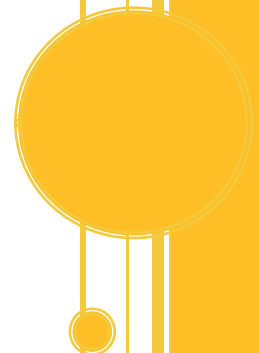


IBW FINANCIAL
CORPORATION AND
SUBSIDIARY
2022 FINANCIAL STATEMENTS

IBW FINANCIAL CORPORATION
4812 GEORGIA AVE NW
WASHINGTON, DC 20011



Independent Auditor's Report

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

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

A handwritten signature in black ink that reads "Elliott Davis, PLLC". The signature is written in a cursive, flowing style.

Raleigh, North Carolina
March 31, 2023

CONSOLIDATED BALANCE SHEETS

December 31, 2022 and 2021

(dollars in thousands)

	2022	2021
ASSETS		
Cash and due from banks	\$ 4,541	\$ 3,797
Interest-bearing deposits with banks	69,652	63,658
Total cash and cash equivalents	<u>74,193</u>	<u>67,455</u>
Short-term investments	2,591	2,583
Investment securities available-for-sale, at fair value	282,140	221,108
Equity investments	825	936
Restricted stock, at cost	330	365
Loans held for sale	-	635
Loans receivable, net of unearned income and deferred fees	342,571	303,369
Less: Allowance for loan losses	<u>(6,587)</u>	<u>(5,879)</u>
Net loans	335,984	297,490
Premises and equipment, net	17,303	14,473
Bank owned life insurance (BOLI)	9,773	9,982
Other assets	<u>18,886</u>	<u>10,416</u>
Total assets	<u>\$ 742,025</u>	<u>\$ 625,443</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Non-interest bearing deposits	\$ 198,541	\$ 168,510
Interest bearing deposits	411,030	378,553
Total deposits	609,571	547,063
Short-term borrowings	4,260	7,183
Accounts payable and accrued expenses	5,506	7,641
Total liabilities	<u>619,337</u>	<u>561,887</u>
SHAREHOLDERS' EQUITY		
Preferred Stock:		
Senior preferred stock \$1 par value	\$ 81,938	\$ —
Preferred stock \$25 par value	—	500
Preferred stock \$1,000 par value	12,540	12,540
Common stock, \$1 par value; 1,000,000 shares authorized, 645,785 issued and outstanding for 2022 and 2021	646	646
Additional paid-in-capital	6,476	6,974
Retained earnings	44,541	43,386
Treasury stock, shares at cost	(698)	—
Accumulated other comprehensive loss	<u>(22,755)</u>	<u>(490)</u>
Total shareholders' equity	<u>122,688</u>	<u>63,556</u>
Total liabilities and shareholders' equity	<u>\$ 742,025</u>	<u>\$ 625,443</u>

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF INCOME
Years Ended December 31, 2022 and 2021

(dollars in thousands)	2022	2021
Interest income:		
Interest and fees on loans	\$ 16,787	\$ 17,774
Interest on investment securities	5,637	2,584
Interest on interest-bearing deposits and short-term investments	1,323	214
Total interest income	<u>23,747</u>	<u>20,572</u>
Interest expense:		
Interest on deposits	385	505
Interest on short-term borrowings	7	4
Total interest expense	<u>392</u>	<u>509</u>
Net interest income	23,355	20,063
Provision for loan losses	976	806
Net interest income after provision for loan losses	<u>22,379</u>	<u>19,257</u>
Noninterest income:		
Gain on sale of loans	16	461
Service charges and other fees on deposits	1,746	1,548
Other fee income	69	48
Gain on sale of real estate	-	4,718
Other income	3,647	3,328
Total non-interest income	<u>5,478</u>	<u>10,103</u>
Noninterest expense:		
Salaries and benefits	13,445	13,578
Occupancy	2,195	2,588
Furniture and equipment	651	633
Data processing and information technology	3,201	3,355
Office expense	657	771
Professional fees	1,873	1,880
Security	429	464
FDIC insurance assessment	212	177
Lending expense	275	476
Other	3,145	1,936
Total non-interest expense	<u>26,083</u>	<u>25,858</u>
Income before income taxes	1,774	3,502
Income tax expense	392	981
Net income	<u>\$ 1,382</u>	<u>2,521</u>
Preferred stock dividends	(120)	(25)
Net income available to common shareholders	<u>\$ 1,262</u>	<u>\$ 2,496</u>
Basic and diluted net income per common share	\$ 1.95	\$ 4.04
Dividend per common share	\$ 0.17	\$ 0.16
Weighted average number of common shares outstanding	645,785	618,530

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
Years Ended December 31, 2022 and 2021

(dollars in thousands)	2022	2021
Net income	\$ 1,382	\$ 2,521
Other comprehensive loss:		
Unrealized loss on available-for-sale investment securities	(30,924)	(4,433)
Income tax benefit	8,659	1,242
Total other comprehensive loss	(22,265)	(3,191)
Total comprehensive loss	<u>\$ (20,883)</u>	<u>\$ (670)</u>

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years Ended December 31, 2022 and 2021

(dollars in thousands)	Preferred Stock	Common Stock	Additional Paid-in-Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance December 31, 2020	500	597	3,169	40,988	—	2,701	47,955
Net income	—	—	—	2,521	—	—	2,521
Issuance of shares of							
preferred stock - Series D	8,540	—	—	—	—	—	8,540
preferred stock - Series E	4,000	—	—	—	—	—	4,000
Net proceeds from issuance of shares of common stock		49	3,828	—	—	—	3,877
Repurchase & retirement of common stock	—	(1)	(23)	—	—	—	(24)
Cash dividends paid:							
Preferred stock -							
Series A - \$1.25 per share	—	—	—	(25)	—	—	(25)
Common stock - \$.16 per share	—	—	—	(98)	—	—	(98)
Other comprehensive loss	—	—	—	—	—	(3,191)	(3,191)
Balance December 31, 2021	<u>\$ 13,040</u>	<u>\$ 646</u>	<u>\$ 6,974</u>	<u>\$ 43,386</u>	<u>\$ -</u>	<u>\$ (490)</u>	<u>\$ 63,556</u>
Net income	—	—	—	1,382	—	—	1,382
Issuance of shares of							
preferred stock - Series F	81,938	—	(498)	—	—	—	81,440
Redemption of shares of preferred stock - Series A	(500)	—	—	—	—	—	(500)
Cash dividends paid:							
Preferred stock -							
Series A - \$1.25 per share	—	—	—	(9)	—	—	(9)
Series D - \$1.00 per share	—	—	—	(85)	—	—	(85)
Series E - \$1.00 per share	—	—	—	(26)	—	—	(26)
Common stock - \$.17 per share	—	—	—	(107)	—	—	(107)
Other comprehensive loss	—	—	—	—	—	(22,265)	(22,265)
Treasury stock, at cost	—	—	—	—	(698)	—	(698)
Balance December 31, 2022	<u>\$ 94,478</u>	<u>\$ 646</u>	<u>\$ 6,476</u>	<u>\$ 44,541</u>	<u>\$ (698)</u>	<u>\$ (22,755)</u>	<u>\$ 122,688</u>

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2022 and 2021

(dollars in thousands)	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 1,382	\$ 2,521
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	603	478
Amortization of deposit intangible	112	167
Provision for loan losses	976	806
Deferred income taxes	687	(1,769)
Net amortization of investment securities	1,774	1,657
Realized loss on equity security	111	9
Increase in value of BOLI	(321)	(228)
Gain on sale of loans	(16)	(461)
Originations of loans held for sale	-	(16,851)
Proceeds from sales of loans held for sale	576	19,108
Valuation adjustment on REO	-	60
Loss on sale of REO	-	8
Gain on sale of real estate	-	(4,718)
Changes in:		
(Increase) decrease in accrued interest receivable	(810)	965
(Decrease) increase in other assets	233	(1,679)
(Decrease) increase in other liabilities	(2,135)	2,629
Net cash provided by operating activities	3,172	2,702
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) decrease in loans receivable, net	(39,395)	48,937
Purchases of investment securities available-for-sale	(130,343)	(166,805)
Purchase of restricted stock	(348)	-
Proceeds received from maturity and sales of available-for-sale investment securities	36,572	29,726
Proceeds received from redemption of restricted stock	383	198
Purchases of premises and equipment	(3,433)	(5,926)
Proceeds from the sale of premises and equipment	-	4,859
Proceeds from BOLI	530	-
Proceeds from sale of REO	-	192
Net cash used in investing activities	(136,034)	(88,819)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in total deposits	62,508	45,031
Net (decrease) increase short-term borrowing	(2,923)	2,558
Proceeds from sale of common stock	-	3,877
Proceeds from sale of preferred stock	81,440	12,540
Cash dividends paid	(227)	(124)
Payment to redeem preferred stock	(450)	-
Discount on redemption of preferred stock	(50)	-
Retirement of common stock	-	(24)
Repurchase of common stock	(698)	-
Net cash provided by financing activities	139,600	63,858
Net increase (decrease) in cash and cash equivalents	6,738	(22,259)
Cash and cash equivalents at beginning of year	67,455	89,714
Cash and cash equivalents at end of year	\$ 74,193	\$ 67,455

Consolidated Statements of Cash Flows (continued)

(dollars in thousands)	2022	2021
SUPPLEMENTAL DISCLOSURES OF CASH FLOW AND NONCASH INFORMATION:		
Cash paid during the year for:		
Interest on deposits and other borrowings	\$ 386	\$ 596
Income taxes	545	1,090
Noncash transactions:		
Change in unrealized loss on investment securities available-for-sale, net	\$ (22,265)	\$ (3,191)
Change in deferred tax	(646)	-
Transfer between loans and loans held for sale	75	-

See Notes to Consolidated Financial Statements.

Notes to Consolidated Statements**Years Ended December 31, 2022 and 2021 (dollars in thousands)**

1. Summary Of Significant Accounting Policies

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

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

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

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

unforeseen changes could occur and have an adverse effect on the Company’s financial position.

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

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

Investment Securities – The Company may segregate its investments securities into the following three categories: trading, held-to-maturity, and available-for-sale. Trading securities are purchased and held principally for the purpose of reselling them within a short period of time. Their unrealized gains and losses are included in earnings. Securities classified as held-to-maturity are accounted for at amortized cost and require the Company to have both positive intent and ability to hold these securities to maturity. Debt securities not classified as either trading or held-to-maturity are considered to be available-for-sale. Unrealized gains and losses on available-for-sale debt securities are excluded from earnings and reported, net of deferred taxes, as accumulated other comprehensive income, a separate component of shareholders’ equity. Premiums are amortized and discounts accreted using the level yield method. For

callable debt securities purchased at a premium, the amortization period is shortened to the earliest call date.

Purchases and sales of securities are recorded on a trade date basis. Realized gains or losses on the sale of investment securities are reported in earnings and determined using the adjusted cost of the specific security sold. Investment in Federal Reserve Bank and Federal Home Loan Bank (FHLB) stock are considered restricted as to marketability. Because no ready market exists for these stocks, the Bank's investment is carried at cost. Declines in the fair value of individual securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. Factors affecting the determination of whether other-than-temporary impairment has occurred include a downgrading of the security by a rating agency, a significant deterioration in the financial condition of the issuer or that management would not have the intent and ability to hold a security for a period of time sufficient to allow for any anticipated recovery in fair value.

Equity Investments — The Company owns a mutual fund security that is considered an equity investment with readily determinable fair value and changes to fair value are recorded in other noninterest income. The Company's investments in correspondent bank stock (FHLB) and certain other bank holding company stocks are equity investments without readily determinable fair values. Equity investments without readily determinable fair values are measured at cost, less impairment, and are adjusted for observable price changes which is recorded in noninterest income. During 2022, the Company recorded \$111 of impairment charges and \$9 during 2021. The Company recorded no impairment charges to impair the Company's investment in correspondent or other bank holding company stocks in 2022 or 2021.

Loans — Loans are reported at the principal amount outstanding net of deferred fees and costs and the allowance for loan losses. Interest on loans is accrued at the contractual rate based upon the principal amount outstanding. Loans fees and related direct loan origination costs are deferred and recognized as a part of interest income over the

life of the loan as an adjustment to the loan yield. Loans are placed on non-accrual status when management deems the collectibility of interest is doubtful. Interest ultimately collected is recorded in the period received as a reduction of the principal loan balance. Accruals are resumed on loans only when they are brought fully current with respect to interest and principal and when, in the judgment of management, the loan is estimated to be fully collectible as to both principal and interest.

Loans are considered impaired when, based on current information, it is probable that the Company will not collect all principal and interest payments according to contractual terms. Generally, loans are considered impaired once principal and interest payments are past due more than 90 days and they are placed on non-accrual. Management also considers the financial condition of the borrower, cash flows of the loan and the value of the related collateral. Impaired loans do not include large groups of smaller balance homogenous credits such as residential real estate, consumer installment loans, and commercial leases, which are evaluated collectively for impairment. Loans specifically reviewed for impairment are not considered impaired during periods of "minimal delay" in payment (usually ninety days or less) provided eventual collection of all amounts due is expected. The impairment of a loan is measured based upon the present value of future cash flows discounted at the loan's effective interest rate, except that as a practical alternative, the Company may measure impairment based on a loan's observable market price or the fair value of the collateral, if the loan is collateral dependent. The Company recognizes interest income on impaired loans on a cash basis if the borrower demonstrates the ability to meet the contractual obligation and collateral is sufficient. If there is doubt regarding the borrower's ability to make payments or the collateral is not sufficient, payments received are accounted for as reduction in principal.

Purchased Credit Impaired ("PCI") Loans - As a part of a previous acquisition, the Company acquired certain loans for which there was, at acquisition, evidence of deterioration of credit quality since origination. These purchased credit impaired loans were recorded at the acquisition date fair value,

such that there is no carryover of the seller's allowance for loan losses. After acquisition, losses are recognized by an increase in the allowance for loan losses. Such purchased credit impaired loans are accounted for individually. The Company estimated the amount and timing of expected cash flows for each loan, and the expected cash flows in excess of the amount paid are recorded as interest income over the remaining life of the loan (accretable yield). The excess of the loan's contractual principal and interest over expected cash flows is not recorded (non-accretable difference). Over the life of the loan, expected cash flows continue to be estimated. If the present value of the expected cash flows is less than the carrying amount, a loss is recorded. If the present value of the expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

Trouble Debt Restructuring (TDR) - Under certain circumstances, the Company will provide borrowers relief through loan restructurings. A restructuring of debt constitutes a TDR if the Company for economic or legal reasons related to the borrower's financial difficulties grants a concession to the borrower that it would not otherwise consider. Restructured loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above in the calendar year of the restructuring. In subsequent years, a restructured loan may cease being classified as impaired if the loan was modified at a market rate and is performing according to the modified terms. TDR concessions can include reduction of interest rates, extension of maturity dates, forgiveness of principal or interest due, or acceptance of other assets in full or partial satisfaction of the debt. Restructured loans can involve loans remaining on nonaccrual, moving to nonaccrual, or continuing on accrual status, depending on the individual facts and circumstances of the borrower. Nonaccrual restructured loans are included and treated with other nonaccrual loans.

Loans Held for Sale – Loans originated for sale are carried at the lower of aggregate cost or market. Market value is based on commitments from

investors. Gains and losses on sales are determined using the specific identification method.

Allowance for Loan Losses – The allowance for loan losses is maintained at a level management believes to be adequate to absorb probable losses inherent in the loan portfolio. The calculation is based on the size and current risk characteristics of the loan portfolio, an assessment of individual problem loans and actual loss experience, current economic events in specific industries or geographical areas, these events would include unemployment levels, and other pertinent factors, including regulatory guidance and general economic conditions. Determination of the allowance is inherently subjective as it requires significant estimates, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogenous loans based on historical loss experience, and consideration of current economic trends, all of which may be susceptible to significant change. Loan losses are charged off against the allowance, while recoveries of amounts previously charged off are credited to the allowance. A provision for loan losses is charged to operations based on management's periodic evaluation of the factors previously mentioned, as well as other pertinent factors. Evaluations are conducted at least quarterly or more often if deemed necessary.

The allowance for loan losses consists of a specific component and a nonspecific component. The components of the allowance for loan losses represent an estimation done pursuant to Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 450 *Contingencies* and ASC Topic 310 *Receivables*. The specific component of the allowance for loan losses reflects expected losses resulting from analysis developed through credit allocations for individual loans and historical loss experience for each loan category. The specific credit allocations are based on a regular analysis of all loans over a fixed-dollar amount where the internal credit rating is at or below a predetermined classification. The historical loan loss rate is determined by using a rolling average annual loss over the most recent eight quarters. The loss analysis is performed quarterly and loss factors are updated regularly based on actual experience. The specific component of the allowance

for loan losses also includes management's determination of the amounts necessary for concentrations and changes in portfolio mix and volume.

The nonspecific portion of the allowance reflects management's estimate of probable inherent but undetected losses within the portfolio due to uncertainties in economic conditions, delays in obtaining information, including unfavorable information about a borrower's financial condition, the difficulty in identifying triggering events that correlate perfectly to subsequent loss rates, and risk factors that have not yet manifested themselves in loss allocation factors. In addition, the nonspecific allowance includes a component that explicitly accounts for the inherent imprecision in loan loss migration models. Historical loss experience data used to establish estimates may not precisely correspond to the current portfolio. The uncertainty surrounding the strength and timing of economic cycles, including management's concerns over the effects of the prolonged economic downturn and also losses used in the migration analysis may not be representative of actual losses inherent in the portfolio that have not yet been realized.

Bank Premises and Equipment – Properties and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets. Useful lives range from three to 10 years for furniture, fixtures, and equipment; three to five years for software, hardware, and data handling equipment; and 10 to 40 years for buildings and building improvements. Land is carried at cost and is not depreciated. Land improvements are amortized over a period of 15 years; and leasehold improvements amortized over the shorter of their estimated useful lives, or the stated duration of the lease plus the optional renewal period, if applicable. Maintenance and repairs are charged to expense as incurred, while improvements which extend the useful life are capitalized and depreciated over the estimated remaining life of the asset.

Leases - The Company adopted ASU 2016-02 effective January 1, 2019. The Company is obligated under non-cancelable operating leases for premises

for certain branches, other office locations and office equipment. These leases have original terms ranging from 2 years to over 10 years and at December 31, 2022 have remaining terms of up to 9 years. Certain leases contain renewal options and escalation clauses which can increase rental expenses based principally on the consumer price index and fair market rental value provisions. Right-Of-Use Lease Assets are carried on the balance sheet, in other assets, at amortized cost and corresponding lease liabilities are carried on the balance sheet, in other liabilities, at present value of the future minimum lease payments, adjusted for any initial direct costs and incentives. All of the Company's current outstanding leases are classified as operating leases.

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

Advertising Costs – Advertising costs are generally expensed as incurred. Advertising expenses totaled \$106 and \$56 for the years ended December 31, 2022 and 2021, respectively.

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

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

Transfer of Financial Assets – Transfer of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Fair Value Measurements – The Company follows the guidance of ASC Topic 825, *Financial Instruments* and ASC Topic 820, *Fair Value Measurements*. ASC Topic 825 permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. ASC Topic 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under ASC Topic 820, fair value measurements are not adjusted for transaction costs. ASC topic 820 establishes a fair value hierarchy that prioritizes unadjusted quoted prices in active markets for identical financial assets or liabilities (Level 1 measurements) and gives the lowest priority to unobservable inputs (Level 3 measurements).

Earnings Per Share ("EPS") – Net income available to common shareholders is adjusted to give effect to dividends on preferred stock. Net income available to common shareholders for basic and diluted EPS purposes is \$1,262 and \$2,496 for the years ended December 31, 2022 and 2021, respectively. EPS is computed based on the weighted average number of common shares outstanding during the year (645,785 for 2022 and 618,530 for 2021). Basic and diluted EPS are the same, as the Company had no dilutive common stock equivalents outstanding as of December 31, 2022 or 2021 and for the years then ended.

Income Taxes – The Company and its wholly owned subsidiary file a consolidated federal income tax return. Deferred income tax assets and liabilities are computed annually for differences between financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on the enacted tax laws and rates applicable to periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. Income tax expense is based upon the results of operations, adjusted for permanent differences between items of income or expense reported in the financial statements and those reported for tax purposes. The Company does not have any uncertain tax positions and did not recognize any adjustments for unrecognized tax benefits. With limited exception, the Company is no longer subject to federal income tax examination by taxing authorities for years before 2019.

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

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

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

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

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

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

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

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

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

Compensating Balances - Compensating balance arrangements exist with various correspondent banks. These noninterest-bearing deposits are maintained in lieu of cash payments for standard bank services. The required balances amounted to \$250 at December 31, 2022 and 2021.

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

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

The Company only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of Topic 606, the Company assesses the goods or services that are promised within each contract and identifies those that contain performance obligations and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction

price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied. The material groups of noninterest income that this methodology is applied to are defined as follows:

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

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

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

New Accounting Pronouncements –

ASU 2016-13 – Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). ASU 2016-13 significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The standard will replace the current incurred loss approach with an expected loss model, referred to as the current expected credit loss (“CECL”) model. The new standard will apply to financial assets subject to credit losses and measured at amortized cost and certain off-balance-sheet credit exposures, which include, but are not limited to, loans, leases, held-to-maturity securities, loan commitments and financial guarantees. ASU 2016-13 simplifies the accounting for purchased credit-impaired debt securities and loans and expands the disclosure requirements regarding an entity’s assumptions, models and methods for estimating the allowance for loan and lease losses. In addition, entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. Upon adoption, ASU 2016-13 provides for a modified retrospective transition by means of a cumulative effect adjustment to equity as of the beginning of the period in which the guidance is effective.

The Company is finalizing its evaluation of the adoption of this ASU and plans to adopt as of January 1, 2023. The Company currently estimates the allowance for loan losses will increase by a range of \$1,000 and \$3,000. In addition, the Company expects to recognize a liability for unfunded commitments between \$500 and \$1,000 upon adoption. The Company will finalize the adoption during the first quarter of 2023.

In March 2020, the FASB issued ASU No. 2020-04 “Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting.” These amendments provide temporary optional guidance to ease the potential burden in accounting for reference rate reform. The ASU provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference the

London Interbank Offered Rate (“LIBOR”) or another reference rate expected to be discontinued. It is intended to help shareholders during the global market-wide reference rate transition period. The guidance is effective for all entities as of March 12, 2020 through December 31, 2022. Subsequently, in January 2021, the FASB issued ASU 2021-01 “Reference Rate Reform (Topic 848): Scope.” This ASU clarifies that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. The ASU also amends the expedients and exceptions in Topic 848 to capture the incremental consequences of the scope clarification and to tailor the existing guidance to derivative instruments affected by the discounting transition. An entity may elect to apply ASU 2021-01 on contract modifications that change the interest rate used for margining, discounting, or contract price alignment retrospectively as of any date from the beginning of the interim period that includes March 12, 2020, or prospectively to new modifications from any date within the interim period that includes or is subsequent to January 7, 2021, up to the date that financial statements are available to be issued. An entity may elect to apply ASU 2021-01 to eligible hedging relationships existing as of the beginning of the interim period that includes March 12, 2020, and to new eligible hedging relationships entered into after the beginning of the interim period that includes March 12, 2020. The Company does not expect the change from LIBOR to have a material impact on the Company. However, continues to assess ASU 2020-04 and its impact on the Company's transition away from LIBOR for its loan and other financial instruments.

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

2. Investment Securities

At December 31, 2022 and 2021, the amortized cost and fair value of investment securities available-for-sale, with gross unrealized gains and losses, are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2022:				
U.S. Treasury securities	\$ 39,806	\$ -	\$ (3,726)	\$ 36,080
U.S. Government Agencies	19,146	132	(31)	19,247
Mortgage-Backed Securities:				
Pass-through securities:				
Issued by FNMA, GNMA and FHLMC	82,906	302	(5,020)	78,188
Collateralized Mortgage Obligations:				
Collateralized by FNMA, FHLMC and GNMA mortgage-backed securities	126,878	9	(15,405)	111,482
Municipal securities	42,009	-	(7,468)	34,541
Other debt securities	3,000	-	(398)	2,602
Total available-for-sale	\$ 313,745	\$ 443	\$ (32,048)	\$ 282,140
December 31, 2021:				
U.S. Treasury securities	\$ 14,996	\$ -	\$ (42)	\$ 14,954
U.S. Government Agencies	7,995	237	(3)	8,229
Mortgage-Backed Securities:				
Pass-through securities:				
Issued by FNMA, GNMA and FHLMC	43,853	253	(629)	43,477
Collateralized Mortgage Obligations:				
Collateralized by FNMA, FHLMC and GNMA mortgage-backed securities	115,925	834	(1,776)	114,983
Private label mortgage-backed securities	562	-	-	562
Municipal securities	35,458	772	(313)	35,917
Other debt securities	3,000	-	(14)	2,986
Total available-for-sale	\$ 221,789	\$ 2,096	\$ (2,777)	\$ 221,108

2. Investment Securities (continued)

Gross unrealized losses and fair value by length of time that the individual available-for-sale investment securities have been in a continuous unrealized loss position that are not deemed to be other-than-temporarily impaired at December 31, 2022 and 2021 are as follows:

	Number of Securities	Fair Value	Less than 12 Months	12 months or More	Total Unrealized Losses
December 31, 2022:					
U.S. Treasury Securities	8	\$ 36,080	\$ 153	\$ 3,573	3,726
U.S. Government Agencies	6	12,547	29	2	31
Mortgage-Backed Securities	115	178,709	3,437	16,988	20,425
Municipal securities	29	34,541	1,326	6,142	7,468
Other Debt Securities	3	2,602	-	398	398
	<u>161</u>	<u>\$ 264,479</u>	<u>\$ 4,945</u>	<u>\$ 27,103</u>	<u>\$ 32,048</u>
December 31, 2021:					
U.S. Treasury Securities	3	\$ 14,954	\$ 42	\$ -	\$ 42
U.S. Government Agencies	2	351	-	3	3
Mortgage-Backed Securities	49	117,193	2,405	-	2,405
Private label mortgage-backed securities	1	562	-	-	-
Municipal securities	10	19,910	263	50	313
Other Debt Securities	3	2,986	14	-	14
	<u>68</u>	<u>\$ 155,956</u>	<u>\$ 2,724</u>	<u>\$ 53</u>	<u>\$ 2,777</u>

At December 31, 2022, the entire available-for-sale investment portfolio had a fair value of approximately \$282,100 of which \$264,500 of the securities had some unrealized losses from their purchase price. The securities representing the unrealized losses in the available-for-sale portfolio all have modest duration risk, high credit ratings, and represented 94% of the portfolio carrying value. The unrealized losses that exist are the result of market changes in interest rates since the original purchase and not credit deterioration.

Management systematically evaluates investment securities for other-than-temporary declines in fair value on a quarterly basis. This analysis requires management to consider various factors, which include (1) duration and magnitude of the decline in value, (2) the financial condition of the issuer and (3) structure of the security. An impairment loss is recognized in earnings only when (1) the Company intends to sell the debt security; (2) it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis or (3) the Company does not expect to recover the entire amortized cost basis of the security. In situations where the Company intends to sell or when it is more likely than not that the Company will be required to sell the security, the entire impairment loss must be recognized in earnings. In all other situations, only the portion of the impairment loss representing the credit loss must be recognized in earnings, with the remaining loss recognized in shareholder's equity as a component of other comprehensive income, net of deferred taxes. At December 31, 2022, management determined that the losses in the available-for-sale portfolio are temporary.

2. Investment Securities (continued)

The following is a summary of the amortized cost and approximate fair value of debt and equity securities available-for-sale by contractual maturity as of December 31, 2022 and 2021. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	2022		2021	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasury securities maturing				
Due after 1 year through 5 years	\$ 34,815	\$ 31,742	\$ 10,006	\$ 10,000
Due after 5 years through 10 years	4,991	4,338	4,990	4,954
U.S. Government Agency maturing				
Due 1 year or less	8,491	8,465	-	-
Due after 1 year through 5 years	2,061	2,059	2,639	2,862
Due after 5 years through 10 years	7,871	7,996	4,594	4,605
Due after 10 years	723	727	762	762
Mortgage-backed securities maturing				
Due 1 year or less	2,808	2,766	2,829	2,855
Due after 1 year through 5 years	5,882	5,600	3,789	3,887
Due after 5 years through 10 years	27,884	24,900	26,496	26,774
Due after 10 years	173,210	156,404	126,664	124,944
Private label mortgage-backed security maturing				
Due after 10 years	-	-	562	562
Municipal securities maturing				
Due after 1 year through 5 years	1,005	994	1,008	1,111
Due after 5 years through 10 years	24,335	20,287	14,083	14,057
Due after 10 years	16,669	13,260	20,367	20,749
Other debt securities maturing				
Due after 5 years through 10 years	3,000	2,602	3,000	2,986
Total	<u>\$ 313,745</u>	<u>\$ 282,140</u>	<u>\$ 221,789</u>	<u>\$ 221,108</u>

Proceeds from the sale of securities available-for-sale were \$-0- for the years ended December 31, 2022 and 2021 and resulted in gross realized gains or losses of \$-0-.

Securities of \$87,100 and \$72,500 at December 31, 2022 and 2021, respectively, were pledged as collateral for public deposits and for other purposes required by law. At December 31, 2022 and 2021, the carrying value of securities underlying repurchase agreements were \$8,600 and \$9,700, respectively.

3. Loans Receivable

Loans receivable and allowance for loan losses consist of the following at December 31, 2022 and 2021:

	2022			2021		
	Originated	Acquired	Total	Originated	Acquired	Total
Construction and land development	\$ 38,789	\$ -	\$ 38,789	\$ 21,347	\$ -	\$ 21,347
Real estate mortgage:						
Commercial properties	155,670	16,767	172,437	141,931	21,064	162,995
Residential properties	80,028	4,431	84,459	86,851	4,072	90,923
Total real estate mortgage	274,487	21,198	295,685	250,129	25,136	275,265
Commercial and industrial	45,563	1,385	46,948	23,779	3,249	27,028
Consumer	1,265	28	1,293	1,652	464	2,116
Total gross loans	321,315	22,611	343,926	275,560	28,849	304,409
Less unearned income and deferred fees, net	(1,355)	-	(1,355)	(1,040)	-	(1,040)
Loans, net	319,960	22,611	342,571	274,520	28,849	303,369
Allowance for loan/lease losses	(6,238)	(349)	(6,587)	(5,759)	(120)	(5,879)
Loans, net of allowance	<u>\$ 313,722</u>	<u>\$ 22,262</u>	<u>\$ 335,984</u>	<u>\$ 268,761</u>	<u>\$ 28,729</u>	<u>\$ 297,490</u>

3. Loans Receivable (continued)

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

	For the Year Ended December 31, 2022	For the Year Ended December 31, 2021
Balance at beginning of period	\$ 23,395	\$ 30,753
Change due to payments received and accretion	(5,992)	(7,709)
Other	484	351
Balance at end of period	<u>\$ 17,887</u>	<u>\$ 23,395</u>

The following table presents changes for the years ended December 31, 2022 and 2021 in the accretable yield on purchased credit impaired loans for which the Company applies ASC 310-30.

	2022	2021
Accretable yield at beginning of period, January 1	\$ 5,320	\$ 6,331
Accretion	(1,765)	(1,817)
Reclassification of nonaccretable difference due to improvement in expected cash flows	581	1,094
Other changes, net	239	(288)
Accretable yield at end of period, December 31	<u>\$ 4,375</u>	<u>\$ 5,320</u>

Major loan concentrations are as follows:

	2022			2021		
	Originated	Acquired	Total	Originated	Acquired	Total
Religious organization loans						
collateralized by real estate	\$ 49,342	\$ 20,289	\$ 69,631	\$ 54,707	\$ 16,791	\$ 71,498
Commercial loans to religious organizations	39	224	263	380	280	660
Total loans to religious organizations	<u>\$ 49,381</u>	<u>\$ 20,513</u>	<u>\$ 69,894</u>	<u>\$ 55,087</u>	<u>\$ 17,071</u>	<u>\$ 72,158</u>

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

3. Loans Receivable (continued)

The Company's goal is to mitigate risks from an unforeseen threat to the loan portfolio as a result of an economic downturn or other negative influences. Plans that aid in mitigating these potential risks in managing the loan portfolio include: enforcing loan policies and procedures, evaluating the borrower's business plan through the loan term, identifying and monitoring primary and alternative sources of repayment, and obtaining adequate collateral to mitigate loss in the event of liquidation. Specific reserves are established based upon credit and/or collateral risks on an individual loan basis. A risk rating system is used to estimate potential loss exposure and to provide a measuring system for setting general and specific reserve allocations.

The Company maintains a general valuation allowance for each portfolio segment. These portfolio segments include commercial and industrial, commercial real estate, real estate construction, residential real estate, and consumer with risk characteristics described as follows:

As of December 31, 2022, the real estate loan portfolio constituted 86% of the total loan portfolio. This can be broken down further into the following categories: 11% construction and land development, 50% commercial real estate and 24% residential real estate loans, as a percent of total gross loans.

The Company's construction and land development loans are secured by real property where the loan funds will be used to acquire land and to construct or improve appropriately zoned real property for the creation of income producing or owner-occupied commercial properties. Borrowers are generally required to put equity into the project at levels determined by the loan committee and usually are underwritten with a maximum term of 24 months.

Commercial real estate loans are secured by improved real property which is generating income in the normal course of business. Debt service coverage, assuming stabilized occupancy, must be satisfied to support a permanent loan. The debt service coverage ratio is ordinarily at 1.20 to 1.00. These loans are generally underwritten with a term not greater than 10 years or the remaining useful life of the property, whichever is lower. The preferred term is between 5 to 7 years, with amortization to a maximum of 25 years.

Residential real estate loans are secured by the improved real property (normally the primary or secondary residence) of the borrower and are usually underwritten with a term of 1 to 5 years but may be underwritten with terms up to 30 years.

The Company also makes commercial and industrial loans for a variety of purposes, which include working capital, equipment and accounts receivable financing. This category represented about 13% of the loan portfolio at December 31, 2022. Loans in this category generally carry a variable interest rate. Commercial loans meet reasonable underwriting standards, including appropriate collateral and cash flow necessary to support debt service. Personal guarantees are generally required but may be limited.

Approximately 1% of the loan portfolio at December 31, 2022 consisted of home equity loans and lines of credit and other consumer loans. These loans, while making up a small portion of the loan portfolio, demand the same emphasis on underwriting and credit evaluation as other types of loans advanced by the Company.

3. Loans Receivable (continued)

A summary of transactions in the allowance for loan losses is as follows for the years ended December 31, 2022 and 2021. The beginning balances and provision amounts have changed to more closely reflect the underlying calculation of the allowance for loan losses:

(dollars in thousands)	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
Balance, beginning of year 2022	\$ 464	\$ 2,239	\$ 2,037	\$ 1,006	\$ 133	\$ 5,879
Provision charged to operations	2	(176)	(414)	1,201	363	976
Loans charged off	-	-	(8)	(40)	(802)	(850)
Recoveries	-	64	4	32	482	582
Balance, end of year 2022	<u>\$ 466</u>	<u>\$ 2,127</u>	<u>\$ 1,619</u>	<u>\$ 2,199</u>	<u>\$ 176</u>	<u>\$ 6,587</u>
Ending balance:						
Individually evaluated for impairment	\$ -	\$ 1,483	\$ 643	\$ -	\$ -	\$ 2,126
Purchase credit impaired loans	-	172	1	176	-	349
Collectively evaluated for impairment	466	472	975	2,023	176	4,112
Total	<u>\$ 466</u>	<u>\$ 2,127</u>	<u>\$ 1,619</u>	<u>\$ 2,199</u>	<u>\$ 176</u>	<u>\$ 6,587</u>
Loans:						
Individually evaluated for impairment	\$ -	\$ 8,677	\$ 5,809	\$ -	\$ 69	\$ 14,555
Purchase credit impaired loans	-	13,755	3,585	869	27	18,236
Collectively evaluated for impairment	38,789	150,005	75,065	46,079	1,197	311,135
Total	<u>\$ 38,789</u>	<u>\$ 172,437</u>	<u>\$ 84,459</u>	<u>\$ 46,948</u>	<u>\$ 1,293</u>	<u>\$ 343,926</u>
Balance, beginning of year 2021	\$ 476	\$ 2,773	\$ 868	\$ 1,011	\$ 51	\$ 5,179
Provision charged to operations	(12)	(548)	1,204	(30)	192	806
Loans charged off	-	(50)	(177)	(2)	(288)	(517)
Recoveries	-	64	142	27	178	411
Balance, end of year 2021	<u>\$ 464</u>	<u>\$ 2,239</u>	<u>\$ 2,037</u>	<u>\$ 1,006</u>	<u>\$ 133</u>	<u>\$ 5,879</u>
Ending balance:						
Individually evaluated for impairment	\$ -	\$ 3	\$ 132	\$ 548	\$ -	\$ 683
Purchase credit impaired loans	-	51	9	60	-	120
Collectively evaluated for impairment	464	2,185	1,896	398	133	5,076
Total	<u>\$ 464</u>	<u>\$ 2,239</u>	<u>\$ 2,037</u>	<u>\$ 1,006</u>	<u>\$ 133</u>	<u>\$ 5,879</u>
Loans:						
Individually evaluated for impairment	\$ -	\$ 6,220	\$ 5,041	\$ 3,826	\$ -	\$ 15,087
Purchase credit impaired loans	-	17,768	3,155	2,540	52	23,515
Collectively evaluated for impairment	21,347	139,007	82,727	20,662	2,064	265,807
Total	<u>\$ 21,347</u>	<u>\$ 162,995</u>	<u>\$ 90,923</u>	<u>\$ 27,028</u>	<u>\$ 2,116</u>	<u>\$ 304,409</u>

Impairment is based on estimated collateral values for loans individually evaluated for impairment.

3. Loans Receivable (continued)

Credit quality indicators as of December 31, 2022 and 2021 are as follows:

Internally assigned grade:

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

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

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

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

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

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

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

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

3. Loans Receivable (continued)

Originated Loan Portfolio	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
December 31, 2021						
Pass	\$ 19,422	\$ 122,298	\$ 86,200	\$ 18,628	\$ 1,581	\$ 248,129
Special Mention	1,925	13,413	651	1,325	-	17,314
Substandard	-	6,220	-	3,826	71	10,117
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	\$ 21,347	\$ 141,931	\$ 86,851	\$ 23,779	\$ 1,652	\$ 275,560

Acquired Loan Portfolio	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
December 31, 2021						
Pass	\$ -	\$ 18,054	\$ 3,872	\$ 2,905	\$ 464	\$ 25,295
Special Mention	-	3,010	200	344	-	3,554
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	\$ -	\$ 21,064	\$ 4,072	\$ 3,249	\$ 464	\$ 28,849

Information on impaired loans for the years ended December 31, 2022 and 2021 is as follows:

	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2022							
Commercial real estate	\$ 5,414	\$ 8,575	\$ 102	\$ 8,677	\$ 1,483	\$ 5,850	\$ 55
Residential real estate	5,853	4,547	1,262	5,809	643	6,044	121
Commercial and industrial	4,393	(1,945)	1,945	-	-	4,545	239
Consumer	69	69	-	69	-	-	-
Total	\$ 15,729	\$ 11,246	\$ 3,309	\$ 14,555	\$ 2,126	\$ 16,439	\$ 415
December 31, 2021							
Commercial real estate	\$ 6,353	\$ 5,783	\$ 437	\$ 6,220	\$ 3	\$ 6,411	\$ 82
Residential real estate	5,332	2,588	1,238	3,826	132	5,375	49
Commercial and industrial	3,900	3,735	1,306	5,041	548	4,050	103
Total	\$ 15,585	\$ 12,106	\$ 2,981	\$ 15,087	\$ 683	\$ 15,836	\$ 234

3. Loans Receivable (continued)

The following table presents, by class of loan, an aging analysis and the recorded investments in loans past due as of December 31, 2022 and 2021:

Originated Loan Portfolio	Accruing Interest			Total Nonaccrual	Total Loans
	Current	30-89 Days Past Due	More Than 90 Days Past Due		
December 31, 2022					
Construction and land development	\$ 29,308	\$ 8,662	\$ -	\$ 819	\$ 38,789
Commercial real estate	143,605	7,060	1,106	3,899	155,670
Residential real estate	73,651	2,589	1	3,787	80,028
Commercial and industrial	43,674	117	678	1,094	45,563
Consumer	1,216	40	-	9	1,265
Total	\$ 291,454	\$ 18,468	\$ 1,785	\$ 9,608	\$ 321,315

Acquired Loan Portfolio	Accruing Interest			Total Nonaccrual	Total Loans
	Current	30-89 Days Past Due	More Than 90 Days Past Due		
December 31, 2022					
Commercial real estate	\$ 13,956	\$ 585	\$ 2,226	\$ -	\$ 16,767
Residential real estate	2,680	1,641	110	-	4,431
Commercial and industrial	1,130	-	255	-	1,385
Consumer	4	24	-	-	28
Total	\$ 17,770	\$ 2,250	\$ 2,591	\$ -	\$ 22,611

Originated Loan Portfolio	Accruing Interest			Total Nonaccrual	Total Loans
	Current	30-89 Days Past Due	More Than 90 Days Past Due		
December 31, 2021					
Construction and land development	\$ 21,347	\$ -	\$ -	\$ -	\$ 21,347
Commercial real estate	129,859	3,795	4,198	4,079	141,931
Residential real estate	81,437	2,322	238	2,854	86,851
Commercial and industrial	18,369	1,563	2,154	1,693	23,779
Consumer	1,634	8	7	3	1,652
Total	\$ 252,646	\$ 7,688	\$ 6,597	\$ 8,629	\$ 275,560

Acquired Loan Portfolio	Accruing Interest			Total Nonaccrual	Total Loans
	Current	30-89 Days Past Due	More Than 90 Days Past Due		
December 31, 2021					
Commercial real estate	\$ 16,336	\$ 3,021	\$ 1,707	\$ -	\$ 21,064
Residential real estate	3,962	110	-	-	4,072
Commercial and industrial	2,905	-	344	-	3,249
Consumer	464	-	-	-	464
Total	\$ 23,667	\$ 3,131	\$ 2,051	\$ -	\$ 28,849

3. Loans Receivable (continued)

The following table presents information on troubled debt restructurings modified during and for the years ended December 31, 2022 and 2021:

	Number of Loans	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
December 31, 2022	2	\$ 2,152	\$ 2,152
December 31, 2021	2	\$ 236	\$ 236

There were no troubled debt restructurings which have re-defaulted (defined as past due 90 days) during the years ended December 31, 2022 and 2021 that were restructured within the twelve months prior to such re-default.

Modifications consisted of two commercial real estate loans and one residential loan and one commercial loan in the years ended December 31, 2022 and 2021, respectively.

Troubled debt restructuring modifications during the years ended December 31, 2022 and 2021 consisted of reductions in principal, changes in interest rates and maturity extensions. Troubled debt restructurings are considered as part of the qualitative and quantitative analysis in the determining the adequacy of the allowance for loan losses.

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

Consumer mortgage loans collateralized by residential real estate property that were in process of foreclosure totaled \$-0- as of December 31, 2022 and 2021. Commercial mortgage loans collateralized by commercial real estate property that were in process of foreclosure totaled \$-0- as of December 31, 2022 and 2021. At December 31, 2022 and 2021, the Bank did not hold any REO.

Loans serviced for others and not reflected in the balance sheets are \$1,016 and \$1,101 at December 31, 2022 and 2021, respectively. Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors and foreclosure processing. Loan servicing income is recorded on the accrual basis and includes servicing fees from investors and certain charges collected from borrowers, such as late payment fees. There were no mortgage servicing rights capitalized during 2022 and 2021.

4. Premises and Equipment

The major categories of premises and equipment are as follows:

	2022	2021
Land	\$ 2,050	\$ 1,568
Bank premises	11,031	8,289
Furniture, fixtures and equipment	10,870	10,284
Leasehold improvements	1,051	1,015
Construction in progress	5,905	6,318
Total	30,907	27,474
Accumulated depreciation and amortization	(13,604)	(13,001)
Premises and equipment, net	<u>\$ 17,303</u>	<u>\$ 14,473</u>

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

Depreciation expense for the years ended December 31, 2022 and 2021 was \$603 and \$478, respectively.

5. Intangible Assets

Acquired intangible assets from the CNB transaction consisted of a core deposit intangible with a gross carrying amount of \$610 on November 1, 2019. Accumulated amortization was \$545 at December 31, 2022 for a net carrying amount of \$65. Amortization expense for the year ended December 31, 2022 and 2021 was \$112 and \$167, respectively. Amortization expense is expected to be approximately \$65 through 2023.

6. Deposits

At December 31, 2022 and 2021, certificates of deposit of \$250 or more totaled \$17,532 and \$16,435, respectively. These deposit totals do not include certificates of deposit held through the Certificate of Deposit Account Registry Service (CDARS) program which holds reciprocal balances at less than \$250. At December 31, 2022 and 2021, the Bank held certificates of deposit through the CDARS program which totaled \$22,706 and \$22,857, respectively. At December 31, 2022, the scheduled maturities of certificates of deposits are as follows:

2023	\$ 56,531
2024	10,802
2025	1,871
2026	498
2027 and thereafter	356
	<u>\$ 70,058</u>

Deposit overdrafts totaling \$123 at December 31, 2022 and \$120 at December 31, 2021 were reclassified to the appropriate loan classification on the balance sheet.

7. Short-Term Borrowing

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

	2022		2021	
	Amount	Rate	Amount	Rate
At year end:				
Retail repurchase agreements	\$ 4,260	0.05%	\$ 7,183	0.05%
Total	<u>\$ 4,260</u>		<u>\$ 7,183</u>	
Average for the year:				
Retail repurchase agreements	\$ 6,682	0.05%	\$ 6,220	0.06%
Total	<u>\$ 6,682</u>		<u>\$ 6,220</u>	
Maximum month end balance:				
Retail repurchase agreements	\$ 8,759		\$ 7,571	
Total	<u>\$ 8,759</u>		<u>\$ 7,571</u>	

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

The Bank periodically borrows under a secured line of credit from the Federal Home Loan Bank of Atlanta to meet short-term liquidity needs. At December 31, 2022 and 2021, advances totaled \$-0- from the Federal Home Loan Bank of Atlanta and were secured by a blanket lien on the Bank's qualifying commercial and residential mortgages and investment securities. The total credit available to the Bank at December 31, 2022 and 2021 was \$172,000 and \$154,000 respectively, based on qualifying collateral of \$86,000 and \$72,000, respectively. The Bank normally borrows in short term increments of 90 days or less maturities at fixed rates; however, varied rates and term products are available to the Bank.

The Bank also had an unsecured line of credit of \$3,000 with a correspondent available for overnight borrowing during 2022 and 2021. The \$3,000 line was drawn for one day to test during 2022 and 2021. There was \$-0- outstanding on the line of credit at December 31, 2022 or December 31, 2021.

8. Leases

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

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

	2022	2021
Operating lease cost	\$ 671	\$ 762
Short-term lease cost	165	258
Total lease cost	<u>\$ 836</u>	<u>\$ 1,020</u>

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows from leases	\$ 845	\$ 930
Weighted-average remaining lease term in years	6	7
Weighted-average discount rate	1.96%	1.96%

Net gains recognized from sale and leaseback transactions amounted to \$-0- and \$4,718 for the years ending December 31, 2022 and 2021, respectively.

The following table presents the unamortized balance of the Company's ROU assets and lease liabilities on the consolidated financial statements at December 31, 2022 and 2021:

	2022	2021
Total operating lease right-of-use assets	<u>\$ 3,563</u>	<u>\$ 4,234</u>
Total operating lease liabilities	<u>\$ 3,616</u>	<u>\$ 4,254</u>

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

At December 31, 2022, maturities of lease liabilities were as follows:

	Operating Leases
2023	\$ 732
2024	755
2025	522
2026	499
2027	392
Years thereafter	964
Total future minimum lease payments	<u>\$ 3,864</u>
Amounts representing interest	(248)
Total operating lease liabilities	<u>\$ 3,616</u>

9. Regulatory Matters

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

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

The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (the Basel III rules) became effective

for the Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. As a part of the new requirements, the Common Equity Tier 1 Capital ratio is calculated and utilized in the assessment of capital for all institutions. The Company has made an election to not have the net unrealized gain or loss on available-for-sale securities included in computing regulatory capital. Under the Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. Management believes as of December 31, 2022 and 2021, the Bank meets all capital adequacy requirement to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2022 and 2021, the most recent regulatory notification categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

	Actual		Minimum Required for Capital Adequacy Purposes		To be Categorized as Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2022:						
Total capital (to risk-weighted assets)	\$ 122,387	30.80%	\$ 41,719	10.50%	\$ 39,732	10.00%
Tier 1 capital (to risk-weighted assets)	117,400	29.55%	33,772	8.50%	31,786	8.00%
CET1 (to risk-weighted assets)	117,400	29.55%	27,812	7.00%	25,826	6.50%
Tier 1 capital (to average assets)	117,400	16.13%	47,298	6.50%	36,383	5.00%
As of December 31, 2021:						
Total capital (to risk-weighted assets)	\$ 67,048	19.74%	\$ 35,668	10.50%	\$ 33,970	10.00%
Tier 1 capital (to risk-weighted assets)	62,783	18.48%	28,874	8.50%	27,176	8.00%
CET1 (to risk-weighted assets)	62,783	18.48%	23,779	7.00%	22,080	6.50%
Tier 1 capital (to average assets)	62,783	10.08%	40,498	6.50%	31,153	5.00%

10. Income Taxes

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

	2022	2021
Current income tax expense		
Federal	\$ 750	\$ 1,121
State	329	428
Total current income tax expense	1,079	1,549
Deferred income tax benefit:		
Federal income tax	\$ (527)	\$ (439)
State income tax	(160)	(129)
Total deferred income tax expense	(687)	(568)
Total income tax expense	\$ 392	\$ 981

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

	2022	2021
Income before taxes	\$ 1,774	\$ 3,502
Federal income tax rate	21%	21%
Tax expense at statutory rate	373	735
Differences resulting from:		
State tax expense, net of federal	100	210
Bank owned life insurance	(48)	(49)
Tax-exempt interest	(30)	(30)
Nondeductible expenses	2	2
Other	(5)	113
Provision for income taxes	\$ 392	\$ 981
Effective tax rate	22%	28%

The major components of deferred tax assets and (liabilities) are summarized at December 31, 2022 and 2021, as follows:

	2022	2021
Accrued bonus and retirement benefits	\$ 135	\$ 142
Acquisition accounting adjustments	230	71
Allowance for loan losses	1,716	1,428
Deferred loan costs	751	662
Depreciation	(552)	(540)
Impairment of equity securities	34	34
Lease liability	993	1,166
Nonaccrual interest income	299	175
Right-of-use asset	(978)	(1,161)
Unrealized losses on AFS securities	8,849	191
Unrealized losses on equity securities	40	4
Net deferred tax asset	\$ 11,517	\$ 2,172

11. Profit Sharing Plan

The Company has a profit sharing plan, qualifying under Section 401(k) of the Internal Revenue Code, for those employees who meet the eligibility requirements set forth in the plan. The plan does not require the Company to match the participants' contributions. The Company contributions to the plan were \$301 for the year 2022 and \$298 for year 2021.

12. Employee Stock Ownership Plan

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

13. Commitments and Contingencies

In the normal course of business, there are outstanding various commitments and contingent liabilities, such as commitments to extend credit, which are not shown in the accompanying consolidated financial statements (dollars in thousands). The Company does not anticipate any material losses as a result of these transactions. At December 31, 2022 and 2021 the Bank had commitments to fund loans outstanding for approximately \$39,972 and \$47,877, respectively. The Bank also had standby letters of credit outstanding at December 31, 2022 and 2021 in the amount of \$924 and \$995 respectively. Such commitments and standby letters of credit are subject to the Bank's normal underwriting standards. Since many of the commitments are expected to expire without being completely drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

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

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

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

Under FASB ASC Topic 820, the Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine the fair value.

These hierarchy levels are:

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

Level 2 Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities which use observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

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

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

The types of instruments valued based on quoted market prices in active markets include most U.S. government and agency securities, liquid mortgage products, active listed equities and most money market securities. Such instruments are generally classified within Level 1 or Level 2 of the fair value hierarchy. As required by FASB ASC Topic 820, the Company does not adjust the quoted price for such instruments.

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

Such instruments are generally classified within Level 2 of the fair value hierarchy. Level 3 is for positions that are not traded in actual markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence, management's best estimate is used.

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

The following table sets forth assets of the Company for which fair values are determined on a recurring basis as of December 31, 2022 and 2021:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
December 31, 2022				
Assets:				
Investments securities available-for-sale :				
U.S. Treasury Securities	\$ 36,080	\$ -	\$ -	\$ 36,080
U.S. Government Agency	-	19,247	-	19,247
Mortgage-Backed Securities	-	78,188	-	78,188
Collateralized Mortgage Obligations	-	111,482	-	111,482
Municipal securities	-	34,541	-	34,541
Other debt securities	-	-	2,602	2,602
Total	<u>\$ 36,080</u>	<u>\$ 243,458</u>	<u>\$ 2,602</u>	<u>\$ 282,140</u>
Equity investments with readily determinable fair value	<u>\$ -</u>	<u>\$ 825</u>	<u>\$ -</u>	<u>\$ 825</u>
December 31, 2021				
Assets:				
Investments securities available-for-sale :				
U.S. Treasury Securities	\$ 14,954	\$ -	\$ -	\$ 14,954
U.S. Government Agency	-	8,229	-	8,229
Mortgage-Backed Securities	-	43,477	-	43,477
Collateralized Mortgage Obligations	-	114,983	-	114,983
Private label mortgage-backed securities	-	562	-	562
Municipal securities	-	35,917	-	35,917
Other debt securities	-	-	2,986	2,986
Total	<u>\$ 14,954</u>	<u>\$ 203,168</u>	<u>\$ 2,986</u>	<u>\$ 221,108</u>
Equity investments with readily determinable fair value	<u>\$ -</u>	<u>\$ 936</u>	<u>\$ -</u>	<u>\$ 936</u>

There were no transfers, sales, paydowns or reclassifications of Level 3 assets in 2022 or 2021 other than the fair value adjustment.

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

The following table sets forth the Company's financial assets and liabilities that were accounted for or disclosed at fair value on a nonrecurring basis as of December 31, 2022 and 2021:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Impairment Losses
December 31, 2022				
Assets:				
Impaired loans	\$ -	\$ -	\$ 3,309	\$ 2,216
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,309</u>	<u>\$ 2,216</u>
December 31, 2021				
Assets:				
Impaired loans	\$ -	\$ -	\$ 2,981	\$ 683
Loans held for sale	-	-	635	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,616</u>	<u>\$ 683</u>

Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or market value. Market value is measured based on the value of the collateral securing these loans and is classified at a Level 3 in the fair value hierarchy. Collateral may be real estate and/or accounts receivable. The value of real estate collateral is determined based on appraisal by qualified licensed appraisers hired by the Company. The value of business equipment, inventory and accounts receivable collateral is based on the net book value on the business' financial statements and, if necessary, discounted based on management's review and analysis. Appraised and reported values may be based upon knowledge changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business. Impaired loans are reviewed and evaluated on at least a quarterly

basis for additional impairment and adjusted accordingly, based on the same factors identified above.

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

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

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

Cash and Cash Equivalents

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

Short-term investments

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

Equity investments

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

Investment Securities Available-for-Sale

The fair values of securities were based upon quoted market prices.

Restricted Stock

The carrying amount of restricted stock approximates its fair value.

Loans Held for Sale

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

Loans Receivable, net

The fair value of the loan portfolio, with the exception of the adjustable rate portfolio, was calculated by discounting the scheduled cash flows through the estimated maturity using anticipated prepayment speeds and using discount rates that reflect the credit and interest rate risk inherent in each loan portfolio. The fair value of the adjustable loan portfolio was estimated by grouping the loans with similar characteristics and comparing the characteristics of each group to the prices quoted for similar types of loans in the secondary market. The fair value disclosures for both the fixed and adjustable rate portfolios were adjusted to reflect the exit price amount anticipated to be received from the sale of the portfolio in an open market transaction as required upon adoption of

ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities* beginning in the first quarter of 2018.

Bank Owned Life Insurance

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

Equity Investments with Readily Determinable Fair Value

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

Accrued Interest Receivable

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

Deposits

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

Short-term Borrowings

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

Accrued Interest Payable

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

Limitations

The fair value estimates are made at a discrete point in time based on relevant market information and information about the financial

instruments. Fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors.

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

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

The estimated fair values of the Company's financial instruments at December 31, 2022 and 2021 are as follows:

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

			Fair Value Measurements as of December 31, 2021		
	Carrying Value	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Financial Assets:					
Cash and cash equivalents	\$ 67,455	\$ 67,455	\$ 67,455	\$ -	\$ -
Short-term investments	2,583	2,583	2,583	-	-
Investment securities available-for-sale	221,108	221,108	14,954	203,168	2,986
Equity investments	936	936	-	936	-
Restricted stock	365	365	-	365	-
Loans held for sale	635	635	-	635	-
Loans receivable, net	297,490	307,752	-	-	307,752
Accrued interest receivable	1,507	1,507	-	1,507	-
Financial Liabilities:					
Deposits	547,063	543,695	-	543,695	-
Short-term borrowings	7,183	7,183	-	7,183	-
Accrued interest payable	52	52	-	52	-

15. Related Party Transactions

In the normal course of banking business, loans are made to officers and directors on substantially the same terms, including interest rates and collateral on loans, as those prevailing at the same time for comparable transactions with non-related parties and do not involve more than normal risk of collectability or present other unfavorable features. The following table presents an analysis of activity for loans to related parties at December 31, 2022 and 2021:

	2022	2021
Balance, beginning of year	\$ 3,984	\$ 4,495
Principal additions	-	6
Principal payments	(239)	(517)
Balance, end of year	<u>\$ 3,745</u>	<u>\$ 3,984</u>

At December 31, 2022 and 2021, related party deposits totaled \$3,166 and \$1,692, respectively.

16. Revenue Recognition - Noninterest Income

The following table presents the Company's noninterest income for the years ended December 31, 2022 and 2021 with identification of revenue streams in-scope and out-of-scope of Topic 606:

	2022	2021
Service charges on deposit accounts	\$ 1,746	\$ 1,548
Gain on sale of Bank owned property (1)	-	4,718
Net gains on sales of loans (1)	16	461
Net losses on the sales of REO	-	(68)
Other:		
Interchange fees	1,037	1,081
Grants and awards (1)	1,122	1,000
Bank-owned life insurance income (1)	227	233
Other noninterest income	1,330	1,130
	<u>\$ 5,478</u>	<u>\$ 10,103</u>

(1) Not within the scope of ASC 606

Contract balances and contract acquisition costs: The Company does not typically enter into long-term revenue contracts with customers and therefore, does not experience significant contract balances. As of December 31, 2022 and 2021, the Company did not have any significant contract balances. As of December 31, 2022 and 2021, the Company did not capitalize any contract acquisition costs.

17. Subsequent Events

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

In relation to current economic conditions, Management has reviewed deposit concentrations through March 31, 2023, the date the financial statements were issued, noting no significant changes to concentrations. The Company has one deposit relationship in excess of 5% in its deposit portfolio. The relationship is a local non-profit agency and had average deposits totaling \$30,187 in 2022. Most of its deposits are secured by government backed securities and/or treasury bonds. As of March 31, 2023, Industrial's deposits have increased approximately \$10,000 since December 31, 2022.

In relation to current economic conditions, management has monitored deposit concentrations through the date the financial statements were issued noting no significant changes to concentrations. In addition, there has been no significant deposit deterioration through March 31, 2023, the date the financial statements were issued.

The Company has disclosed its investment portfolio position in Note 2. There has been no significant deterioration in the investment portfolio through March 31, 2023, the date the consolidated financial statements were issued. During 2023, the Company has not transferred, sold, or experienced market value deterioration in its investment portfolio.

Management has reviewed the events occurring through March 31, 2023, the date the financial statements were issued and no additional subsequent events occurred requiring accrual or disclosure.