First Reliance Bancshares, Inc. and Subsidiary

Report on Consolidated Financial Statements

As of and for the years ended December 31, 2023 and 2022

Contents

	Page
Independent Auditor's Report	1-2
Consolidated Financial Statements	
Consolidated Balance Sheets	3
Consolidated Statements of Operations	4
Consolidated Statements of Comprehensive Income	5
Consolidated Statements of Changes in Shareholders' Equity	6
Consolidated Statements of Cash Flows	7-8
Notes to Consolidated Financial Statements	9-59

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Independent Auditor's Report

The Board of Directors
First Reliance Bancshares, Inc. and Subsidiary
Florence, South Carolina

Opinion

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

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

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.

Change in Accounting Principle

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

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.

Elliott Davis, LLC

Columbia, South Carolina
March 26, 2024

First Reliance Bancshares, Inc. and Subsidiary

Consolidated Balance Sheets

As of December 31, 2023 and 2022

	2023	2022
Assets		
Cash and cash equivalents:		
Cash and due from banks	$ 4,353,883	$ 3,916,889
Interest-bearing deposits with other banks	17,590,169	29,880,421
Total cash and cash equivalents	21,944,052	33,797,310
Time deposits in other banks	-	258,718
Marketable equity securities	128,517	133,715
Securities available-for-sale	171,399,573	162,096,848
Nonmarketable equity securities	949,800	1,787,200
Total investment securities	172,477,890	164,017,763
Mortgage loans held for sale	7,155,912	7,940,056
Loans receivable	705,672,390	661,250,516
Less allowance for credit losses	(8,393,493)	(7,659,794)
Loans, net	697,278,897	653,590,722
Premises, furniture and equipment, net	22,298,348	22,811,450
Accrued interest receivable	3,453,458	2,765,106
Cash surrender value life insurance	18,190,892	18,835,768
Net deferred tax assets	7,775,295	8,628,905
Mortgage servicing rights	11,638,174	10,441,422
Core deposit intangibles	74,316	147,094
Goodwill	690,917	690,917
Right of use asset	5,342,365	5,977,748
Other assets	5,836,677	7,210,167
Total assets	$ 974,157,193	$ 937,113,146
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Noninterest-bearing transaction accounts	$ 210,603,869	$ 255,426,725
Interest-bearing transaction accounts	144,039,452	152,012,419
Savings	334,715,713	287,043,628
Time deposits $250,000 and over	40,806,186	23,152,023
Other time deposits	128,431,287	80,549,048
Total deposits	858,596,507	798,183,843
Securities sold under agreement to repurchase	307,517	7,367,861
Advances from Federal Home Loan Bank	5,000,000	30,000,000
Subordinated debentures	15,412,697	15,380,951
Junior subordinated debentures	10,310,000	10,310,000
Accrued interest payable	1,076,368	331,678
Lease liability	5,592,934	6,197,620
Reserve for unfunded commitments	407,487	-
Other liabilities	6,057,759	6,045,329
Total liabilities	902,761,269	873,817,282
Shareholders' Equity		
Series D non-cumulative preferred stock, $0.01 par value; 70,000 shares authorized; 52,332 and 53,732 shares issued and outstanding at December 31, 2023 and 2022, respectively	523	537
Common stock, $0.01 par value; 20,000,000 shares authorized; 8,772,329 and 8,730,262 shares issued; and 8,139,077 and 8,140,311 shares outstanding at December 31, 2023 and 2022, respectively	87,723	87,303
Capital surplus	55,471,379	53,967,630
Treasury stock, at cost, 633,252 and 589,951 shares at December 31, 2023 and 2022, respectively	(4,821,348)	(4,502,374)
Nonvested restricted stock	(2,517,557)	(2,121,128)
Retained earnings	33,748,274	29,916,355
Accumulated other comprehensive loss	(10,573,070)	(14,052,459)
Total shareholders' equity	71,395,924	63,295,864
Total liabilities and shareholders' equity	$ 974,157,193	$ 937,113,146

See Notes to Consolidated Financial Statements

First Reliance Bancshares, Inc. and Subsidiary

Consolidated Statements of Operations

For the years ended December 31, 2023 and 2022

	2023	2022
Interest income:		
Loans, including fees	$ 36,170,561	$ 28,564,688
Investment securities:		
Taxable	6,078,622	3,639,528
Tax exempt	63,193	115,481
Other interest income	2,076,368	885,851
Total	44,388,744	33,205,548
Interest expense:		
Deposits	12,546,015	1,964,637
Federal Home Loan Bank advances	1,388,896	109,983
Subordinated debentures	1,429,229	1,072,846
Other interest expense	51,688	17,213
Total	15,415,828	3,164,679
Net interest income	28,972,916	30,040,869
Provision for credit losses on loans	847,398	480,000
Provision for (release of) credit losses on unfunded commitments	(478,551)	-
Net interest income after provision for credit losses	28,604,069	29,560,869
Noninterest income:		
Mortgage banking income	3,821,146	3,733,991
Service charges on deposit accounts	1,373,920	1,392,412
Other service charges, commissions, and fees	2,160,491	2,092,696
Income from bank owned life insurance	528,462	359,872
Loss on sale of investment securities	(1,525,631)	-
Gain on disposal of fixed assets	29,719	23,259
Gain on sale of mortgage servicing rights	-	681,827
Other	531,448	696,157
Total	6,919,555	8,980,214
Noninterest expenses:		
Salaries and benefits	18,273,828	19,006,038
Occupancy and equipment	3,428,830	3,589,102
Data processing, technology, and communications	3,613,544	3,268,335
Professional fees	420,445	751,377
Marketing	687,261	743,379
Other	3,286,247	3,611,560
Total	29,710,155	30,969,791
Income before income taxes	5,813,469	7,571,292
Income tax expense	1,210,053	1,640,280
Net income	$ 4,603,416	$ 5,931,012
Average common shares outstanding, basic	7,822,882	7,779,396
Average common shares outstanding, diluted	8,163,934	8,127,148
Income per common share:		
Basic income per common share	$ 0.59	$ 0.76
Diluted income per common share	0.56	0.73

See Notes to Consolidated Financial Statements

First Reliance Bancshares, Inc. and Subsidiary

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2023 and 2022

	2023	2022
Net income	$ 4,603,416	$ 5,931,012
Other comprehensive gain (loss), net of tax:		
Unrealized holding gains (losses) on securities available-for-sale	3,082,832	(18,429,822)
Reclassification adjustment for realized losses included in earnings	1,525,631	-
Income tax (expense) benefit	(1,129,074)	4,514,391
Other comprehensive gain (loss), net of tax	3,479,389	(13,915,431)
Comprehensive income (loss)	$ 8,082,805	$ (7,984,419)

See Notes to Consolidated Financial Statements

First Reliance Bancshares, Inc. and Subsidiary

Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2023 and 2022

	Preferred Stock		Common Stock						Accumulated	
							Nonvested		Other	
					Capital	Treasury	Restricted	Retained	Comprehensive	
	Shares	Amount	Shares	Amount	Surplus	Stock	Stock	Earnings	Income (Loss)	Total
Balance, December 31, 2021	54,732	547	8,793,108	87,931	53,855,594	(4,322,496)	(2,668,238)	23,985,343	(137,030)	70,801,651
Net income	-	-	-	-	-	-	-	5,931,012	-	5,931,012
Other comprehensive loss, net of tax	-	-	-	-	-	-	-	-	(13,915,431)	(13,915,431)
Conversion of Preferred Stock - Series D to Common Stock	(1,000)	(10)	1,000	10	-	-	-	-	-	-
Net issuance of Common Stock	-	-	36,925	369	553,740	-	-	-	-	554,415
Restricted stock forfeitures	-	-	(100,771)	(1,007)	(814,127)	-	-	-	-	(815,440)
Net change in restricted stock	-	-	-	-	-	-	547,110	-	-	547,110
Stock based compensation	-	-	-	-	372,423	-	-	-	-	372,423
Purchase of treasury stock	-	-	-	-	-	(179,878)	-	-	-	(179,878)
Balance, December 31, 2022	53,732	537	8,730,262	87,303	53,967,630	(4,502,374)	(2,121,128)	29,916,355	(14,052,459)	63,295,864
Adoption of new accounting standard	-	-	-	-	-	-	-	(771,497)	-	(771,497)
Net income	-	-	-	-	-	-	-	4,603,416	-	4,603,416
Other comprehensive income, net of tax	-	-	-	-	-	-	-	-	3,479,389	3,479,389
Conversion of Preferred Stock - Series D to Common Stock	(1,400)	(14)	1,400	14	-	-	-	-	-	-
Issuance of Common Stock	-	-	51,312	513	130,876	-	-	-	-	131,389
Restricted stock forfeitures	-	-	(10,645)	(107)	(73,892)	-	-	-	-	(73,999)
Net change in restricted stock	-	-	-	-	-	-	(396,429)	-	-	(396,429)
Stock based compensation	-	-	-	-	1,446,765	-	-	-	-	1,446,765
Purchase of treasury stock	-	-	-	-	-	(318,974)	-	-	-	(318,974)
Balance, December 31, 2023	52,332	$ 523	8,772,329	$87,723	$ 55,471,379	$ (4,821,348)	$ (2,517,557)	$ 33,748,274	$ (10,573,070)	$ 71,395,924

See Notes to Consolidated Financial Statements

First Reliance Bancshares, Inc. and Subsidiary

Consolidated Statements of Cash Flows

December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Net income	$ 4,603,416	$ 5,931,012
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses loans held for investment	847,398	480,000
Provision for (release of) credit losses – unfunded commitments	(478,551)	-
Depreciation expense	1,126,296	1,112,170
Loss on change in fair value of marketable equity securities	5,198	4,144
Discount accretion and premium amortization on investment securities	141,659	407,576
Discount accretion on purchased loans	(245,842)	(303,103)
Gain on disposal of fixed assets	(29,719)	(23,259)
Loss on sale of other real estate owned	-	15,838
Loss on sale of investment securities	1,525,631	-
Originations of mortgages held for sale	(202,205,102)	(221,328,200)
Proceeds from sales of mortgages held for sale	206,810,392	240,966,438
Mortgage banking income	(3,821,146)	(3,733,991)
Proceeds from sale of mortgage servicing rights	-	5,621,661
Gain on sale of mortgage servicing rights	-	(681,827)
Core deposit intangible amortization	72,778	97,380
Gain on extinguishment of debt	-	(5,314)
Amortization of debt issuance costs	31,746	31,746
Deferred income taxes	(70,382)	13,700
Decrease (increase) in cash surrender value of life insurance	(528,462)	(359,872)
Stock based compensation expense	1,446,765	54,623
Decrease in ROU asset	635,383	656,472
Increase in mortgage servicing rights, net	(1,196,752)	(1,324,159)
Increase in accrued interest receivable	(688,352)	(1,061,963)
Decrease (increase) in other assets	1,373,490	(1,672,790)
Increase in accrued interest payable	744,690	188,946
Decrease in lease liabilities	(604,686)	(584,030)
Increase in other liabilities	12,431	844,734
Net cash provided by operating activities	9,029,728	25,347,932
Cash flows from investing activities:		
Purchases of securities available-for-sale	(55,030,945)	(113,005,110)
Maturities of securities available-for-sale	10,484,793	12,850,125
Proceeds on sales of securities available-for-sale	38,184,599	1,000,000
Net decrease (increase) in nonmarketable equity securities	837,400	(950,200)
Net decrease (increase) in time deposits in other banks	258,718	(1,545)
Net increase in loans receivable	(43,901,721)	(74,361,722)
Purchases of premises, furniture and equipment	(628,895)	(1,146,305)
Proceeds from death benefits received on BOLI	1,173,338	-
Proceeds from disposal of premises, furniture and equipment	45,420	50,950
Proceeds from sale of other real estate owned	-	119,162
Net cash used in investing activities	(48,577,293)	(175,444,645)

First Reliance Bancshares, Inc. and Subsidiary

Consolidated Statements of Cash Flows

December 31, 2023 and 2022

See Notes to Consolidated Financial Statements

	2023	2022
Cash flows from financing activities:		
Net (decrease) increase in demand deposits, interest-bearing transaction accounts and savings accounts	(5,123,738)	39,576,828
Net increase (decrease) in certificates of deposit and other time deposits	65,536,402	(22,226,308)
Net (decrease) increase in advances from Federal Home Loan Bank	(25,000,000)	20,000,000
Net (decrease) increase in securities sold under agreements to repurchase	(7,060,344)	(4,004,464)
Issuance of common stock	57,390	56,775
(Increase) decrease in nonvested restricted stock	(396,429)	547,110
Purchase of treasury stock	(318,974)	(179,878)
Net cash provided by financing activities	27,694,307	33,770,063
Net (decrease) increase cash and cash equivalents	(11,853,258)	(116,326,650)
Cash and cash equivalents, beginning of year	33,797,310	150,123,960
Cash and cash equivalents, end of year	$ 21,944,052	$ 33,797,310
Cash paid during the year for:		
Income taxes	$ 610,065	$ 2,246,350
Interest	14,671,138	2,975,733
Supplemental noncash investing and financing activities:		
Net change in unrealized gains on investment securities	$ 3,479,389	$ (13,915,431)
Adoption of ASU 2016-13	771,497	-

See Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Organization:

First Reliance Bancshares, Inc. (the "Company") was incorporated under the laws of the State of South Carolina on April 12, 2001 to serve as a bank holding company for its subsidiary, First Reliance Bank (the "Bank"), and acquired all of the shares of the Bank on April 1, 2002 in a statutory share exchange. First Reliance Bank was incorporated on August 9, 1999 and commenced business on August 16, 1999. The principal business activity of the Bank is to provide banking services to domestic markets throughout South Carolina and North Carolina. The Bank is a South Carolina chartered commercial bank, and its deposits are insured by the Federal Deposit Insurance Corporation ("FDIC"). The consolidated financial statements include the accounts of the parent company and its wholly-owned subsidiary after elimination of all significant intercompany balances and transactions. In 2005, the Company formed First Reliance Capital Trust I (the "Trust") for the purpose of issuing trust preferred securities. In accordance with current accounting guidance, the Trust is not consolidated in these financial statements.

Management's estimates:

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for credit losses ("ACL") on loans, including valuation allowances of specifically reviewed loans, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, and the valuation of investment securities. In connection with the determination of the ACL on loans and valuation of foreclosed real estate, management obtains independent appraisals in accordance with regulatory policy. Management must also make estimates in determining the estimated useful lives and methods for depreciating premises and equipment.

While management uses available information to recognize losses on loans and foreclosed real estate, future additions to the ACL may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's ACL on loans and reserves on foreclosed real estate. Such agencies may require the Company to recognize additions to the ACL based on their judgments about information available to them at the time of their examinations. Because of these factors, it is reasonably possible that the ACL on loans, unfunded commitments, and evaluation of reserves on foreclosed real estate may change materially in the near term.

Concentrations of credit risk:

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of loans receivable, investment securities, federal funds sold and amounts due from banks.

The Company makes loans to individuals and small businesses for various personal and commercial purposes primarily throughout South Carolina and North Carolina. At December 31, 2023 and 2022, the majority of the total loan portfolio was to borrowers from within these areas.

The Company's loan portfolio is not concentrated in loans to any single borrower or a relatively small number of borrowers. Additionally, management is not aware of any concentrations of loans to groups of borrowers or industries that would also be affected by sector-specific economic conditions.

Note 1. Summary of Significant Accounting Policies, Continued

In addition to monitoring potential concentrations of loans to particular borrowers or groups of borrowers, industries and geographic regions, management monitors exposure to credit risk from concentrations of lending products and practices such as loans that subject borrowers to substantial payment increases (e.g., principal deferral periods, loans with initial interest-only periods, etc.), and loans with high loan-to-value ratios. Management has determined that there is minimal concentration of credit risk associated with its lending policies or practices.

There are industry practices that could subject the Company to increased credit risk should economic conditions change over the course of a loan's life. For example, the Company makes variable rate loans and fixed rate principal-amortizing loans with maturities prior to the loan being fully paid (i.e., balloon payment loans). These loans are underwritten and monitored to manage the associated risks and management believes that these particular practices do not subject the Company to unusual credit risk. The Company's investment portfolio consists principally of obligations of the United States or its corporations, obligations of state and local governments, collateralized loan obligations, and corporate securities. In the opinion of management, there is minimal concentration of credit risk in its investment portfolio. The Company places its deposits and correspondent accounts with and sells its federal funds to high quality institutions. Management believes credit risk associated with correspondent accounts is not significant.

Accounting Standards Adopted in 2023:

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

In addition, CECL made changes to the accounting for available-for-sale ("AFS") debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities if management does not intend to sell and does not believe that it is more likely than not they will be required to sell. There was no allowance for credit losses recorded on AFS securities in 2023.

The Company adopted ASC 326 and all related subsequent amendments thereto effective January 1, 2023, using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. The transition adjustment of the adoption of CECL included an increase in the allowance for credit losses on loans of $114,221, which is presented as a reduction to net loans outstanding, and an increase in the allowance for credit losses on unfunded loan commitments of $886,038, which is presented on the balance sheet. The Company recorded a net decrease to retained earnings of $771,497 as of January 1, 2023, for the cumulative effect of adopting CECL, which reflects the transition adjustments noted above, net of the applicable deferred tax assets recorded. Results for reporting periods beginning after January 1, 2023, are presented under CECL while prior period amounts continue to be reported in accordance with previously applicable accounting standards ("Incurred Loss").

Note 1. Summary of Significant Accounting Policies, Continued

Accounting Standards Adopted in 2023, continued:

The Company adopted ASC 326 using the prospective transition approach for PCD assets that were previously classified as purchased credit impaired ("PCI") under ASC 310-30. In accordance with the standard, management did not reassess whether PCI assets met the criteria of PCD assets as of the date of adoption. On January 1, 2023, the amortized cost basis of PCD assets were adjusted to reflect the addition of $23,681 to establish the allowance for credit losses. The remaining interest-related discount of approximately $441,936 will be accreted into interest income at the effective interest rate as of January 1, 2023.

Regarding PCD assets, the Company elected to disaggregate the former PCI pools and no longer considers these pools to be the unit of account; contractually delinquent PCD loans will be reported as nonaccrual loans using the same criteria as other loans.

The Company adopted ASC 326 using the prospective transition approach for debt securities for which other-than-temporary impairment had been recognized prior to January 1, 2023. As of December 31, 2022, the Company did not have any other-than-temporarily impaired investment securities. Therefore, upon adoption of ASC 326, the Company determined that there was no allowance for credit losses on available-for-sale securities.

The following table illustrates the impact on the allowance for credit losses from the adoption of ASC 326:

	January 1, 2023 As Reported Under ASC 326	December 31, 2022 Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Assets:			
Loans, at amortized cost	$ 661,274,197	$ 661,250,516	$ 23,681
Allowance for credit losses on loans:			
Construction	$ (522,313)	$ (516,545)	$ (5,768)
Residential	(2,083,881)	($2,048,171)	(35,710)
Non-Residential	(3,669,567)	(3,612,062)	(57,505)
Commercial and industrial	(800,070)	(790,172)	(9,898)
Consumer and other	(698,184)	(692,844)	(5,340)
Total allowance for credit losses	$ (7,774,015)	$ (7,659,794)	$ (114,221)
Liabilities:			
Allowance for credit losses unfunded Commitments	$ 886,038	$ -	$ (886,038)

On January 1, 2023, the Company adopted ASU 2022-02, "Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures," which are intended to improve the decision usefulness of information provided to investors about certain loan re-financings, restructurings, and write-offs. There was no material effect on the Company's financial statements with this adoption.

Note 1. Summary of Significant Accounting Policies, Continued

Accounting Standards Adopted in 2023, continued:

In December 2022, the FASB issued ASU 2022-06, which provided amendments to extend the period of time preparers can use the reference rate reform relief guidance under Accounting Standards Codification (ASC) Topic 848 from December 31, 2022 to December 31, 2024, to address the fact that all London Interbank Offered Rate (LIBOR) tenors were not discontinued as of December 31, 2021, and some tenors will be published until June 2023. The amendments are effective immediately for all entities and applied prospectively. This change impacted the interest rate paid on some loans and on Trust Preferred Securities (debt) (see note 12) and the new rates were effective July 1, 2023. This change did not have a material impact on the Company's financial statements.

Recently issued accounting pronouncements:

In December 2023, the FASB amended the Income Tax topic in the Accounting Standards codification to improve the transparency of income tax disclosures. The amendments are effective for annual periods beginning after December 15, 2024 (for public entities) and for annual periods beginning after December 15, 2025 (for all other entities). Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance. The Company does not expect these amendments to have a material effect of its financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Debt securities available-for-sale:

Debt securities available-for-sale are carried at amortized cost and adjusted to fair value by recognizing the aggregate unrealized gains or losses in a valuation account. Aggregate market valuation adjustments are recorded as part of accumulated other comprehensive income in shareholders' equity, net of deferred income taxes. Reductions in market value considered by management to be credit related are recorded in an ACL account and reported as provision for credit losses in the income statement. The adjusted cost basis of investments available-for-sale is determined by specific identification and is used in computing the gain or loss upon sale. The amortization of premiums are recognized to the first call date and accretion of discounts are recognized in interest income using a methodology that approximates a level yield of interest over the estimated remaining period to maturity.

Allowance for credit losses – AFS securities

For available-for-sale securities, management evaluates all investments in an unrealized loss position on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. If the Company has the intent to sell the security, or it is more likely than not that the Company will be required to sell the security, the security is written down to fair value, and the entire loss is recorded in earnings.

If either of the above criteria is not met, the Company evaluates whether the decline in fair value is the result of credit losses or other factors. In making the assessment, the Company may consider various factors including the extent to which fair value is less than amortized cost, performance on any underlying collateral, downgrades in the ratings of the security by a rating agency, the failure of the issuer to make scheduled interest or principal

Note 1. Summary of Significant Accounting Policies, Continued

payments and adverse conditions specifically related to the security. If the assessment indicates that a credit loss exists, the present value of cash flows expected to be collected is compared to the amortized cost basis of the security and any excess is recorded as an allowance for credit loss, limited to the amount that the fair value is less than the amortized cost basis. Any amount of unrealized loss that has not been recorded through an allowance for credit loss is recognized in other comprehensive income.

Changes in the allowance for credit loss are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance for credit loss when management believes an available-for-sale security is confirmed to be uncollectible or when either of the criteria regarding intent or requirement to sell is met. At December 31, 2023, there was no allowance for credit loss related to the available-for-sale portfolio.

Accrued interest receivable on available-for-sale debt securities totaled $1,221,459 at December 31, 2023 and was excluded from the estimate of credit losses.

Marketable equity securities:

Marketable equity securities are carried at fair value, with changes in fair value recorded within other noninterest income in the consolidated statements of operations. Dividends received on marketable equity securities are included as a separate component of interest income.

Nonmarketable equity securities:

At December 31, 2023 and 2022, nonmarketable equity securities consist of the following:

	2023	2022
Federal Home Loan Bank stock	$ 891,700	$ 1,729,100
Community Bankers Bank stock	58,100	58,100
Total	$ 949,800	$ 1,787,200

Nonmarketable equity securities are carried at cost since there is no quoted market value and no ready market exists. Investment in the Federal Home Loan Bank of Atlanta ("FHLB") is a condition to borrowing from that bank, and the stock is pledged to collateralize such borrowings. Dividends received on nonmarketable equity securities are included as a separate component of interest income.

Loans receivable:

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their amortized cost basis, net of any charge-offs. Amortized cost is the principal balance outstanding, net of purchase premiums or discounts and deferred fees and costs. Accrued interest receivable related to loans totaled $2,231,999 at December 31, 2023 and was reported in accrued interest receivable on the consolidated balance sheets. Interest income is recognized in the period earned and is computed based upon the unpaid principal balance.

Loans receivable, continued:

When serious doubt exists as to the collectability of a loan or when a loan becomes contractually 90 days past due as to principal or interest, interest income is discontinued unless the estimated net realizable value of collateral

Note 1. Summary of Significant Accounting Policies, Continued

exceeds the principal balance and accrued interest. When interest accruals are discontinued, income earned but not collected is reversed. Loans are removed from nonaccrual status when they become current as to both principal and interest, when concern no longer exists as to the collectability of the principal and interest, and after a sufficient history of satisfactory payment performance has been established. Past due status is based on contractual terms of the loan. A loan is considered to be past due when a scheduled payment has not been received 30 days after the contractual due date.

Loan origination and commitment fees and certain direct loan origination costs are deferred and amortized as an adjustment of the related loan yields. Generally, these amounts are amortized over the contractual life of the related loans or commitments using a straight-line method.

Allowance for credit losses- Loans:

The allowance for credit losses represents the portion of the loan's amortized cost basis that the Company does not expect to collect due to credit losses over the loan's life, considering past events, current conditions, and reasonable and supportable forecasts of future economic conditions. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for credit losses is based on the loan's amortized cost basis, excluding accrued interest receivable, as the Company promptly charges off uncollectible accrued interest receivable. Management's determination of the appropriateness of the allowance is based on periodic evaluation of the loan portfolio, lending-related commitments and other relevant factors, including macroeconomic forecasts and historical loss rates. In the future, the Company may update information and forecasts that may cause significant changes in the estimate in those future quarters.

The Company calculates its expected credit loss using a non-discounted cash flow methodology that calculates the lifetime loss rate. Loss estimates within the collectively assessed population, used for non-impaired loans that share common risk characteristics, are based on a combination of pooled assumptions and loan-level characteristics. Expected losses for the Bank's collectively assessed loan segments are estimated using a loan-level probability of default ("PD") / loss given default ("LGD") cash flow method with an exposure at default ("EAD") model. Our third-party provider, Abrigo, supports the model and the Valuant Index used by the Company.

For each segment, the Company generates cash flow projections at the instrument level wherein payment expectations are adjusted for estimated prepayment speeds, probability of default rates, and loss given default rates. Due to limited historical losses, the modeling of quantitative loss inputs such as PD and LGD utilize the Valuant Index. In order to estimate the life of a loan, the contractual term of the loan is adjusted for estimated prepayments based on market information and the Company's prepayment history.

The Company also considers the need to adjust historical information to reflect the extent to which management expects losses through a reasonable and supportable forecast. The Bank has elected to utilize the regression model built off the Valuant Index to reasonably forecast expected PDs based on expected changes in the National Unemployment Rate.

For loss estimation purposes, the Company disaggregates the loan portfolio into five loan segments: 1) Construction real estate; 2) Residential real estate; 3) Non-residential real estate; 4) Commercial and industrial; and 5) Consumer and other. Each of these loan segments receives the application of qualitative inputs for loss estimation purposes (see paragraph on page 15 for more detail on qualitative factors).

Note 1. Summary of Significant Accounting Policies, Continued

Allowance for credit losses- Loans, continued:

These loan segments include:

Construction real estate loans. Includes commercial construction, land acquisition and development loans, single-family construction to small businesses and individuals. These loans are generally secured by the land or the real property being built and are made based on the Company's assessment of the value of the property on an as-completed basis and repayment depends upon project completion and sale, refinancing, or operation of the real estate.

Residential real estate loans. Includes 1-4 family mortgage loans, residential line of credit loans, and residential construction loans. All of these loan types are primarily made with respect to and secured by single family homes, which are both owner-occupied and investor owned. Repayment depends primarily upon the cash flow of the borrower as well as the value of the real estate collateral.

Non-residential real estate loans. Includes commercial real estate non-owner occupied and owner-occupied loans to finance commercial real estate investment properties for various purposes including use as offices, warehouses, production facilities, health care facilities, hotels, mixed-use residential/commercial, manufacturing housing communities, assisted living facilities, retail centers, restaurants, churches and agricultural based facilities. Commercial real estate owner-occupied loans are typically repaid through the ongoing business operations of the borrower. Commercial real estate non-owner occupied loans are typically repaid with the funds received from the sale or refinancing of the property or rental income from such property.

Commercial and industrial loans. Commercial and industrial loans are typically made to small-sized manufacturing, wholesale, retail and service businesses, and farmers for working capital and operating needs and business expansions. Commercial and industrial loans generally include lines of credit and loans with maturities of five years or less. Commercial and industrial loans are generally made with operating cash flows as the primary source of repayment, but may also include collateralization by inventory, accounts receivable, equipment and personal guarantees.

Consumer and other loans. Includes loans to individuals for personal, family and household purposes, including car, boat and other recreational vehicle loans, manufactured homes (without real estate) and personal lines of credit. Consumer loans are generally secured by vehicles and other household goods, with repayment depending primarily on the cash flow of the borrower.

The Company's loss rate models estimate the lifetime loss rate for the pools of loan segments by combining the calculated loss rate based on each variable within the model, including the macroeconomic variables. The lifetime loss rate for the pool is then multiplied by the loan balances to determine the expected credit losses on the pool. The quantitative models require loan data and macroeconomic variables based on the inherent credit risks in each portfolio to more accurately measure the credit risks associated with each. The quantitative models pool loans with similar risk characteristics and collectively assesses the lifetime loss rate for each pool to estimate its expected credit loss.

Additionally, the allowance for credit losses calculation includes subjective adjustments for qualitative risk factors that are likely to cause estimated credit losses to differ from historical experience. These qualitative factor adjustments may increase or decrease the Company's estimate of expected credit losses, and includes those that

Note 1. Summary of Significant Accounting Policies, Continued

are relevant to the institution as of the reporting date, which may include, but are not limited to: levels of and trends in delinquencies and performance of loans; levels of and trends in write-offs and recoveries collected;

trends in volume and terms of loans; effects of any changes in reasonable and supportable economic forecasts; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and expertise; available relevant information sources that contradict the Company's own forecast; effects of changes in prepayment expectations or other factors affecting assessments of loan contractual terms; industry conditions; and effects of changes in credit concentrations.

When loans no longer share similar risk characteristics with other loans in any given pool, the loan is evaluated on an individual basis. When the borrower is experiencing financial difficulty and repayment is expected to be provided through operations or sale of collateral, the expected credit losses are based on the fair value of collateral at the reporting date, adjusted for selling costs as appropriate.

Allowance for loan losses – Prior to the adoption of ASC 326

The allowance for loan losses is management's estimate of losses inherent in the loan portfolio. It is established through the provision for loan losses charged to earnings. Charged-off loans are charged against the allowance when the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. For these loans, an allowance is established when the discounted cash flows, collateral value, or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis through either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral, less estimated costs to sell, if the loan is collateral dependent. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment.

Note 1. Summary of Significant Accounting Policies, Continued

Allowance for loan losses – Prior to the adoption of ASC 326, continued:

In situations where, for economic or legal reasons related to a borrower's financial difficulties, a concession to the borrower is granted that the Company would not otherwise consider, the related loan is classified as a loan modification in 2023 or as troubled debt restructuring for calendar years 2022 and prior. Loan modifications or restructurings may include the transfer from the borrower to the Company of real estate, receivables from third

parties, other assets, or an equity interest in the borrower in full or partial satisfaction of the loan, modification of the loan terms, or a combination of the above.

Premises, furniture and equipment:

Premises, furniture and equipment are stated at cost, less accumulated depreciation. The provision for depreciation is computed by the straight-line method, based on the estimated useful lives for buildings of 40 years and for furniture and equipment of 5 to 10 years. Leasehold improvements are amortized over the term of the lease. The cost of assets sold or otherwise disposed of and the related allowance for depreciation is eliminated from the accounts and the resulting gains or losses are reflected in the consolidated statements of operations when incurred. Maintenance and repairs are charged to current expense. The costs of major renewals and improvements are capitalized based upon the Company's policy.

Other real estate owned:

Other real estate owned includes real estate acquired through foreclosure. Other real estate owned is carried at the lower of cost or the fair market value minus estimated costs to sell. Any write-downs at the date of foreclosure are charged to the allowance for loan losses. Expenses to maintain such assets and subsequent changes in the valuation allowance are included in other noninterest expense along with gains and losses on disposal.

Cash surrender value of life insurance:

Cash surrender value of life insurance represents the cash value of policies on certain current and former officers and directors of the Company.

Residential mortgage loans held for sale:

Loans held for sale represent loans originated or acquired by the Company with the intent to sell. The Company has elected the lower of cost or market in accounting for residential mortgage loans held for sale. These loans are initially recorded and carried at lower of cost or market value, with any subsequent decreases in fair value recognized in mortgage banking income. Loan origination fees are recorded when earned.

The Company issues rate lock commitments to borrowers on prices quoted by secondary market investors. Derivatives related to these commitments are recorded as either assets or liabilities in the balance sheet and are measured at fair value. Changes in the fair value of the derivatives are recorded in mortgage banking income in the consolidated statements of operations.

Mortgage servicing rights:

Mortgage servicing rights ("MSRs") represent the present value of the future net servicing fees from servicing mortgage loans. Servicing assets and servicing liabilities must be initially measured at fair value, if practicable. The Company's servicing assets are initially measured at fair value and are subsequently measured using either the fair value method or the amortization method, depending on the asset class, which has been determined to be vintage (or loan origination) year.

Note 1. Summary of Significant Accounting Policies, Continued

Mortgage servicing rights, continued:

The methodology used to determine the fair value of MSRs is subjective and requires the development of a number of assumptions, including anticipated prepayments of loan principal. Fair value is determined by estimating the present value of the asset's future cash flows utilizing market-based prepayment rates, discount rates and other assumptions validated through comparison to trade information, industry surveys and with the

use of independent third-party appraisals. Risks inherent in the MSRs' valuation include higher than expected prepayment rates and/or delayed receipt of cash flows. The value of MSRs is significantly affected by mortgage interest rates available in the marketplace, which influence mortgage loan prepayment speeds. In general, during periods of declining interest rates, the value of mortgage servicing rights declines due to increasing prepayments attributable to increased mortgage refinance activity. Conversely, during periods of rising interest rates, the value of servicing rights generally increases due to reduced refinance activity.

MSRs accounted for using the fair value method are carried at fair value with changes in fair value, changes due to paydowns and payoffs of underlying loans, and servicing fees (cost) recorded in mortgage banking income in the consolidated statements of operations.

For MSRs accounted for using the amortization method, the amortization is determined in proportion to, and over the period of, the estimated net servicing income and recorded in mortgage banking income in the consolidated statements of operations. These MSRs are evaluated quarterly for possible impairment. If the impairment evaluation indicates that the carrying amount of the servicing assets exceeds their fair value, the carrying amount is reduced by recording a charge to income in the amount of such excess and establishing a valuation reserve allowance. If impairment is determined to be other-than-temporary, a direct write-off of the carrying amount would be recorded.

Core deposit intangible:

As a result of a business combination, the Company may recognize an intangible asset representing the estimated value of core deposits assumed. The Company amortizes the intangible assets over their estimated useful lives. Core deposit intangibles are periodically reviewed for reasonableness and are evaluated for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable.

Goodwill:

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in a business combination. Goodwill is not amortized but tested for impairment on an annual basis, or more often, if events or circumstances indicate there may be impairment. Goodwill impairment exists when a reporting unit's carrying value of goodwill exceeds its implied fair value. Authoritative guidance governing the testing of indefinite lived intangible assets for impairment allows the option to first assess Goodwill by utilizing qualitative factors in determining if it is more likely than not that carrying value exceeds fair value. If, through this analysis, it is determined that it is more likely than not that carrying value exceeds fair value, then the next step requires estimation of the fair value of the reporting unit by quantitative assessment. If the fair value of the reporting unit exceeds its carrying value, no further testing is required. An impairment charge is recognized if the carrying value of the reporting unit's goodwill exceeds its implied fair value. The Company has performed the annual impairment analysis as of December 31, 2023 and concluded no impairment exists.

Note 1. Summary of Significant Accounting Policies, Continued

Liabilities for representations and warranties:

The Company is exposed to certain liabilities under representations and warranties made to purchasers of mortgage loans and servicing rights that require indemnification or repurchase of loans. At the time it issues a guarantee, the Company assesses the need to recognize an initial liability for the fair value of obligations assumed under the guarantee.

If determined to be necessary based on the nature of the guarantee, the Company will establish a contingency reserve for its liabilities under representations and warranties provided to purchasers of its mortgage loans and servicing rights. This reserve is maintained at a level considered appropriate by management to provide for known and inherent losses. The reserve is based upon a continuing review of past loss experience, estimates and assumptions of risk elements and future economic conditions. Additions to the reserve are recorded in other expenses.

Management's judgment about the adequacy of any reserve is based upon a number of assumptions about future events which it believes to be reasonable but which may or may not be accurate. There is no assurance that increases in the reserve will not be required in future periods. The Company may from time-to-time be required to repurchase mortgage loans previously sold to investors due to loan nonperformance. Based on management's analysis of current representations and guarantees, the Company had a reserve of $11,736 and $25,000 at December 31, 2023 and December 31, 2022, respectively.

Derivatives and hedging:

At the inception of a derivative contract, the Company designates the derivative as one of the three types based on the Company's intentions and belief as to likely effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), or (3) an instrument with no hedging designation ("non-designated derivative"). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item attributable to he hedged risk, are recognized in current earnings as the fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. Changes in fair value of derivatives not designated are reported currently in earnings, as non-interest income.

Accrued settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Accrued settlements on derivatives not designated are reported in non-interest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

The Company formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are designated are highly effective in offsetting changes in fair value s or cash flows of the hedged items. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes

Note 1. Summary of Significant Accounting Policies, Continued

Derivatives and hedging, continued:

in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction in no longer probable, a hedged firm commitment in no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as non-interest income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, the gains or losses that were accumulated in other comprehensive income are amortized into earnings over the same periods which the hedged transactions will affect earnings.

The Company is exposed to losses if a counterparty fails to make its payments under a contract in which the Company is in the net receiving position. The Company anticipates that the counterparties will be able to fully

satisfy their obligations under the agreements. All of the contracts to which the Company is a party settle monthly or quarterly. In addition, the Company obtains collateral above certain thresholds of the fair value of its derivatives for each dealer counterparty based upon their credit standing and the Company has netting agreements with the dealers with which it does business.

Revenue recognition:

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: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) 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, 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.

Service Charges on Deposit Accounts: The Bank earns fees from its deposit customers for account maintenance, transaction-based and overdraft services. Account maintenance fees consist primarily of account fees and analyzed account fees charged on deposit accounts on a monthly basis. The performance obligation is satisfied and the fees are recognized on a monthly basis as the service period is completed. Transaction-based fees on deposit accounts are charged to deposit customers for specific services provided to the customer, such as non-sufficient funds fees, overdraft fees, and wire fees. The performance obligation is completed as the transaction occurs and the fees are recognized at the time each specific service is provided to the customer.

Note 1. Summary of Significant Accounting Policies, Continued

Revenue recognition, continued:

Check Card Fee Income: Included within other service charges, commissions and fees, check card fee income represents fees earned when a debit card issued by the Bank is used. The Bank earns interchange fees from debit cardholder transactions through the Mastercard payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. The performance obligation is satisfied and the fees are earned when the cost of the transaction is charged to the card. Certain expenses directly associated with the debit card are recorded on a net basis with the fee income.

Gains/Losses on OREO Sales: Gains/losses on the sale of OREO are included in noninterest expense and are generally recognized when the performance obligation is complete. This is typically at delivery of control over the property to the buyer at the time of each real estate closing.

Income taxes:

Provisions for income taxes are based on taxes payable or refundable for the current year and deferred taxes on temporary differences between the amount of taxable income and pretax financial income and between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled.

As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. In addition, deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Interest and penalties related to income tax matters are recognized in income tax expense.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement.

Advertising expense:

Advertising and public relations costs are generally expensed as incurred. External costs incurred in producing media advertising are expensed the first time the advertising takes place. External costs relating to direct mailing costs are expensed in the period in which the direct mailings are sent. Advertising and public relations costs were $663,603 and $662,468 for 2023 and 2022, respectively, and are recorded within marketing expense.

Retirement benefits:

A retirement savings plan is sponsored by the Company and provides retirement benefits to substantially all officers and employees who meet certain age and service requirements. The plan includes a “salary reduction” feature pursuant to Section 401(k) of the Internal Revenue Code. In 2004, the Company converted the 401(k) plan to a 404(c) plan.

Note 1. Summary of Significant Accounting Policies, Continued

Retirement benefits, continued:

The 404(c) plan changes investment alternatives to include the Company's stock. Under the plan and present policies, participants are permitted to make contributions up to 15% of their annual compensation. At its discretion, the Company can make matching contributions up to 6% of the participants' compensation.

The Company charged $601,534 and $460,803 to salaries and benefits expense for the retirement savings plan in 2023 and 2022, respectively. In addition, the Company made elective contributions to the employee stock ownership plan during 2023 and 2022 totaling $0 and $150,021, respectively, which is recorded within salaries and benefits expense.

During 2006, the Board of Directors approved a supplemental retirement plan for the directors and certain officers. These benefits are not qualified under the Internal Revenue Code and they are not funded. For 2023 and 2022, the supplemental retirement expense was $208,864 and $202,087. The current accrued but unfunded amount is $2,770,812 and $2,588,144 at December 31, 2023 and 2022, respectively. However, certain funding is provided informally and indirectly by bank owned life insurance policies. The cash surrender value of the life insurance policies is recorded as a separate line item in the accompanying consolidated balance sheets at $18,190,892 and $18,835,768 at December 31, 2023 and 2022, respectively.

The Company has split-dollar life insurance arrangements with certain of its officers. At December 31, 2023 and 2022, the split-dollar liability relating to these arrangements totaled $465,420 and $438,042 respectively. For 2023 and 2022, the Company recognized net expenses of $27,378 and $25,765, respectively, related to these arrangements, which are recorded within salaries and benefits expense.

Stock-based compensation:

The Company can issue stock options, restricted stock, restricted stock units, and other stock-based awards to directors, officers and other key employees. The Company accounts for stock compensation in accordance with Accounting Standards Codification ("ASC") Topics 718 and 505. Under those provisions, the Company has adopted a fair value-based method of accounting for employee stock compensation plans, whereby compensation cost is measured at the grant date based on the value of the award and is recognized on a straight-line basis over the service period, which is usually the vesting period, taking into account retirement eligibility. As a result, compensation expense relating to stock-based awards is reflected in net income as part of salaries and benefit expense in the consolidated statements of operations.

Common stock owned by the employee stock ownership plan ("ESOP"):

All shares held by the ESOP are treated as outstanding for purposes of computing earnings per share. Purchases and redemptions of the Company's common stock by the ESOP are at estimated fair value as determined by market price of the shares. Dividends on shares held by the ESOP are charged to retained earnings. At December 31, 2023 and 2022, the ESOP owned 474,671 and 472,962 shares of the Company's common stock with an estimated value of $4,067,930 and $4,124,228, respectively. All of these shares were allocated to participants.

Note 1. Summary of Significant Accounting Policies, Continued

Income per common share:

Basic income per common share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued by the Company relate to outstanding stock options and similar share-based compensation instruments and are determined using the treasury stock method (see Note 20).

Statements of cash flows:

For purposes of reporting cash flows in the consolidated financial statements, the Company considers certain highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents include amounts due from banks and federal funds sold. Generally, federal funds are sold for one-day periods. Changes in the valuation account of securities available-for-sale, including the deferred tax effects, are considered noncash transactions for purposes of the statement of cash flows and are presented in detail in the notes to the consolidated financial statements.

Off-balance sheet financial instruments and unfunded commitments:

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit issued to meet customer financing needs. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for off-balance sheet loan commitments is represented by the contractual amount of those instruments. Such financial instruments are recorded when they are funded.

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

Comprehensive income:

The Company reports comprehensive income in accordance with ASC 220, "*Comprehensive Income*." The standard requires that all items that are required to be reported under accounting standards as comprehensive income be reported in a financial statement that is displayed with the same prominence as other consolidated financial statements. The disclosure requirements have been included in the Company's consolidated statements of comprehensive income.

Note 1. Summary of Significant Accounting Policies, Continued

Business combinations and Purchased Credit Deteriorated Loans:

The Company accounts for its acquisitions under Financial Accounting Standards Board ("FASB") ASC Topic 805, "*Business Combinations*," which requires the use of the acquisition method of accounting. All identifiable assets acquired, including loans, are recorded at fair value.

Upon adoption of ASC 326, loans that were designated as PCI loans under the previous accounting guidance were classified as PCD loans without reassessment.

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

Subsequent to initial recognition, PCD loans are subject to the same interest income recognition and impairment model as non-PCD loans, with changes to the allowance for credit loss recorded through provision expense.

Business combinations and method of accounting for loans acquired, prior to ASC 326:

Prior to the adoption of ASC 326, Purchased credit-impaired ("PCI") loans were accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality, found in FASB Accounting Standards Codification Topic 310-30, "*Receivables-Loans and Debt Securities Acquired with Deteriorated Credit Quality,"* formerly American Institute of Certified Public Accountants ("AICPA") Statement of Position ("SOP") 03-3, "*Accounting for Certain Loans or Debt Securities Acquired in a Transfer*," and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loans. Loans acquired in business combinations with evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected are considered to be PCI loans. Evidence of credit quality deterioration as of purchase dates may include information such as past-due and nonaccrual status, borrower credit scores and recent loan to value percentages. The Company considers expected prepayments and estimates the amount and timing of expected principal, interest and other cash flows for each loan or pool of loans meeting the criteria above and determines the excess of the loan's scheduled contractual principal and contractual interest payments over all cash flows expected to be collected at acquisition as an amount that should not be accreted (nonaccretable difference). The remaining amount, representing the excess of the loan's or pool's cash flows expected to be collected over the fair value for the loan or pool of loans, is accreted into interest income over the remaining life of the loan or pool (accretable difference). Subsequent to the acquisition date, increases in cash flows expected to be received in excess of the Company's initial estimates are reclassified from nonaccretable difference to accretable difference and are accreted into interest income on a level-yield basis over the remaining life of the loan. Decreases in cash flows expected to be collected are recognized as impairment through the provision for loan losses. Acquired non-PCI loans are recorded at their initial fair value and adjusted for subsequent advances, pay downs, amortization or accretion of any premium or discount on purchase, charge-offs and additional provisioning that may be required.

Note 1.Summary of Significant Accounting Policies, Continued

Segment Reporting:

The Company’s operations are managed and financial performance is evaluated on an organization-wide basis. Accordingly, management has deemed the banking and finance operations as one reportable operating segment.

Risks and uncertainties:

In the normal course of its business, the Company encounters two significant types of risks: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Company is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or on different bases, than its interest-earning assets. Credit risk is the risk of default on the Company's loan portfolio that results from borrower's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of collateral underlying loans receivable and the valuation of real estate held by the Company.

The Company is subject to the regulations of various governmental agencies (regulatory risk). These regulations can and do change significantly from period to period. The Company also undergoes periodic examinations by the regulatory agencies, which may subject it to further changes with respect to asset valuations, amounts of required loss allowances and operating restrictions from the regulators' judgments based on information available to them at the time of their examination.

Note 2. Investment Securities

The amortized cost and estimated fair values of securities available-for-sale were:

	Amortized	Gross Unrealized		
	Cost	Gains	Losses	Fair Value
December 31, 2023				
U.S. Treasury securities	$ -	$ -	$ -	$ -
U.S. agency securities	7,325,867	31,009	366,871	6,990,005
Municipal securities	35,290,138	-	4,182,595	31,107,543
Mortgage-backed securities	101,484,996	268,159	8,689,940	93,063,215
Corporate bonds	15,979,202	174,054	1,290,795	14,862,461
Collateralized loan obligations	25,323,438	53,912	1,000	25,376,350
Total	$ 185,403,641	$ 527,134	$ 14,531,201	$ 171,399,573

	Amortized	Gross Unrealized		
	Cost	Gains	Losses	Fair Value
December 31, 2022				
U.S. Treasury securities	$ 32,718,585	$ -	$ 1,910,616	$ 30,807,969
U.S. agency securities	5,805,577	-	430,391	5,375,186
Municipal securities	37,994,173	4,891	5,819,703	32,179,361
Mortgage-backed securities	76,923,586	-	9,710,832	67,212,754
Corporate bonds	7,905,067	-	480,369	7,424,698
Collateralized loan obligations	19,362,390	-	265,510	19,096,880
Total	$ 180,709,378	$ 4,891	$ 18,617,421	$ 162,096,848

Note 2. Investment Securities, Continued

At December 31, 2023 and 2022, the Company had marketable equity securities totaling $128,517 and $133,715, respectively. The Company did not have any securities classified as held-to-maturity at December 31, 2023 and 2022.

The following is a summary of maturities of securities available-for-sale as of December 31, 2023. The amortized cost and fair values are based on the contractual maturity dates. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalty. Mortgage-backed securities are presented as a separate line as paydowns are expected to occur before contractual maturity dates.

	Debt Securities Available-for-Sale	
	Amortized Cost	Fair Value
Due after one year but within five years	$ 4,553,854	$ 4,487,074
Due after five years through ten years	53,740,424	49,066,812
Due after ten years	25,624,366	24,782,472
	83,918,644	78,336,358
Mortgage-backed securities	101,484,996	93,063,215
Total	$185,403,641	$171,399,573

The following tables show gross unrealized losses and fair value of securities available-for-sale, aggregated by investment category, and length of time that individual securities have been in a continuous realized loss position at December 31, 2023 and 2022.

	December 31, 2023		December 31, 2022	
Securities Available-for-Sale	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Less Than 12 Months				
U.S. Treasury securities	$ -	$ -	$ 21,910,468	$ 1,020,843
U.S. agency securities	-	-	5,375,186	430,391
Municipal securities	-	-	18,086,471	2,756,674
Mortgage-backed securities	11,734,826	105,404	38,317,573	3,765,035
Corporate bonds	4,875,345	290,436	5,225,203	429,864
Collateralized loan obligations	-	-	14,700,000	265,510
Total	$ 16,610,171	$ 395,840	$ 103,614,901	$ 8,668,317

	December 31, 2023		December 31, 2022	
Securities Available-for-Sale	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Greater Than 12 Months				
U.S. Treasury securities	$ -	$ -	$ 8,897,501	$ 889,773
U.S Agency securities	4,661,522	366,871	-	-
Municipal securities	31,107,543	4,182,595	12,184,339	3,063,029
Mortgage-backed securities	62,432,359	8,584,536	28,895,181	5,945,797
Corporate bonds	5,930,953	1,000,359	449,495	50,505
Collateralized loan obligations	4,999,000	1,000	-	-
Total	$ 109,131,377	$ 14,135,361	$ 50,426,516	$ 9,949,104

Note 2. Investment Securities, Continued

At December 31, 2023 and 2022, the Company had eighty-one and eighty-three, respectively, individual investments available-for-sale that were in an unrealized loss position. The Company does not intend to sell these securities in the near future and it is more likely than not that the Company will not be required to sell these securities before recovery of their amortized cost. The Company believes that, based on industry analyst reports and credit ratings, the unrealized losses were attributable to changes in market interest rates and were not attributable to deterioration in credit quality.

During 2023, the Company sold all US Treasury securities and two US Agency securities with proceeds totaling $38,184,599. There was one gain recognized of $6,846 and eight losses recognized totaling $1,532,477. During 2022, the Company sold securities with proceeds of $1,000,000 and had no gains or losses on these sales. During 2023 and 2022, the Company recognized losses of $5,198 and $4,144, respectively, within the consolidated statement of operations related to the decrease in fair value of marketable equity securities.

At December 31, 2023 and 2022, investment securities with a par value of $39,011,850 and $10,392,607 and a fair market value of $34,527,077 and $8,880,434, respectively, were pledged as collateral for securities under agreements to repurchase and to secure public deposits.

Note 3. Loans and Allowance for Credit Losses

Major classifications of loans receivable are summarized as follows at December 31:

	2023	2022
Real estate loans:		
Construction	$ 35,634,919	$ 45,458,457
Residential	220,618,838	181,006,315
Nonresidential	355,271,860	317,559,308
Total real estate loans	611,525,617	544,024,080
Commercial and industrial	61,152,820	65,479,589
Consumer and other	32,993,953	51,746,847
Total loans	$ 705,672,390	$ 661,250,516

Loans sold with limited recourse are 1-4 family residential mortgages originated by the Company and sold to various other financial institutions. These loans are sold with the agreement that a loan may be returned to the Company within 90 days of purchase, at any time in the event the Company fails to provide necessary documents related to the mortgages to the buyers, or if the Company makes false representations or warranties to the buyers. Loans sold under these agreements in 2023 and 2022 totaled $206,810,392 and $240,966,438, respectively. The Company uses the same credit policies in making loans held for sale as it does for on-balance-sheet instruments. Sales commitments are to sell loans at an agreed upon price and are generally funded within 60 days.

Note 3. Loans and Allowance for Credit Losses, continued

Credit Quality Indicators

Loans are categorized into risk categories based on relevant information about the ability of borrowers to service their debt, including, among other factors: current financial information, historical payment experience, credit documentation, public information, and current economic trends. The following definitions are utilized for risk ratings, which are consistent with the definitions used in supervisory guidance:

Special Mention - Loans classified as special mention have a potential weakness that deserves managements close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard - Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful - Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Risk ratings are updated on an ongoing basis and are subject to change by continuous loan monitoring processes. Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans.

Note 3. Loans and Allowance for Credit Losses, continued

Effective January 1, 2023, the Company adopted the accounting guidance in ASU 2022-02 which requires the presentation of gross charge-offs by year of origination. The Company prospectively adopted ASU 2022-02; therefore, prior period activity of gross charge-offs by year of origination are not included in the below tables.

	Term Loans by Year of Origination							
	2023	2022	2021	2020	2019	Prior	Revolving	Total
Commercial and Industrial:								
Pass	$ 10,836,164	$16,560,384	$ 6,305,177	$ 3,650,115	$ 5,478,561	$ 2,081,635	$ 15,084,685	$ 59,996,719
Special Mention	-	-	-	-	-	-	-	-
Substandard	91,067	126,990	63,663	15,693	-	-	40,080	337,492
Watch	81,246	93,979	69,364	40,664	401,976	105,421	25,959	818,609
Total	11,008,477	16,781,353	6,438,203	3,706,472	5,880,536	2,187,056	15,150,723	61,152,820
Current-period gross charge-offs	-	147,144	-	43,347	-	-	-	190,491
Construction:								
Pass	5,393,944	22,275,803	3,906,834	515,555	1,694,826	563,884	-	34,350,845
Special Mention	-	-	-	-	-	843	-	843
Substandard	-	-	-	-	-	-	-	-
Watch	-	-	-	-	629,272	653,959	-	1,283,230
Total	5,393,944	22,275,803	3,906,834	515,555	2,324,098	1,218,686	-	35,634,919
Current-period gross charge-offs	-	-	-	-	-	-	-	-
Consumer and Other:								
Pass	4,483,471	4,942,558	14,083,657	4,419,155	2,181,234	1,074,145	1,179,199	32,363,418
Special Mention	-	-	-	-	-	697	-	697
Substandard	-	-	47,825	-	905	9,735	180	58,644
Watch	-	4,000	275,857	34,171	225,683	28,518	2,965	571,194
Total	4,483,471	4,946,558	14,407,338	4,453,326	2,407,821	1,113,095	1,182,344	32,993,953
Current-period gross charge-offs	50,279	16,326	134,712	12,255	1,917	6,317	6,932	228,738
Nonresidential Real Estate:								
Pass	40,048,570	99,471,905	103,062,042	33,053,132	22,132,405	38,205,818	7,809,301	343,783,174
Special Mention	-	-	-	-	-	136,778	5	136,783
Substandard	-	-	-	-	-	171,217	-	171,217
Watch	880,160	212,574	2,146,168	5,159,354	1,222,112	1,560,317	-	11,180,687
Total	40,928,730	99,684,479	105,208,210	38,212,487	23,354,518	40,074,130	7,809,307	355,271,860
Current-period gross charge-offs	-	-	-	-	-	-	-	-
Residential Real Estate:								
Pass	65,619,634	49,323,968	35,748,640	16,276,194	6,432,800	14,476,616	31,481,583	219,359,435
Special Mention	145,492	-	-	-	-	(85)	-	145,407
Substandard	-	-	-	-	-	-	29,122	29,122
Watch	625,267	-	42,686	-	-	416,922	-	1,084,874
Total	66,390,393	49,323,968	35,791,326	16,276,194	6,432,800	14,893,452	31,510,705	220,618,838
Current-period gross charge-offs	-	-	-	-	-	-	-	-

Note 3. Loans and Allowance for Credit Losses, Continued

The following table is a summary of the Company's recorded investment in loans by credit quality indicators as of December 31, 2022, prior to the adoption of ASC 326:

		Real Estate Loans			Total		
	Total	Construction	Residential	Non-Residential	Real Estate Loans	Commercial and Industrial	Consumer and Other
Pass	$ 652,585,645	$ 43,936,751	$ 180,272,587	$ 313,044,651	$ 537,253,989	$ 64,171,086	$ 51,160,570
Special mention	7,751,948	1,521,706	665,125	3,993,505	6,180,336	1,143,229	428,383
Substandard	912,923	-	68,603	521,152	589,755	165,274	157,894
Doubtful	-	-	-	-	-	-	-
Total	$ 661,250,516	$ 45,458,457	$ 181,006,315	$ 317,559,308	$ 544,024,080	$ 65,479,589	$ 51,746,847

The following is an analysis of the allowance for credit or loan losses by class of loans for the years ended December 31, 2023 and 2022:

	December 31, 2023						
		Real Estate Loans			Total	Commercial	
	Total	Construction	Residential	Non-Residential	Real Estate Loans	and Industrial	Consumer and Other
Beginning balance	$ 7,659,794	$ 516,545	$ 2,048,171	$ 3,612,062	$ 6,176,778	$ 790,172	$ 692,844
Adjustment to allowance for adoption of ASU 2016-13	114,221	5,768	35,710	57,505	98,983	9,898	5,340
Provisions	847,398	(99,581)	706,366	175,984	782,769	171,890	(107,261)
Recoveries	191,309	5,500	68,485	68,366	142,351	5,265	43,693
Charge-offs	(419,229)	-	-	-	-	(190,491)	(228,738)
Ending balance	$ 8,393,493	$ 428,232	$ 2,858,732	$ 3,913,917	$ 7,200,881	$ 786,734	$ 405,878

There were no loans individually evaluated as of December 31, 2023 under ASU 2016-13.

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

	December 31, 2022						
		Real Estate Loans			Total	Commercial	
	Total	Construction	Residential	Non-Residential	Real Estate Loans	and Industrial	Consumer and Other
Beginning balance	$ 7,039,576	$ 545,727	$ 1,654,957	$ 2,797,228	$ 4,997,912	$ 998,690	$ 1,042,974
Provisions	480,000	(249,752)	310,032	814,834	875,114	(112,426)	(282,688)
Recoveries	346,173	220,570	83,182	-	303,752	4,892	37,529
Charge-offs	(205,955)	-	-	-	-	(100,984)	(104,971)
Ending balance	$ 7,659,794	$ 516,545	$ 2,048,171	$ 3,612,062	$ 6,176,778	$ 790,172	$ 692,844

Note 3. Loans and Allowance for Loan Losses, Continued

	December 31, 2022						
		Real Estate Loans			Total	Commercial	
	Total	Construction	Residential	Non-Residential	Real Estate Loans	and Industrial	Consumer and Other
Allowance							
Evaluated for impairment							
Individually	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively	7,659,794	516,545	2,048,171	3,612,062	6,176,778	790,172	692,844
Allowance for loan losses	$ 7,659,794	$ 516,545	$ 2,048,171	$ 3,612,062	$ 6,176,778	$ 790,172	$ 692,844
Total Loans							
Evaluated for impairment							
Individually	$ 1,028,657	$ -	$ 490,123	$ 538,534	$ 1,028,657	$ -	$ -
Collectively	660,221,859	45,458,457	180,516,192	317,020,774	542,995,423	65,479,589	51,746,847
Loans receivable	$ 661,250,516	$ 45,458,457	$ 181,006,315	$ 317,559,308	$ 544,024,080	$ 65,479,589	$ 51,746,847

Prior to the adoption of ASU 2016-13, loans were considered impaired when, based on current information and events, it was probable the company would be unable to collect all amounts due in accordance with the original contractual terms of the loan agreements. Impaired loans include loans on nonaccrual status and accruing troubled debt restructurings. When determining if the Company would be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement, the Company considered the borrower's capacity to pay, which included such factors as the borrower's current financial statements, an analysis of global cash flow sufficient to pay all debt obligations and an evaluation of secondary sources of repayment, such as guarantor support and collateral value. The Company individually assessed for impairment all nonaccrual loans greater than $100,000. The tables below include all loans deemed impaired, whether or not individually assessed for impairment. If a loan was deemed impaired, a specific valuation allowance was allocated, if necessary, so that the loan was reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment was expected solely from the collateral. Interest payments on impaired loans were typically applied to principal unless collectability of the principal amount was reasonably assured, in which case interest was recognized on a cash basis.

The following summarizes the Company's impaired loans as of December 31, 2022:

	Recorded Investment	Unpaid Principal	Related Allowance	Average Balance	Interest Income Recognized
With no related allowance recorded:					
Real estate loans					
Construction	$ -	$ -	$ -	$ -	$ -
Residential	490,123	490,123	-	519,676	34,413
Nonresidential	538,534	553,402	-	564,100	38,574
Total real estate loans	1,028,657	1,043,525	-	1,083,776	72,987
Commercial and industrial	-	-	-	-	-
Consumer and other	-	-	-	-	-
Total	$ 1,028,657	$ 1,043,525	$ -	$ 1,083,776	$ 72,987

Note 3. Loans and Allowance for Credit Losses, Continued

With an allowance recorded:					
Real estate loans					
Construction	$ -	$ -	$ -	$ -	$ -
Residential	-	-	-	-	-
Nonresidential	-	-	-	-	-
Total real estate loans	-	-	-	-	-
Commercial and industrial	-	-	-	-	-
Consumer and other	-	-	-	-	-
Total	$ -	$ -	$ -	$ -	$ -
Total					
Real estate loans					
Construction	$ -	$ -	$ -	$ -	$ -
Residential	490,123	490,123	-	519,676	34,413
Nonresidential	538,534	553,402	-	564,100	38,574
Total real estate loans	1,028,657	1,043,525	-	1,083,776	72,987
Commercial and industrial	-	-	-	-	-
Consumer and other	-	-	-	-	-
Total	$ 1,028,657	$ 1,043,525	$ -	$ 1,083,776	$ 72,987

The following is an aging analysis of the Company's loan portfolio at December 31, 2023:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Past Due > 90 Days and Accruing
Real estate loans							
Construction	$ -	$ -	$ -	$ -	$35,634,919	$ 35,634,919	$ -
Residential	196,010	-	-	196,010	220,442,828	220,618,838	-
Nonresidential	-	-	85,684	85,684	355,186,176	355,271,860	-
Total real estate loans	-	-	85,684	281,694	611,243,923	611,525,617	-
Commercial and industrial	13,512	-	85,467	98,979	61,053,841	61,152,820	-
Consumer and other	732	6,090	14,017	20,839	32,973,114	32,993,953	-
Total	$ 210,254	$ 6,090	$ 185,168	$ 401,512	$705,270,878	$ 705,672,390	$ -

The following is an aging analysis of the Company's loan portfolio at December 31, 2022:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Past Due > 90 Days and Accruing
Real estate loans							
Construction	$ -	$ -	$ -	$ -	$45,458,457	$ 45,458,457	$ -
Residential	-	-	-	-	181,006,315	181,006,315	-
Nonresidential	-	-	-	-	317,559,308	317,559,308	-
Total real estate loans	-	-	-	-	544,024,080	544,024,080	-
Commercial and industrial	-	54,172	75,730	129,901	65,349,688	65,479,589	-
Consumer and other	58,808	-	35,047	93,855	51,652,992	51,746,847	-
Total	$ 58,808	$ 54,172	$ 110,777	$ 223,756	$661,026,760	$ 661,250,516	$ -

Note 3. Loans and Allowance for Credit Losses, Continued

The following is an analysis of the Company's nonaccrual loan portfolio recorded at December 31, 2023 and 2022:

	CECL			Incurred Loss
	December 31, 2023			December 31, 2022
	Nonaccrual Loans with No Allowance	Nonaccrual Loans with an Allowance	Total Nonaccrual Loans	Nonaccrual Loans
Real estate loans				
Residential	-	$ -	$ -	$ 68,602
Nonresidential	140,661	-	140,661	199,406
Total real estate loans	140,661	-	140,661	268,008
Commercial and industrial	98,979	-	98,979	75,730
Consumer and other	56,100	-	56,100	129,456
Total	$ 295,740	$ -	$ 295,740	$ 473,194

The Company recognized $48,187 of interest income on nonaccrual loans during the year ended December 31, 2023.

Modifications Made to Borrowers Experiencing Financial Difficulty

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

Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses because of the measurement methodologies used to estimate the allowance, a change to the allowance for credit losses is generally not recorded upon modification. Occasionally, the Company modifies loans by providing principal forgiveness, extension of maturity date, or interest rate reduction. When principal forgiveness is provided, the amortized cost basis of the asset is written off against the allowance for credit losses, since it is deemed uncollectible.

In some cases, the Company will modify a certain loan by providing multiple types of concessions. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness or rate reduction, may be granted.

As of December 31, 2023, the Company has a total of 10 loans with modifications. 9 loans with term extensions and 1 loan with a rate reduction. The outstanding balance of these loans totals $915,585, or 0.13% of total loans outstanding. The composition includes: (1) 3 nonresidential real estate loans with an outstanding balance of $477,686 or 0.07% of total loans outstanding; (2) 4 residential real estate loans with an outstanding balance of $344,941 or 0.05% of total loans outstanding, and (3) 3 commercial and industrial loans with an outstanding balance of $92,958 or 0.01% of total loans outstanding. All 10 loans were current (not past due) as of December 31, 2023.

Note 3. Loans and Allowance for Credit Losses, Continued

Unfunded Commitments and related allowance for credit losses

The Company enters into financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments consist of commitments to extend credit and standby letters of credit. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. A commitment involves, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The Company's exposure to credit loss in the event of nonperformance by the other parties to the instrument is represented by the contractual notional amount of the instrument. The Company uses the same credit policies in making commitments to extend credit as it does for on-balance-sheet instruments. Letters of credit are conditional commitments issued to guarantee a customer's performance to a third party and have essentially the same credit risk as other lending facilities.

Collateral held for commitments to extend credit and standby letters of credit varies but may include accounts receivable, inventory, property plant and equipment, and income-producing commercial properties.

The Company maintains an allowance for off-balance sheet credit exposures such as unfunded balances for existing lines of credit, commitments to extend future credit, as well as both standby and commercial letters of credit when there is a contractual obligation to extend credit and when this extension of credit is not unconditionally cancellable (i.e., the commitment cannot be canceled at any time). The allowance for off-balance sheet credit exposures is adjusted as a provision for credit loss expense or (release). The estimate includes consideration of the likelihood that funding will occur, which is based on a historical funding study derived from internal information, and an estimate of expected credit losses on commitments expected to be funded over its estimated life, which are the same loss rates that are used in computing the allowance for credit losses on loans and are discussed in Note 1. The allowance for credit losses for unfunded loan commitments of $407,487 at December 31, 2023, is separately classified on the balance sheet within Other Liabilities.

The total unfunded commitments (loans) at December 31, 2023 was $109,525,058. The following table presents the balance and activity in the allowance for credit losses for unfunded loan commitments for the year ended December 31, 2023.

		Total Allowance for Credit Losses – Unfunded Commitments
Balance, December 31, 2022	$	-
Adjustment to allowance for unfunded commitments for adoption of ASU 2016-13		886,038
Provision for credit losses (release) – unfunded commitments for		(478,551)
Balance, December 31, 2023	$	407,487

Note 3. Loans and Allowance for Credit Losses, Continued

Acquired loans:

Upon adoption of ASC 326, loans that were designated as PCI loans under the previous accounting guidance were classified as PCD loans without reassessment. The information below relates to years ended December 31, 2022.

Loans acquired through acquisitions are recorded at estimated fair value on their purchase date with no carryover of the related allowance for loan losses. Discounts on loans that are not considered impaired at acquisition are recorded as an accretable discount and are accreted into interest income over the terms of the related loans. The remaining balance of acquired non-PCI loans was $3.2 million with remaining accretable yield of $62 thousand at December 31, 2022. For acquired loans that are considered impaired at the time of acquisition (PCI), the difference between the contractually required payments and expected cash flows is recorded as a nonaccretable discount.

The following table presents changes in the carrying value of PCI loans for the years ended December 31, 2022:

		2022
Balance at beginning of period	$	2,094,575
Change due to payments received and accretion		(719,334)
Advances		175,729
Balance at end of period	$	1,550,970

The following table presents changes in the nonaccretable yield for PCI loans for the year ended December 31, 2022:

		2022
Balance at beginning of period	$	278,362
Reclassification to accretable yield		(107,011)
Change due to recoveries (charge-offs)		-
Balance at end of period	$	171,351

The following table presents changes in the accretable yield for PCI loans for the year ended December 31, 2022:

		2022
Balance at beginning of period	$	431,412
Reclassification from nonaccretable yield		107,011
Accretion, net cash basis interest collections		(264,388)
Balance at end of period	$	274,035

The Company did not include acquired loans within the calculation of allowance for loan losses as of December 31, 2022, as the remaining discount was in excess of calculated allowance on those loans.

Note 4. Premises, Furniture and Equipment

Premises, furniture and equipment consisted of the following for the years ended December 31:

	2023	2022
Land	$ 8,632,700	$ 8,632,700
Buildings	16,952,575	16,895,393
Leasehold improvements	2,249,098	2,249,098
Furniture and equipment	11,542,204	11,146,395
Construction in progress	941,716	828,763
Total	40,318,293	39,752,349
Less, accumulated depreciation	(18,019,945)	(16,940,899)
Premises and equipment, net	$ 22,298,348	$ 22,811,450

Depreciation expense for the years ended December 31, 2023 and 2022 amounted to $1,126,296 and $1,112,170, respectively.

At December 31, 2023 and 2022, construction in progress consists mainly of architect fees and site work for potential new branches. As of December 31, 2023, there were no material commitments outstanding for the construction or purchase of premises, furniture and equipment.

Note 5. Other Real Estate Owned

Transactions in other real estate owned for the years ended December 31, 2023 and 2022 are summarized below:

	2023	2022
Beginning balance	$ -	$ 135,000
Additions	-	-
Sales	-	(135,000)
Write downs	-	-
Ending balance	$ -	$ -

The Company did not sell any other real estate owned during 2023 nor foreclose on any real property during 2023. The Company recognized a loss on the sale of other real estate owned of $15,838 for the year ended December 31, 2022.

Note 6. Mortgage Servicing Rights

The Company retains the right to service the residential mortgage loans that it sells to the Federal National Mortgage Association (“FNMA”) and Freddie Mac (“FHLMC”) and recognizes those rights as an asset on the consolidated balance sheets.

Note 6. Mortgage Servicing Rights, continued

The Company's servicing assets are initially measured at fair value and are subsequently measured using either the fair value method or the amortization method, depending on the asset class, which has been determined to be vintage (or loan origination) year. Vintage year classes prior to 2020 are measured using the fair value method

while subsequent vintage year classes are measured using the amortization method. MSRs accounted for under the amortization method are subsequently accounted for at lower of cost or fair value, net of accumulated amortization, which is recorded in proportion to, and over the period of, net servicing income. Any changes in fair value during the period for MSRs carried under the fair value method, as well as amortization and impairment of MSRs under the amortization method, are recorded in mortgage banking income in the consolidated statements of operations.

The following table presents the activity for MSRs accounted for using the amortization method for the years ended December 31, 2023 and 2022:

	2023	2022
Balances, beginning of year	$ 5,798,967	$ 9,681,076
Amount capitalized	2,287,337	2,370,641
Sales proceeds, net	-	(4,939,834)
Amount amortized	(813,754)	(1,312,916)
Balances, end of year	$ 7,272,550	$ 5,798,967

The following table presents the activity for MSRs accounted for using the fair value method for the years ended December 31, 2023 and 2022:

	2023	2022
Balances, beginning of year	$ 4,642,455	$ 4,376,021
Changes in fair value (1)	281,434	1,251,171
Changes in unpaid principal balance (2)	(558,265)	(984,737)
Balances, end of year	$ 4,365,624	$ 4,642,455

(1) Represents changes in value primarily due to market driven changes in interest rates and prepayment speeds.
(2) Represents changes in value of the MSRs due to i) passage of time, including the impact from both regularly scheduled loan principal payments and partial paydowns, and ii) loans that paid off fully during the period.

The fair value of MSRs is highly sensitive to changes in assumptions and fair value is determined by estimating the present value of the asset's future cash flows utilizing market-based prepayment rates, discount rates and other assumptions validated through comparison to trade information, industry surveys, and with the use of independent third-party appraisals. Changes in prepayment speed assumptions have the most significant impact on the fair value of MSRs. Generally, as interest rates decline, mortgage loan prepayments accelerate due to increased refinance activity, which results in a decrease in the fair value of the MSRs. Conversely, as interest rates increase, generally, the MSRs fair value will increase. Measurement of fair value is limited to the conditions that exist and the assumptions utilized as of a particular point in time, and those assumptions may not be appropriate if they are applied at a different time.

At December 31, 2023 and 2022, the aggregate amount of loans serviced by the Company for the benefit of others totaled $1.0 billion and $0.9 billion respectively.

Note 6. Mortgage Servicing Rights, continued

The characteristics and sensitivity analysis of the MSRs are included in the following table as of December 31, 2023 and 2022.

	2023	2022
Composition of residential loans serviced for others		
Fixed-rate mortgage loans	98%	100%
Weighted average expected life	7.4 years	7.7 years
Constant prepayment rate ("CPR")	7.73%	7.65%
Weighted average discount rate	8.53%	8.53%

Note 7. Derivative Financial Instruments

The non-designated derivative positions of the Company for the years ended December 31, 2023 and 2022 are reported as other assets or other liabilities, net, and are as follows:

	2023		2022	
Derivative assets (liabilities):	Fair value	Notional value	Fair value	Notional value
Mortgage loan interest rate lock commitments	$ 282,781	$ 16,996,582	$ 56,402	$ 7,320,976
Mortgage loan forward sales commitments	(141,797)	18,000,000	35,000	8,000,000

The Company uses derivatives primarily to minimize interest rate risk related to its pipeline of loan interest rate lock commitments issued on residential mortgage loans in the process of origination for sale or loans held for sale. The Company's derivative positions are classified as trading assets or liabilities, net, and as such, the changes in the fair market value of the derivative positions are recognized in the consolidated statements of operations within mortgage banking income.

The Company had one fair value hedge and the following table presents the gross notional amount and estimated fair value of the derivative instruments as of December 31, 2023:

		Fair Value	
December 31, 2023	**Notional Amount**	**Assets**	**Liabilities**
Fair Value Hedge:			
Interest rate contracts:			
Pay fixed, receive variable – loans	$ 50,000,000	$ 115,056	$ 136,061
Total derivatives	$ 50,000,000	$ 115,056	$ 136,061

The above derivative is under a master netting arrangement. However, as of December 31, 2023, there were no other outstanding derivative contracts. The fair value of the hedged item is recorded in loans and the derivative item is recorded in other liabilities in the statement of financial condition. There were no outstanding derivative contracts as of December 31, 2022.

Note 7. Derivative Financial Instruments, continued

The following represents the carrying value of the hedged item (loans) in fair hedging relationship:

December 31, 2023	Hedged Asset Basis	Hedge Basis Adjustment: Designated	Hedge Basis Adjustment: Discontinued
Fair Value Hedge:			
Interest rate contracts:			
Commercial real estate loans	$ 256,115,000	$ 115,056	$ -
Total	$ 256,115,000	$ 115,056	$ -

During the year ended December 31, 2023, there was no income recorded on interest settlements. Changes in the fair value of the hedged item of $115,056 was offset by changes in the fair value of the swap derivative of $136,061. The residual was a result of the hedge ineffectiveness and recorded as an offset to interest income on the consolidated statements of operations.

No portion of the change in fair value of derivatives designated as hedges was excluded from the effectiveness testing. No hedges were terminated during the year ended December 31, 2023.

Note 8. Core Deposit Intangible

The following table presents information about our intangible assets as of December 31:

	2023		2022	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Core deposit intangibles	$ 880,000	$ 805,684	$ 880,000	$ 732,906

Based on the core deposit intangibles as of December 31, 2023, the following table presents the aggregate amortization expense for each of the succeeding years ending December 31:

	Amount
2024	$ 48,177
2025	23,576
2026	2,563
Total	$ 74,316

Amortization expense of $72,778 and $97,380 related to the core deposit intangibles was recognized in 2023 and 2022, respectively, and was recorded within other noninterest expense.

Note 9. Deposits

At December 31, 2023, the scheduled maturities of time deposits were as follows:

Maturing In:		Amount
2024	$	144,529,823
2025		12,917,927
2026		10,919,314
2027		564,332
2028		306,077
Total	$	169,237,473

Included in total time deposits at December 31, 2023 and 2022, respectively, were brokered time deposits of $44,608,000 and $25,483,000. Interest expense on time deposits that meet or exceed the FDIC insurance limit of $250,000 was $2,250,298 and $204,579 for the years ended December 31, 2023 and 2022, respectively.

Note 10. Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase generally mature on a one to thirty day basis. Under the terms of the repurchase agreement, the Company sells an interest in securities issued by United States Government agencies and agrees to repurchase the same securities the following business day. Information concerning securities sold under agreements to repurchase is summarized as follows at December 31:

	2023	2022
Balance at December 31	$ 307,517	$ 7,367,861
Maximum month-end balance during the year	13,468,150	13,805,033
Average balance during the year	5,734,357	10,128,626
Average interest rate at the end of the year	0.10%	0.15%
Average interest rate during the year	1.18%	0.17%

Note 11. Federal Home Loan Bank Advances

Federal Home Loan Bank advances consisted of the following at December 31:

	Interest Rate	2023	2022
Fixed rate			
January 25, 2023	4.23%	$ -	$20,000,000
January 27, 2023	4.23%	-	10,000,000
December 30, 2024	5.57%	5,000,000	-
		$ 5,000,000	$ 30,000,000

At December 31, 2023 and 2022, the Company has pledged certain loans totaling $202,760,138 and $240,843,061, respectively, as collateral to secure its borrowings from the FHLB. Additionally, the Company's FHLB stock is pledged to secure the borrowings.

Note 12. Junior Subordinated Debentures

On June 30, 2005, the Trust (a non-consolidated subsidiary) issued $10,000,000 in trust preferred securities (callable without penalty) with a maturity of November 23, 2035. Interest on these securities is payable quarterly at three-month Chicago Mercantile Exchange (CME) Term SOFR plus a spread adjustment plus 1.83%. In accordance with generally accepted accounting principles, the Trust has not been consolidated in these financial statements. The Company received from the trust the $10,000,000 proceeds from the issuance of the securities and the $310,000 initial proceeds from the capital investment in the Trust, and accordingly has shown the funds due to the trust as $10,310,000 junior subordinated debentures. Current regulations allow the entire amount of junior subordinated debentures to be included in the calculation of regulatory capital. As of December 31, 2023 and 2022, the Company had accrued and unpaid interest totaling $72,069 and $72,870, respectively.

Note 13. Borrowings

On June 2, 2020, the Company entered into subordinated debt agreements with eight financial institutions totaling $5,500,000. The debt initially bears interest at a fixed rate of 5.875% per annum until June 1, 2025 and then variable at three-month SOFR ("Secured Overnight Financing Rate") plus 5.51%, payable quarterly with principal and unpaid interest due at maturity, June 1, 2030.

On September 22, 2021, the Company entered into subordinated debt agreements with eleven financial institutions totaling $10,000,000. The debt initially bears interest at a fixed rate of 3.375% per annum until October 1, 2026 and then variable at three-month SOFR plus 2.45%, payable quarterly with principal and unpaid interest due at maturity, October 1, 2031. The Company recorded $158,732 in debt issuance costs associated with the subordinated debt, which is recorded net within subordinated debentures and will be amortized over five years. At December 31, 2023, remaining debt issuance costs to be amortized totaled $87,303.

At December 31, 2023 and 2022, the Company had accrued and unpaid interest totaling $72,473 and $67,985, respectively, on its subordinated debt.

Note 14. Shareholders' Equity

Common Stock - The following is a summary of the changes in common stock outstanding for the years ended December 31, 2023 and 2022.

	2023	2022
Common shares outstanding at beginning of the period	8,140,311	8,258,410
Conversion of Series D preferred stock to common stock	1,400	1,000
Purchase of treasury stock	(43,301)	(55,253)
Restricted stock issued	28,859	46,033
Additional shares granted	22,453	7,918
Forfeiture of restricted shares	(10,645)	(117,797)
Common shares outstanding at end of the period	8,139,077	8,140,311

Preferred Stock - The Company's Articles of Incorporation authorizes the issuance of a class of 10,000,000 shares of preferred stock, having no par value. Subject to certain conditions, the Company's Board of Directors is authorized to issue preferred stock without shareholder approval. Under the Articles of Incorporation, the Board

Note 14. Shareholders' Equity, Continued

of Directors is authorized to determine the terms of one or more series of preferred stock, including the preferences, rights, and limitations of each series.

The Company's Series D Preferred Stock ("Series D Shares") is a fixed rate non-cumulative perpetual preferred stock, created July 16, 2015, with the authorized issuance of 70,000 shares. The Series D shares were created for the purpose of converting Common Stockholders with 200 shares or less to Series D Shares. The Series D Shares have no voting rights, and in the event dividends are declared on Common Stock, will be entitled to 4% more than those paid on the Common Stock. Series D Shares will, with respect to ranking to include but not limited to dividends and rights upon liquidation, be senior to all Common Stock.

Restrictions on Shareholders' Equity - South Carolina banking regulations restrict the amount of dividends that can be paid to shareholders. All of the Bank's dividends to the Company are payable only from the undivided profits of the Bank. At December 31, 2023, the Bank had undivided profits of $45,174,451. The Bank is authorized to dividend 100% of net income in any calendar year without obtaining the prior approval of the South Carolina Commissioner of Banks provided that the Bank received a composite CAMELS rating of one or two at the last Federal or State regulatory examination. In addition, under Federal Reserve regulations, the amounts of loans or advances from the Bank to the parent company are restricted.

Note 15. Income Taxes

Income tax provision for the years ended December 31, 2023 and 2022 is summarized as follows:

	2023	2022
Provision		
Current income tax expense (benefit)		
Federal	$ 1,212,421	$ 1,516,652
State	68,014	109,928
Total current	1,280,435	1,626,580
Deferred income tax expense (benefit)		
Federal	(70,382)	13,700
State	(73,637)	(54,328)
Total deferred	(144,019)	(40,628)
Change in valuation allowance	73,637	54,328
Total income tax expense	$ 1,210,053	$ 1,640,280

Note 15. Income Taxes, Continued

The components of deferred tax assets and deferred tax liabilities as of December 31, are as follows:

	2023	2022
Deferred tax assets:		
Allowance for credit losses	$ 1,699,004	$ 1,482,227
Net operating losses	3,949,184	3,920,899
Non-accrual interest	3,665	3,092
Deferred compensation	887,150	754,245
Purchase accounting on acquisition	15,281	77,332
Leases	52,620	46,173
Unrealized losses on securities available-for-sale	3,430,996	4,560,070
Other	259,031	146,244
Gross deferred tax assets	10,296,931	10,990,282
Less, valuation allowance	(909,448)	(835,811)
Net deferred tax assets	9,387,483	10,154,471
Deferred tax liabilities:		
Prepaid expenses	19,552	19,552
Accumulated depreciation	254,869	148,520
Mark to market adjustments	946,388	994,110
Deferred loan origination costs	391,379	363,384
Total gross deferred tax liabilities	1,612,188	1,525,566
Net deferred tax assets recognized	$ 7,775,295	$ 8,628,905

Deferred tax assets represent the future tax benefit of deductible differences and, if it is more likely than not that a tax asset will not be realized, a valuation allowance is required to reduce the net deferred tax assets to net realizable value. As of December 31, 2023, management has determined that it is more likely than not that the majority of the deferred tax asset from continuing operations will be realized. In 2023, the balance in the valuation allowance changed by $73,637. The remaining valuation allowance relates to the parent company's state operating loss carryforwards for which realizability is uncertain.

The Company has federal net operating losses of $14,554,949 and $14,767,644 for the years ended December 31, 2023 and 2022, respectively. Net operating losses of $3,556,045 expire at various times from 2029-2037, with the remainder having no expiration date. The Company's ability to benefit from the use of net operating loss carryforwards of $14,554,949 is limited annually under Section 382 of the Internal Revenue Code. The Company has state net operating losses of $22,598,617 and $20,751,748 for the years ended December 31, 2023 and 2022, respectively. State net operating loss carry forwards of $9,431,034 expire at various times from 2024-2037, with the remainder having no expiration date.

Note 15. Income Taxes, Continued

A reconciliation between the income tax expense and the amount computed by applying the federal statutory rate of 21% to income before income taxes for the years ended December 31, 2023 and 2022 follows:

	2023	2022
Tax expense at statutory rate	$ 1,220,828	$ 1,589,971
State income tax expense (benefit), net of federal income tax benefit	(4,442)	43,924
Tax-exempt interest income	(13,002)	(23,991)
Disallowed interest expense	2,724	725
Life insurance surrender value	(110,977)	(75,573)
Excess tax benefit of stock-based compensation	(13,594)	(44,859)
Change in valuation allowance	73,637	54,328
Other, net	54,879	95,755
Total	$ 1,210,053	$ 1,640,280

The Company had analyzed the tax positions taken or expected to be taken in its tax returns and concluded it has no liability related to uncertain tax positions. Tax returns for 2020 and subsequent years are subject to review by taxing authorities.

Note 16. Related Party Transactions

Certain parties (principally certain directors and executive officers of the Company, their immediate families and business interests) are loan customers of the Company. In compliance with relevant law and regulations, the Company's related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with persons not related to the lender and do not involve more than the normal risk of collectability. As of December 31, 2023 and 2022, the Company had related party loans totaling $150,716 and $560,195, respectively. Below is a table reflecting the loan activity during 2023 and 2022:

	2023	2022
Beginning balance	$ 560,195	$ 1,030,108
Paid off loans	(451,559)	(752,877)
New loans originated	49,374	296,112
Paid down loans	(7,294)	(13,148)
Ending balance	$ 150,716	$ 560,195

Deposits from directors and executive officers and their related interests totaled $4,232,085 and $6,873,006 at December 31, 2023 and 2022, respectively.

Note 17. Commitments and Contingencies

In the ordinary course of business, the Company may, from time to time, become a party to legal claims and disputes. At December 31, 2023, management and legal counsel are not aware of any pending or threatened litigation or unasserted claims or assessments that could result in losses, if any, that would be material to the consolidated financial statements.

Note 18. Leases, right of use assets and lease liabilities

The Company has operating leases on eight of its facilities that are accounted for under ASC 842. The Company had operating right-of-use assets of $5,342,365 and $5,977,748 as of December 31, 2023 and 2022, respectively. The Company had lease liabilities of $5,592,934 and $6,197,620 as of December 31, 2023 and 2022, respectively.

Rental expense under the leases for the years ended December 31, 2023 and 2022 was $972,378 and $1,025,162, respectively, and was recorded within occupancy and equipment expense in the consolidated statements of operations.

The weighted average remaining lease term as of December 31, 2023 was 9.8 years and the weighted average discount rate used was 2.86%. The following table shows future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2023:

2024	$ 787,965
2025	747,704
2026	674,042
2027	679,104
2028	580,125
Thereafter	2,661,817
Total undiscounted lease payments	6,130,756
Less effect of discounting	(537,823)
Present value of estimate lease payments (lease liability)	$ 5,592,934

Note 19. Equity Incentive Plan

During 2021, shareholders of the Company approved the 2021 Equity Incentive Plan (the "2021 Plan") under which an aggregate of 600,000 shares of common stock have been reserved for issuance as stock-based awards, including stock options, restricted stock, restricted stock units, and other stock-based awards. The maximum aggregate shares subject to options is restricted to 80,000 in any calendar year to any one participant. Options may be granted for a term of up to ten years from the effective date of the grant. The aggregate number of shares subject to awards of restricted stock and other stock-based awards is restricted to 50,000 in any calendar year to any one participant. At the time of adoption of the 2021 Plan, the Company sunset two equity incentive pools, the 2017 Equity Incentive Plan (the "2017 Plan") and a Restricted Stock Reserve. The 2021 Plan, the 2017 Plan, and the Restricted Stock Reserve are referred to collectively as the "Plans." At December 31, 2023, there were 306,395 shares available for grant under the 2021 Plan and no shares available for grant under the 2017 Plan or Restricted Stock Reserve.

The Company can issue restricted shares as of the grant date either by the issuance of share certificate(s) evidencing restricted shares or by documenting the issuance in uncertificated or book entry form on the Company's stock records. Except as provided by the Plans, the employee does not have the right to make or permit to exist any transfer or hypothecation of any restricted shares. When restricted shares vest, the employee must either pay the Company within two business days the amount of all tax withholding obligations imposed on the Company or make an election pursuant to Section 83(b) of the Internal Revenue Code to pay taxes at grant date.

Restricted shares may be subject to one or more employment, performance, or other conditions established at the time of grant. Under the terms of the Plans, the restricted shares will vest completely based on the individual grant's vesting period, which is generally between two and ten years. The shares are forfeited entirely if the participant terminates employment for any reason other than changes in control or death or disability. Any shares

Note 19. Equity Incentive Plan, Continued

of restricted stock that are forfeited will again become available for issuance under the Plans. An employee or director has the right to vote the shares of restricted stock after grant until they are forfeited. Compensation cost for restricted stock is equal to the market value of the shares at the date of the award and is amortized to compensation expense over the vesting period. Dividends, if any, will be paid on awarded but unvested stock.

Nonvested restricted stock for the years ended December 31, 2023 and 2022 is summarized in the following table.

	2023		2022	
	Shares	Weighted-Average Grant-Date Fair Value	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1	340,388	$ 7.80	453,719	$ 7.36
Granted	44,912	8.25	46,033	9.64
Vested	(68,370)	7.93	(58,593)	6.87
Forfeited	(10,645)	6.95	(100,771)	7.19
Nonvested at December 31	306,285	$ 7.86	340,388	$ 7.80

The vesting schedule for these shares as of December 31, 2023 is as follows:

	Shares
2024	82,040
2025	40,778
2026	96,767
2027	16,700
2028 and thereafter	70,000
Total	306,285

The Company recognized stock-based compensation costs related to restricted stock of $524,479 and $493,519 for the years ended December 31, 2023 and 2022, respectively. As of December 31, 2023, there was $1,482,193 of total unrecognized compensation cost related to the nonvested restricted stock that will be recognized over the remainder of their vesting schedule.

No stock options were granted during the years ended December 31, 2023 and 2022. Activity related to stock options is summarized in the following table.

	Options	Weighted-Average Remaining Life (Years)	Weighted-Average Exercise Price
Outstanding at December 31, 2022	169,440	1.80	$ 7.27
Granted	-	-	-
Exercised	-	-	-
Forfeited	-	-	-
Outstanding at December 31, 2023	169,440	.80	7.27
Options exercisable as of December 31, 2023	164,200	.80	7.27

Note 19. Equity Incentive Plan, Continued

The Company recognized stock-based compensation costs related to stock options of $43,302 and $54,623 for the years ended December 31, 2023 and 2022, respectively. As of December 31, 2023, there was no more unrecognized compensation cost related to the outstanding stock options that will be recognized over the remainder of their vesting schedule.

The company from time-to-time also grants performance and/or time restricted stock units ("RSUs") to key employees. These awards help align the interests of these employees with the interests of the shareholders of the Company by providing economic value directly related to the performance of the Company. Dividends are not paid in respect to the awards and the holder does not have the right to vote the shares during the vesting period. The value of the RSUs awarded is established as the fair market value of the stock at the time of the grant. The Company recognizes expenses on a straight-line basis typically over the vesting period the performance and/or time target is to be achieved.

Nonvested RSUs for the year December 31, 2023 and 2022 is summarized in the following table.

	2023		2022	
	Shares	Weighted-Average Grant-Date Fair Value	Shares	Weighted Average Grant-Date Fair Value
Nonvested at January 1	35,000	$ 9.08	-	-
Granted	149,153	7.94	35,000	9.08
Vested	(7,000)	9.08	-	-
Forfeited	-	-	-	-
Nonvested at December 31	177,153	$ 8.12	35,000	$ 9.08

The vesting schedule for these shares as of December 31, 2023 is as follows:

	Shares
2024	14,817
2025	80,970
2026	27,816
2027	14,150
2028 and thereafter	39,400
Total	177,153

The Company recognized stock-based compensation costs related to restricted stock units of $408,836 and $15,925 for the year ended December 31, 2023 and December 31, 2022, respectively. As of December 31, 2023, there was $1,071,369 of total unrecognized compensation cost related to nonvested RSUs that will be recognized over a total weighted-average period of 8 years.

Note 20. Income Per Common Share

Net income available to common shareholders represents net income adjusted for preferred dividends including dividends declared, accretions of discounts and amortization of premiums on preferred stock issuances and cumulative dividends related to the current dividend period that have not been declared as of period end.

Note 20. Income Per Common Share, continued

The following is a summary of the income per common share calculations for the years ended December 31, 2023 and 2022.

	2023	2022
Income available to common shareholders		
Net income	$ 4,603,416	$ 5,931,012
Preferred stock dividends	-	-
Net income available to common shareholders	$ 4,603,416	$ 5,931,012
Basic income per common share:		
Net income available to common shareholders	$ 4,603,416	$ 5,931,012
Average common shares outstanding - basic	7,822,882	7,779,396
Basic income per common share	$ 0.59	$ 0.76
Diluted income per common share:		
Net income available to common shareholders	$ 4,603,416	$ 5,931,012
Average common shares outstanding - basic	7,822,882	7,779,396
Dilutive potential common shares	341,052	347,752
Average common shares outstanding - diluted	8,163,934	8,127,148
Diluted income per common share	$ 0.56	$ 0.73

Note 21. Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum ratios (set forth in the table below) of Tier 1, Common Equity Tier 1 ("CET1"), and total capital as a percentage of assets and off-balance-sheet exposures, adjusted for risk-weights ranging from 0% to 150%. Tier 1 capital of the Bank consists of common shareholders' equity, excluding the unrealized gain or loss on securities available-for-sale, minus certain intangible assets, while CET1 is comprised of Tier 1 capital, adjusted for certain regulatory deductions and limitations. Tier 2 capital consists of the allowance for loan losses subject to certain limitations. Total capital for purposes of computing the capital ratios consists of the sum of Tier 1 and Tier 2 capital.

The Bank is also required to maintain capital at a minimum level based on total assets, which is known as the leverage ratio. The Bank is required to maintain a required minimum leverage ratio of 4%.

Effective March 31, 2015, quantitative measures established by applicable regulatory standards, including the newly implemented Basel III revised capital adequacy standards and relevant provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd Frank Act"), require the Bank to maintain (i) a minimum ratio of Tier 1 capital to average total assets, after certain adjustments, of 4.00%, (ii) a minimum ratio of Tier 1 capital

Note 21. Regulatory Matters, continued

to risk-weighted assets of 6.00%, (iii) a minimum ratio of total-capital to risk-weighted assets of 8.00% and (iv) a minimum ratio of CET1 to risk-weighted assets of 4.50%. A "well-capitalized" institution must generally maintain capital ratios 2% higher than the minimum guidelines. In order to avoid restrictions on capital distributions or discretionary bonus payments to executives, the Bank is required to maintain a "capital conservation buffer" in addition to its minimum risk-based capital requirements. This buffer is required to consist solely of CET1, but the buffer applies to all three risk-based measurements (CET1, Tier 1 and total capital). The capital conservation buffer began in 2016 and was fully phased in by 2019, and now consist of an additional amount of Tier 1 capital equal to 2.5% of risk-weighted assets.

The following table summarizes the capital amounts and ratios of the Bank and the regulatory minimum requirements at December 31, 2023 and 2022.

(Dollars in Thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2023						
The Bank						
Total capital (to risk-weighted assets)	$ 110,003	13.86%	$ 63,500	8.00%	$ 79,375	10.00%
Tier 1 capital (to risk-weighted assets)	101,201	12.75%	47,625	6.00%	63,500	8.00%
Tier 1 capital (to average assets)	101,201	10.32%	39,229	4.00%	49,036	5.00%
Common Equity Tier 1 Capital (to risk-weighted assets)	101,201	12.75%	35,719	4.50%	51,594	6.50%
December 31, 2022						
The Bank						
Total capital (to risk-weighted assets)	$ 102,986	13.43%	$ 61,356	8.00%	$ 76,696	10.00%
Tier 1 capital (to risk-weighted assets)	95,319	12.43%	46,017	6.00%	61,356	8.00%
Tier 1 capital (to average assets)	95,319	10.37%	36,770	4.00%	45,963	5.00%
Common Equity Tier 1 Capital (to risk-weighted assets)	95,319	12.43%	34,513	4.50%	49,852	6.50%

Note 22. Unused Lines of Credit

The Company had available at December 31, 2023 one unsecured line of credit, which was unused, to purchase up to $10,000,000 of federal funds. Also, as of December 31, 2023, the Company had the ability to borrow funds from the FHLB of up to $202,760,138. At that date, $5,000,000 had been advanced.

Note 23. Fair Value Measurements

Generally accepted accounting principles ("GAAP") provide a framework for measuring and disclosing fair value that requires disclosures about the fair value of assets and liabilities recognized in the balance sheet, 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).

Fair value is defined as the exchange in price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Note 23. Fair Value Measurements, continued

The Company utilizes fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Securities available-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 loans held for sale, loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of the lower of cost or market accounting or the writing down of individual assets.

The following methods and assumptions were used to estimate the fair value of significant financial instruments:

Fair Value Hierarchy

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 levels are:

Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models and similar techniques.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

Securities Available-for-Sale and Marketable Equity Securities - Securities available-for-sale and marketable equity securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange such as the New York Stock Exchange, Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Mortgage Loans Held for Sale - Mortgage loans held for sale are comprised of loans originated for sale in the ordinary course of business. The fair value of mortgage loans originated for sale in the secondary market is based on purchase commitments or quoted prices for the same or similar loans and are classified as recurring Level 2. There were no loans held for sale requiring fair value adjustments at December 31, 2023 and 2022.

Mortgage Servicing Rights – Fair Value Method - Mortgage servicing rights do not trade in an active market with readily observable market data. As a result, the Company estimates the fair value of mortgage servicing rights by using a discounted cash flow model to calculate the present value of estimated future net servicing income. The assumptions used in the discounted cash flow model are those that market participants would use in estimating future net servicing income. Assumptions in the valuation of mortgage servicing rights may include estimated loan repayment rates, the discount rate, servicing costs, and the timing of cash flows, among other factors. The Company measures mortgage servicing rights accounted for using the fair value method as recurring Level 3.

Note 23. Fair Value Measurements, Continued

Derivative Financial Instruments, Non-designated – The fair value of the Company's interest rate swap agreements to facilitate customer transactions are based upon fair values provided from entities that engage in interest rate swap activity and is based upon projected future cash flows and interest rates. The fair value of interest rate lock commitments associated with the mortgage pipeline is based on fees currently charged to enter into similar agreements, and for mortgage loan forward sales commitments, the difference between current levels of interest rates and the committed rates is also considered. These financial instruments are classified as Level 2. Examples of derivatives classified as Level 2 include interest rate lock commitments written for the residential mortgage loans that the Company intends to sell.

Derivative Financial Instruments, Fair Value Hedge – Pay fixed swaps used to hedge interest rate risk related to the commercial real estate loan portfolio are reported at fair value utilizing Level 2 inputs. The fair values of the interest rate swap are based on derivative market data as of the valuation date.

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy at December 31, 2023 and 2022.

	December 31, 2023			
	Total	**Level 1**	**Level 2**	**Level 3**
Available-for-sale securities:				
U.S. Treasury securities	$ -	$ -	$ -	$ -
U.S. agency securities	6,990,005	-	6,990,005	-
Municipal securities	31,107,543	-	31,107,543	-
Mortgage-backed securities	93,063,215	-	93,063,215	-
Collateralized loan obligations	25,376,350	-	25,376,350	-
Corporate bonds	14,862,460	-	14,862,460	-
Total available-for-sale securities	171,399,573	-	171,399,573	-
Marketable equity securities	128,516	-	128,516	-
Mortgage servicing rights	4,356,624	-	-	4,356,624
Derivative assets (liabilities):				
Mortgage loan interest rate lock commitments	282,781	-	282,781	-
Mortgage loan forward sales commitments	(141,797)	-	(141,797)	-
Derivative assets	115,056	-	115,056	-
Derivative liabilities	(136,061)	-	(136,061)	-
	$ 176,004,692	$ -	$ 171,648,068	$ 4,356,624

Note 23. Fair Value Measurements, Continued

	December 31, 2022			
	Total	Level 1	Level 2	Level 3
Available-for-sale securities:				
U.S. Treasury securities	$ 30,807,969	$ -	$ 30,807,969	$ -
U.S. agency securities	5,375,186	-	5,375,186	
Municipal securities	32,179,361	-	32,179,361	-
Mortgage-backed securities	67,212,784	-	67,212,754	-
Collateralized loan obligations	19,096,880	-	19,096,880	-
Corporate bonds	7,424,698	-	7,424,698	-
Total available-for-sale securities	162,096,848	-	162,096,848	-
Marketable equity securities	133,715	-	133,715	-
Mortgage servicing rights	4,642,455	-	-	4,642,455
Derivative assets (liabilities):				
Mortgage loan interest rate lock commitments	56,402	-	56,402	-
Mortgage loan forward sales commitments	35,000	-	35,000	-
U.S. Treasury futures contracts	-	-	-	-
	$ 166,964,420	$ -	$ 162,321,965	$ 4,642,455

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows:

	Mortgage Servicing Rights
Balance, December 31, 2021	$ 4,376,021
Changes in fair value recognized in earnings (1)	1,251,171
Changes in unpaid principal balance (2)	(984,737)
Balance, December 31, 2022	4,642,455
Changes in fair value recognized in earnings (1)	281,434
Changes in unpaid principal balance (2)	(558,265)
Balance, December 31, 2023	$ 4,356,624

(1) Represents changes in value primarily due to market driven changes in interest rates and prepayment speeds.
(2) Represents changes in value of the MSRs due to i) passage of time, including the impact from both regularly scheduled loan principal payments and partial paydowns, and ii) loans that paid off fully during the period.

Note 23. Fair Value Measurements, Continued

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents the assets and liabilities measured at fair value on a nonrecurring basis at December 31, 2023 and December 31, 2022, aggregated by level in the fair value hierarchy within which those measurements fall.

	Total	Level 1	Level 2	Level 3
December 31, 2023				
Mortgage servicing rights	$ 7,272,550	$ -	$ -	$ 7,272,550
Total	$ 7,272,550	$ -	$ -	$ 7,272,550

	Total	Level 1	Level 2	Level 3
December 31, 2022				
Impaired loans (PreCECL adoption)	$ 1,028,657	$ -	$ -	$ 1,028,657
Mortgage servicing rights	5,798,967	-	-	5,798,967
Total	$ 6,827,624	$ -	$ -	$ 6,827,624

Collateral-dependent loans held for investment – Collateral-dependent loans are loans for which, based on current information and events, the Company has determined foreclosure of the collateral is probable, or where the borrower is experiencing financial difficulty and the Company expects repayment of the loan to be provided substantially through the operation or sale of the collateral and it is probable that the creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Collateral-dependent loans are classified as Level 3. There were no collateral dependent loans at December 31, 2023.

Impaired Loans (Pre ASC 326) - Loans that are considered impaired are recorded at fair value on a nonrecurring basis. Once a loan is considered impaired, the fair value is measured using one of several methods, including collateral liquidation value, market value of similar debt or discounted cash flows. Those impaired loans not requiring a specific charge against the allowance represent loans for which the fair value of the expected repayments or collateral meet or exceed the recorded investment in the loan. Loans which are deemed to be impaired are primarily valued on a nonrecurring basis at the fair value of the underlying real estate collateral. Such fair values are obtained using independent appraisals, which the Company considers to be Level 3 inputs.

Other Real Estate Owned - Foreclosed assets are adjusted to fair value upon transfer of the loans to OREO. Real estate acquired in settlement of loans is recorded initially at estimated fair value of the property less estimated selling costs at the date of foreclosure. The initial recorded value may be subsequently reduced by additional allowances, which are charges to earnings if the estimated fair value of the property less estimated selling costs declines below the initial recorded value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on a current appraised value or when a current appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as nonrecurring Level 3. There was no OREO at December 31, 2023.

Note 23. Fair Value Measurements, Continued

Mortgage Servicing Rights – Amortization Method - Mortgage servicing rights do not trade in an active market with readily observable market data. As a result, the Company estimates the fair value of mortgage servicing rights by using a discounted cash flow model to calculate the present value of estimated future net servicing income. The assumptions used in the discounted cash flow model are those that market participants would use in estimating future net servicing income. Assumptions in the valuation of mortgage servicing rights may include estimated loan repayment rates, the discount rate, servicing costs, and the timing of cash flows, among other factors. The Company measures mortgage servicing rights accounted for using the amortization method as nonrecurring Level 3.

The Company had no liabilities measured at fair value on a non-recurring basis.

For Level 3 assets and liabilities measured at fair value on a recurring or nonrecurring basis as of December 31, 2023 and December 31, 2022, the significant unobservable inputs used in the fair value measurements were as follows:

Asset	Fair Value as of December 31, 2023	Valuation Technique	Significant Observable Inputs	Significant Unobservable Inputs
Mortgage servicing rights	$ 7,272,550	Discounted cash flows	Comparable sales	Weighted average discount rate – 9% Constant prepayment rate – 6.5%

	Fair Value as of December 31, 2022	Valuation Technique	Significant Observable Inputs	Significant Unobservable Inputs
Impaired loans	$ 1,028,657	Appraisal Value/Comparison Sales	Appraisals and/or sales of comparable properties	Appraisals discounted 5% to 20% for sales commissions and other holding cost
Mortgage servicing rights	$ 5,798,967	Discounted cash flows	Comparable sales	Weighted average discount rate – 9% Constant prepayment rate – 6.5%

Note 23. Fair Value Measurements, Continued

Fair Value of Financial Instruments

The following table includes the estimated fair value of the Company's financial assets and financial liabilities. The methodologies for estimating the fair value of financial assets and financial liabilities measured on a recurring and nonrecurring basis are discussed above. The methodologies for estimating the fair value for other financial assets and financial liabilities are discussed below. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data in order to develop the estimates of fair value. Accordingly, the estimates presented below are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation techniques may have a material effect on the estimated fair value amounts at December 31, 2023 and 2022.

December 31, 2023	**Carrying Value**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial Assets:					
Cash and cash equivalents	$ 21,944,052	$ 21,944,052	$ 21,944,052	$ -	$ -
Mortgage loan held for sale	7,155,912	7,155,912	-	7,155,912	-
Loans held for investments, net	697,278,897	660,550,181	-	-	660,550,181
Nonmarketable equity securities	949,800	949,800	-	949,800	-
Financial Liabilities:					
Deposits without stated maturities	689,359,034	689,359,034	-	689,359,034	-
Deposits with stated maturities	169,237,473	167,687,049	-	167,687,049	-
Securities sold under agreements to Repurchase	307,517	307,517	-	307,517	-
FHLB Advances	5,000,000	5,000,000	-	5,000,000	-
Subordinated debentures	25,772,697	22,679,342	-	-	22,679,342

December 31, 2022	**Carrying Value**	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial Assets:					
Cash and cash equivalents	$ 33,797,310	$ 33,979,310	$ 33,979,310	$ -	$ -
Mortgage loan held for sale	7,940,056	7,940,056	-	7,940,056	-
Loans held for investments, net	653,590,722	623,018,294	-	-	623,018,294
Nonmarketable equity securities	1,787,200	1,787,200	-	1,787,200	-
Financial Liabilities:					
Deposits without stated maturities	694,482,772	694,482,772	-	694,482,772	-
Deposits with stated maturities	103,701,071	102,407,841	-	102,407,841	-
Securities sold under agreements to Repurchase	7,367,861	7,367,861	-	7,367,861	-
FHLB Advances	30,000,000	30,000,000	-	30,000,000	-
Subordinated debentures	25,690,951	22,827,166	-	-	22,827,166

Note 23. Fair Value Measurements, Continued

Cash and cash equivalents
The carrying amount approximates fair value for these instruments.

Mortgage loans held for sale
Loans held for sale are carried at the lower of cost or fair value. These loans currently consist of one-to-four family residential real estate loans originated for sale to qualified third parties. Fair value is based upon the contractual price to be received from these third parties, which may be different than cost.

Loans held for investment, net
Fair values are estimated for portfolios of loans with similar financial characteristics, if collateral-dependent. Loans are segregated by type. The fair value of performing loans is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect observable market information incorporating the credit, liquidity, yield and other risks inherent in the loan. The estimate of maturity is based upon the Company's historical experience with repayments for each loan classification, modified, as required, by an estimate of the effect of the current economic and lending conditions.

Fair value for significant non-performing loans is generally based upon recent external appraisals. If appraisals are not available, estimated cash flows are discounted using a rate commensurate with the risk associated with the estimated cash flows. Assumptions regarding credit risk, cash flows and discounted rates are judgmentally determined using available market information and specific borrower information.

Nonmarketable equity securities
Nonmarketable equity securities are carried at original cost basis, as cost approximates fair value and there is no ready market for such investments.

Deposits
The fair value of deposits with no stated maturity date, such as noninterest-bearing demand deposits, savings and money market and checking accounts, is based on the carrying value. The fair value of time deposits is based upon the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

Securities sold under agreements to repurchase
The fair value of securities sold under agreements to repurchase generally mature within 31 days and the stated balance approximates their fair value.

Subordinated debentures
The fair value of subordinated debentures is estimated by using discounted cash flow analyses based on incremental borrowing rates for similar types of instruments.

Federal Home Loan Bank advances
Fair value is estimated based on discounted cash flows using current market rates for borrowing with similar terms.

Note 24. First Reliance Bancshares, Inc. (Parent Company Only)

Condensed Balance Sheets

	December 31, 2023	December 31, 2022
Assets		
Cash	$ 3,240,882	$ 3,867,380
Investment in banking subsidiary	91,669,697	82,867,930
Marketable equity securities	128,516	133,715
Nonmarketable equity securities	58,100	58,100
Investment in trust	310,000	310,000
Deferred tax asset	1,923,969	2,001,469
Total assets	$ 97,331,164	$ 89,238,594
Liabilities		
Junior subordinated debentures	$ 10,310,000	$ 10,310,000
Subordinated debentures	15,412,697	15,380,951
Accrued salary benefits	68,001	110,924
Accrued interest payable	144,542	140,855
Total liabilities	25,935,240	25,942,730
Shareholders' equity	71,395,924	63,295,864
Total liabilities and shareholders' equity	$ 97,331,164	$ 89,238,594

Condensed Statements of Operations

	For the years ended December 31, 2023	For the years ended December 31, 2022
Income		
Interest income	$ 181,159	$ 9,808
Loss on change in fair value of marketable equity securities	(5,198)	(4,144)
Total income	175,961	5,664
Expenses		
Interest expense	1,429,229	1,072,846
Salaries and employee benefits	566,836	252,642
Other expenses	55,044	43,356
Total expenses	2,051,109	1,368,844
Loss before income taxes and equity in undistributed income of banking subsidiary	(1,875,148)	(1,363,180)
Equity in undistributed earnings of banking subsidiary	6,093,876	7,020,265
Net income before income taxes	4,218,728	5,657,085
Income tax benefit	384,688	273,927
Net income	$ 4,603,416	$ 5,931,012

Note 24. First Reliance Bancshares, Inc. (Parent Company Only), Continued

Condensed Statements of Cash Flows

	For the years ended December 31, 2023	2022
Cash flows from operating activities		
Net income	$ 4,603,416	$ 5,931,012
Adjustments to reconcile net income to net cash used in operating activities:		
Deferred income taxes, net of allowance	77,500	21,655
Net equity in undistributed earnings of banking subsidiary	(6,093,876)	(7,020,265)
Amortization of debt issuance costs	31,746	31,746
Loss on change in fair value of marketable equity securities	5,199	4,144
Stock based compensation expense	1,446,765	54,623
Decrease in other assets	-	-
Increase in accrued interest payable	3,687	46,621
Decrease in accrued salary benefits	(42,923)	(122,890)
Net cash provided (used) in operating activities	31,514	(1,053,354)3
Cash flows from financing activities		
Issuance of common stock	57,391	56,775
Decrease (increase) in nonvested restricted stock	(396,429)	547,110
Purchase of treasury stock	(318,974)	(179,878)
Net cash provided (used in) by financing activities	(658,012)	424,007
Net decrease in cash	(626,498)	(629,347)
Cash and cash equivalents, beginning of year	3,867,380	4,496,727
Cash and cash equivalents, ending of year	$ 3,240,882	$ 3,867,380

Note 25. 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. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Management performed an evaluation to determine whether there have been any subsequent events since the balance sheet date and determined that no subsequent events occurred requiring accrual or disclosure.