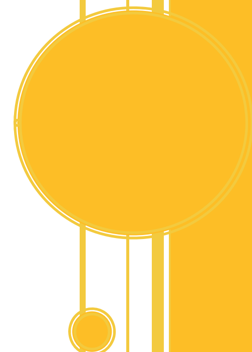
IBW FINANCIAL CORPORATION AND SUBSIDIARY

2023 FINANCIAL STATEMENTS



IBW FINANCIAL CORPORATION
4812 GEORGIA AVE NW
WASHINGTON, DC 20011

elliott davis

Independent Auditor's Report

To the Board of Directors and Shareholders
IBW Financial Corporation and Subsidiary
Washington, DC

Opinion

We have audited the consolidated financial statements of IBW Financial Corporation and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, the related consolidated statements of income, comprehensive income (loss), changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the "financial statements").

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

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for credit losses effective January 1, 2023 due to the adoption of Financial Accounting Standards Board Accounting Standards Codification No. 326, *Financial Instruments – Credit Losses (ASC 326)*. The Company adopted the new credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Raleigh, North Carolina
March 29, 2024

CONSOLIDATED BALANCE SHEETS
December 31, 2023 and 2022

(dollars in thousands)	2023	2022
ASSETS		
Cash and due from banks	$ 4,157	$ 4,541
Interest-bearing deposits with banks	48,723	69,652
Total cash and cash equivalents	52,880	74,193
Short-term Investments	2,611	2,591
Investment securities available-for-sale, at fair value	266,363	282,140
Equity investments	864	825
Restricted stock, at cost	1,711	330
Loans receivable, net of unearned income and deferred fees	374,293	342,571
Less: Allowance for credit losses	(8,666)	(6,587)
Net loans	365,627	335,984
Premises and equipment, net	20,417	17,303
Real estate owned (REO)	432	-
Bank owned life insurance (BOLI)	9,997	9,773
Accrued interest receivable	3,236	2,309
Equity securities without readily determinable values	6,574	6
Other assets	16,699	16,571
Total assets	**$ 747,411**	**$ 742,025**
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Non-interest bearing deposits	$ 167,807	$ 198,541
Interest bearing deposits	415,486	411,030
Total deposits	583,293	609,571
Short-term borrowings	28,400	4,260
Accounts payable and accrued expenses	7,178	5,506
Total liabilities	618,871	619,337
SHAREHOLDERS' EQUITY		
Senior preferred stock:		
Series F - $1 par value, 81,938 nonvoting issued and outstanding	81,938	81,938
Preferred stock:		
Series D - $1,000 par value, 8,540 nonvoting issued and outstanding	8,540	8,540
Series E - $1,000 par value, 4,000 nonvoting issued and outstanding	4,000	4,000
Common stock, $1 par value; 1,000,000 shares authorized, 645,785 issued and outstanding for 2023 and 2022	646	646
Additional paid-in-capital	6,476	6,476
Retained earnings	46,679	44,541
Accumulated other comprehensive loss	(19,013)	(22,755)
Less: Treasury stock, shares at cost	(726)	(698)
Total shareholders' equity	128,540	122,688
Total liabilities and shareholders' equity	**$ 747,411**	**$ 742,025**

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2023 and 2022

(dollars in thousands)	2023	2022
Interest income:		
Interest and fees on loans	$ 23,087	$ 16,787
Interest on investment securities	8,636	5,637
Interest on interest-bearing deposits and short-term investments	2,255	1,323
Total interest income	33,978	23,747
Interest expense:		
Interest on deposits	4,071	385
Interest on short-term borrowings	16	7
Total interest expense	4,087	392
Net interest income	29,891	23,355
Provision for credit losses	5,176	976
Net interest income after provision for loan losses	24,715	22,379
Noninterest income:		
Gain on sale of loans	-	16
Service charges and other fees on deposits	2,098	1,746
Other fee income	41	69
Grants and awards	4,028	1,122
Other income	2,236	2,525
Total non-interest income	8,403	5,478
Noninterest expense:		
Salaries and benefits	15,543	13,445
Occupancy	2,371	2,195
Furniture and equipment	596	651
Data processing and information technology	3,124	3,201
Office expense	591	657
Professional fees	2,326	1,873
Security	751	429
FDIC insurance assessment	314	212
Lending expense	305	275
Core conversion expense	1,014	82
Other	2,414	3,063
Total non-interest expense	29,349	26,083
Income before income taxes	3,769	1,774
Income tax expense	1,055	392
Net income	**$ 2,714**	**1,382**
Preferred stock dividends	(125)	(120)
Net income available to common shareholders	**$ 2,589**	**$ 1,262**
Basic and diluted net income per common share	$ 4.01	$ 1.95
Dividend per common share	$ 0.19	$ 0.17
Weighted average number of common shares outstanding	645,785	645,785

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
Years Ended December 31, 2023 and 2022

(dollars in thousands)	2023	2022
Net income	$ 2,714	$ 1,382
Other comprehensive income (loss):		
Unrealized gain (loss) on available-for-sale investment securities	5,198	(30,924)
Income tax (expense) benefit	(1,456)	8,659
Total other comprehensive income (loss)	3,742	(22,265)
Total comprehensive income (loss)	$ 6,456	$ (20,883)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years Ended December 31, 2023 and 2022

(dollars in thousands)	Preferred Stock	Common Stock	Additional Paid-in-Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance December 31, 2021	$ 13,040	$ 646	$ 6,974	$ 43,386	$ —	$ (490)	$ 63,556
Net income	—	—	—	1,382	—	—	1,382
Issuance of shares of preferred stock - Series F	81,938	—	(498)	—	—	—	81,440
Redemption of shares of preferred stock - Series A	(500)	—	—	—	—	—	(500)
Cash dividends paid:							
Preferred stock -							
Series A - $1.25 per share	—	—	—	(9)	—	—	(9)
Series D - $1.00 per share	—	—	—	(85)	—	—	(85)
Series E - $1.00 per share	—	—	—	(26)	—	—	(26)
Common stock - $.17 per share	—	—	—	(107)	—	—	(107)
Other comprehensive loss	—	—	—	—	—	(22,265)	(22,265)
Treasury stock, at cost	—	—	—	—	(698)	—	(698)
Balance December 31, 2022	$ 94,478	$ 646	$ 6,476	$ 44,541	$ (698)	$ (22,755)	$ 122,688
Impact of adoption of ASU 2016-13	—	—	—	(325)	—	—	(325)
Net income	—	—	—	2,714	—	—	2,714
Preferred stock -							
Series D - $1.00 per share	—	—	—	(86)	—	—	(86)
Series E - $1.00 per share	—	—	—	(40)	—	—	(40)
Common stock - $.19 per share	—	—	—	(125)	—	—	(125)
Other comprehensive income	—	—	—	—	—	3,742	3,742
Treasury stock, at cost	—	—	—	—	(28)	—	(28)
Balance December 31, 2023	$ 94,478	$ 646	$ 6,476	$ 46,679	$ (726)	$ (19,013)	$ 128,540

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2023 and 2022

(dollars in thousands)	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	**$ 2,714**	**$ 1,382**
Adjustments to reconcile net income		
to net cash provided by operating activities:		
Depreciation and amortization	692	603
Amortization of deposit intangible	57	112
Provision for credit losses	5,176	976
Deferred income taxes	398	687
Net amortization of investment securities	1,218	1,774
Realized (gain) loss on equity security	(39)	111
Increase in value of BOLI	(224)	(321)
Gain on sale of loans	-	(16)
Proceeds from sales of loans held for sale	-	576
Changes in:		
Increase in accrued interest receivable	(927)	(810)
(Decrease) increase in other assets	(1,547)	233
Increase (decrease) in other liabilities	1,489	(2,135)
Net cash provided by operating activities	**9,007**	**3,172**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net increase in loans receivable, net	(35,496)	(39,395)
Purchases of short-term investments	(20)	-
Purchases of investment securities available-for-sale	(13,487)	(130,343)
Purchase of restricted stock	(1,594)	(348)
Purchase of securities without readily determinable values	(6,568)	-
Proceeds received from maturity and sales of available-for-sale investment securities	32,855	36,572
Proceeds received from redemption of restricted stock	213	383
Purchases of premises and equipment	(3,806)	(3,433)
Proceeds from BOLI	-	530
Net cash used in investing activities	**(27,903)**	**(136,034)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (decrease) increase in total deposits	(26,278)	62,508
Net increase (decrease) in short-term borrowing	24,140	(2,923)
Proceeds from sale of preferred stock	-	81,440
Cash dividends paid	(251)	(227)
Payment to redeem preferred stock	-	(450)
Discount on redemption of preferred stock	-	(50)
Repurchase of common stock	(28)	(698)
Net cash (used in) provided by financing activities	**(2,417)**	**139,600**
Net increase (decrease) in cash and cash equivalents	(21,313)	6,738
Cash and cash equivalents at beginning of year	74,193	67,455
Cash and cash equivalents at end of year	**$ 52,880**	**$ 74,193**

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows (continued)

(dollars in thousands)	2023	2022
SUPPLEMENTAL DISCLOSURES OF CASH FLOW AND NONCASH INFORMATION:		
Cash paid during the year for:		
Interest on deposits and other borrowings	$ 3,679	$ 386
Income taxes	1,294	545
Noncash transactions:		
Change in unrealized gain (loss) on investment securities available-for-sale, net	$ 3,742	$ (22,265)
Transfer from loans to REO	432	-
Transfer from loans to loans held for sale	-	75
Cumulative effect adjustments due to adoption of accounting standard, net of income taxes	(325)	-

See Notes to Consolidated Financial Statements.

1. Summary Of Significant Accounting Policies

IBW Financial Corporation (the "Company") is a one bank holding company for its wholly owned subsidiary, Industrial Bank, (the "Bank"). The Bank wholly owns 96 HST LLC and One Largo LLC which hold property for Bank facilities. The accounting and reporting policies of IBW Financial Corporation and subsidiary (the "Company") conform to accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. The following summarizes the significant accounting policies.

Consolidation – The consolidated financial statements include the accounts of the Company and the Bank. All significant inter-company transactions and balances have been eliminated.

Nature of Business – The principal business of the Company is to make loans and other investments and to accept time and demand deposits. The Company's primary market areas are in the District of Columbia and surrounding areas, although the Company's business development efforts generate business outside of these areas. The Company offers a broad range of banking products, including a full line of business and personal savings and certificates of deposit, and other banking services. The Company funds a variety of loan types including commercial term loans and residential real estate loans, and lines of credit, consumer loans, and letters of credit. The Company's customers are primarily individuals and small businesses.

The Company also participates in the Community Development Financial Institutions New Markets Tax Credit ("NMTC") Program. The NMTC Program incentivizes community development and economic growth through the use of tax credits that attract private investment to distressed communities. The NMTC Program attracts private capital into low-income communities by permitting individual and corporate investors to receive a tax credit against their federal income tax in exchange for making equity investments in specialized financial intermediaries called Community Development Entities ("CDEs"). The credit usually totals 39% of the original investment amount and is claimed over a period of seven years.

Use of Estimates – The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. In addition, there are inherent risks and uncertainties related to the operation of a financial institution, such as credit and interest rate risk. The possibility exists that because of changing economic conditions, unforeseen changes could occur and have an adverse effect on the Company's financial position.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses. Management believes that the allowance for loan losses is sufficient to address the risks in the current loan portfolio. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination processes, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examinations.

Other material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the valuation of foreclosed real estate, deferred income taxes and other than temporary impairment of investment securities.

Investment Securities – The Company may segregate its investments securities into the following three categories: trading, held-to-maturity, and available-for-sale. Trading securities are purchased and held principally for the purpose

of reselling them within a short period of time. Their unrealized gains and losses are included in earnings. Securities classified as held-to-maturity are accounted for at amortized cost and require the Company to have both positive intent and ability to hold these securities to maturity. Debt securities not classified as either trading or held-to-maturity are considered to be available-for-sale. Unrealized gains and losses on available-for-sale debt securities are excluded from earnings and reported, net of deferred taxes, as accumulated other comprehensive income, a separate component of shareholders' equity. Premiums are amortized and discounts accreted using the level yield method. For callable debt securities purchased at a premium, the amortization period is shortened to the earliest call date.

Purchases and sales of securities are recorded on a trade date basis. Realized gains or losses on the sale of investment securities are reported in earnings and determined using the adjusted cost of the specific security sold. Investment in Federal Reserve Bank and Federal Home Loan Bank (FHLB) stock are considered restricted as to marketability. Because no ready market exists for these stocks, the Bank's investment is carried at cost.

On January 1, 2023, the Company adopted ASU 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASC 326). This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. In addition to the measurement of credit losses, CECL made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities if management does not intend to sell and does not believe that it is more likely than not they will be required to sell.

The Company adopted ASC 326 using the prospective transition approach for debt securities for which other-than-temporary impairment had been recognized prior to January 1, 2023. As of December 31, 2022, the Company did not have any other-than-temporarily impaired investment securities. Therefore, upon adoption of ASC 326, the Company determined that an allowance for credit losses on available-for-sale securities was not deemed material.

Equity Investments — The Company owns a mutual fund security that is considered an equity investment with readily determinable fair value and changes to fair value are recorded in other noninterest income.

The Company's investments in correspondent bank stock (FHLB) and certain other bank holding company stocks are equity investments without readily determinable fair values. Equity investments without readily determinable fair values are measured at cost, less impairment, and are adjusted for observable price changes which is recorded in noninterest income. Additionally, some equity investments are valued by Net Asset Value ("NAV"). NAV is the value of an investment entity's assets minus its liabilities divided by outstanding shares. This represents the total value of an investment entity. Investors, such as the holding company, use NAV to represent the per-share or per-unit price of certain equity investments as of a certain date or time.

The holding company purchased three equity investments without readily determinable values totaling $6,574. The investments were comprised of one State Small Business Credit Initiative ("SSBIC") investment, one Community and one Community Development Financial Institution ("CDFI") investment and one private equity investment. Two of the investments have been full funded. A funding commitment of $589 remains on one of the investments.

During 2023, the Company recorded gain of $39 and impairment of $113 during 2022 on the equity investment with readily determinable fair value. The Company recorded no gain or impairment to increase or impair the Company's investments without readily determinable fair value in 2023 or 2022.

Loans Receivable – Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts and deferred fees and costs. Accrued interest receivable related to loans totaled $2.1 million at December 31, 2023 and was reported in accrued interest receivable on the consolidated balance sheets. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using methods that approximate a level yield without anticipating prepayments.

The accrual of interest is generally discontinued when a loan becomes 90 days past due and is not well collateralized and in the process of collection, or when management believes, after considering economic and business conditions and collection efforts, that the principal or interest will not be collectible in the normal course of business. Past due status is based on contractual terms of the loan. A loan is considered to be past due when a scheduled payment has not been received 30 days after the contractual due date.

All accrued interest is reversed against interest income when a loan is placed on nonaccrual status. Interest received on such loans is accounted for using the cost-recovery method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current, there is a sustained period of repayment performance, and future payments are reasonably assured.

Purchased Credit Deteriorated ("PCD") Loans – Upon adoption of ASC 326, loans that were designated as Purchase Credit Impaired ("PCI") loans under the previous accounting guidance were classified as PCD loans without reassessment.

In future acquisitions, the Company may purchase loans, some of which have experienced more than insignificant credit deterioration since origination. In those cases, the Company will consider internal loan grades, delinquency status and other relevant factors in assessing whether purchased loans are PCD. PCD loans are recorded at the amount paid. An initial allowance for credit loss is determined using the same methodology as other loans held for investment, but with no impact to earnings. The initial allowance for credit loss determined on a collective basis is allocated to individual loans. The sum of the loan's purchase price and allowance for credit loss becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Subsequent to initial recognition, PCD loans are subject to the same interest income recognition and impairment model as non-PCD loans, with changes to the allowance for credit loss recorded through provision expense.

Allowance for Credit Losses – The allowance for credit losses ("ACL") is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Accrued interest receivable is excluded from the estimate of credit losses.

The allowance for credit losses represents management's estimate of lifetime credit losses inherent in loans as of the balance sheet date. The allowance for credit losses is estimated by management using relevant available information, from both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts.

Bank Premises and Equipment – Properties and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets. Useful lives range from three to 10 years for furniture, fixtures, and equipment; three to five years for software, hardware, and data handling

equipment; and 10 to 40 years for buildings and building improvements. Land is carried at cost and is not depreciated. Land improvements are amortized over a period of 15 years; and leasehold improvements amortized over the shorter of their estimated useful lives, or the stated duration of the lease plus the optional renewal period, if applicable. Maintenance and repairs are charged to expense as incurred, while improvements which extend the useful life are capitalized and depreciated over the estimated remaining life of the asset.

Leases - The Company adopted ASU 2016-02 effective January 1, 2019. The Company is obligated under non-cancelable operating leases for premises for certain branches, other office locations and office equipment. These leases have original terms ranging from 2 years to over 10 years and at December 31, 2023 have remaining terms of up to 9 years. Certain leases contain renewal options and escalation clauses which can increase rental expenses based principally on the consumer price index and fair market rental value provisions. Right-Of-Use Lease Assets are carried on the balance sheet, in other assets, at amortized cost and corresponding lease liabilities are carried on the balance sheet, in other liabilities, at present value of the future minimum lease payments, adjusted for any initial direct costs and incentives. All of the Company's current outstanding leases are classified as operating leases.

Valuation of long-lived assets - The Company accounts for the valuation of long-lived assets under ASC Topic 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.

Advertising Costs – Advertising costs are generally expensed as incurred. Advertising expenses totaled $64 and $106 for the years ended December 31, 2023 and 2022, respectively.

Real Estate Owned– Real estate owned (REO) represents properties acquired through foreclosures or other proceedings in satisfaction of indebtedness. At the date of acquisition such property is recorded at the fair value less estimated costs to sell. A write-down to fair value, less estimated costs to sell, at the date of acquisition is charged to the allowance for loan losses.

Expenses, and gains or losses on the disposition of real estate are reported in noninterest income. The amounts the Company will ultimately realize on disposition of these properties could differ from management's current estimates.

Transfer of Financial Assets – Transfer 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 of 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 their maturity.

Fair Value Measurements – The Company follows the guidance of ASC Topic 825, *Financial Instruments* and ASC Topic 820, *Fair Value Measurements*. ASC Topic 825 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. ASC Topic 820 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 ASC Topic 820, fair value measurements are not adjusted for transaction

costs. ASC topic 820 establishes a fair value hierarchy that prioritizes unadjusted quoted prices in active markets for identical financial assets or liabilities (Level 1 measurements) and gives the lowest priority to unobservable inputs (Level 3 measurements).

Earnings Per Share ("EPS") – Net income available to common shareholders is adjusted to give effect to dividends on preferred stock. Net income available to common shareholders for basic and diluted EPS purposes is $2,589 and $1,262 for the years ended December 31, 2023 and 2022, respectively. EPS is computed based on the weighted average number of common shares outstanding during the year (645,785 for 2023 and 2022). Basic and diluted EPS are the same, as the Company had no dilutive common stock equivalents outstanding as of December 31, 2023 or 2022 and for the years then ended.

Income Taxes – The Company and its wholly owned subsidiary file a consolidated federal income tax return. Deferred income tax assets and liabilities are computed annually for differences between financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on the enacted tax laws and rates applicable to periods in which the differences are expected to affect taxable income.
Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. Income tax expense is based upon the results of operations, adjusted for permanent differences between items of income or expense reported in the financial statements and those reported for tax purposes. The Company does not have any uncertain tax positions and did not recognize any adjustments for unrecognized tax benefits. With limited exception, the Company is no longer subject to federal income tax examination by taxing authorities for years before 2020.

Preferred Stock - During June 2022, the Company sold 81,938 shares of Series F Senior Preferred Stock. Series F is nonvoting with a liquidation value of $81,938. Dividends on the Series F Senior Preferred Stock are not cumulative, and holders of the Series F Senior Preferred Stock are entitled to receive, if and as declared by the Company, dividends at the annual rate of 1% of the purchase price per share. Dividend payments for Series F are waived for the first two years and scheduled to begin in 2024.

During August 1997, the Company issued 20,000 shares of Series A Preferred Stock. Series A was nonvoting with a liquidation value of $500. The Series A Preferred Stock was redeemed in March 2022.

During May 2021, the Company sold 8,540 shares of Series D Preferred Stock with a liquidation value of $8,540.

During September 2021, the Company sold 4,000 shares of Series E Preferred Stock with a liquidation value of $4,000.

Emergency Capital Investment Program – On December 14, 2021, the U.S. Department of the Treasury ("Treasury") informed the Company that the Treasury had reviewed the Company's application to receive a capital investment from the Treasury under the Emergency Capital Investment Program ("ECIP"), and that the Company would be eligible to receive an ECIP investment in an amount up to $81.9 million in the form of non-dilutive Tier 1 senior perpetual preferred stock. Due to accepting ECIP, the Company is required to meet certain conditions to remain eligible to hold these funds. The Company received $81,938 from the ECIP as a capital investment on June 28, 2022. Established by the Consolidated Appropriations Act, 2021, the ECIP was created to encourage Community Development Financial Institutions and Minority Depository Institutions, such as the Bank, to augment their efforts to support low-and moderate-income communities, small businesses and consumers within their communities.

Cash and Cash Equivalents – For purposes of the consolidated statements of cash flows, cash equivalents include due from banks, federal funds sold, and interest-bearing deposits with banks with original maturities of three months or less.

Short-term Investments – Short-term investments consist of interest-bearing deposits due from banks with original maturities of more than three months.

Bank owned life insurance - The Bank purchased single-premium life insurance on certain employees of the Bank. Appreciation in value of the insurance policies is classified as noninterest income.

Comprehensive income - Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet. Such items, along with net income, are components of comprehensive income.

Compensating Balances - Compensating balance arrangements exist with various correspondent banks. These noninterest-bearing deposits are maintained in lieu of cash payments for standard bank services. The required balances amounted to $250 at December 31, 2023 and 2022.

Intangible Assets - Intangible assets consist of core deposit intangibles acquired in connection with business acquisitions. The core deposit intangibles are initially recognized based on a valuation performed as of the consummation date. The core deposit intangibles are amortized over the average remaining life of the acquired customer deposits, or approximately five years, and evaluated for impairment annually.

Noninterest Income - Specific guidelines are established for recognition of certain noninterest income components related to the Company's consolidated financial statements. In accordance with Topic 606, revenues are recognized when control of promised goods or services is transferred to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the Company performs the following five steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the Company satisfies a performance obligation.

The Company only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of Topic 606, the Company assesses the goods or services that are promised within each contract and identifies those that contain performance obligations and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied. The material groups of noninterest income that this methodology is applied to are defined as follows:

Service charges on deposit accounts: Service charges on deposit accounts primarily consist of account analysis fees, monthly maintenance fees, overdraft fees, and other deposit account related fees. Overdraft fees and certain service charges are fixed and the performance obligation is typically satisfied at the time of the related transaction. The consideration for analysis fees and monthly maintenance fees are variable as the fee can be reduced if the customer meets certain qualifying metrics. The Company's performance obligations are satisfied at the time of the transaction or over the course of a month.

Other noninterest income: Other noninterest income components include debit card interchange fees and miscellaneous transactional fees. Income earned from these revenue streams is generally recognized concurrently with the satisfaction of the performance obligation.

Reclassified

Certain prior year amounts have been reclassified to conform to the current year's method of presentation. None of these reclassifications were significant.

<u>**New Accounting Pronouncements**</u> –

On January 1, 2023, the Company adopted ASU 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASC 326). This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. CECL requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities, and some off-balance sheet credit exposures such as unfunded commitments to extend credit. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses. Purchased credit deteriorated ("PCD") loans will receive an initial allowance at the acquisition date that represents an adjustment to the amortized cost basis of the loan, with no impact to earnings.

In addition, CECL made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities if management does not intend to sell and does not believe that it is more likely than not they will be required to sell.

The Company adopted ASC 326 and all related subsequent amendments thereto effective January 1, 2023, using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. The impact of the transition adjustments of the adoption of CECL included an increase or gross up in the allowance for credit losses of $815, an increase in loans which increased the allowance for credit losses $184 and an increase in tax expense which increased the allowance for credit losses $103K. The total impact to the allowance for credit losses was an increase of $1.1 million. The adoption and transition to CECL resulted in an increase of $183 on unfunded loan commitments which is recorded within Other Liabilities.

The Company recorded a net decrease to retained earnings of $325 thousand as of January 1, 2023, for the cumulative effect of adopting CECL, which reflects the transition adjustments noted above, net of the applicable deferred tax assets recorded.

Results for reporting periods beginning after January 1, 2023, are presented under CECL while prior period amounts continue to be reported in accordance with previously applicable accounting standards ("Incurred Loss").

The Company adopted ASC 326 using the prospective transition approach for debt securities for which other-than-temporary impairment had been recognized prior to January 1, 2023. As of December 31, 2022, the Company did not have any other-than-temporarily impaired investment securities. Therefore, upon adoption of ASC 326, the Company determined that an allowance for credit losses on available-for-sale securities was not deemed material.

In March 2020, the FASB issued ASU No. 2020-04 "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." These amendments provide temporary optional guidance to ease the potential burden in accounting for reference rate reform. The ASU provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference the London Interbank Offered Rate ("LIBOR") or another reference rate expected to be discontinued. It is intended to help shareholders during the global market-wide reference rate transition period. The guidance is effective for all entities as of March 12, 2020 through December 31, 2022. In December 2022, FASB issued ASU 2022-06 to defer the sunset date of ASC 848, Reference Rate Reform from December 31, 2022 to December 31, 2024. The Company does not expect these amendments to have a material effect on its financial statements.

In March 2022, the FASB issued ASU No. 2022-02 "Financial Instruments-Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures." The amendments are intended to improve the decision usefulness of information provided to investors about certain loan re-financings, restructurings and write-offs. The amendments are effective for fiscal years beginning after December 15, 2022 including interim periods within those fiscal years. The amendments did not have a material effect on the Company's financial statements.

2. Investment Securities

At December 31, 2023 and 2022, the amortized cost and fair value of investment securities available-for-sale, with gross unrealized gains and losses, are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2023:				
U.S. Treasury securities	$ 39,869	$ -	$ (2,708)	$ 37,161
U.S. Government Agencies	10,712	192	(27)	10,877
Mortgage-Backed Securities:				
Pass-through securities:				
Issued by FNMA, GNMA and FHLMC	78,187	215	(4,337)	74,065
Collateralized Mortgage Obligations:				
Collateralized by FNMA, FHLMC and GNMA mortgage-backed securities	120,104	156	(14,053)	106,207
Municipal securities	40,898	74	(5,406)	35,566
Other debt securities	3,000	-	(513)	2,487
Total available-for-sale	$ 292,770	$ 637	$ (27,044)	$ 266,363
December 31, 2022:				
U.S. Treasury securities	$ 39,806	$ -	$ (3,726)	$ 36,080
U.S. Government Agencies	19,146	132	(31)	19,247
Mortgage-Backed Securities:				
Pass-through securities:				
Issued by FNMA, GNMA and FHLMC	82,906	302	(5,020)	78,188
Collateralized Mortgage Obligations:				
Collateralized by FNMA, FHLMC and GNMA mortgage-backed securities	126,878	9	(15,405)	111,482
Municipal securities	42,009	-	(7,468)	34,541
Other debt securities	3,000	-	(398)	2,602
Total available-for-sale	$ 313,745	$ 443	$ (32,048)	$ 282,140

2. Investment Securities (continued)

Gross unrealized losses and fair value by length of time that the individual available-for-sale investment securities have been in a continuous unrealized loss position that are not deemed to be other-than-temporarily impaired at December 31, 2023 and 2022 are as follows:

	Number of Securities	Fair Value	Less than 12 Months	12 months or More	Total Unrealized Losses
December 31, 2023:					
U.S. Treasury Securities	8	$ 37,161	$ -	$ 2,708	2,708
U.S. Government Agencies	4	4,693	9	18	27
Mortgage-Backed Securities	111	159,362	131	18,259	18,390
Municipal securities	28	32,503	8	5,398	5,406
Other Debt Securities	3	2,487	-	513	513
	154	$ 236,206	$ 148	$ 26,896	$ 27,044
December 31, 2022:					
U.S. Treasury Securities	8	$ 36,080	$ 153	$ 3,573	3,726
U.S. Government Agencies	6	12,547	29	2	31
Mortgage-Backed Securities	115	178,709	3,437	16,988	20,425
Municipal securities	29	34,541	1,326	6,142	7,468
Other Debt Securities	3	2,602	-	398	398
	161	$ 264,479	$ 4,945	$ 27,103	$ 32,048

At December 31, 2023, the entire available-for-sale investment portfolio had a fair value of approximately $266,400 of which $236,200 of the securities had some unrealized losses from their purchase price. The securities representing the unrealized losses in the available-for-sale portfolio all have modest duration risk, high credit ratings, and represented 89% of the portfolio carrying value. The unrealized losses that exist are the result of market changes in interest rates since the original purchase and not credit deterioration.

The Company adopted ASC 326 using the prospective transition approach for debt securities for which other-than-temporary impairment had been recognized prior to January 1, 2023. As of December 31, 2022, the Company did not have any other-than-temporarily impaired investment securities. Therefore, upon adoption of ASC 326, the Company determined that an allowance for credit losses on available-for-sale securities was not deemed material.

2. Investment Securities (continued)

The following is a summary of the amortized cost and approximate fair value of debt and equity securities available-for-sale by contractual maturity as of December 31, 2023 and 2022. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	2023		2022	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasury securities maturing				
Due after 1 year through 5 years	$ 39,869	$ 37,161	$ 34,815	$ 31,742
Due after 5 years through 10 years	-	-	4,991	4,338
U.S. Government Agency maturing				
Due 1 year or less	2,019	2,012	8,491	8,465
Due after 1 year through 5 years	-	-	2,061	2,059
Due after 5 years through 10 years	8,207	8,372	7,871	7,996
Due after 10 years	486	493	723	727
Mortgage-backed securities maturing				
Due 1 year or less	-	-	2,808	2,766
Due after 1 year through 5 years	16,704	16,047	5,882	5,600
Due after 5 years through 10 years	24,127	22,205	27,884	24,900
Due after 10 years	157,460	142,020	173,210	156,404
Municipal securities maturing				
Due after 1 year through 5 years	4,531	4,098	1,005	994
Due after 5 years through 10 years	25,432	22,197	24,335	20,287
Due after 10 years	10,935	9,271	16,669	13,260
Other debt securities maturing				
Due after 5 years through 10 years	3,000	2,487	3,000	2,602
Total	$ 292,770	$ 266,363	$ 313,745	$ 282,140

Proceeds from the sale of securities available-for-sale were $-0- for the years ended December 31, 2023 and 2022 and resulted in gross realized gains or losses of $-0-.

Securities of $92,900 and $87,100 at December 31, 2023 and 2022, respectively, were pledged as collateral for public deposits and for other purposes required by law. At December 31, 2023 and 2022, the carrying value of securities underlying repurchase agreements were $7,500 and $8,600, respectively.

3. Loans Receivable and Allowance for Credit Losses

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts and deferred fees and costs. Accrued interest receivable related to loans totaled $2,104 at December 31, 2023 and was reported in accrued interest receivable on the consolidated balance sheets. Interest income is accrued on the unpaid principal balance.

The accrual of interest is generally discontinued when a loan becomes 90 days past due and is not well collateralized and in the process of collection, or when management believes, after considering economic and business conditions and collection efforts, that the principal or interest will not be collectible in the normal course of business. Past due status is based on contractual terms of the loan. A loan is considered to be past due when a scheduled payment has not been received 30 days after the contractual due date.

All accrued interest is reversed against interest income when a loan is placed on nonaccrual status. Interest received on such loans is accounted for using the cost-recovery method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current, there is a sustained period of repayment performance, and future payments are reasonably assured.

Allowance for Credit Losses

The allowance for credit losses represents an estimate of the expected credit losses in the Company's held for investment loan portfolio as of a valuation date. The allowance for credit losses is estimated by management using relevant available information, from both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Accounting Standards Codification ("ASC") 326 replaced the incurred loss impairment model that recognizes losses when it becomes probable that a credit loss will be incurred, with a requirement to recognize lifetime expected credit losses immediately when a financial asset is originated or purchased. The ACL is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the held for investment loan portfolio. Loans, or portions thereof, are charged off against the allowance for credit losses when they are deemed uncollectible. Expected recoveries are recorded to the extent they do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Accrued interest receivable is excluded from the estimate of credit losses.

The Company elected not to measure an allowance for credit losses for accrued interest receivable and instead elected to reverse interest income on loans or securities that are placed on nonaccrual status, which is generally when the instrument is 90 days past due, or earlier if the Company believes the collection of interest is doubtful. The Company has concluded that this policy results in the timely reversal of uncollectible interest.

3. Loans Receivable and ACL (continued)

The Company measures expected credit losses for loans on a pooled basis when similar risk characteristics exist. The Company calculates the allowance for credit losses using a non-discounted cash flow methodology. Non-discounted cash flow models, being periodic in nature, allow for effective incorporation of a reasonable and supportable forecast in a directionally consistent and objective manner. One of the primary inputs into a non-discounted cash flow model are Probability of Default ("PD"), which analyzes the financial institution’s historical loan portfolio to identify defaulted loans, and Loss Given Default ("LGD"), which is the amount of loss a bank or financial institution incurs when a borrower defaults on a loan. For PD, the pooling structure is based on a dual-cohort structure that is broken out by the Federal Financial Institutions Examination Council (FFIEC) call codes and the Company's internal risk ratings. For LGD, the pooling structure is also based on the FFIEC call codes. Given that the LGD dataset includes only defaulted loans, the data set is summarized better by a single factor of loan type/collateral composition through use of the FFIEC call codes.

The Bank currently manages its credit products and exposure to credit losses by the following segments:

Construction and land development – This category includes lending for construction and development of residential properties, multifamily, as well as for the construction of commercial properties, including faith-based properties. Construction and land development lending represents one of the highest risk categories of lending in which the Bank participates. Contractors are subject to cyclical and seasonal fluctuations and innumerable variables outside of their control. Additionally, the very nature of contracting requires the contractor to fix the price for contracted work prior to fully knowing the cost to complete the contract. Most land loans are speculative in nature and must be underwritten from a very conservative posture.

Commercial real estate loans – The Bank originates commercial real estate loans in its market area. These loans are generally larger and involve greater risks than residential real estate loans. Because payments on these loans are often dependent on the successful operation or management of the property, repayment of such loans may be subject to a greater extent to adverse conditions in the real estate market or the economy. The Bank's commercial real estate loans are typically secured by retail or wholesale establishments, service industries, faith-based properties and industrial or warehouse facilities.

Residential real estate – This category includes mortgage loans for the purchase or refinance of one-to-four-family residences. Most of the loans will be for primary residences; however, the Bank will also consider qualifying investment properties or second homes. The majority of loans are originated on properties in the Bank’s primary market area. Residential real estate loans are evaluated for the adequacy of repayment sources at the time of approval and eligibility for sale in the secondary market.

Commercial and industrial loans – This category includes secured and unsecured commercial business loans and lines of credit to businesses primarily located in its market area. The security for a business loan depends on the amount borrowed, the business involved, and the strength of the borrower. Commercial business lending entails significant risk, as the payments on such loans may depend upon successful operation or management of the business involved.

Consumer loans – This category of loans includes primarily installment loans. Consumer loans are generally originated at higher interest rates because of their higher risk. The primary considerations for consumer lending are the borrower’s continuing financial ability and the sustainability and lasting value of any collateral to support the credit.

3. Loans Receivable and ACL (continued)

Typically, financial institutions use their historical loss experience and trends in losses for each loan segment which are then adjusted for portfolio trends and economic and environmental factors in determining the allowance for credit losses. Due to the fact that limited internal loss history exists in a format to generate statistical significance, management determined it was most prudent to rely on peer data when deriving its best estimate of PD and LGD. These expected default and severity rates are regression-derived and based on peer historical loan-level performance data. As part of the Company's estimation process, management will continue to assess the reasonableness of the data, assumptions, and model methodology utilized to derive its allowance for credit losses.

For each of the modeled loan segments, the Company generates cash flow projections at the instrument level wherein payment expectations are adjusted for estimated prepayment speeds, PD rates, and LGD rates. The modeling of expected prepayment speeds is based on both peer data and internal loan-level historical data. The Company utilizes national unemployment for its reasonable and supportable forecasting of expected default within the cash flow model. To further adjust the allowance for credit losses for expected losses not already within the quantitative component of the calculation, the Company may consider qualitative factors as prescribed in ASC 326. These qualitative adjustments may increase or reduce reserve levels and include adjustments for lending management experience and risk tolerance, loan review and audit results, asset quality and portfolio trends, loan portfolio growth, industry concentrations, trends in underlying collateral, external factors and economic conditions not already captured.

The Company's methodology utilized in the estimation of the allowance for credit losses, which is performed at least quarterly, is designed to be dynamic and responsive to changes in its loan portfolio credit quality, composition, and forecasted economic conditions. Information is provided to the Board of Directors on a quarterly basis along with the Company's consolidated financial statements.

Accounting for Individually Assessed Loans

Loans that do not share risk characteristics are evaluated on an individual basis via an impairment analysis. For collateral dependent financial assets where the Company has determined that foreclosure of the collateral is probable, or where the borrower is experiencing financial difficulty and the Company expects repayment of the financial asset to be provided substantially through the sale of the collateral, the ACL is measured based on the difference between the fair value of the collateral and the amortized cost basis of the asset as of the measurement date. When repayment is expected to be from the operation of the collateral, expected credit losses are calculated as the amount by which the amortized cost basis of the

financial asset exceeds the net present value ("NPV") from the operation of the collateral. When repayment is expected to be from the sale of the collateral, expected credit losses are calculated as the amount by which the amortized cost basis of the financial asset exceeds the fair value of the underlying collateral less estimated cost to sell. The ACL may be zero if the fair value of the collateral at the measurement date exceeds the amortized cost basis of the financial asset.

3. Loans Receivable and ACL (continued)

Modified Loans

ASU 2022-22 Financial Instruments – Credit Losses (Topic 326) Troubled Debt Restructurings and Vintage Disclosures eliminated the concept of troubled debt restructurings (“TDRs”) ASU 2022-02 requires additional disclosures for certain loan modifications and disclosures of gross charge-offs by year of origination. Specifically, loan modification disclosures in periods subsequent to the adoption of ASC 326 must be made for modifications of existing loans to borrowers who were experiencing financial difficulties at the time of the modification. The modification type must include a direct change in the timing or amount of a loan’s contractual cash flows. The additional disclosures are applicable to situations where there is: principal forgiveness, an interest rate reduction, an other-than-insignificant payment delay, a term extension, or any combination thereof.

Allowance for Credit Losses – Unfunded Commitments

Financial instruments include off-balance sheet credit instruments such as commitments to make loans and commercial letters of credit issued to meet customer financing needs. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for off-balance sheet loan commitments is represented by the contractual amount of those instruments. Such financial instruments are recorded when they are funded. The Company records a reserve for unfunded commitments on off-balance sheet credit exposures through a charge to provision for credit loss expense in its Consolidated Statements of Income. The reserve for unfunded commitments is estimated by call report code segmentation as of the valuation date under the CECL model using the same methodologies as portfolio loans taking utilization rates into consideration. The reserve for unfunded commitments is reflected as a liability on the Company's Consolidated Balance Sheets.

The Company records an allowance for credit losses on off-balance sheet credit exposures, unless the commitments to extend credit are unconditionally cancelable, through a charge to provision for unfunded commitments in the Company’s Consolidated Statements of Income. The allowance for credit losses on off-balance sheet credit exposures is estimated by loan segment at each balance sheet date under the current expected credit loss model using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur as well as any third-party guarantees. The allowance for unfunded commitments is included in other liabilities on the Company’s consolidated Balance Sheets.

3. Loans Receivable and ACL (continued)

The following is a summary of loan balances by type:

	December 31, 2023
	Total
Construction and land development	$ 53,255
Real estate mortgage:	
Commercial properties	193,079
Residential properties	81,896
Total real estate mortgage	328,230
Commercial and industrial	46,540
Consumer	982
Total gross loans	375,752
Less unearned income and deferred fees, net	(1,459)
Loans, net	374,293
Allowance for loan/lease losses	(8,666)
Loans, net of allowance	$ 365,627

	December 31, 2022		
	Originated	Acquired	Total
Construction and land development	$ 38,789	$ -	$ 38,789
Real estate mortgage:			
Commercial properties	155,670	16,767	172,437
Residential properties	80,028	4,431	84,459
Total real estate mortgage	274,487	21,198	295,685
Commercial and industrial	45,563	1,385	46,948
Consumer	1,265	28	1,293
Total gross loans	321,315	22,611	343,926
Less unearned income and deferred fees, net	(1,355)	-	(1,355)
Loans, net	319,960	22,611	342,571
Allowance for loan/lease losses	(6,238)	(349)	(6,587)
Loans, net of allowance	$ 313,722	$ 22,262	$ 335,984

3. Loans Receivable and ACL (continued)

Major loan concentrations are as follows:

	2023	2022		
	Total	Originated	Acquired	Total
Religious organization loans collateralized by real estate	$ 76,688	$ 49,342	$ 20,289	$ 69,631
Commercial loans to religious organizations	214	39	224	263
Total loans to religious organizations	$ 76,902	$ 49,381	$ 20,513	$ 69,894

Substantially all of the Bank's originated loans have been made to borrowers within the Washington, DC metropolitan, New Jersey and New York areas. Accordingly, the ability of the Bank's borrowers to repay their loans is dependent upon the economy in the Washington, DC metropolitan, New Jersey and New York areas. The acquired loans were primarily made to borrowers in the New Jersey and New York City region. Accordingly, the ability of the Bank's acquired borrowers to repay their loans is dependent upon the economy in the New Jersey / New York metropolitan area.

The following table presents changes in the carrying value of PCI Loans:

	December 31, 2022
Balance at beginning of period	$ 23,395
Change due to payments received and accretion	(5,992)
Other	484
Balance at end of period	$ 17,887

The following table presents changes for the year ended December 31, 2022 in the accretable yield on purchased credit impaired loans for which the Company applied ASC 310-30.

Accretable yield at beginning of period, January 1	$ 5,320
Accretion	(1,765)
Reclassification of nonaccretable difference due to improvement in expected cash flows	581
Other changes, net	239
Accretable yield at end of period, December 31, 2022	$ 4,375

3. Loans Receivable and ACL (continued)

The following table represents by class of loan, an analysis of past-due loans as of December 31, 2023:

December 31, 2023	30-59 Days Past Due	60-89 Days Past Due	Loans 90 Days or More Past Due & Still Accruing	90 Days or More Past Due	Current Loans	Total Loans
Construction and land development	$ 1,535	$ -	$ 2,112	$ -	$ 49,608	$ 53,255
Commercial real estate	4,895	435	4,799	3,619	179,331	193,079
Residential real estate	1,790	835	622	1,809	76,840	81,896
Commercial and industrial	-	408	300	2,660	43,172	46,540
Consumer	-	-	-	-	982	982
Total	$ 8,220	$ 1,678	$ 7,833	$ 8,088	$ 349,933	$ 375,752

The following table represents by class of loan, an analysis of past-due loans as of December 31, 2022:

Originated Loan Portfolio	30-59 Days Past Due	60-89 Days Past Due	Loans 90 Days or More Past Due & Still Accruing	90 Days or More Past Due	Current Loans	Total Loans
December 31, 2022						
Construction and land development	$ 3,341	$ 5,321	$ -	$ 819	$ 29,308	$ 38,789
Commercial real estate	798	5,503	1,184	739	147,446	155,670
Residential real estate	2,747	-	19	3,488	73,774	80,028
Commercial and industrial	117	747	678	347	43,674	45,563
Consumer	-	16	9	-	1,240	1,265
Total	$ 7,003	$ 11,587	$ 1,890	$ 5,393	$ 295,442	$ 321,315

Aquired Loan Portfolio	30-59 Days Past Due	60-89 Days Past Due	Loans 90 Days or More Past Due & Still Accruing	90 Days or More Past Due	Current Loans	Total Loans
December 31, 2022						
Commercial real estate	$ -	$ 585	$ 2,226	$ -	$ 13,956	$ 16,767
Residential real estate	1,641	-	110	-	2,680	4,431
Commercial and industrial	-	-	255	-	1,130	1,385
Consumer	24	-	-	-	4	28
Total	$ 1,665	$ 585	$ 2,591	$ -	$ 17,770	$ 22,611

3. Loans Receivable and ACL (continued)

Credit quality indicators as of December 31, 2023 and 2022 are as follows:

Internally assigned grade:

Pass – loans in this category have strong asset quality and liquidity along with a multi-year track record of profitability.

Pass-Watch - loans in this category have strong asset quality and liquidity along with a multi-year track record of profitability but there is also a greater than normal concern that an external factor may impact the viability of the borrower at some later date; or that there is uncertainty because of the lack of financial information available.

Special mention – loans in this category are currently protected but are potentially weak. The credit risk may be relatively minor yet constitute an increased risk considering the circumstances surrounding a specific loan.

Substandard – loans in this category show signs of continuing negative financial trends and unprofitability and therefore, are inadequately protected by the current soundness and paying capacity of the obligor or of the collateral pledged, if any.

Doubtful – loans in this category are illiquid and highly leveraged, have negative net worth, cash flow, and trending serious losses. The possibility of loss is extremely high; however, because of certain important and reasonably specific pending factors which may work to the advantage and strengthening of the asset, its classification as loss is deferred until a more exact status may be determined.

The following table presents the Company's recorded investment in loans by credit quality indicators by year of origination as of December 31, 2023:

	Term Loans by Year of Origination							Revolving Converted	
	2023	2022	2021	2020	2019	Prior	Revolving	to Term	Total
Construction and land development									
Pass	$ 1,862	$ -	$ -	$ -	$ -	$ 165	$ -	$ -	$ 2,027
Pass-Watch	23,941	12,180	5,544	-	-	-	3,246	2,899	47,810
Special Mention	-	-	-	1,353	-	-	-	-	1,353
Substandard	-	-	-	-	-	724	-	-	724
Doubtful	-	-	-	-	-	-	-	-	-
Construction and land development	25,803	12,180	5,544	1,353	-	889	3,246	2,899	51,914
Unearned income and deferred fees	-	-	-	-	-	1,341	-	-	1,341
Total Construction and land development	$25,803	$12,180	$ 5,544	$ 1,353	$ -	$ 2,230	$ 3,246	$ 2,899	$ 53,255
Current period gross write-offs	-	-	-	-	-	-	-	-	-
Commercial real estate									
Pass	$ 1,371	$ 1,989	$ 4,421	$ 1,355	$ 1,384	$ 22,655	$ -	$ -	$ 33,175
Pass-Watch	42,742	27,074	7,577	4,503	3,499	56,059	1,651	-	143,105
Special Mention	2,630	423	-	560	-	3,609	-	-	7,222
Substandard	-	-	479	-	-	11,720	-	-	12,199
Doubtful	-	-	-	-	-	-	-	-	-
Commercial real estate	46,743	29,486	12,477	6,418	4,883	94,043	1,651	-	195,701
Unearned income and deferred fees	-	-	-	-	-	(2,622)	-	-	(2,622)
Total Commercial real estate	$46,743	$29,486	$12,477	$ 6,418	$ 4,883	$ 91,421	$ 1,651	$ -	$ 193,079
Current period gross write-offs	-	-	-	-	-	(1,016)	-	-	(1,016)
Residential real estate									
Pass	$ -	$ 2,311	$11,700	$13,082	$ 4,259	$ 34,698	$ -	$ -	$ 66,050
Pass-Watch	3,776	777	1,212	581	2,175	4,420	683	-	13,624
Special Mention	-	-	-	-	533	-	-	-	533
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Residential real estate	3,776	3,088	12,912	13,663	6,967	39,118	683	-	80,207
Unearned income and deferred fees	-	-	-	-	-	1,689	-	-	1,689
Total Residential real estate	$ 3,776	$ 3,088	$12,912	$13,663	$ 6,967	$ 40,807	$ 683	$ -	$ 81,896
Current period gross write-offs	-	-	-	-	-	(1)	-	-	(1)
Commercial and Industrial									
Pass	$ 470	$ 4,811	$ 25	$ 628	$ -	$ 2,873	$ 121	$ 5,747	$ 14,675
Pass-Watch	7,466	1,255	724	148	307	403	14,339	-	24,642
Special Mention	-	-	509	-	-	-	-	-	509
Substandard	-	-	-	-	660	2,678	-	2,006	5,344
Doubtful	-	-	-	-	-	-	92	-	92
Commercial and Industrial	7,936	6,066	1,258	776	967	5,954	14,552	7,753	45,262
Unearned income and deferred fees	-	-	-	-	-	1,278	-	-	1,278
Total Commercial and Industrial	$ 7,936	$ 6,066	$ 1,258	$ 776	$ 967	$ 7,232	$ 14,552	$ 7,753	$ 46,540
Current period gross write-offs	-	-	-	-	-	(1)	-	-	(1)
Consumer									
Pass	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Pass-Watch	-	-	-	-	1	510	565	82	1,158
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	51	-	-	51
Doubtful	-	-	-	-	-	-	-	-	-
Consumer	-	-	-	-	1	561	565	82	1,209
Unearned income and deferred fees	-	-	-	-	-	(227)	-	-	(227)
Total Consumer	$ -	$ -	$ -	$ -	$ 1	$ 334	$ 565	$ 82	$ 982
Current period gross write-offs	-	-	-	-	-	(307)	-	-	(307)
Total	**$84,258**	**$50,820**	**$32,191**	**$22,210**	**$12,818**	**$142,024**	**$ 20,697**	**$ 10,734**	**$ 375,752**

3. Loans Receivable and ACL (continued)

Loan portfolio credit exposure - Credit risk profile by internally assigned grade:

Originated Loan Portfolio	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
December 31, 2022						
Pass	$ 37,970	$ 135,231	$ 79,204	$ 43,022	$ 1,196	$ 296,623
Special Mention	-	14,014	559	-	-	14,573
Substandard	819	6,425	265	2,541	69	10,119
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$ 38,789	$ 155,670	$ 80,028	$ 45,563	$ 1,265	$ 321,315

Acquired Loan Portfolio	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
December 31, 2022						
Pass	$ -	$ 13,363	$ 4,267	$ 1,130	$ 28	$ 18,788
Special Mention	-	3,404	163	255	-	3,822
Substandard	-	-	-	-	-	-
Doubtful	-	-	1	-	-	1
Loss	-	-	-	-	-	-
Total	$ -	$ 16,767	$ 4,431	$ 1,385	$ 28	$ 22,611

The following table is a summary of the Company's nonaccrual loans for the periods indicated:

	CECL			Incurred Loss
	December 31, 2023			December 31, 2022
	Nonaccrual Loans with No Allowance	Nonaccrual Loans with an Allowance	Total Nonaccrual Loans	Nonaccrual Loans
December 31, 2022				
Construction and land development	$ -	$ -	$ -	$ 819
Commercial real estate	5,053	360	5,413	3,899
Residential real estate	1,729	642	2,371	3,787
Commercial and industrial	1,818	842	2,660	1,094
Consumer	-	-	-	9
Total	$ 8,600	$ 1,844	$ 10,444	$ 9,608

The Company recognized $11 of interest income on nonaccrual loans during the year ended December 31, 2023.

3. Loans Receivable and ACL (continued)

The following table represents the accrued interest receivables written off by reversing interest income during the year ended December 31, 2023:

Construction and land development	$	-
Commercial real estate		62
Residential real estate		36
Commercial and industrial		431
Consumer		-
Total	$	529

The Company has certain loans for which repayment is dependent upon the operation or sale of collateral, as the borrower is experiencing financial difficulty. The underlying collateral can vary based upon the type of loan. The following provides more detail about the types of collateral that secure collateral-dependent loans:

- The Company's construction and land development loans are usually secured by real property where the loan funds will be used to acquire land and to construct or improve appropriately zoned real property for the creation of income producing or owner-occupied commercial properties. Borrowers are generally required to put equity into the project at levels determined by the loan committee and usually are underwritten with a maximum term of 24 months.
- Commercial real estate loans are secured by improved real property which is generating income in the normal course of business. Debt service coverage, assuming stabilized occupancy, must be satisfied to support a permanent loan. The debt service coverage ratio is ordinarily at 1.20 to 1.00. These loans are generally underwritten with a term not greater than 10 years or the remaining useful life of the property, whichever is lower. The preferred term is between 5 to 7 years, with amortization to a maximum of 25 years.
- Residential real estate loans are secured by the improved real property (normally the primary or secondary residence) of the borrower and are usually underwritten with a term of 1 to 5 years but may be underwritten with terms up to 30 years.
- The Company also makes commercial and industrial loans for a variety of purposes, which include working capital, equipment, and accounts receivable financing. These loans are generally secured by inventory, improved real estate, other fixed assets or by an external guarantee such as the SBA.
- Consumer loans are generally secured by personal property. Some consumer loans are unsecured and have no underlying collateral.

The following table details the amortized cost of collateral dependent loans:

	December 31, 2023	
Construction and land development	$	724
Commercial real estate		11,742
Residential real estate		2,294
Commercial and industrial		5,436
Consumer		-
Total	$	20,196

3. Loans Receivable and ACL (continued)

The following table summarizes the activity related to the allowance for credit losses for the year ended December 31, 2023 under the CECL methodology:

	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
Balance, December 31, 2022	$ 466	$ 2,127	$ 1,619	$ 2,199	$ 176	$ 6,587
Adjustment to allowance for adoption of ASU 2016-13	369	190	(1,311)	1,817	(66)	999
Loans charged off	-	(1,016)	(1)	(3,183)	(307)	(4,507)
Recoveries	-	1	49	27	334	411
Provision for credit losses	1,239	1,930	531	1,596	(120)	5,176
Balance, December 31, 2023	$ 2,074	$ 3,232	$ 887	$ 2,456	$ 17	$ 8,666

Prior to the adoption of ASC 326 on January 1, 2023, the Company calculated the allowance for loan losses under the incurred loss methodology. The following tables are disclosures related to the allowance for loan losses in prior periods.

	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
Balance, beginning of year 2022	$ 464	$ 2,239	$ 2,037	$ 1,006	$ 133	$ 5,879
Provision for loan losses	2	(176)	(414)	1,201	363	976
Loans charged off	-	-	(8)	(40)	(802)	(850)
Recoveries	-	64	4	32	482	582
Balance, end of year 2022	$ 466	$ 2,127	$ 1,619	$ 2,199	$ 176	$ 6,587
Ending balance:						
Individually evaluated for impairment	$ -	$ 1,483	$ 643	$ -	$ -	$ 2,126
Purchase credit impaired loans	-	172	1	176	-	349
Collectively evaluated for impairment	466	472	975	2,023	176	4,112
Total	$ 466	$ 2,127	$ 1,619	$ 2,199	$ 176	$ 6,587
Loans:						
Individually evaluated for impairment	$ -	$ 8,677	$ 5,809	$ -	$ 69	$ 14,555
Purchase credit impaired loans	-	13,755	3,585	869	27	18,236
Collectively evaluated for impairment	38,789	150,005	75,065	46,079	1,197	311,135
Total	$ 38,789	$ 172,437	$ 84,459	$ 46,948	$ 1,293	$ 343,926

3. Loans Receivable and ACL (continued)

Prior to the adoption of ASU 2016-13, loans were considered impaired when, based on current information and events, it was probable the Company would be unable to collect all amounts due in accordance with the original contractual terms of the loan agreements. Impaired loans include loans on nonaccrual status and accruing troubled debt restructurings. When determining if the Company would be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement, the Company considered the borrower's capacity to pay, which included such factors as the borrower's current financial statements, an analysis of global cash flow sufficient to pay all debt obligations and an evaluation of secondary sources of repayment, such as guarantor support and collateral value. The tables below include all loans deemed impaired, whether or not individually assessed for impairment. If a loan was deemed impaired, a specific valuation allowance was allocated, if necessary, so that the loan was reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment was expected solely from the collateral. Interest payments on impaired loans were typically applied to principal unless collectability of the principal amount was reasonably assured, in which case interest was recognized on a cash basis.

Information on impaired loans for the years ended December 31, 2022 is as follows:

	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2022							
Commercial real estate	$ 5,414	$ 6,630	$ 102	$ 6,732	$ 1,483	$ 5,850	$ 55
Residential real estate	5,853	4,547	1,262	5,809	643	6,044	121
Commercial and industrial	4,393	-	1,945	1,945	-	4,545	239
Consumer	69	69	-	69	-	-	-
Total	$ 15,729	$ 11,246	$ 3,309	$ 14,555	$ 2,126	$ 16,439	$ 415

3. Loans Receivable and ACL (continued)

The allowance for credit losses incorporates an estimate of lifetime expected credit losses and is recorded on each asset upon asset origination or acquisition. The starting point for the estimate of the allowance for credit losses is historical loss information, which includes losses from modifications of receivables to borrowers experiencing financial difficulty. The Company uses a probability of default/loss given default model to determine the allowance for credit losses.

Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses because of the measurement methodologies used to estimate the allowance, a change to the allowance for credit losses is generally not recorded upon modification. Occasionally, the Company modifies loans by providing principal forgiveness on certain of its real estate loans. When principal forgiveness is provided, the amortized cost basis of the asset is written off against the allowance for credit losses. The amount of the principal forgiveness is deemed to be uncollectible; therefore, that portion of the loan is written off, resulting in a reduction of the amortized cost basis and a corresponding adjustment to the allowance for credit losses.

In some cases, the Company will modify a certain loan by providing multiple types of concessions. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted. For the real estate loans included in the "combination" columns below, multiple types of modifications have been made on the same loan within the current reporting period. The combination is at least two of the following: a term extension, principal forgiveness, and interest rate reduction.

The following table shows the amortized cost basis as of December 31, 2023 of the loans modified to borrowers experiencing financial difficulty, disaggregated by class of loans and type of concession granted and describes the financial effect of the modifications made to borrowers experiencing financial difficulty:

	Payment Deferral		
	Amortized Cost Basis	% of Total Loan Type	Financial Effect
Construction and land development	$ -	-	
Commercial real estate	3,160	1.64%	Granted a one year payment change to interest only. The deferred principal payments will increase the balloon payment due at maturity per original terms.
Residential real estate	-	-	
Commercial and industrial	-	-	
Consumer	-	-	
Total	$ 3,160		

The Company committed to lend additional amounts totaling $-0- to the borrower included in the previous table.

Upon the Company's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

The was no default in the last 12 months by the borrower whose loan was modified due to experiencing financial difficulty.

3. Loans Receivable and ACL (continued)

The Company closely monitors the performance of the loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table depicts the performance of loans that have been modified in the last 12 months:

	Payment Status (Amortized Cost Basis)		
	Current	30-89 Days Past Due	90+ Days Past Due
Construction and land development	$ -	-	-
Commercial real estate	3,160	-	-
Residential real estate	-	-	-
Commercial and industrial	-	-	-
Consumer	-	-	-
Total	$ 3,160	-	-

The Company maintains a separate reserve for credit losses on off-balance-sheet credit exposures, including unfunded loan commitments, which is included in other liabilities on the consolidated balance sheet. The reserve for credit losses on off-balance-sheet credit exposures is adjusted as a provision for credit losses in the income statement. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life, utilizing the same models and approaches for the Company's other loan portfolio segments described above, as these unfunded commitments share similar risk characteristics as its loan portfolio segments. The Company has identified the unfunded portion of certain lines of credit as unconditionally cancellable credit exposures, meaning the Company can cancel the unfunded commitment at any time. No credit loss estimate is reported for off-balance-sheet credit exposures that are unconditionally cancellable by the Company or for undrawn amounts under such arrangements that may be drawn prior to the cancellation of the arrangement.

On January 1, 2023, the Company recorded an adjustment for unfunded commitments of $183 for the adoption of ASC Topic 326. At December 31, 2023, the liability for credit losses on off-balance-sheet credit exposures included in other liabilities was $183.

3. Loans Receivable and ACL (continued)

The following table presents information on troubled debt restructurings modified during and for the year ended December 31, 2022:

	Number of Loans	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
December 31, 2022	2	$ 2,152	$ 2,152

There were no troubled debt restructurings which have re-defaulted (defined as past due 90 days) during the year ended December 31, 2022 that were restructured within the twelve months prior to such re-default.

Modifications consisted of two commercial real estate loans and one residential loan for the year ended December 31, 2022.

Troubled debt restructuring modifications during the year ended December 31, 2022 consisted of reductions in principal, changes in interest rates and maturity extensions. Troubled debt restructurings are considered as part of the qualitative and quantitative analysis in the determining the adequacy of the allowance for loan losses.

Performing TDRs were in compliance with their modified terms and there were no further commitments associated with these loans.

4. Premises and Equipment

The major categories of premises and equipment are as follows:

	2023	2022
Land	$ 2,247	$ 2,050
Bank premises	14,114	11,031
Furniture, fixtures and equipment	11,223	10,870
Leasehold improvements	2,032	1,051
Construction in process	5,097	5,905
Total	34,713	30,907
Accumulated depreciation and amortization	(14,296)	(13,604)
Premises and equipment, net	$ 20,417	$ 17,303

Construction in process contains all expenses incurred on various assets until they are converted into working condition. The construction in process account primarily contained expenses related to building renovations. The properties are owned by the Bank.

Depreciation expense for the years ended December 31, 2023 and 2022 was $692 and $603, respectively.

5. Intangible Assets

Acquired intangible assets from the CNB transaction consisted of a core deposit intangible with a gross carrying amount of $610 on November 1, 2019. Accumulated amortization was $602 at December 31, 2023 for a net carrying amount of $8. Amortization expense for the year ended December 31, 2023 and 2022 was $57 and $112, respectively. Amortization expense is expected to be approximately $8 through 2024.

6. Deposits

At December 31, 2023 and 2022, certificates of deposit of $250 or more totaled $27,218 and $17,532, respectively. These deposit totals do not include certificates of deposit held through the Certificate of Deposit Account Registry Service (CDARS) program which holds reciprocal balances at less than $250. At December 31, 2023 and 2022, the Bank held certificates of deposit through the CDARS program which totaled $41,124 and $22,706, respectively. At December 31, 2023, the scheduled maturities of certificates of deposits are as follows:

2024	$ 72,370
2025	21,361
2026	1,021
2027	319
2028 and thereafter	291
	$ 95,362

Deposit overdrafts totaling $259 at December 31, 2023 and $123 at December 31, 2022 were reclassed to the appropriate loan classification on the balance sheet.

The Bank has a relationship with one state agency which holds deposits totaling 7.4% of total deposits. The relationship has been with the Bank since March 1990. The deposits are primarily secured by treasury and/or agency bonds.

7. Short-Term Borrowing

The following table summarizes information for short-term borrowings for the years ended December 31:

	2023		2022	
	Amount	**Rate**	**Amount**	**Rate**
At year end:				
Federal Home Loan Bank advances	$ 25,000	5.57%	$ -	
Retail repurchase agreements	3,400	0.05%	4,260	0.05%
Total	$ 28,400		$ 4,260	
Average for the year:				
Federal Home Loan Bank advances	$ 2,083	0.69%	$ -	
Retail repurchase agreements	4,231	0.05%	6,682	0.05%
Total	$ 6,314		$ 6,682	
Maximum month end balance:				
Federal Home Loan Bank advances	$ 25,000		$ -	
Retail repurchase agreements	5,717		8,759	
Total	$ 30,717		$ 8,759	

Securities sold under agreements to repurchase are securities sold to customers, at the customers' request, under a "roll-over" contract that matures in one business day. The underlying securities sold are Government agency securities which are segregated in the Bank's custodial accounts from other investment securities.

The Bank periodically borrows under a secured line of credit from the Federal Home Loan Bank of Atlanta to meet short-term liquidity needs. At December 31, 2023 and 2022, advances totaled $25,000 and $-0-, respectively, from the Federal Home Loan Bank of Atlanta and were secured by a blanket lien on the Bank's qualifying commercial and residential mortgages and investment securities. The Bank's only FHLB advance during 2023 and shown at December 31, 2023 was drawn under FHLB's Daily Rate Credit ("DRC") Program. The DRC permits the Bank to borrow on a revolving daily basis with a maturity date of December 31, 2024. The Bank repaid the $25,000 advance on January 2, 2024.

The total credit available to the Bank at December 31, 2023 and 2022 was $184,000 and $172,000 respectively, based on qualifying collateral of $98,000 and $86,000, respectively. The Bank normally borrows in short term increments of 90 days or less maturities at fixed rates; however, varied rates and term products are available to the Bank.

The Bank also had an unsecured line of credit of $3,000 with a correspondent available for overnight borrowing during 2023 and 2022. The $3,000 line was not drawn during 2023 and drawn for one day to test during 2022. There was $-0-outstanding on the line of credit at December 31, 2023 or December 31, 2022.

8. Leases

Substantially all of the leases in which the Company is the lessee are comprised of real estate property for branches, office locations and office equipment rentals with terms extending through July 2031. All of the Company's leases are classified as operating leases.

The following table provides information with respect to the Company's operating leases:

	2023	2022
Operating lease cost	$ 683	$ 671
Short-term lease cost	146	165
Total lease cost	$ 829	$ 836
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from leases	$ 864	$ 845
Weighted-average remaining lease term in years	6	6
Weighted-average discount rate	1.95%	1.96%

Net gains recognized from sale and leaseback transactions amounted to $-0- for the years ending December 31, 2023 and 2022.

The following table presents the unamortized balance of the Company's ROU assets and lease liabilities on the consolidated financial statements at December 31, 2023 and 2022:

	2023	2022
Total operating lease right-of-use assets	$ 2,880	$ 3,563
Total operating lease liabilities	$ 2,947	$ 3,616

ROU assets are held in other assets and ROU liabilities are held in accounts payable and accrued expenses on the balance sheet.

At December 31, 2023, maturities of lease liabilities were as follows:

	Operating Leases
2024	$ 755
2025	522
2026	499
2027	392
2028	328
Years thereafter	635
Total future minimum lease payments	$ 3,131
Amounts representing interest	(184)
Total operating lease liabilities	$ 2,947

9. Regulatory Matters

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

In August 2018, the Federal Reserve updated the Small Bank Holding Company Policy Statement (the "Statement"), in compliance with the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 ("EGRRCPA"). The Statement, among other things, exempts bank holding companies with consolidated total assets of less than $3 billion from being subject to regulatory capital requirements on a consolidated basis.

The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (the Basel III rules) became effective for the Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. As a part of the new requirements, the Common Equity Tier 1 Capital ratio is calculated and utilized in the assessment of capital for all institutions. The Company has made an election to not have the net unrealized gain or loss on available-for-sale securities included in computing regulatory capital. Under the Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. Management believes as of December 31, 2023 and 2022, the Bank meets all capital adequacy requirement to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2023 and 2022, the most recent regulatory notification categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

	Actual		Minimum Required for Capital Adequacy Purposes		To be Categorized as Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2023:						
Total capital (to risk-weighted assets)	$ 124,757	28.60%	$ 45,799	10.50%	$ 43,618	10.00%
Tier 1 capital (to risk-weighted assets)	119,265	27.34%	37,075	8.50%	34,894	8.00%
CET1 (to risk-weighted assets)	119,265	27.34%	30,533	7.00%	28,352	6.50%
Tier 1 capital (to average assets)	119,265	15.92%	48,699	6.50%	37,461	5.00%
As of December 31, 2022:						
Total capital (to risk-weighted assets)	$ 122,387	30.80%	$ 41,719	10.50%	$ 39,732	10.00%
Tier 1 capital (to risk-weighted assets)	117,400	29.55%	33,772	8.50%	31,786	8.00%
CET1 (to risk-weighted assets)	117,400	29.55%	27,812	7.00%	25,826	6.50%
Tier 1 capital (to average assets)	117,400	16.13%	47,298	6.50%	36,383	5.00%

10. Income Taxes

The provision for income taxes consists of the following for the years ended December 31:

	2023	2022
Current income tax expense		
Federal	$ 921	$ 750
State	429	329
Total current income tax expense	1,350	1,079
Deferred income tax benefit:		
Federal income tax	$ (224)	$ (527)
State income tax	(71)	(160)
Total deferred income tax expense	(295)	(687)
Total income tax expense	$ 1,055	$ 392

The components of the deferred tax benefit resulting from net temporary differences are as follows for the years ended December 31:

	2023	2022
Income before taxes	$ 3,769	$ 1,774
Federal income tax rate	21%	21%
Tax expense at statutory rate	791	373
Differences resulting from:		
State tax expense, net of federal	228	100
Bank owned life insurance	(49)	(48)
Tax-exempt interest	(35)	(30)
Nondeductible expenses	11	2
Other	109	(5)
Provision for income taxes	$ 1,055	$ 392

The major components of deferred tax assets and (liabilities) are summarized at December 31, 2023 and 2022, as follows:

	2023	2022
Accrued bonus and retirement benefits	$ 167	$ 135
Acquisition accounting adjustments	(5)	230
Allowance for loan losses	2,375	1,716
Deferred loan costs	791	751
Depreciation	(635)	(552)
Impairment of equity securities	34	34
Lease liability	808	993
Nonaccrual interest income	283	299
Right-of-use asset	(789)	(978)
Unrealized losses on AFS securities	7,394	8,849
Unrealized losses on equity securities	37	40
Net deferred tax asset	$ 10,460	$ 11,517

11. Profit Sharing Plan

The Company has a profit sharing plan, qualifying under Section 401(k) of the Internal Revenue Code, for those employees who meet the eligibility requirements set forth in the plan. The plan does not require the Company to match the participants' contributions. The Company contributions to the plan were $349 for the year 2023 and $301 for year 2022.

12. Employee Stock Ownership Plan

In 1986, the Bank implemented an Employee Stock Ownership Plan ("ESOP") that covered substantially all full-time employees. No contributions were made in 2023 or 2022. Shares held by the ESOP participants totaled 10,752 or 1.7% and 11,375 or 1.8% of the Company's stock at December 31, 2022 and 2021, respectively.

13. Commitments and Contingencies

In the normal course of business, there are outstanding various commitments and contingent liabilities, such as commitments to extend credit, which are not shown in the accompanying consolidated financial statements (dollars in thousands). The Company does not anticipate any material losses as a result of these transactions. At December 31, 2023 and 2022 the Bank had commitments to fund loans outstanding for approximately $38,113 and $39,972, respectively. The Bank also had standby letters of credit outstanding at December 31, 2023 and 2022 in the amount of $527 and $924 respectively. Such commitments and standby letters of credit are subject to the Bank's normal underwriting standards. Since many of the commitments are expected to expire without being completely drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

14. Fair Value Measurements and Estimated Fair Value of Financial Instruments

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

FASB ASC Topic 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC Topic 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Company utilizes fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Securities available for sale and loans held for sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as impaired loans and REO. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Under FASB ASC Topic 820, the Company groups assets and liabilities 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 the fair value.

These hierarchy levels are:

Level 1 Valuation for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for Market transactions involving identical assets or liabilities.

Level 2 Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities which use observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active 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 assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

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 FASB ASC Topic 820, 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. Level 3 is for positions that are not traded in actual 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, management's best estimate is used.

14. Fair Value Measurements and Estimated Fair Value of Financial Instruments (continued)

The following table sets forth assets of the Company for which fair values are determined on a recurring basis as of December 31, 2023 and 2022:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
December 31, 2023				
Assets:				
Investments securities available-for-sale :				
U.S. Treasury Securities	$ 37,161	$ -	$ -	$ 37,161
U.S. Government Agency	-	10,877	-	10,877
Mortgage-Backed Securities	-	74,065	-	74,065
Collateralized Mortgage Obligations	-	106,207	-	106,207
Municipal securities	-	35,566	-	35,566
Other debt securities	-	-	2,487	2,487
Total	$ 37,161	$ 226,715	$ 2,487	$ 266,363
Equity investments with readily determinable fair value	$ -	$ 864	$ -	$ 864
December 31, 2022				
Assets:				
Investments securities available-for-sale :				
U.S. Treasury Securities	$ 36,080	$ -	$ -	$ 36,080
U.S. Government Agency	-	19,247	-	19,247
Mortgage-Backed Securities	-	78,188	-	78,188
Collateralized Mortgage Obligations	-	111,482	-	111,482
Municipal securities	-	34,541	-	34,541
Other debt securities	-	-	2,602	2,602
Total	$ 36,080	$ 243,458	$ 2,602	$ 282,140
Equity investments with readily determinable fair value	$ -	$ 825	$ -	$ 825

There were no transfers, sales, paydowns or reclassifications of Level 3 assets in 2023 or 2022 other than the fair value adjustment.

14. Fair Value Measurements and Estimated Fair Value of Financial Instruments (continued)

The following table sets forth the Company's financial assets and liabilities that were accounted for or disclosed at fair value on a nonrecurring basis as of December 31, 2023 and 2022:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Impairment Losses
December 31, 2023				
Assets:				
Individually assessed loans	$ -	$ -	$ 1,844	$ 908
REO			$ 432	$ 432
Total	$ -	$ -	$ 2,276	$ 1,340
December 31, 2022				
Assets:				
Impaired loans	$ -	$ -	$ 3,309	$ 2,126
Total	$ -	$ -	$ 3,309	$ 2,126

Individually assessed 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 accounts receivable. The value of real estate collateral is determined based on appraisal by qualified licensed appraisers hired by the Company. 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 based upon knowledge changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and 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 above.

REO is 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 REO included in Level 3 is determined by independent market based appraisals and other available market information, less cost 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.

14. Fair Value Measurements and Estimated Fair Value of Financial Instruments (continued)

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

Cash and Cash Equivalents
The carrying amount of cash and cash equivalents approximates their fair value.

Short-term investments
The carrying amount of short-term investments approximates its fair value.

Equity investments
The fair values of equity investments were based upon quoted market prices.

Investment Securities Available-for-Sale
The fair values of securities were based upon quoted market prices.

Restricted Stock
The carrying amount of restricted stock approximates its fair value.

Loans Held for Sale
The fair values of loans held for sale were based upon quoted market prices for loans with similar interest rates and terms to maturity.

Loans Receivable, net
The fair value of the loan portfolio, with the exception of the adjustable rate portfolio, was calculated by discounting the scheduled cash flows through the estimated maturity using anticipated prepayment speeds and using discount rates that reflect the credit and interest rate risk inherent in each loan portfolio. The fair value of the adjustable loan portfolio was estimated by grouping the loans with similar characteristics and comparing the characteristics of each group to the prices quoted for similar types of loans in the secondary market. The fair value disclosures for both the fixed and adjustable rate portfolios were adjusted to reflect the exit price amount anticipated to be received from the sale of the portfolio in an open market transaction as required upon adoption of ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities* beginning in the first quarter of 2018.

Bank Owned Life Insurance
The fair value of bank owned life insurance is the current cash surrender value, which is the carrying value.

Equity Investments with Readily Determinable Fair Value
The fair value of the Company's equity investment with readily determinable fair value is comprised of a mutual fund, the fair value for which is obtained from unadjusted quoted prices in active markets on the date of measurement.

Accrued Interest Receivable
The carrying amount of accrued interest receivable approximates its fair value since it is short-term in nature and does not present unanticipated credit concerns.

Deposits
The fair value of demand deposits, savings accounts and certain money market account deposits is the amount payable on demand at the reporting date. The fair value of fixed maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities. The fair value disclosures for all of the deposits were adjusted to reflect the exit price amount anticipated to be received from the sale of the deposits in an open market transaction as required upon adoption of ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities* beginning in the first quarter of 2018.

Short-term Borrowings
The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings, generally maturing within ninety days, approximate their fair values.

Accrued Interest Payable
The carrying amount of accrued interest payable approximates its fair value since it is short-term in nature.

Limitations
The fair value estimates are made at a discrete point in time based on relevant market information and information about the financial instruments. Fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors.

These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates. Further, the foregoing estimates may not reflect the actual amount that could be realized if all or substantially all of the financial instruments were offered for sale.

14. Fair Value Measurements and Estimated Fair Value of Financial Instruments (continued)

The estimated fair values of the Company's financial instruments at December 31, 2023 and 2022 are as follows:

			Fair Value Measurements as of December 31, 2023		
	Carrying Value	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Financial Assets:					
Cash and cash equivalents	$ 52,880	$ 52,880	$ 52,880	$ -	$ -
Short-term investments	2,611	2,611	2,611	-	-
Investment securities available-for-sale	266,363	266,363	37,161	226,715	2,487
Equity investments with readily determined values	864	864	-	864	-
Restricted stock	1,711	1,711	-	1,711	-
Loans receivable, net	365,627	351,566	-	-	351,566
Accrued interest receivable	3,236	3,236	-	3,236	-
Equity investments without readily determined values	6,574	6,574	-	-	6,574
Financial Liabilities:					
Deposits	583,293	564,269	-	564,269	-
Short-term borrowings	28,400	28,400	-	28,400	-
Accrued interest payable	466	466	-	466	-

			Fair Value Measurements as of December 31, 2022		
	Carrying Value	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Financial Assets:					
Cash and cash equivalents	$ 74,193	$ 74,193	$ 74,193	$ -	$ -
Short-term investments	2,591	2,591	2,591	-	-
Investment securities available-for-sale	282,140	282,140	36,080	243,458	2,602
Equity investments	825	825	-	825	-
Restricted stock	330	330	-	330	-
Loans receivable, net	335,984	332,118	-	-	332,118
Accrued interest receivable	2,309	2,309	-	2,309	-
Financial Liabilities:					
Deposits	609,571	546,949	-	546,949	-
Short-term borrowings	4,260	4,260	-	4,260	-
Accrued interest payable	58	58	-	58	-

15. Related Party Transactions

In the normal course of banking business, loans are made to officers and directors on substantially the same terms, including interest rates and collateral on loans, as those prevailing at the same time for comparable transactions with non-related parties and do not involve more than normal risk of collectability or present other unfavorable features. The following table presents an analysis of activity for loans to related parties at December 31, 2023 and 2022:

	2023	2022
Balance, beginning of year	$ 3,745	$ 3,984
Principal additions	-	-
Principal payments	(81)	(239)
Relationship change	(2,165)	-
Balance, end of year	$ 1,499	$ 3,745

At December 31, 2023 and 2022, related party deposits totaled $2,957 and $3,166, respectively.

16. Revenue Recognition - Noninterest Income

The following table presents the Company's noninterest income for the years ended December 31, 2023 and 2022 with identification of revenue streams in-scope and out-of-scope of Topic 606:

	2023	2022
Service charges on deposit accounts	$ 2,098	$ 1,746
Net gains on sales of loans (1)	-	16
Other:		
Interchange fees	961	1,037
Grants and awards (1)	4,028	1,122
Bank-owned life insurance income (1)	232	227
Other noninterest income	1,084	1,330
	$ 8,403	**$ 5,478**

Contract balances and contract acquisition costs: The Company does not typically enter into long-term revenue contracts with customers and therefore, does not experience significant contract balances. As of December 31, 2023 and 2022, the Company did not have any significant contract balances. As of December 31, 2023 and 2022, the Company did not capitalize any contract acquisition costs.

17. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Non-recognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date.

Management has reviewed the events occurring through March 29, 2024, the date the financial statements were issued and no additional subsequent events occurred requiring accrual or disclosure.