Gouverneur Bancorp, Inc.

2022 Annual Report

President's Message

To Our Shareholders:

On behalf of the Board of Directors, officers and employees of Gouverneur Bancorp, Inc. and its subsidiary, Gouverneur Savings and Loan Association ("GS&L", or ("the Bank"), I present to you our 2022 annual report.

Customers are GS&L's number one priority. In January 2022 we announced the planned acquisition of Citizens Bank of Cape Vincent ("CBCV"), as a plan to expand our footprint in Jefferson County. As of the close of business on September 16, 2022, the acquisition was consummated, adding three additional full-service branches, in Cape Vincent, Chaumont, and LaFargeville. The Bank also established a subsidiary limited purpose municipal bank to service the deposit needs of the area's municipalities.

We appreciate the opportunity to serve the area's financial needs. GS&L offers a vast selection of deposit and lending programs, with planned enhancements in technology and I-Banking services. We take pride in knowing our customers; we support and live in the communities we serve.

To supplement our financial information, which is prepared and presented in accordance with generally accepted accounting principles in the United States of America, or GAAP, we included the following non-GAAP financial measures: Adjusted Non-interest Income, Total Adjusted Revenue, Adjusted Earnings Before Income Tax (AEBIT), Adjusted Income Tax (Benefit), and Adjusted Net Income (Loss). The presentation of this financial information is not intended to be considered as a substitution for the financial information prepared and presented in accordance with GAAP. We use these non-GAAP financial measures for financial and operational decision making and as a means to evaluate period-to-period comparisons. We believe that these non-GAAP financial measures provide meaningful supplemental information regarding our performance by excluding certain items that may not be indicative of our recurring business operating results. The adjusted financial information excludes from non-interest income the non-cash measurement of the unrealized gains or losses in market value on swap agreements held with Federal Home Loan Bank of New York ("FHLBNY").

Total revenue (net interest income plus non-interest income) for fiscal year 2022 was $7.08 million, an increase of $0.88 million over the 2021 fiscal year-end total of $6.20 million. The Bank remains well-capitalized after the acquisition of CBCV with a core capital ratio of 15.79%, a decrease of 3.97% from 2021. Total Adjusted Revenue for fiscal year 2022, $4.93 million, decreased $326,000 over the 2021 fiscal year-end total of $5.25 million.

Interest income on loans decreased $101,000 in fiscal 2022, from $4.12 million at September 30, 2021 to $4.01 million at September 30, 2022. Total interest income increased $80,000, or 1.79%, from $4.47 million to $4.55 million. Interest expense on deposits decreased $73,000, from $337,000 at September 30, 2021 to $264,000 at September 30, 2022. Borrowings from the Federal Home Loan Bank, had a total interest expense of $4,000 and $28,000, respectively, at the end of fiscal 2022 and 2021, resulting in a total interest expense of $268,000 and $365,000. Interest spread, the difference between the rate earned on interest-earning assets and the rate paid on interest-bearing liabilities, was 3.55% in fiscal 2022 and 3.54% in fiscal 2021.

Non-interest income increased $712,000 from $2,093,000 in fiscal year 2021 to $2,805,000 in fiscal 2022. This includes the unrealized market value gain on swap agreements held with FHLBNY of $2,158,000 and $943,000 for 2022 and 2021, respectively. Adjusted non-interest income decreased $503,000, from $1,150,000 in fiscal year 2021 to $647,000 in fiscal 2022. The adjustment excludes the unrealized market value gain on swap agreements held with FHLBNY. Earnings on the deferred fee plan decreased $191,000 and earnings on new originations in the secondary market declined $118,000 in 2022, contributing to the total decrease. There was also a one-time 2021 payment from life insurance death benefits of $160,000.

Net income for the fiscal year ended September 30, 2022 increased 21.58% to $1,527,000 or $0.75 per basic and diluted share, compared to $1,256,000, or $0.62 per basic and diluted share, in fiscal 2021. The earnings resulted in a return on average assets of 1.16%, an increase from 0.98% in fiscal 2021, while the return on average equity increased to 5.79% for the year ended September 30, 2022, from 4.62% for the year ended September 30, 2021. Adjusted net income for the fiscal year ended September 30, 2022 decreased 134.85% to $(178,000) or $(0.09) per basic and diluted share, compared to $511,000, or $0.25 per basic and diluted share, in fiscal 2021. The earnings resulted in a return on average assets of (0.13)%, a decrease from 0.40% in fiscal 2021, while the return on average equity decreased to (0.67)% for the year ended September 30, 2022, from 1.88% for the year ended September 30, 2021.

In fiscal 2022 deposits increased $83.20 million, or 82.57%, to $183.95 million at September 30, 2022 from $100.75 million at September 30, 2021, due in part to the addition of $76.14 million in deposits resulting from the acquisition of CBCV. The Bank currently holds no brokered deposits or advances from the FHLB as the need for the Company to fund its loan portfolio with low-cost FHLB borrowings decreased.

Net loans increased $38.76 million, or 44.89%, from $86.35 million at September 30, 2021 to $125.11 million at September 30, 2022, which included $37.98 million in acquired loans from CBCV. Non-performing assets represent 0.33% of total assets, a slight decrease from the 2021 figure of 0.48%.

Total assets increased $78.10 million, or 57.88% with the acquisition of CBCV, from $134.92 million at September 30, 2021 to $213.02 million at September 30, 2022. Shareholders' equity was $24.83 million at September 30, 2022, representing an acquisition-related decrease of 9.39% from the September 30, 2021 balance of $27.40 million. The Company's book value was $12.22 per common share based on 2,383,610 shares issued and 2,031,377 shares outstanding at September 30, 2022 versus $13.49 per common share based on 2,383,610 shares issued with 2,031,377 shares outstanding on September 30, 2021.

I extend my sincere appreciation to you, our shareholders, for your continued support of our endeavors, and I especially want to thank the Board of Directors and staff who have worked diligently with me to achieve our positive results. We look forward to our continued success.

Faye C. Waterman
President and Chief Executive Officer

SELECTED CONSOLIDATED FINANCIAL INFORMATION

Selected Financial Condition Data:
(In thousands, except per share data)

	At September 30,				
	2022	2021	2020	2019	2018
Total Assets	$ 213,019	$ 134,922	$129,261	$ 125,268	$ 131,831
Loans [1]	125,732	86,967	87,507	91,342	96,405
Allowance for loan losses	621	620	631	637	776
Time deposits in other financial institutions	718	-	-	-	-
Securities available-for-sale	49,645	24,614	20,455	17,066	15,622
Securities held-to-maturity	1	2	3	4	5
Deposits	183,951	100,754	91,157	79,284	84,621
Borrowings	-	-	3,000	10,000	12,000
Total shareholders' equity	24,829	27,402	26,629	29,452	29,975

Selected Operations Data:

	For the years ended September 30,				
	2022	2021	2020	2019	2018
Interest income	$ 4,547	$ 4,467	$ 5,012	$ 5,623	$ 5,725
Interest expense	268	365	522	581	516
Net interest income	4,279	4,102	4,490	5,042	5,209
Provision for loan losses	61	18	58	70	65
Net interest income after provision for loan losses	4,218	4,084	4,432	4,972	5,144
Non-interest income (loss)	2,805	2,093	(191)	(922)	1,632
Non-interest expense	5,104	5,007	4,879	4,794	4,710
Income (loss) before inc. tax	1,919	1,170	(638)	(744)	2,066
Income tax (benefit)	392	(86)	(257)	(280)	880
Net income (loss)	$ 1,527	$ 1,256	$ (381)	$ (464)	$ 1,186

Per Common Share:

		2022	2021	2020	2019	2018
Net Income (Loss)	- Basic	$ 0.75	$ 0.62	$ (0.18)	$ (0.21)	$ 0.52
	- Diluted	0.75	0.62	(0.18)	(0.21)	0.52
Adjusted Net Income	- Basic	$ (0.09)	$ 0.25	$ 0.22	$ 0.45	$ 0.32
	- Diluted	(0.09)	0.25	0.22	0.45	0.32
Book value		$ 12.22	$ 13.49	$ 13.11	$ 13.53	$ 13.77
Cash dividends declared		0.16	0.24	0.29	0.34	0.34
Dividend payout ratio *		21.33%	38.71%	(161.11)%	(161.90)%	62.96%
Adj. Dividend payout ratio *		(177.78)%	96.00%	128.62%	75.99%	105.58%

*Dividend payout ratio and adjusted dividend payout ratio are calculated by dividing cash dividends declared (per share) by basic (or adjusted) net income (loss) per share.

Notes appear on the following page.

	At or for the Years Ended September 30,				
	2022	2021	2020	2019	2018
Performance Ratios:					
Return on average assets (net income to avg total assets)	1.16%	0.98%	(0.30)%	(0.36)%	0.91%
Return on average equity (net income to average equity)	5.79%	4.62%	(1.30)%	(1.55)%	3.97%
Average interest-earning assets to average interest-bearing liabilities	131.87%	134.92%	132.55%	137.37%	135.19%
Net interest rate spread (3)	3.55%	3.54%	3.84%	4.21%	4.27%
Net interest margin (4)	3.62%	3.65%	4.00%	4.40%	4.43%
Net interest income after provision for loan losses to total other expenses	0.83x	0.82x	0.91x	1.04x	1.09x
Adjusted Performance Ratios(2):					
Return on average assets(2) (adjusted net income to avg total assets)	(0.13)%	0.40%	0.35%	0.74%	0.86%
Return on average equity(2) (adjusted net income to average equity)	(0.67)%	1.88%	1.57%	3.19%	3.76%
Capital and Asset Quality Ratios (5)					
Average equity to average total assets	19.99%	21.11%	22.64%	23.27%	22.79%
Total equity to assets end of period	11.66%	20.31%	20.60%	23.77%	22.74%
Non-performing assets to total assets	0.33%	0.48%	1.00%	1.71%	1.53%
Non-performing loans to total loans (6)	0.71%	0.43%	1.06%	1.79%	1.50%
Allowance for loan losses to total loans (6)	0.71%	0.72%	0.73%	0.70%	0.81%
Allowance for loan losses to non-performing loans	100.49%	167.57%	68.22%	39.35%	54.04%

(1) Represents loans available for sale as part of total loans net of deferred fees and costs and discount on acquired loans.

(2) "Adjusted Non-interest Income", "Adjusted Income Before Taxes", Adjusted Income Tax (Benefit)", and "Adjusted Net Income (Loss)" are non-GAAP measures as defined by the Securities and Exchange Commission (the "SEC"). See "Definitions of Non-GAAP Measures" and "Reconciliation to Non-GAAP Net Income (Loss)" sections herein for an explanation and reconciliation of non-GAAP measures used throughout this report.

(3) The net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.

(4) The net interest margin, also known as the net yield on average interest-earning assets, represents net interest income as a percentage of average interest-earning assets.

(5) Capital and asset quality ratios are at end of period. All other ratios are based on average daily balances.

(6) Total loans exclude loans held for sale and acquired loans.

Cambray Mutual Holding Company waived its right to dividends declared for fiscal years 2014 through 2018, amounting to waived dividends of $446,000 each year, and waived a total of $905,000 dividends for 2020 through 2022. Cambray MHC did not seek member approval to waive its right to receive dividends from Gouverneur Bancorp in 2019, and consequently began receiving dividends for the 2019 fiscal year in order to increase its cash and operational funds. The dividend payout ratio, net of waived dividends, was 7.15% in 2022, 13.77% in 2021, (55.38)% in 2020 and 24.79% in 2018.

Critical Accounting Policies

Note 2 to the consolidated financial statements of the Company lists significant accounting policies used in development and presentation of its financial statements. The significant accounting policies, and other financial statement disclosures, identify and address key variables and other qualitative and quantitative factors that are necessary for an understanding and evaluation of the Company's results of operations. The following accounting policy is the one identified by management to be critical to the results of operations:

Allowance for Loan Losses. The allowance for loan losses reflects management's judgment of probable loan losses inherent in the portfolio at the balance sheet date. The Company uses a disciplined process and methodology to establish the allowance for loan losses each quarter. To determine the total allowance for loan losses, management estimates the reserves needed for each segment of the portfolio, including loans analyzed individually and loans analyzed on a pooled basis. The allowance for loan losses consists of amounts applicable to: (i) the commercial portfolio; (ii) the real estate portfolio; and (iii) the consumer portfolio.

To determine the balance of the allowance account, loans are pooled by portfolio segment and losses are modeled using historical experience and quantitative and other mathematical techniques over the loss emergence period. Management exercises significant judgment in determining the estimation method that fits the credit risk characteristics of each portfolio segment. The Company uses models developed under the guidance of the OCC in this process. Management must use judgment in establishing additional input metrics for the modeling processes. The models and assumptions used to determine the allowance are independently validated and reviewed to ensure that their theoretical foundation, assumptions, data integrity, computational processes, reporting practices, and end-user controls are appropriate and properly documented.

The allowance consists of specific and general components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan and collection of the full loan balance is deemed unlikely. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors.

The establishment of the allowance for loan losses relies on a consistent process that requires multiple layers of management review and judgment and responds to changes in economic conditions, customer behavior and collateral value, among other influences. From time to time, events or economic factors may affect the loan portfolio, causing management to provide additional amounts to or release balances from the allowance for loan losses. The Company's allowance for loan losses is sensitive to risk ratings assigned to the individually evaluated loans and economic assumptions and delinquency trends driving statistically modeled reserves. Individual loan risk ratings are evaluated based on each situation by experienced senior credit officers.

Management monitors differences between estimated and actual incurred loan losses. This monitoring process includes periodic assessments by senior management of loan portfolios and the models used to estimate incurred losses in those portfolios. Additions to the allowance for loan losses are made by changes to the provision for loan losses. Credit exposures deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of previously charged off amounts are credited to the allowance for loan losses.

Management reports its assessment of the adequacy of the allowance for loan losses monthly to the Board of Directors and the Audit Committee.

Analysis of Net Interest Income

Net interest income, our primary income source, depends principally upon: (1) the amount of interest earning assets that we can maintain based upon our funding sources; (2) the relative amounts of interest-earning assets versus interest-bearing liabilities; and (3) the difference between the yields earned on those assets and the rates paid on those liabilities. Non-accrual loans adversely affect net interest income because they are funded by interest-bearing liabilities, and, generally, do not provide interest income. Furthermore, when we designate an asset as non-accrual, unpaid interest credited to the current period income is reversed, further reducing net interest income.

Average Balances, Interest Rates and Yields

The table on the following page presents, for the periods indicated, the average interest-earning assets and average interest-bearing liabilities by principal categories, the interest income or expense for each category, and the resultant average yields earned or rates paid. No tax equivalent adjustments were made. All average balances are daily average balances. Non-interest-bearing checking accounts are included in the tables as a component of non-interest-bearing liabilities.

	For the Years Ended September 30,								
	2022			2021			2020		
	(Dollars in thousands)								
	Average Balance	Interest	Average Yield/ Cost (6)	Average Balance	Interest	Average Yield/ Cost (6)	Average Balance	Interest	Average Yield/ Cost (6)
Loans, net (1)	$ 88,661	$ 3,843	4.33%	$ 86,353	$ 3,868	4.48%	$ 89,102	$ 4,433	4.98%
Securities (2)	25,405	660	2.60%	21,703	595	2.74%	16,856	552	3.27%
Other short-term investments	4,093	44	1.08%	4,253	4	0.09%	6,375	27	0.42%
Total interest-earning assets	118,159	4,547	3.85%	112,309	4,467	3.98%	112,333	5,012	4.46%
Non-interest-earning assets	13,815			16,399			16,794		
Total assets	$131,974			$128,708			$129,127		
Savings and club accounts (3)	$ 42,676	$ 59	0.14%	$ 37,069	$ 53	0.14%	$ 31,607	$ 65	0.21%
Time certificates	15,997	100	0.63%	16,776	128	0.76%	18,240	198	1.09%
NOW and money market accounts	30,765	105	0.34%	28,288	156	0.55%	25,927	59	0.23%
Borrowings	163	4	2.45%	1,111	28	2.52%	8,975	200	2.23%
Total interest-bearing liabilities	89,601	268	0.30%	83,244	365	0.44%	84,749	522	0.62%
Non-interest-bearing liabilities	15,990			18,294			15,141		
Total liabilities	105,591			101,538			99,890		
Shareholders' equity	26,383			27,170			29,237		
Total liabilities and shareholders' equity	$131,974			$128,708			$129,127		
Net interest income/spread (4)		$ 4,279	3.55%		$ 4,102	3.54%		$ 4,490	3.84%
Net earning assets/net interest margin (5)	$ 28,558		3.62%	$ 29,065		3.65%	$ 27,584		4.00%
Ratio of average interest-earning assets to average interest-bearing liabilities	1.32x			1.35x			1.33x		

Notes appear on following page

(1) Shown net of the allowance for loan losses. Average loan balances include non-accrual loans and loans held for sale. Interest is recognized on non-accrual loans only as and when received.
(2) Securities are included at amortized cost, with net unrealized gains or losses on securities available for sale included as a component of non-earning assets. Securities include FHLB and ACBB stock.
(3) Includes advance payments by borrowers for taxes and insurance (mortgage escrow deposits).
(4) The spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
(5) The net interest margin, also known as the net yield on average interest-earning assets, represents net interest income as a percentage of average interest-earning assets.
(6) Yields are not computed on a tax equivalent basis.

Rate Volume Analysis of Net Interest Income

One method of analyzing net interest income is to consider how changes in average balances and average rates from one period to the next affect net interest income. The following table shows changes in the dollar amount of interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. It shows the amount of the change in interest income or expense caused by either changes in outstanding balances ("volume") or changes in interest rates ("rate"). The effect of a change in volume is measured by multiplying the average rate during the first period by the volume change between the two periods. The effect of a change in interest rates is calculated by multiplying the change in rate between the two periods by the average volume during the first period. Changes attributable to both rate and volume which cannot be segregated have been allocated proportionately to the change due to volume and the change due to rate.

	Years Ended September 30,					
	2022 vs. 2021 Increase (Decrease) Due To:			2021 vs. 2020 Increase (Decrease) Due To:		
	Volume	Rate	Total	Volume	Rate	Total
	(Dollars in thousands)					
Interest-earning assets:						
Loans	$ 104	$ (129)	$ (25)	$ (133)	$ (432)	$ (565)
Securities	97	(32)	65	142	(99)	43
Other short-term investments	-	40	40	(7)	(16)	(23)
Total interest-earning assets	201	(121)	80	2	(547)	(545)
Interest-bearing liabilities:						
Savings and club accounts	6	-	6	11	(23)	(12)
Time certificates	(6)	(22)	(28)	(15)	(55)	(70)
NOW and money market accounts	13	(64)	(51)	6	91	97
Borrowings	(23)	(1)	(24)	(195)	23	(172)
Total interest-bearing liabilities	(10)	(87)	(97)	(193)	36	(157)
Net change in net interest income	$ 211	$ (34)	$ 177	$ 195	$ (583)	$ (388)

Reconciliation to Non-GAAP Net Income (Loss)
For the fiscal years ending September 30, 2022 and 2021
(in thousands)

	2022	2021
Net Income	$ 1,527	$ 1,256
Deduct: Unrealized gain on swap agreement	2,158	943
Addback: Change in EBIT tax calc. per income adj.	453	198
Adjusted Net Income (Loss)	$ (178)	$ 511

Definitions of Non-GAAP Measures

Adjusted Non-Interest Income We define Adjusted Non-Interest Income as total non-interest earnings excluding certain items that may not be indicative of our recurring business operating results. Adjusted non-interest income excludes from non-interest income the non-cash measurement of the unrealized gains or losses in market value on swap agreements.

Adjusted Earnings (Loss) Before Income Tax We define AEBIT as net income (loss) before income tax, excluding certain items that may not be indicative of our recurring business operating results. AEBIT excludes from total earnings before income tax the non-cash measurement of the unrealized gains or losses in market value on swap agreements.

We have included AEBIT because it is a key measure used by our management team to evaluate our operating performance, generate future operating plans, and make strategic decisions, including those related to operating expenses. Accordingly, we believe that AEBIT provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management team and board of directors. In addition, it provides a useful measure for period-to-period comparisons of our business as it removes the effect of certain non-cash items with variable unrealized gains and losses. AEBIT is not meant as a substitute for the related financial information prepared in accordance with GAAP.

Adjusted Income Tax (Benefit) We define Adjusted Income Tax (Benefit) as the income tax calculated from the adjusted earnings before income tax. The marginal tax rate of 21% is applied to the non-cash measurement of the unrealized gains or losses in market value on swap agreements that are excluded from Adjusted Non-Interest Income.

Adjusted Net Income (Loss) We define Adjusted Net Income (Loss) as net income less certain items that may not be indicative of our recurring business operating results. Adjusted Net Income (Loss) excludes the non-cash measurement of the unrealized gains or losses in market value on swap agreements held with FHLBNY and the subsequent recalculation of associated income tax. Adjusted Net Income (Loss) should be considered as a supplement, and not a substitute for, net income prepared in accordance with GAAP.

Bonadio & Co., LLP
Certified Public Accountants

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

January 13, 2023

To the Board of Directors and
Stockholders of Gouverneur Bancorp, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial condition of Gouverneur Bancorp, Inc. and Subsidiaries (the Company) as of September 30, 2022 and 2021, and the related consolidated statements of earnings, comprehensive income (loss), stockholders' equity, and cash flows for each of the years in the two-year period ended September 30, 2022, and the related notes (collectively referred to as the financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2022 and 2021, and the results of their operations and their cash flows for each of the years in the two-year period ended September 30, 2022, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

432 North Franklin Street, #60
Syracuse, New York 13204
p (315) 476-4004
f (315) 254-2384

www.bonadio.com

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Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for Loan Losses – Qualitative Factor Component

The allowance for loan losses as of September 30, 2022 was $621 thousand. As described in Notes 2 and 5 to the consolidated financial statements, the allowance for loan losses is established through a provision for loan losses and represents an amount which, in management's judgement, will be adequate to absorb losses on existing loans. The level of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, payment status of the loan and economic conditions.

The allowance consists of specific and general components in the amounts of $85 thousand and $536 thousand, respectively. Specific reserves estimate potential losses on identified impaired loans with uncertain collectability of principal and interest. The general component covers pools of loans by loan class including loans not considered impaired, as well as homogeneous loans, such as real estate, commercial, and consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative risk factors. The general component is calculated using a systematic methodology with both a quantitative and a qualitative analysis that is applied on a quarterly basis. For purposes of the allowance methodology, the loan portfolio is segmented as described in Note 5. Each segment has a distinct set of risk characteristics monitored by management. Risk is further assessed and monitored and determined at a more disaggregated level, which includes the risk grading system as described in Note 5 under Credit Quality Indicators.

To determine the general component of the allowance the Company applies the historical loss rate to pools of loans with similar risk characteristics. After consideration of the historic loss analysis, management applies additional qualitative adjustments so that the allowance for loan losses is reflective of the estimate of incurred losses that exist in the loan portfolio at the statement of financial condition date. Qualitative adjustments are made if the incurred loan losses inherent in the loan portfolio are not fully captured in the historical loss analysis. Qualitative considerations include changes in economic conditions; changes in volume of delinquencies and loan classifications; changes in collateral value; changes in credit concentration; changes in portfolio volume; changes in the compliment of staffing; and other external factors.

The evaluation of the qualitative factors requires a significant amount of judgement by management and involves a high degree of subjectivity. We identified the qualitative factor component of the allowance for loan losses as a critical audit matter as auditing the underlying qualitative factors required significant auditor judgment as amounts determined by management rely on analysis that is highly subjective and includes significant estimation uncertainty.

Our audit procedures related to the qualitative factors included the following, among others:

- Assessing management's methodology and considering whether relevant risks were reflected in the modeled provision and whether adjustments to modeled calculations were appropriate.
- Evaluating the completeness and accuracy of data inputs used as a basis for the adjustments relating to qualitative general reserve factors and considering whether the sources of data and factors that management used in forming the assumptions are relevant, reliable, and sufficient for the purpose based on the information gathered.

(Continued)

Critical Audit Matters (Continued)

- Evaluating the reasonableness of management's judgments related to the qualitative and quantitative assessment of the data used in the determination of the general reserve qualitative adjustments for consistency with each other, the supporting data, relevant historical data, and industry data.
- Analytically evaluating the qualitative adjustment in the current year compared to prior years for directional consistency and reasonableness.
- Testing the calculations used by management to translate the assumptions and key factors into the allowance estimated amount.

Business Combination – valuation of the Acquired Loan Portfolio and Core Deposit Intangible

As described in Notes 1 and 3 to the consolidated financial statements, on September 16, 2022, the Company completed its acquisition of Citizens Bank of Cape Vincent (CBCV) for $8.5 million of cash, resulting in goodwill of $4.9 million. The fair value of total assets acquired as a result of the merger totaled $81.6 million, including acquired loans of $37.0 million and deposits of $77.2 million. Further, a core deposit intangible of $2.5 million was recorded as part of the acquisition. Acquired loans (impaired and non-impaired) are initially recorded at their acquisition-date fair values using Level 3 inputs. Fair values are based on a discounted cash flow methodology that involves assumptions and judgments as to credit risk, expected lifetime losses, environmental factors, collateral values, discount rates, expected payments and expected prepayments. Specifically, the Company prepared two separate loan fair value adjustments that it believed a market participant might employ in estimating the entire fair value adjustment necessary for the acquired loan portfolio. The two-separate fair valuation methodology employed are: 1) an interest rate loan fair value adjustment, 2) a general credit fair value adjustment. The fair value of the core deposit intangible was determined using a two-step analytical approach. The first is the estimation of the useful life of the deposits, or attrition rate. The second step is to determine the net alternative funding cost for the core deposit as well as assumptions regarding costs of servicing core deposit accounts (using a noninterest expense analysis), fee income derived from core deposit accounts, taxes, and a discount rate used to establish a present value for cash flows.

We identified the fair value of acquired loans and the core deposit intangible as a critical audit matter, because of the judgments necessary to determine the fair value of the loan portfolio acquired and the core deposit intangible, the high degree of auditor judgment involved and the extensive audit effort involved in testing management estimates and assumptions.

Our audit procedures related to the valuation of the acquired loan portfolio included the following, among others:

- We obtained the valuation report prepared by a third party engaged by management, and gained an understanding of the valuation methodology applied, as well as key inputs and assumptions.
- We tested the completeness and accuracy of data inputs provided by management and utilized in the calculation performed by the third party specialist.
- We evaluated significant assumptions such as credit risk, expected lifetime losses, environmental factors, collateral values, discount rates, expected payments and expected prepayments for the loan portfolio and attrition rate, alternate funding cost for the core deposit, costs of servicing core deposit accounts, fee income derived from core deposit accounts, taxes and discount rate for the core deposit intangible.
- We tested the completeness and accuracy of data included in the loan and deposit trial balances used in the discounted cash flow models.

We have served as the Company's auditor since 2022.

Syracuse, New York

Gouverneur Bancorp, Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
SEPTEMBER 30, 2022 AND 2021

	2022	2021
	(In Thousands, Except Share and Per Share Amounts)	
Assets		
Cash and Cash Equivalents:		
Cash and due from banks	$ 10,109	$ 4,503
Interest bearing deposits with banks	4,235	6,546
Total Cash and Cash Equivalents	14,344	11,049
Time deposits in other financial institutions	718	-
Debt Securities available for sale, net	49,645	24,614
Debt Securities held to maturity	1	2
Loans held for sale	-	200
Loans receivable, net of allowance for loan losses 2022 $621; 2021 $620	125,111	86,147
Investment in FHLB, ACBB stock, at cost	895	770
Investment in life insurance	6,841	6,704
Premises and equipment, net	3,155	2,397
Foreclosed assets	75	276
Core deposit intangible	2,542	-
Goodwill	3,956	-
Accrued interest receivable and other assets	5,736	2,763
Total Assets	$ 213,019	$ 134,922
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing demand	$ 25,760	$ 14,142
NOW and money market	54,085	31,057
Savings	83,735	39,360
Time	20,371	16,195
Total Deposits	183,951	100,754
Advanced payments by borrowers for property taxes and insurance	433	475
Accrued interest payable and other liabilities	3,806	6,291
Total Liabilities	188,190	107,520
Stockholders' Equity		
Preferred stock, par value $.01 per share; authorized 1,000,000 shares; none issued	-	-
Common stock, par value $.01 per share; authorized, 9,000,000 shares at September 30, 2022 and 2021 issued 2,383,610 shares with 2,031,377 shares outstanding	24	24
Additional paid-in capital	5,035	5,035
Retained earnings	28,128	26,717
Treasury stock, at cost at September 30, 2022 and 2021; 352,233 shares	(4,070)	(4,070)
Accumulated other comprehensive loss	(4,288)	(304)
Total Stockholders' Equity	24,829	27,402
Total Liabilities and Stockholders' Equity	$ 213,019	$ 134,922

See notes to consolidated financial statements

Gouverneur Bancorp, Inc.

CONSOLIDATED STATEMENTS OF EARNINGS
FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

	2022	2021
	(In Thousands)	
Interest Income:		
Loans receivable, including fees	$ 4,015	$ 4,116
Swap expense on loan hedge, net	(172)	(248)
Securities and other investments:		
Taxable	188	72
Tax-exempt	472	523
Other	44	4
Total Interest Income	4,547	4,467
Interest Expense:		
Deposits	178	201
FHLBNY agreements:		
Swap expense on deposits hedge, net	86	136
Borrowings	4	28
Total Interest Expense	268	365
Net Interest Income before Provision for Loan Losses	4,279	4,102
Provision for loan losses	61	18
Net Interest Income after Provision for Loan Losses	4,218	4,084
Non-interest Income:		
Service charges and fees	278	235
Realized gain on sale of securities, net	-	45
Gain on life insurance death benefit	-	160
Loss on disposal of premises and equipment, net	(1)	-
Earnings on investment in life insurance	137	138
Earnings (loss) on deferred fees plan	(44)	147
Unrealized gains on swap agreement	2,158	943
Earnings on MPF & MAP originations	24	142
Earnings on MPF & MAP loan servicing fees	34	27
Other	219	256
Total Non-interest Income	2,805	2,093
Non-interest Expenses:		
Salaries and employee benefits	2,291	2,628
Directors' fees	274	256
Earnings (losses) on deferred fees plan	(44)	147
Occupancy expense	648	632
Data processing	265	261
Postage and supplies	80	59
Professional fees	303	298
Acquisition fees	558	-
Foreclosed assets, net	31	71
Other	698	655
Total Non-interest Expenses	5,104	5,007
Income before Income Tax Expense	1,919	1,170
Income Tax Expense (Benefit)	392	(86)
Net Income	$ 1,527	$ 1,256

See notes to consolidated financial statements

Gouverneur Bancorp, Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

	2022	2021
	(In Thousands)	
Net Income	$ 1,527	$ 1,256
Other Comprehensive Income (Loss), Net of Tax		
Unrealized Loss on Securities:		
Unrealized holding loss arising during period (net of deferred income tax benefit of approximately $(1,104) and $(66), respectively)	(4,152)	(250)
Reclassification adjustment for gains realized (net of deferred income taxes (benefit) of approximately $0 and $(9), respectively)	-	(35)
Post-retirement Benefit (Expense) (net of deferred taxes (benefit) of approximately $45 and $(7), respectively)	168	(25)
Total Other Comprehensive Loss	(3,984)	(310)
Total Comprehensive Income (Loss)	$ (2,457)	$ 946

See notes to consolidated financial statements

Gouverneur Bancorp, Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

	Common Stock	Additional paid in capital	Retained Earnings	Treasury Stock	Acc. Other Comprehensive Income (Loss)	Total Stockholders' Equity
			(In Thousands, Except per Share Amounts)			
Balance - September 30, 2020	$ 24	$ 5,035	$ 25,634	$ (4,070)	$ 6	$ 26,629
Comprehensive Income (Loss)						
Net Income	-	-	1,256	-	-	1,256
Net pension and post retirement benefit costs, net of taxes	-	-	-	-	(25)	(25)
Change in unrealized losses on securities available-for-sale, net of reclassification adjustment and tax effects	-	-	-	-	(250)	(250)
Reclassification adjustment, net of tax	-	-	-	-	(35)	(35)
Total Comprehensive Income						946
Cash dividends declared, $0.24 per share	-	-	(173)	-	-	(173)
Balance - September 30, 2021	24	5,035	26,717	(4,070)	(304)	27,402
Comprehensive Income (Loss)						
Net Income	-	-	1,527	-	-	1,527
Net pension and post retirement benefit costs, net of taxes	-	-	-	-	168	168
Change in unrealized losses on securities available for sale, net of reclassification adjustment and tax effects	-	-	-	-	(4,152)	(4,152)
Reclassification adjustment, net of tax	-	-	-	-	-	-
Total Comprehensive Loss						(2,457)
Cash dividends declared, $0.16 per share	-	-	(116)	-	-	(116)
Balance - September 30, 2022	$ 24	$ 5,035	$ 28,128	$ (4,070)	$ (4,288)	$ 24,829

See notes to consolidated financial statements

Gouverneur Bancorp, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

	2022	2021
	(In Thousands)	
Cash Flows from Operating Activities:		
Net income	$ 1,527	$ 1,256
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for loan loss	61	18
Net amortization of deferred fees on loans	106	138
Net accretion (amortization) of securities premiums and discounts	(25)	28
Depreciation	138	139
Deferred income tax	385	332
Net realized gains on securities available for sale	-	(45)
Net realized losses on disposal of premises and equipment	1	-
Life insurance proceeds	-	515
Gain on life insurance death benefit	-	(160)
Loss on subsequent write-downs of REOs	25	32
Net realized gains on sale of foreclosed assets	(17)	(8)
Earnings on investment in life insurance	(137)	(138)
(Increase) decrease in accrued interest receivable and other assets	(2,300)	581
Increase (decrease) in accrued interest payable and other liabilities	(2,273)	(1,768)
Net Cash (Used in) Provided by Operating Activities	(2,509)	920
Cash Flows from Investing Activities:		
Securities available for sale:		
Proceeds from sales of securities Available for Sale (AFS)	-	541
Proceeds from maturities and principal reductions of securities AFS	2,119	2,586
Purchases of securities Available for Sale	(1,932)	(7,629)
Securities held to maturity - proceeds from maturities	1	1
Bank acquisition, net of cash acquired	1,914	-
Purchases of FHLB stock	(1)	(72)
Net (increase) decrease in loans receivable and loans held for sale	(2,129)	257
Additions to premises and equipment	(188)	-
Proceeds from the sale of foreclosed assets	168	184
Net Cash Provided by (Used in) Investing Activities	(48)	(4,132)
Cash Flows from Financing Activities:		
Net increase in deposits	6,010	9,596
Proceeds from borrowings	8,500	900
Repayments of borrowings	(8,500)	(3,900)
Advance Payments by Borrowers for Property Taxes and Insurance, Net	(42)	28
Cash dividends paid	(116)	(173)
Net Cash Provided by Financing Activities	5,852	6,451
Net Increase in Cash and Cash Equivalents	3,295	3,239
Cash and Cash Equivalents - Beginning of Year	11,049	7,810
Cash and Cash Equivalents - End of Year	$ 14,344	$ 11,049
Supplemental disclosures:		
Cash paid during the year for interest	$ 297	$ 371
Loans Receivable Transferred to Foreclosed Assets During the Year	-	116
Write Downs on Foreclosed Assets through the Allowance for Loan Losses	(25)	-

See notes to consolidated financial statements

NOTE 1 – NATURE OF OPERATIONS

Gouverneur Bancorp, Inc. ("Bancorp") is a savings and loan holding company. Its only subsidiary is Gouverneur Savings and Loan Association (the "Bank"). On March 23, 1999, the Bank reorganized into the mutual holding company form of organization as a wholly-owned subsidiary of Bancorp, a mid-tier stock holding company that became the majority-owned subsidiary of Cambray Mutual Holding Company.

Cambray Mutual Holding Company, a mutual holding company whose activity is not included in the accompanying consolidated financial statements, owns 64.55% of the outstanding common stock of Bancorp as of September 30, 2022.

On September 16, 2022, the Bank completed its acquisition of Citizens Bank of Cape Vincent ("CBCV"), Cape Vincent, New York, a commercial bank with full-service offices in the villages of Cape Vincent, Chaumont and LaFargeville. At the effective time of the merger, CBCV was merged with and into Gouverneur Savings and Loan Association and each CBCV stockholder became entitled to receive $1,056.11 in cash for each share of CBCV common stock that they held at the effective time of the merger. See Note 3 for more information on the acquisition of CBCV.

In conjunction with the acquisition of CBCV, The Bank formed the limited purpose GS & L Municipal Bank ("Muni Bank") in order to continue to hold CBCV's roughly $24,187,000 in municipal deposits and continue to compete for such deposits in the future. The Muni Bank is a limited purpose commercial bank that is a wholly owned subsidiary of the Bank and will operate under the same regulatory and operating framework as the Bank. The formation of the Muni Bank included an initial $2.5 million contribution from the Bank.

The Bank provides financial services to individuals and businesses primarily in St. Lawrence, Jefferson and Lewis Counties in New York State. The Bank is subject to regulation by the New York State Department of Financial Services ("NYSDFS") and Federal Deposit Insurance Corporation ("FDIC"). The Muni Bank's principal business focus is to serve the deposit needs of Municipalities that are within the Bank's three-county market area. Initially, the Muni Bank will concentrate its business development efforts on St. Lawrence and Jefferson Counties in the state of New York and will focus exclusively on deposit products.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Bancorp and its wholly-owned subsidiary, the Bank. All intercompany accounts and transactions have been eliminated in consolidation. The

"Company", as used in the consolidated financial statements, refers to the accounts of Bancorp, the Bank, and the Municipal Bank.

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the 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 relate to the determination of the allowance for loan losses. In connection with the determination of the estimated loan losses, management obtains independent appraisals for significant properties.

The Company's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Company has a diversified portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions. While management uses available information to recognize losses on loans and foreclosed assets, further reductions in the carrying amounts of loans and foreclosed assets may be necessary, based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans and foreclosed assets. Such agencies may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans and foreclosed assets may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Concentrations of Credit Risk

At September 30, 2022 and 2021, the Company held approximately $4.24 million and $6.55 million, respectively, on deposit with the Federal Reserve Bank and Federal Home Loan Bank of New York which is not insured by the Federal Deposit Insurance Corporation.

The Bank operates primarily in St. Lawrence, Jefferson and Lewis Counties, New York and, accordingly, has extended credit primarily to commercial entities and individuals in this area whose ability to honor their contracts is influenced by the region's economy. These customers are also the primary depositors of the Bank. The Bank is limited in extending credit by legal lending limits to any single borrower or group of borrowers. Note 4 discusses the types of securities the Bank invests in and Note 5 discusses the types of lending in which the Bank engages.

Cash and Cash Equivalents

For the purpose of reporting on the consolidated statements of cash flows, cash and cash equivalents include cash on hand, amounts due from banks (including cash items in process of clearing) and interest-bearing deposits in banks with an original maturity of 90 days or less.

Time Deposits in Other Financial Institutions

The majority of the Bank's time deposits mature within two years and are maintained with major financial institutions in the United States. Interest-bearing, non-transaction account deposits with these financial institutions may exceed the amount of insurance provided on such deposits; however, these deposits typically may be redeemed upond demand and therefore, bear minimal risk. The FDIC insurance coverage is $250,000. The Bank currently has no time deposits that exceed the FDIC insurance coverage.

Investment Securities

Debt Securities classified as available-for-sale are those debt securities that the Company intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movement in interest rates, changes in the maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Debt securities available-for-sale are carried at fair value. Unrealized gains and losses are reported in other comprehensive income, net of the related deferred income tax effect. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. Premiums and discounts are recognized in interest income to the call date or to date of maturity. Each method approximates the interest over the terms of the securities.

The Company did not hold any equity securities at September 30, 2022 and 2021.

Debt securities classified as held-to-maturity are those debt securities the Company has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost adjusted for the amortization of premium and accretion of discount, computed by the interest method over the terms of the securities.

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost, that are deemed to be other than temporary, are reflected in earnings as realized losses. In estimating other than temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) that the Company does not intend to sell these securities, and (4) it is more likely than not that the Company will not be required to sell before a period of time sufficient to allow for any anticipated recovery in fair value.

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date.

The stock from the Federal Home Loan Bank of New York ("FHLBNY") and Atlantic Central Bankers Bank ("ACBB") is restricted as to its marketability. Because no ready market exists for these investments and they have no quoted market value, the Company's investment in this stock is carried at cost. Each member of the FHLBNY is required to maintain a minimum level of membership stock for as long as it remains a member. The amount of required membership stock is, generally speaking, equal to a specified percentage of "mortgage-related assets" held by the member. Members are also required to purchase activity-based stock in an amount, generally speaking, equal to a specific percentage of the outstanding principal balance of advances extended to the member.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. There were no loans held for sale at September 30, 2022. Loans held for sale at September 30, 2021 were sold in October 2021.

Loans Receivable

Loans are carried at the amount of unpaid principal, adjusted for deferred loan fees and origination costs. Interest on loans is accrued based on the principal amounts outstanding. Nonrefundable loan fees and related direct costs are deferred, and the net amount is amortized to income as a yield adjustment over the life of the loan using the interest method. When principal or interest is delinquent for ninety days or more, the Company places the loan on nonaccrual status.

After a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Subsequent collections of interest payments on nonaccrual loans are recognized as interest income unless ultimate collectability of the loan is in doubt. Cash collections on loans where ultimate collectability remains in doubt are applied as reductions of the loan principal balance and no interest income is recognized until the principal balance has been collected.

Allowance for Loan Losses

The allowance for loan losses reflects management's judgment of probable loan losses inherent in the portfolio at the balance sheet date. The Company uses a disciplined process and methodology to establish the allowance for loan losses each quarter. To determine the total allowance for loan losses, management estimates the reserves needed for each segment of the portfolio, including loans analyzed individually and loans analyzed on a pooled basis. The allowance for loan losses consists of amounts applicable to: (1) the commercial portfolio; (2) the real estate portfolio; and (3) the consumer portfolio.

To determine the balance of the allowance account, loans are pooled by portfolio segment and losses are modeled using historical experience and quantitative and other mathematical techniques over the loss emergence period. Management exercises significant judgment in determining the estimation method that fits the credit risk characteristics of each portfolio segment. The Company uses models developed under the guidance of the Office of the Comptroller of the Currency ("OCC") in this process. Management must use judgment in establishing additional input metrics for the modeling processes. The models and assumptions used to determine the allowance are independently validated and reviewed to ensure that their theoretical foundation, assumptions, data integrity, computational processes, reporting practices, and end-user controls are appropriate and properly documented.

The allowance consists of specific and general components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan and collection of the full loan balance is deemed unlikely. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors.

The establishment of the allowance for loan losses relies on a consistent process that requires multiple layers of management review and judgment and responds to changes in economic conditions, customer behavior and collateral value, among other influences. From time to time, events or economic factors may affect the loan portfolio, causing management to provide additional amounts to or release balances from the allowance for loan losses. The Company's allowance for loan losses is sensitive to risk ratings assigned to the individually evaluated loans and economic assumptions and delinquency trends driving statistically modeled reserves. Individual loan risk ratings are evaluated based on each situation by experienced senior credit officers.

Management monitors differences between estimated and actual incurred loan losses. This monitoring process includes periodic assessments by senior management of loan portfolios and the models used to estimate incurred losses in those portfolios. Additions to the allowance for loan losses are made by changes to the provision for loan losses. Credit exposures deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of previously charged off amounts are credited to the allowance for loan losses.

A loan is considered impaired when, based on current information and events, the Company has concerns about the ability 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 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.

The specific allowance component is used to individually establish an allowance for loans identified for impairment testing. When impairment is identified, a specific reserve may be established based on the Company's calculation of the estimated loss embedded in the individual loan. Impairment testing includes consideration of the borrower's overall financial condition, resources and payment record, support available from financial guarantors and the fair market value of the collateral. These factors are combined to estimate the probability and severity of inherent losses. Large groups of smaller balance, homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately evaluate individual consumer and residential loans for impairment.

The pooled formula component is used to estimate the losses inherent in the pools of non-classified loans. These loans are then also segregated by loan type and allowance factors are assigned by management based on delinquencies, loss history, trends in volume and terms of loans, effects of changes in lending policy, the experience and depth of management, national and local economic trends, concentrations of credit, results of the loan review system and the effect of external factors (i.e. competition and regulatory requirements). Current economic conditions take into account the average unemployment rate for St. Lawrence, Jefferson and Lewis Counties, New York, the State of New York and for the nation, with the most significance given to the St. Lawrence County data. The allowance factors assigned differ by loan type.

Allowance factors and overall size of the allowance may change from period to period based on management's assessment of the above-described factors and the relative weights given to each factor. In addition, various regulatory agencies periodically review the allowance for loan losses. These agencies may require the Bank to make additions to the allowance for loan losses based on their judgments of collectability based on information available to them at the time of their examination.

Loans are placed into a non-accruing status and classified as nonperforming when the principal or interest has been in default for a period of 90 days or more unless the obligation is well secured and in the process of collection. A debt is "well secured" if it is secured by (1) pledges of real or personal property, including securities, that have a realizable value sufficient to discharge the debt (including accrued interest) in full, or (2) the guarantee of a financially responsible party. A debt is "in the process of collection" if collection on the debt is proceeding in due course either through legal action, including judgment enforcement procedure, or, in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or in its restoration to a current status.

Loans classified as substandard or worse are considered for impairment testing. A substandard loan shows signs of continuing negative financial trends and unprofitability, and therefore is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. The borrower on such loans typically exhibits one or more of the following characteristics:

financial ratios and profitability margins are well below industry average; a negative cash flow position exists; debt service capacity is insufficient to the service debt and an improvement in the cash flow position is unlikely within the next twelve months; secondary and tertiary means of debt repayment are weak. Loans classified as substandard are characterized by the probability that the Bank will not collect amounts due according to the contractual terms or will sustain some loss if the deficiencies are not corrected.

Loss potential, while existing with respect to the aggregate amount of substandard (or worse) loans, does not have to exist in any individual assets classified as substandard. Such credits are also evaluated for nonaccrual status.

Impaired loans include loans that have been classified as substandard or worse. However, certain loans have been paying as agreed and have remained current, with some financial issues related to cash flow that have caused some concern as to the ability of the borrower to perform in accordance with the current loan terms but not to such extent as to require the loan to be put into a non-accruing status. Cash receipts on impaired loans are recorded as interest income as received, unless the loan is in a nonaccrual status.

The Company's charge-off policies by segment of the loan portfolio are as follows:

- *Real Estate* – The Company generally writes down to the net realizable value based on new appraisal values obtained at the time of possession.

- *Consumer Loans* – The Company generally fully or partially charges down to the net realizable value at the time of possession.

- *Commercial Loans* – The Company reviews on a quarterly basis.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Costs of significant property improvements are capitalized. Maintenance and repairs are expensed as incurred, while major additions and improvements are capitalized. Gains and losses on dispositions are included in current earnings. Depreciation expense is calculated principally on the straight-line method over the following estimated useful lives of the related assets:

	Years
Buildings and Improvements	5 - 39.5
Furniture and Equipment	3 - 7

Foreclosed Assets

Foreclosed assets include both formally foreclosed property and in-substance foreclosed property. In-substance foreclosed properties are those properties for which the institution has taken physical possession, regardless of whether formal foreclosure proceedings have taken place.

At the time of foreclosure, foreclosed assets are recorded at the fair value less cost to sell, which becomes the property's new basis. Any write-downs based on the asset's fair value at date of acquisition are charged to the allowance for loan losses. After foreclosure, management performs periodic valuations and property held for sale is carried at the lower of the new cost basis or fair value less cost to sell. Gains and losses realized on the sale, and any adjustments resulting from periodic re-evaluation of the property are included in noninterest income or expense, as appropriate. Net costs of maintaining and operating the properties are expensed as incurred. Improvements, which extend the life or improve the value of the property, are capitalized as incurred.

Through a series of executive orders, the New York State Governor placed a moratorium on foreclosures from March 2020 until January 2022.

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 Company, (2) the transferee obtains the right (free from conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before maturity.

Investment in Life Insurance

The Company purchased single-premium life insurance on certain employees and executives of the Company and is carried at its cash surrender value. Appreciation in value of the life insurance policies and gain on death proceeds are classified as noninterest income. The cash surrender value received from death proceeds is recorded as a reduction to the carrying value.

Income Taxes

The Company files a consolidated federal income tax return. Provisions for income taxes are based on taxes payable or refundable for the current year and deferred taxes on temporary differences between the amount of taxable income and pretax financial income. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Under Financial Accounting Standards Board Accounting Standard Codification ("FASB ASC"), "*Accounting for Income Taxes,*" the Company recognizes potential liabilities associated with anticipated tax audit issues that may arise during an examination. Interest and penalties that are anticipated to be due upon examination are recognized as accrued interest and other liabilities with an offset to interest and other expense. The Company determined that there were no uncertainties with respect to the application of tax regulations.

Advertising Costs

The Company follows the policy of charging the costs of advertising to expense as incurred. Advertising expense was approximately $80,000 and $79,000 in 2022 and 2021, respectively.

Fair Value Measurements

The Company follows the guidance of FASB ASC 820, *Fair Value Measurements and Disclosures*. This guidance permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This guidance clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under this guidance, fair value measurements are not adjusted for transaction costs. The guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Earnings per Common Share

Basic earnings per common share represents income available to common shareholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance.

The following table sets forth the computations of basic and diluted earnings per common share for the years ended September 30 (In Thousands):

	2022	2021
	(In Thousands, except per share data)	
Net Earnings	$ 1,527	$ 1,256
Basic Earnings Per Common Share, Weighted Average Shares	2,031	2,031
Diluted Earnings per Common Share, Adjusted Weighted Average Shares	2,031	2,031
Basic Earnings Per Common Share	$ 0.75	$ 0.62
Diluted Earnings Per Common Share	$ 0.75	$ 0.62

There were no dilutive or antidilutive shares at September 30, 2022 or 2021.

Derivative Instruments and Hedging Activities

All derivative financial instruments are reported at their fair value either as assets or liabilities. The Company reports net derivatives in a gain position, or derivative assets in the consolidated statements of financial condition as a component of other assets. The Company reports net derivatives in a loss position, or derivative liabilities, in the consolidated statements of financial position as a component of other liabilities.

Revenue Recognition

The majority of the Company's revenue stream is generated from interest income on loans and deposits which are outside the scope of "*Revenue from Contracts with Customers*" (Topic 606).

The Company's sources of income that fall within the scope of Topic 606 include service charges on deposits, interchange fees and gains and losses on sales of other real estate, all of which are presented as components of noninterest income. On the following page is a summary of the revenue streams that fall within the scope of Topic 606.

Service charges on deposits, ATM, and interchange fees – Fees from these services are either transaction-based, for which the performance obligations are satisfied when the individual transaction is processed, or set periodic service charges, for which the performance obligations are satisfied over the period the service is provided. Transaction-based fees are recognized at the time the transaction is processed, and periodic service charges are recognized over the service period.

Gains and losses on sales of other real estate – The Company records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of the 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.

Valuation of Long-Lived Assets

The Company accounts for the valuation of long-lived assets under FASB ASC 360, *Property, Plant and Equipment*. This guidance requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Comprehensive Loss

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net earnings. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, and the changes in the funded status of pension and post-retirement benefits, are reported as a separate component of the equity section of the consolidated statements of financial condition, such items, along with net earnings, are components of comprehensive loss.

Accumulated other comprehensive loss represents the sum of these items, with the exception of net earnings, as of September 30, represented in the table below:

	2022	2021
	(In Thousands)	
Accumulated Other Comprehensive Loss by Component		
Unrealized Loss for Other Postretirement Obligations	$ (773)	$ (986)
Tax Effect	162	207
Net Unrealized Loss for Other Postretirement Obligations	(611)	(779)
Unrealized Gain (Loss) on Available-for-Sale Securities	(4,654)	602
Tax Effect	977	(127)
Net Unrealized Gain (Loss) on Available-for-Sale Securities	(3,677)	475
Total Accumulated Other Comprehensive Loss	$ (4,288)	$ (304)

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Company has entered into commitments to extend credit, including commitments under commercial and home equity lines of credit. Such financial instruments are recorded when they are funded.

Reclassification

Certain accounts in the prior-year consolidated financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year consolidated financial statements.

Adoption of Recent Accounting Pronouncements

On October 1, 2021, the Company adopted Accounting Standards Update (“ASU’) 2018-14 related to guidance on “Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans”, which applies to all employers that sponsor defined benefit pension or other postretirement plans. The amendments modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. Disclosure requirements, including but not limited to, the following were removed from Subtopic 715-20: the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year; the amount and timing of plan assets expected to be returned to the employer and for public entities, the effects of a one-percentage-point change in assumed health care cost trend rates on the (a) aggregate of the service and interest cost components of net periodic benefit costs and (b) benefit obligation for postretirement health care benefits. The following disclosure requirements were added to Subtopic 715-20: (1) the weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates; and (2) an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. The amendments also clarify the disclosure requirements in paragraph 715-20-50-3, which state that the following information for defined benefit pension plans should be disclosed: (1) the projected benefit obligation (PBO) and fair value of plan assets for plans with PBOs in excess of plan assets; and (2) the accumulated benefit obligation (ABO) and fair value of plan assets for plans with ABOs in excess of plan assets. The adoption of this guidance did not have a material impact on our consolidated results of operations or financial position.

The Company adopted ASU 2021-10 related to guidance on "Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistances", which aims to provide increased transparency by requiring business entities to disclose information about certain types of government assistance they receive in the notes to the financial statements. Current GAAP has no specific authoritative guidance on the accounting for, or the disclosure of, government assistance received by business entities. The amendments in this Update improve financial reporting by requiring disclosures that increase the transparency of transactions with a government accounted for by applying a grant or contribution accounting model by analogy, including (1) the types of transactions, (2) the accounting for those transactions, and (3) the effect of those transactions on an entity's financial statements. The amendments in this Update are effective for all entities within their scope for financial statements issued for annual periods beginning after December 15, 2021.

Impact of Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (the "FASB") issued ASU 2016-02 to its guidance on "Leases (Topic 842)". The new leases standard applies a right-of-use (ROU) model that requires a lessee to record, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset and a liability to make lease payments. For leases with a term of 12 months or less, a practical expedient is available whereby a lessee may elect, by class of underlying asset, not to recognize an ROU asset or lease liability. The new leases standard requires a lessor to classify leases as either sales-type, direct financing or operating, similar to existing GAAP. Classification depends on the same five criteria used by lessees plus certain additional factors. The subsequent accounting treatment for all three lease types is substantially equivalent to existing GAAP for sales-type leases, direct financing leases, and operating leases. However, the new standard updates certain aspects of the lessor accounting model to align it with the new lessee accounting model, as well as with the new revenue standard under Topic 606. Lessees and lessors are required to provide certain qualitative and quantitative disclosures to enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The adoption of this ASU will result in a gross up of the Consolidated Statements of Condition for right-of-use assets and associated lease liabilities for operating leases in which the Company is the lessee. In July 2018, the FASB issued ASU No. 2018-10, Codification Improvements to Topic 842 - Leases to address certain narrow aspects of the guidance issued in ASU No. 2016-02. In July 2018, the FASB issued ASU No. 2018-11, Leases (Topic 842): Targeted Improvements, which amends FASB Accounting Standards Codification (ASC), Leases (Topic 842), to (1) add an optional transition method that would permit entities to apply the new requirements by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the year of adoption, and (2) provide a practical expedient for lessors regarding the separation of the lease and non-lease components of a contract. In December 2018, the FASB issued ASU No. 2018-20, Narrow-Scope Improvements for Lessors, which addresses issues related to (1) sales tax and similar taxes collected from lessees, (2) certain lessor costs, and (3) recognition of variable payments for contracts with lease and non-lease components. In June 2020, the FASB issued No. ASU 2020-05, Coronavirus Disease 2019 (“COVID-19”) in response to the pandemic which has adversely affected the global economy and caused significant and widespread business and capital market disruptions. The FASB is committed to supporting and assisting stakeholders during this difficult time. The FASB issued ASU 2020-05 as a limited deferral of the effective dates of certain ASUs, including ASU 2016-02 (including amendments issued after the issuance of the original) to provide immediate, near-term relief for certain entities for whom these ASUs are either currently effective or imminently effective. The Company plans to defer the adoption of the amendments in ASU 2016-02 to the fiscal year beginning October 1, 2022. The Company is evaluating the significance and other effects of adoption on the consolidated financial statements and related disclosures. The Company is performing its accounting analysis of its branch building and other leases underlying contracts. Beginning October 1, 2022, the Company will recognize right of use operating leases valued approximately $43,000.

In June 2016, the FASB issued ASU 2016-13 to its guidance on “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”. ASU 2016-13 requires credit losses on most financial assets measured at amortized cost and certain other instruments to be measured using an expected credit loss model (referred to as the current expected credit loss (CECL) model). Under this model, entities will estimate credit losses over the entire contractual term of the instrument (considering estimated prepayments, but not expected extensions or modifications unless reasonable expectation of a troubled debt restructuring exists) from the date of initial recognition of that instrument. The ASU also replaces the current accounting model for purchased credit impaired loans and debt securities. The allowance for credit losses for purchased financial assets with a more-than insignificant amount of credit deterioration since origination (“PCD assets”), should be determined in a similar manner to other financial assets measured on an amortized cost basis. However, upon initial recognition, the allowance for credit losses is added to the purchase price (“gross up approach”) to determine the initial amortized cost basis. The subsequent accounting for PCD financial assets is the same expected loss model described above. Further, the ASU made certain targeted amendments to the existing impairment model for available-for-sale (AFS) debt securities. For an AFS debt security for which there is neither the intent nor a more-likely-than-not requirement to sell, an entity will record credit losses as an allowance rather than a write-down of the amortized cost basis. The amendments in this ASU are effective for the Company for the fiscal year beginning October 1, 2023. An entity will apply the amendments in this ASU through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). In November 2018, the FASB issued ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments-Credit Losses, which aligns the implementation date for nonpublic entities' annual financial statements with the implementation date for their interim financial statements and clarifies the scope of the guidance in the amendments in ASU 2016-13. In April 2019, the FASB issued ASU 2019-04, Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments. ASU 2019-04 clarifies or addresses stakeholders' specific issues about certain aspects of the amendments in Update 2016-13 related to measuring the allowance for loan losses under the new guidance. The effective dates and transition requirements for the amendments related to this Update are the same as the effective dates and transition requirements in Update 2016-13. In November 2019, the FASB issued ASU 2019-11, Codification Improvements to Topic 326, Financial Instruments Credit Losses clarifying certain amendments to various provisions of ASU No. 2016-13 relating to (1) purchased financial assets with credit deterioration, (2) financial assets secured by collateral maintenance agreements, (3) transition relief for troubled debt restructurings, and (4) disclosure relief when the practical expedient for accrued interest receivables is applied. In March 2022, the FASB issued ASU 2022-02, Codification Improvements to Topic 326, Financial Instruments Credit Losses, which eliminates the accounting guidance for troubled debt restructurings by creditors that have adopted the CECL model and enhances 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 initial adjustment will not be reported in earnings and therefore will not have any material impact on our consolidated results of operations, but it is expected that it will have an impact on our consolidated financial position at the date of adoption of this ASU. At this time, we have not calculated the estimated impact that this ASU will have on our allowance for loan losses, however, we anticipate it will have an impact on the methodology process we utilize to calculate the allowance. Methodology selection has begun to prepare for parallel testing and an adoption date of October 1, 2023. Data requirements and integrity are being reviewed and enhancements incorporated into standard processes. The Company is currently evaluating the potential impact on adoption of this ASU on our consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, Income Taxes Topic 740. This update simplifies and improves accounting for income taxes by eliminating certain exceptions to the general rules and clarifying or amending other current guidance. The scope of FASB ASC Subtopic 740-10, Income Taxes -Overall, has been amended to require that, if a franchise (or similar tax) is partially based on income, (1) deferred tax assets and liabilities should be recognized and accounted for pursuant to FASB ASC 740, as should the amount of current tax expense that is based on income, and (2) any incremental amount incurred should be recorded as a non-income-based tax. Note that under the amended guidance, the effect of potentially paying a non-income-based tax in future years need not be considered in evaluating the realizability of deferred tax assets. The amendments in this ASU are effective for the Company for the fiscal year beginning October 1, 2023. Early adoption is permitted, including adoption in an interim period. If early adoption is elected, all of the amended guidance must be adopted in the same period. If early adoption is initially applied in an interim period, any adjustments should be reflected as of the beginning of the annual period that includes that interim period. The Company is currently evaluating the potential impact on adoption of this ASU on our consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848). The amendments in this update provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments in this update apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The amendments (1) apply to contract modifications that replace a reference rate affected by reference rate reform, (2) provide exceptions to existing guidance related to changes to the critical terms of a hedging relationship due to reference rate reform (3) provide optional expedients for fair value hedging relationships, cash flow hedging relationships, and net investment hedging relationships, and (4) provide a onetime election to sell, transfer, or both sell and transfer debt securities classified as held to maturity that reference a rate affected by reference rate reform and that are classified as held to maturity before January 1, 2020. The amendments in this ASU are effective for all entities as of March 12, 2020 through December 31, 2022. The amendments for contract modifications can be elected to be applied as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or prospectively from a date within an interim period that includes or is subsequent to March 12, 2020. The amendments for existing hedging relationships can be elected to be applied 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. In January 2021, the FASB issued ASU 2021-01, Reference Rate Reform to clarify that all derivative instruments affected by changes to the interest rates used for discounting, margining or contract price alignment are in scope of Topic 848. ASU 2021-01 expands the scope of ASU 2020-04 by allowing an entity to apply the optional expedients, by stating that a change to the interest rate used for margining, discounting or contract price alignment for a derivative is not considered to be a change to the critical terms of the hedging relationship that requires dedesignation. The Company has signed an amended agreement with Federal Home Loan Bank of New York in anticipation of the transition to SOFR in 2023.

Core Deposit Intangible (CDI)

The core deposit intangible resulted from the acquisition of Citizens Bank of Cape Vincent (“CBCV”), a commercial bank with full-service offices in Cape Vincent, Chaumont, and LaFargeville, New York. The acquisition was consummated at the end of business on September 16, 2022. The CDI for CBCV is amortized based on cash flow streams based upon the selected attrition rates and run off assumptions calculated to represent the result of acquiring like-costing deposits versus the cost of alternative funding vehicles over a 10-year period. The life of the core deposit intangible is 10 years.

Goodwill

Goodwill represents the excess cost of the acquisition of CBCV over the fair value of assets acquired. Goodwill is not amortized, but evaluated annually for impairment.

Subsequent Events

On December 9, 2022, the Company unwound two off-balance sheet swaps, $6.0 million in notional value, for a realized gain of approximately $343,000. On December 14, 2022, the Company sold four investments totaling $2.0 million for a total loss of approximately $342,000, which closely matches the realized gain on the unwound swaps. $2.0 million was reinvested into two new securities.

NOTE 3 – ACQUISITION OF CITIZENS BANK OF CAPE VINCENT

Effective as of end of business September 16, 2022, Gouverneur completed its acquisition of Citizens Bank of Cape Vincent ("CBCV"). At the effective date of the merger, CBCV was merged with and into Gouverneur Savings and Loan Association and each CBCV stockholder became entitled to receive $1,056.11 in cash for each share of CBCV common stock that they held at the effective date of the acquisition, which resulted in the Company paying $8.4 million in cash for the acquisition. CBCV was a commercial bank with three branches in Jefferson County, New York, located in the villages of Cape Vincent, Chaumont, and LaFargeville, New York. The fair value of the assets acquired as a result of the acquisition totaled $82.2 million; loans totaled $37.0 million and deposits totaled $77.2 million. Goodwill recorded in the acquisition was $4.0 million. The Bank completed the acquisition to further expand the Bank's footprint and competitive position in Jefferson County and the Lake Ontario, St. Lawrence River communities, offer expanded products and services to the CBCV and Gouverneur customer base, and to enhance its operational opportunities and future earnings.

The acquisition of CBCV was accounted for as a business combination using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed, and consideration paid were recorded at estimated fair values on the acquisition date.

The following table summarizes the consideration paid for CBCV and the fair value of assets acquired and liabilities assumed as of the acquisition date.

Purchase Price Consideration

Cash Consideration Paid:	$ 8,449
Allocation of Purchase Price:	
Fair Value of Assets Acquired	
Cash and cash equivalents	$ 9,485
Securities available-for-sale	31,166
Loans	37,015
Land, premises and equipment	709
Core deposit intangible	2,542
Other assets	1,259
Total Assets	82,176
Fair Value of Liabilities Assumed	
Deposits	$ 77,188
Other liabilities	495
Total Liabilities	77,683
Net Assets Acquired	4,493
Goodwill Recorded in Acquisition	$ 3,956

Pursuant to the accounting requirements, the Company assigned a fair value to the assets acquired and liabilities assumed of CBCV.

Fair values of the major categories of assets acquired and liabilities assumed were determined as follows:

Securities available-for-sale

The estimated fair values of the investment securities available for sale, primarily comprised of U.S. Government agency mortgage-backed securities, U.S. government agencies and treasuries, and municipal bonds, were determined using Level 2 inputs in the fair value hierarchy. The fair values were determined using independent pricing services, calculated based on market prices of similar securities, using matrix pricing. Matrix pricing is a mathematical technique commonly used to price debt securities that are not actively traded and values debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities.

Loans

Acquired loans (impaired and non-impaired) are initially recorded at their acquisition-date fair values using Level 3 inputs. Fair values are based on a discounted cash flow methodology that involves assumptions and judgments as to credit risk, expected life time losses, environmental factors, collateral values, discount rates, expected payments and expected prepayments. No impaired loans were identified in the analysis so a specific credit fair value adjustment for purchased credit impaired loans subject to ASC 310-30 procedures was not applicable. The acquired loans were recorded at fair value at the acquisition date without carryover of CBCV's previously established allowance for loan losses. The fair value of the financial assets acquired included loans receivable with a gross amortized cost basis of $38,220,000. The table below illustrates the fair value adjustments made to the amortized cost basis in order to present a fair value of the loans acquired (dollars in thousands).

Gross amortized cost basis at September 16, 2022	$38,220
Interest rate fair value adjustment on pools of homogeneous loans	(834)
Credit fair value adjustment on pools of homogeneous loans	(371)
Credit fair value adjustment on purchased credit impaired loans	-
Fair value of acquired loans at September 16, 2022	$37,015

For loans acquired without evidence of credit quality deterioration, the Bank prepared the interest rate loan fair value and credit fair value adjustments. Loans were grouped into homogeneous pools by characteristics such as loan type, term, collateral and rate. Market rates for similar loans were obtained from various internal and external data sources and reviewed by management for reasonableness. The average of these rates was used as the fair value interest rate a market participant would utilize. A present value approach was utilized to calculate the interest rate fair value discount of $834,000.

Additionally for loans acquired without credit deterioration, a credit fair value adjustment was calculated using a two-part credit fair value analysis: 1) an interest rate mark; and 2) credit mark. The interest rate mark was based on an account level discounted cash flow analysis. The credit mark applied to the loans was provided by the Bank's management for CBCV's general reserve and specific reserve pool based upon due diligence conducted by the Bank's management. A credit fair value discount of $371,000 was determined. Both the interest rate and credit fair value adjustments relate to loans acquired with evidence of credit quality deterioration will be substantially recognized as interest income on a level yield amortization method over the expected life of the loans.

Land, premises and equipment

The Company acquired three branches of CBCV. The fair value of CBCV's premises, including land, buildings, and improvements, was determined based upon the most recent tax assessment in the market in which the premises are located.

Deferred income taxes

The transaction is treated for tax purposes as a merger and accordingly, the assets acquired and the liabilities assumed are recorded at "carryover" tax basis equal to CBCV's tax carrying value immediately preceding the merger. Consequently, deferred tax assets or liabilities are required for each asset or liability for which there is a difference between carryover tax basis and fair value on the transaction date.

Core deposit intangible

The fair value of the core deposit intangible was determined using a two-step analytical approach. The first is the estimation of the useful life of the deposits, or attrition rate. All other things being equal, higher attrition rates would translate into a lower deposit intangible. The second step is to determine the net alternative funding cost for the core deposit as well as assumptions regarding costs of servicing core deposit accounts (using a noninterest expense analysis), fee income derived from core deposit accounts, taxes, and a discount rate used to establish a present value for cash flows.

Deposits

Carrying value on the date of acquisition was determined to be fair value.

Acquisition-Related Expenses

Acquisition-related expenses incurred by the Company associated with the acquisition of CBCV were $558,000 for fiscal year ended September 30, 2022. Such costs include legal and accounting fees, contract termination expenses, system conversion, operations integration, and employee non-compete agreements, which have been expensed as incurred.

NOTE 4 – SECURITIES

The amortized cost of debt securities and their approximate fair value at September 30, 2022 is represented in the table on the following page.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
AVAILABLE FOR SALE				
U.S. Government Treasuries	$ 4,163	$ -	$ (4)	$ 4,159
U.S. Government Agencies	10,335	-	(12)	10,323
Mortgage-backed securities	9,143	2	(705)	8,440
Municipal Securities	28,878	3	(3,937)	24,944
SBA Securities	1,780	-	(1)	1,779
	$ 54,299	$ 5	$ (4,659)	$ 49,645
HELD TO MATURITY				
Mortgage-Backed Securities	$ 1	$ -	$ -	$ 1

The amortized cost of debt securities and their approximate fair value at September 30, 2021 is as shown on the table below:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
AVAILABLE FOR SALE				
Mortgage-backed securities	3,592	16	(43)	3,565
Municipal Securities	20,420	823	(194)	21,049
	$ 24,012	$ 839	$ (237)	$ 24,614
HELD TO MATURITY				
Mortgage-Backed Securities	$ 2	$ -	$ -	$ 2

The amortized cost and fair value of debt securities, by contractual maturity, at September 30, 2022 is as shown on the following page. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Debt Securities Available-for-Sale		Debt Securities Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)			
Due Within One Year	$ 4,065	$ 4,062		
Due After One Year Through Five Years	16,390	16,374	$ -	$ -
Due After Five Years Through Ten Years	8,572	8,162	-	-
Due After Ten Years	14,349	10,828	-	-
	43,376	39,426	-	-
Mortgage-Backed & SBA Securities	10,923	10,219	1	1
	$ 54,299	$ 49,645	$ 1	$ 1

The amortized cost and fair value of debt securities based on the contractual maturity at September 30, 2021 are as follows:

	Debt Securities Available-for-Sale		Debt Securities Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)			
Due After One Year Through Five Years	$ 322	$ 326	$ -	$ -
Due After Five Years Through Ten Years	2,894	3,022	-	-
Due After Ten Years	17,204	17,701	-	-
	20,420	21,049	-	-
Mortgage-Backed Securities	3,592	3,565	2	2
	$ 24,012	$ 24,614	$ 2	$ 2

The realized gains and losses from the sale of available-for-sale investments at September 30 are as follows:

	2022	2021
	(In Thousands)	
Proceeds	$ -	$ 541
Cost	-	(496)
Net Realized Gains	$ -	$ 45
Gross Realized Gains	$ -	$ 45
Gross Realized Losses	-	-
Net Realized Gains	$ -	$ 45

Information pertaining to securities with gross unrealized losses at September 30, 2022 and 2021 aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position are as follows (in thousands):

	Less than Twelve Months		Over Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
September 30, 2022						
Securities Available-for-Sale:						
US Treasuries & Agencies	$ 16	$ 14,481	$ -	$ -	$ 16	$ 14,481
Mortgage-Backed & SBA Securities	287	1,175	419	1,791	706	2,966
Municipal Securities	2,562	20,731	1,375	2,742	3,937	23,473
	$ 2,865	$ 36,387	$ 1,794	$ 4,533	$ 4,659	$ 40,920
September 30, 2021						
Securities Available-for-Sale:						
Mortgage-Backed Securities	$ 43	$ 3,445	$	$	$ 43	$ 3,445
Municipal Securities	194	7,080	-	-	194	7,080
	$ 237	$ 10,525	$ -	$ -	$ 237	$ 10,525

In management's opinion, the unrealized losses primarily reflect changes in interest rates subsequent to the acquisition of specific securities. The Company had 143 and 43 securities in an unrealized loss position of less than twelve months at September 30, 2022 and 2021, respectively, which included 74 securities acquired from Citizens Bank of Cape Vincent in September 2022, and 25 and -0- securities in an unrealized loss position of 12 months or more at September 30, 2022 and 2021, respectively. The Company has the intent and the ability to hold such securities until maturity or market price recovery. Management believes that the unrealized losses do not represent other-than-temporary impairment of the securities.

NOTE 5 – LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

The components of loans receivable and loans held for sale at September 30 are as follows (in thousands):

	2022			2021		
	Originated	**Acquired**	**Total Loans and Leases**	**Originated**	**Acquired**	**Total Loans and Leases**
Real estate mortgages:						
Residential	$ 71,061	$ 28,302	$ 99,363	$ 68,742	$ -	$ 68,742
Loans Held for Sale	-	-	-	200		200
Commercial	7,450	4,876	12,326	8,268	-	8,268
Construction	2,866	1,891	4,757	1,642	-	1,642
Home Equity	2,464	-	2,464	2,984	-	2,984
Other loans:						
Commercial non-mortgage	993	1,071	2,064	1,483	-	1,483
Automobile	1,947	329	2,276	1,693	-	1,693
Passbook	101	439	540	102		102
Consumer	1,496	1,074	2,570	1,231	-	1,231
Total Loans	88,378	37,982	126,360	86,345	-	86,345
Net deferred loan costs	577	-	577	622	-	622
Net discounts on acquired loans	-	(1,205)	(1,205)	-	-	-
Allowance for loan losses	(621)	-	(621)	(620)	-	(620)
Loans, net	$ 88,334	$36,777	$ 125,111	$ 86,347	$ -	$ 86,347

The outstanding principal balance and the related carrying amount of the Company's loans acquired in the CBCV Acquisition were as follows at September 30 (in thousands):

	2022
Acquired Credit Impaired Loans	
Outstanding principal balance	$ -
Carrying amount	-
Acquired Non-Credit Impaired Loans	
Outstanding principal balance	37,982
Carrying amount	36,778
Total Acquired Loans	
Outstanding principal balance	37,982
Carrying amount	36,778

The Company had not acquired any loans with deteriorated credit quality as of September 30, 2022. The Company did acquire a commercial secured performing loan which has been classified as substandard to ensure proper oversight and monitoring of the credit. The credit has performed in accordance with its modified terms for over 2 years.

The Company sells first mortgage loans to third parties in the course of business, principally to FHLB, a large purchaser of loans. These serviced loans are not included in the balances of the accompanying statements of financial condition, but the Company continues to collect the principal and interest payments for a servicing fee. At September 30, 2022 and 2021, the total outstanding principal balance on serviced loans was $13,305,000 and $13,399,000, respectively. CBCV did not sell residential mortgage loans to third parties.

Allowance for Loan Losses

The Company has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the Company's portfolio. For purposes of determining the allowance for loan losses, the Company segments certain loans in its portfolio by product type. The Company's loans are segmented into the following pools: commercial, real estate and consumer. The Company also sub-segments two of these segments into classes based on the associated risks within those segments. Real estate loans are divided into the following two classes: (a) residential and (b) commercial. Commercial loans are divided into two classes: (a) secured and (b) unsecured. Each class of loan requires significant judgment to determine the estimation method that fits the credit risk characteristics of its portfolio segment.

On the following page are the factors the Company uses to determine the balance of the allowance account for each segment or class of loans.

Consumer Loans

Consumer loans are pooled and an historical loss percentage is applied to the pool. Historical loss percentage is calculated using prior eight quarter average losses.

Based on a credit risk assessment and the Company's analysis of leading predictors of losses, the Company applies additional loss multipliers to loan balances based on the current economic conditions, delinquency and classification volume, and collateral value and portfolio volume.

Real Estate Loans

Real estate loans are pooled by portfolio class and an historical loss percentage is applied to each class. Historical loss percentage is calculated using prior eight quarter average losses.

The Company estimates an additional component of the allowance for loan losses for the non-impaired real estate segment through the application of loss factors to loans grouped by their individual credit risk rating specialists. These ratings reflect the estimated default probability and quality of underlying collateral.

Home Equity Lines of Credit ("HELOCs") approaching their end-of-draw period, when volumes warrant, will be segmented from the mortgage loan pool in the allowance for loan losses estimation process. Management will capture information on a quarterly basis and prepare an analysis to determine the nature and magnitude of the exposure.

In addition, based on the Company's analysis of leading predictors of losses, the Company applies additional loss multipliers to the loan balances. Currently, the Company has applied additional loss estimations based on the current economic conditions, delinquency and classification volume, collateral value, credit concentration, portfolio value and staffing changes.

Commercial Secured Loans

Commercial secured loans are pooled and an historical loss percentage is applied to the pool. Historical loss percentage is calculated using prior eight quarter average losses.

Based on a credit risk assessment and the Company's analysis of leading predictors of losses, the Company applied additional loss multipliers to loan balances based on current delinquency and classification volume, current economic conditions, portfolio volume and staffing changes.

Commercial Unsecured Loans

Unsecured commercial loans are pooled and an historical loss percentage is applied to the pool. Historical loss percentage is calculated using prior eight quarter average losses.

Based on credit risk assessment and the Company's analysis of leading predictors of losses, the Company applied additional loss multipliers to loan balances based on current delinquency and classification volume, current economic conditions, portfolio volume and staffing changes.

The Company's Estimation Process

The Company estimates loan losses under multiple economic scenarios to establish a range of potential outcomes for each criterion the Company applies to the allowance calculation. Management applies judgment to develop its own view of loss probability within that range, using external and internal parameters with the objective of establishing an allowance for the losses inherent within these portfolios as of the reporting date.

Reflected in the portions of the allowance previously described is the amount which incorporates the range of probable outcomes inherent in estimates used for the allowance, which may change from period to period. This amount is the result of management's judgment of risks inherent in the portfolios, economic uncertainties, historical loss experience and other factors, including industry trends, calculated to reflect the Company's view of risk in each loan portfolio. No single statistic or measurement determines the adequacy of the allowance for loan loss. Changes in the allowance for loan losses and the related provision expense can materially affect net earnings.

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the balance sheet date. The Company considers the allowance for loan losses of $621,000 adequate to cover loan losses inherent in the loan portfolio at September 30, 2022. The following table presents, by portfolio segment, the changes in the allowance for loan losses and the recorded investment in loans.

Allowance for loan losses and recorded investment in loans for the year ended September 30, 2022 is listed on the following page.

	Real Estate	Real Estate Commercial	Commercial Secured	Commercial Unsecured	Consumer	Total
			(In Thousands)			
Allowance for Credit Losses:						
Beginning Balance	$ 541	$ 64	$ 4	$ 1	$ 10	$ 620
Charge-offs	(63)	-	-	-	(6)	(69)
Recoveries	5	-	-	-	4	9
Transfer	4	(9)	-	-	5	-
Provisions	61	-	-	-	-	61
Ending Balance	$ 548	$ 55	$ 4	$ 1	$ 13	$ 621
Ending Balance: Individually Evaluated for Impairment	$ 85	$ -	$ -	$ -	$ -	$ 85
Ending Balance: Collectively	$ 463	$ 55	$ 4	$ 1	$ 13	$ 536
Loans Receivable:						
Ending Balance	$ 106,584	$ 12,326	$ 2,039	$ 25	$ 5,386	$ 126,360
Less: Acquired Loans	30,193	4,876	1,071	-	1,842	37,982
Ending Balanace: Individually Evaluated for Impairment	$ 185	$ 278	$ -	$ -	$ -	$ 463
Ending Balance: Collectively Evaluated for Impairment	$ 76,206	$ 7,172	$ 968	$ 25	$ 3,544	$ 87,915

Allowance for loan losses and recorded investment in loans for the year ended September 30, 2021 was as follows:

	Real Estate	Real Estate Commercial	Commercial Secured	Commercial Unsecured	Consumer	Total
			(In Thousands)			
Allowance for Credit Losses:						
Beginning Balance	$ 537	$ 75	$ 5	$ 1	$ 13	$ 631
Charge-offs	(33)	-	-	-	(5)	(38)
Recoveries	6	-	-	-	3	9
Transfer	13	(11)	(1)	-	(1)	-
Provisions	18	-	-	-	-	18
Ending Balance	$ 541	$ 64	$ 4	$ 1	$ 10	$ 620
Ending Balance: Individually Evaluated for Impairment	$ 60	$ -	$ -	$ -	$ -	$ 60
Ending Balance: Collectively Evaluated for Impairment	$ 481	$ 64	$ 4	$ 1	$ 10	$ 560
Loans Receivable:						
Ending Balance	$ 73,568	$ 8,268	$ 1,458	$ 25	$ 3,026	$ 86,345
Ending Balance: Individually Evaluated for Impairment	$ 170	$ 291	$ -	$ -	$ -	$ 461
Ending Balance: Collectively Evaluated for Impairment	$ 73,398	$ 7,977	$ 1,458	$ 25	$ 3,026	$ 85,884

The following table presents performing and nonperforming real estate loans based on payment activity for the years ended September 30, 2022 and 2021. Real estate loans include residential and commercial mortgages, construction loans and home equity loans. Payment activity is reviewed by management on a quarterly basis to determine how loans are performing. Loans are considered to be nonperforming when the number of days delinquent is greater than 89 days. The loan may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months.

Nonperforming loans also include certain loans that have been modified in troubled debt restructuring ("TDR") where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Company's loss mitigation and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months. Performing and nonperforming real estate loans as of September 30 were as follows:

	2022	2021
	(In Thousands)	
Performing	$ 118,293	$ 81,467
Nonperforming	617	369
Total	$ 118,910	$ 81,836

Credit quality indicators as of September 30, 2022 and 2021 are as follows:

Internally assigned grade:

1 - Good

Loans to an individual or a well-established business in excellent financial condition with strong liquidity and a history of consistently high levels of earnings and cash flow and debt service capacity. Supported by high quality financial statements (including recent statements and sufficient historical fiscal statements), borrower has excellent repayment history and possesses a documented source of repayment. Industry conditions are favorable and business borrower's management is well qualified with sufficient debt. Borrower and/or key personnel exhibit unquestionable character. Good loans may be characterized by high quality liquid collateral and very strong personal guarantors.

2 - Satisfactory

Loans to borrowers with many of the same qualities as a good loan, however, certain characteristics are not as strong (i.e. cyclical nature of earnings, lower quality financial statements, less liquid collateral, less favorable industry trends, etc.). Borrower still has good credit, will exhibit financial strength, excellent repayment history, and good present and future earnings potential. The primary source of repayment is readily apparent with strong secondary sources of repayment available. Management is capable, with sufficient depth, and character of borrower is well established.

3 - Acceptable

Loans to borrowers of average strength with acceptable financial condition (businesses fall within acceptable tolerances of other similar companies represented in the RMA annual statement studies), with satisfactory record of earnings and sufficient historical and projected cash flow to service the debt. Business borrower's management is capable and reliable. Borrower has satisfactory repayment history, and primary and secondary sources of repayment can be clearly identified. Acceptable loans may exhibit some deficiency or vulnerability to changing economic or industry conditions.

4 - Watch

Loans in this category have a chance of resulting in a loss. Characteristics of this level of assets include, but are not limited to; the borrower has only a fair credit rating with minimal recent credit problems, cash flow is currently adequate to meet the required debt repayments, but will not be sufficient in the event of significant adverse developments, borrower has limited access to alternative sources of finance, possibly at unfavorable terms, some management weaknesses exist, collateral, generally required, is sufficient to make likely the recovery of the value of the loan in the event of default, but liquidating the collateral may be difficult or expensive. In addition, the guarantor would achieve this credit rating if it borrowed individually from the Bank.

5 - Special Mention

Loans in this category are usually made to well establish businesses with local operations. Special Mention loans have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the institution's credit position at some future date. Special Mention loans are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. Special mention category is not to be used as a means of avoiding a clear decision to classify a loan or pass it without criticism. Neither should it include loans listed merely "for the record" when uncertainties and complexities, perhaps coupled with large size, create some reservations about the loan. If weaknesses or evidence of imprudent handling cannot be identified, inclusion of such loans in Special Mention is not justified. Special mention loans have characteristics which corrective management action would remedy. Loans in this category should remain for a relatively short period of time.

6 - Substandard

Loans classified as substandard are inadequately protected by the current sound net worth or paying capacity of the borrower or the collateral pledged, if any. Loans in this category have well defined weaknesses that jeopardize the repayment. Loans which might be included in the category have potential for problems due to weakening economic or market conditions. They are characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected. Substandard loans may include loans which are likely to require liquidation of collateral to effect repayment, and other loans where the character or ability to repay has become suspect. Loss potential, while existing in the aggregate amount of the substandard assets, does not have to exist in individual assets classified substandard.

7 - Doubtful

Loans classified as doubtful have all the weaknesses in those classified as substandard with the added characteristics that the weaknesses make collection or liquidation in full on the basis of current existing facts, conditions, and value highly questionable and improbable. Although possibility of loss is extremely high, classification of these loans as loss has been deferred to specific pending factors or events, which may strengthen the loan value (i.e., possibility of additional collateral, injection of capital, collateral liquidation, debt structure, economic recovery, etc.).

8 - Loss

Loans classified as loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future.

The information for each of the credit quality indicators is updated on a quarterly basis in conjunction with the determination of the adequacy of the allowance for loan losses.

Credit risk profile for originated loans held in portfolio and loans held for sale, by internally assigned grade as of September 30, 2022:

	Pass	Special Mention	Substandard	Doubtful	Total
			(In Thousands)		
Mortgage Loans on Real Estate					
Residential, One to Four Family	$ 73,927	$ -	$ -	$ -	$ 73,927
Home Equity	2,464	-	-	-	2,464
Commercial	7,172	-	278	-	7,450
Total Mortgage Loans on Real Estate	83,563	-	278	-	83,841
Commercial	993	-	-	-	993
Consumer	3,544	-	-	-	3,544
Total Loans	$ 88,100	$ -	$ 278	$ -	$ 88,378

Credit risk profile for acquired loans by internally assigned grade as of September 30, 2022:

	Pass	Special Mention	Substandard	Doubtful	Total
			(In Thousands)		
Mortgage Loans on Real Estate					
Residential, One to Four Family	$ 30,193	$ -	$ -	$ -	$ 30,193
Home Equity	-	-	-	-	-
Commercial	4,580	-	296	-	4,876
Total Mortgage Loans on Real Estate	34,773	-	296	-	35,069
Commercial	1,071	-	-	-	1,071
Consumer	1,842	-	-	-	1,842
Total Acquired Loans	$ 37,686	$ -	$ 296	$ -	$ 37,982

Credit risk profile for originated loans held in portfolio and loans held for sale, by internally assigned grade as of September 30, 2021:

	Pass	Special Mention	Substandard	Doubtful	Total
			(In Thousands)		
Mortgage Loans on Real Estate					
Residential, One to Four Family	$ 70,584	$ -	$ -	$ -	$ 70,584
Home Equity	2,984	-	-	-	2,984
Commercial	7,977	-	291	-	8,268
Total Mortgage Loans on Real Estate	81,545	-	291	-	81,836
Commercial	1,483	-	-	-	1,483
Consumer	3,026	-	-	-	3,026
Total Loans	$ 86,054	$ -	$ 291	$ -	$ 86,345

Age Analysis of Past Due Financing Receivables by Class

Following are tables which include an aging analysis of the recorded investment of past due financing receivables as of September 30, 2022 and 2021. Also included are loans that are greater than 89 days past due as to interest and principal still accruing, because they are (1) well secured and in the process of collection or (2) real estate loans or loans exempt under regulatory rules from being classified as nonaccruals.

An aged analysis of past due financing receivables by class of financing receivable as of September 30, 2022, are as follows:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Financing Receivables	90 Days or Greater and Still Accruing
				(In Thousands)			
Residential Mortgage	$ 503	$ 621	$ 547	$ 1,671	$ 104,913	$ 106,584	$ -
Commercial Mortgage	-	-	40	40	12,286	12,326	-
Commercial	-	15	-	15	2,049	2,064	-
Consumer	73	-	11	84	5,302	5,386	-
Total Loans	$ 576	$ 636	$ 598	$ 1,810	$ 124,550	$ 126,360	$ -

An aged analysis of past due financing receivables by class of financing receivable as of September 30, 2021, are as follows:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Financing Receivables	90 Days or Greater and Still Accruing
				(In Thousands)			
Residential Mortgage	$ 65	$ 651	$ 347	$ 1,063	$ 72,505	$ 73,568	$ -
Commercial Mortgage	66	-	-	66	8,202	8,268	-
Commercial	-	-	-	-	1,483	1,483	-
Consumer	29	-	-	29	2,997	3,026	-
Total Loans	$ 160	$ 651	$ 347	$ 1,158	$ 85,187	$ 86,345	$ -

Impaired Loans

The Company considers a loan to be impaired when, based on current information and events, the Company determines that it will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Determination of impairment is treated the same across all classes of loans. When the Company identifies a loan as impaired, the Company measures the impairment based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases, the Company uses the current fair value of the collateral, less selling costs when foreclosure is probable, instead of discounted cash flows. If the Company determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), the value of impairment will be based on (1) a 90-day default period and (2) all loans classified as TDRs.

Also presented is the average recorded investment of the impaired loans and the related amount of interest recognized during the time within the period that the impaired loans were impaired. When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal under the cost recovery method.

When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method. The average balances are calculated based on the month-end balances of the financing receivables of the period reported.

The Company determines the specific allowance for impaired financing receivables based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the remaining source of repayment for the loan was the operation or liquidation of the collateral. In those cases, the current fair value of the collateral less selling costs was used to determine the specific allowance recorded. There were no recorded investment balances for impaired financing receivables at September 30, 2022 and 2021. There were two loans with principal balances totaling $185,000 and $170,000, respectively, recorded for impaired financing receivables with an associated specific allowance reserve at September 30, 2022 and 2021.

Non-Accrual Loans

The Company generally places loans on nonaccrual status when the loans reach 90 days past due or the full and timely collection of interest or principal balance has been charged off and no restructuring has occurred.

When the Company places a loan on nonaccrual status, the Company reverses the accrued unpaid interest receivable against interest income and accounts for the loan on the cash or cost recovery method until it qualifies for return to accrual status. Generally, the Company returns a loan to accrual status when (1) all delinquent interest and principal become current under the terms of the loan agreement and the Company expects repayment of the remaining contractual obligation or (2) the loan is well-secured, the borrower has made three consecutive payments, and collectability is no longer doubtful.

The Company has determined that the entire balance of a loan is contractually delinquent for all classes if the minimum payment is not received by the specified due date on the customer's statement. Interest and fees continue to accrue on past due loans until the date the loan goes into nonaccrual status, if applicable.

Troubled Debt Restructurings ("TDR")

In situations where, for economic or legal reasons related to a customer's financial difficulties, the Company grants a concession for other than an insignificant period of time to the customer that the Company would not otherwise consider, the related loan is classified as a TDR. The Company strives to identify customers in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where the Company grants the customer new terms and provides for a reduction of either interest or principal, the Company measures any impairment on the restructuring as previously noted for impaired loans. Loans identified as impaired through a TDR are classified in the Allowance for Loan Losses using similar criteria as, and pooled with, specific impaired loans.

There were no new loans modified as TDR during fiscal year 2022 or 2021. There were no TDR's in payment default that were previously classified as a TDR in the previous twelve months. At September 30, 2022 there were no commitments to lend additional funds to any borrower whose loan terms had been modified in a troubled debt restructuring.

NOTE 6 – PREMISES AND EQUIPMENT

A summary of premises and equipment at September 30 is as follows:

	2022	2021
	(In Thousands)	
Land	$ 846	$ 801
Buildings and Improvements	3,383	2,728
Furniture and Equipment	1,214	1,034
	5,443	4,563
Less: Accumulated Depreciation	(2,288)	(2,166)
Total Premises and Equipment, Net	$ 3,155	$ 2,397

Depreciation expense was approximately $138,000 in 2022 and $139,000 in 2021.

NOTE 7 – FORECLOSED ASSETS

At September 30, 2021, the Company held foreclosed assets for sale of approximately $276,000. During Fiscal 2022 there was approximately $201,000 in foreclosed assets sold. At September 30, 2022, the Company held foreclosed assets for sale of approximately $75,000. During 2022, $22,000 in gains on sales of foreclosed assets was recognized in non-interest expense. There were losses on initial write-downs of foreclosed assets of $25,000 that were charged off to the allowance for loan losses and losses on subsequent write-downs of foreclosed assets of approximately $25,000 were charged off to noninterest expense.

At September 30, 2022 and 2021 the recorded investment of mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process totals approximately $249,000 and $211,000, respectively.

NOTE 8 – GOODWILL AND INTANGIBLE ASSETS

GOODWILL AND INTANGIBLE ASSETS

Intangible assets for the years ended September 30, 2022 and 2021 consisted of the following.

	September 30, 2022			September 30, 2021		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Goodwill	$ 3,956	$ -	$ 3,956	$ -	$ -	$ -
Core deposit intangible	2,542	-	2,542	-	-	-
	$ 6,498	$	$ 6,498	$ -	$ -	$ -

No impairments of goodwill were recognized for the fiscal year ended September 30, 2022. Amortization expense for other intangible assets for the fiscal year ended September 30, 2022, as well as the estimated aggregate amortization expense for each of the five succeeding fiscal years is summarized as follows:

Total Amortization Expense Fiscal Year Ended September 30, (in thousands)		
2023	$	462
2024		416
2025		370
2026		323
2027		277
	$	1,848

NOTE 9 – DEPOSITS

Certificates of deposit and other time deposits issued in denominations that meet or exceed the FDIC insurance limit of $250,000 or more totaled approximately $3,156,000 and $2,296,000 at September 30, 2022 and 2021, respectively, and are included in time deposits in the Consolidated Statements of Financial Condition.

At September 30, 2022, the scheduled maturities of certificates of deposit are as follows (in thousands):

2023	$	14,847
2024		3,742
2025		1,046
2026		736
	$	20,371

A summary of interest expense for the years ended September 30 is as follows:

	2022		2021	
	(In Thousands)			
Savings Deposits	$	59	$	53
Time Deposits		100		129
Now and Money Market Deposits		19		19
	$	178	$	201

The Company had deposits of approximately $1,931,000 and $1,627,000 at September 30, 2022 and 2021, respectively, for related parties.

NOTE 10 – BORROWED MONEY

There were no borrowings from the Federal Home Loan Bank of New York at September 30, 2022 or 2021.

The Company utilizes advance programs offered by the FHLBNY including an unused line of credit of approximately $60,638,000 at September 30, 2022. Under terms of a blanket collateral agreement with the FHLBNY, outstanding advances are secured by certain qualifying assets not otherwise pledged. The advances from the FHLBNY have fixed interest rates. In addition, the Company has an available line of credit with the Federal Reserve Board in the amount of $5,000,000. The line is secured by municipal bonds. The outstanding balance at both September 30, 2022 and 2021 was $-0-. The Company has a second line of credit with Atlantic Community Banker's Bank ("ACBB") totaling $4,000,000. This line is secured with a $135,000 investment in ACBB stock. The outstanding balance at September 30, 2022 and 2021 was $-0-.

NOTE 11 – EMPLOYEE BENEFIT PLANS

401 (K) Plan

The Company has a defined contribution 401(k) Retirement Plan ("Plan") for all eligible employees. The Company contributes 3% of each eligible employee's salary. Additional Company contributions to the Plan are determined annually by the Board of Directors. For the years ended September 30, 2022 and 2021, the expense for the Plan was approximately $92,000 and $119,000, respectively, and is included in salaries and employee benefits in the Consolidated Statements of Earnings.

CBCV adopted a 401 (k) plan ("CBCV Plan") effective January 1, 2007, covering substantially all employees. Effective January 1, 2018, CBCV's contribution was a match to eligible employee contributions, up to 4% of gross wages. Contributions to the CBCV Plan for the years ended December 31, 2021 and 2020 were approximately $31,300 and $26,200, respectively. As of the legal acquisition date of September 16, 2022, CBCV made contributions of $23,200 for the calendar year. The CBCV Plan will terminate and all prior CBCV eligible employees will be placed in the Company's Plan effective January 2023.

Deferred Compensation Plan

The Company has a nonqualified deferred compensation plan for directors, under which directors, including the President, may elect to defer all or part of their director's fees. At September 30, 2022 and 2021, deferred compensation included in other liabilities aggregated approximately $269,000 and $359,000, respectively. Deferred compensation expense for the years ended September 30, 2022 and 2021 was approximately $21,000 and $26,000, respectively, and is included in directors' fees in the Consolidated Statements of Earnings.

During 2009, CBCV entered into a nonqualified deferred compensation plan for three key employees, which provides for an annual fixed benefit in the aggregate of $20,000 for a five-year period. The plan provided for additional grants of benefits at the discretion of CBCV's Board of Directors. During the calendar year ending December 31, 2018, one employee was paid out their benefit obligation. The plan transferred over to the Company at the legal acquisition date of September 16, 2022. At September 30, 2022, CBCV deferred compensation included in other liabilities was approximately $125,800.

Supplemental Retirement Plans

The Company has supplemental retirement and life insurance plans for the benefit of certain officers and directors. At September 30, 2022 and 2021, other liabilities include accruals of approximately $2,016,000 and $3,912,000, respectively, under these plans. Expenses for the plans were approximately $332,000 and $499,000 for 2022 and 2021, respectively, and are included in non-interest expense in the Consolidated Statements of Earnings.

To fund the benefits under these plans, the Company is the owner of single premium life insurance policies on participants in the non-qualified retirement plans. At September 30, 2022 and 2021, the cash value of the policies was approximately $6,841,000 and $6,704,000, respectively. Appreciation in value of the insurance policies is classified as noninterest income.

The table on the following page is a summary of the Plan as of September 30.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021

	2022	2021
	(In Thousands)	
Change in Benefit Obligation		
Benefit Obligation, Beginning of Year	$ 3,912	$ 3,562
Service Cost	160	182
Interest Cost	57	112
Loss	7	229
Prior Service Cost	-	8
Benefits Paid	(2,120)	(181)
Benefit Obligation, End of Year	$ 2,016	$ 3,912
Funded Status	$ (2,016)	$ (3,912)
Accumulated Benefit Obligation	$ 1,930	$ 3,801
Net Periodic Pension Cost		
Service Cost	$ 160	$ 182
Interest Cost	57	112
Loss Recognized	124	109
Prior Service Cost Recognized	96	96
Total	$ 437	$ 499
Amounts Recognized (Removed) from Other Comprehensive Income		
(Gain) Loss	$ (117)	$ 120
Prior Service Cost	(96)	(88)
	$ (213)	$ 32
Cumulative Amounts in Other Comprehensive Income at End of Period		
Loss	$ 541	$ 658
Prior Service Cost	232	328
	$ 773	$ 986

	2022	2021
	(In Thousands)	
Estimated Amounts that will be Recognized Over the Next Accounting Period		
Loss	$ 124	$ 124
Prior Service Cost	96	96
	$ 220	$ 220
Benefits Expected to be Paid		
First Year	$ 228	$ 2,130
Second Year	257	209
Third Year	213	257
Fourth Year	123	214
Fifth Year	106	124
Sixth - Tenth Year	880	1,517
Total	$ 1,807	$ 4,451

Assumptions used in the accounting were as follows:

	2022	2021
Discount Rate	3.00%	3.00%
Salary Inflation Rate	1.50-4.00%	1.50-4.00%

NOTE 12 – ACCRUED INTEREST RECEIVABLE

Accrued interest receivable at September 30 consists of the following:

	2022	2021
	(In Thousands)	
Investments	$ 260	$ 135
Loans	331	219
	$ 591	$ 354

NOTE 13 – INCOME TAXES

The Company files a consolidated tax return with its subsidiary corporation. The consolidated provision for income taxes for the years ended September 30, is summarized as follows:

	2022	2021
	(In Thousands)	
Current Expense (Benefit)		
Federal	$ 7	$ (418)
State	-	-
	7	(418)
Deferred Expense		
Federal	385	332
	385	332
Total Provision for Income Tax Expense (Benefit)	$ 392	$ (86)

At September 30, 2022 and 2021, the Company has prepaid income taxes of approximately $408,000 and $126,000, respectively, included in other assets in the consolidated statements of financial condition.

The provision for federal income taxes, which differs from that computed by applying federal statutory rates to income before federal income tax expense, is summarized as follows for the years ended September 30:

	2022		2021	
	Amount	% of Pretax Income	Amount	% of Pretax Income
	(In Thousands)			
Federal Tax at Statutory Rates	$ 403	21.0%	$ 246	21.0%
Earnings on Investment in Life Insurance	(29)	(1.5%)	(63)	(5.4%)
Tax-Exempt Interest Income	(117)	(6.1%)	(118)	(10.1%)
Acquisition-Related Expenses	113	5.9%	-	0%
Tax Rate Reduction for NOL Carryback (CARES Act)	-	0%	(135)	(11.6%)
Other	22	1.1%	(16)	(1.3%)
Total Federal Tax	$ 392	20.4%	$ (86)	(7.4%)

The net deferred tax asset included in accrued interest receivable and other assets in the accompanying consolidated statements of financial condition includes the following amounts of deferred tax assets and liabilities:

	2022	2021
	(In Thousands)	
Deferred Tax Assets:		
Net Operating Loss Carryforward	$ 804	$ -
Interest Rate Swap Derivative Liability	-	233
Allowance for Loan Losses	130	232
Retirement Benefits	423	822
Deferred Compensation	153	152
Net Unrealized Loss on Securities	1,601	-
Fair Value Marks on Acquired Loans	253	-
Other	26	29
Total Deferred Tax Assets	3,390	1,468
Deferred Tax Liabilities		
Net Unrealized Gains on Securities	-	126
Interest Rate Swap Derivative Liability	221	-
Premises and Equipment	54	54
Net Deferred Loan Costs	121	131
Core Deposit Intangible	534	-
Total Deferred Tax Liabilities	930	311
Net Deferred Tax Asset	$ 2,460	$ 1,157

At September 30, 2022, the Company had $3,827,000 of federal net operating losses, which can be carried forward indefinitely. Utilization of $1,259,000 of these net operating losses is subject to an annual limitation under tax rules applicable to ownership changes.

Realization of deferred tax assets is dependent upon the generation of future taxable income. A valuation allowance is provided when it is more likely than not that at least some portion of the deferred tax assets will not be realized. In assessing the need for a valuation allowance, management considers the scheduled reversal of the deferred tax liabilities, the level of historical taxable income and the projected future level of taxable income over the periods in which the temporary differences comprising the deferred tax assets will be deductible. The judgement about the level of future taxable income is inherently subjective and is reviewed on a continual basis and as regulatory and business factors change. At September 30, 2022 and 2021, management determined that a valuation allowance was not deemed necessary.

At September 30, 2022 and 2021, the Company had an unrecaptured pre-1988 federal bad debt reserve of approximately $1.5 million for which no federal income tax provision has been made. A deferred tax liability has not been provided on this amount, as management does not intend to redeem stock, make distributions or take other actions that would result in recapture of the reserve.

The Company files consolidated federal and combined New York State income tax returns. Based on provisions in New York State tax law, the Company does not generate New York taxable income, resulting in a tax liability that is based on taxable capital. Accordingly, this tax liability is recorded in other non-interest expenses.

NOTE 14 – TRANSACTIONS WITH EXECUTIVE OFFICERS AND DIRECTORS

Certain directors and executive officers of the Company, their families and their affiliates are customers of the Bank. Any transactions with such parties, including loans and commitments, were in the ordinary course of business at normal terms, including interest rates and collateralization prevailing at the time, and did not represent more than normal risks. At September 30, 2022 and 2021, such loans amounted to approximately $570,000 and $267,000, respectively.

During 2022 and 2021, new originated loans to such related parties and loans associated with newly appointed directors and officers totaled $327,000 and $40,000, respectively, and repayments aggregated approximately $24,000 and $15,000, respectively.

NOTE 15 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET CREDIT RISK

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and to sell loans. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition.

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 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.

A summary of financial instrument commitments at September 30 is as follows:

	2022	2021
	(In Thousands)	
Commitments to Grant Loans	$ 1,759	$ 2,372
Unfunded Commitments Under Lines and Letters of Credit	6,455	6,371

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amount does 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 and generally consists of real estate.

NOTE 16 – REGULATORY CAPITAL REQUIREMENTS

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

U.S. Basel III Capital Rules

In July 2013, the Federal Reserve Board approved final rules (the "U.S. Basel III Capital Rules") establishing a new comprehensive capital framework for U.S. banking organizations and implementing the Basel Committee on Banking Supervision's December 2010 framework for strengthening international capital standards. The U.S. Basel III Capital Rules substantially revised the risk-based capital requirements applicable to bank holding companies and depository institutions.

The minimum regulatory capital requirements established by the U.S. Basel III Capital Rules became effective for the Bank on January 1, 2016 and become fully phased in on January 1, 2019. The U.S. Basel III Capital Rules require the Bank to:

i. Meet a minimum Common Equity Tier 1 Capital ratio of 4.50% of risk-weighted assets and a minimum Tier 1 Capital of 6.00% of risk-weighted assets;

ii. Continue to require a minimum Total Capital ratio of 8.00% of risk-weighted assets and a minimum Tier 1 Leverage Capital ratio of 4.00% of average assets;

iii. Maintain a "capital conservation buffer" of 2.50% above the minimum risk-based capital requirements, which must be maintained to avoid restrictions on capital distributions and certain discretionary bonus payments; and

iv. Comply with a revised definition of capital to improve the ability of regulatory capital instruments to absorb losses. Certain non-qualifying capital instruments, including cumulative preferred stock and TruPS, will be excluded as a component of Tier 1 capital for institutions of the Company's size.

The U.S. Basel III Capital Rules use a standardized approach for risk weightings that expand the risk-weightings for assets and off-balance sheet exposures from the previous 0%, 20%, 50% and 100% categories to a much larger and more risk-sensitive number of categories, depending on the nature of the assets and off-balance sheet exposures, resulting in higher risk weights for a variety of asset categories.

The capital conservation buffer at September 30, 2022 and 2021 is 2.50%. The Bank exceeded these “well-capitalized” and “capital conservation buffer” ratios for all periods presented.

As of September 30, 2022, the Bank's capital levels meet the fully phased-in minimum capital requirements, including the new capital conservation buffers, as prescribed in the U.S. Basel III Capital Rules.

As of September 30, 2022, the most recent notification from Federal Deposit Insurance Corporation (“FDIC”) categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since the most recent notification that management believes have changed the Bank’s prompt corrective action category.

There are no comparable minimum capital requirements that apply to the Bank as a savings and loan holding company. The Bank’s actual and required capital amounts and ratios are presented in the table on the following page:

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount ($)	Ratio (%)	Amount ($)	Ratio (%)	Amount ($)	Ratio (%)
			(In Thousands)			
As of September 30, 2022						
Total Capital (to Risk-Weighted Assets)	$ 22,662	19.9	≥ $9,110	≥ 8.0	≥ $11,387	≥ 10.0
Tier 1 Capital (to Risk-Weighted Assets)	22,041	19.4	≥ 6,832	≥ 6.0	≥ 9,110	≥ 8.0
Tier 1 Common Equity (to Risk-Weighted Assets)	22,041	19.4	≥ 5,124	≥ 4.5	≥ 7,402	≥ 6.5
Tier 1 Leverage Ratio (to Adjusted Total Assets)	22,041	15.8	≥ 5,582	≥ 4.0	≥ 6,978	≥ 5.0
Capital Conservation Buffer on Tier 1 Common Equity	22,662	11.9	≥ 7,971	≥ 7.0	≥ N/A	≥ N/A
As of September 30, 2021						
Total Capital (to Risk-Weighted Assets)	$ 27,243	35.2	≥ $6,200	≥ 8.0	≥ $7,750	≥ 10.0
Tier 1 Capital (to Risk-Weighted Assets)	26,623	34.4	≥ 4,650	≥ 6.0	≥ 6,200	≥ 8.0
Tier 1 Common Equity (to Risk-Weighted Assets)	26,623	34.4	≥ 3,488	≥ 4.5	≥ 5,038	≥ 6.5
Tier 1 Leverage Ratio (to Adjusted Total Assets)	26,623	19.8	≥ 3,100	≥ 4.0	≥ 3,875	≥ 5.0
Capital Conservation Buffer on Tier 1 Common Equity	27,423	27.2	≥ 5,425	≥ 7.0	≥ N/A	≥ N/A

Prior to March 26, 2020, the Bank was required to maintain an average cash reserve balance in vault cash with the Federal Reserve Bank ("FRB"). An FRB announcement on March 15, 2020 reduced the reserve requirement ratios to zero percent effective March 26, 2020. This action eliminated the reserve requirement for the Bank.

There are no comparable minimum capital requirements that apply to the Muni Bank, as a limited purpose commercial bank. The Muni Bank's actual and required capital amounts and ratios are as follows:

	Actual		Minimum Capital Requirement				Minimum to be Well Capitalized Under Prompt Corrective Action Provisions			
	Amount ($)	Ratio (%)		Amount ($)		Ratio (%)		Amount ($)		Ratio (%)
	(In Thousands)									
As of September 30, 2022										
Total Capital (to Risk-Weighted Assets)	$ 12,160	136.1	≥	$ 715	≥	8.0	≥	$ 894	≥	10.0
Tier 1 Capital (to Risk-Weighted Assets)	12,160	136.1	≥	536	≥	6.0	≥	715	≥	8.0
Tier 1 Common Equity (to Risk-Weighted Assets)	12,160	136.1	≥	402	≥	4.5	≥	581	≥	6.5
Tier 1 Leverage Ratio (to Adjusted Total Assets)	12,160	35.7	≥	1,364	≥	4.0	≥	1,705	≥	5.0
Capital Conservation Buffer on Tier 1 Common Equity	12,160	128.1	≥	625	≥	7.0	≥	N/A	≥	N/A

NOTE 17 – RETAINED EARNINGS

Cambray Mutual Holding Company ("Cambray") waived dividends payable by the Company on shares owned in fiscal year 2022 and 2021. The total cumulative dividends waived by Cambray was $6,384,000 as of September 30, 2022. The dividends waived by Cambray are considered a restriction on the retained earnings of the Company.

The Company declared dividends of $0.16 and $0.24 per share totaling $115,000 and $173,000 in 2022 and 2021, respectively.

NOTE 18 – INTEREST RATE DERIVATIVES

Derivative instruments are entered into primarily as a risk management tool of the Company. It has entered into several interest rate swap agreements whereby it pays a fixed rate and receives a variable rate on a notional amount. It did so to hedge the cost of certain borrowings and to increase the interest rate sensitivity of certain assets. Financial derivatives are recorded at fair value as other assets or liabilities. The accounting for changes in the fair value of a derivative depends on whether it has been designated and qualifies as a part of a hedging relationship. For a fair value hedge, changes in the fair value of the derivative instrument and changes in the fair value of the hedged asset or liability are currently recognized in current year earnings. Amounts recognized in earnings as noninterest gain for the years ended September 30, 2022 and 2021 were $2,158,000 and $943,000, respectively. The gain is the result of the swaps market value fluctuations with long-term bond rates and projected short-term rates. See Note 19 for further discussion on the fair value of the interest rate derivative.

Information about interest rate swap agreements at September 30, is as follows:

	Notional Amount (In Thousands)	Weighted Average Rate Contract Pay Rate	Weighted Average Rate Received Rate	Estimated Fair Value (Liability) Asset (In Thousands)
September 30, 2022				
Interest Rate Swaps on Mortgage Loans	$ 11,000	2.41%	2.99%	$ 756
Interest Rate Swaps on FHLB Borrowings and Bank Deposits	$ 7,000	2.11%	2.86%	$ 295
September 30, 2021				
Interest Rate Swaps on Mortgage Loans	$ 11,000	2.41%	0.12%	$ (794)
Interest Rate Swaps on FHLB Borrowings and Bank Deposits	$ 7,000	2.11%	0.12%	$ (313)

The following table is a summary of the fair value of outstanding derivatives and their presentation in the consolidated statements of financial condition as of September 30:

	2022	2021
	(In Thousands)	
Fair Value Hedge – Interest Rate Swap		
Other Assets (Liabilities)	$ 1,051	$ (1,107)

The notional amount of interest rate swap agreements entered into, that were outstanding at September 30, 2022 mature as follows for the years ended September 30:

2023	$ 1,500
2024	-
2025	4,500
2026	4,000
2027	-
2028	6,000
2029	2,000
	$ 18,000

NOTE 19 – FAIR VALUE MEASUREMENTS

Determination of Fair Value

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 a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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.

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

Fair Value Hierarchy

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

- Level 1 – Valuation is based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

- Level 2 – Valuation is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

- Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

The types of instruments valued based on quoted market prices in active markets include most U.S. government and agency securities, liquid mortgage products, active listed equities and most money market securities. Such instruments are generally classified within Level 1 or Level 2 of the fair value hierarchy. As required by this guidance, the Company does not adjust the quoted price for such instruments.

The types of instruments valued based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include most investment-grade and high-yield corporate bonds, less liquid mortgage products, less liquid equities, state, municipal and provincial obligations, and certain physical commodities. Such instruments are generally classified within level 2 of the fair value hierarchy.

The Company utilizes interest rate swap agreements based on the 3-month London Interbank Offered Rate (LIBOR). The Company generally determines the fair value of its interest rate swap agreements using externally developed pricing models based on market observable inputs and therefore classifies such valuations as Level 2. Currently 3-Month LIBOR cessation is set for June 30, 2023, which the Company has addressed with an amended agreement with Federal Home Loan Bank of New York. On October 23, 2020, the International Swaps and Derivatives Association, Inc. (“ISDA”) published the ISDA 2020 IBOR Fallbacks Protocol to enable parties to Protocol Covered Documents to amend the terms of those documents by introducing new triggers and fallbacks for certain interbank offered rates referred to in those documents. The Company and FHLBNY agreed to amend the ISDA Master Agreement to incorporate the terms of the IBOR Fallbacks Protocols.

Level 3 is for positions that are not traded in active markets or are subject to transfer restrictions. Valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence. In the absence of such evidence, management’s best estimate is used.

Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or market value. Market value is measured based on the value of the collateral securing these loans and is classified at a level 3 in the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable. The value of business equipment, inventory and accounts receivable collateral is based on the net book value on the business’ financial statements and, if necessary, discounted based on management’s review and analysis. Appraised and reported values may be discounted based on management’s historical knowledge, changes in market conditions from the time of valuation and/or management’s expertise and knowledge of the client’s business. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified previously.

Foreclosed properties are adjusted to fair value upon transfer of the loans to foreclosed properties. Subsequently, foreclosed properties are carried at the lower of carrying value or fair value. The estimated fair value for foreclosed properties included in Level 3 is determined by independent market-based appraisals and other available market information, less costs to sell, that may be reduced further based on market expectations or an executed sales agreement. If fair value of the collateral deteriorates subsequent to initial recognition, the Company records the foreclosed properties as a nonrecurring Level 3 adjustment. Valuation techniques are consistent with those techniques applied in prior periods.

Fair values of assets and liabilities measured on a recurring basis at September 30, 2022 and 2021 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In Thousands)			
September 30, 2022				
Available-for-Sale Securities	$ 49,645	$ -	$ 49,645	$ -
Interest Rate Swap Derivative	$ 1,051	$ -	$ 1,051	$ -
September 30, 2021				
Available-for-Sale Securities	$ 24,614	$ -	$ 24,614	$ -
Interest Rate Swap Derivative	$ (1,107)	$ -	$ (1,107)	$ -

Fair values of assets and liabilities measured on a nonrecurring basis at September 30, 2022 and 2021 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In Thousands)			
September 30, 2022				
Foreclosed Real Estate, Net	$ 75	$ -	$ -	$ 75
September 30, 2021				
Foreclosed Real Estate, Net	$ 276	$ -	$ -	$ 276

The table on the following page presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which Level 3 inputs were used to determine fair value at September 30, 2022 and 2021.

	Valuation Techniques	**Unobservable Inputs**
Impaired Loans	Appraisal of Collateral (Sales Approach) Discounted Cash Flow	Appraisal Adjustments Costs to Sell
Foreclosed Assets	Appraisal of Collateral (Sales Approach)	Appraisal Adjustments Costs to Sell

Accounting guidance requires disclosur es of the estimated fair value of certain financial instruments and the methods and significant assumptions used to estimate their fair values. Certain financial instruments and all non-financial instruments are excluded from the scope of the guidance.

The estimated fair values of financial instruments are as follows (in thousands):

	September 30, 2022		September 30, 2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Cash and due from banks	$ 10,109	$ 10,109	$ 4,503	$ 4,503
Interest bearing deposits with banks	4,235	4,235	6,546	6,546
Time deposits in other financial institutions	718	718	-	-
Available for sale debt securities	49,645	49,645	24,614	24,614
Held to maturity debt securities	1	1	2	2
Acquired loans	36,777	36,777	-	-
Loans held for sale	-	-	200	200
Portfolio loans, net of deferred fees	88,334	71,900	86,347	80,664
Investment in restricted stock	895	895	770	770
Accrued interest receivable	591	591	354	354
Interest Rate Swap Derivative	1,051	1,051	-	-
Financial Liabilities				
Deposits	$ 183,951	$ 139,318	$ 100,754	$ 87,504
Accrued interest payable	1	1	22	22
Interest Rate Swap Derivative	-	-	1,107	1,107

The methods and assumptions that were used to estimate the fair value of financial assets and financial liabilities that are measured at fair value on a recurring and non-recurring basis have been previously disclosed. A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below:

Cash and due from banks – Due to their short -term nature, the carrying amount of cash and due from banks approximates fair value and is categorized in level 1 of the fair value hierarchy.

Interest bearing deposits with banks – Due to their short -term nature, the carrying amount of interest- bearing deposits in other financial institutions approximates fair value and is categorized in level 1 of the fair value hierarchy.

Time deposits in other financial institutions - Fair values are calculated based on market prices of similar securities and, therefore, are classified as Level 2 within the valuation hierarchy.

Available for sale securities – For those available for sale debt securities where quoted prices are unavailable, fair values are calculated based on market prices of similar securities and, therefore, are classified as Level 2 within the valuation hierarchy.

Held to maturity debt securities – The fair value is estimated using quoted market prices or by pricing models and is categorized as level 2 of the fair value hierarchy.

Loans – The fair value loans is estimated by discounting future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and is categorized in level 3 of the fair value hierarchy. Acquired loans (impaired and non-impaired) are intially recorded at their acquisition-date fair values using Level 3 inputs. Fair values are based on a discounted cash flow methodology that involves assumptions and judgments as to credit risk, expected life time losses, environmental factors, collateral values, discount rates, expected payments and expected prepayments.

Loans held for sale – Fair value is based on commitments on hand from investors or prevailing market prices and is categorized in level 2 of the fair value hierarchy.

Investments in restricted stock – No secondary market exists for FHLB or ACBB stock. The stock is bought and sold at par and management believes the carrying amount approximates fair value and is categorized in level 2 of the fair value hierarchy.

Accrued interest receivable – Due to their short -term nature, the carrying amount approximates fair value and is categorized in level 1 of the fair value hierarchy.

Deposits – Fair value of deposits with no stated maturity, such as demand deposits, savings, and money market accounts, by definition, is the amount payable on demand on the reporting date. Fair value of fixed rate time deposits is estimated using discounted cash flows applying interest rates currently offered on similar time deposits. Deposits are categorized in level 2 of the fair value hierarchy.

Accrued interest payable – Due to their short-term nature, the carrying amount approximates fair value and is categorized in level 1 of the fair value hierarchy.

Interest Rate Swap Derivative – Fair values are calculated based on market prices of similar securities and, therefore, are classified as Level 2 within the valuation hierarchy.

SHAREHOLDER INFORMATION

Corporate Offices

Gouverneur Bancorp, Inc.
42 Church Street
Gouverneur, New York 13642
(315) 287-2600

Annual Meeting of Shareholders

The annual meeting of Gouverneur Bancorp, Inc. will tentatively be held April 17, 2023in the Boardroom of Gouverneur Savings & Loan Association, 20 John Street, Gouverneur, New York 13642.

Stock Transfer Agent & Registrar

Shareholders wishing to change name, address, ownership of stock, report lost certificates or consolidate accounts should contact the Company's stock registrar and transfer agent directly:

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219
(718)921-8224

Independent Auditors

Bonadio & Co., LLP
432 North Franklin Street
Syracuse, NY 13204

Market Information for Common Stock The Common Stock of Gouverneur Bancorp, Inc. trades on the OTC Bulletin Board Pink under the symbol "GOVB". At December 19, 2022, there were approximately 120 shareholders of record, not including the number of persons or entities holding stock in nominee or street names through various brokers and banks.

Gouverneur Bancorp, Inc. common stock was issued at $5.00 per share in connection with the Company's initial public offering completed on March 23, 1999. The following table shows the range of high and low sale prices for each full quarterly period for the past two fiscal years.

Quarter Ended	High	Low	Cash Dividend Declared
Fiscal 2022			
September 30, 2022	$ 9.20	$ 7.50	$ 0.06
June 30, 2022	$ 9.80	$ 7.25	$ 0.00
March 31, 2022	$ 10.99	$ 9.20	$ 0.10
December 31, 2021	$ 9.75	$ 8.10	$ 0.00

Quarter Ended	High	Low	Cash Dividend Declared
Fiscal 2021			
September 30, 2021	$ 10.52	$ 9.25	$ 0.12
June 30, 2021	$ 12.00	$ 10.05	$ 0.00
March 31, 2021	$ 12.00	$ 10.06	$ 0.12
December 31, 2020	$ 10.85	$ 8.60	$ 0.00

DIRECTORS AND OFFICERS

Gouverneur Bancorp, Inc. *Board of Directors*

Chad B. Soper: *Chairman, President and Owner, Cooke Sand & Gravel, Inc.*

Charles C. Van Vleet Jr.: *Retired President & Chief Executive Officer, Gouverneur Bancorp, Inc*

Henry J. Leader: *Secretary, Principal, Case & Leader LLP, Attorneys at Law*

David C. McClure: *Vice Chairman*, *Vice President of Real Estate, KPH Healthcare Services*

Timothy J. Monroe: V*eterinarian, President, Northland Veterinarian Hospital*

Amy M. Rapholz: *Senior Accountant*, *Stackel & Navarra, CPA,PC*

Clara P. Cummings: *Human Resource Director, Empire State Mines, LLC*

Faye C. Waterman, *President & Chief Executive Officer, Gouverneur Bancorp. Inc*

Directors of Gouverneur Bancorp, Inc. also serve as Directors of Gouverneur Savings & Loan Association

Gouverneur Bancorp, Inc. *Officers*

Faye C. Waterman: *President & Chief Executive Officer*

Kimberly A. Adams: *Vice President & Chief Financial Officer*

Taylor Robbins: *Executive Vice President & Senior Lender*

Sadie M. Hall: *Vice President & Compliance Officer*

Cortney M. Sharpe: *Treasurer*

Officers of Gouverneur Bancorp, Inc. also serve as officers of Gouverneur Savings & Loan Association

Gouverneur Savings & Loan Association *Officers*

Victor James: *Vice President & Chief Operating Officer*

Gouverneur Bancorp, Inc.
42 Church Street
Gouverneur, NY 13642