 there were $392 thousand in net fees which remained unrecognized.

Premises and Equipment:

Land is carried at cost. Premises and equipment, including construction of major capital additions, are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis. The estimated useful lives for computing depreciation on premises and equipment range from 3 to 50 years in each of these categories. Maintenance and repairs are charged to operating expenses as incurred.

Bank Owned Life Insurance:

The Bank has purchased life insurance policies on certain key executives and other officers. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value. Any increase in the cash surrender value is recorded as noninterest income in the Consolidated Statements of Income. In the event of the death of an individual under these policies, the Bank would receive a death benefit which would also be recorded as noninterest income on the Consolidated Statements of Income.

Equity Based Compensation:

Compensation cost is recognized for equity awards issued to employees, based on the fair value of these awards at the date of grant using an observable market price. The Company classifies stock awards as equity. Compensation cost is recognized over the required service period on a straight-line basis. The Company's accounting policy is to recognize forfeitures as they occur.

Earnings Per Common Share:

Basic earnings per common share ("EPS") represent income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted EPS is calculated by assuming dilution of common shares and adjusting net income for compensation cost attributable to the equity-based compensation plan. Basic average shares outstanding for the years ending December 31, 2022 and 2021 were 2,408,516 and 2,251,320, respectively. Diluted average shares outstanding were 2,410,177 and 2,251,331 for the years ended December 31, 2022 and 2021, respectively. Basic earnings per share were $2.85 and $2.67 for the years ended December 31, 2022 and 2021, respectively. Diluted earnings per share were $2.84 and $2.67 for the years ended December 31, 2022 and December 31, 2021, respectively.

Income Taxes:

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences, operating loss carryforwards, and tax credit carryforwards. Deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits, if any, in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the Consolidated Statements of Income. As of December 31, 2022, and 2021, there was no liability recorded for unrecognized tax benefits.

Advertising Costs:

The Company accounts for its advertising costs as a charge to operations as the costs are incurred. Advertising costs were $277 thousand and $298 thousand for the years ended December 31, 2022 and 2021, respectively, and are included in other non-interest expenses in the Consolidated Statements of Income.

Comprehensive (Loss) Income:

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on the security portfolio, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive (loss) income. All the Company's other comprehensive income relates to unrealized gains and losses on the securities portfolio for the year ended December 31, 2022 and December 31, 2021.

Restrictions on Retained Earnings:

According to certain banking regulations, there is a restriction on availability of the Bank's retained earnings for the payment of dividends.

Goodwill and Other Intangible Assets:

Goodwill arises from business combinations and is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized but tested for impairment at least annually or more frequently if events and circumstances exists that indicate that a goodwill impairment test should be performed. The Company performs an annual goodwill impairment test, which is generally conducted in the fourth quarter. As of December 31, 2022, and 2021 there was no impairment to goodwill. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Intangible amortization expense was $695 and $8,333 for the years ended December 31, 2022, and 2021, respectively.

Recent Accounting Pronouncements:

During June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The ASU, as amended, requires an entity to measure expected credit losses for financial assets carried at amortized cost based on historical experience, current conditions, and reasonable and supportable forecasts. Among other things, the ASU also amended the impairment model for available for sale securities and addressed purchased financial assets with deterioration. The Company adopted ASU 2016-13 as of January 1, 2023 in accordance with the required implementation date and recorded the impact of adoption to retained earnings, net of deferred income taxes, as required by the standard. The Company will record adjustments to its allowance for credit losses and reserves for unfunded commitments through the provision for credit losses in the consolidated statements of income. The adjustment recorded at adoption was not significant to the overall allowance for credit losses or shareholders' equity as compared to December 31, 2022 and consisted of adjustments to the allowance for credit losses on loans and held-to-maturity securities, as well as an adjustment to the Company's reserve for unfunded loan commitments. The Company is utilizing a third-party model to tabulate its estimate of current expected credit losses, using a probability of default/loss methodology. In accordance with ASC 326, the Company has segmented its loan portfolio based on similar risk characteristics which included call report code, purpose code, and loan risk rating. The

Company primarily utilizes select economic, internal and market qualitative factors for its reasonable and supportable forecasting of current expected credit losses. To further adjust the allowance for credit losses for expected losses not already included within the quantitative component of the calculation, the Company may consider the following qualitative adjustment factors: local and national unemployment rates, inflation rate, gross domestic product, and historical internal loss and peer loss ratios. The Company's CECL implementation process was overseen by the Chief Financial Officer and the Chief Risk Officer in conjunction with the CECL Committee composed of individuals that will be running the quarterly model, and included an assessment of data availability and gap analysis, data collection, consideration and analysis of multiple loss estimation methodologies, an assessment of relevant qualitative factors and correlation analysis of multiple potential loss drivers and their impact on the Company's historical loss experience. During 2022, the Company calculated its current expected credit losses model in parallel to its incurred loss model in order to further refine the methodology and model. In addition, the Company engaged a third-party to perform a comprehensive model validation.

Effective November 25, 2019, the SEC adopted Staff Accounting Bulletin (SAB) 119. SAB 119 updated portions of SEC interpretative guidance to align with FASB ASC 326, "Financial Instruments – Credit Losses." It covers topics including (1) measuring current expected credit losses; (2) development, governance, and documentation of a systematic methodology; (3) documenting the results of a systematic methodology; and (4) validating a systematic methodology.

In March 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2020-04 "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." These amendments provide temporary optional guidance to ease the potential burden in accounting for reference rate reform. The ASU provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. It is intended to help stakeholders during the global market-wide reference rate transition period. The guidance is effective for all entities as of March 12, 2020 through December 31, 2022. Subsequently, in January 2021, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2021-01 "Reference Rate Reform (Topic 848): Scope." This ASU clarifies that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. The ASU also amends the expedients and exceptions in Topic 848 to capture the incremental consequences of the scope clarification and to tailor the existing guidance to derivative instruments affected by the discounting transition. An entity may elect to apply ASU No. 2021-01 on contract modifications that change the interest rate used for margining, discounting, or contract price alignment retrospectively as of any date from the beginning of the interim period that includes March 12, 2020, or prospectively to new modifications from any date within the interim period that includes or is subsequent to January 7, 2021, up to the date that financial statements are available to be issued. An entity may elect to apply ASU No. 2021-01 to eligible hedging relationships existing as of the beginning of the interim period that includes March 12, 2020, and to new eligible hedging relationships entered into after the beginning of the interim period that includes March 12, 2020. The Company has identified and is in the process of modifying loans that are directly or indirectly influenced by LIBOR. The Company is assessing ASU 2020-04 and its impact on the transition away from LIBOR for loans and other financial instruments.

In December 2022, the FASB issued ASU 2022-06, "Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848". ASU 2022-06 extends the period of time preparers can utilize the reference rate reform relief guidance in Topic 848. The objective of the guidance in Topic 848 is to provide relief during the temporary transition period, so the FASB included a sunset provision within Topic 848 based on expectations of when the London Interbank Offered Rate (LIBOR) would cease being published. In 2021, the UK Financial Conduct Authority (FCA) delayed the intended cessation date of certain tenors of USD LIBOR to June 30, 2023. To ensure the relief in Topic 848 covers the period of time during which a significant number of modifications may take place, the ASU defers the sunset date of Topic 848 from December 31, 2022, to December 31, 2024, after which entities will no longer be permitted to apply the relief in Topic 848. The ASU is effective for all entities upon issuance. The Company is assessing ASU 2022-06 and its impact on the Company's transition away from LIBOR for its loan and other financial instruments.

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

Recently Adopted Accounting Developments:

In May 2021, the FASB issued ASU 2021-04, "Earnings Per Share (Topic 260), Debt - Modifications and Extinguishments (Subtopic 470-50), Compensation - Stock Compensation (Topic 718), and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40): Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity – Classified Written Call Options (a consensus of the FASB Emerging Issues Task Force)." The ASU addresses how an issuer should account for modifications, or an exchange of freestanding written call options classified as equity that is not within the scope of another Topic. Early adoption is permitted. ASU 2021-04 was effective for the Company on January 1, 2022. The Company had no material impact to the consolidated financial statements upon adoption.

Note 2. Earnings Per Common Share (EPS)

Basic EPS excludes dilution and is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. The basic and diluted earnings per share calculations are as follows:

	For Years ended December 31, 2022	2021
Numerator:		
Net income available to shareholders	$ 6,855,504	$ 6,015,285
Basic EPS weighted average shares outstanding	2,408,516	2,251,320
Effect of dilutive securities:		
Incrementable shares attributable to restricted stock units	1,661	11
Diluted EPS weighted-average shares	2,410,177	2,251,331
Basic earnings per common shares	$ 2.85	$ 2.67
Diluted earnings per common shares	$ 2.84	$ 2.67

Note 3. Goodwill and Other Intangibles

Goodwill and other intangibles were recorded as a result of CMHF's acquisition of Mlend in 2019. Other intangibles are composed solely of a non-compete agreement entered into as a result of the acquisition, which is being amortized to income over the three-year life of the agreement. The following table provides information on the components of goodwill and other intangibles recorded in the Consolidated Balance Sheets at December 31, 2022 and 2021:

	As of December 31, 2022	2021
Non-compete intangible:		
Cost	$ 25,000	$ 25,000
Accumulated amortization	(25,000)	(24,305)
Non-compete intangible, net	$ -	$ 695
Carrying value of goodwill:	$ 1,656,507	$ 1,656,507

Amortization expense included in other intangible amortization in the Consolidated Statements of Income was $695 dollars and $8,333 in 2022 and 2021, respectively.

There is no expected future amortization of the non-compete intangible asset.

Note 4. Business Segments

The Company has two reportable business segments: commercial banking and mortgage banking. Revenues from commercial banking operations consist primarily of interest earned on loans and investment securities as well as fees earned on deposit accounts and from other ancillary services provided to our depositors. Mortgage banking operating revenues consist primarily of gains on sales of loans in the secondary market, mortgage banking fee income related to loan originations, and interest earned on mortgage loans held for sale.

The results of operations associated with the holding company are comprised primarily of interest expense associated with the Company's subordinated debt and general corporate expenses. The results of the holding company are not directly associated with the Company's evaluation of its business lines and are included in "Other" below.

Information about reportable business segments and reconciliation of such information to the consolidated financial statements as of and for the years ended December 31, 2022 and 2021 are as follows:

COMMUNITY HERITAGE FINANCIAL, INC AND SUBSIDIARIES
OPERATING RESULTS BY BUSINESS SEGMENT
As of and for the Year Ended December 31, 2022

	Commercial Banking	Mortgage Banking	Other	Eliminations	Consolidated
Revenues:					
Interest income	$ 32,221,241	$ 164,129	$ -	$ (14,021)	$ 32,371,349
Gain on sales of loans	-	1,220,206	-	-	1,220,206
Other secondary market income	-	888,916	-	(34,895)	854,021
Other non-interest income	1,857,798	(3,076)	-	-	1,854,722
Total operating income	34,079,039	2,270,175	-	(48,916)	36,300,298
Expenses					
Provision for loan losses	812,855	-	-	-	812,855
Interest expense	3,951,007	23,333	952,196	(14,021)	4,912,515
Non-interest expense	18,030,724	2,846,088	415,275	(34,895)	21,257,192
Total operating expenses	22,794,586	2,869,421	1,367,471	(48,916)	26,982,562
Income (loss) before taxes	11,284,453	(599,246)	(1,367,471)	-	9,317,736
Income tax expense (benefit)	2,910,008	(164,913)	(282,863)	-	2,462,232
Net income (loss)	$ 8,374,445	$ (434,333)	$ (1,084,608)	$ -	$ 6,855,504
Total assets	$ 932,514,794	$ 10,765,975	$ 82,135,669	$ (95,283,969)	$ 930,132,469
Goodwill and other intangible	-	1,656,507	-	-	1,656,507
Capital expenditures	921,106	-	-	-	921,106

COMMUNITY HERITAGE FINANCIAL, INC AND SUBSIDIARIES

OPERATING RESULTS BY BUSINESS SEGMENT

As of and for the Year Ended December 31, 2021

	Commercial Banking	Mortgage Banking	Other	Eliminations	Consolidated
Revenues:					
Interest income	$ 26,973,664	$ 219,971	$ -	$ (96,967)	$ 27,096,668
Gain on sales of loans	-	4,809,175	-	-	4,809,175
Other secondary market income	-	426,557	-	(137,508)	289,049
Other non-interest income	1,880,495	31,488	-	-	1,911,983
Total operating income	28,854,159	5,487,191	-	(234,475)	34,106,875
Expenses					
Provision for loan losses	3,079,173	-	-	-	3,079,173
Interest expense	1,835,553	231,783	952,197	(96,967)	2,922,566
Non-interest expense	16,182,695	3,552,942	300,909	(137,508)	19,899,038
Total operating expenses	21,097,421	3,784,725	1,253,106	(234,475)	25,900,777
Income (loss) before taxes	7,756,983	1,702,221	(1,253,106)	-	8,206,098
Income tax expense (benefit)	1,979,202	468,451	(256,840)	-	2,190,813
Net income (loss)	$ 5,777,781	$ 1,233,770	$ (996,266)	$ -	$ 6,015,285
Total assets	$ 811,886,986	$ 11,036,757	$ 72,212,975	$ (77,226,994)	$ 817,909,724
Goodwill and other intangible	-	1,657,202	-	-	1,657,202
Capital expenditures	981,197	-	-	-	981,197

Note 5. Investment Securities

The amortized cost and estimated fair value of securities available-for-sale and held-to-maturity, with gross unrealized gains and losses as of December 31, 2022 and 2021 were as follows:

Securities Available for Sale: As of December 31, 2022	Amortized Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S Government Agency	$ 3,512,807	$ -	$ (454,607)	$ 3,058,200
Mortgage Backed	15,152,271	-	(1,475,948)	13,676,323
Municipals	7,352,152	3,225	(604,817)	6,750,560
Corporates	17,379,286	231,980	(1,585,863)	16,025,403
Total	$ 43,396,516	$ 235,205	$ (4,121,235)	$ 39,510,486

Securities Held to Maturity: As of December 31, 2022	Amortized Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S Government Agency	$ 1,892,611	$ -	$ (177,591)	$ 1,715,020
Mortgage Backed	63,844,269	-	(6,327,727)	57,516,542
Municipals	28,530,524	-	(3,296,092)	25,234,432
Corporates	6,737,989	-	(518,886)	6,219,103
Total	$ 101,005,393	$ -	$ (10,320,296)	$ 90,685,097

Total Securities: As of December 31, 2022	Amortized Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S Government Agency	$ 5,405,418	$ -	$ (632,198)	$ 4,773,220
Mortgage Backed	78,996,540	-	(7,803,675)	71,192,865
Municipals	35,882,676	3,225	(3,900,909)	31,984,992
Corporates	24,117,275	231,980	(2,104,749)	22,244,506
Total	$ 144,401,909	$ 235,205	$ (14,441,531)	$ 130,195,583

Securities Available for Sale: As of December 31, 2021	Amortized Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Estimated Fair Value
U.S Government Agency	5,520,714	$	-	$	(72,904)	$	5,447,810
Mortgage Backed	83,512,858		109,467		(1,207,112)		82,415,213
Municipals	35,633,520		242,983		(261,091)		35,615,412
Corporates	20,584,904		227,788		(271,814)		20,540,878
Total	$ 145,251,996	$	580,238	$	(1,812,921)	$	144,019,313

Securities carried at estimated fair value of $10.0 million and $10.1 million at December 31, 2022 and 2021 respectively, were pledged to secure public funds and for other purposes as required or permitted by law. In 2022, the Company had $0 recognized gross gains or gross losses on sales of securities. In 2021, the Company recognized gross gains of $196 thousand and gross losses of $18 thousand on the sales of securities.

On April 1, 2022 the Company transferred 112 securities designated as available-for-sale with a combined book value of $116.5 million, market value of $106.3 million, and unrealized loss of $10.2 million, to held-to-maturity. The unrealized loss is being amortized monthly over the life of the securities with an increase to the carrying value of the securities and a decrease to the related accumulated other comprehensive loss, which is included in the shareholders equity section of the Company's balance sheet. The amortization of the unrealized loss on the transferred securities totaled $964 thousand, or $761 thousand net of tax, for the year ended December 31, 2022. The securities selected for transfer had larger potential decreases in their fair market values in higher interest rate environments than most of the other securities in the available-for-sale portfolio and included agency, municipal, mortgage-backed and corporate securities. The securities were transferred to mitigate the potential unfavorable impact that higher interest rates may have on the carrying value of the securities and on the related accumulated other comprehensive loss. Securities designated as held-to-maturity are carried on the balance sheet at amortized cost, while securities designated as available-for-sale are carried at fair market value.

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

Securities Available for Sale: As of December 31, 2022		Amortized Cost		Estimated Fair Value
Due in one year or less	$	-	$	-
Due after one year through five years		9,959,504		9,071,754
Due after five years through ten years		19,860,940		18,157,606
Due after ten years		13,576,072		12,281,126
	$	43,396,516	$	39,510,486

Securities Held to Maturity: As of December 31, 2022		Amortized Cost		Estimated Fair Value
Due in one year or less	$	-	$	-
Due after one year through five years		3,572,297		3,320,162
Due after five years through ten years		11,722,305		10,674,122
Due after ten years		85,710,791		76,690,813
	$	101,005,393	$	90,685,097

Total Securities: As of December 31, 2022		Amortized Cost		Estimated Fair Value
Due in one year or less	$	-	$	-
Due after one year through five years		13,531,800		12,391,916
Due after five years through ten years		31,583,246		28,831,728
Due after ten years		99,286,863		88,971,939
	$	144,401,909	$	130,195,583

The following tables show the securities available-for-sale and held-to-maturity with gross unrealized losses and estimated fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2022 and 2021:

		Less than twelve months		Twelve Months or Greater		Total	
Securities Available for Sale: As of December 31, 2022	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss
U.S Government Agency	2	$ -	$ -	$ 3,058,200	$ (454,607)	$ 3,058,200	$ (454,607)
Mortgage backed	12	6,377,966	(416,689)	7,298,356	(1,059,259)	13,676,322	(1,475,948)
Municipals	12	4,016,307	(224,220)	2,220,443	(380,597)	6,236,750	(604,817)
Corporates	21	7,052,843	(624,707)	6,373,616	(961,156)	13,426,459	(1,585,863)
Total	47	$ 17,447,116	$ (1,265,616)	$ 18,950,615	$ (2,855,619)	$ 36,397,731	$ (4,121,235)

		Less than twelve months		Twelve Months or Greater		Total	
Securities Held to Maturity: As of December 31, 2022	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss
U.S Government Agency	2	$ -	$ -	$ 1,715,020	$ (177,591)	$ 1,715,020	$ (177,591)
Mortgage backed	60	8,135,749	(767,032)	49,380,794	(5,560,695)	57,516,543	(6,327,727)
Municipals	41	8,517,796	(972,010)	16,716,636	(2,324,082)	25,234,432	(3,296,092)
Corporates	9	819,331	(73,901)	5,399,772	(444,985)	6,219,103	(518,886)
Total	112	$ 17,472,876	$ (1,812,943)	$ 73,212,222	$ (8,507,353)	$ 90,685,098	$ (10,320,296)

		Less than twelve months		Twelve Months or Greater		Total	
Total Securities: As of December 31, 2022	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss
U.S Government Agency	4	$ -	$ -	$ 4,773,220	$ (632,198)	$ 4,773,220	$ (632,198)
Mortgage backed	72	14,513,715	(1,183,721)	56,679,150	(6,619,954)	71,192,865	(7,803,675)
Municipals	53	12,534,103	(1,196,230)	18,937,079	(2,704,679)	31,471,182	(3,900,909)
Corporates	30	7,872,174	(698,608)	11,773,388	(1,406,141)	19,645,562	(2,104,749)
Total	159	$ 34,919,992	$ (3,078,559)	$ 92,162,837	$ (11,362,972)	$ 127,082,829	$ (14,441,531)

		Less than twelve months		Twelve Months or Greater		Total	
Securities Available for Sale: As of December 31, 2021	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss
U.S Government Agency	4	$ 5,447,810	$ (72,904)	$ -	$ -	$ 5,447,810	$ (72,904)
Mortgage backed	52	74,045,218	(1,151,522)	1,446,691	(55,590)	75,491,909	(1,207,112)
Municipals	30	23,460,115	(255,810)	559,190	(5,282)	24,019,305	(261,092)
Corporates	16	13,472,559	(271,814)	-	-	13,472,559	(271,814)
Total	102	$ 116,425,702	$ (1,752,050)	$ 2,005,881	$ (60,872)	$ 118,431,583	$ (1,812,922)

Management evaluates securities for other than temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. At December 31, 2022 the Bank has 103 available-for-sale and held-to-maturity securities that have been in an unrealized loss position for twelve consecutive months or longer. The unrealized losses on debt securities are reflective of interest rate fluctuations and are not a reflection of credit deterioration. Because the Bank does not intend to sell these investments and it is more likely than not that the Bank will not be required to sell these investments before recovery of the amortized cost basis, which may be maturity, the Bank does not consider these investments to be other-than-temporarily impaired at December 31, 2022.

Note 6. Loans and Allowance for Loan Losses

Loans outstanding as of December 31, 2022 and 2021, are categorized as follows:

	2022		2021	
	Amount	Percent	Amount	Percent
Commercial real estate	$ 361,875,845	48.6%	$ 273,325,125	44.9%
Residential real estate	231,904,389	31.1%	163,070,140	26.8%
Commercial	150,421,114	20.2%	171,727,599	28.2%
Consumer	1,160,983	0.2%	809,531	0.1%
Total gross loans	$ 745,362,331	100.0%	$ 608,932,395	100.0%
Net deferred loan costs	3,088,194		1,569,086	
Allowance for loan losses	(7,330,436)		(6,499,690)	
Total net loans	$ 741,120,089		$ 604,001,791	

As of December 31, 2022 and 2021, overdraft deposits reclassified as loans totaled $249 thousand and $46 thousand, respectively.

The following tables summarize the activity in the allowance for loan losses by loan class for the years ended December 31, 2022 and 2021:

As of and for the year ended December 31, 2022	Commercial Real Estate	Residential Real Estate	Commercial	Consumer	Total
Allowance for loan losses:					
Beginning balance	$ 8,735,261	$ (4,429,699)	$ 2,147,107	$ 47,021	$ 6,499,690
Provision for loan losses	(5,766,762)	6,910,452	(336,334)	5,499	812,855
Charge-offs	-	(7,108)	-	(18,670)	(25,778)
Recoveries	-	-	43,669	-	43,669
Ending Balance	$ 2,968,499	$ 2,473,645	$ 1,854,442	$ 33,850	$ 7,330,436
Allowance for credit losses:					
Individually evaluated for impairment in accordance with ASC-310-10	$ -	$ -	$ 47,195	$ 20,000	$ 67,195
Collectively evaluated for impairment	2,968,499	2,473,645	1,807,247	13,850	7,263,241
Ending Balance	$ 2,968,499	$ 2,473,645	$ 1,854,442	$ 33,850	$ 7,330,436

As of and for the year ended December 31, 2021	Commercial Real Estate	Residential Real Estate	Commercial	Consumer	Total
Allowance for loan losses:					
Beginning balance	$ 3,607,150	$ 1,344,653	$ 2,501,278	$ 27,109	$ 7,480,190
Provision for loan losses	(1,049,039)	402,798	3,700,235	25,179	3,079,173
Charge-offs	-	-	(4,595,494)	(15,818)	(4,611,312)
Recoveries	-	-	541,088	10,551	551,639
Ending Balance	$ 2,558,111	$ 1,747,451	$ 2,147,107	$ 47,021	$ 6,499,690
Allowance for credit losses:					
Individually evaluated for impairment	$ -	$ -	$ 79,190	$ 20,000	$ 99,190
Collectively evaluated for impairment	2,558,111	1,747,451	2,067,917	27,021	6,400,500
Ending Balance	$ 2,558,111	$ 1,747,451	$ 2,147,107	$ 47,021	$ 6,499,690

The following tables summarize the recorded investments in loans as of December 31, 2022 and 2021, related to each balance in the allowance for loan losses by the portfolio segment and disaggregated based on the Bank's impairment methodology:

As of December 31, 2022	Commercial Real Estate	Residential Real Estate	Commercial	Consumer	Total
Recorded investment in loans:					
Individually evaluated for impairment	$ -	$ -	$ 47,195	$ 20,000	$ 67,195
Collectively evaluated for impairment	361,875,845	231,904,389	150,373,919	1,140,983	745,295,136
Ending Balance	$ 361,875,845	$ 231,904,389	$ 150,421,114	$ 1,160,983	$ 745,362,331
As of December 31, 2021					
Recorded investment in loans:					
Individually evaluated for impairment	$ 121,103	$ 2,827,555	$ 79,190	$ 20,000	$ 3,047,848
Collectively evaluated for impairment	273,204,022	160,242,585	171,648,409	789,531	605,884,547
Ending Balance	$ 273,325,125	$ 163,070,140	$ 171,727,599	$ 809,531	$ 608,932,395

Management evaluates the credit quality of all loans based on an internal grading system that estimates the capability of the borrower to repay the contractual terms of their loan agreement as scheduled or at all. The Bank's internal risk grading is based on experiences with similarly graded loans. This analysis is performed on an ongoing basis as new information is obtained. The Bank uses the following definitions for adverse risk ratings:

- **Special Mention** - Loans classified as special mention have a potential weakness that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

- **Substandard** - Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the possibility that the institution will sustain some loss if the deficiencies are not corrected.

- **Doubtful -** A loan classified doubtful has all the weaknesses inherent as one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

The following tables present the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard, and doubtful within the Bank's internal risk rating system as of December 31, 2022 and 2021:

As of December 31, 2022	Pass	Special Mention	Substandard	Doubtful	Total
Commercial Real Estate:					
Construction and					
Land Development	$ 70,396,959	$ -	$ -	$ -	$ 70,396,959
Multifamily	23,679,358	-	-	-	23,679,358
Other	260,416,839	7,002,380	380,309	-	267,799,528
Residential Real Estate	229,250,451	-	2,653,938	-	231,904,389
Commercial	150,373,919	-	47,195	-	150,421,114
Consumer, primarilty home equity lines	1,140,983	-	20,000	-	1,160,983
Total gross loans	$ 735,258,509	$ 7,002,380	$ 3,101,442	$ -	$ 745,362,331

As of December 31, 2021	Pass	Special Mention	Substandard	Doubtful	Total
Commercial Real Estate:					
Construction and					
Land Development	$ 53,493,806	$ -	$ -	$ -	$ 53,493,806
Multifamily	11,888,198	-	-	-	11,888,198
Other	206,901,655	920,363	121,103	-	207,943,121
Residential Real Estate	159,933,935	-	3,136,205	-	163,070,140
Commercial	171,147,735	-	579,864	-	171,727,599
Consumer, primarilty home equity lines	789,531	-	20,000	-	809,531
Total gross loans	$ 604,154,860	$ 920,363	$ 3,857,172	$ -	$ 608,932,395

The following tables reflect past due and nonaccrual loans as of December 31, 2022 and 2021:

As of December 31, 2022	30-59 Days Past Due	60-89 Days Past Due	90 or More Days Past Due	Current Loans	Total Recorded Investment in Loans	Nonaccrual Loans
Commercial Real Estate:						
Construction and						
Land Development	$ -	$ -	$ -	$ 70,396,959	$ 70,396,959	$ -
Multifamily	-	-	-	23,679,358	23,679,358	-
Other	8,965	-	-	267,790,563	267,799,528	44,419
Residential Real Estate	210,970	-	28,590	231,664,829	231,904,389	1,616,028
Commercial	-	-	-	150,421,114	150,421,114	47,195
Consumer	-	-	20,000	1,140,983	1,160,983	20,000
Total gross loans	$ 219,935	$ -	$ 48,590	$ 745,093,806	$ 745,362,331	$ 1,727,642

As of December 31, 2021	30-59 Days Past Due	60-89 Days Past Due	90 or More Days Past Due	Current Loans	Total Recorded Investment in Loans	Nonaccrual Loans
Commercial Real Estate:						
Construction and						
Land Development	$ -	$ -	$ -	$ 53,493,806	$ 53,493,806	$ -
Multifamily	-	-	-	11,888,198	11,888,198	-
Other	-	-	-	207,943,121	207,943,121	121,103
Residential Real Estate	267,387	579,403	40,504	162,182,846	163,070,140	1,871,058
Commercial	-	-	-	171,727,599	171,727,599	79,190
Consumer	20,000	-	-	789,531	809,531	20,000
Total gross loans	$ 287,387	$ 579,403	$ 40,504	$ 608,025,101	$ 608,932,395	$ 2,091,351

There were no loans 90 days or more past due and still accruing as of December 31, 2022 and 2021.

The following tables summarize information regarding impaired loans, including TDRs, presented by class of loans as of December 31, 2022 and 2021:

December 31, 2022	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With No Related Allowance Recorded:					
Commercial Real Estate:					
Construction and					
Land Development	$ -	$ -	$ -	$ -	$ -
Multifamily	-	-	-	-	-
Other	549,039	44,419	-	82,729	-
Residential Real Estate	2,701,438	2,360,627	-	2,599,972	29,646
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
	$ 3,250,477	$ 2,405,046	$ -	$ 2,682,701	$ 29,646
With an Allowance Recorded:					
Commercial Real Estate:					
Construction and					
Land Development	$ -	$ -	$ -	$ -	$ -
Multifamily	-	-	-	-	-
Other	-	-	-	-	-
Residential Real Estate	-	-	-	-	-
Commercial	57,500	47,195	47,195	63,193	-
Consumer	20,000	20,000	20,000	20,000	-
	$ 77,500	$ 67,195	$ 67,195	$ 83,193	$ -

December 31, 2021	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With No Related Allowance Recorded:					
Commercial Real Estate:					
Construction and					
Land Development	$ -	$ -	$ -	$ -	$ -
Multifamily	-	-	-	-	-
Other	588,859	121,103	-	161,343	-
Residential Real Estate	3,118,410	2,827,554	-	2,870,338	107,513
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
	$ 3,707,269	$ 2,948,657	$ -	$ 3,031,681	$ 107,513
With an Allowance Recorded:					
Commercial Real Estate:					
Construction and					
Land Development	$ -	$ -	$ -	$ -	$ -
Multifamily	-	-	-	-	-
Other	-	-	-	-	-
Residential Real Estate	-	-	-	-	-
Commercial	85,000	79,190	79,190	81,021	-
Consumer	20,000	20,000	20,000	20,000	2,069
	$ 105,000	$ 99,190	$ 99,190	$ 101,021	$ 2,069

The Bank identifies loans for potential restructure primarily through direct communication with the borrower and evaluation of the borrower's financial statements, revenue projections, tax returns, and credit reports. Even if the borrower is not presently in default, management will consider the likelihood that cash flow shortages, adverse economic conditions and negative trends may result in a payment default in the near future.

There were no new TDR loans during the year ended December 31, 2022. There were two new residential loans modified in a TDR during the year ended December 31, 2021 for a total of $945 thousand. These modifications included a reduction in the interest rate on both loans and an extension of the maturity on one loan. There were no TDRs that subsequently defaulted within 12 months of their modification during the years ended December 31, 2022 and 2021.

Note 7. Premises and Equipment

The components of premises and equipment at December 31, 2022 and 2021 are as follows:

	For the Years Ended December 31,	
	2022	2021
Premises and land	$ 7,800,741	$ 7,785,352
Leasehold improvements	1,596,560	1,329,164
Furniture and fixtures	931,149	970,240
Equipment and software	3,738,286	3,491,486
Total Cost	$ 14,066,736	$ 13,576,242
Accumulated depreciation	(7,013,204)	(6,805,022)
Total premises and equipment, net	$ 7,053,532	$ 6,771,220

Depreciation expense amounted to $881 thousand and $797 thousand during the years ended December 31, 2022 and 2021, respectively.

Note 8: Leases

The Company follows ASU No. 2016-02 *"Leases (Topic 842)"* and all subsequent ASUs that modified Topic 842. The Company elected the prospective application approach provided by ASU 2018-11 and did not adjust prior periods for ASC 842. The Company also elected certain practical expedients within the standard and consistent with such elections did not reassess whether any expired or existing contracts are or contain leases, did not reassess the lease classification for any expired or existing leases, and did not reassess any initial direct costs for existing leases. The right-of-use assets and lease liabilities detailed below include five locations used by the Bank and three locations used by Mlend at December 31, 2022 and five locations used by the Bank and three locations used by Mlend at December 31, 2021. Short-term leases, including those with initial terms of 12 months or less, are not included in these balances. Lease payments for short-term leases are recognized as lease expense on a straight-line basis over the lease term, or for variable lease payments, in the period in which the obligation was incurred.

Lease liabilities represent the Company's obligation to make lease payments and are presented at each reporting date as the net present value of the remaining contractual cash flows. Cash flows are discounted at the Company's incremental borrowing rate in effect at the commencement date of the lease. Right-of-use assets represent the Company's right to use the underlying asset for the lease term and are calculated as the sum of the lease liability and if applicable, prepaid rent, initial direct costs, and any incentives received from the lessor.

The Company's long-term lease agreements are classified as operating leases. Certain of these leases offer the option to extend the lease term and the Company has included such extensions in its calculation of the lease liabilities to the extent the options are reasonably certain of being exercised. The lease agreements do not provide for residual value guarantees and have no restrictions or covenants that would impact dividends or require incurring additional financial obligations.

The following tables present information about the Company's leases:

	As of December 31, 2022		
	Bank	Mlend	Consolidated
Lease liabilities	$ 2,386,640	$ 522,067	$ 2,908,707
Right-of-use assets	$ 2,335,377	$ 506,359	$ 2,841,736
Weighted average remaining lease term	6.8 years	6.1 years	6.7 years
Weighted average discount rate	3.22 %	3.28 %	3.23 %

	For the Year Ended December 31, 2022		
	Bank	Mlend	Consolidated
Operating lease cost	$ 446,966	$ 119,083	$ 566,049
Short-term lease cost	1,642	-	1,642
Total lease cost	$ 448,608	$ 119,083	$ 567,691
Cash paid for amounts included in the measurement of lease liabilities	$ 422,147	$ 87,600	$ 509,747

	As of December 31, 2021		
	Bank	Mlend	Consolidated
Lease liabilities	$ 1,776,157	$ 591,519	$ 2,367,676
Right-of-use assets	$ 1,720,860	$ 579,969	$ 2,300,829
Weighted average remaining lease term	6.5 years	7.1 years	6.7 years
Weighted average discount rate	3.08 %	3.28 %	3.13 %

	For the Year Ended December 31, 2021		
	Bank	Mlend	Consolidated
Operating lease cost	$ 443,243	$ 118,531	$ 561,774
Short-term lease cost	1,435	194	1,629
Total lease cost	$ 444,678	$ 118,725	$ 563,403
Cash paid for amounts included in the measurement of lease liabilities	$ 427,847	$ 87,600	$ 515,447

A maturity analysis of the Company's operating lease liabilities and reconciliation of the undiscounted cash flows to the total of operating lease liabilities at December 31, 2022, was as follows:

	As of December 31, 2022		
Lease payments due	Bank	Mlend	Consolidated
Year ended December 31, 2023	$ 455,020	$ 87,600	$ 542,620
Year ended December 31, 2024	468,364	94,475	562,839
Year ended December 31, 2025	429,513	95,730	525,243
Year ended December 31, 2026	286,202	96,360	382,562
Year ended December 31, 2027	283,009	96,360	379,369
Thereafter	748,740	105,545	854,285
Total undiscounted cash flows	2,670,848	576,070	3,246,918
Discount	(284,208)	(54,003)	(338,211)
Lease liabilities	$ 2,386,640	$ 522,067	$ 2,908,707

Note 9. Deposits

The components of deposits for the years ending December 31, 2022 and 2021 were as follows:

	December 31, 2022	December 31, 2021
Non-interest bearing deposits	$ 276,829,209	$ 272,399,626
Interest bearing deposits		
NOW accounts	96,222,649	95,100,698
Money market accounts	284,548,295	201,093,247
Savings accounts	82,944,507	79,990,672
Time deposits accounts	98,885,631	88,100,826
Total interest bearing deposits	562,601,082	464,285,443
Total deposits	$ 839,430,291	$ 736,685,069

The following is a schedule of the future maturities of time deposits as of December 31, 2022:

For the Year Ending December 31:	
2023	$ 44,641,765
2024	15,033,186
2025	34,682,108
2026	2,175,922
2027	2,352,650
	$ 98,885,631

Time deposits in denominations of $250,000 or more amounted to $34.5 million and $31.5 million, respectively, at December 31, 2022 and 2021. Included in total deposits at December 31, 2022 and 2021 were insured cash sweep (ICS) and CDARS deposits in the amount of $78 million and $70 million, respectively. There were no other brokered deposits included in total deposits at December 31, 2022 and $246 thousand included in total deposits at December 31, 2021.

Note 10. Income Taxes

The Company files income tax returns in the U.S. federal jurisdiction and the state of Maryland. With few exceptions, the Company is no longer subject to U.S. federal and state income tax examination by tax authorities for years prior to 2019.

The following table reflects the provision for income taxes charged (credited) to operations for the years ending December 31, 2022 and 2021:

	For the Years Ended December 31, 2022	For the Years Ended December 31, 2021
Current tax expense	$ 2,328,017	$ 1,640,207
Deferred tax expense	134,215	550,606
Total income tax	$ 2,462,232	$ 2,190,813

A reconciliation of the federal statutory income tax rate on pre-tax income to the provision for income taxes was as follows for the years ending December 31, 2022 and 2021:

	For the Years Ending December 31, 2022	2021
Federal tax statutory rate	21.00%	21.00%
Federal tax at statutory rate	$ 1,956,725	$ 1,723,281
Increase (decrease) resulting from the following:		
State income taxes, net of federal tax benefit	597,546	522,783
Tax-exempt interest income	(119,704)	(91,737)
Bank owned life insurance income	(12,353)	(34,054)
Non-deductible interest expense	5,996	2,713
Other non-deductible expenses	22,874	17,803
Other, net	11,148	50,024
Total income tax expense	$ 2,462,232	$ 2,190,813

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities at December 31, 2022 and 2021 were as follows:

	As of December 31, 2022	2021
Deferred Tax Assets		
Allowance for loan losses	$ 2,017,338	$ 1,755,077
Lease Liabilties	800,476	651,585
Supplemental benefits expense	132,988	147,965
Deferrred compensation liability	165,262	109,689
Allowance for off-balance sheet credit exposures	213,698	284,796
Unrealized loss on securites	3,609,898	339,235
Non-accrual interest	243,943	219,658
Other	54,849	50,113
Total deferred tax asset	$ 7,238,452	$ 3,558,118
Deferred Tax Liabilities		
Right of use assets	(782,046)	(633,188)
Deferred loan costs, net	(849,871)	(431,812)
Depreciation	(329,260)	(352,291)
Total deferred tax liabilities	(1,961,177)	(1,417,291)
Net deferred tax assets	$ 5,277,275	$ 2,140,827

Note 11. Borrowings

At December 31, 2022, the Bank had $15.5 million available in unsecured borrowings with other financial institutions with interest rates on these agreements equal to the prevailing federal funds rate. In addition, the Bank had access to $3.6 million in short-term borrowing capacity from the Federal Reserve Discount Window with an interest rate equal to 4.50%. The Bank also has access to a credit line with The Federal Home Loan Bank of Atlanta (FHLBA) that may be utilized for short and long-term borrowings. At December 31, 2022 and 2021, the Bank had no outstanding borrowings with the FHLBA. Total credit availability with the FHLBA at December 31, 2022 was $227.5 million. Advances under this line of credit are secured by a portion of the Bank's loan portfolio, which at December 31, 2022, would have allowed the Bank to access up to $162.3 million of credit without pledging additional loans as collateral.

The Bank also had a $1.0 million letter of credit at December 31, 2022 and 2021 with another financial institution for contingency funding purposes.

Other borrowings consist of Mlend's draws on warehouse lines of credit maintained at other financial institutions. As of December 31, 2022 there were no balances drawn on these lines compared to $1.9 million in outstanding draws as of December 31, 2021. The total warehouse lines of credit available were $5 million and $11 million, with a remaining credit availability of $5 million and $9.1 million as of December 31, 2022 and 2021, respectively.

Note 12. Related Party Transactions

The Company has, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, principal stockholders, their immediate families, and affiliated companies (collectively referred to as "Related Parties"). These transactions are executed on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other customers.

The following schedule presents the activity of loans with the Company's Related Parties for the years ended December 31, 2022 and 2021:

	December 31, 2022	December 31, 2021
Beginning balance	$ 4,574,087	$ 890,625
Effect of changes in the composition of related parties	6,182,173	3,419,754
Advances	3,708,684	425,425
Principal payments	(2,884,406)	(161,717)
Ending balance	$ 11,580,538	$ 4,574,087

The aggregate amount of deposits of executive officers, directors, and their related interests was $42.5 million and $4.9 million at December 31, 2022 and 2021, respectively.

Mlend leases its Middletown, Maryland location from Fordham Holdings, LLC. and its Oakland, Maryland location from Dry Dock Plaza, Fordham Holdings, LLC. and Dry Dock Plaza are a both legal entities owned by a member of executive management. The related lease liabilities is included in the total of lease liabilities disclosed in Note 8. – Leases was $522 thousand and $592 thousand at December 31, 2022 and 2021, respectively.

Note 13. Commitments and Contingencies

The Company is subject to legal proceedings which are incidental to the ordinary course of business. In the opinion of the management of the Company, there are no material pending legal proceedings to which the Company is a party to, or which involve any of its property.

Note 14. Financial Instruments with Off-Balance-Sheet Risk

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financial needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit and financial guarantees written is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

The contract amounts of these financial instruments at December 31, 2022 and 2021 are as follows:

	2022	2021
Commitments to extend credit	$ 219,991,000	$ 197,798,000
Standby letters of credit and financial guarantees written	$ 4,990,184	$ 4,131,457

Commitments to extend credit are agreements to lend to a customer if there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, by the Bank upon extension of credit is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, real estate, equipment, and income-producing commercial properties.

Standby letters of credit and financial guarantees written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Bank holds collateral supporting those commitments when deemed necessary by management.

At December 31, 2022 and 2021, the Company, primarily through Mlend, had interest rate lock commitments to originate mortgage loans totaling $1.7 million and $12.6 million, respectively. The Company enters into corresponding commitments with third-party investors to sell each of these loans that close on a best-efforts basis.

Note 15. Concentrations of Credit Risk

The Bank extends credit for real estate construction, land development, commercial and residential loans, to customers throughout its market area. Although the Bank has a diversified loan portfolio, a substantial portion of its customers' ability to honor their contracts is dependent upon the real estate economic sector.

The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, by the Bank upon the extension of credit, is based on management's credit evaluation of the customer. Collateral held varies but generally includes equipment and real estate.

The Bank has concentrations of deposits with other financial institutions. At December 31, 2022, there was $2.9 million of cash balances on deposit in excess of the FDIC insurance levels.

Note 16. Profit Sharing Plans

The Company has a deferred compensation, (401(k)), profit sharing plan and trust for all employees, of the Bank and Mlend, who are 21 years of age or older and who have completed 90 days of employment. The plan permits eligible participants to contribute the maximum percentage allowable by law. At its discretion, the Company may make matching and/or profit-sharing plan contributions. The Company made discretionary contributions of $236 thousand and $223 thousand to the plan during the years ended December 31, 2022 and 2021, respectively.

Note 17. Other Benefit Plans

The Company adopted a defined benefit SERP for certain Executive Officers. The defined benefit SERP on the Executive Officers includes a vesting schedule. The supplemental benefit expense for the years ended December 31, 2022 and 2021 was a recovery totaling $4 thousand and expense of $39 thousand, respectively. The related liability balance at December 31, 2022 and 2021 was $483 thousand and $538 thousand, respectively. The plans are unfunded; however, life insurance has been acquired on the life of the employees in amounts sufficient to help meet the costs of the obligations.

In 2018, the Company established a nonqualified deferred compensation plan which allows certain key employees to defer a portion of their compensation and provide for supplemental retirement benefits. The plan is unfunded; however, such deferrals accumulate gains and losses based on certain deemed investment options. The Company may also, at its discretion, make matching contributions to participant accounts. All such contributions vest over a three-year period from the end of the year in which the contributions are made. Plan participation began in 2019, and the net deferred compensation liability recorded in other liabilities on the Consolidated Balance Sheets was $601 thousand and $362 thousand at December 31, 2022 and 2021, respectively. The Company has purchased bank owned life insurance to economically hedge changes in the nonqualified deferred compensation liability.

Note 18. Regulatory Matters

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

As of December 31, 2022 and 2021, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain the minimum ratios as set forth in the following tables.

Management believes, as of December 31, 2022 and 2021 the Bank met all capital adequacy requirements to which it was subject.

The actual and required capital amounts and ratios as of December 31, 2022 and 2021 are presented below:

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
As of December 31, 2022	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk weighted assets)	$ 97,092	13.33%	$ 58,252	8.00%	$ 72,815	10.00%
Tier 1 capital (to risk weighted assets)	$ 88,985	12.22%	$ 43,689	6.00%	$ 58,252	8.00%
Common equity tier 1 capital (to risk weighted assets)	$ 88,985	12.22%	$ 32,767	4.50%	$ 47,330	6.50%
Tier 1 leverage (to average assets)	$ 88,985	9.53%	$ 37,435	4.00%	$ 46,794	5.00%

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Action Provisions	
As of December 31, 2021	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk weighted assets)	$ 75,469	12.58%	$ 47,994	8.00%	$ 59,993	10.00%
Tier 1 capital (to risk weighted assets)	$ 67,969	11.33%	$ 35,996	6.00%	$ 47,994	8.00%
Common equity tier 1 capital (to risk weighted assets)	$ 67,969	11.33%	$ 26,997	4.50%	$ 38,995	6.50%
Tier 1 leverage (to average assets)	$ 67,969	8.57%	$ 31,738	4.00%	$ 39,672	5.00%

As a FHA-approved mortgagee, Mlend must maintain a minimum adjusted net worth of $1,000,000 plus 1% of the total volume in excess of $25,000,000 of FHA single family mortgages originated, underwritten, serviced, and/or purchased during the prior fiscal year, up to a maximum required adjusted net worth of $2,200,000. Mlend must also maintain liquid assets of at least 20% of its required adjusted net worth. Adjusted net worth is defined as shareholders' equity, less certain unacceptable assets. At December 31, 2022 and 2021, Mlend met these requirements.

Note 19. Fair Value Measurements

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the "Fair Value Measurements and Disclosures" topic of FASB ASC-820, the fair value of an instrument is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market and in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. U.S. GAAP requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

In accordance with this guidance, the Company groups its assets and liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded, and the reliability of the assumptions used to determine fair value. The three levels of the fair value hierarchy based on these two types of inputs are as follows:

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

Level 2 – Valuation is based on observable inputs including quoted prices in active markets for similar assets and 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.

The following describes the valuation techniques used by the Bank to measure certain assets and liabilities recorded at fair value on a recurring basis in the financial statements:

<u>Securities portfolio:</u> Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). Securities held-to-maturity are carried at amortized cost (level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that consider observable market data (Level 2).

<u>Interest rate lock commitments:</u> The Company recognizes interest rate lock commitments at fair value based on the price of the underlying loans obtained from an investor for loans that will be delivered on a best-efforts basis while taking into consideration the probability (pull-through) that the rate lock commitments will close (Level 3). The pull-through rate is considered a level 3 input which at December 31, 2022, ranged from 70% - 90%, with a weighted average of 90% based on the relative fair values of these assets.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used are as follows for the years ending December 31, 2022 and 2021:

As of December 31, 2022	Quoted Prices in Active Markets for identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Securities available-for-sale:				
U.S. Treasuries	$ -	$ 3,058,200	$ -	$ 3,058,200
Mortgage Backed	-	13,676,323	-	13,676,323
Municipals	-	6,750,560	-	6,750,560
Corporates	-	16,025,403	-	16,025,403
Interest rate lock commitments	-	-	25,650	25,650
Total assets measured on a recurring basis	$ -	$ 39,510,486	$ 25,650	$ 39,536,136

As of December 31, 2021	Quoted Prices in Active Markets for identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Securities available-for-sale:				
U.S. Treasuries	$ -	$ 5,447,810	$ -	$ 5,447,810
Mortgage Backed	-	82,415,213	-	82,415,213
Municipals	-	35,615,412	-	35,615,412
Corporates	-	20,540,878	-	20,540,878
Interest rate lock commitments	-	-	156,090	156,090
Total assets measured on a recurring basis	$ -	$ 144,019,313	$ 156,090	$ 144,175,403
Liabilities:				
Other Liabilities				
Interest rate lock commitments	$ -	$ -	$ 7,160	$ 7,160
Total liabilitiess measured in a recurring basis	$ -	$ -	$ 7,160	$ 7,160

Certain assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.

The following describes the valuation techniques used by the Company to measure certain assets recorded at fair value on a nonrecurring basis in the financial statements:

Loans Held for Sale: Loans held for sale are carried at the lower of cost or estimated fair value. These loans currently consist of one-to-four family residential loans originated for sale in the secondary market. Fair value is based on the price secondary markets are currently offering for similar loans using observable market data which is not materially different than cost due to the short duration between origination and sale (Level 2). As such, the Company records any fair value adjustments on a nonrecurring basis. No nonrecurring fair value adjustments were recorded on loans held for sale at December 31, 2022 and 2021.

Impaired Loans: Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreements will not be collected. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the Company's collateral is real estate. The value of real estate collateral is determined utilizing a market valuation approach based on an appraisal, of one year or less, conducted by an independent, licensed appraiser using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the property is more than one year old and not solely based on observable market comparable or management determines the fair value of the collateral is further impaired below the appraised value, then a Level 3 valuation is considered to measure the fair value. The value of business equipment is based upon an outside appraisal, of one year or less, if deemed significant, or the net book value on the applicable business's financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivable collateral are based on financial statement balances or aging reports (Level 3).

Impaired loans allocated to the allowance for loan losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Consolidated Statements of Income. No impaired loans were carried at fair value at December 31, 2022 and 2021.

Other Real Estate Owned: OREO is measured at fair value in the same manner as described for impaired loans. Any initial fair value adjustment is charged against the allowance for loan losses. Subsequent fair value adjustments are recorded in the period incurred and included in noninterest expense on the Consolidated Statements of Income. The Company had no other real estate owned at December 31, 2022 and 2021.

For financial assets measured at fair value on a non-recurring basis the Bank had no non-recurring assets with fair values at December 31, 2022 and 2021.

FASB ASC 825, Financials Instruments, requires disclosure about fair value of financial instruments, including those financial assets and financial liabilities that are not required to be measured and reported at fair value on a recurring or nonrecurring basis. ASC 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company. The carrying amounts and estimated fair values of the Company's financial instruments are presented in the following tables whether or not recognized on the Consolidated Balance Sheets at fair value.

The estimated fair value of the Company's financial instruments is summarized as follows as of December 31, 2022 and 2021:

		December 31,			
		2022		2021	
	Level in FairValue Hierarchy	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:					
Cash and due from banks	Level 1	$ 15,393,440	$ 15,393,440	$ 41,255,045	$ 41,255,045
FHLB Stock	Level 1	406,400	406,400	337,700	337,700
Securities available-for-sale	Level 2	39,510,486	39,510,486	144,019,313	144,019,313
Securities held-to-maturity	Level 2	101,005,393	90,685,097	-	-
Loans held for sale	Level 2	4,725,495	4,725,495	5,423,358	5,423,358
Loans, net	Level 3	741,120,089	712,998,895	604,001,791	604,167,705
Accrued interest receivable	Level 2	2,616,879	2,616,879	1,971,018	1,971,018
Bank owned life insurance	Level 2	6,817,058	6,817,058	6,475,067	6,475,067
Interest rate lock commitments	Level 3	25,650	25,650	156,090	156,090
Financial liabilities:					
Time Deposits	Level 3	$ 98,885,631	$ 95,981,631	$ 88,100,826	$ 87,626,826
Other Deposits	Level 2	740,544,660	740,544,660	648,584,244	648,584,244
Accrued interest payable	Level 2	236,624	236,624	189,842	189,842
Subordinated Debt	Level 3	14,843,030	14,640,300	14,753,333	14,899,479
Other Borrowings	Level 3	-	-	1,887,060	1,887,060
Interest rate lock commitments	Level 3	-	-	7,160	7,160

Note 20. Derivatives

We maintain and account for derivatives, in the form of interest-rate lock commitments ("IRLCs"), in accordance with the FASB guidance on accounting for derivative instruments and hedging activities. We recognize gains and losses on IRLCs on the mortgage loan pipeline through non-interest income and non-interest expense in the Consolidated Statements of Income. IRLCs on mortgage loans that we intend to sell in the secondary market are considered derivatives. We are exposed to price risk from the time a mortgage loan closes until the time the loan is sold. The period between issuance of a loan commitment and closing and sale of the loan generally ranges from 14 days to 60 days with a limited number of IRLC's of up to 90 days. At December 31, 2022 and 2021, the derivative assets and liabilities were included in the Consolidated Balance Sheets in other assets and other liabilities, respectively.

Information pertaining to the notional amounts and fair values of the Company's derivative financial instruments are at December 31, 2022 and December 31, 2021 are as follows:

As of December 31, 2022:		Notional Amount		Estimated Fair Value
Asset - IRLCs	$	1,719,445	$	25,650

As of December 31, 2021:		Notional Amount		Estimated Fair Value
Asset - IRLCs	$	9,742,073	$	156,090
Liability - IRLCs		2,846,766		7,160

Note 21. Subordinated Debt

The Company issued long-term private placement subordinated fixed-to-floating rate debt ("Notes") for $15 million in October 2019 to multiple investors in the form of Subordinated Note Purchase Agreements Subject to limited exceptions permitting earlier redemption, the Notes may be redeemed on or after October 24, 2024. Unless redeemed earlier, the notes will mature on October 30, 2029. The notes bear a fixed rate of 5.75% for 5 years and will bear a floating rate equal to three-month SOFR plus 439.5 basis points thereafter. The notes are carried at their principal amount, less unamortized issuance costs and are structured to qualify as Tier 2 capital. The initial debt issuance costs were $448 thousand. As of December 31, 2022 and 2021, the unamortized issuance costs were $157 thousand and $247 thousand, respectively.

Note 22. Common Stock

As of December 31, 2022 and 2021, there were 2,905,973 and 2,251,320 shares of common stock outstanding, respectively. On October 16, 2020, the board of directors voted and approved an increase in the total authorized capital stock of the Company from 5,000,000 shares to 11,000,000 shares, designated as 10,000,000 shares of common stock and 1,000,000 shares of preferred stock. At December 31, 2022, there were 7,094,027 shares of common stock and 1,000,000 shares of preferred stock available to be issued.

On February 11, 2021 the Community Heritage Financial Human Capital Management Committee approved the details of the "Community Heritage Financial, Inc. Equity Incentive Plan", which was approved by shareholders on October 16, 2020. The plan allows the Company to grant stock options, restricted stock, and restricted stock units to certain officers and employees. The plan allows for up to 10,000 shares of common stock to key employees of the Company and its subsidiaries in the form of stock options, restricted stock units and stock awards and performance units.

On October 1, 2022 the Company announced the closing of its underwritten public offering of 649,526 shares of common stock at a public offering price of $21.00 per share. The net proceeds to the Company, after deducting underwriting, discount and estimated offering expenses was approximately $12.2 million.

<u>Share-Based Compensation</u>

Restricted stock units are an award of units that correspond in number and value to a specified number of shares of employer stock which the recipient receives according to a vesting plan and distribution schedule after achieving required performance milestones or upon remaining with the employer for a particular length of time. Each restricted stock unit that vests entitles the recipient to receive one share of common stock on a specified issuance date.

Unless otherwise specified the restricted stock awards are subject to a 4 year vesting schedule in one fourth per year vesting, the first one-fourth vesting one year from the grant date. The recipient does not have any stockholder rights, including voting, dividend, or liquidation rights, with respect to the shares underlying awarded restricted stock units until vesting has occurred and the recipient becomes the record holder of those shares. The unvested restricted stock units will vest on the established schedule if the employees remain employed by the Company on future vesting dates.

A summary of the activity for the Company's restricted stock units at December 31, 2022 and 2021, is presented in the following table.

	For the Years Ended December 31,			
	2022		2021	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Unvested, beginning of year	10,000	$ 23.00	-	$ -
Granted	19,962	20.79	10,000	23.00
Vested	(7,474)	20.44	-	-
Forfeited	-	-	-	-
Unvested, end of year	22,488	$ 21.89	10,000	$ 23.00

Compensation expense related to restricted stock unit awards recognized for the year ended December 31, 2022 and December 31, 2021, was $141,627 and $14,375, respectively. There were no forfeitures as of December 31, 2022 and December 31, 2021. During 2022, 7,474 restricted shares vested, and after withholding to cover tax treatment, 5,127 shares of common stock were issued.

Note 23. Other Non-interest Expenses

The following table describes the significant components of other non-interest expenses included in the Consolidated Statements of Income for the years ended December 31, 2022 and 2021:

	For the Years Ending December 31,	
	2022	2021
Public Relations and charitable contributions	$ 310,245	$ 262,107
ATM and check card expenses	489,708	368,526
Director fees	194,500	177,175
Other miscellaneous operating expenses	834,096	1,118,772
Total other operating expenses	$ 1,828,549	$ 1,926,580

Note 24. Revenue from Contracts with Customers

Substantially all the Company's revenue from contracts with customers that is within the scope of ASC 606, "Revenue from Contracts with Customers" is reported within non-interest income. Certain other in-scope items such as gains and losses on OREO are recorded in non-interest expense. The recognition of interest income and certain sources of non-interest income (e.g. gains on security transactions, bank owned life insurance income, gains on loans held for sale, etc.) are governed by other areas of U.S. GAAP. Significant revenue streams that are within scope of ASC 606 and included in non-interest income are discussed in the following paragraphs.

<u>Service Charges on Deposit Accounts</u>

A significant portion of noninterest income is derived from short-term contracts associated with services provided for deposit account holders. These revenue streams are principally comprised of overdrawn account charges, account maintenance charges, ATM fees, and monthly account fees. The Bank's performance obligations on revenue generated from deposit accounts are generally satisfied immediately, when the transaction occurs, or by month-end. Typically, the duration of a contract does not extend beyond the services performed. Due to the short duration of most customer contracts which generate these sources of noninterest income, no significant judgments must be made in the determination of the amount and timing of revenue recognized.

VISA Check Card Income

The Bank earns interchange fees from debit cardholder transactions conducted through the VISA payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Gains and Losses on the Sale of Other Real Estate Owned

The Company records a gain or loss from the sale of other real estate owned ("OREO") when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of OREO to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer.

The following table describes the in-scope and out-of-scope noninterest income elements related to ASC Topic 606 for the years ended December 31, 2022 and 2021:

		For the Years Ending December 31,	
		2022	2021
In-scope of ASC topic 606:			
Service charges on deposit accounts:			
Monthly service and other activity charges		$ 663,867	$ 657,760
ATM fees		83,233	76,950
VISA check card income		906,974	777,826
Gain premises and equipment		65,448	18,684
Other operating income		76,374	40,335
Total non-interest income within the scope of ASC-606		1,795,896	1,571,555
Out-of-scope of ASC 606	(1)	2,133,053	5,438,652
		$ 3,928,949	$ 7,010,207

(1) Includes bank owned life insurance, gain on sale of loans, other mortgage banking income gain on IRLC's, and gain on sale of securities.

Contract Balances

The Company's in-scope non-interest revenue streams are largely based on transactional activity. Consideration is often received immediately or shortly after the Company satisfied its performance obligation and revenue is recognized. The Company does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of December 31, 2022 and 2021, the Company did not have any significant contract balances.

Note 25. Subsequent Events

The Company evaluates subsequent events that have occurred after the balance sheet date, but before the financial statements are issued. There are two types of subsequent events (1) recognized, or those that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, and (2) non-recognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Subsequent events have been considered through March 29, 2023, the date financial statements were available to be issued.

Executive Management

Robert E. Goetz, Jr.
President & Chief Executive Officer

J. Michael Hill
Executive Vice President & Chief Risk Officer

Robert Wolfe, Jr.
Executive Vice President & Chief Financial Officer

Dawn Lowe
Executive Vice President & Chief Talent and Culture Officer

Brenda McComas
Executive Vice President & Chief Operating Officer

Dustin Watson
Executive Vice President & Chief Credit Officer

Ryan Lampton
Executive Vice President & Regional President West

Christopher A. Hesen
Executive Vice President & Regional President East

William H. Poffenbarger, Jr.
Executive Vice President & President Mlend

Dawn R. Woods
Corporate Secretary & Executive Administrative Assistant

Michelle Lease
Assistant Corporate Secretary

Board of Directors

COMMUNITY HERITAGE FINANCIAL, INC. AND MIDDLETOWN VALLEY BANK

James G. Pierne
Chairman of the Board
Assistant Professor of Business & Management, Hagerstown Community College

Todd M. Snook
Vice Chairman of the Board
Owner & President, Valley Storage Company

James H. Clapp
Retired Attorney

Frankie Corsi, III
President, Beachley Furniture

Beth Dellaposta
Chief Financial Officer, Doing Better Business

Robert E. Goetz, Jr.
President & Chief Executive Officer, CHF & MVB

Richard L. Kefauver
Retired Businessman

A. Dennis Remsburg
Retired Businessman

John T. Routzahn, III
Aviation Underwriter, Avemco

Board of Directors

MILLENNIUM FINANCIAL GROUP, INC.

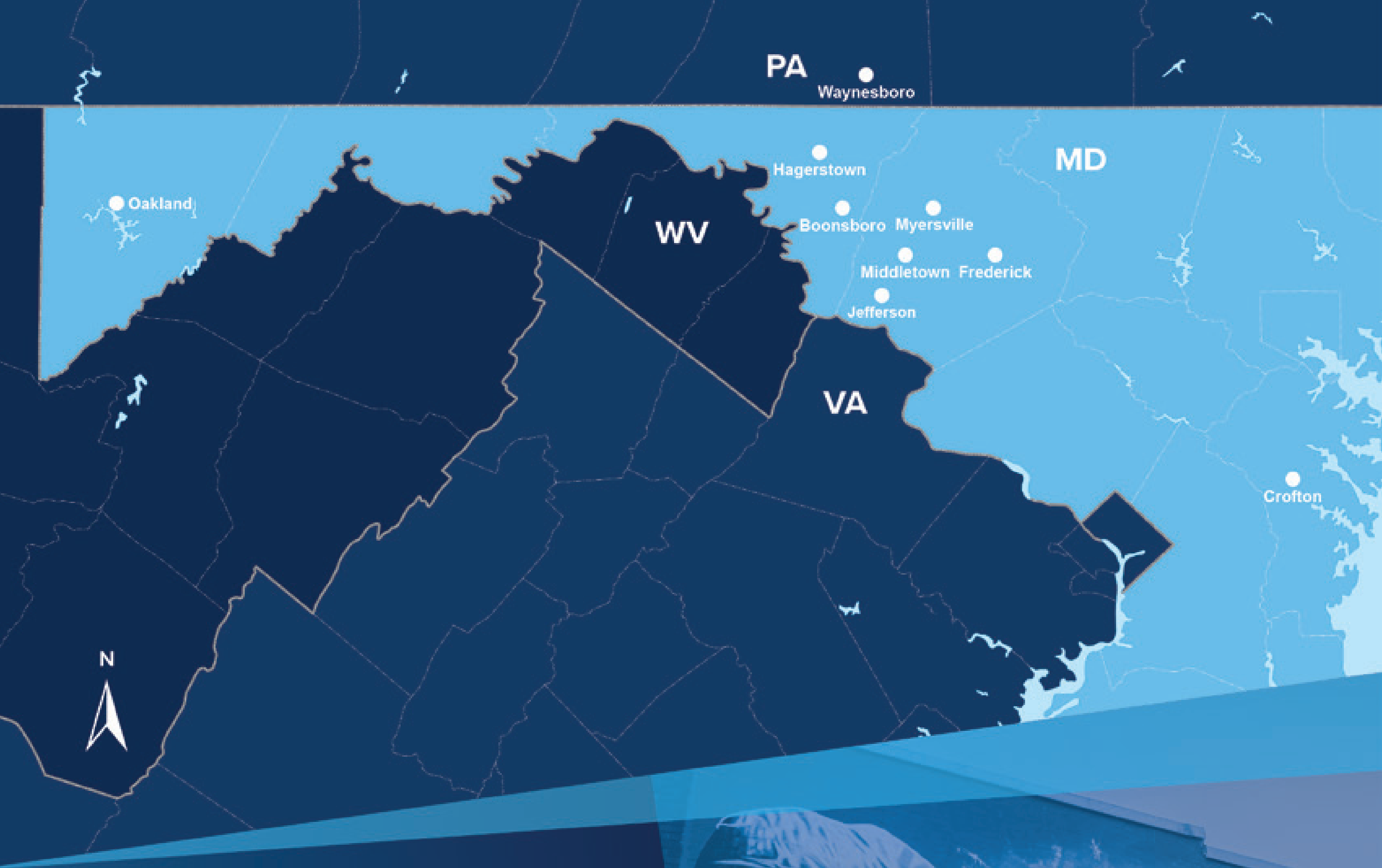
James G. Pierne
Chairman of the Board

Robert E. Goetz, Jr.
Vice Chairman of the Board

William H. Poffenbarger, Jr.

J. Michael Hill

Robert Wolfe, Jr.



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Trading symbol: CMHF

CHF Community Heritage Financial, Inc.