MUTUAL FEDERAL BANCORP, INC.
CHICAGO, ILLINOIS

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022

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Crowe

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders of
Mutual Federal Bancorp, Inc.
Chicago, Illinois

Opinion

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

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

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (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 Mutual Federal Bancorp, Inc. 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.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, Mutual Federal Bancorp, Inc. changed its method for accounting for credit losses effective January 1, 2023, due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 326, Financial Instruments - Credit Losses (ASC 326). 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

Crowe LLP

Crowe LLP

Oak Brook, Illinois
April 29, 2024

MUTUAL FEDERAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
December 31, 2023 and 2022
(Dollar amounts in thousands except per share data)

	2023	2022
ASSETS		
Cash and cash equivalents	$ 11,191	$ 11,826
Securities available-for-sale	26	51
Loans held for sale, at fair value	-	816
Loans, net of allowance for credit losses of $1,307 at December 31, 2023 and $1,016 at December 31, 2022	84,640	99,643
Real estate owned, acquired through foreclosure	-	785
Premises and equipment, net	1,667	1,637
Federal Home Loan Bank stock, at cost	1,357	1,336
Accrued interest receivable	421	441
Mortgage servicing rights	201	198
Other assets	204	187
Total assets	$ 99,707	$ 116,920
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Non-interest-bearing deposits	$ 3,057	$ 4,133
Interest-bearing deposits	63,729	63,997
Total deposits	66,796	68,130
Federal Home Loan Bank advances	14,500	30,250
Advance payments by borrowers for taxes and insurance	1,208	1,252
Accrued interest payable and other liabilities	912	573
Total liabilities	83,416	100,205
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value, 1,000,000 shares authorized at December 31, 2023 and 2022	-	-
Common stock, $0.01 par value, 12,000,000 shares authorized, 3,636,875 shares issued at December 31, 2023 and 2022	36	36
Additional paid-in capital	10,423	10,217
Treasury stock, at cost	(3,075)	(3,075)
Retained earnings	8,907	9,538
Accumulated other comprehensive loss	-	(1)
Total stockholders' equity	16,291	16,715
Total liabilities and stockholders' equity	$ 99,707	$ 116,920

See accompanying notes to consolidated financial statements.

MUTUAL FEDERAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended December 31, 2023 and 2022
(Dollar amounts in thousands except per share data)

	For the years ended December 31, 2023	For the years ended December 31, 2022
Interest and dividend income:		
Loans, including fees	$ 4,790	$ 4,020
Securities	1	2
Interest earning deposits	464	159
Federal Home Loan Bank stock	97	35
Total interest and dividend income	5,352	4,216
Interest expense:		
Deposits	783	308
Borrowings	1,001	378
Total interest expense	1,784	686
Net interest income	3,568	3,530
Provision for (recapture of) credit losses	(60)	50
Net interest income after provision for (recapture of) credit losses	3,628	3,480
Non-interest income:		
Mortgage banking income	668	2,971
Gain on sale of loans held for investment	71	113
Gain on sale of real estate owned	64	-
Other income	61	78
Total non-interest income	864	3,162
Non-interest expense:		
Compensation and benefits	3,106	4,719
Occupancy and equipment	284	472
Data processing	443	417
Professional fees	284	355
Real estate owned	60	152
Other expense	611	745
Total non-interest expense	4,788	6,860
Loss before income taxes	(296)	(218)
Income tax expense	-	-
Net loss	$ (296)	$ (218)

See accompanying notes to consolidated financial statements.

MUTUAL FEDERAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
Years ended December 31, 2023 and 2022
(Dollar amounts in thousands except per share data)

	For the years ended December 31, 2023	For the years ended December 31, 2022
Net loss	$ (296)	$ (218)
Other comprehensive income (loss):		
Unrealized gain (loss) on securities:		
Unrealized holding gain (loss) arising during the period	1	(4)
Tax effect	-	1
Total other comprehensive income (loss)	1	(3)
Comprehensive loss	$ (295)	$ (221)

See accompanying notes to consolidated financial statements.

MUTUAL FEDERAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended December 31, 2023 and 2022
(Dollar amounts in thousands except per share data)

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2022	$ 36	$ 10,208	$ (3,075)	$ 9,756	$ 2	$ 16,927
Net loss	-	-	-	(218)	-	(218)
Other comprehensive loss	-	-	-	-	(3)	(3)
Stock option shares earned	-	9	-	-	-	9
Balance at December 31, 2022	36	10,217	(3,075)	9,538	(1)	16,715
Cumulative change in accounting principle (Note 1)	-	-	-	(335)	-	(335)
Balance at January 1, 2023 (as adjusted for change in accounting principle)	36	10,217	(3,075)	9,203	(1)	16,680
Net loss	-	-	-	(296)	-	(296)
Other comprehensive income	-	-	-	-	1	1
Stock option shares earned	-	206	-	-	-	206
Balance at December 31, 2023	$ 36	$ 10,423	$ (3,075)	$ 8,907	$ -	$ 16,291

See accompanying notes to consolidated financial statements.

MUTUAL FEDERAL BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2023 and 2022
(Dollar amounts in thousands except per share data)

	For the years ended December 31,	
	2023	**2022**
Cash flows from operating activities		
Net loss	$ (296)	$ (218)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for (recapture of) credit losses	(60)	50
Loss on impairment of real estate owned	-	97
Depreciation	77	74
Loans originated with intent to sell	(19,853)	(86,052)
Proceeds from sales of loans held for sale	18,794	93,834
Gain on sales of loans held for sale	(492)	(1,979)
Net amortization of premium on securities	-	1
Increase in value of mortgage servicing rights	(3)	-
Option expense	206	9
Net change in advance payments by borrowers for taxes and insurance	(44)	343
Change in accrued interest receivable and other assets	3	144
Change in accrued interest payable and other liabilities	358	(511)
Net cash provided by operating activities	(1,310)	5,449
Cash flows from investing activities		
Proceeds from maturities, calls, and principal repayments of securities available-for-sale	24	43
Proceeds from sales of loans held for investment	2,438	5,349
Gain on sales of loans held for investment	(71)	(113)
Proceeds from sale of real estate owned	830	-
Gain on sale of real estate owned	(64)	-
Net (increase) decrease in loans held-for-investment	14,729	(46,293)
Additions to premises and equipment	(106)	(32)
Net Change in Federal Home Loan Bank stock	(21)	-
Net cash provided by (used in) investing activities	17,759	(41,482)
Cash flows from financing activities		
Net decrease in deposits	(1,334)	(707)
Proceeds from Federal Home Loan Bank advances	129,900	121,750
Repayment of Federal Home Loan Bank advances	(145,650)	(96,500)
Net cash provided by (used in) financing activities	(17,084)	24,886
Net decrease in cash and cash equivalents	(635)	(11,147)
Cash and cash equivalents at beginning of period	11,826	22,973
Cash and cash equivalents at end of period	$ 11,191	$ 11,826
Supplemental cash flow information		
Cash paid during the year for:		
Interest	$ 1,877	$ 747
Supplemental noncash disclosures		
Impact of implementation of ASU 326	335	-
Loans transferred to loans held for sale	2,367	5,236

See accompanying notes to consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation: The consolidated financial statements include Mutual Federal Bancorp, Inc., and its wholly owned subsidiary Mutual Federal Bank ("the Bank") and its wholly owned subsidiaries, EMEFES Service Corporation and 2212 Holdings, LLC (together referred to as "the Company"). Intercompany transactions and balances are eliminated in consolidation. As of December 31, 2023, Mutual Federal Bancorp, MHC, ("the MHC") was the majority stockholder of the Company. The MHC is owned by the depositors of the Bank. The financial statements do not include the transactions and balances of the MHC. EMEFES Service Corporation is an insurance agency that sells insurance products to the Bank's customers. The insurance products are underwritten and provided by a third party. 2212 Holdings, LLC was established to hold and manage real estate acquired through foreclosure.

The Company provides financial services primarily through its office in Chicago, Illinois. The Company's primary deposit products are checking, savings, money market, and certificate of deposit accounts, and its primary lending products are residential and commercial mortgage loans and commercial business loans. Substantially all loans are secured by specific items of collateral, including one-to-four family and multifamily residential and commercial real estate. However, the customers' ability to repay their loans is dependent on the real estate and general economic conditions in the Chicago metropolitan area.

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through April 29, 2024 which is the date the financial statements were available to be issued.

Use of Estimates: To prepare financial statements in conformity with U.S. generally accepted accounting principles, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

Cash Flows: Cash and cash equivalents include cash and deposits held with other financial institutions. Net cash flows are reported for loans held for investment and deposit transactions, FHLB stock, and advance payments by borrowers for taxes and insurance.

Debt Securities: Debt securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available-for-sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

A debt security is placed on non-accrual at the time any principal or interest payments become 90 days delinquent. Interest accrued but not received on a security placed on non-accrual is reversed against interest income. There was no accrued interest income receivable on securities reversed against interest income in 2023 or 2022.

Allowance for Credit Losses – Available-for-Sale Securities: For available-for-sale securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is not met, the security's amortized cost basis is written down to fair value through income. For debt securities available-for-sale that do not meet the aforementioned criteria the Company evaluates whether the decline in fair value has resulted from credit losses or other factors.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of the cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

Changes in the allowance for credit losses are recorded as credit loss expense (or reversal). Losses are charged against the allowance when management believes the uncollectability of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable on available-for sale debt securities is less than $1 at December 31, 2023 and is excluded from the estimate of credit losses.

<u>Federal Home Loan Bank (FHLB) Stock</u>: The Company is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

<u>Loans</u>: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost, net of the allowance for credit losses. Amortized cost is the principal balance outstanding, net of unearned interest, deferred loan fees and costs, and an allowance for credit losses. Accrued interest receivable on loans totaled $20 at December 31, 2023 and was reported in accrued interest receivable and other assets on the consolidated statement of operations and is excluded from the estimate of credit losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Interest income on mortgage and commercial loans is discontinued and placed on non-accrual status at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually evaluated loans.

All interest accrued but not received for a loan placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

If the Company determines at a later date a particular loan or pool of loans will be sold, the loan or loans are reclassified to loans held for sale. Any related allowance for credit losses is reversed in earnings, and the loan is recorded at its amortized cost basis. Upon transfer to loans held for sale a fair value adjustment is applied in the same manner it is applied for those loans originated for sale.

<u>Allowance for Credit Losses - Loans</u>: The allowance for credit losses is a valuation account that is deducted from the loans amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectability of a loan balance is

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

Management estimates the allowance balance using relevant available information from internal and external sources, related to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Company's loan portfolio is comprised primarily of real estate loans and measures the allowance for credit losses within three real estate loan pools consisting of 1-4 family residential real estate, real estate construction and commercial real estate.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are also not included in the collective evaluation. When management determines that foreclosure is probable, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

The Company considers loan performance and collateral values in assessing risk for each segment in the loan portfolio, as follows:

- Residential real estate loans, which include both one-to-four family and multi-family properties, are affected by the local residential real estate market, the local economy, and movement in interest rates. The Company evaluates the borrower's repayment ability through a review of credit reports and debt to income ratios. Appraisals are obtained to support the loan amount.

- Construction loans which include one-to -four family residencies are also impacted by the local residential real estate market, the economy and interest rates along with variable building component and construction labor costs. Evaluation of the project's cash flows, review of contractor statements and site examination are regularly performed to ensure the borrower's performance is as expected at the loan origination.

- Commercial real estate loans are dependent on the industries tied to these loans as well as the local commercial real estate market. The loans are secured by the real estate, and appraisals are obtained to support the loan amount. An evaluation of the project's cash flows is performed to evaluate the borrower's ability to repay the loan at the time of origination and periodically updated during the life of the loan.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The cumulative loss rate used as the basis for the estimate of credit losses is comprised of the weighted average of the loss rates of financial institutions reporting disaggregated loss data in quarterly Call Reports that have their headquarters in Midwest states and have real estate loan portfolios of at least 50% of their total loan portfolio. The cumulative loss rate is applied to the amortized cost basis of the financial assets. Other internal and external factors are considered when evaluating the need for qualitative adjustments.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses on Off-Balance Sheet (OBS) Credit Exposures: The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance sheet credit exposures is adjusted through credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life.

Loans Held for Sale: Mortgage loans originated and intended for sale in the secondary market are carried at fair value as of each balance sheet date. The fair value includes the servicing value of the loans as well as any accrued interest. Mortgage loans are typically sold with servicing released.

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

Mortgage Loan Repurchase Reserve: The Company sells one-to-four family residential mortgage loans to secondary mortgage market investors. Under standard representations and warranties clauses in the Company's mortgage sale agreements, the Company may be required to repurchase mortgage loans sold or reimburse the investors for credit losses incurred on those loans if a breach of the contractual representations and warranties occurred. The Company establishes a mortgage repurchase liability in an amount equal to management's estimate of losses on loans for which the Company could have a repurchase obligation or loss reimbursement. The estimated liability incorporates the volume of loans sold in previous periods, default expectations, historical investor repurchase demand and actual loss severity. Provisions to the mortgage repurchase reserve reduce gains on sales of loans. The balance as of December 31, 2023 and 2022 is not material.

Real Estate Owned: Assets acquired through or instead of loan foreclosures are initially recorded at fair value, less estimated costs to sell, when acquired, establishing a new cost basis. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interests in the property to satisfy the loan through a deed in lieu of foreclosure or a similar legal document. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed. These assets are subsequently accounted for at lower of cost or fair value less costs to sell.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method, with useful lives ranging from 5 to 39 years. Furniture, fixtures, and equipment are depreciated using the straight-line method with useful lives ranging from 3 to 7 years.

Mortgage Servicing Assets: When mortgage loans are sold with servicing retained, servicing rights are initially recorded at fair value with the statement of operations effect recorded in mortgage banking income. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Under the fair value measurement method, the Company measures servicing rights at fair value at each reporting date and reports changes in fair value of servicing assets in earnings in the period in which the changes occur, and are included within mortgage banking income on the statements of operations. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Servicing fee income, which is reported on the statement of operations within mortgage banking income, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal, or a fixed amount per loan and are recorded as income when earned. Servicing fee income was $38 and $25 as of December 31, 2023 and 2022.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance-sheet credit instruments, such as commitments to make loans issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Mortgage Banking Derivatives: Commitments to fund mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of these mortgage loans are accounted for as free-standing derivatives. The fair value of the interest rate lock is recorded at the time the commitment to fund the mortgage loan is executed and is adjusted for the expected exercise of the commitment before the loan is funded. In order to hedge the change in interest rates resulting from its commitments to fund the loans, the Company enters into forward commitments for the future delivery of mortgage loans when interest rate locks are entered into. Fair values of these mortgage derivatives are estimated based on changes in mortgage interest rates from the date the interest on the loan is locked. Changes in the fair values of these derivatives are included in net gains on sales of loans.

Income Taxes: Income tax expense is the sum of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if necessary, reduces deferred tax assets to the amount expected to be realized. The Company established a reserve against deferred income tax benefits because it could not predict recoverability of the benefits within a reasonable time period.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Company recognizes interest and penalties related to income tax matters as income tax expense.

Comprehensive (Loss) Income: Comprehensive (loss) income consists of net (loss) income and other comprehensive (loss) income. Other comprehensive (loss) income includes unrealized losses on securities available-for-sale that are also recognized as a separate component of equity.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe that there now are such matters that will have a material effect on the consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Reclassifications: Some items in the prior financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or stockholders' equity.

Revenue from Contracts with Customers: The majority of the Company's revenues come from interest income and other sources, including loans and securities, that are outside the scope of ASC 606. The Company's services that fall within the scope of ASC 606 are presented within Non-Interest Income and are recognized as revenue as the Company satisfies its obligation to the customer.

Significant services within the scope of ASC 606 include service charges and debit card interchange income and are included with other income.

- Service charges: Fees from our deposit customers are earned for transaction-based, account maintenance, and overdraft services. Transaction-based fees and overdraft fees are recognized at a point in time since the customer generally has a right to cancel the depository arrangement at any time. The arrangement is considered a day-to-day contract with ongoing renewals and optional purchases, so the duration of the contract does not extend beyond the services already performed. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which we satisfy our performance obligation.

- Debit card interchange income: As with the transaction-based fees on deposit accounts, debit card interchange income is recognized at the point in time the customer's request is made. Interchange fees are earned from cardholder transactions processed through card association networks. Interchange rates are generally set by the card association networks based upon purchase volumes and other factors. Interchange fees represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

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

(Dollar amounts in thousands except per share data)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and OBS credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a net decrease to retained earnings of $335 as of January 1, 2023 for the cumulative effect of adopting ASC 326.

The following table illustrates the impact of ASC 326.

	January 1, 2023		
	As Reported Under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Assets:			
Loans:			
Residential real estate:	$ 1,100	$ 882	$ 218
Construction	51	43	8
Commercial real estate	156	47	109
Allowance for Credit Losses	1,307	972	335
Liabilities:			
Allowance for credit losses on OBS credit exposures	5	-	5

NOTE 2 - SECURITIES

The amortized cost and fair value of securities available-for-sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive (loss) income were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2023				
Mortgage-backed securities - FHLMC	10	-	-	10
Collateralized mortgage obligations	17	-	1	16
Total available-for-sale	$ 27	$ -	$ 1	$ 26
December 31, 2022				
Mortgage-backed securities - FHLMC	21	-	1	20
Collateralized mortgage obligations	32	-	1	31
Total available-for-sale	$ 53	$ -	$ 2	$ 51

There were no allowance for credit losses recorded on available-for-sale securities as of December 31, 2023.

Unrealized losses on securities have not been recognized into income because the issuers' of the securities are of high credit quality, management does not intend to sell and it is not more likely than not that management would be required to sell the securities prior to their anticipated recovery, and the decline in the fair value is largely due to changes in interest rates. The fair value is expected to recover as the securities approach maturity.

(Dollar amounts in thousands except per share data)

NOTE 2 – SECURITIES (Continued)

At year-end 2023 and 2022 there were no holdings of securities of any one issuer in an amount greater than 10% of stockholders' equity.

There were no securities pledged at December 31, 2023 and 2022.

The amortized cost and fair values of debt securities available-for-sale at December 31, 2023 are shown by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without prepayment penalties. Securities not due at a single maturity date are shown separately.

	Amortized Cost	Fair Value
Due in one year or less	$ -	$ -
Due from one to five years	-	-
Collateralized mortgage obligations and mortgage-backed securities	27	26
Total	$ 27	$ 26

NOTE 3 - LOANS

Loans at year end were as follows:

	2023	2022
Residential real estate:		
One-to-four family	$ 72,023	$ 83,899
Multi-family	9,055	10,916
Construction	2,002	2,667
Commercial real estate	3,213	3,703
Total loans	86,293	101,185
Deferred loan fees, net	(346)	(526)
Allowance for credit losses	(1,307)	(1,016)
Loans, net	$ 84,640	$ 99,643

The Company has granted loans to principal officers, directors, and their affiliates. These loans totaled $167 and $178 at December 31, 2023 and 2022.

The following table presents the activity in the allowance for credit losses by portfolio segment for the year ending December 31, 2023:

	Residential Real Estate	Construction	Commercial Real Estate	Total
2023				
Allowance for credit losses:				
Beginning balance	$ 912	$ 45	$ 59	$ 1,016
Impact of adopting ASC 326	218	8	109	335
Recapture of provision for credit losses	(46)	(2)	(12)	(60)
Loans charged-off	-	-	-	-
Recoveries	16	-	-	16
Total ending allowance balance	$ 1,100	$ 51	$ 156	$ 1,307

(Dollar amounts in thousands except per share data)

NOTE 3 - LOANS (Continued)

The following table presents the activity in the allowance for loan losses by portfolio segment for the year ending December 31, 2022:

	Residential Real Estate	Construction	Commercial Real Estate	Total
2022				
Allowance for loan losses:				
Beginning balance	$ 851	$ 46	$ 53	$ 950
Provision for loan losses	45	(1)	6	50
Loans charged-off	(1)	-	-	(1)
Recoveries	17	-	-	17
Total ending allowance balance	$ 912	$ 45	$ 59	$ 1,016

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2022:

	Residential Real Estate	Construction	Commercial Real Estate	Total
2022				
Allowance for loan losses:				
Ending allowance balance:				
Individually evaluated for impairment	$ 30	$ -	$ -	$ 30
Collectively evaluated for impairment	882	45	59	986
Total ending allowance balance	$ 912	$ 45	$ 59	$ 1,016
Loans:				
Loans individually evaluated for impairment	$ 2,250	$ -	$ -	$ 2,250
Loans collectively evaluated for impairment	92,565	2,667	3,703	98,935
Total ending loans balance	$ 94,815	$ 2,667	$ 3,703	$ 101,185

(Dollar amounts in thousands except per share data)

NOTE 3 - LOANS (Continued)

The following table presents information related to impaired loans by class as of and for the year ended December 31, 2022:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
2022			
With no related allowance recorded:			
Residential real estate:			
One-to-four family	$ 1,899	$ 1,138	$ -
	1,899	1,138	-
With an allowance recorded:			
Residential real estate:			
One-to-four family	1,112	1,112	30
Commercial real estate	-	-	-
	1,112	1,112	30
Total	$ 3,011	$ 2,250	$ 30

The average balance of impaired loans was $2,373 during 2022. Cash basis interest earned on impaired loans was $0 for the year ended December 31, 2022.

The following table presents the amortized cost basis of loans on non-accrual status by class and loans on non-accrual status with no allowance for credit loss as of December 31, 2023:

	Non-accrual	Non-accrual With No Allowance For Credit Loss
2023		
Residential real estate		
One-to-Four Family	$ 587	$ 587
Multi-Family	78	78
Total	$ 665	$ 665

The following table presents the amortized cost basis of loans on non-accrual status by class as of December 31, 2022:

2022	
Residential real estate	
One-to-Four Family	$ 450
Multi-Family	85
Total	$ 535

There are no loans past due over 89 days and still accruing as of December 31, 2023 and 2022.

Collateral-dependent loans total $599 of December 31, 2023. Collateral on these loans is primarily 1-4 family real estate.

(Dollar amounts in thousands except per share data)

NOTE 3 - LOANS (Continued)

The following table presents the aging of the recorded investment in past due loans as of December 31, 2023 and 2022 by class:

	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days and Greater Past Due	Total Past Due	Loans Not Past Due	Total
2023						
Residential real estate:						
One-to-four family	$ 1,119	$ 110	$ 568	$ 1,797	$ 70,226	$ 72,023
Multi-family	-	-	78	78	8,977	9,055
Construction	$ -	-	-	-	2,002	2,002
Commercial real estate	-	-	-	-	3,213	3,213
Total	$ 1,119	$ 110	$ 646	$ 1,875	$ 84,418	$ 86,293
2022						
Residential real estate:						
One-to-four family	$ 260	$ 1,172	$ 450	$ 1,882	$ 82,017	$ 93,899
Multi-family	-	-	85	85	10,831	10,916
Construction	-	-	-	-	2,667	2,667
Commercial real estate	-	-	-	-	3,703	3,703
Total	$ 260	$ 1,172	$ 535	$ 1,967	$ 99,218	$ 101,185

Loan Modifications:

Occasionally, the Company modifies loans to borrowers in financial distress by providing financial forgiveness, term extension or an other-than-insignificant payment delay. When principal forgiveness is provided, the amount of the forgiveness is charged-off against the allowance for credit losses. In some cases the Company may provide multiple types of concession on one loan. As of December 31, 2023 there are no loans outstanding that have been modified to borrowers in financial distress.

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually and classifies them as to credit risk. This analysis typically includes non-homogenous loans, such as construction and commercial real estate loans. This analysis is performed on a quarterly basis. The Company uses the following definitions for risk ratings:

Special Mention. Loans classified as special mention have a potential weakness that deserves management's 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.

(Dollar amounts in thousands except per share data)

NOTE 3 - LOANS (Continued)

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.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Based on the most recent analysis performed the risk category of loans by class of loans is as follows:

	Term Loans Amortized Cost Basis by Origination Date					
	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Total
As of December 31, 2023						
Residential real estate – One-to-four family						
Risk rating:						
Pass	$ 2,814	$ 39,607	$ 15,726	$ 10,272	$ 2,907	$ 71,326
Special Mention	-	-	-	110	-	110
Substandard	$ -	-	-	149	438	587
Doubtful	-	-	-	-	-	-
Total	$ 2,814	$ 39,607	$ 15,726	$ 10,531	$ 3,345	$ 72,023
Residential real estate – Multi family						
Risk rating:						
Pass	$ 787	$ 4,961	$ 1,682	$ 1,548	$ -	$ 8,978
Special Mention	-	-	-	-	-	-
Substandard	$ -	-	-	77	-	77
Doubtful	-	-	-	-	-	-
Total	$ 787	$ 4,961	$ 1,682	$ 1,625	$ -	$ 9,055
Construction						
Risk rating:						
Pass	$ -	$ -	$ -	$ -	$ 2,002	$ 2,002
Special Mention	-	-	-	-	-	-
Substandard	$ -	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Total	$ -	$ -	$ -	$ -	$ 2,002	$ 2,002
Commercial real estate						
Risk rating:						
Pass	$ 405	$ 1,951	$ 711	$ 146	$ -	$ 3,213
Special Mention	-	-	-	-	-	-
Substandard	$ -	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Total	$ 405	$ 1,951	$ 711	$ 146	$ -	$ 3,213

(Dollar amounts in thousands except per share data)

NOTE 3 - LOANS (Continued)

The Company considers the performance of the loan portfolio and its impact on the allowance for credit losses. For residential loan classes the company also evaluates credit quality based on the aging status of the loan, which was presented previously, and by payment activity. The following table presents the amortized cost in residential loans based on payment activity:

	Term Loans Amortized Cost Basis by Origination Date					
	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Total
As of December 31, 2023						
Residential real estate – One-to-four family						
Payment performance:						
Performing	$ 2,814	$ 39,607	$ 15,726	$ 10,382	$ 2,907	$ 71,436
Non-performing	-	-	-	149	438	587
Total	$ 2,814	$ 39,607	$ 15,726	$ 10,531	$ 3,345	$ 72,023

The following table provides a summary of the loan portfolio by class and credit quality classification as of December 31, 2022:

	Pass	Special Mention	Substandard	Doubtful	Total
Residential real estate:					
One-to-four family	$ 83,297	$ 152	$ 450	$ -	$ 83,899
Multi-family	10,831	-	85	-	10,916
Construction	2,667	-	-	-	2,667
Commercial real estate	3,703	-	-	-	3,703
Total	$ 100,498	$ 152	$ 535	$ -	$ 101,185

NOTE 4 - FAIR VALUE MEASUREMENT

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

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

(Dollar amounts in thousands except per share data)

NOTE 4 - FAIR VALUE MEASUREMENT (Continued)

Securities: Securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2), using matrix pricing. Matrix pricing is a mathematical technique commonly used to price debt securities that are not actively traded, values debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

Collateral-dependent Loans: The fair value of collateral-dependent loans with specific allocations of the allowance for credit losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available for similar loans and collateral underlying such loans. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Collateral-dependent loans are evaluated on a quarterly basis and adjusted accordingly.

Appraisals for collateral-dependent loans are performed by certified general appraisers whose qualifications and licenses have been reviewed and verified by the Company. Once received, a member of the lending department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. On an annual basis, the Company compares the actual selling price of collateral that has been sold to the most recent appraisal value to determine what additional adjustment should be made to the appraisal value to arrive at fair value.

Loans held for sale: Mortgage loans originated and intended for sale in the secondary market are carried at estimated fair value. The mortgage loan valuations are based on quoted secondary market prices for similar loans and are classified as Level 2. Changes in the fair value of mortgage loans originated and intended for sale in the secondary market and derivative financial instruments are included in gains on sales of loans.

Assets measured at fair value on a recurring basis as of December 31, 2023 and 2022 are as follows:

		Fair Value Measurements Using		
Assets Measured on a Recurring Basis		Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
At December 31, 2023				
Securities available-for-sale:				
Mortgage backed-securities - FHLMC	10	-	10	-
Collateralized mortgage obligations	16	-	16	-
Total available-for-sale ...	$ 26	$ -	$ 26	$ -
Mortgage servicing rights	$ 201	$ -	$ 201	$ -

(Dollar amounts in thousands except per share data)

NOTE 4 - FAIR VALUE MEASUREMENT (Continued)

Assets Measured on a Recurring Basis		Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
At December 31, 2022				
Securities available-for-sale:				
Mortgage-backed securities - FHLMC	20	-	20	-
Collateralized mortgage obligations	31	-	31	-
Total available-for-sale ...	$ 51	$ -	$ 51	$ -
Loans held for sale	$ 816	$ -	$ 816	$ -
Mortgage servicing rights	$ 198	$ -	$ 198	$ -

The Company has elected the fair value option for loans held for sale. These loans are intended for sale and the Company believes that the fair value is the best indicator of the resolution of these loans. Interest income is recorded based on the contractual terms of the loan and in accordance with the Company's policy on loans held for investment. None of these loans are 90 days or more past due nor on non-accrual as of December 31, 2022. There are no loans held for sale as of December 31, 2023

The Company has elected the fair value option for the valuation of mortgage servicing rights. On a quarterly basis mortgage servicing rights are evaluated for impairment based on the fair value of the rights as compared to the carrying amount. If the carrying amount exceeds fair value impairment is recorded so that the servicing asset is carried at fair value. Fair value is determined based on market prices for comparable mortgage servicing contracts (level 2) when available or alternatively based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model utilizes interest rate, prepayment speed, and default rate assumptions that market participants would use in estimating future net servicing income and that can be validated against available markets (level 2 or level 3).

As of December 31, 2023 and 2022, the aggregate fair value, contractual balance (including accrued interest), and gain or loss for loans held for sale was as follows:

	2023	2022
Aggregate fair value	$ -	$ 816
Contractual balance	-	796
Gain	-	20

The total amount of losses from changes in fair value included in earnings for the years ended December 31, 2023 and 2022 for loans held for sale were $24 and $70, respectively.

(Dollar amounts in thousands except per share data)

NOTE 4 - FAIR VALUE MEASUREMENT (Continued)

Fair Value of Financial Instruments

The carrying amounts and estimated fair values of financial instruments, at December 31, 2023 and December 31, 2022 are as follows:

December 31, 2023:	Carrying Value	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$ 11,191	$ 11,191	$ -	$ -	$ 11,191
Securities available for sale	26	-	26	-	26
Loans, net	84,640	-	-	95,829	95,829
Financial liabilities					
FHLB advances	$ 14,500	$ -	$ 14,512	$ -	$ 14,512
Total deposits	66,796	-	-	66,797	66,797

December 31, 2022:	Carrying Value	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$ 11,826	$ 11,826	$ -	$ -	$ 11,826
Securities available for sale	51	-	51	-	51
Loans, net	99,643	-	-	91,482	91,482
Derivatives	24	-	24	-	24
Financial liabilities					
FHLB Advances	$ 30,250	$ -	$ 30,646	$ -	$ 30,646
Total deposits	68,130	-	-	67,356	67,356

The Company's derivative financial instruments consist of interest rate lock commitments and forward commitments for the future delivery of these mortgage loans. The fair values of these derivatives are based on quoted prices for similar loans in the secondary market. The market prices are adjusted by a factor, based on the Company's historical data and its judgment about future economic trends, which considers the likelihood that a commitment will ultimately result in a closed loan. These instruments are classified as Level 2. The amounts are included in other assets or other liabilities on the consolidated balance sheets and gains on sale of loans, net in the consolidated statements of operations. The total amount of losses from changes in fair value of derivative financial instruments included in earnings were $24 and $70 for December 31, 2023 and 2022

(Dollar amounts in thousands except per share data)

NOTE 5 - PREMISES AND EQUIPMENT

Year-end premises and equipment were as follows.

	For the years ended December 31, 2023	2022
Land	$ 807	$ 807
Building	355	355
Building improvements	715	599
Drive-up addition	577	577
Furniture and equipment	629	672
Total cost	3,083	3,010
Accumulated depreciation	(1,416)	(1,373)
	$ 1,667	$ 1,637

Depreciation and amortization expense was $77 and $74 for the years ended December 31, 2023 and 2022 .

NOTE 6 - DEPOSITS

Deposits, by major category, are as follows:

	For the years ended December 31, 2023	2022
Non-interest-bearing checking	$ 3,069	$ 4,133
Interest-bearing checking	1,010	1,491
Savings	28,266	29,222
Money market deposit accounts	4,652	6,828
Brokered deposit accounts	4,009	-
Certificates of deposit	25,790	26,456
	$ 66,796	$ 68,130

The aggregate amount of certificates of deposit with a minimum denomination of $250 was approximately $3,477 and $1,947 at December 31, 2023, and 2022, respectively.

Scheduled maturities of certificates of deposit for the next five years were as follows:

2024	$ 24,440
2025	707
2026	499
2027	120
2028	24
	$ 25,790

Deposits of related parties totaled approximately $1,180 and $994 at December 31, 2023 and 2022, respectively.

NOTE 7 - FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

As of December 31, 2023 and 2022, the Company had $14,500 and $30,250 in fixed-rate Federal Home Loan Bank Advances, maturing May 2024 through January 2026 with a weighted average interest rate of 4.15% and 3.35%, respectively.

A blanket lien on all one-to-four family first mortgages and all multi-family first mortgages was pledged as collateral. Loans totaling approximately $77,958 and $86,333 were pledged as collateral as of year-end 2023 and 2022, respectively. Based on this collateral and the Company's holdings of FHLB stock, the Company is eligible to borrow up to a total of $37,711 at year-end 2023.

NOTE 8 - BENEFIT PLANS

On November 29, 2006, the stockholders approved the Mutual Federal Bancorp, Inc. 2006 Stock Option Plan (the "Stock Option Plan"), and the Mutual Federal Bancorp, Inc. 2006 Management Recognition and Retention Plan and Trust Agreement (the "MRP Plan", and collectively with the Stock Option Plan, the "Plans"). A total of 178,206 and 72,564 shares of Company common stock were reserved for issuance under the Stock Option Plan and the MRP Plan, respectively. The 2006 Stock Option Plan expired in September 2023.

On November 21, 2023, the Board approved the Mutual Federal Bancorp, Inc. 2023 Stock Option Plan (the "New Stock Option Plan"). A total of 178,206 of Company stock were reserved for issuance under the New Stock Option Plan.

Total compensation cost that has been charged against income for the 2023 Stock Option Plan and the 2006 Stock Option Plan for the years ended December 31, 2023 and 2022, was $206 and $9.

Stock Option Plan

The Company's 2006 Stock Option Plan permitted the grant of stock options to its officers, directors and employees. The Company believed that such awards better align the interests of its employees with those of its stockholders. Option awards were granted with an exercise price that was no less than the market price of the Company's common stock at the date of grant, had vesting periods of five years, and had 10-year contractual terms.

The Company's 2023 New Stock Option Plan permits the grant of stock options to its officers, directors and employees. The Company believes that such grants better align the interests of its employees with those of its stockholders. Option awards were granted with an exercise price that is no less than the market price of the Company's common stock at the date of the grant, immediately vest, and have 10-year contractual terms.

(Dollar amounts in thousands except per share data)

NOTE 8 - BENEFIT PLANS, (Continued)

	Shares	Weighted Average Fair Value on Grant Date	Weighted Average Remaining Contractual Term
Outstanding at January 1, 2023	174,345	$ 0.78	1
Granted	145,000	1.43	10
Exercised	-	-	-
Forfeited or expired	174,345	0.78	(1)
Outstanding at December 31, 2023	145,000	$ 1.43	10
Exercisable at December 31, 2023	145,000	$ 1.43	10
Vested at December 31, 2023	145,000	$ 1.43	10

As of December 31, 2023, there was $0 of total unrecognized compensation cost related to non-vested stock options granted under the Plan.

Stock Award Plan (MRP Plan)

A MRP Plan provides for the issuance of shares to directors and officers. Compensation expense is recognized over the vesting period of the shares based on the market value of the shares at issue date.

Over the life of this plan, the Company has awarded 72,564 shares to Officers and Directors. There were no new grants in 2023 or 2022. All shares granted under the MRP Plan are vested.

401(k) Plan

The Company has a 401(k) profit sharing plan covering substantially all employees who have attained the age of 21 and have completed three months of service. Following three months of service, the Company matches 100% of employee contributions up to 3% of compensation, and 50% of employee contributions over 3% of compensation but which do not exceed 5% of compensation. The Company does not match employee contributions over 5% of compensation. The matching contribution expense was $82 and $153 for the years ended December 31, 2023 and 2022. The 401(k) profit sharing plan also provides for a discretionary profit sharing contribution determined annually by the Board of Directors. The Board approved no discretionary contributions for the years ended December 31, 2023 and 2022.

(Dollar amounts in thousands except per share data)

NOTE 9 - INCOME TAXES

Income tax expense (benefit) was as follows.

	For the years ended December 31, 2023	2022
Current tax expense (benefit)	$ (171)	$ (62)
Deferred tax expense (benefit)	-	-
Change in valuation allowance	171	62
	$ -	$ -

Effective tax rates differ from the federal statutory rate of 21% applied to income before income taxes due to the effect of state income tax, stock-based compensation and changes in valuation allowances.

Deferred tax assets and liabilities at December 31 consist of the following.

	For the years ended December 31, 2023	2022
Gross deferred tax assets	$ 2,396	$ 2,225
Gross deferred tax liabilities	-	-
Valuation allowance for deferred tax assets	(2,396)	(2,224)
Net deferred tax assets (liabilities)	$ -	$ 1

Temporary differences between the amounts reported in the consolidated financial statements and the tax basis of assets and liabilities result in deferred taxes. Temporary differences resulting in deferred tax assets arise primarily from the allowance for credit losses, non-accrual loans, capital losses, and net operating losses. Deferred tax assets include $1 from unrealized losses on securities available-for-sale at December 31, 2022.

For the years ended December 31, 2023 and 2022, a full valuation allowance was recorded against net deferred tax assets, including net operating loss tax benefits, as the Company could not forecast a sustained level of sufficient profitability over a reasonably short time period.

At year end 2023 and 2022, the Company had federal net operating loss carryforwards of approximately $5,369 and $5,237, respectively, which will begin to expire after 2032 if unused. At year end 2023 and 2022, the Company had Illinois net operating loss carryforwards of approximately $8,682 and $8,577, respectively, which will begin to expire after 2031 if unused.

Federal income tax laws provided additional bad debt deductions through 1987, totaling $2,252. Accounting standards do not require a deferred tax liability to be recorded on this amount, which otherwise would total $642 at year-end 2023. If the Company were liquidated or otherwise ceases to be a company or if tax laws were to change, this liability of $642 would be expensed and paid.

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax in the state of Illinois. The Company is no longer subject to examinations by taxing authorities for years before 2020.

NOTE 10 - LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES

Some financial instruments, such as loan commitments, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

Total unused commitments to extend credit were $3,156 at December 31, 2023, and $3,770 at December 31, 2022. Commitments to make loans are generally made for periods of 60 days or less.

NOTE 11 - CAPITAL REQUIREMENTS AND RESTRICTIONS ON RETAINED EARNINGS

The Bank is subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2023, the Bank met all minimum capital adequacy requirements to which it is subject.

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

The Federal Banking regulators approved new rules to implement the revised capital adequacy standards of the Basel Committee on Banking Supervision, commonly called Basel III, and address relevant provisions of the Dodd Frank Wall Street Reform and Consumer Protection Act, as amended.

(Dollar amounts in thousands except per share data)

NOTE 11 - CAPITAL REQUIREMENTS AND RESTRICTIONS ON RETAINED EARNINGS (Continued)

The Bank's actual and required capital amounts and ratios are presented below:

	Actual		Minimum Required for Capital Adequacy Purposes under Basel III		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2023						
Total capital to risk-weighted assets	$ 16,121	23.75%	$ 7,127	10.50%	$ 6,787	10.00%
Tier 1 (core) capital to risk-weighted assets	15,267	22.49	5,769	8.50	5,430	8.00
Common Tier 1 (CETI)	15,267	22.49	4.751	7.00	4,412	6.50
Tier 1 (core) capital to adjusted total assets	15,267	15.07	4,051	4.00	5,064	5.00
December 31, 2022						
Total capital to risk-weighted assets	$ 16,576	20.82%	$ 8,358	10.50%	$ 7,960	10.00%
Tier 1 (core) capital to risk-weighted assets	15,581	19.57	6,766	8.50	6,638	8.00
Common Tier 1 (CETI)	15,581	19.57	5,572	7.00	5,174	6.50
Tier 1 (core) capital to adjusted total assets	15,581	13.49	4,619	4.00	5,773	5.00

Federal regulations require the Bank to comply with a Qualified Thrift Lender ("QTL") test, which requires that 65% of assets be maintained in housing-related finance and other specified assets. If the QTL test is not met, limits are placed on growth, branching, new investment, FHLB advances, and dividends or the institution must convert to a commercial bank charter. Management considers the QTL test to have been met.

Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, combined with the retained net profits of the preceding two years, subject to the capital requirements described above. During the years ended December 31, 2023 and 2022, the Bank paid $0 in dividends to the Company.