TC Financial Holdings, Inc.

Consolidated Financial Statements

Years Ended December 31, 2023 and 2022

WIPFLI

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Independent Auditor's Report

Board of Directors
TC Financial Holdings, Inc. and Subsidiary
Frankfort, Illinois

Opinion

We have audited the accompanying consolidated financial statements (the ''financial statements'') of TC Financial Holdings, Inc. and Subsidiary (the "Company"), which comprise the consolidated balance sheet as of December 31, 2023, and the related consolidated statement of income, comprehensive income (loss), changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the 2023 financial statements referred to above present fairly, in all material respects, the financial position of TC Financial Holdings, Inc. and Subsidiary as of December 31, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States (''GAAP'').

Basis for Opinion

We conducted our audit 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 TC Financial Holdings, Inc. and Subsidiary and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Financial Statements

The consolidated financial statements of TC Financial Holdings, Inc. and Subsidiary as of December 31, 2022, were audited by other auditors whose report dated March 22, 2023, expressed an unmodified opinion on those statements.

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, 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 TC Financial Holdings, Inc. and Subsidiary ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance 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, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these 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 TC Financial Holdings, Inc. and Subsidiary’s internal control. Accordingly, no such opinion is expressed.

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

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

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

Wipfli LLP

Wipfli LLP

Aurora, Illinois

April 11, 2024

TC Financial Holdings, Inc. and Subsidiary
Consolidated Balance Sheets
(Dollars in Thousands)

As of December 31,	2023	2022
Assets:		
Cash on hand	$ 1,464	$ 7,873
Interest-bearing deposits with banks	17,436	6,290
Federal funds sold	3,692	3,505
Total cash and cash equivalents	22,592	17,668
Securities available-for-sale	13,431	27,830
Loans, net of allowance for credit losses $1,303 in 2023 and $1,177 in 2022	107,642	84,903
Federal Home Loan Bank stock	900	260
Premises and equipment, net	196	185
Deferred income taxes	2,054	2,565
Accrued interest receivable and other assets	767	912
Total assets	$ 147,582	$ 134,323
Liabilities:		
Non-interest-bearing demand	$ 40,005	$ 37,467
Interest bearing	69,698	80,236
Total deposits	109,703	117,703
Note payable	30	-
Federal Home Loan Bank advances	20,000	-
Accrued interest payable and other liabilities	922	948
Total liabilities	130,655	118,651
Shareholders' Equity:		
Common stock $0.01 par value at 2023 and 2022; 10,000,000 shares authorized; 2,333,660 shares issued and outstanding at December 31, 2023 and 2022	23	23
Additional paid-in capital	23,095	23,095
Accumulated deficit	(5,274)	(6,325)
Accumulated other comprehensive loss	(917)	(1,121)
Total shareholders’ equity	16,927	15,672
Total liabilities and shareholders’ equity	$ 147,582	$ 134,323

See accompanying notes to consolidated financial statements

TC Financial Holdings, Inc. and Subsidiary
Consolidated Statements of Income
(Dollars in Thousands)

Years Ended December 31,	2023	2022
Interest Income		
Loans, including fees	$ 6,234	$ 4,843
Securities	775	414
Federal funds sold and other	242	470
Total interest income	7,251	5,727
Interest Expense		
Deposits	879	301
Federal Home Loan Bank and Federal Reserve	474	1
Total interest expense	1,353	302
Net Interest Income	5,898	5,425
Provision for credit losses	320	25
Net interest income after provision for credit losses	5,578	5,400
Noninterest Income:		
Service charges on deposits	75	84
Mortgage banking income	36	50
Other income	20	67
Total noninterest income	131	201
Noninterest Expense		
Salaries and employee benefits	2,382	1,844
Occupancy and equipment	353	358
Data processing	534	1,965
Professional fees	261	378
FDIC deposit insurance	46	72
Advertising and marketing	61	25
Other	565	581
Total noninterest expense	$ 4,202	$ 5,223
Income before income taxes	1,507	378
Income tax expense	456	115
Net income	1,051	263
Basic and Diluted Net Income Per Share	$ 0.45	$ 0.11
Basic and Diluted Weighted Average Common Shares Outstanding	2,333,660	2,333,660

See accompanying notes to consolidated financial statements

TC Financial Holdings, Inc. and Subsidiary
Consolidated Statements of Comprehensive Income
(Dollars in Thousands)

Years Ended December 31,	2023	2022
Net income	$ 1,051	$ 263
Other comprehensive income (loss):		
Unrealized gain (loss) on securities	258	(1,360)
Tax effect	(54)	285
Other comprehensive income (loss)	204	(1,075)
Total Comprehensive Income (Loss)	$ 1,255	$ (812)

See accompanying notes to consolidated financial statements

TC Financial Holdings, Inc. and Subsidiary
Consolidated Statements of Shareholders' Equity
(Dollars in Thousands)

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders's Equity
Balances at January 1, 2022	$ 2,333	$ 20,785	$ (6,588)	$ (46)	$ 16,484
Net Income	-	-	263	-	263
Conversion of common stock to $0.01 par value (see Note 2)	(2,310)	2,310	-	-	-
Other comprehensive loss	-	-	-	(1,075)	(1,075)
Balances at December 31, 2022	23	23,095	(6,325)	(1,121)	15,672
Net income	-	-	1,051	-	1,051
Other comprehensive income	-	-	-	204	204
Balances at December 31, 2023	$ 23	$ 23,095	$ (5,274)	$ (917)	$ 16,927

See accompanying notes to consolidated financial statements

TC Financial Holdings, Inc. and Subsidiary

Consolidated Statements of Cash Flows

(Dollars in Thousands)

Years Ended December 31,	**2023**	**2022**
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Net income	$ 1,051	$ 263
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net securities amortization	21	83
Provision for credit losses	320	25
Provision for depreciation and amortization	63	52
Provision for deferred income tax	511	101
Changes in operating assets and liabilities:		
Accrued interest receivable and other assets	145	(60)
Accrued interest payable and other liabilities	(26)	(155)
Net cash from operating activities	2,085	309
Cash flows from investing activities:		
Purchases of securities available for sale	-	(19,510)
Proceeds from calls and maturities of securities available for sale	14,581	3,290
Purchases of FHLB stock	(640)	-
Net (increase) decrease in loans	(23,058)	20,461
Capital expenditures	(74)	(85)
Net cash from investing activities	(9,191)	4,156
Cash flows from financing activities:		
Net decrease in deposits	(8,000)	(7,889)
Proceeds from issuance of FHLB advances	20,000	-
Principal payments on FHLB advances	-	(6,000)
Proceeds from issuance of note payable	30	-
Net cash from financing activities	12,030	(13,889)
Net change in cash and cash equivalents	4,924	(9,424)
Cash and cash equivalents at beginning of year	17,668	27,092
Cash and cash equivalents at end of year	$ 22,592	$ 17,668
Supplemental cash flow information:		
Cash paid during the year for:		
Interest	$ 1,108	$ 379
Income taxes	456	195

See accompanying notes to consolidated financial statements

Note 1: Summary of Significant Accounting Policies

Organization and Principles of Consolidation

TC Financial Holdings, Inc. and Subsidiary (the "Company") is is a bank holding company and through its banking subsidiary, Town Center Bank (Bank), provides financial services through its offices in Frankfort and New Lenox, Illinois. As noted below, the Company was effective as of April 1, 2022, and after a Plan of Merger, the financial statements present the financial position and results of operations on a consolidated basis for the Company and the Bank. The Bank's primary deposit products are checking, savings and term certificate accounts, and its primary lending products are residential mortgage, commercial, commercial real estate, construction, land development and consumer loans. Substantially, all loans are secured by specific items of collateral including business assets, consumer assets, and commercial and residential real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. The customers' ability to repay their loans is dependent on the real estate and general economic conditions in the area.

On March 24, 2022, a Plan of Merger between the Company and the Bank reached final approval by the Illinois Department of Financial and Professional Regulation and became effective March 31, 2022. In connection with this Plan of Merger, each issued and outstanding share of Bank common stock was exchanged for one share of Company stock. As a result of the exchange, the Company acquired and became the sole shareholder of the Bank. Additionally, as a result of the exchange, the holders of shares of Bank common stock became the shareholders of the Company. The transaction was accounted for in a manner similar to a pooling of interests. These consolidated financial statements include the accounts of the Company and the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation

Use of Estimates in Preparation of Financial Statements

The preparation of the accompanying financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses, the valuation of securities, and deferred tax assets. Management does not anticipate any material changes to these estimates in the near term.

Cash and Cash Equivalents

For purposes of reporting cash flows in the financial statements, cash and cash equivalents include cash on hand, interest-bearing and non-interest-bearing accounts in other financial institutions, and federal funds sold, all of which have original maturities of three months or less and are utilized in the daily operations of the Company.

Interest-Bearing Deposits

Interest-bearing time deposits in other banks are carried at cost.

Note 1: Summary of Significant Accounting Policies (Continued)

Debt Securities

Debt securities are classified as available for sale and are carried at fair value, with unrealized gains and losses reported in other comprehensive income or loss. Amortization of premiums and accretion of discounts are recognized in interest income using the interest method. Premiums that exceed the amount repayable by the issuer at the next call date are amortized to the next call date. Other premiums and discounts are amortized (accreted) over the estimated lives of the securities. Gains and losses on the sale of securities are recorded on the trade date and determined using the specific-identification method.

Effective January 1, 2023, the Company evaluates individual securities available for sale in an unrealized loss position by first determining whether the decline in fair value below the amortized cost basis of the security has resulted from a credit loss or other factors. A credit loss exists when the present value of cash flows expected to be collected from the security is less than the amortized cost basis of the security. In determining whether a credit loss exists, the Company considers the extent to which the fair value is less than the amortized cost basis, adverse conditions related to the security, the industry, or geographic areas, the payment structure of the debt security, failure of the issuer to make scheduled payments, and any changes to the rating of the security. Impairment related to credit losses is recognized through an allowance for credit losses up to the amount that fair value is less than the amortized cost basis. Changes to the allowance are recognized through earnings as a provision for (or recovery of) credit losses. Impairment related to other factors is recognized in other comprehensive income.

If the Company intends to sell, or it is more likely than not the Company will be required to sell, the security before recovery of its amortized cost basis, any allowance for credit losses is written off and the amortized cost basis is written down to the security's fair value at the reporting date with any incremental impairment recognized in earnings.

The accrual of interest on a security available for sale is discontinued when the security becomes 90 days delinquent or whenever management believes the issuer will be unable to make payments as they become due. When securities are placed on nonaccrual status, all unpaid accrued interest is reversed against interest income. No accrued interest was written off during 2023 and 2022.

The Company excludes accrued interest receivable from the amortized cost basis of securities available for sale when estimating credit losses and when presenting required disclosures in the financial statements. Accrued interest on securities available for sale totaling $67 and $98 at December 31, 2023 and 2022, respectively, was excluded from the amortized cost basis of securities available for sale and is included in accrued interest receivable and other assets consolidated balance sheets.

Management believes the Company will collect all amounts owed on securities available for sale issued by the U.S. government or a U.S. government-sponsored agency since these securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies, and have a long history of no credit losses. Management evaluates all other securities available for sale using a probability of default method. The probability of default method estimates the probability a security with a certain credit rating will default during its remaining contractual term (probability of default) and how much loss is expected to be incurred if a security defaults (loss given default rate). The Company obtains information from [FHN] to estimate the probability of default for each credit rating based on the remaining term of the security and the loss given default rate.

Note 1: Summary of Significant Accounting Policies (Continued)

Debt Securities (Continued)

Prior to January 1, 2023, declines in fair value of debt securities that are deemed to be other than temporary, if applicable, are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considered the length of time and the extent to which fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are reported at their outstanding unpaid principal balances, net of purchase premiums and discounts, deferred fees and costs, and an allowance for credit losses. Interest income is accrued on unpaid principal balance. Loan-origination fees, net of certain direct origination costs, are deferred and amortized over the life of the loan. For loans with terms of less than one year are recognized as income or expense when received or incurred since capitalization of these fees and costs would not have a significant impact on the financial statements.

For all loan types, interest income on loans is discontinued 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.

All interest accrued but not received for loans placed on nonaccrual are 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.

Accounting for loans is performed consistently across all portfolio segments and classes. A portfolio segment is defined as the level at which an entity develops and documents a systemic methodology to determine its allowance for credit losses. A portfolio class is defined as a group of loans having similar initial measurement attributes, risk characteristics and methods for monitoring and assessing risk. The Company's allowance for credit losses methodology is determined by groups of loans having similar risk characteristics and methods for monitoring risk. As a result, the portfolio segments and classes are the same.

Allowance for Credit Losses on Loans and Unfunded Loan Commitments

The Company adopted ASU No. 2016-13 and began accounting for credit losses under ASC 326, *Financial Instruments Credit Losses*, on January 1, 2023. The new standard significantly changed the impairment model for most financial assets that are measured at amortized cost, including off-balance sheet credit exposures, from an incurred loss impairment model to an expected credit loss model.

Note 1: Summary of Significant Accounting Policies (Continued)

Allowance for Credit Losses on Loans and Unfunded Loan Commitments (Continued)

The allowance for credit losses on loans is a valuation allowance that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the Company's loan portfolio. The allowance for credit losses on loans is established through provisions for credit losses charged against earnings. When available information confirms that specific loans, or portions thereof, are uncollectible, these amounts are charged against the allowance for credit losses on loans, and subsequent recoveries, if any, are credited to the allowance for credit losses on loans.

Management considers the following when assessing risk in the Company's loan portfolio segments:

Commercial

Loans in this segment are primarily for working capital, physical asset expansion, asset acquisition loans, and other. These loans are made based primarily on historical and projected cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not behave as forecasted, and collateral-securing loans may fluctuate in value as a result of economic or individual performance factors. Financial information is obtained from the borrowers to evaluate cash flow sufficiency to service debt and is periodically updated during the life of the loan.

Commercial Real Estate

Loans in this segment are primarily income-producing properties throughout the Chicago area. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, will have an effect on the credit quality in this segment. Management obtains rent rolls annually and continually monitors the cash flows of these loans. Credit risk is affected by cost overruns, time to sell at an adequate price, and market conditions.

Residential Real Estate

Loans in this segment primarily include owner occupied 1-4 family residences secured by 1st liens. The Company generally has 2nd liens on property securing home equity loans. The Company generally does not originate loans with a loan-to-value ratio greater than 85% and does not generally grant loans that would be classified as subprime upon origination. All loans in this segment are collateralized by residential real estate and repayment is dependent on the credit quality of the individual borrower or borrowers. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this segment.

Consumer

Loans in this segment are to individuals and are supported by non-real estate collateral, primarily automobiles. The repayment is dependent on the credit quality of the individual borrower. Overdraft balances are also included in this segment as other.

Note 1: Summary of Significant Accounting Policies (Continued)

Allowance for Credit Losses on Loans and Unfunded Loan Commitments (Continued)

Effective January 1, 2023, the Company uses a current expected credit loss ("CECL") model to estimate the allowance for credit losses on loans. The CECL model considers historical loss rates and other qualitative adjustments, as well as a new forward looking component that considers reasonable and supportable forecasts over the expected life of each loan. To develop the allowance for credit losses on loans estimate under the CECL model, the Company segments the loan portfolio into loan pools based on loan type and similar credit risk elements; performs an individual evaluation of certain collateral dependent and other credit deteriorated loans; calculates the historical loss rates for the segmented loan pools; applies the loss rates over the calculated life of the collectively evaluated loan pools; adjusts for forecasted macro level economic conditions and other anticipated changes in credit quality; and determines qualitative adjustments based on factors and conditions unique to the Company's loan portfolio.

Under the CECL model, loans that do not share similar risk characteristics with loans in their respective pools are individually evaluated for expected credit losses and are excluded from the collectively evaluated loan credit loss estimates. 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.

The following describes the types of collateral that secure collateral dependent loans:

- Commercial and industrial loans considered collateral dependent are primarily secure by accounts receivable, inventory and equipment.

- Commercial real estate loans are primarily secured by office and industrial buildings, warehouses, retail shopping facilities, multifamily, mixed use, and various special purpose properties, including hotels and restaurants.

- Residential real estate loans are primarily secured by first liens or second liens on residential real estate.

- Consumer and other loans considered collateral dependent are primarily secured by personal property.

Management evaluates all collectively evaluated loan pools using the SCALE CECL Allowance Loss Estimator method ("SCALE method") which uses external information (aggregated call report data of other institutions) in lieu of internal data given a lack of recent loss history experienced by the Company. The SCALE method is a simple spreadsheet based model developed by the Federal Reserve to assist smaller banks in calculating their allowance for credit losses.

Note 1: Summary of Significant Accounting Policies (Continued)

Allowance for Credit Losses on Loans and Unfunded Loan Commitments (Continued)

The SCALE method uses publicly available data as an initial proxy, expected lifetime loss rate for calculating lifetime expected losses, which is then adjusted, both quantitatively and qualitatively, to reflect the Company's specific facts and circumstances to arrive at a final estimate.

The quantitative analysis described above is supplemented with other qualitative factors based on the risks present for each collectively evaluated loan pool. These qualitative factors include: levels of and trends in delinquencies and nonaccrual loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; 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 other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

Unfunded loan commitments are segmented into the same pools used for estimating the allowance for credit losses on loans. Estimated credit losses on unfunded loan commitments are based on the same methodology, inputs, and assumptions used to estimate credit losses on collectively evaluated loans, adjusted for estimated funding probabilities. The estimated funding probabilities represent management's estimate of the amount of the current unfunded loan commitment that will be funded over the remaining contractual life of the commitment and is based on historical data.

The Company may modify loans to borrowers experiencing financial difficulty and grant certain concessions that include principal forgiveness, a term extension, an other-than-insignificant payment delay, an interest rate reduction, or a combination of these concessions. An assessment of whether the borrower is experiencing financial difficulty is made at the time of the loan modification.

Upon the Company's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

Prior to January 1, 2023, the Company used an incurred loss impairment model to estimate the allowance for credit losses on loans. This methodology assessed the overall appropriateness of the allowance for credit losses on loans and included allocations for specifically identified impaired loans and loss factors for all remaining loans, with a component primarily based on historical loss rates and another component primarily based on other qualitative factors.

Under the incurred loss impairment model, the specific component of the allowance related to loans that were individually classified as impaired. A loan was considered impaired when, based on current information and events, it was probable that the Company would be unable to collect all amounts due according to the contractual terms of the loan agreement. Prior to the adoption of ASU No. 2022-02, loans for which the terms had been modified resulting in a concession, and for which the borrower was experiencing financial difficulties, were considered troubled debt restructurings (TDRs) and were classified as impaired.

Note 1: Summary of Significant Accounting Policies (Continued)

Allowance for Credit Losses on Loans and Unfunded Loan Commitments (Continued)

Factors considered by management in determining impairment under the incurred loss impairment model included payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experienced insignificant payment delays and payment shortfalls generally were not classified as impaired. Management determined 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.

Prior to the adoption of ASU No. 2022-02, TDRs were individually evaluated for impairment and included in the separately identified impairment disclosures. TDRs were measured at the present value of estimated future cash flows using the loan's original effective rate. If a TDR was considered to be a collateral dependent loan, the loan was measured at the fair value of the collateral less applicable estimated selling costs. For TDRs that subsequently defaulted, the Company determined the amount of the allowance on that loan in accordance with the accounting policy for the allowance for credit losses on loans individually identified as impaired under the incurred loss impairment model.

Under the incurred loss impairment model, the general component of the allowance was based on historical loss experience adjusted for current qualitative factors. The historical loss experience was determined by portfolio segment or loan class and was based on the actual loss history experienced by the Company. This actual loss experience was supplemented with other qualitative factors based on the risks present for each portfolio segment or loan class.

Management believes that the allowance for credit losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company’s allowance for credit losses. Such agencies may require the Company to recognize additions to the allowance based on judgments different than those of management.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when 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 or the ability to unilaterally cause the holder to return specific assets.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure is held for sale and is initially recorded at fair value, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management, and the other real estate is carried at the lower of carrying amount or fair value less cost to sell. Revenue and

Note 1: Summary of Significant Accounting Policies (Continued)

Foreclosed Assets (Continued)

expenses from operations and changes in the valuation allowance are included in net expenses from other real estate. There were no residential real estate loans in process of foreclosure as of December 31, 2023 and 2022.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets.

Federal Home Loan Bank (FHLB) Stock

The Company is a member of the FHLB system. The Company has elected to account for equity securities without readily determinable fair values using the alternative measurement method. Under this method, these securities are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment. 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 based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Advertising

Advertising costs are expensed as incurred.

Off-Balance-Sheet Instruments

In the ordinary course of business, the Company has entered into off-balance-sheet financial instruments, including commitments to extend credit, unfunded commitments under lines of credit, and standby letters of credit. Such financial instruments are recorded in the financial statements when they become payable.

Stock Compensation Plans

Compensation cost is recognized for stock options issued to directors and employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options. Compensation cost is recognized over the required service period, generally defined as the vesting period.

Note 1: Summary of Significant Accounting Policies (Continued)

Income Taxes

Income tax expense is the total 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 needed, reduces deferred tax assets to the amount expected to be realized.

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 does not expect a material change in its tax position within the next twelve months.

The Company recognizes interest and penalties related to income tax matters in income tax expense. There was not a material amount of interest and penalties recorded in income tax expense for the years ended December 31, 2023 and 2022.

Earnings per Common Share

Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under stock options. Options will have a dilutive effect only when the average market price over the reporting period for the stock exceeds the exercise price. Dilutive earnings per share does not assume the exercise of instruments that would have an antidilutive effect on earnings per share.

Other Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale, net of income taxes, which are also recognized as separate components of equity.

Legal Contingencies

Various legal claims arise from time to time in the normal course of business. In the opinion of management, any liability resulting from such proceedings would not have a material impact on the financial statements of the Company.

Reclassifications

Certain reclassifications have been made to the 2022 financial statement to conform to the 2023 classifications.

Note 1: Summary of Significant Accounting Policies (Continued)

Subsequent Events

Subsequent events have been evaluated through April 11, 2024, which is the date the financial statements were available to be issued.

Note 2: Combination of Commonly Controlled Interests (Formation of Company)

On April 1, 2022, each issued and outstanding share of Bank common stock at $1 par value were exchanged for one share of common stock of the Company at $0.01 par value. Because ownership of the Company and Bank are the same, this combination was accounted for in a manner similar to a pooling of interests, using the Bank's book values at the exchange date.

Note 3: Securities

The amortized cost and estimated fair value of securities with gross unrealized gains and losses at December 31, 2023 and 2022 follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2023				
Securities available for sale:				
U.S. government and agency securities	$ 22	$ -	$ -	$ 22
Residential mortgage-backed securities	555	-	(31)	524
State and municipal securities	706	-	(123)	583
U.S. Treasury securities	4,980	-	(34)	4,946
Collateralized debt obligation	8,329	8	(981)	7,356
Total securities available for sale	$ 14,592	$ 8	$ (1,169)	$ 13,431
2022				
Securities available for sale:				
U.S. government and agency securities	$ 35	$ -	$ (1)	$ 34
Residential mortgage-backed securities	756	-	(45)	711
State and municipal securities	709	-	(148)	561
U.S. Treasury securities	17,907	-	(162)	17,745
Collateralized debt obligation	9,842	-	(1,063)	8,779
Total securities available for sale	$ 29,249	$ -	$ (1,419)	$ 27,830

Note 3: Securities (Continued)

Fair values of debt securities are generally estimated based on financial models or prices paid for similar securities. It is possible interest rates or other key inputs to the valuation estimate could change considerably resulting in a material change in the estimated fair value of debt securities.

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

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2023						
U.S. government and agency securities	$ -	$ -	$ 22	$ -	$ 22	$ -
Residential mortgage-backed securities	-	-	524	(31)	524	(31)
State and municipal securities	-	-	583	(123)	583	(123)
U.S. Treasury securities	-	-	4,946	(34)	4,946	(34)
Collateralized debt obligation	-	-	6,136	(981)	6,136	(981)
Total	$ -	$ -	$ 12,211	$ (1,169)	$ 12,211	$ (1,169)
2022						
U.S. government and agency securities	$ -	$ -	$ 34	$ (1)	$ 34	$ (1)
Residential mortgage-backed securities	538	(39)	173	(6)	711	(45)
State and municipal securities	368	(81)	193	(67)	561	(148)
U.S. Treasury securities	17,745	(162)	-	-	17,745	(162)
Collateralized debt obligation	4,321	(216)	4,458	(847)	8,779	(1,063)
Total	$ 22,972	$ (498)	$ 4,858	$ (921)	$ 27,830	$ (1,419)

At December 31, 2023, 36 debt securities have unrealized losses with aggregate depreciation of 8.74% from the Company's amortized cost basis. These unrealized losses relate principally to the changes in interest rates and are not due to changes in the financial condition of the issuer, the quality of any underlying assets, or applicable credit enhancements. In reaching the conclusion that an allowance for credit losses is unnecessary, management observed that the securities were issued by a government body or agency, the securities continue to be highly rated (AA or better) where applicable, the issuer continues to make contractual payments, and the quality of any

Note 3: Securities (Continued)

underlying assets or credit enhancements has not changed. Since management has the ability to hold debt securities for the foreseeable future, the Company expects to recover the amortized cost basis of these securities before they are sold or mature.

The following is a summary of amortized cost and estimated fair value of debt securities by contractual maturity as of December 31, 2023. Contractual maturities will differ from expected maturities for mortgage-related securities because borrowers may have the right to call or prepay obligations without penalties.

	Available for Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 5,002	$ 4,967
Due after one year through five years	-	-
Due after five years through ten years	448	386
Due after ten years	258	198
Subtotal	5,708	5,551
Mortgage-related securities	8,884	7,880
Total	$ 14,592	$ 13,431

There were no sales of debt securities in 2023 and 2022.

At December 31, 2023 and 2022, the estimated fair value of debt securities pledged to secure public deposits and for other purposes required or permitted by law was $12,447 and $8,960, respectively.

Note 4: Loans

The following table presents total loans at December 31, 2023 and 2022 by portfolio segment and class of loan:

	2023	2022
Commercial real estate:		
Commercial, owner occupied	$ 19,567	$ 8,947
Commercial, non-owner occupied	45,706	40,925
Farmland	367	394
Other construction loan	3,982	5,025
Residential Real Estate:		
1-4 family residential construction loans	2,055	676
Revolving, open-end loans 1-4 family	5,396	3,995
Closed-end 1-4 family first liens	2,463	-
Commercial and industrial	26,253	19,106
Consumer	2,908	7,072
Subtotal	108,697	86,140
Allowance for credit losses	(1,303)	(1,177)
Deferred loan origination fees and costs, net	248	(60)
Loans, net	$ 107,642	$ 84,903

The Company's allowance for credit losses on loans information for the year ended December 31, 2023, is presented under ASC 326. The Company's allowance for credit losses on loans information for the year ended December 31, 2022, is presented under the incurred loss impairment model.

Note 4: Loans (Continued)

Activity in the allowance for credit losses on loans by portfolio segment follows:

	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
Balance at January 1, 2022	$ 738	$ 37	$ 94	$ 195	$ 79	$ 1,143
Provision for credit losses on loans	(103)	29	96	(121)	124	25
Loans charged off	-	(30)	-	-	-	(30)
Recoveries of loans previously charged off	-	5	-	34	-	39
Balance at December 31, 2022	635	41	190	108	203	1,177
Provision for credit losses on loans	181	27	158	33	(79)	320
Loans charged off	-	-	(101)	(132)	-	(233)
Recoveries of loans previously charged off	-	31	-	8	-	39
Balance at December 31, 2023	$ 816	$ 99	$ 247	$ 17	$ 124	$ 1,303

At December 31, 2023, the Company deemed a reserve for unfunded loan commitments were immaterial to the financial statements.

Note 4: Loans (Continued)

Information about how loans were evaluated and the related allowance for credit losses on loans as of December 31, 2023 and 2022 follows:

	Commercial Real Estate	Residential Real Estate	Commercial and industrial	Consumer	Unallocated	Total
2023						
Loans:						
Individually evaluated	$ 367	$ -	$ 1,152	$ -	$ -	$ 1,519
Collectively evaluated	69,255	9,914	25,101	2,908	-	107,178
Total loans	$ 69,622	$ 9,914	$ 26,253	$ 2,908	$ -	$ 108,697
Related allowance for credit losses:						
Individually evaluated	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated	816	99	247	17	124	1,303
Total allowance for credit losses on loans	$ 816	$ 99	$ 247	$ 17	$ 124	$ 1,303
2022						
Loans:						
Individually evaluated	$ -	$ 143	$ -	$ -	$ -	$ 143
Collectively evaluated	55,291	4,528	19,106	7,072	-	85,997
Total loans	$ 55,291	$ 4,671	$ 19,106	$ 7,072	$ -	$ 86,140
Related allowance for credit losses:						
Individually evaluated	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated	635	41	190	108	203	1,177
Total allowance for credit losses on loans	$ 635	$ 41	$ 190	$ 108	$ 203	$ 1,177

Note 4: Loans (Continued)

The Company did not write off any accrued interest by reversing interest income in 2023 or 2022.

Information regarding collateral dependent loans as of December 31, 2023 follows:

	Recorded Investment	Related Allowance
2023		
Farmland	$ 367	$ -
Commercial and industrial	1,152	-
Total	$ 1,519	$ -

Information regarding impaired loans as of December 31, 2022, follows:

	Recorded Investment	Principal Balance	Related Allowance	Average Investment
Loans with no related allowance for credit losses:				
1-4 family residential construction loans	$ 143	$ 214	N/A	$ 81
Total	$ 143	$ 214	N/A	$ 81

No additional funds were committed to be advanced in connection with impaired loans at December 31, 2022.

The Company regularly evaluates various attributes of loans to determine the appropriateness of the allowance for credit losses on loans. The credit quality indicators monitored differ depending on the class of loan.

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 by classifying the loans as to credit risk. This analysis includes non-homogeneous loans, such as commercial and commercial real estate loans. This analysis is performed generally on a monthly basis but no less than quarterly.

- "Pass" ratings are assigned to loans with adequate collateral and debt service ability such that collectibility of the contractual loan payments is highly probable.

- "Watch/special mention" ratings are assigned to loans where management has some concern that the collateral or debt service ability may not be adequate, though the collectibility of the contractual loan payments is still probable.

Note 4: Loans (Continued)

- "Substandard" ratings are assigned to loans that do not have adequate collateral and/or debt service ability such that collectibility of the contractual loan payments is no longer probable.
- "Doubtful" ratings are assigned to loans that do not have adequate collateral and/or debt service ability, and collectibility of the contractual loan payments is unlikely.

Internally prepared ratings for loans are updated at least annually.

Residential real estate and consumer loans are generally evaluated based on whether or not the loan is performing according to the contractual terms of the loan as of the consolidated balance sheets date.

Information regarding the credit quality indicators most closely monitored for commercial loans by class as of December 31, 2022 follows:

	Pass	Special Mention/Watch	Substandard	Doubtful	Total
2022					
Commercial, owner occupied	$ 7,742	$ 1,205	$ -	$ -	$ 8,947
Commercial, non-owner occupied	40,925	-	-	-	40,925
Farmland	394	-	-	-	394
Other construction	5,025	-	-	-	5,025
Commercial and industrial	19,106	-	-	-	19,106
Total	$ 73,192	$ 1,205	$ -	$ -	$ 74,397

Note 4: Loans (Continued)

Information regarding the credit quality indicators most closely monitored for residential real estate and consumer loans by class as of December 31, 2023 and 2022 follows:

	Performing	Non-performing	Total
2023			
1-4 family residential construction loans	$ 2,055	$ -	$ 2,055
Revolving, open-end loans 1-4 family	5,396	-	5,396
Closed-end 1-4 family first liens	2,463	-	2,463
Consumer	2,908	-	2,908
Total	$ 12,822	$ -	$ 12,822
2022			
1-4 family residential construction loans	$ 676	$ -	$ 676
Revolving, open-end loans 1-4 family	3,995	-	3,995
Consumer	7,072	-	7,072
Total	$ 11,743	$ -	$ 11,743

Information regarding the loan portfolio by risk classification and origination year for the year ended December 31, 2023, follows:

	2023	2022	2021	Prior	Revolving	Total
Commercial, owner occupied:						
Pass	$ 7,156	$ 5,179	$ 1,011	$ 5,727	$ -	$ 19,073
Special Mention/Watch	-	-	-	494	-	494
Doubtful	-	-	-	-	-	-
Totals	$ 7,156	$ 5,179	$ 1,011	$ 6,221	$ -	$ 19,567
Current period gross charge offs	$ -	$ -	$ -	$ -	$ -	$ -
Commercial, non-owner occupied:						
Pass	$ 8,533	$ 10,437	$ 4,116	$ 22,620	$ -	$ 45,706
Totals	$ 8,533	$ 10,437	$ 4,116	$ 22,620	$ -	$ 45,706
Current period gross charge offs	$ -	$ -	$ -	$ -	$ -	$ -
Farmland:						
Pass	$ -	$ -	$ -	$ 367	$ -	$ 367
Totals	$ -	$ -	$ -	$ 367	$ -	$ 367
Current period gross charge offs	$ -	$ -	$ -	$ -	$ -	$ -

Note 4: Loans (Continued)

	2023	2022	2021	Prior	Revolving	Total
Other construction loan:						
Pass	$ 2,855	$ -	$ 99	$ 1,028	$ -	$ 3,982
Totals	$ 2,855	$ -	$ 99	$ 1,028	$ -	$ 3,982
Current period gross charge offs	$ -	$ -	$ -	$ -	$ -	$ -
Commercial and industrial:						
Pass	$ 8,149	$ 7,186	$ 5,636	$ 5,270	$ -	$ 26,241
Nonperforming	-	-	12	-	-	12
Totals	$ 8,149	$ 7,186	$ 5,648	$ 5,270	$ -	$ 26,253
Current period gross charge offs	$ -	$ 101	$ -	$ -	$ -	$ 101
1-4 family residential construction loans:						
Pass	$ 2,055	$ -	$ -	$ -	$ -	$ 2,055
Totals	$ 2,055	$ -	$ -	$ -	$ -	$ 2,055
Current period gross charge offs	$ -	$ -	$ -	$ -	$ -	$ -
Revolving, open-end loans 1-4 family:						
Pass	$ -	$ -	$ -	$ -	$ 5,396	$ 5,396
Totals	$ -	$ -	$ -	$ -	$ 5,396	$ 5,396
Current period gross charge offs	$ -	$ -	$ -	$ -	$ -	$ -
Closed-end 1-4 family first liens:						
Pass	$ 896	$ 1,266	$ -	$ 254	$ -	$ 2,416
Substandard	-	-	-	48	-	48
Totals	$ 896	$ 1,266	$ -	$ 302	$ -	$ 2,464
Current period gross charge offs	$ -	$ -	$ -	$ -	$ -	$ -
Consumer:						
Pass	$ 88	$ 54	$ 2,170	$ 593	$ 4	$ 2,909
Totals	$ 88	$ 54	$ 2,170	$ 593	$ 4	$ 2,909
Current period gross charge offs	$ -	$ -	$ -	$ 52	$ 80	$ 132

Note 4: Loans (Continued)

Loan aging information as of December 31, 2023 and 2022 follows:

	Current Loans	Loans Past Due 30-89 Days	Loans Past Due 90+ Days	Total Loans
2023				
Commercial, owner occupied	$ 19,567	$ -	$ -	$ 19,567
Commercial, non-owner occupied	45,706	-	-	45,706
Farmland	367	-	-	367
Other construction loan	3,982	-	-	3,982
1-4 family residential construction loans	2,055	-	-	2,055
Revolving, open-end loans 1-4 family	5,396	-	-	5,396
Closed-end 1-4 family first liens	2,463	-	-	2,463
Commercial and industrial	26,049	184	20	26,253
Consumer	2,908	-	-	2,908
Total	$ 108,493	$ 184	$ 20	$ 108,697
2022				
Commercial, owner occupied	$ 8,947	$ -	$ -	$ 8,947
Commercial, non-owner occupied	40,925	-	-	40,925
Farmland	394	-	-	394
Other construction loan	5,025	-	-	5,025
1-4 family residential construction loans	676	-	-	676
Revolving, open-end loans 1-4 family	3,995	-	-	3,995
Commercial and industrial	18,981	29	96	19,106
Consumer	6,986	86	-	7,072
Total	$ 85,929	$ 115	$ 96	$ 86,140

No loans were 90+ days past due and accruing interest at December 31, 2023 and 2022.

The Company closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The Bank did not have any loan modifications to borrowers experiencing financial difficulty during the year ended December 31, 2023.

As of December 31, 2023, the Company had no commitments to lend any additional funds on loans modified to borrowers experiencing financial difficulty.

Note 4: Loans (Continued)

Prior to the adoption of ASU No. 2022-02, when, for economic or legal reasons related to the borrower's financial difficulties, the Company granted a concession to a borrower that the Company would not otherwise consider, the modified loan was classified as a troubled debt restructuring. Loan modifications may have consisted of forgiveness of interest and/or principal, a reduction of the interest rate, interest-only payments for a period of time, and/or extending amortization terms.

Prior to the adoption of ASU No. 2022-02, the Company considered a troubled debt restructuring in default if it became past due more than 30 days. There were no new troubled debt restructurings during 2022. No troubled debt restructurings defaulted within 12 months of their modification date during the years ended December 31, 2022.

Directors and executive officers of the Company, including their families and firms in which they are principal owners, are considered related parties. Substantially all loans to these related parties were made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others and did not involve more than the normal risk of collectibility or present other unfavorable features.

As of December 31, 2023 and 2022, loans aggregating $939 and $1,008, respectively, were outstanding to directors, executive officers, and certain associates.

Note 5: Premises and Equipment

An analysis of premises and equipment at December 31, 2023 and 2022 is as follows:

	2023	2022
Furniture, fixtures and equipment	$ 674	$ 900
Leasehold improvements	594	598
Subtotal	1,268	1,498
Accumulated depreciation	(1,072)	(1,313)
Total	$ 196	$ 185

Depreciation and amortization of premises and equipment charged to noninterest expense totaled $63 during 2023 and $52 during 2022.

Note 6: Deposits

Deposits consist of the following at December 31, 2023 and 2022:

	2023	2022
Non-interest-bearing deposits	$ 40,005	$ 37,467
Interest-bearing deposits		
Interest-bearing demand (NOW)	14,792	22,781
Money market accounts	18,009	35,203
Savings accounts	4,713	7,319
Certificates of deposit, less than $100	6,570	4,002
Certificates of deposit, $100 through $250	12,354	5,554
Certificates of deposit, greater than $250	13,260	5,377
Total	$ 109,703	$ 117,703

Time deposits that meet or exceed the FDIC insurance limit of $250 totaled $15,260 at December 31, 2023 and $5,377 at December 31, 2022.

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

2024	$ 23,218
2025	6,771
2026	636
2027	1,293
2028	266
Total	$ 32,184

Deposits from directors, executive officers, principal stockholders, and their affiliates totaled $2,877 at December 31, 2023 and $10,103 at December 31, 2022.

Note 7: FHLB Advances

FHLB advances consist of the following at December 31, 2023:

	2023	
	Rates	Amount
Federal Home Loan Bank (FHLB):		
Fixed rate, fixed term advances	3.48 - 3.74%	$ 20,000
Total		$ 20,000

Note 7: FHLB Advances (Continued)

The Company did not have any borrowed funds as of December 31, 2022.

The following is a summary of scheduled maturities of fixed term FHLB advances as of December 31, 2023:

	Fixed Rate Advances	
	Weighted Average Rate	Amount
2028	3.53%	$ 15,000
2030	3.74%	5,000
Total		$ 20,000

Actual maturities may differ from the scheduled principal maturities due to call options on the various advances.

As of December 31, 2023 and 2022, the Company had approximately $79,012 and $73,411 respectively, of eligible loans pledged to the FHLB for additional borrowing capacity.

Note 8: Income Taxes

The components of the provision for income taxes are as follows:

	2023	2022
Current tax expense (benefit):		
Federal	$ (189)	$ -
State	134	14
Total current	(55)	14
Deferred tax expense (benefit):		
Federal	533	-
State	(22)	101
Total deferred	511	101
Income tax expense	$ 456	$ 115

Note 8: Income Taxes (Continued)

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. The major components of the net deferred tax asset as of December 31, 2023 and 2022 are presented below:

	2023	2022
Deferred tax assets:		
Depreciation	$ (5)	$ 17
Deferred loan fees	-	1
Net operating loss carryforwards	1,906	2,271
Unrealized loss on available-for-sale securities	244	298
Other	76	66
Total deferred tax assets	2,221	2,653
Deferred tax liabilities:		
Allowance for loan losses	4	(88)
Other	(36)	-
Total deferred tax liabilities	(32)	(88)
Valuation allowance	-	-
Net deferred tax asset	$ 2,189	$ 2,565

Federal net operating losses of approximately $5,844 and state loss carryforward of approximately $9,040 are being carried forward and will be available to reduce future taxable income. The federal net operating loss will begin to expire in 2030 if not utilized and the state net operating loss will begin to expire in 2030 if not utilized.

The effective tax rate differs from the federal statutory rate due to the establishment of the valuation allowance discussed above, which offsets the current year income tax benefit. The Company does not expect the total amount of unrecognized tax benefits to significantly change in the next twelve months.

The Company is subject to U.S. federal income tax as well as income tax of the State of Illinois.

Note 9: Stock Compensation Plan

The Board of Directors granted options to buy Company stock to officers and employees under the Company's Stock Incentive Plan, which provides for the issuance of options to purchase up to 432,000 shares of the Company's common stock. The Company believes that such awards better align the interests of its employees with those of its shareholders. Stock option awards were granted with an exercise price of $10, which was the initial offering price of the Company's common stock in 2006. Option awards have a vesting period of three years and have a ten-year contractual term. In 2012, there were 423,000 of available options which were cancelled in 2012. The Board of Directors approved the re-granting of these options with an exercise price of $3 in 2012.

Note 9: Stock Compensation Plan (Continued)

These options were then granted in 2013, and have expired in 2023. The fair value of options, as of the grant date, is expensed over the vesting period.

The fair value of each option award is estimated on the date of grant using an option valuation model (Black-Scholes). Expected volatilities have been based on historical volatilities of the SNL MicroCap Company index. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the grant date.

Following is a summary of stock option activity for the year ended December 31, 2023:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)
2023			
Outstanding at beginning of year	357,000	$ 3.02	1.23
Expired during the year	(357,000)	3.02	-
Outstanding at end of year	-	-	-
2022			
Outstanding at beginning of year	361,000	3.33	2.23
Forfeited during the year	(4,000)	2.33	-
Outstanding at end of year	357,000	-	1.23

There was no compensation cost recognized in 2023 and 2022.

Note 10: Commitments, Contingencies, and Credit Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual, or notional, amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments. Since some of the commitments are expected to expire without being drawn upon and some of the commitments may not be drawn upon to the total extent of the commitment, the notional amount of these commitments does not necessarily represent future cash requirements.

The following commitments were outstanding at December 31, 2023 and 2022:

	2023	2022
Unfunded commitments under lines of credit	$ 26,500	$ 27,289
Standby letters of credit	1,245	25

Unfunded commitments under commercial lines of credit, revolving credit lines, and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are collateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed.

Performance standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are used primarily to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved is extending loan facilities to customers. The Company generally holds collateral supporting those commitments if deemed necessary.

To reduce credit risk related to the use of credit-related financial instruments, the Company might deem it necessary to obtain collateral. The amount and nature of the collateral obtained are based on the Bank's credit evaluation of the customer. Collateral held varies but may include cash, securities, accounts receivable, inventory, property, plant, equipment, and real estate.

If the counterparty does not have the right and ability to redeem the collateral or the Bank is permitted to sell or repledge the collateral on short notice, the Company records the collateral in its consolidated balance sheet at fair value, with a corresponding obligation to return it.

Note 10: Commitments, Contingencies, and Credit Risk (Continued)

Concentration of Credit Risk

The majority of the Company's loans, commitments, and standby letters of credit have been granted to customers in the Company's market area. The concentrations of credit by type are set forth in Note 4. The Company's policies for requiring collateral are consistent with prudent lending practices and anticipate the potential for economic fluctuations. Collateral varies, but may include residential real estate properties and income-producing commercial properties. It is the Company's policy to file financing statements and mortgages covering collateral pledged.

Note 11: Equity and Regulatory Matters

The payment of dividends by the Company would be restricted if the Company does not meet the minimum Capital Conservation Buffer as defined by Basel III regulatory capital guidelines and/or if, after payment of the dividend, the Company would be unable to maintain satisfactory regulatory capital ratios.

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of Common Equity Tier 1, Tier 1, and total capital to risk-weighted assets and of Tier 1 capital to average assets. It was management's opinion, as of December 31, 2023, that the Bank met all applicable capital adequacy requirements.

As of December 31, 2023, the most recent notification from the Bank's primary regulator categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum regulatory capital ratios as set forth in the table. There have not been conditions or events since that notification that management believes have changed the Bank's category.

Note 11: Equity and Regulatory Matters (Continued)

The Bank's actual capital amounts and ratios as of December 31, 2023 and 2022, are presented in the following table:

	Actual			For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in Thousands)	Amount	Ratio		Amount		Ratio	Amount	Ratio
2023								
Common Equity Tier 1 capital (to risk-weighted assets)	$ 16,133	13.01 %	≥	$ 5,578	≥	4.50 %	8,057	6.50
Tier 1 capital (to risk-weighted assets)	16,133	13.01	≥	7,438	≥	6.00	9,917	8.00
Total capital (to risk-weighted assets)	17,436	14.07	≥	9,917	≥	8.00	12,396	10.00
Tier 1 capital (to average assets)	16,133	11.63	≥	5,547	≥	4.00	6,934	5.00
2022								
Common Equity Tier 1 capital (to risk-weighted assets)	$ 14,661	14.10 %	≥	$ 4,697	≥	4.50 %	6,785	6.50
Tier 1 capital (to risk-weighted assets)	14,661	14.10	≥	6,263	≥	6.00	8,350	8.00
Total capital (to risk-weighted assets)	15,838	15.20	≥	8,350	≥	8.00	10,438	10.00
Tier 1 capital (to average assets)	14,661	10.40	≥	5,663	≥	4.00	7,079	5.00

Note 12: Fair Value Measurements

Some assets and liabilities, such as securities available for sale, are measured at fair value on a recurring basis under GAAP. Other assets and liabilities, such as collateral dependent loans, may be measured at fair value on a nonrecurring basis.

Following is a description of the valuation methodology and significant inputs used for each asset and liability measured at fair value on a recurring or nonrecurring basis, as well as the classification of the asset or liability within the fair value hierarchy.

Note 12: Fair Value Measurements (Continued)

Securities available for sale - Securities available for sale may be classified as Level 1, Level 2, or Level 3 measurements within the fair value hierarchy. Level 1 securities include debt securities traded on a national exchange. The fair value measurement of a Level 1 security is based on the quoted price of the security. Level 2 securities include U.S. government and agency securities, obligations of states and political subdivisions, corporate debt securities, and mortgage related securities. The fair value measurement of a Level 2 security is obtained from an independent pricing service and is based on recent sales of similar securities and other observable market data. Level 3 securities include trust preferred securities that are not traded in a market. The fair value measurements of Level 3 securities are determined by the Company's Chief Financial Officer (CFO) and reviewed by the Chief Executive Officer (CEO), and then reported to the Company's Investment Committee. Fair values are calculated using discounted cash flow models that incorporate various assumptions, including expected cash flows and market credit spreads. When comparable sales are available, these are used to validate the models used. Other available industry data, such as information regarding defaults and deferrals, are incorporated into the expected cash flows.

Loans - Loans are not measured at fair value on a recurring basis. However, individually evaluated loans (see Note 1) may be measured at fair value on a nonrecurring basis. The fair value measurement of a loan that is collateral dependent is based on the fair value of the underlying collateral. Independent appraisals are obtained that utilize one or more valuation methodologies - typically they will incorporate a comparable sales approach and an income approach. Management routinely evaluates the fair value measurements of independent appraisers and adjusts those valuations based on differences noted between actual selling prices of collateral and the most recent appraised value. Such adjustments are usually significant, which results in a Level 3 classification. All other individually evaluated loan measurements are based on other loss estimation methodologies and, thus, are not fair value measurements.

Note 12: Fair Value Measurements (Continued)

Information regarding the fair value of assets and liabilities measured at fair value on a recurring basis as of December 31, 2023 and 2022 follows:

	Recurring Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
2023				
Assets:				
Securities available for sale:				
U.S. government and agency securities	$ -	$ 22	$ -	$ 22
Residential mortgage-backed securities	-	524	-	524
State and municipal securities	-	583	-	583
U.S. Treasury securities	-	4,946	-	4,946
Collateralized debt obligations	-	7,356	-	7,356
Total	$ -	$ 13,431	$ -	$ 13,431
2022				
Assets:				
Securities available for sale:				
U.S. government and agency securities	$ -	$ 34	$ -	$ 34
Residential mortgage-backed securities	-	711	-	711
State and municipal securities	-	561	-	561
U.S. Treasury securities	-	17,745	-	17,745
Collateralized debt obligations	-	8,779	-	8,779
Total	$ -	$ 27,830	$ -	$ 27,830

There were no impaired loans with a valuation allowance as of December 31, 2023 and 2022.

Note 12: Fair Value Measurements (Continued)

The carrying value and estimated fair value of financial instruments at December 31, 2023 and 2022 follows:

		Carrying Value		Estimated Fair Value
2023				
Financial assets:				
Cash and cash equivalents	$	22,592	$	22,592
Securities available for sale		13,431		13,431
Loans		107,642		104,394
Federal Home Loan Bank stock		900		900
Accrued interest receivable	$	368	$	368
Financial liabilities:				
Deposits	$	109,703	$	109,450
Borrowed funds		30		19,810
Accrued interest payable	$	272	$	272
2022				
Financial assets:				
Cash and cash equivalents	$	17,668	$	17,668
Securities available for sale		27,830		27,830
Loans		84,903		81,864
Federal Home Loan Bank stock		260		260
Accrued interest receivable	$	378	$	378
Financial liabilities:				
Deposits	$	117,703	$	118,382
Accrued interest payable	$	28	$	28

The following methods and assumptions, not previously presented, used to estimate fair values and are described as follows:

Cash and Cash Equivalents - The carrying amounts of cash and short-term instruments approximate fair values and are classified as Level 1.

FHLB Stock - It is not practical to determine the fair value of FHLB stock due to restrictions placed on its transferability.

Loans - The fair value of loans is calculated based on exit price using various components using yield, credit and liquidity marks. A third-party calculates the exit price using a Sendero asset/liability model based off information from the Company's loan information.

Note 12: Fair Value Measurements (Continued)

Deposits - The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts of interest-bearing deposits without maturity dates and variable-rate certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on like-term certificates of deposit.

FHLB Advances - The fair values of the Company's FHLB advances are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

Accrued Interest Receivable/Payable - The carrying amounts of accrued interest approximate fair value resulting in a Level 2 classification.

Off-Balance-Sheet Instruments - Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments is not material.