BANKFLORIDA BANCORP, INC.

Holding Company for

Audited Consolidated Financial Statements

At December 31, 2023 and 2022 and the Years Then Ended

(Together with Independent Auditor's Report)

HACKER, JOHNSON & SMITH PA

Fort Lauderdale
Orlando
Tampa

Certified Public Accountants

Independent Auditor's Report

Stockholders and the Board of Directors of
BankFLORIDA Bancorp, Inc.
Dade City, Florida

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company 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 ("GAAP").

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with GAAP, 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 the Company's ability to continue as a going concern for a period of one year subsequent to the date of this report.

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A Registered Public Accounting Firm

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Hacker, Johnson & Smith PA

HACKER, JOHNSON & SMITH PA
Tampa, Florida
March 21, 2024

BANKFLORIDA BANCORP, INC. AND SUBSIDIARY

Consolidated Balance Sheets
($ in thousands, except per share amounts)

	At December 31, 2023	At December 31, 2022
Assets		
Cash and due from banks	$ 1,222	745
Interest-bearing deposits in banks	33,405	42,926
Total cash and cash equivalents	34,627	43,671
Debt securities available for sale	20,746	29,881
Loans, net of allowance for credit losses of $3,328 and $2,799	241,585	230,202
Accrued interest receivable	880	807
Federal Home Loan Bank stock, at cost	1,176	197
Premises and equipment, net	18,550	13,251
Deferred income taxes	1,947	2,109
Bank-owned life insurance	1,174	1,145
Other assets	1,017	916
Total assets	$ 321,702	322,179
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing demand	63,845	81,979
Interest-bearing demand	9,529	18,557
Savings and money market	156,843	160,376
Time	31,618	22,924
Total deposits	261,835	283,836
Federal Home Loan Bank advances	20,000	-
Note payable	8,000	8,000
Accrued expenses and other liabilities	386	697
Total liabilities	290,221	292,533
Commitments and contingencies (Notes 5, 14 and 15)		
Stockholders' equity:		
Preferred share: $1 par value, $10,000,000 shares authorized; none issued and outstanding	-	-
Common stock: $1 par value; 50,000,000 shares authorized; 3,180,332 shares issued and outstanding	3,180	3,180
Additional paid-in capital	34,178	33,956
Accumulated deficit	(3,637)	(4,859)
Accumulated other comprehensive loss	(2,240)	(2,631)
Total stockholders' equity	31,481	29,646
Total liabilities and stockholders' equity	$ 321,702	322,179

See Accompanying Notes to Consolidated Financial Statements.

BANKFLORIDA BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Income
(In thousands)

	Year Ended December 31,	
	2023	2022
Interest income:		
Loans	$ 13,662	11,067
Debt securities available for sale	812	652
Other interest-earning assets	1,713	789
Total interest income	16,187	12,508
Interest expense:		
Deposits	5,605	1,208
Other interest	925	197
Total interest expense	6,530	1,405
Net interest income	9,657	11,103
Credit loss expense	600	1,000
Net interest income after credit expense loss	9,057	10,103
Noninterest income:		
Mortgage brokerage fees	-	151
Service charges and fees	93	67
Financial services fees	54	39
Earnings on bank-owned life insurance	29	26
Loss on sale of debt securities available for sale	(145)	-
Other	101	21
Total noninterest income	132	304
Noninterest expense:		
Salaries and benefits	4,763	4,377
Occupancy and equipment	652	404
Data processing	959	920
Regulatory assessments	175	251
Professional fees	280	186
Other	716	659
Total noninterest expense	7,545	6,797
Income before income taxes	1,644	3,610
Income taxes	422	924
Net income	$ 1,222	2,686

See Accompanying Notes to Consolidated Financial Statements.

BANKFLORIDA BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income
(In thousands)

	Year Ended December 31,	
	2023	**2022**
Net income	$ 1,222	2,686
Other comprehensive income (loss):		
Change in unrealized loss on debt securities available for sale-		
Unrealized gain (loss) arising during the year	495	(3,210)
Income tax (expense) benefit	(104)	675
Total other comprehensive income (loss)	391	(2,535)
Comprehensive income	$ 1,613	151

See Accompanying Notes to Consolidated Financial Statements.

BANKFLORIDA BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Stockholders' Equity

Years Ended December 31, 2023 and 2022
($ in thousands, except per share amounts)

	Common Stock		Additional Paid-In	Accumulated	Accumulated Other Compre-hensive	Total Stockholders'
	Shares	Amount	Capital	Deficit	Loss	Equity
Balance at December 31, 2021	3,180,332	$ 3,180	33,772	(7,545)	(96)	29,311
Net income	-	-	-	2,686	-	2,686
Stock based compensation	-	-	184	-	-	184
Change in unrealized loss on debt securities available for sale, net of income tax benefit	-	-	-	-	(2,535)	(2,535)
Balance at December 31, 2022	3,180,332	3,180	33,956	(4,859)	(2,631)	29,646
Net income	-	-	-	1,222	-	1,222
Stock based compensation	-	-	222	-	-	222
Change in unrealized loss on debt securities available for sale, net of income tax expense	-	-	-	-	391	391
Balance at December 31, 2023	3,180,332	$ 3,180	34,178	(3,637)	(2,240)	31,481

See Accompanying Notes to Consolidated Financial Statements.

BANKFLORIDA BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31, 2023	2022
Cash flows from operating activities:		
Net income	$ 1,222	2,686
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	507	360
Credit loss expense	600	1,000
Net accretion of loan fees, premiums and discounts	(225)	(231)
Net (accretion) amortization of premiums and discounts on debt securities	(103)	1,239
Loss on sale of debt securities available for sale	145	-
Deferred tax expense (benefit)	58	(243)
Earnings on bank-owned life insurance	(29)	(26)
Increase in accrued interest receivable	(73)	(345)
Increase in other assets	(101)	(151)
(Decrease) increase in accrued expenses and other liabilities	(371)	407
Stock-based compensation	222	184
Net cash provided by operating activities	1,852	4,880
Cash flows from investing activities:		
Proceeds from paydowns of debt securities available for sale	1,108	1,099
Purchase of debt securities available for sale	-	(19,580)
Proceeds from sale of debt securities available for sale	8,480	-
Net increase in loans	(11,698)	(59,448)
Purchase of premises and equipment	(5,806)	(7,067)
Purchase of Federal Home Loan Bank stock, net	(979)	(49)
Net cash used in investing activities	(8,895)	(85,045)
Cash flows from financing activities:		
Net (decrease) increase in deposits	(22,001)	41,769
Proceeds from Federal Home Loan Bank advances	20,000	-
Proceeds from notes payable	-	8,000
Net cash (used in) provided by financing activities	(2,001)	49,769
Net decrease in cash and cash equivalents	(9,044)	(30,396)
Cash and cash equivalents, beginning of year	43,671	74,067
Cash and cash equivalents, end of year	$ 34,627	43,671
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	$ 6,340	1,366
Income taxes	$ 899	751
Noncash transactions-		
Change in unrealized gain (loss) on debt securities available for sale, net of income tax (expense) benefit	$ 391	(2,535)

See Accompanying Notes to Consolidated Financial Statements.

(1) Summary of Significant Accounting Policies

Organization. BankFLORIDA Bancorp, Inc. (the "Holding Company") owns 100% of the outstanding common stock of BankFLORIDA (the "Bank") (collectively, the "Company"). The Holding Company's primary activity is the operation of the Bank. The Bank is a state-chartered bank organized in 2007 under the laws of the State of Florida. The Bank's financial services consist of deposit and lending activities provided through its branch locations in Pasco, Palm Beach and Osceola counties, Florida. The Bank's deposit accounts are insured up to the applicable limits by the Federal Deposit Insurance Corporation ("FDIC"). The Bank is regulated by various Federal and State agencies and is subject to periodic examinations by those regulatory authorities.

The following is a description of the significant accounting policies and practices followed by the Company, which conform to accounting principles generally accepted in the United States of America ("GAAP") and prevailing practices within the banking industry.

Subsequent Events. Management has evaluated events occurring subsequent to the consolidated balance sheet date through March 21, 2024 (the consolidated financial statement issuance date), determining no events require additional disclosure in these consolidated financial statements.

Basis of Presentation. The consolidated financial statements include the accounts of the Holding Company and the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

Adoption of New Accounting Standards. The Company adopted Accounting Standards Update ("ASU") 2016-13, *Financial Instruments – Credit Losses* (Topic 326): Measurement of Credit Losses on Financial Instruments, and the related amendments (collectively, Accounting Standards Codification "ASC" 326), effective January 1, 2023. The guidance 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 and held-to-maturity debt securities. It also applies to certain off-balance sheet credit exposures not accounted for as insurance, including loan commitments, standby letters of credits, financial guarantees, and other similar instruments. In addition, ASC 326 made changes to the accounting for debt securities available for sale. One such change is to require credit losses to be presented as an allowance rather than as a write-down on debt securities available for sale that management does not intend to sell or believes that it is more likely than not, they will not be required to sell. ASC 326 also changed the accounting for purchased financial assets with credit deterioration.

(continued)

(1) Summary of Significant Accounting Policies, Continued

Adoption of New Accounting Standards, Continued. 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 CECL had no impact on the consolidated financial statements on the adoption date. With this transition method, the Company did not have to restate comparative prior periods presented in the consolidated financial statements related to ASC 326 but will present comparative prior periods disclosures using the previous accounting guidance for the allowance for loan losses.

The Company adopted ASC 326 using the prospective transition approach for debt securities available for sale. As of January 1, 2023, the Company did not have any other-than-temporarily impaired debt securities. Therefore, upon the adoption of ASC 326, the Company determined that an allowance for credit losses on debt securities available for sale was not necessary.

Use of Estimates. In preparing consolidated financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change in the near term are the determination of the allowance for credit losses and the realization of deferred tax assets.

Cash and Cash Equivalents. Cash and cash equivalents include balances due from banks and interest-bearing deposits in banks.

Debt Securities. Debt securities may be classified as either trading, held to maturity or available for sale. Trading debt securities are held principally for resale and recorded at their fair values. Unrealized gains and losses on trading debt securities are included immediately in income. Debt securities held to maturity are those which the Company has the positive intent and ability to hold to maturity and are reported at amortized cost. Debt securities available for sale consist of securities not classified as trading debt securities or as debt securities held to maturity. Unrealized holding gains and losses, on debt securities available for sale are excluded from income and reported in accumulated other comprehensive loss. Gains and losses on the sale of debt securities available for sale are recorded on the trade date determined using the specific-identification method. Premiums and discounts on debt securities available for sale are recognized in interest income using the interest method over the period to maturity or the next call date.

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(1) Summary of Significant Accounting Policies, Continued

Loans. The Company grants real estate, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by real estate loans. The ability of the Company's debtors to honor their contracts is dependent upon real estate and general economic conditions.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for credit losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. Loans are charged-off if collection of principal or 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. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Credit Losses ("ACL"). The following is a summary of the Company's significant accounting policies with respect to the ACL:

ACL - Debt Securities Available for Sale. Management uses a systematic methodology to determine its ACL for debt securities available for sale. Each quarter management evaluates impairment where there has been a decline in fair value below the amortized cost basis to determine whether there is a credit loss associated with the decline in fair value. The Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either one of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which the fair value is less than the amortized cost basis, among various other factors, including the nature of the collateral, potential future changes in collateral values, default rates, delinquency rates, third-party guarantees, credit ratings, interest rate changes since purchase, volatility of the security's fair value and historical loss information for financial assets secured with similar collateral among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis. If the present value of cash flows expected to be collected is less than the amortized cost basis, an ACL is recorded, which is limited by the amount that the fair value is less than the amortized cost basis. Credit losses are calculated individually, rather than collectively. Any impairment that has not been recorded through an ACL is recognized in other comprehensive income (loss).

(continued)

(1) Summary of Significant Accounting Policies, Continued

Allowance for Credit Losses ("ACL"), Continued.

ACL - Debt Securities Available for Sale, Continued. Changes in the ACL are recorded as credit loss expense. Losses are charged against the ACL when management believes the collectability of the debt security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Management excludes the accrued interest receivable balance from the amortized cost basis in measuring expected credit losses on the debt securities available for sale and does not record an ACL on accrued interest receivable. As of December 31, 2023, the accrued interest receivable for debt securities available for sale recognized in accrued interest receivable was $123,000.

ACL - Loans. The ACL reflects management's estimate of losses that will result from the inability of our borrowers to make required loan payments. The Company records loans charged-off against the ACL when management believes the uncollectability of a loan balance is confirmed and subsequent recoveries, if any, increase the ACL when they are recognized.

Management uses systematic methodologies to determine its ACL for loans and certain off-balance sheet credit exposures. The ACL is a valuation account that is deducted from the amortized cost basis to present the net amount expected to be collected on the loan portfolio. Management estimates the ACL using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of the expected credit losses, supplemented by peer loss data due to lack of significant historical losses. Adjustments to historical loss information are made for the differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors.

The Company's estimate of its ACL involves a high degree of judgment; therefore, management's process for determining expected credit losses may result in a range of expected credit losses. The Company's ACL recorded in the balance sheet reflects management's best estimate within the range of expected credit losses. The Company recognizes in earnings the amount needed to adjust the ACL for management's current estimate of expected credit losses. The Company's ACL is calculated using collectively evaluated and individually evaluated loans.

The ACL is measured on a collective pool basis when similar risk characteristics exist. Loans with similar risk characteristics are grouped into homogenous segments for analysis. The Company's ACL is measured based on FDIC call report codes as these types of loans exhibit similar risk characteristics.

(continued)

(1) Summary of Significant Accounting Policies, Continued

Allowance for Credit Losses ("ACL"), Continued.

ACL – Loans, Continued. The ACL for each segment is measured through the use of the weighted-average remaining maturity ("WARM") method. In accordance with the WARM method, an annual loss rate is multiplied by the weighted-average remaining life of the segment and then applied to the amortized cost of an asset or pool of assets which is based on contractual maturities and estimated prepayments. The annual loss rate consists of historical and forecasted loss components. The forecasted component is applied using loss rates from historical periods, as adjusted by peer loss data that management believes are representative of economic conditions over a full economic cycle. Management determined that the appropriate historical loss period began in the first quarter of 2008 and continue through the fourth quarter of 2023, which represents a full peak to peak economic cycle.

Management considers forward-looking information in estimating expected credit losses. The baseline, along with the evaluation of alternative scenarios, is used by management to determine the best estimate within the range of expected credit losses. Management has evaluated the appropriateness of the reasonable and supportable forecast scenarios and has made adjustments as needed. For the contractual term that extends beyond the reasonable and supportable forecast period, the Company reverts to the long term mean of historical factors within four quarters using a straight-line approach.

Included in its systematic methodology to determine its ACL, management considers the need to qualitatively adjust model results for risk factors that are not considered within the Company's loss estimation process but are nonetheless relevant in assessing the expected credit losses within our loan segments.

These qualitative factors ("Q-Factors") may increase or decrease management's estimate of expected credit losses by a calculated percentage based upon the estimated level of risk. The various risks that may be considered in making Q-Factor adjustments include, among other things, the impact of 1) changes in lending policies and procedures, including changes in underwriting standards; 2) changes in international, national, regional and local economic conditions; 3) changes in the volume and severity of impairments and charge-offs; 4) the effect of any concentrations of credit and changes in the levels of such concentrations; 5) changes in the experience, depth, and ability of lending management; 6) changes in nature and volume of the portfolio; 7) the effect of other external factors (i.e., competition, legal and regulatory requirements) on the level of estimated credit losses; 8) potential effects of interest only and out of market credit exposures.

The annual loss rates, as defined above, adjusted for Q-Factors, arrive at the General ACL.

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(1) Summary of Significant Accounting Policies, Continued

Allowance for Credit Losses ("ACL"), Continued.

ACL – Loans, Continued. When a loan no longer shares similar risk characteristics with its segment, the asset is assessed to determine whether it should be included in another segment or should be individually evaluated. The Company has adopted the collateral maintenance practical expedient to measure the ACL based on the fair value of collateral. Collateral dependent loans are loans for which the repayment is expected to be provided substantially through the operation or sale of the collateral and the borrower is experiencing financial difficulty. These loans do not share common risk characteristics and are not included within the collectively evaluated loans for determining ACL. A specific ACL is calculated on an individual loan basis based on the shortfall between the fair value of the loan's collateral, which is adjusted for selling costs, and amortized cost. If the fair value of the collateral exceeds the amortized cost, no allowance is required. Financial assets that have been individually evaluated can be returned to a pool for purposes of estimating the expected credit loss to the extent as their credit profile improves and that the repayment terms were not considered to be unique to the asset.

Management measures expected credit losses over the contractual term of a loan. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies:

- Management has a reasonable expectation at the reporting date that a loan modification will be executed with an individual borrower.

- 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 follows its nonaccrual policy by reversing contractual interest income in the statements of income when the Company places a loan on nonaccrual status. Therefore, management excludes the accrued interest receivable balance from the amortized cost basis in measuring expected credit losses on the portfolio and does not record an ACL on accrued interest receivable. As of December 31, 2023, the accrued interest receivable for loans recorded in accrued interest receivable was approximately $730,000.

Prior to the adoption of ASC 326, the allowance for loan losses represented management's best estimate of inherent losses that had been incurred within the existing portfolio of loans. The allowance for loan losses included allowance allocations calculated in accordance with ASC 310, "Receivables" and allowance allocations calculated in accordance with ASC 450, "Contingencies."

(continued)

(1) Summary of Significant Accounting Policies, Continued

Allowance for Credit Losses ("ACL"), Continued.

ACL - Off -Balance Sheet Credit Exposures. The Company has a variety of assets that have a component that qualifies as an off-balance sheet exposure. These primarily include commitments to extend credit, standby letters of credit, unfunded commitments and construction loans in process under revolving lines of credit. The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. Management has determined that a majority of the Company's off-balance-sheet credit exposures are not unconditionally cancellable.

The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over their expected lives. Management used its judgement to determinate funding rates. Management applied the funding rates, along with the loss factor rate determined for each pooled loan segment, to unfunded loan commitments, excluding unconditionally cancellable exposures and letters of credit, to arrive at the reserve for unfunded loan commitments.

As of December 31, 2023, the liability recorded for expected credit losses on unfunded commitments was $60,000 and is included in "other liabilities" on the accompanying consolidated balance sheets. The current estimate to the ACL for unfunded commitments is recognized through credit loss expense in the statements of earnings.

Premises and Equipment. Land is carried at cost. Buildings, building and leasehold improvements, furniture and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed principally by the straight-line method over the estimated useful lives of the assets, or the lesser of the remaining lease term or useful life of leasehold improvements.

Advertising. Advertising costs are expensed as incurred.

Stock-Based Compensation. The Company records stock-based compensation at fair value. The Company recognizes the effects of stock-based compensation in the accompanying consolidated statements of income on a straight-line basis over the vesting period. The Company accounts for forfeitures as they occur.

(continued)

(1) Summary of Significant Accounting Policies, Continued

Transfer of Financial Assets. Transfers of financial assets or a participating interest in an entire financial asset are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. A participating interest is a portion of an entire financial asset that (1) conveys proportionate ownership rights with equal priority to each participating interest holder (2) involves no recourse (other than standard representations and warranties) to, or subordination by, any participating interest holder, and (3) does not entitle any participating interest holder to receive cash before any other participating interest holder.

Fair Value Measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP has established a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities that are not active; and model-driven valuations whose inputs are observable or whose significant value drivers are observable. Valuations may be obtained from, or corroborated by, third-party pricing services.

Level 3: Unobservable inputs to measure fair value of assets and liabilities for which there is little, if any market activity at the measurement date, using reasonable inputs and assumptions based upon the best information at the time, to the extent that inputs are available without undue cost and effort.

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(1) Summary of Significant Accounting Policies, Continued

Fair Value Measurements, Continued. The following describes valuation methodologies used for assets measured at fair value-

Debt Securities Available for Sale. Where quoted prices are available in an active market, debt securities are classified within Level 1 of the valuation hierarchy. Level 1 debt securities include highly liquid government bonds and certain mortgage products. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of debt securities with similar characteristics, or discounted cash flows. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include certain U.S. government agency mortgage-backed debt securities, taxable municipal securities and U.S. Government agency debt securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, debt securities are classified within Level 3 of the valuation hierarchy. Securities classified within Level 3 include certain residual interests in securitizations and other less liquid securities.

Off-Balance Sheet Instruments. In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit, standby letters of credit, unused lines of credit and construction loans in process. Such financial instruments are recorded in the consolidated financial statements when they are funded.

Revenue from Contracts with Customers. The majority of the Company's revenues come from interest income and financial assets, including loans, debt securities and bank-owned life insurance which are outside the scope of the accounting guidance with respect to revenue from contracts with customers. The Company's services that fall within this guidance are presented within noninterest income and are recognized as revenue as the Company satisfies its obligation to the customer. Elements of noninterest income within the scope of this guidance are limited to mortgage brokerage fees, service charges and fees and financial service fees. The following summarizes the Company's revenue recognition accounting policy for certain noninterest income activities:

Mortgage Brokerage Fees. The Company earns mortgage brokerage fees related to the referral of mortgage loans to other correspondent financial institutions ("originating institution"). Mortgage brokerage fees are generally earned as a percentage of the loan balance that is referred to the originating institution. The Company believes that the performance obligation is satisfied on the origination date because that is when the mortgage note is executed, the referral fee is agreed upon, and the risks and rewards of the mortgage loan are assumed by the originating institution. As such, these fees are recognized into income at the time of origination of the mortgage loan.

(continued)

(1) Summary of Significant Accounting Policies, Continued

***Revenue from Contracts with Customers, Continued*.**

Service Charges and Fees. Deposit related fees consist of fees earned on transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as wire fees, ATM use fees, debit card interchange fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the performance obligation. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Financial Services Fees. Financial services fees consists of referral fees received by a third-party financial advisor for commissions earned by the third-party on customers referred to them by the Company and are recognized at the time the transaction is executed as that is the point in time the Company fulfills the performance obligation.

Income Taxes. There are two components of income taxes: current and deferred. Current income taxes reflect 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 bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income taxes result from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by 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.

Uncertain tax positions are recognized if it is more likely than not that the tax position will be realized or sustained upon examination including 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. As of December 31, 2023, management is not aware of any uncertain tax positions that would have a material effect on the Company's financial statements. The Company recognizes interest and penalties on income taxes, if any, as a component of income tax expense.

(continued)

(1) Summary of Significant Accounting Policies, Continued

Comprehensive Income. GAAP requires that recognized revenue, expenses, gains and losses be included in income. Although certain changes in assets and liabilities, such as unrealized gains and losses on debt securities available for sale, are reported as a separate component of the equity section of the consolidated balance sheet, such items, along with net income are components of comprehensive income.

(2) Debt Securities Available for Sale

The following table summarizes the amortized cost and fair value of debt securities available for sale and the corresponding amounts of unrealized gains and losses therein (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
At December 31, 2023:				
U.S. government agency mortgage-backed securities	$ 11,418	-	(1,747)	9,671
Taxable municipal securities	12,163	-	(1,088)	11,075
	$ 23,581	-	(2,835)	20,746
At December 31, 2022:				
U.S. government agency mortgage-backed securities	12,549	-	(1,747)	10,802
Taxable municipal securities	13,143	-	(1,412)	11,731
U.S. government agency debt securities	7,519	-	(171)	7,348
	$ 33,211	-	(3,330)	29,881

The amortized cost and fair value of debt securities available for sale, segregated by contractual maturity as of December 31, 2023, are shown below (in thousands):

	Amortized Cost	Fair Value
After five years through ten years	$ 9,764	9,243
After ten years	2,399	1,832
U.S. government agency mortgage-backed securities	11,418	9,671
	$ 23,581	20,746

U.S. government agency mortgage-backed securities are not due at a single maturity date and are shown separately.

(continued)

(2) Debt Securities Available for Sale, Continued

The following summarizes sales of debt securities during the year ended December 31, 2023 (in thousands):

Proceeds	$ 8,480
Gross gains	$ -
Gross losses	(145)
Net loss from sale of debt securities	$ (145)

Debt securities available for sale measured at fair value on a recurring basis are summarized below (in thousands):

		Fair Value Hierarchy		
	Total	**Level 1**	**Level 2**	**Level 3**
December 31, 2023:				
U.S. government agency mortgage-backed securities	$ 9,671	-	9,671	-
Taxable municipal securities	11,075	-	11,075	-
Total	$ 20,746	-	20,746	-
December 31, 2022:				
U.S. government agency mortgage-backed securities	10,802	-	10,802	-
Taxable municipal securities	11,731	-	11,731	-
U.S. government agency debt securities	7,348	-	7,348	-
Total	$ 29,881	-	29,881	-

(continued)

(2) Debt Securities Available for Sale, Continued

The following table summarizes debt securities available for sale with unrealized losses, aggregated by investment category and length of time in a continuous unrealized loss position (in thousands):

	Less Than Twelve Months		Twelve Months or More	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2023:				
U.S. government agency mortgage-backed securities	$ 1,168	9	8,503	1,738
Taxable municipal securities	-	-	11,075	1,088
	$ 1,168	9	19,578	2,826
December 31, 2022:				
U.S. government agency mortgage-backed securities	-	-	10,802	1,747
Taxable municipal securities	-	-	11,731	1,412
U.S. government agency debt securities	-	-	7,348	171
	$ -	-	29,881	3,330

At December 31, 2023 and 2022, the unrealized losses on thirty-three and thirty-eight debt securities were caused by market conditions.

The Company performed an analysis that determined that the U.S. government agency mortgage-backed securities have a zero expected credit loss as they have the full faith and credit backing of the U.S. government or one of its agencies. Taxable municipal securities that do not have a zero expected credit loss are evaluated at least quarterly to determine whether there is a credit loss associated with a decline in fair value. All debt securities in an unrealized loss position as of December 31, 2023 continue to perform as scheduled and the Company does not believe that there is a credit loss or that a provision for credit losses is necessary. At December 31, 2023, no debt securities are on nonaccrual or past due over eighty-nine days and still accruing. Also, as part of our evaluation of our intent and ability to hold investments for a period of time sufficient to allow for any anticipated recovery in the market, the Company considers our investment strategy, cash flow needs, liquidity position, capital adequacy and interest rate risk position. The Company does not currently intend to sell the investments within the portfolio, and it is not more-likely-than-not that a sale will be required.

Management continues to monitor all of our investments with a high degree of scrutiny. There can be no assurance that in a future period that conditions existing at that time indicate some or all of its securities may be sold or would require a charge to operations as a provision for credit losses in such periods.

(continued)

(3) Loans

The segments and classes of loans are as follows (in thousands):

	December 31, 2023	December 31, 2022
Real estate loans:		
One-to-four family	$ 37,573	37,795
Commercial	159,329	160,228
Home equity	1,598	1,617
Multi-family	7,363	2,436
Total real estate loans	205,863	202,076
Commercial business	39,602	31,372
Consumer	-	1
Total loans	245,465	233,449
Allowance for credit losses	(3,328)	(2,799)
Net deferred fees	(593)	(510)
Premiums and discounts on purchased loans, net	41	62
Loans, net	$ 241,585	230,202

The Company has divided the loan portfolio into three portfolio segments, each with different risk characteristics and methodologies for assessing risk. All loans are underwritten in accordance with policies set forth and approved by the Company's Board of Directors. The portfolio segments and classes are identified by the Company as follows:

Real Estate Loans. Real estate loans are segmented into four classes: One-to-four family, commercial, home equity and multi-family.

One-To-Four Family Real Estate. The Company originates fixed-rate and adjustable-rate residential real estate loans for purchase of a home or refinance of a mortgage loan. These loans are collateralized by 1-4 family residential properties located within the Company's market area. Market conditions could fluctuate negatively and affect the home's final value.

Commercial Real Estate. Commercial real estate loans consist of loans to finance real estate purchases, refinancing, expansions, construction and improvements to commercial properties. These loans are secured by first liens on office buildings, apartments, farms, retail and mixed-use properties, churches, warehouses and restaurants located within the market area. The Company's underwriting analysis includes credit verification, independent appraisals, a review of the borrower's financial condition, and a detailed analysis of the borrower's underlying cash flows. Commercial real estate loans generally have greater credit risk as compared to one-to-four family residential real estate loans and home equity loans, as they usually involve larger loan balances secured by non-homogeneous or specific use properties. Repayment of these loans typically relies on the continued successful operation of a business or the generation of lease income by the property and is therefore more sensitive to adverse conditions in the economy and real estate market.

(continued)

(3) Loans, Continued

Home Equity. Home equity loans are lines of credit secured by 1-4 family residential properties. Market conditions could fluctuate negatively and affect the home's final value.

Multi-Family. Multi-family residential real estate loans generally involve a greater degree of credit risk than residential real estate loans but are normally smaller individual loan balances than commercial real estate loans. Multi-family residential real estate loans involve a greater degree of credit risk as compared to residential real estate loans due to the reliance on the successful operation of the project. These loans are also more sensitive to adverse economic conditions.

Commercial Business. Commercial loans consist of loans to small- and medium-sized companies in the Company's market area. Commercial loans are generally used for working capital purposes or for acquiring equipment, inventory or fixtures. Primarily all of the Company's commercial loans are secured loans, along with a small amount of unsecured loans. The Company's underwriting analysis consists of a review of the financial statements of the borrower, the lending history of the borrower, the debt service capabilities of the borrower, the projected cash flows of the business, the value of the collateral, if any, and whether the loan is guaranteed by the principals of the borrower. These loans are generally secured by accounts receivable, inventory and equipment. Commercial and industrial loans are typically made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business, which makes them of higher risk than real estate loans and the collateral securing loans may be difficult to appraise and may fluctuate in value based on the success of the business. The Company seeks to minimize these risks through our underwriting standards.

Consumer. Consumer loans typically consist of automobile and personal loans. Most of the Company's consumer loans share approximately the same level of risk as residential mortgages.

(continued)

(3) Loans, Continued

The following table presents the aging of the amortized cost basis in past-due loans (in thousands):

	Accruing Loans						
	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Total Past Due	Current	Nonaccrual Loans	Total
December 31, 2023:							
Real estate loans:							
One-to-four family	$ -	-	-	-	37,573	-	37,573
Commercial	-	-	-	-	159,329	-	159,329
Home equity	-	-	-	-	1,598	-	1,598
Multi-family	-	-	-	-	7,363	-	7,363
Total real estate loans	-	-	-	-	205,863	-	205,863
Commercial business		-	-	-	39,587	15	39,602
Consumer	-	-	-	-	-	-	-
Total loans	$ -	-	-	-	245,450	15	245,465
December 31, 2022:							
Real estate loans:							
One-to-four family	-	-	-	-	37,795	-	37,795
Commercial	-	-	-	-	160,228	-	160,228
Home equity	1,196	-	-	1,196	421	-	1,617
Multi-family	-	-	-	-	2,436	-	2,436
Total real estate loans	1,196	-	-	1,196	200,880	-	202,076
Commercial business	11	-	-	11	31,361	-	31,372
Consumer	-	-	-	-	1	-	1
Total loans	$ 1,207	-	-	1,207	232,242	-	233,449

The following table presents the amortized cost basis of loans on nonaccrual status and their associated ACL, if any, as of December 31, 2023 (in thousands):

	Nonaccrual With No Allowance for Credit Loss	Nonaccrual With an Allowance for Credit Loss	Total Nonaccrual Loans
Commercial real estate	$ -	15	15

The Company recognized no interest income on nonaccrual loans during the year ended December 31, 2023.

(continued)

(3) Loans, Continued

The Company utilizes an internal risk rating system as a means of reporting problem and potential problem loans. Under the risk rating system, the Company classifies problem and potential problem loans as "Special Mention," "Substandard" or "Doubtful." Loans that do not currently expose the Company to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses that deserve management's close attention are deemed to be Special Mention. Substandard loans include those characterized by the distinct possibility the Company may sustain some loss if the deficiencies are not corrected. Loans classified as Doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Generally, the Company reviews all revolving credit relationships, regardless of amount, and any other loan relationship in excess of $500,000 on an annual basis. However, risk ratings are updated any time the facts and circumstances warrant.

The following table presents the internal risk ratings of loans (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2023:					
Real estate loans:					
One-to-four family	$ 37,573	-	-	-	37,573
Commercial	149,873	6,664	2,792	-	159,329
Home equity	1,598	-	-	-	1,598
Multi-family	7,363	-	-	-	7,363
Total real estate loans	196,407	6,664	2,792	-	205,863
Commercial business	38,855	732	15	-	39,602
	$ 235,262	7,396	2,807	-	245,465
December 31, 2022:					
Real estate loans:					
One-to-four family	37,490	305	-	-	37,795
Commercial	153,292	6,936	-	-	160,228
Home equity	1,617	-	-	-	1,617
Multi-family	2,436	-	-	-	2,436
Total real estate loans	194,835	7,241	-	-	202,076
Commercial business	30,229	1,040	103	-	31,372
Consumer	1	-	-	-	1
	$ 225,065	8,281	103	-	233,449

(continued)

(3) Loans, Continued

The Company grants the majority of its loans to borrowers throughout Southeast and Central, Florida. A significant portion of its borrowers' ability to honor their contracts is dependent upon the economy in these Florida regions. Although the Company has a diversified loan portfolio, a substantial portion of its borrowers' ability to repay their loans is dependent upon economic conditions in the market areas of its borrowers. The amount of collateral obtained, if any, is based on management's credit evaluation of the borrowers' ability to repay, reputation, credit risk, and other factors.

The following summarizes the amount of impaired loans at December 31, 2022 (in thousands):

	With No Related Allowance Recorded		With an Allowance Recorded			Total		
	Recorded Investment	Unpaid Contractual Principal Balance	Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance	Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance
Commercial business	$ -	-	103	404	68	103	404	68

The average net investment in impaired loans and interest income recognized and received on impaired loans for the year ended December 31, 2022 was as follows (in thousands):

	Average Balance	Interest Income Recognized	Interest Income Received
Commercial business	$ 151	-	-

The amortized cost basis of collateral-dependent loans by class of loans as of December 31, 2023 are as follows (in thousands):

	Collateral Type	
	Real Estate	Other
Real estate loans-		
Commercial	$ 2,791	-
Commercial business	-	15
	$ 2,791	15

(continued)

(4) Allowance for Credit Losses

The analysis of the change in ACL for the year ended December 31, 2023 follows (in thousands):

	Loans									
	Real Estate Loans									
	One-to-Four Family	Commercial	Home Equity	Multi-Family	Commercial Business	Consumer	Unallocated	Total	Unfunded Commitments	Total
Beginning balance	$ 163	2,341	5	11	262	-	17	2,799	-	2,799
Credit loss expense (income)	(37)	235	(5)	31	333	-	(17)	540	60	600
Charge-offs	-	(11)	-	-	-	-	-	(11)	-	(11)
Recoveries	-	-	-	-	-	-	-	-	-	-
Ending balance	$ 126	2,565	-	42	595	-	-	3,328	60	3,388

An analysis of the change in the allowance for loan losses for the year ended December 31, 2022 follows (in thousands):

	Real Estate Loans							
	One-to-Four Family	Commercial	Home Equity	Multi-Family	Commercial Business	Consumer	Unallocated	Total
Beginning balance	$ 138	1,431	3	-	218	-	-	1,790
Provision for loan losses	25	910	2	11	35	-	17	1,000
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	9	-	-	9
Ending balance	$ 163	2,341	5	11	262	-	17	2,799
Individually evaluated for impairment:								
Recorded investment	$ -	-	-	-	103	-	-	103
Balance in allowance for loan losses	$ -	-	-	-	68	-	-	68
Collectively evaluated for impairment:								
Recorded investment	$ 37,795	160,228	1,617	2,436	31,269	1	-	233,346
Balance in allowance for loan losses	$ 163	2,341	5	11	194	-	17	2,731

(continued)

(5) Premises and Equipment

Components of premises and equipment are as follows (in thousands):

	December 31, 2023	December 31, 2022
Land	$ 6,017	6,015
Buildings	7,771	5,075
Building improvements	1,109	719
Leasehold improvements	93	69
Construction in progress	1,546	1,238
Furniture and equipment	3,536	1,225
	20,072	14,341
Less: Accumulated depreciation and amortization	(1,522)	(1,090)
Premises and equipment, net	$ 18,550	13,251

The second story of the Company's Kissimmee banking office is leased to several tenants under operating leases. The leases have remaining terms of two years. Some of the leases have renewal options. Rental income for the years ended December 31, 2023 and 2022 was $169,000 and $143,000, respectively. Estimated future rental income over the remaining noncancelable lease term at December 31, 2023 is as follows:

Year Ending December 31,	Operating Lease Income
2024	$ 46,472
2025	15,776
	$ 62,248

The Company leased a banking office in Dade City, Florida. The lease term was eighteen months which expired December 2021. Once the term expired, the Company has a month-to-month continuance option through December 2023. Rental expense relating to operating leases amounted to approximately $91,000 in 2023 and $56,000 in 2022.

During 2022, the Company purchased property in Dade City, Florida for $710,000 to build a future headquarters. As of December 31, 2023, the Company is committed to an additional $4,031,000 to complete this construction project.

(continued)

(6) Deposits

Time deposits in amounts equal to or greater than $250,000 were approximately $23.3 million and $19.1 million at December 31, 2023 and 2022, respectively.

The following table sets forth the maturities of time deposits as of December 31, 2023 (in thousands):

	Amount
2024	$ 29,404
2025	1,605
2026	285
2027	100
2028	224
	$ 31,618

(7) Note Payable

The Company has entered into a note payable with another bank. The Company borrowed $8 million at a fixed interest rate of 4.25%, interest payable monthly with the principal payable in full on March 2027 and is secured by the Bank's common stock. As of December 31, 2023 and 2022, the outstanding balance of the note was $8 million. The note is subject to certain covenants and at December 31, 2023, the Company was in compliance with the covenants.

(8) Federal Home Loan Bank Advance and Other Borrowings

The Company maintains a blanket floating lien with the FHLB on qualifying loans secured by first loans. At December 31, 2023, under this blanket lien, the Company has available credit of $48.2 million with $20.0 million in outstanding advances.

At December 31, 2023, the Company had $9.5 million available under federal funds purchase facilities from correspondent banks. Disbursements on the lines of credit are subject to the approval of the correspondent banks.

(9) Income Taxes

Income taxes consist of the following (in thousands):

	Year Ended December 31,	
	2023	**2022**
Current - federal	$ 281	919
Current - state	83	248
Deferred - federal	45	(198)
Deferred - state	13	(45)
Income taxes	$ 422	924

(continued)

(9) Income Taxes, Continued

The effective tax rate differs from the statutory federal income tax rate as follows ($ in thousands):

	Year Ended December 31, 2023	2022
Income taxes at current statutory rate of 21%	$ 345	758
Increase (decrease) from:		
State income tax, net of federal tax benefit	76	160
Tax-exempt interest	(11)	(12)
Bank-owned life insurance	(6)	(5)
Stock-based compensation	31	26
Other, net	(13)	(3)
Income taxes	$ 422	924
Effective tax rate	25.7%	25.6%

Deferred tax assets and liabilities were as follows (in thousands):

	December 31, 2023	2022
Deferred tax assets:		
Net operating loss carryforwards	$ 561	595
Allowance for credit losses	859	709
Nonaccrual interest	25	114
Unrealized losses on debt securities available for sale	595	699
Stock-based compensation	32	14
Total deferred tax assets	2,072	2,131
Deferred tax liability-		
Accumulated depreciation	(125)	(22)
Net deferred tax asset	$ 1,947	2,109

At December 31, 2023, the Company had federal and state net operating loss carry forwards of approximately $2.3 million and $1.9 million, respectively, which are subject to an annual limitation under Internal Revenue Code Section 382 and have no expiration date.

(10) Benefit Plans

The Company has established a 401(k) profit sharing plan (the "Plan") which covers all employees meeting certain age and service requirements. The Plan qualifies as a "Safe Harbor 401(k) Plan." As a Safe Harbor 401(k) Plan, an employee who is eligible to make salary deferrals under the Plan is eligible to receive Safe Harbor matching as defined in the Plan. Other employer contributions are discretionary and are determined annually by the Board of Directors. Safe Harbor matching amounted to approximately $115,000 and $94,000 for the years ending December 31, 2023 and 2022, respectively.

(continued)

(11) Stock-Based Compensation

The Company has a Directors' Stock Option Plan and an Officers' and Employees' Stock Option Plan (the "Plans"). The total options available to be granted under the Plans are 535,289 shares. At December 31, 2023, options remaining available for grant under the Plans totaled 170,289.

A summary of the status of the Company's outstanding stock options is presented below:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at December 31, 2021	362,500	$ 11.00	
Forfeited	(11,500)		
Outstanding at December 31, 2022	351,000	11.00	
Options granted	15,000	12.00	
Options forfeited	(1,000)	11.00	
Outstanding at December 31, 2023	365,000	$ 11.04	7.62 years
Exercisable at December 31, 2023	365,000	$ 11.04	7.62 years

At December 31, 2023, there was approximately $282,000 of total unrecognized compensation expense related to nonvested share-based compensation arrangements granted under the plans. The cost is expected to be recognized over a weighted-average period of nineteen months. The total fair value of options vesting and recognized as compensation and other noninterest expense was approximately $222,000 and $184,000, with related income tax benefit of $15,000 during the years ended December 31, 2023 and 2022.

The fair value of each option granted for the year ended December 31, 2023 is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Risk-free interest rate	3.90%
Expected dividend yield	-
Expected stock volatility	30.70%
Expected life in years	6.50
Per share grant-date fair value of options issued during the period	$ 4.73

The Company used the guidance issued by the Securities and Exchange Commission to determine the estimated life of options issued. Expected volatility is based on historical volatility of similar peer banks' common stock. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The dividend yield assumption is based on the Company's historical and expected dividend payments.

(continued)

(12) Transactions with Related Parties

In the ordinary course of business, the Company has accepted deposits from and made loans to its principal officers and directors and their affiliates. At December 31, 2023 and 2022, these related party deposits amount to $49 million and $72 million, respectively. At December 31, 2023 and 2022, these related party loans amount to $5.2 million and $5.2 million, respectively.

(13) Regulatory Matters

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

Under Basel III, the Bank is subject to the capital conservation buffer rules which place limitations on distributions, including dividend payments, and certain discretionary bonus payments to executive officers. In order to avoid these limitations, a bank must hold a capital conservation buffer above its minimum risk-based capital requirements. As of December 31, 2023, the Bank's capital conservation buffer exceeds the minimum requirement. At December 31, 2022, the conservation buffer was 2.50%.

As of December 31, 2023, the Bank was well capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately capitalized the Bank must maintain a minimum Common equity tier 1 capital ratio, Tier 1 capital ratio, Total capital ratio and Tier 1 leverage ratio as set forth in the table. Management believes, as of December 31, 2023, that the Bank meets all capital adequacy requirements to which it is subject. The Bank's actual capital amounts and percentages are presented in the table ($ in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	%	Amount	%	Amount	%
As of December 31, 2023:						
Common equity tier 1 capital ratio	$ 40,325	14.29%	$ 12,701	4.50%	$ 18,345	6.50%
Tier I capital ratio	40,325	14.29	16,935	6.00	22,579	8.00
Total capital ratio	43,713	15.49	22,579	8.00	28,224	10.00
Tier 1 leverage ratio	40,325	12.44	12,964	4.00	16,205	5.00

(continued)

(13) Regulatory Matters, Continued

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	%	Amount	%	Amount	%
As of December 31, 2022:						
Common equity tier 1 capital ratio	$ 38,504	14.24%	$ 12,171	4.50%	$ 17,850	6.50%
Tier I capital ratio	38,504	14.24	16,228	6.00	21,638	8.00
Total capital ratio	41,303	15.27	21,638	8.00	27,047	10.00
Tier 1 leverage ratio	38,504	11.69	13,175	4.00	16,468	5.00

(14) Off-Balance Sheet Financial Instruments

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 customers. These financial instruments are commitments to extend credit, standby letters of credit, unused lines of credit and construction loans in process may involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the balance sheet. The contract amounts of these instruments reflect the extent of involvement the Company has in these financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit, standby letters of credit, unused lines of credit and construction loans in process 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.

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. Because some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company, upon extension of credit, is based on management's credit evaluation of the counterparty.

Unused lines of credit and construction loans in process are agreements to lend to a customer as long as there is no violation of any condition established in the contract. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company, upon extension of credit, is based on management's credit evaluation of the counterparty.

(continued)

(14) Off-Balance Sheet Financial Instruments, Continued

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit to customers is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments. Standby letters of credit generally have expiration dates within one year.

Commitments to extend credit, standby letters of credit, unused lines of credit and construction loans in process of credit typically result in loans with a market interest rate when funded. A summary of the contractual amounts of the Company's financial instruments with off-balance-sheet risk at December 31, 2023 follows (in thousands):

	Contractual Amount
Commitments to extend credit	$ 15,295
Standby letters of credit	$ 856
Unused lines of credit	$ 82,509
Construction loans in process	$ 28

(15) Legal Contingencies

Various legal claims arise from time to time in the normal course of business which, in the opinion of management, will not have a material effect on the Company's consolidated financial statements.