TANDEM BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2023

TANDEM BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL REPORT
DECEMBER 31, 2023

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors, Audit Committee
and Stockholders of
Tandem Bancorp, Inc.
Tucker, Georgia**

Opinion

We have audited the accompanying consolidated financial statements of **Tandem Bancorp, Inc. and Subsidiary**, which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Tandem Bancorp, Inc. and Subsidiary and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

200 GALLERIA PARKWAY S.E., SUITE 1700 • ATLANTA, GEORGIA 30339-5946 • 770-955-8600 • FAX 770-980-4489 • www.mjcpa.com

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Tandem Bancorp, Inc. and Subsidiary's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Tandem Bancorp, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

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

Mauldin & Jenkins, LLC

Atlanta, Georgia
March 14, 2024

TANDEM BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2023 AND 2022

Assets	2023	2022
Cash and due from banks	$ 2,356,450	$ 1,559,688
Interest bearing deposits in banks	13,138,763	3,482,858
Federal funds sold	-	1,500,000
Total cash and cash equivalents	15,495,213	6,542,546
Securities available for sale, at fair value net of allowance for credit losses of $- and $-	24,601,072	25,594,708
Restricted equity securities	584,600	150,900
Loans	170,133,079	119,398,283
Less allowance for credit losses	2,448,000	1,607,100
Loans, net	167,685,079	117,791,183
Premises and equipment, net	320,926	394,537
Right-of-use asset	693,040	800,509
Bank-owned life insurance	4,445,108	4,327,786
Other assets	3,175,832	896,788
Total assets	$ 217,000,870	$ 156,498,957

Liabilities and Stockholders' Equity	2023	2022
Liabilities:		
Deposits:		
Noninterest-bearing	$ 56,898,541	$ 72,527,280
Interest-bearing	117,588,278	65,901,306
Total deposits	174,486,819	138,428,586
Borrowings	17,000,000	-
Lease liability	705,799	810,122
Accounts payable and accrued liabilities	2,388,127	723,850
Total liabilities	194,580,745	139,962,558
Stockholders' equity:		
Common stock, $1 par value; 20,000,000 shares authorized, 2,394,334 and 2,103,598 shares issued and outstanding, respectively	2,394,334	2,103,598
Additional paid-in capital	22,037,725	19,179,831
Accumulated deficit	(1,007,997)	(3,028,069)
Accumulated other comprehensive loss	(1,003,937)	(1,718,961)
Total stockholders' equity	22,420,125	16,536,399
Total liabilities and stockholders' equity	$ 217,000,870	$ 156,498,957

See Notes to Consolidated Financial Statements.

TANDEM BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
Interest income:		
Interest and fees on loans	$ 9,984,402	$ 4,863,497
Deposits in banks	681,238	292,275
Federal funds sold	24,555	26,066
Investment securities	902,465	542,598
Total interest income	11,592,660	5,724,436
Interest expense:		
Deposits	2,401,335	248,982
Borrowings	727,407	1,352
Total interest expense	3,128,742	250,334
Net interest income	8,463,918	5,474,102
Provision for credit losses	665,591	359,651
Net interest income after provision for credit losses	7,798,327	5,114,451
Noninterest income:		
Service charges on deposit accounts	50,966	31,045
Gain on sales of loans	3,297,541	500,863
Life insurance income	117,322	102,786
Other income	84,158	210,854
Total noninterest income	3,549,987	845,548
Noninterest expenses:		
Salaries and employee benefits	5,907,702	3,548,036
Loss on sale of securities	294,942	-
Occupancy and equipment expenses	382,633	353,659
Other operating expenses	2,657,814	1,453,827
Total noninterest expenses	9,243,091	5,355,522
Income before income tax expense (benefit)	2,105,223	604,477
Income tax expense (benefit)	(417,349)	57,463
Net income	$ 2,522,572	$ 547,014
Basic and diluted income per share	$ 1.08	$ 0.26

See Notes to Consolidated Financial Statements.

TANDEM BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
Net income	**$ 2,522,572**	$ 547,014
Other comprehensive income (loss):		
Impact of change in tax rates applied on unrealized loss on securities available for sale	**446,929**	-
Unrealized holding gains (losses) on securities available for sale arising during year, net of tax of $44,482 and $-, respectively	**102,036**	(1,667,976)
Reclassification adjustment for losses realized in net income on securities available for sale, net of tax benefit of $76,685 and $-, respectively	**218,257**	-
Unrealized holding losses on derivative financial instruments arising during year, net of tax benefit of $18,340 and $-, respectively	**(52,198)**	**-**
Other comprehensive income (loss)	**715,024**	(1,667,976)
Comprehensive income (loss)	**$ 3,237,596**	$ (1,120,962)

See Notes to Consolidated Financial Statements.

TANDEM BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2023 AND 2022

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance, December 31, 2021	$ 2,103,598	$ 19,052,343	$ (3,575,083)	$ (50,985)	$ 17,529,873
Net income	-	-	547,014	-	547,014
Share-based compensation	-	127,488	-	-	127,488
Other comprehensive loss	-	-	-	(1,667,976)	(1,667,976)
Balance, December 31, 2022	2,103,598	19,179,831	(3,028,069)	(1,718,961)	16,536,399
Cumulative effect of change in accounting principle (adoption of ASU 2016-13)	-	-	(502,500)	-	(502,500)
Net income	-	-	2,522,572	-	2,522,572
Issuance of common stock	290,736	2,719,972	-	-	3,010,708
Share-based compensation	-	137,922	-	-	137,922
Other comprehensive income	-	-	-	715,024	715,024
Balance, December 31, 2023	$ 2,394,334	$ 22,037,725	$ (1,007,997)	$ (1,003,937)	$ 22,420,125

See Notes to Consolidated Financial Statements.

TANDEM BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2023 AND 2022

		2023		2022
OPERATING ACTIVITIES				
Net income	**$**	**2,522,572**	$	547,014
Adjustments to reconcile net income to net cash				
(used in) provided by operating activities:				
Depreciation		**106,293**		108,036
Provision for credit losses		**665,591**		359,651
Provision for deferred taxes		**(836,565)**		-
Net (accretion) amortization on securities available for sale		**(45,605)**		2,981
Share-based compensation		**137,922**		127,488
Loss on sale of securities		**294,942**		-
Gain on sale of loans		**(3,297,541)**		(580,863)
Increase in cash surrender value of life insurance		**(117,322)**		(102,786)
Increase (decrease) in taxes payable		**(54,940)**		57,463
Increase in interest receivable		**(292,160)**		(233,645)
Increase in interest payable		**420,297**		1,754
Net other operating activities		**120,312**		313,262
Net cash (used in) provided by operating activities		**(376,204)**		600,355
INVESTING ACTIVITIES				
Purchase of securities available for sale		**(9,619,651)**		(19,028,567)
Proceeds from maturities, paydowns, and calls of securities available for sale		**1,118,066**		745,678
Proceeds from sales of securities available for sale		**9,687,344**		-
Purchase of restricted equity securities		**(433,700)**		(20,300)
Net increase in loans		**(82,291,889)**		(44,497,748)
Proceeds from sales of loans		**34,832,443**		6,333,588
Purchase of bank-owned life insurance		**-**		(2,225,000)
Purchase of premises and equipment		**(32,683)**		(68,735)
Net cash used in investing activities		**(46,740,070)**		(58,761,084)
FINANCING ACTIVITIES				
Net increase in deposits		**36,058,233**		27,339,597
Proceeds from issuance of common stock		**3,010,708**		-
Increase (decrease) in borrowings		**17,000,000**		(2,000,000)
Net cash provided by financing activities		**56,068,941**		25,339,597
Increase (decrease) in cash and cash equivalents		**8,952,667**		(32,821,132)
Cash and cash equivalents at beginning of year		**6,542,546**		39,363,678
Cash and cash equivalents at end of year	**$**	**15,495,213**	$	6,542,546
SUPPLEMENTAL DISCLOSURES				
Cash paid during the year for:				
Interest	**$**	**2,708,445**	$	248,581
Taxes		**474,155**		-

See Notes to Consolidated Financial Statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Tandem Bancorp, Inc. (the "Company") is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, Tandem Bank (the "Bank"). The Bank is a state-chartered bank headquartered in Tucker, DeKalb County, Georgia. The Bank provides a full range of banking services in its primary market area of DeKalb and Gwinnett Counties and surrounding counties. The Bank began its organizational activities on November 2, 2018 and commenced its banking operations on September 23, 2019. The Bank has three banking offices: one in Tucker, Georgia; one in Peachtree Corners, Georgia; and one in Decatur, Georgia.

Basis of Presentation and Accounting Estimates

The consolidated financial statements include the accounts of the Company and its subsidiary. Significant intercompany transactions and balances have been eliminated in consolidation.

The Company began operations as of June 1, 2023. The 2022 financial and nonfinancial information included in these financial statements and notes to the financial statements pertains to the Bank only.

In preparing the financial statements in accordance with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses, the valuation of other real estate owned, deferred taxes, the valuation of stock options, and the fair value of financial instruments. The determination of the adequacy of the allowance for credit losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The majority of the Company's loans are secured by specific items of collateral including real property, consumer assets, and business assets. Although the Company has a diversified loan portfolio, a substantial portion of its borrower's ability to honor their contracts is dependent on local economic conditions.

The Company has evaluated all transactions, events, and circumstances for consideration or disclosure through March 14, 2024, the date these consolidated financial statements were available to be issued, and has reflected or disclosed those items within the consolidated financial statements and related footnotes as deemed appropriate.

Cash, Cash Equivalents, and Cash Flows

For purposes of reporting cash flows, cash and cash equivalents includes cash on hand, cash items in process of collection, amounts due from banks, interest-bearing deposits in banks, and federal funds sold. Cash flows from loans, federal funds sold, and deposits are reported net.

The Company has a restricted cash account required by the counterparty of the Company's derivative financial instruments. The balance in this account of $391,000 and $- at December 31, 2023 and 2022, respectively, is included within interest-bearing deposits in banks on the consolidated balance sheets.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Securities

Securities are classified as “available for sale” and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss). Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method. The Company has made a policy election to exclude accrued interest from the amortized cost basis of debt securities and report accrued interest in other assets in the consolidated balance sheets. Accrued interest receivable on debt securities totaled $81,636 and $100,014 as of December 31, 2023 and 2022, respectively. A debt security is placed on nonaccrual status at the time any principal or interest payments become more than 90 days delinquent or if full collection of interest or principal becomes uncertain. Accrued interest for a security placed on nonaccrual is reversed against interest income. There was no accrued interest related to debt securities reversed against interest income for the years ended December 31, 2023 and 2022.

The Company evaluates available for sale securities in an unrealized loss position to determine if credit-related impairment exists. The Company first evaluates whether it intends to sell or more likely than not will be required to sell an impaired security before recovering its amortized cost basis. If this condition exists, the entire amount of unrealized loss is recognized in earnings with a corresponding adjustment to the security's amortized cost basis. If this condition does not exist, the Company evaluates whether the decline in fair value is attributable to credit or resulted from other factors. If credit-related impairment exists, the Company recognizes an allowance for credit losses ("ACL"), limited to the amount by which the amortized cost basis exceeds the fair value. Any impairment not recognized through an ACL is recognized in other comprehensive income (loss), net of tax, as a noncredit-related impairment.

Restricted Equity Securities

Federal Home Loan Bank stock is an equity security with no readily determinable fair value. This investment security is carried at cost. At its discretion, this institution may declare dividends on the stock. Management reviews for impairment based on the ultimate recoverability of the cost basis in this stock.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal balances less deferred fees and costs on originated loans and the allowance for credit losses. Interest income is accrued on the outstanding principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield over the life of the loan using the straight-line method.

The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due, or at the time the loan is 90 days past due, unless the loan is well-secured and in the process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal and interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income, unless management believes that the accrual of interest is recoverable through the liquidation of collateral. Interest income on nonaccrual loans is recognized on the cash basis or cost recovery method, until the loans are returned to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses - Loans

Under the current expected credit loss model, the allowance for credit losses on loans is a valuation allowance estimated at each balance sheet date in accordance with GAAP that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans.

The Company estimates the ACL on loans based on the underlying loans' amortized cost basis, which is the amount at which the financing receivable is originated or acquired, adjusted for applicable accretion or amortization of premium, discount, and net deferred fees or costs, collection of cash, and charge-offs. In the event that collection of principal becomes uncertain, the Company has policies in place to reverse accrued interest in a timely manner. Therefore, the Company has made a policy election to exclude accrued interest from the measurement of ACL. Accrued interest receivable on loans totaled $639,345 and $328,807 at December 31, 2023 and 2022, respectively.

Expected credit losses are reflected in the allowance for credit losses through a charge to provision for credit losses. The Company measures expected credit losses of loans on a collective (pool) basis, when the loans share similar risk characteristics. Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

The Company's methodologies for estimating the ACL consider available relevant information about the collectability of cash flows, including information about past events, current conditions, and reasonable and supportable forecasts. The methodologies apply historical loss information, adjusted for asset-specific characteristics, economic conditions at the measurement date, and forecasts about future economic conditions over a period that has been determined to be reasonable and supportable, to the identified pools of loans with similar risk characteristics for which the historical loss experience was observed.

Remaining Life Method

The Company's primary methodology for estimating expected credit losses for all loan types is the Remaining Life method. The Remaining Life method calculates average annual charge-off rates and remaining contractual life, adjusted for prepayments, to estimate the losses for a pool of loans at the balance sheet date. The Remaining Life method uses average annual net charge-off rates and the amortization-adjusted remaining lives, plus qualitative factor (including peer charge off history and environmental factors) adjustments, to estimate the ACL.

Individually Evaluated Assets

Loans that do not share risk characteristics are evaluated on an individual basis. For collateral dependent loans 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 loan to be provided substantially through the operation or 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 loan 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 loan exceeds the present value of expected cash flows from the operation of the collateral. The Company may, in the alternative, measure the expected credit loss as the amount by which the amortized cost basis of the loan exceeds the estimated fair value 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 costs basis of the loan 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 loan.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses - Loans

Charge-Offs and Recoveries

Credit losses are charged against the allowance when management believes the collection of a loan's principal is unlikely. Subsequent recoveries are credited to the allowance. If the loan is collateral dependent, the loss is more easily identified and is charged-off when it is identified, usually based upon receipt of an appraisal. However, when a loan has guarantor support, and the guarantor demonstrates willingness and capacity to support the debt, the Company may carry the estimated loss as a reserve against the loan while collection efforts with the guarantor are pursued. If, after collection efforts with the guarantor are complete, the deficiency is still considered uncollectible, the loss is charged-off and any further collections are treated as recoveries.

Allowance for Loan Losses (Prior to the Adoption of ASU 2016-13)

Prior to the adoption of ASU 2016-13, the allowance for loan losses was an amount that management believed would be adequate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio, based on an evaluation of the collectability of existing loans and prior loss experience. This evaluation also took into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, concentrations and current economic conditions that may have affected the borrower's ability to pay. This evaluation did not include the effects of expected losses on specific loans or groups of loans that were related to future events or expected changes in economic conditions. While management used the best information available to make its evaluation, future adjustments to the allowance may have been necessary if there were significant changes in economic conditions.

The allowance for loan losses consisted of specific, general, and unallocated components. The specific component related to loans that were impaired. For impaired loans, an allowance was established, and immediately charged-off in most cases, when the discounted cash flows (or collateral value or observable market price) of the impaired loan was lower than the carrying value of that loan. The general component covered unimpaired loans and was based on historical loss experience adjusted for qualitative factors. An unallocated component may have been maintained to cover uncertainties that could have affected management's estimate of probable losses. The unallocated component of the allowance reflected the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets. Estimated useful lives range from 3 to 10 years for furniture and equipment and leasehold improvements. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

Transfers of Financial Assets

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

Leases are classified as operating or finance leases at the lease commencement date. The Company leases certain locations. The Company records leases on the balance sheet in the form of a lease liability for the present value of future minimum payments under the lease terms and a right-of-use asset equal to the lease liability adjusted for items such as deferred or prepaid rent, lease incentives, and any impairment of the right-of-use asset. The discount rate used in determining the lease liability is based upon incremental borrowing rates the Company could obtain for similar loans as of the date of commencement or renewal. The Company generally does not record leases on the balance sheet that are classified as short term (less than one year).

At lease inception, the Company determines the lease term by considering the minimum lease term and all optional renewal periods that the Company is reasonably certain to renew. The depreciable life of leasehold improvements is limited by the estimated lease term, including renewals if they are reasonably certain to be renewed. The Company's leases do not contain residual value guarantees or material variable lease payments that will impact the Company's ability to pay dividends or cause the Company to incur additional expenses.

Operating lease expense consists of a single lease cost allocated over the remaining lease term on a straight-line basis, variable lease payments not included in the lease liability, and any impairment of the right-of-use asset. Rent expense and variable lease expense are included in other operating expenses on the Company's consolidated statements of income. The Company's variable lease expense includes rent escalators that are based on market conditions and include items such as common area maintenance, utilities, parking, property taxes, insurance, and other costs associated with the lease.

The Company has elected to treat property leases that include both lease and nonlease components as a single component and account for it as a lease.

Sales of Loans and Servicing Assets

The Company originates and sells certain commercial business loans guaranteed by the Small Business Administration ("SBA"). The Company has sold loans on a servicing retained basis. The Company accounts for sales in accordance with ASC 860, *Transfers and Servicing*. Upon sale, the receivables are removed from the balance sheet, servicing assets, and liabilities are recorded for any excess servicing rights or obligations retained, and a gain on sale, if applicable, is recognized for the difference between the fair value of the receivables and the sales proceeds, net of origination costs. Gains on sales of loans are recognized on the trade date.

Advertising Costs

Advertising costs are expensed as incurred and totaled \$110,542 and \$88,657 for the years ended December 31, 2023 and 2022, respectively.

Income Taxes

Income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax basis of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term "more-likely-than-not" means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets may be reduced by deferred tax liabilities and a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized. Based on the Company's de-novo status and the net loss position attributed to initial start-up and organizational costs and operations, the Company recognized a valuation allowance equal to the net deferred tax asset as of December 31, 2022. Accordingly, no income tax expense or benefit was recorded in operations for the year ended December 31, 2022. During 2023, the Company determined, based on current and expected profitability, that the outstanding deferred tax assets should be realizable. Therefore, the Company reversed its valuation allowance related to net deferred tax assets and recorded an income tax benefit of $417,349 for year ended December 31, 2023.

Share-Based Compensation

At December 31, 2023 and 2022, the Company had stock options and warrants which are described in more detail in Note 8. The options and warrants have been accounted for under the accounting guidance (FASB ASC 718, *Compensation - Stock Compensation)* which requires that the compensation cost relating to share-based payment transactions be recognized in the financial statements. That cost is measured based on the grant date fair value of the equity or liability instruments issued. The stock compensation accounting guidance covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans, as applicable.

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. A Black-Scholes model is used to estimate the fair value of stock options and warrants, while the market price of the Company's common stock at the date of grant is used for the restricted stock awards and stock grants.

Income Per Share

Basic income per share is computed by dividing net income to common shareholders by the weighted average number of common shares outstanding. The weighted average number of shares outstanding for the years ended December 31, 2023 and 2022 was equal to 2,328,528 and 2,103,598, respectively. Potential common shares do not have a dilutive effect on income per share. Potential common shares consist of stock options and warrants and are described more fully in Note 8.

Comprehensive Income (Loss)

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on 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 (loss).

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

The Company accounts for revenue in accordance with applicable revenue recognition accounting guidance, including ASU 2014-09 *Revenue from Contracts with Customers* (ASC Topic 606) and all subsequent amendments to the ASU (collectively, "ASC 606"), which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as other real estate owned. The majority of the Company's revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as loans, letters of credit, and investment securities, as these activities are subject to other GAAP discussed elsewhere within the disclosures. The Company's services that fall within the scope of ASC 606 are presented within noninterest income and are recognized as revenue as the Company satisfies its obligation to the customer. Services within the scope of ASC 606 primarily include service charges on deposits and interchange income. Refer to Note 14 for further discussion on the Company's accounting policies for revenue sources within the scope of ASC 606.

Fair Value of Financial Instruments

Fair values of financial instruments are estimates using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

Derivative Instruments and Hedging Activities

The Company's asset/liability and interest rate risk management strategy incorporates the use of derivative instruments to minimize fluctuations in net income and fair value that are caused by interest rate volatility. The Company's goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet assets and liabilities so that fair value is not, on a material basis, adversely affected by movements in interest rates. The Company views this strategy as a prudent management of interest rate risk, such that fair value is not exposed to undue risk presented by changes in interest rates.

In carrying out this part of its interest rate risk management strategy, the Company occasionally uses interest rate derivative contracts. The primary type of derivative contract used by the Company to manage interest rate risk relates to payments tied to fixed rates versus floating rates. Interest rate derivatives generally involve the hedging of the risk of changes in the fair value attributable to changes in a contractually specified interest rate on an amount of the Company's assets or liabilities equal to the common notional principal amount and maturity date. Fair value related to certain assets and liabilities will fluctuate with changes in an underlying rate index. When effectively hedged, the increases or decreases in fair value of the asset or liability will generally be offset by changes of the derivative instrument designated as a hedge.

By using derivative instruments, the Company is exposed to credit and market risk. If the counterparty fails to perform, credit risk is equal to the fair value gain in the derivative. When the fair value of a derivative contract is positive, this situation generally indicates that the counterparty is obligated to pay the Company, and therefore, creates a repayment risk for the Company. When the fair value of a derivative contract is negative, the Company is obligated to pay the counterparty, and therefore, has no repayment risk. The Company minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically by the Company. The Company's derivative activities are monitored by its asset/liability management committee as part of that committee's oversight of the Company's asset/liability and treasury functions.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative Instruments and Hedging Activities (Continued)

The Company recognizes the fair value of derivatives as assets or liabilities in the financial statements. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative instrument at inception. The change in fair value of the effective portion of cash flow hedges is accounted for in other comprehensive income (loss) rather than net income. Changes in the fair value of derivative instruments that are not intended as a hedge or that are the result of hedge ineffectiveness are accounted for in the net income as of the period of the change.

When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur, the derivative will continue to be carried on the balance sheet at its fair value, and gains or losses that were accumulated in other comprehensive income (loss) will be recognized immediately in earnings. In those situations where the hedge is redesignated or discontinued and the variability of the future cash flows will occur as expected, gains and losses that are accumulated in other comprehensive income (loss) will continue to be reclassified from accumulated other comprehensive income (loss) to earnings as the interest payments affect earnings over the period of the original hedging relationship. In all other situations in which hedge accounting is discontinued, the derivative will be carried at its fair value on the balance sheet, with subsequent changes in its fair value recognized in current period earnings.

Adoption of New Accounting Standards

On January 1, 2023, the Company adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables, loan commitments, leases, financial guarantees, and held to maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, ASC 326 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 that management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The adoption of ASC 326 resulted in an increase to the allowance for credit losses on loans of $129,500, the recording of a liability for unfunded lending commitments of $373,000, and a cumulative-effect adjustment to retained earnings of $502,500.

In addition, for available for sale debt securities, the new methodology replaces the other-than-temporary impairment model and requires the recognition of an allowance for reductions in a security's fair value attributable to declines in credit quality, instead of a direct write-down of the security when a valuation decline is determined to be other-than-temporary. There was no financial impact related to this implementation.

On January 1, 2023, the Company adopted ASU 2022-02 – *Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures* ("ASU 2022-02"). ASU 2022-02 eliminates the troubled debt restructuring ("TDR") measurement and recognition guidance and requires that entities evaluate whether the modification represents a new loan or a continuation of an existing loan consistent with the accounting for other loan modifications. Additional disclosures relating to modifications to borrowers experiencing financial difficulty are required under ASU 2022-02. The Company adopted this ASU on a prospective basis.

NOTE 2. SECURITIES

The amortized cost and fair value of securities with gross unrealized gains and losses as of December 31, 2023 and 2022 are summarized in the following table.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2023:				
Mortgage-backed securities	**$ 17,903,962**	**$ -**	**$ (540,815)**	**$ 17,363,147**
State, county, and municipals	**3,079,034**	**-**	**(351,431)**	**2,727,603**
Corporate bonds	**2,500,000**	**-**	**(386,040)**	**2,113,960**
Asset-backed securities	**2,395,577**	**11,918**	**(11,133)**	**2,396,362**
Total securities available for sale	**$ 25,878,573**	**$ 11,918**	**$ (1,289,419)**	**$ 24,601,072**
December 31, 2022:				
U.S. Treasury securities	$ 9,960,929	$ -	$ (506,554)	$ 9,454,375
Mortgage-backed securities	8,969,006	-	(440,611)	8,528,395
State, county, and municipals	3,080,284	-	(462,026)	2,618,258
Corporate bonds	2,500,000	-	(259,625)	2,240,375
Asset-backed securities	2,803,450	-	(50,145)	2,753,305
Total securities available for sale	$ 27,313,669	$ -	$ (1,718,961)	$ 25,594,708

Securities with a carrying value of $7,743,496 and $- were pledged at December 31, 2023 and 2022, respectively, to secure certain public and nonprofit organization deposit accounts and for other purposes required or permitted by law.

A total of eight U.S. Treasury securities were sold during the year ended December 31, 2023 and no sales occurred during the year ended December 31, 2022. Gross losses on sales of securities during the years ended December 31, 2023 and 2022 totaled $294,942 and $-, respectively. There were no gains on sales of securities during the years ended December 31, 2023 and 2022.

The following table shows the gross unrealized losses and fair value of the Company's securities with unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2023 and 2022.

	Less Than Twelve Months		Over Twelve Months		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Unrealized Losses
December 31, 2023:					
Mortgage-backed securities	**$ (10,818)**	**$ 10,156,322**	**$ (529,997)**	**$ 7,206,825**	**$ (540,815)**
State, county, and municipals	**-**	**-**	**(351,431)**	**2,727,603**	**(351,431)**
Corporate bonds	**-**	**-**	**(386,040)**	**2,113,960**	**(386,040)**
Asset-backed securities	**(11,133)**	**1,526,114**	**-**	**-**	**(11,133)**
Total securities	**$ (21,951)**	**$ 11,682,436**	**$ (1,267,468)**	**$ 12,048,388**	**$ (1,289,419)**

NOTE 2. SECURITIES (Continued)

	Less Than Twelve Months		Over Twelve Months		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Unrealized Losses
December 31, 2022:					
U.S. Treasury securities	$ (239,456)	$ 6,737,812	$ (267,098)	$ 2,716,563	$ (506,554)
Mortgage-backed securities	(198,761)	5,005,512	(241,850)	3,522,883	(440,611)
State, county, and municipals	(184,248)	1,385,098	(277,778)	1,233,160	(462,026)
Corporate bonds	(101,195)	1,148,805	(158,430)	1,091,570	(259,625)
Asset-backed securities	(50,145)	2,753,305	-	-	(50,145)
Total securities	$ (773,805)	$ 17,030,532	$ (945,156)	$ 8,564,176	$ (1,718,961)

The company had thirty-seven securities as of December 31, 2023, of which thirty-six securities were in a loss position. The Company had unrealized losses on twenty-four investments in mortgage-backed securities, six investments in state, county, and municipal securities, four investments in corporate bonds, and two investments in asset-backed securities at December 31, 2023.

As of December 31, 2023, no ACL has been recognized on available for sale securities in an unrealized loss position as management does not believe any of the securities are impaired due to reasons of credit quality. This is based upon an analysis of the underlying risk characteristics, including credit ratings, and other qualitative factors related to available for sale securities and in consideration of historical credit loss experience and internal forecasts. The issuers of these securities continue to make timely principal and interest payments under the contractual terms of the securities. Furthermore, the Company does not have the intent to sell any of the securities classified as available for sale in the table above and believes that it is more likely than not that they will not have to sell any such securities before a recovery of cost. The unrealized losses are due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the securities approach their maturity date or repricing date or if market yields for such investments decline.

The amortized cost and estimated fair value of investment securities at December 31, 2023, by contractual maturity, are shown below. Maturities of mortgage-backed securities will differ from contractual maturities because borrowers may have the right to call or prepay certain obligations with or without call or prepayment penalties. Therefore, these securities are not included in the maturity categories.

	Amortized Cost	**Estimated Fair Value**
1 to 5 years	**$ 499,668**	$ 483,700
5 to 10 years	**5,937,696**	5,228,111
Over 10 years	**1,537,247**	1,526,114
Mortgage-backed securities	**17,903,962**	17,363,147
Total	**$ 25,878,573**	$ 24,601,072

Restricted Equity Securities

Restricted equity securities consist of the following:

	December 31,	
	2023	2022
Federal Home Loan Bank Stock	**$ 584,600**	$ 150,900
	$ 584,600	$ 150,900

NOTE 3. LOANS AND ALLOWANCE FOR CREDIT LOSSES

Portfolio Segmentation and Classes

The composition of loans is summarized as follows:

	December 31, 2023	December 31, 2022
Real estate mortgages:		
Construction and land development	**$ 28,238,288**	$ 13,755,952
1-4 family first mortgage	**29,704,087**	28,326,583
Commercial	**86,351,552**	61,873,509
Commercial and industrial	**26,432,272**	15,558,050
Consumer and other	**157,833**	236,039
	170,884,032	119,750,133
Discount for SBA loans	**(782,078)**	(128,490)
Net deferred loan costs (fees)	**31,125**	(223,360)
Allowance for credit losses	**(2,448,000)**	(1,607,100)
Loans, net	**$ 167,685,079**	$ 117,791,183

Included in loans at December 31, 2023 and 2022 are $54,870,013 and $60,120,294, respectively, of interest-only loans. Interest only loans include construction and development loans, home equity lines of credit, and other lines of credit within the portfolio segments discussed below. For the majority of these loans, interest is payable monthly and principal is due upon maturity.

For purposes of the disclosures required under GAAP, the loan portfolio was disaggregated into segments and then further disaggregated into classes for certain disclosures. A portfolio segment is defined as the level at which an entity develops and documents a systematic method for determining its allowance for loan losses. There are three loan portfolio segments that include real estate mortgages, commercial and industrial, and consumer and other. A class is generally determined based on the initial measurement attribute, risk characteristic of the loan, and an entity's method for monitoring and assessing credit risk. Classes within the real estate mortgages portfolio segment include construction and land development, 1-4 family first mortgage loans, and commercial real estate loans. The portfolio segments of non-real estate commercial and industrial loans and consumer and other loans have not been further segregated by class.

The following describes risk characteristics relevant to each of the portfolio segments and classes:

Real estate - As discussed below, the Company offers various types of real estate loan products. All loans within this portfolio segment are particularly sensitive to the valuation of real estate:

- Loans for real estate construction and land development are repaid through cash flow related to the operations, sale, or refinance of the underlying property. This portfolio class includes extensions of credit to real estate developers or investors where repayment is dependent on the sale of the real estate or income generated from the real estate collateral.

NOTE 3. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Portfolio Segmentation and Classes (Continued)

- 1-4 family first mortgages are repaid by various means such as a borrower's income, sale of the property, or rental income derived from the property.
- Commercial real estate mortgage loans include both owner-occupied commercial real estate loans and other commercial real estate loans such as commercial loans secured by income-producing properties. Owner-occupied commercial real estate loans made to operating businesses are long-term financing of land and buildings and are repaid by cash flows generated from business operations. Real estate loans for income-producing properties such as apartment buildings, office and industrial buildings, and retail shopping centers are repaid from rent income derived from the properties.

Commercial and industrial - The non-real estate commercial and industrial loan portfolio segment includes loans to commercial and industrial clients for use in normal business operations to finance working capital needs, equipment purchases, or expansion projects. Loans are repaid by operating cash flows. Collection risk in this portfolio is driven by the creditworthiness of the underlying borrower, particularly cash flows from the borrowers' business operations.

Consumer and other - The consumer and other loan portfolio segment includes direct consumer installment loans, overdrafts, and other revolving credit loans. Loans in this portfolio are sensitive to unemployment and other key consumer economic measures.

Credit Risk Management

The loan department and executive management team as a whole are involved in the credit risk management process and assess the accuracy of risk ratings, the quality of the portfolio, and the estimation of inherent credit losses in the loan portfolio. This process also assists in the prompt identification of problem credits. The Company has implemented many processes and procedures to manage the portfolios and reduce risk.

The Company's credit risk management process includes defined policies, accountability, and routine reporting to manage credit risk in the loan portfolio segments. Credit risk management is guided by loan policies that provide for a consistent and prudent approach to underwriting and approvals of credits. Within the loan policy, procedures exist that elevate the approval requirements as credits become larger and more complex. All loans are individually underwritten, risk-rated, approved, and monitored.

Responsibility and accountability for adherence to underwriting policies and accurate risk ratings lies in each portfolio segment. For the commercial and real estate portfolio segments, the risk management process focuses on underwriting new business, and on an ongoing basis, monitoring the credit of the portfolios. For the consumer portfolio segment, the risk management process focuses on managing customers who become delinquent in their payments. Loan review and credit administration establish a timely schedule and scope for loan reviews. These reviews ensure such loans have proper risk ratings and accrual status.

NOTE 3. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Credit Risk Management (Continued)

Credit quality and trends in the loan portfolio segments are measured and monitored regularly. Detailed reports, by product, collateral, accrual status, etc., are reviewed by the Chief Credit Officer, the Officers Loan Committee, and the Directors Loan Committee.

The following categories are utilized by management to analyze and manage the credit quality and risk of the loan portfolio:

- **Pass -** includes obligations where the probability of default is considered low.
- **Special Mention** - includes obligations that exhibit potential credit weaknesses or downward trends deserving management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects or credit position at a future date. These loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.
- **Substandard** - includes obligations with defined weaknesses that jeopardize the orderly liquidation of debt. A substandard loan is inadequately protected by the current sound worth and paying capacity of the borrower or by the collateral pledged, if any. Normal repayment from the borrower is in jeopardy although no loss of principal is envisioned. There is a distinct possibility that a partial loss of interest and/or principal will occur if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard loans, does not have to exist in individual loans classified substandard.
- **Doubtful** - includes obligations with all the weaknesses found in substandard loans with the added provision that the weaknesses make collection of debt in full, based on currently existing facts, conditions, and values, highly questionable and improbable. Serious problems exist to the point where partial loss of principal is likely. The possibility of loss is extremely high, but because of certain important, reasonably specific pending factors that may work to strengthen the loans, the loans' classification as loss is deferred until a more exact status may be determined.
- **Loss** - includes obligations incapable of repayment or unsecured debt. Such loans are considered uncollectible and of such little value that continuance as an active asset is not warranted. Loans determined to be a loss are charged-off at the date of loss determination. There are no loans with a loss rating in the Company's portfolio as of December 31, 2023 and 2022.

NOTE 3. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Credit Risk Management (Continued)

The following tables presents credit quality indicators as described above for the loan portfolio segments and classes as of December 31, 2023 and 2022:

	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2023					
Real estate mortgages:					
Construction and land development	**$ 28,238,288**	**$ -**	**$ -**	**$ -**	**$ 28,238,288**
1-4 family first mortgage	**29,704,087**	**-**	**-**	**-**	**29,704,087**
Commercial	**86,351,552**	**-**	**-**	**-**	**86,351,552**
Commercial and industrial	**24,618,018**	**1,464,262**	**349,992**	**-**	**26,432,272**
Consumer and other	**157,833**	**-**	**-**	**-**	**157,833**
Total:	**$ 169,069,778**	**$ 1,464,262**	**$ 349,992**	**$ -**	**$ 170,884,032**

	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2022					
Real estate mortgages:					
Construction and land development	$ 13,755,952	$ -	$ -	$ -	$ 13,755,952
1-4 family first mortgage	28,326,583	-	-	-	28,326,583
Commercial	61,873,509	-	-	-	61,873,509
Commercial and industrial	14,019,369	-	1,538,681	-	15,558,050
Consumer and other	236,039	-	-	-	236,039
Total:	$ 118,211,452	$ -	$ 1,538,681	$ -	$ 119,750,133

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Nonaccrual and Past Due Loans

A loan is placed on nonaccrual status when, in management's judgment, the collection of the interest income appears doubtful. Interest receivable that has been accrued and is subsequently determined to have doubtful collectability is charged to interest income. Interest on loans that are classified as nonaccrual is subsequently applied to principal until the loans are returned to accrual status. The Company's loan policy states that a nonaccrual loan may be returned to accrual status when: (i) none of its principal and interest is due and unpaid, and the Company expects repayment of the remaining contractual principal and interest, or (ii) it otherwise becomes well secured and in the process of collection. Restoration to accrual status on any given loan must be supported by a well-documented credit evaluation of the borrower's financial condition and the prospects for full repayment. Past due loans are accruing loans whose principal or interest is past due 30 days or more.

The following tables provide a summary of current, accruing past due, and nonaccrual loans by portfolio class as of December 31, 2023 and 2022. In accordance with ASU 2016-13, for the year ended December 31, 2023, nonaccrual loans are disaggregated based on whether an allowance for credit losses has been recorded.

		Past Due Status (Accruing Loans)					
	Current	30-89 Days	90+ Days	Total Past Due	Nonaccrual with an ACL	Nonaccrual without an ACL	Total
December 31, 2023:							
Real estate mortgages:							
Construction and land development	**$ 28,238,288**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 28,238,288**
1-4 family first mortgage	**29,704,087**	**-**	**-**	**-**	**-**	**-**	**29,704,087**
Commercial	**86,351,552**	**-**	**-**	**-**	**-**	**-**	**86,351,552**
Commercial and Industrial	**26,410,585**	**-**	**-**	**-**	**21,687**	**-**	**26,432,272**
Consumer and other	**157,833**	**-**	**-**	**-**	**-**	**-**	**157,833**
Total	**$ 170,862,345**	**$ -**	**$ -**	**$ -**	**$ 21,687**	**$ -**	**$ 170,884,032**

The following table presents the aging of the recorded investment in loans by portfolio segments and classes as of December 31, 2022:

		Past Due Status (Accruing Loans)				
	Current	30-89 Days	90+ Days	Total Past Due	Nonaccrual	Total
December 31, 2022						
Real estate mortgages:						
Construction and land development	$ 13,755,952	$ -	$ -	$ -	$ -	$ 13,755,952
1-4 family first mortgage	28,326,583	-	-	-	-	28,326,583
Commercial	61,873,509	-	-	-	-	61,873,509
Commercial and industrial	15,558,050	-	-	-	-	15,558,050
Consumer and other	236,039	-	-	-	-	236,039
Total:	$ 119,750,133	$ -	$ -	$ -	$ -	$ 119,750,133

NOTE 3. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Collateral Dependent Loans

Collateral dependent loans are loans where repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulty. If the Company determines that foreclosure is probable, these loans are written down to the lower of cost or collateral value less estimated costs to sell. When repayment is expected to be from the operation of the collateral, the allowance for credit losses is calculated as the amount by which the amortized cost basis of the financial asset exceeds the present value of expected cash flows from the operation of the collateral. The Company may, in the alternative, measure the allowance for credit loss as the amount by which the amortized cost basis of the financial asset exceeded the estimated fair value of the collateral. The following table presents an analysis of individually evaluated collateral dependent loans and the related allowance for credit losses at December 31, 2023:

	Recorded Investment	Related Allowance
Commercial and industrial	$ 349,992	$ 56,367
Total	$ 349,992	$ 56,367

Impaired Loans

Prior to the adoption of ASU 2016-13, a loan held for investment was considered impaired when, based on current information and events, it was probable that the Company would be unable to collect all amounts due (both principal and interest) according to the terms of the loan agreement. The Bank had no impaired loans as of December 31, 2022.

Allowance for Credit Losses

The allowance for credit losses represents an allowance for expected losses over the remaining contractual life of the assets. The contractual term does not consider extensions, renewals, or modifications. The Company segregates the loan portfolio by type of loan and utilizes this segregation in evaluating exposure to risks within the portfolio.

The following tables detail the change in the allowance for credit losses for the year ended December 31, 2023 by portfolio segment. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

December 31, 2023:	Real Estate	Commercial	Consumer and Other	Unallocated	Total
Allowance for credit losses:					
Balance, beginning of year	$ 1,367,251	$ 239,849	$ -	$ -	$ 1,607,100
Adoption of ASU 2016-13	110,173	19,327	-	-	129,500
Provision	582,716	73,404	1,471	76,000	733,591
Loans charged-off	-	(22,191)	-	-	(22,191)
Recoveries	-	-	-	-	-
Ending Balance	$ 2,060,140	$ 310,389	$ 1,471	$ 76,000	$ 2,448,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Allowance for Loan Losses (Prior to Adoption of ASU 2016-13)

Prior to the adoption of ASU 2016-13 on January 1, 2023, the Company calculated the allowance for loan losses under the incurred loss methodology. The following table provides details related to the allowance for loan losses for the year ended December 31, 2022.

	Real Estate	Commercial	Consumer	Unallocated	Total
December 31, 2022					
Allowance for loan losses:					
Beginning balance	$ 761,082	$ 173,820	$ 10,098	$ -	$ 945,000
Provision (reallocation)	606,169	(236,420)	(10,098)	-	359,651
Charge-offs	-	-	-	-	-
Recoveries	-	302,449	-	-	302,449
Ending balance	$ 1,367,251	$ 239,849	$ -	$ -	$ 1,607,100
Ending balance – individually evaluated for impairment	$ -	$ -	$ -		$ -
Ending balance – collectively evaluated for impairment	$ 1,367,251	$ 239,849	$ -	$ -	$ 1,607,100
Loans:					
Ending balance	$ 103,956,044	$ 15,558,050	$ 236,039		$ 119,750,133
Ending balance – individually evaluated for impairment	$ -	$ -	$ -		$ -
Ending balance – collectively evaluated for impairment	$ 103,956,044	$ 15,558,050	$ 236,039		$ 119,750,133

Modifications to Borrowers Experiencing Financial Difficulty

The Company periodically provides modifications to borrowers experiencing financial difficulty. These modifications include either payment deferrals, term extensions, interest rate reductions, principal forgiveness, or combinations of modification types. The determination of whether the borrower is experiencing financial difficulty is made on the date of the modification. When principal forgiveness is provided, the amount of principal forgiveness is charged-off against the allowance for credit losses with a corresponding reduction in the amortized cost basis of the loan. A modified loan is tracked for at least 12 months following the modifications granted.

The following table shows the amortized cost basis of the loans modified to borrowers experiencing financial difficulty, disaggregated by class of financing receivable and type of concession granted, as of December 31, 2023.

	Payment Deferral	**Term Extension**	**Interest Rate Reduction**	**Combination Deferral and Extension**	**Total**
December 31, 2023:					
Commercial and industrial	**$ -**	**$ -**	**$ -**	**$ 328,305**	**$ 328,305**
Total	**$ -**	**$ -**	**$ -**	**$ 328,305**	**$ 328,305**

At December 31, 2023, the Company has no unfunded commitments to borrowers experiencing financial difficulty for which the Company has modified their loans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Modifications to Borrowers Experiencing Financial Difficulty (Continued)

The following table describes the financial effect of the modifications made to borrowers experiencing financial difficulty during the year ended December 31, 2023:

Combination of Payment Deferral and Term Extension	
Loan Type	**Financial Effect**
Commercial and industrial	**100% principal and interest payment deferral for 3 months and extension of maturity date of 120 months**

The Company 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 twelve months:

	Past Due Status (Accruing Loans)					
	Current	**30-89 Days**	**90+ Days**	**Total Past Due**	**Nonaccrual**	**Total**
December 31, 2023:						
Commercial and industrial	**$ 328,305**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 328,305**
Total	**$ 328,305**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 328,305**

No loans that were modified in the last 12 months to borrowers experiencing financial difficulty had a payment default during the year ended December 31, 2023.

Troubled Debt Restructurings

Prior to the adoption of ASU 2016-13 and ASU 2022-02, impaired loans included loans that were classified as Troubled Debt Restructurings "TDRs". The restructuring of a loan was considered a TDR if both (i) the borrower was experiencing financial difficulties and (ii) the borrower was granted a concession. In assessing whether or not a borrower was experiencing financial difficulties, the Company considered information currently available regarding the financial condition of the borrower. This information included, but was not limited to, whether: (i) the debtor was currently in payment default on any of its debt; (ii) a payment default was probable in the foreseeable future without the modification; (iii) the debtor had declared or was in the process of declaring bankruptcy; and (iv) the debtor's projected cash flow was sufficient to satisfy contractual payments due under the original terms of the loan without a modification.

The Company considered all aspects of the modification to loan terms to determine whether or not a concession had been granted to the borrower. Key factors considered by the Company included the debtor's ability to access funds at a market rate for debt with similar risk characteristics, the significance of the modification relative to unpaid principal balance or collateral value of the debt, and the significance of a delay in the timing of payments relative to the original contractual terms of the loan. The most common concessions granted by the Company generally included one or more modifications to the terms of the debt, such as: (i) a reduction in the interest rate for the remaining life of the debt, (ii) an extension of the maturity date at an interest rate lower than the current market rate for new debt with similar risk, (iii) a temporary period of interest-only payments, and (iv) a reduction in the contractual payment amount for either a short period or remaining term of the loan. A loan was placed back on accrual status when both principal and interest were current and it was probable that the Company would be able to collect all amounts due (both principal and interest) according to the terms of the loan agreement.

NOTE 3. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Troubled Debt Restructurings Continued)

There were no loans that were modified as a TDR during the year ended December 31, 2022, and no loans modified as a TDR subsequently defaulted within 12 months of restructuring during the year ended December 31, 2022. The Company had no TDRs as of December 31, 2022.

Related-Party Loans

In the ordinary course of business, the Company has granted loans to certain related parties, including directors, executive officers, and their affiliates. The interest rates on these loans were substantially the same as rates prevailing at the time of the transaction and repayment terms are customary for the type of loan. Changes in related party loans for the years ended December 31, 2023 and 2022 are as follows:

	2023	2022
Balance, beginning of year	**$ 266,026**	$ 264,859
Advances	**35,000**	62,251
Repayments	**(139,210)**	(61,084)
Balance, end of year	**$ 161,816**	$ 266,026

NOTE 4. PREMISES AND EQUIPMENT

A summary of premises and equipment are as follows:

	December 31,	
	2023	2022
Leasehold improvements	**$ 269,273**	$ 264,773
Furniture and equipment	**482,356**	454,489
	751,629	719,262
Accumulated depreciation	**(430,703)**	(324,725)
	$ 320,926	$ 394,537

Depreciation expense for the years ended December 31, 2023 and 2022 amounted to $106,293 and $108,036, respectively.

NOTE 4. PREMISES AND EQUIPMENT (Continued)

Leases

On February 21, 2019, the Company entered into a 60-month lease with an unrelated entity for the location of its main office in Tucker, Georgia. The lease commenced on October 23, 2019 and the Company included one additional five-year renewal period in the right-of-use asset calculation; however, the Company has additional renewal options that are not considered in the right-of-use asset calculation due to the uncertainty of renewal. The Company also has a 36-month lease for parking at its Tucker location and includes one additional renewal period. Both leases have been evaluated and determined to be operating leases. The right-of-use asset and operating lease liability were measured and recorded at $1,121,292 as of October 23, 2019 with an assumed discount rate of 3.00%, the Company's incremental borrowing rate at the inception date of the lease. The right-of-use asset recorded as of December 31, 2023 and 2022 was $693,040 and $800,509, respectively, and the lease liability as of December 31, 2023 and 2022 was $705,799 and $810,122, respectively. The weighted-average remaining lease term for operating leases is 5.7 years as of December 31, 2023.

Future undiscounted rental payments required under operating leases including the expected exercise of renewal options as of December 31, 2023 are as follows:

2024	$ 129,490
2025	137,400
2026	132,000
2027	132,000
2028	132,000
Thereafter	107,067
Total undiscounted lease payments	769,957
Amounts representing interest	(64,158)
Net lease liabilities	$ 705,799

Total lease expense was $198,182 and $174,346 for the years ended December 31, 2023 and 2022, respectively.

NOTE 5. DEPOSITS

The major classifications of deposits are as follows:

	December 31,	
	2023	2022
Noninterest-bearing demand	**$ 56,898,541**	$ 72,527,280
Interest-bearing demand	**69,488,895**	54,337,809
Savings	**440,404**	644,796
Certificates of deposit of $250,000 or more	**9,257,000**	2,308,000
Other certificates of deposit	**38,401,979**	8,610,701
	$ 174,486,819	$ 138,428,586

NOTE 5. DEPOSITS (Continued)

There were approximately $15,000,000 and $5,000,000 of brokered deposits at December 31, 2023 and 2022, respectively, included within other certificates of deposit.

The scheduled maturities of time deposits at December 31, 2023 are as follows:

2024	$ 28,376,971
2025	6,619,763
2026	11,956,345
2027	705,900
	$ 47,658,979

Related-party deposits at December 31, 2023 and 2022 totaled approximately $1,880,000 and $5,221,000, respectively.

NOTE 6. BORROWINGS

Federal Home Loan Bank Advances and Federal Reserve Bank Borrowings

Federal Home Loan Bank ('FHLB') advances and Federal Reserve Bank ("FRB") borrowings consist of the following:

	December 31,	
	2023	2022
FHLB fixed rate hybrid, interest rate of 4.7585% at December 31, 2023, due March 13, 2024	**$ 2,500,000**	$ -
FHLB fixed rate hybrid, interest rate of 4.5420% at December 31, 2023, due September 13, 2024	**2,500,000**	-
FHLB fixed rate hybrid, interest rate of 4.3830% at December 31, 2023, due March 13, 2025	**2,500,000**	-
FHLB fixed rate hybrid, interest rate of 4.3075% at December 31, 2023, due March 13, 2026	**2,500,000**	-
FRB fixed rate advance, interest rate of 4.740% at December 31, 2023, due May 10, 2024	**7,000,000**	-
	$ 17,000,000	$ -

The advances above are secured by one to four family real estate loans, commercial real estate loans, and multifamily first mortgage loans totaling approximately $48,105,000 and $28,251,000 at December 31, 2023 and 2022, respectively.

Unused Lines of Credit

The Company has available unused lines of credit with various financial institutions totaling $13,100,000 and $8,000,000 at December 31, 2023 and 2022, respectively. There were no amounts outstanding on these lines of credit at December 31, 2023 and 2022.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. INCOME TAXES

The components of income tax expense (benefit) for the years ended December 31, 2023 and 2022 are as follows:

	Years Ended December 31,	
	2023	2022
Current	**$ 419,216**	$ 57,463
Deferred	**(56,629)**	78,522
Change in valuation allowance	**(779,936)**	(78,522)
Income tax expense (benefit)	**$ (417,349)**	$ 57,463

The Company's income tax expense (benefit) differs from the amounts computed by applying the federal income tax statutory rates to income before income tax expense (benefit). A reconciliation of the differences for the years ended December 31, 2023 and 2022 are as follows:

	Years Ended December 31,	
	2023	2022
Income tax expense at statutory federal rate	**$ 442,097**	$ 126,940
State tax expense	**46,191**	8,545
Cash surrender value increase	**(24,638)**	(21,585)
Other	**(101,063)**	22,085
Change in valuation allowance	**(779,936)**	(78,522)
Income tax expense (benefit)	**$ (417,349)**	$ 57,463

The components of deferred income taxes as of December 31, 2023 and 2022 are as follows:

	December 31,	
	2023	2022
Deferred tax assets:		
Credit loss reserves	**$ 696,385**	$ 406,524
Preopening expenses	**119,780**	122,336
Deferred loan fees	**-**	56,500
Stock-based compensation	**31,261**	20,858
Lease	**3,227**	2,432
Derivative financial instruments	**18,340**	-
Securities available for sale	**325,763**	-
Net operating losses	**-**	180,973
	1,194,756	789,623
Valuation allowance	**-**	(779,936)
	1,194,756	9,687
Deferred tax liabilities:		
Depreciation	**(6,215)**	(9,687)
Deferred loan costs	**(7,873)**	-
	(14,088)	(9,687)
Net deferred income taxes	**$ 1,180,668**	$ -

NOTE 7. INCOME TAXES (Continued)

At December 31, 2022, the Company had available net operating loss carryforwards of approximately $704,000 for federal tax purposes. The Company used the remaining net operating loss carryforwards during the year ended December 31, 2023.

The federal and state income tax returns of the Company are subject to examination, generally for three years after they were filed.

NOTE 8. EMPLOYEE AND DIRECTOR BENEFIT PLANS

401(k) Plan

The Company has a 401(k) Plan whereby substantially all employees participate in the Plan, subject to certain minimum age and service requirements. Contributions charged to expense for the 401(k) Plan for the years ended December 31, 2023 and 2022 totaled $140,655 and $96,738, respectively.

Stock Options

The Company has outstanding stock options issued under a stock option plan. The options vest over periods determined by each option agreement and generally expire ten years from the date of grant.

Other pertinent information related to stock options is as follows:

	Year Ended December 31,			
	2023		2022	
	Number	**Weighted-Average Exercise Price**	Number	Weighted-Average Exercise Price
Options outstanding, beginning of year	**152,604**	**$ 10.00**	144,604	$ 10.00
Granted	**7,500**	**10.00**	8,000	10.00
Forfeited	**-**	**-**	-	-
Options outstanding, end of year	**160,104**	**10.00**	152,604	10.00
Exercisable, end of year	**76,148**	**10.00**	49,432	10.00
Weighted-average remaining contractual life in years		**6.3 years**		7.1 years

NOTE 8. EMPLOYEE AND DIRECTOR BENEFIT PLANS (Continued)

Stock Warrants

In recognition of the efforts made and financial risks undertaken by the Company's organizers in organizing the Company, the Company granted each organizer warrants allowing them to purchase up to 133,000 shares of Company common stock. The warrant price is $10.00 per share, and all warrants vested immediately. In addition, compensatory warrants totaling 45,000 shares were issued to those serving as Directors of the Company. The warrant price is $10.00 per share, and the warrants vest in equal increments over a five-year period.

The warrants will be exercisable for a 10-year period unless there is a change in control, in which event all warrants will be completely vested.

Other pertinent information related to warrants is as follows:

	Year Ended December 31,			
	2023		2022	
	Number	**Weighted-Average Exercise Price**	Number	Weighted-Average Exercise Price
Warrants outstanding, beginning of year	**173,000**	**$ 10.00**	178,000	$ 10.00
Granted	**-**	**-**	-	-
Forfeited	**-**	**-**	(5,000)	10.00
Warrants outstanding, end of year	**173,000**	**10.00**	173,000	10.00
Exercisable, end of year	**165,000**	**10.00**	157,000	10.00
Weighted-average remaining contractual life in years		**5.8 years**		6.8 years

Restricted Stock

During 2023, the Company granted 4,000 shares of restricted stock which vest over three years from the grant dates. The fair market value of the stock on the grant dates was $10.50 per share. The Company recognized $11,667 of stock-based compensation expense related to these grants during 2023. As of December 31, 2023, there was $30,333 of total unrecognized compensation cost related to these restricted stock grants which is expected to be recognized over the remaining vesting period.

NOTE 8. EMPLOYEE AND DIRECTOR BENEFIT PLANS (Continued)

Share-Based Compensation Expense

The fair value of each stock option and warrant was estimated on the date of grant using a Black-Scholes-Merton valuation model that incorporated various assumptions. Expected volatilities were based on an average of traded community banks. The Company considered historical data and peer group data to estimate option exercise and employee termination within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of options and warrants granted was based on the short-cut method and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the awards was based on the U.S. Treasury yield curve in effect at the time of grant. See below for information related to options granted during the years ended December 31, 2023 and 2022.

	2023	2022
Dividend yield	**-%**	-%
Expected life	**7.5 years**	7.1 years
Risk-free interest rate	**4.82%**	1.89%
Expected volatility	**68.45%**	46.55%

As of December 31, 2023 and 2022, there was $199,571 and $272,496 of total unrecognized compensation cost related to nonvested stock option and warrant compensation arrangements granted, respectively. The cost is expected to be recognized over a weighted average period of 1.7 years and 1.7 years, respectively.

NOTE 9. COMMITMENTS AND CONTINGENCIES

Loan Commitments

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its clients. These financial instruments include commitments to extend credit. They involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amount recognized in the balance sheets. The majority of all commitments to extend credit are variable rate instruments.

The Company's exposure to credit loss is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments. A summary of the Company's commitments is as follows:

	December 31,	
	2023	2022
Commitments to extend credit	**$ 36,589,737**	$ 29,941,945
Standby letters of credit	**100,000**	200,000
	$ 36,689,737	$ 30,141,945

NOTE 9. COMMITMENTS AND CONTINGENCIES (Continued)

Loan Commitments (Continued)

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

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. Collateral held varies as specified above and is required in instances which the Company deems necessary.

At December 31, 2023 and 2022, the carrying amount of liabilities related to the Company's obligation to perform under standby letters of credit was insignificant. The Company has not been required to perform on any standby letters of credit, and the Company has not incurred any losses on financial standby letters of credit for the years ended December 31, 2023 and 2022.

The Company maintains an allowance for unfunded commitments such as unfunded balances for existing lines of credit, commitments to extend future credit, and standby letters of credit when there is a contractual obligation to extend credit and when this extension of credit is not unconditionally cancellable. The allowance for unfunded commitments is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur, which is based on a historical funding study derived from internal information, and an estimate of expected credit losses on commitments expected to be funded over its estimated life, which are the same loss rates that are used in computing the allowance for credit losses on loans. The allowance for credit losses for unfunded commitments is separately classified on the consolidated balance sheets within other liabilities.

The following table presents the balance and activity in the allowance for credit losses for unfunded commitments for the year ended December 31, 2023:

	Allowance for Credit Losses – Unfunded Commitments
December 31, 2023:	
Beginning balance	$ -
Adjustment to allowance for the adoption of ASU 2016-13	373,000
Provision for credit losses	(68,000)
Ending balance	$ 305,000

Contingencies

In the normal course of business, the Company may be involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material effect on the Company's financial statements.

NOTE 10. CONCENTRATIONS OF CREDIT

The Company originates primarily commercial and industrial, real estate, and consumer loans to customers in DeKalb and Gwinnett counties, as well as the surrounding counties in Georgia. The ability of the majority of the Company's customers to honor their contractual loan obligations is dependent on the economy in these areas.

Approximately eighty-four percent of the Company's loan portfolio is concentrated in loans secured by real estate, of which a substantial portion is secured by real estate in the Company's primary market area. Accordingly, the ultimate collectability of the loan portfolio is susceptible to changes in market conditions in the Company's primary market area. The other significant concentrations of credit by type of loan are set forth in Note 3.

The Company, as a matter of policy, does not generally extend credit to any single borrower or group of related borrowers in excess of 25% of statutory capital, or approximately $6,384,000.

NOTE 11. REGULATORY MATTERS

The Bank is subject to certain restrictions on the amount of dividends that may be declared without prior regulatory approval. At December 31, 2023, no dividends could be declared without regulatory approval.

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total capital, Tier 1 capital, and common equity Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. In addition, the Bank is subject to an institution-specific capital buffer which must exceed 2.50% to avoid limitations on distributions and discretionary bonus payments. The Bank's capital conservation buffer at December 31, 2023 was 5.9511%. Management believes, as of December 31, 2023 and 2022, that the Bank meets all capital adequacy requirements to which it is subject.

NOTE 11. REGULATORY MATTERS (Continued)

As of December 31, 2023, the most recent notification from the Federal Deposit Insurance Corporation 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 Bank's category.

The Bank's actual capital amounts and ratios are presented in the following table:

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
December 31, 2023:						
Total Capital to Risk Weighted Assets	**$ 25,245**	**13.95%**	**$ 14,476**	**8.00%**	**$ 18,095**	**10.00%**
Tier 1 Capital to Risk Weighted Assets	**$ 22,978**	**12.70%**	**$ 10,857**	**6.00%**	**$ 14,476**	**8.00%**
Common Equity Tier 1 Capital to Risk Weighted Assets	**$ 22,978**	**12.70%**	**$ 8,143**	**4.50%**	**$ 11,762**	**6.50%**
Tier 1 Capital to Average Assets	**$ 22,978**	**10.77%**	**$ 8,534**	**4.00%**	**$ 10,667**	**5.00%**
December 31, 2022:						
Total Capital to Risk Weighted Assets	$ 19,788	15.42%	$ 10,263	8.00%	$ 12,829	12,829
Tier 1 Capital to Risk Weighted Assets	$ 18,183	14.17%	$ 7,698	6.00%	$ 10,263	10,263
Common Equity Tier 1 Capital to Risk Weighted Assets	$ 18,183	14.17%	$ 5,773	4.50%	$ 8,339	8,339
Tier 1 Capital to Average Assets	$ 18,183	11.83%	$ 6,149	4.00%	$ 7,686	7,686

NOTE 12. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Risk Management Objective of Using Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages interest rate risk primarily by managing the amount, sources, and duration of its investment securities portfolio and debt funding and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures on certain assets and liabilities, the fair values of which are in part determined by interest rates.

NOTE 12. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

Fair Value Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to the fair value of certain assets and liabilities and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as a part of its interest rate risk management strategy.

The effective portion of changes in fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income (loss) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of derivatives is recognized directly in earnings.

During 2023, for certain of its available for sale debt securities, the Company entered into an interest rate swap designated as a fair value hedge that involves the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreement without exchange of the underlying notional amount. The objective of the swap was to hedge the risk of changes in fair value on certain debt securities by receiving a floating rate as opposed to the contractual fixed interest rate on the securities. The interest rate swap contract had an initial notional amount of $9,631,714. The notional amount at December 31, 2023 was $9,631,714. The Company receives a variable rate equal to the daily Secured Overnight Financing Rate ("SOFR") and pays a fixed rate of 3.635%. This swap is for a period of 13 years that began on December 28, 2023. The Company recognized $137 of interest income from the interest rate swap contract during 2023. At December 31, 2023, the estimated fair value of the interest rate swap contract accounted for as a fair value hedge was $(70,402). The unrealized loss of $70,538, net of tax benefit of $18,340, was recorded in other comprehensive income for 2023. The hedge ineffectiveness from the fair value hedge that was recognized in net income for the year ended December 31, 2023 was insignificant.

NOTE 13. FAIR VALUE OF ASSETS AND LIABILITIES

Determination of Fair Value

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the accounting guidance, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

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

NOTE 13. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Fair Value Hierarchy

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

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

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

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis: Assets and liabilities measured at fair value on a recurring basis as of December 31, 2023 and 2022 are summarized below.

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Carrying Value**
December 31, 2023				
Assets:				
Securities available for sale	**$ -**	**$ 24,601,072**	**$ -**	**$ 24,601,072**
Liabilities:				
Derivative financial instruments	**$ -**	**$ (70,402)**	**$ -**	**$ (70,402)**
December 31, 2022				
Assets:				
Securities available for sale	$ 9,454,375	$ 16,140,333	$ -	$ 25,594,708

There were no liabilities measured at fair value on a recurring basis as of December 31, 2022.

NOTE 13. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Assets Measured at Fair Value on a Nonrecurring Basis: Under certain circumstances management makes adjustments to fair value for assets although they are not measured at fair value on an ongoing basis. The following table presents the assets carried on the balance sheet by caption and by level in the fair value hierarchy for which a nonrecurring change in fair value has been recorded as of December 31, 2023.

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
December 31, 2023				
Collateral dependent loans	**$ -**	**$ -**	**$ 316,853**	**$ 316,853**
Total	**$ -**	**$ -**	**$ 316,853**	**$ 316,853**

There were no assets measured at fair value on a nonrecurring basis as of December 31, 2022.

NOTE 14. REVENUE FROM CONTRACTS WITH CUSTOMERS

All of the Company's revenue from contracts with customers in the scope of ASC 606 is recognized within noninterest income. The following table presents the Company's sources of noninterest income for the years ended December 31, 2023 and 2022. Items outside the scope of ASC 606 are noted as such.

	2023	2022
Service charges on deposit accounts	**$ 50,966**	$ 31,045
Interchange income	**72,673**	64,536
Gain on sales of loans (a)	**3,297,541**	500,863
Life insurance income (a)	**117,322**	102,786
Other income (a)	**11,485**	146,318
Ending balance	**$ 3,549,987**	$ 845,548

(a) Not within scope of ASC 606.

Following is a discussion of key revenues within the scope of Topic 606:

Service charges on deposit accounts: Revenue from service charges on deposit accounts is earned through cash management, wire transfer, overdraft, nonsufficient funds, and other deposit-related services. Revenue is recognized for these services either over time, corresponding with deposit accounts' monthly cycle, or at a point in time for transaction-related services and fees. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts.

Interchange income: Interchange rates are generally set by the credit card associations and based on purchase volumes and other factors. Interchange fees and merchant discounts are recognized concurrently with the delivery of service on a daily basis as transactions occur. Payment is typically received immediately or in the following month.

NOTE 15. PARENT COMPANY FINANCIAL INFORMATION

The following information presents the condensed balance sheets as of December 31, 2023 and the condensed statements of income and cash flows of Tandem Bancorp, Inc. for the period from June 1, 2023 to December 31, 2023.

TANDEM BANCORP, INC. (PARENT ONLY)
CONDENSED BALANCE SHEET
DECEMBER 31, 2023

ASSETS	2023
Cash and cash equivalents	$ 146,160
Investment in subsidiary	22,083,849
Other assets	190,116
Total assets	$ 22,420,125
LIABILITIES AND STOCKHOLDERS' EQUITY	
Stockholders' equity	22,420,125
Total liabilities and stockholders' equity	$ 22,420,125

TANDEM BANCORP, INC. CORPORATION (PARENT ONLY)
CONDENSED STATEMENT OF INCOME
FOR THE PERIOD FROM JUNE 1, 2023 THROUGH DECEMBER 31, 2023

	2023
Expenses:	
Other	$ 51,840
	51,840
Loss before income tax benefit and equity in undistributed earnings of subsidiary	(51,840)
Income tax benefit	13,113
Loss before equity in undistributed earnings of subsidiary	(38,727)
Equity in undistributed earnings of subsidiary	2,561,299
Net income	$ 2,522,572

NOTE 15. PARENT COMPANY FINANCIAL INFORMATION (Continued)

TANDEM BANCORP, INC. CORPORATION (PARENT ONLY)
CONDENSED STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM JUNE 1, 2023 THROUGH DECEMBER 31, 2023

	2023
OPERATING ACTIVITIES	
Net income	$ 2,522,572
Adjustments to reconcile net income to net cash used in operating activities:	
Equity in income of subsidiary	(2,561,299)
Other operating activities	(190,113)
Net cash used in operating activities	(228,840)
FINANCING ACTIVITIES	
Capital injection from subsidiary	375,000
Net cash provided by financing activities	375,000
Net increase in cash	146,160
Cash at beginning of period	-
Cash at end of period	$ 146,160

Tandem Bancorp, Inc. was incorporated on March 28, 2023, and began operations as of June 1, 2023. As part of the reorganization, Tandem Bancorp, Inc. acquired 100% of the outstanding common stock of Tandem Bank effective June 1, 2023.

The statements of income and cash flows include the operations and cash flows for the period from June 1, 2023 through December 31, 2023.