WOODSBORO BANK

Woodsboro, Maryland

FINANCIAL STATEMENTS

DECEMBER 31, 2023

C O N T E N T S

Independent Auditor's Report

To the Board of Directors and Stockholders
Woodsboro Bank
Woodsboro, Maryland

Opinion
We have audited the financial statements of Woodsboro Bank (the Bank), which comprise the balance sheets as of December 31, 2023 and 2022, the related statements of income, comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank 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 the Bank 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 financial statements, the Bank has changed its method of accounting for credit losses in 2023 due to the adoption of Accounting Standards Update 2016-13, Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, including all related amendments. Our opinion is not modified with respect to this matter.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. Accordingly, no such opinion is expressed.

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

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bank'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.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
April 16, 2024

WOODSBORO BANK

Balance Sheets
December 31, 2023 and 2022

Assets	**2023**	**2022**
Cash and due from banks	$ 4,529,033	$ 4,028,562
Interest-bearing deposits in banks	20,647,308	17,149,485
Cash and cash equivalents	$ 25,176,341	$ 21,178,047
Securities:		
Available for sale, at fair value	91,991,202	107,843,612
Restricted investments, at cost	347,200	257,200
Loans held for sale	124,782	- -
Loans, net of allowance for credit losses of $3,263,154 in 2023 and $3,299,435 in 2022	276,520,707	251,413,874
Accrued interest receivable	1,071,504	1,086,953
Bank premises and equipment, net	2,288,303	2,353,461
Right-of-use assets, net	1,066,879	1,406,957
Bank owned life insurance	7,008,264	6,853,971
Other assets	6,486,611	7,069,982
Total assets	$ 412,081,793	$ 399,464,057
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing demand deposits	$ 151,200,219	$ 165,082,913
Savings and interest-bearing demand deposits	170,456,521	174,570,909
Time deposits	66,397,339	40,694,456
Total deposits	$ 388,054,079	$ 380,348,278
Lease liabilities	1,161,397	1,498,268
Accrued interest and other liabilities	1,582,698	1,191,654
Total liabilities	$ 390,798,174	$ 383,038,200
Commitments and Contingent Liabilities		
Stockholders' Equity		
Common stock, $10 par value; authorized 10,000,000 shares; outstanding 2023 - 397,221 and 2022 - 400,405 shares	$ 3,972,210	$ 4,004,050
Surplus	4,012,678	4,157,530
Retained earnings	24,594,540	21,130,263
Accumulated other comprehensive loss	(11,295,809)	(12,865,986)
Total stockholders' equity	$ 21,283,619	$ 16,425,857
Total liabilities and stockholders' equity	$ 412,081,793	$ 399,464,057

See Notes to Financial Statements.

WOODSBORO BANK

Statements of Income

For the Years Ended December 31, 2023 and 2022

	2023	2022
Interest and Dividend Income:		
Interest and fees on loans	$ 12,754,627	$ 9,943,823
Interest and dividends on securities:		
Obligations of state and political subdivisions	682,048	824,878
Mortgage-backed securities	1,785,875	1,723,034
Dividend income	17,359	9,677
Interest on deposits in banks	1,222,392	659,203
Total interest and dividend income	$ 16,462,301	$ 13,160,615
Interest Expense:		
Interest on savings deposits	$ 1,075,157	$ 51,387
Interest on time deposits	1,189,646	376,656
Interest on demand deposits	168,260	15,634
Interest on borrowings	6	- -
Total interest expense	$ 2,433,069	$ 443,677
Net interest income	$ 14,029,232	$ 12,716,938
Provision for Credit Losses	1,000	400,000
Net interest income after provision for credit losses	$ 14,028,232	$ 12,316,938
Non-Interest Income:		
Service fees	$ 1,103,345	$ 1,097,020
Income from bank owned life insurance	154,293	139,978
Loss on sale of securities	(56,633)	(142,435)
Gain on sale of mortgage loans held for sale	22,385	68,675
Other income	123,644	193,781
Total non-interest income	$ 1,347,034	$ 1,357,019
Non-Interest Expense:		
Salaries	$ 4,825,361	$ 4,456,592
Employee benefits	1,006,965	913,578
Data processing	1,868,744	1,635,483
Occupancy	717,746	814,740
Furniture and equipment	403,634	454,428
FDIC assessments	295,839	234,084
Professional fees	513,102	536,393
Loss on impairment and sale of property held for sale	- -	53,031
Gain on disposal of premises and equipment, net	- -	(196)
Other expenses	904,503	876,408
Total non-interest expense	$ 10,535,894	$ 9,974,541
Income before income taxes	$ 4,839,372	$ 3,699,416
Income Tax Expense	1,170,469	835,131
Net income	$ 3,668,903	$ 2,864,285
Basic and diluted earnings per common share	$ 9.23	$ 7.11

See Notes to Financial Statements.

WOODSBORO BANK

Statements of Comprehensive Income (Loss)
For the Years Ended December 31, 2023 and 2022

	2023	2022
Net income	$ 3,668,903	$ 2,864,285
Other comprehensive income (loss) :		
Unrealized holding gains (losses) on securities available for sale, net of tax of $580,597 and $(5,020,623)	$ 1,529,129	$ (13,222,921)
Reclassification for realized losses on securities available for sale, net of tax benefit of $15,585 and $39,198	41,048	103,237
Other comprehensive income (loss), net of tax	$ 1,570,177	$ (13,119,684)
Comprehensive income (loss)	$ 5,239,080	$ (10,255,399)

See Notes to Financial Statements.

WOODSBORO BANK

Statements of Changes in Stockholders' Equity

For the Years Ended December 31, 2023 and 2022

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2021	$ 4,037,040	$ 4,302,669	$ 18,330,439	$ 253,698	$ 26,923,846
Net income	- -	- -	2,864,285	- -	2,864,285
Other comprehensive loss	- -	- -	- -	(13,119,684)	(13,119,684)
ESOP shares retired (3,299)	(32,990)	(145,139)	- -	- -	(178,129)
Cash dividends declared ($.16 per share)	- -	- -	(64,461)	- -	(64,461)
Balance, December 31, 2022	$ 4,004,050	$ 4,157,530	$ 21,130,263	$ (12,865,986)	$ 16,425,857
Net income	- -	- -	3,668,903	- -	3,668,903
Other comprehensive income	- -	- -	- -	1,570,177	1,570,177
ESOP shares retired (3,184)	(31,840)	(144,852)	- -	- -	(176,692)
Cumulative change for adoption of new accounting standard (Note 1)	- -	- -	(108,720)	- -	(108,720)
Cash dividends declared ($.24 per share)	- -	- -	(95,906)	- -	(95,906)
Balance, December 31, 2023	$ 3,972,210	$ 4,012,678	$ 24,594,540	$ (11,295,809)	$ 21,283,619

See Notes to Financial Statements.

WOODSBORO BANK

Statements of Cash Flows

For the Years Ended December 31, 2023 and 2022

		2023		2022
Cash Flows From Operating Activities				
Net income	$	3,668,903	$	2,864,285
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation of premises and equipment		274,435		355,197
Amortization of right-of-use assets		269,600		288,089
Increase in cash surrender value of life insurance		(154,293)		(139,978)
Provision for credit losses		1,000		400,000
Net loss (income) from limited liability companies		30,193		(2,000)
Net loss on sale of securities available for sale		56,633		142,435
Impairment of property held for sale		- -		34,000
Loss on property held for sale		- -		19,031
Net gain on sales of loans held for sale		(22,385)		(68,675)
Origination of loans held for sale		(1,443,432)		(3,063,050)
Proceeds from sale of loans held for sale		1,341,035		3,131,725
Gain on disposal of premises and equipment		- -		(196)
Deferred income tax (benefit) expense		3,624		(36,944)
Amortization of investment securities, net		158,851		193,762
Decrease (increase) in accrued interest receivable		15,449		(270,783)
Increase in other assets		(5,348)		(110,586)
Decrease in accrued interest and other liabilities		(51,349)		(142,169)
Net cash provided by operating activities	$	4,142,916	$	3,594,143
Cash Flows From Investing Activities				
Proceeds from sales, calls and maturities of available for sale securities	$	11,062,953	$	5,800,703
Proceeds from principal paydowns of available for sale securities		6,740,332		9,790,389
Purchases of available for sale securities		- -		(39,757,635)
Distribution from limited liability company		- -		57,000
Investment in limited liability company		- -		(281,620)
Proceeds from sale of property held for sale		- -		581,087
Purchase of restricted investments		(90,000)		(28,800)
Net increase in loans		(25,081,833)		(33,745,762)
Purchase of bank owned life insurance		- -		(450,000)
Purchase of premises and equipment, net		(209,277)		(210,174)
Net cash used in investing activities	$	(7,577,825)	$	(58,244,812)

See Notes to Financial Statements.

WOODSBORO BANK

Statements of Cash Flows (Continued)
For the Years Ended December 31, 2023 and 2022

	2023	2022
Cash Flows From Financing Activities		
Net increase (decrease) in:		
Non-interest bearing demand deposits	$ (13,882,694)	$ 23,006,135
Savings and interest-bearing demand deposits	(4,114,388)	12,837,407
Time deposits	25,702,883	(5,154,670)
ESOP shares retired	(176,692)	(178,129)
Cash dividends paid	(95,906)	(64,461)
Net cash provided by financing activities	$ 7,433,203	$ 30,446,282
Net increase (decrease) in cash and cash equivalents	$ 3,998,294	$ (24,204,387)
Cash and Cash Equivalents		
Beginning of year	21,178,047	45,382,434
End of year	$ 25,176,341	$ 21,178,047
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for:		
Interest	$ 2,311,589	$ 463,381
Income taxes	$ 1,042,596	$ 1,005,877
Supplemental Schedule of Noncash Investing and Financing Activities		
Unrealized gain (loss) on available for sale securities	$ 2,166,359	$ (18,101,109)
Right-of-use asset obtained in exchange for new operating lease liability	$ - -	$ 153,146
Reduction in right-of-use asset from termination of lease liabilities	$ (70,478)	$ - -

See Notes to Financial Statements.

Note 1. Summary of Significant Accounting Policies

Nature of Operations

Woodsboro Bank (the "Bank") was organized under Maryland law in May 1899 and has been continuously serving the community for over 120 years. The Bank provides a variety of financial services to individuals and corporate customers in its principal market area of Frederick County, Maryland through its five offices in Woodsboro, Frederick, and Thurmont, Maryland. The Bank's primary deposit products are checking and savings accounts and time deposits. Its primary lending products are single-family residential, construction and commercial loans.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for credit losses.

Securities

Certain debt securities that management has the positive intent and ability to hold to maturity may be classified as "held to maturity" and recorded at amortized cost. Trading securities are recorded at fair value with changes in fair value included in earnings. Securities not classified as held to maturity or trading, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss), net of tax. The Bank uses the interest method to recognize purchase premiums and discounts in interest income over the term of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method. The Bank classifies all securities as available for sale.

Allowance for Credit Losses – Available for Sale Securities

For available for sale securities in an unrealized loss position, the Bank evaluates the securities to determine whether the decline in the fair value below the amortized cost basis (impairment) is due to credit-related factors or noncredit-related factors. Any impairment that is not credit related is recognized in other comprehensive income (loss), net of applicable taxes. Credit-related impairment is recognized as an allowance for credit losses ("ACL") on the balance sheet, limited to the amount by which the amortized cost basis exceeds the fair value, with a corresponding adjustment to earnings. Both the ACL and the adjustment to net income may be reversed if conditions change. However, if the Bank intends to sell an impaired available for sale debt security or more likely than not will be required to sell such a security before recovering its amortized cost basis, the entire impairment amount must be recognized in earnings with a corresponding adjustment to the security's amortized cost basis. Because the security's amortized cost basis is adjusted to fair value, there is no ACL in such a situation.

In evaluating available for sale debt securities in unrealized loss positions for impairment and the criteria regarding its intent or requirement to sell such securities, the Bank considers the extent to which fair value is less than amortized cost, whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuers' financial condition, among other factors.

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

Accrued interest receivable is excluded from the estimate of credit losses. Accrued interest receivable on securities of $442,304 as of December 31, 2023 and $537,408 as of December 31, 2022, along with accrued interest receivable on loans, is included in accrued interest receivable in the Balance Sheet.

Loans Held for Sale

Loans held for sale are carried at the lower of cost or fair value, determined in the aggregate. Fair value considers commitment agreements with investors and prevailing market prices. Loans originated by the Bank held for sale to outside investors, are made on a pre-sold basis with servicing rights released and without recourse. Gains and losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold.

Rate Lock Commitments

The Bank enters into commitments to originate mortgage loans whereby the interest rate on the loan is determined prior to funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. The period of time between issuance of a loan commitment and closing and sale of the loan generally ranges from 30 to 120 days. The Bank protects itself from changes in interest rates through the use of best efforts forward delivery commitments, whereby the Bank commits to sell a loan at the time the borrower commits to an interest rate with the intent that the buyer has assumed interest rate risk on the loan. As a result, the Bank is not exposed to losses and will not realize significant gains related to its rate lock commitments due to changes in interest rates. The correlation between the rate lock commitments and the best-efforts contracts is very high due to their similarity.

The fair value of the interest rate lock commitment was not considered material as of December 31, 2023 and 2022.

Loans

The Bank provides mortgage, commercial, and consumer loans to qualified applicants. Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or payoff, are reported at their outstanding unpaid principal balances adjusted for the allowance for credit losses and deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method. Purchase premium or discount is recognized as an adjustment of the related loan yield using the interest method.

The Bank's Loan Policy is updated annually by management, and then approved by the Board of Directors. The Policy is disseminated to lending and loan portfolio management colleagues to ensure consistent lending practices. The Policy communicates the Bank's risk tolerance by prescribing credit underwriting guidelines and procedures, including approval limits and hierarchy, documentation standards, requirements for debt coverage, collateral underwriting, guarantor support, and overall creditworthiness. Of primary consideration is the creditworthiness and repayment ability of the borrowers. Of secondary consideration is the creditworthiness and repayment ability of any guarantors, and (if secured) the value of any collateral in relation to the principal balance. Credit decisioning is supported by underwriting documentation appropriate to the type of loan, including: personal financial statement, tax returns, credit report, income & liquidity verficiations, cash flow analysis, collateral information, guarantor verification, title reports, appraisals (where appropriate) and other documents.

With the adoption of ASC 326 on January 1, 2023, the Bank recategorized loans to align with segments used in the allowance. In the prior year, the Bank's loans were segmented into: commercial, commercial real estate, residential real estate, real estate secured construction and consumer loans. In the current year, the Bank's loans were recategorized into seven segments: commercial real estate, residential real estate, multifamily real estate, real estate construction, other construction and land development, commercial and consumer loans. Each segment is subject to certain risks that influence pricing, loan structures, approval requirements, reserves, and ongoing credit management.

Commercial Real Estate Loans. Commercial real estate loans are generally secured by first mortgages on commercial real estate either occupied by the owner/borrower, or leased to non-owners. Properties financed include retail centers, office space, hotels and motels, apartments, residential investment properties, and flex/industrial properties. Loans in the commercial real estate segment may be impacted by economic risks resulting from changing commercial real estate market conditions, changing interest rates, changing collateral values, plus economic factors that could impact the businesses housed by the commercial real estate. Underwriting decisions are based upon an analysis of the economic viability of the underlying collateral and/or project, and creditworthiness of the borrower.

Residential Real Estate Loans. The Bank offers a variety of first mortgage, junior lien loans as well as home equity lines secured by primary residences within our markets. The credit quality of residential real estate is subject to risks associated with the borrower's repayment ability and collateral value. Credit decisions are primarily based on debt-to-income ratios, liquidity and net worth verification, and collateral value. The Bank does not offer certain high risk loan products such as interest-only consumer mortgage loans, hybrid loans, payment option adjustable-rate mortgages ("ARMs"), reverse mortgage loans, loans with initial teaser rates or any product with negative amortization.

Multifamily Real Estate Loans. Multifamily real estate loans are secured by five or more residential units used to accommodate households on a fairly permanent basis such as apartments, condominium and cooperative type buildings. Loans in this segment may be impacted by economic risks resulting from changes to local rental market conditions, changing vacancy rates, changing interest rates, and changing collateral values, Underwriting decisions are based upon an analysis of the economic viability of the underlying collateral and/or project, and creditworthiness of the borrower.

Real Estate Construction Loans. Real estate construction loans are subject to general risks from changing housing market trends and economic conditions that may impact demand for completed properties and the costs of completion. Completed properties that do not sell or become leased within originally expected timeframes may impact the borrower's ability to service the debt. Construction loans are underwritten against projected cash flows from rental income, business and/or personal income from an owner-occupant or the sale of the property to an end-user. Associated risks may be mitigated by requiring fixed-price construction contracts, performance and payment bonding, controlled disbursements, and pre-sale contracts or pre-lease agreements. Risks specific to the borrower are also evaluated, including previous repayment history, debt service ability, and current and projected loan-to value ratios for the collateral.

Other Construction and Land Development Loans. Other construction and land development loans are loans secured by real estate for purposes other than constructing single dwelling residential properties. This includes real estate secured multifamily loans and development loans and related infrastructures such as lights, sewers and streets. Real estate construction loans are subject to general risks from changing commercial building and housing market trends and economic conditions that may impact demand for completed properties and the costs of completion. Completed properties that do not sell or become leased within originally expected timeframes may impact the borrower's ability to service the debt.

Commercial Non-Real Estate Loans. Commercial non-real estate loans are secured by collateral other than real estate or are unsecured. Credit risk for commercial non-real estate loans is subject to economic conditions, borrower repayment ability and collateral value (if secured). Commercial and industrial loans primarily finance equipment acquisition, expansion, working capital, and other general business purposes. Because these loans have a higher degree of risk, the Bank generally obtains collateral such as inventory, accounts receivables or equipment and personal guarantees from the borrowing entity's principal owners.

Consumer Loans. The Bank offers a variety of secured and unsecured consumer loans, including vehicle loans and loans secured by deposit accounts. Consumer loan terms vary according to the type and value of the underlying collateral and the creditworthiness of the borrower to repay. Our procedures for underwriting consumer loans include an assessment of an applicant's overall financial capacity, including credit history and the ability to meet existing obligations and payments on the proposed loan. If the loan is secured by an automobile or other collateral, the underwriting process also includes a comparison of the value of the collateral security to the proposed loan amount.

Past Due Status and Nonaccrual Designation

A loan is considered past due when a payment of principal and/or interest is due but not paid. Real estate loan payments not received within the payment cycle and all other non-real estate secured loans for which payment is not made within the required payment cycle are considered 30 days past due. Management closely monitors loans past due 30-89 days and loans past due 90 or more days.

The Bank considers multiple factors when determining whether to discontinue accrual of interest on individual loans. Generally loans are placed in nonaccrual status when collection of interest and/or full principal is considered doubtful. Interest accrual is discontinued at the time a commercial real estate loan or commercial non-real estate loan is 90 days delinquent unless the credit is well secured and in the process of collection. Loans modified to provide relief from payments of interest or principal for more than 90 days are designated nonaccrual. Accrued interest is reversed against income when a loan is placed in nonaccrual status. Any interest payments received during a loan's nonaccrual period are credited to the principal balance of the loan.

Loans in nonaccrual are reviewed on an individual loan basis to determine whether they may return to accrual status. To return to accrual status, the Bank's evaluation must determine that the underlying cause of the original delinquency or weakness has been resolved, such as receipt of new guarantees and/or increased cash flows that cover the debt service, and that future payments are reasonably assured. Additionally, the borrower must demonstrate satisfactory payment performance for at least six consecutive months prior to consideration for returining to accrual status.

Charge-Off Policy

The Bank's charge-off policy meets the minimum standards required by regulatory guidelines. When available information confirms that a specific loan or a portion thereof, within any loan class, is uncollectible the amount is charged off against the allowance for credit losses. Additionally, the Bank will also evaluate loans 90 days or more past due for loss potential and possible charge-off, particularly if the loan is unsecured and or not in the process of formal workout.

Credit Quality Indicators

Credit quality indicators, which the Bank's terms risk grades, are assigned through the Bank's credit review function for larger loans and selective review of loans that fall below credit review thresholds. Credit quality is rated based on the loan's payment history, the borrower's current financial situation, secondary financial support from guantors if available and value of the underlying collateral.

Loans that do not indicate heightened risk are graded as "pass." Loans that appear to have elevated credit risk because of potential credit weaknesses may be rated "special mention". Loans with well defined credit risk weakness and or loss potential have regulatory risk ratings or "substandard."

Modified Loans

Prior to January 1, 2023, a loan that had been modified or renewed was considered a troubled debt restructuring ("TDR") when two conditions were met: 1) the borrower was experiencing financial difficulty and 2) concessions were made for the borrower's benefit that would not otherwise have been considered for a borrower or transaction with similar credit risk characteristics. TDRs were evaluated individually to determine the required ACL.

Subsequent to December 31, 2022, the TDR concept, and its impact on the ACL calculation, was eliminated in favor of disclosure of loan modifications made to troubled borrowers. Modified loans to troubled borrowers are evaluated and risk rated according to credit quality indicators as discussed above, and are subject to the Bank's standard ACL process as discussed below.

Allowance for Credit Losses on Loans ("ACLL")

The Bank estimates the ACLL based on book value basis which is the amount at which the loan is originated, adjusted for collection of cash, and charge-offs. In the event that collection of principal becomes uncertain, the Bank has policies in place to reverse accrued interest in a timely manner. Therefore, the Bank has made a policy election to exclude accrued interest from the measurement of the ACLL. Accrued interest receivable on loans of $618,256 as of December 31, 2023 and $544,301 as of December 31, 2022, along with accrued interest receivable on securities, is included in accrued interest receivable in the Balance Sheet.

Intrinsic to the Bank's policy on estimating the ACLL are policies regarding loan pools, nonaccruals, past due status, collateral valuation, charge-offs and risk ratings. The Bank measures expected credit losses on loans on a collective (pool) basis, when the loans share similar risk characteristics, such as collateral type and intended use, repayment source, and (if applicable) the borrower's business model. The Bank has selected a segmentation based upon federal call code reporting for measuring expected credit losses. These segments include: commercial real estate, residential real estate, multifamily real estate, real estate construction, other construction and land development, commercial and consumer loans. The Bank's methodologies for estimating the ACLL consider available relevant information about the collectability of cash flows, including historical losses, reasonable and supportable forecasts of economic conditions, and current economic and portfolio conditions. The difference between cash flow estimates and book value is the ACLL.

The Bank uses a cash flow ("CF") method for all of its pools which are measured using the historical loss rate based on the selected peer group adjusted for the forecast. Cash flows are generated using each loan's payment attributes, adjusted for pool-level information and prepayment speeds. In order to reduce the complexity of the model, management has elected to perform cash flow modeling without the present value component. In other words, the reserve determined by the cash flow analysis is simply the sum of expected losses, rather than a comparison of the loan's basis to the present value of cash flows. No discounting is performed in the reserve calculation. Additionally, expected losses are calculated via a gross loss rate and recovery rate assumption.

The Bank designated national unemployment as its forecast variable. The forecast is applied over a horizon selected by the Bank's management at each reporting date, typically of one year and not to exceed two years, after which loss rates revert to long-term historical loss experience on a straight line basis over a period determined by management, of up to three years. The forecast horizon and reversion period are applied consistently to the entire portfolio.

The results of CF calculations are modified by allocations for qualitative factors to account for changes in variables that may affect credit risk. The Bank considers and allocates for changes in lending policies, management experience, economic conditions, loans past due, competitive, legal and regulatory environments and other factors. Qualitative factors are benchmarked to historical data and are adjusted based upon quantitative analysis.

Loans that do not share risk characteristics are evaluated on an individual basis. The fair value of individually evaluated loans is measured using the fair value of collateral ("collateral method") to determine if a loss reserve is necessary.

When determining the collateral value, a net realized value should be determined. This means applying discount rates to appraised values, including selling and administrative costs, and other expenses necessary to liquidate the collateral. The collateral valuation or net realized value is compared to the book value and if collateral value is less than the book balance, an ACLL reserve amount is calculated. If the collateral valuation is equal to or greater than book value, no reserve is determined.

The collateral method is applied to individually evaluated loans for which foreclosure is probable. The collateral method is also applied to individually evaluated loans when borrowers are experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral ("collateral dependent"). The ACLL is measured based on the difference between the fair value of the collateral and the amortized cost basis of the loan as of the measurement date. When repayment is expected to be from the operation of the collateral, the ACLL is calculated as the amount by which the amortized cost basis of the loan exceeds the present value of expected cash flows from the operation of the collateral. When repayment is expected to be from the sale of the collateral, the ACLL is calculated as the amount by which the loan's amortized cost basis exceeds the fair value of the underlying collateral less estimated cost to sell. The ACLL may be zero if the fair value of the collateral at the measurement date exceeds the amortized cost basis of the loan.

The CF method is applied to individually evaluated loans that do not meet the criteria for collateral method measurement. Cash flows are projected and discounted using the same method as for collectively evaluated loans, but the expected loss rate is increased to reflect increased risk, up to 100% for nonaccrual loans.

Expected credit losses are reflected in the ACLL through a charge to provision for credit losses on the Statements of Income. When the Bank deems all or a portion of a loan to be uncollectible the appropriate amount is written off against the ACLL. The Bank applies judgment to determine when a financial asset is deemed uncollectible; however, generally speaking, an asset will be considered uncollectible no later than when all efforts at collection have been exhausted. Subsequent recoveries, if any, are credited to the ACLL when received.

Unallocated surplus

In addition to funding the allowance for credit losses based upon data analysis, the Bank may fund an unallocated surplus in excess to the calculated requirement, based upon management judgement. The Bank's policy permits an unallocated surplus of between 0% and 5% of the calculated requirement.

ACL on Unfunded Commitments

Financial instruments include off-balance sheet credit instruments such as undrawn portions of revolving lines of credit, commercial letters of credit, and loan commitments that have not yet been funded. The contractual amount of those instruments represents the Bank's exposure to credit loss in the event of nonperformance by the borrower. The Bank records an ACL on unfunded commitments, unless the commitments to extend credit are unconditionally cancelable. The estimate includes consideration of the likelihood that funding will occur, which is based on a historical funding study derived from internal information, and an estimate of expected credit losses on commitments expected to be funded over its estimated life, which are the same loss rates that are used in computing the ACLL. The ACL on unfunded commitments is recorded as a liability on the Bank's Balance Sheets, included in other liabilities, and is adjusted through the provision for credit loss expense in the Bank's Statements of Income.

Estimation of the Allowance for Credit Losses

The estimation of the allowance involves analysis of internal and external variables, methodologies, assumptions and management's judgment and experience. Key judgments used in determining the allowance for credit losses include internal risk rating determinations, market and collateral values, discount rates, loss rates, and management's assessment of current and future economic conditions. These judgments are inherently subjective and actual losses could be greater or less than the estimate. Future estimates of the allowance could increase or decrease based on changes in the financial condition of individual borrowers, concentrations of various types of loans, economic conditions or the markets in which collateral may be sold. The estimate of the allowance accrual determines the amount of provision expense and directly affects our financial results. Please see Note 3 for additional information.

Bank Premises and Equipment

Land is carried at cost. Bank premises and equipment are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 10 to 40 years for buildings and improvements and 3 to 20 years for equipment. Expenditures for maintenance, repairs, and minor replacements are charged to non-interest expenses as incurred.

Long-Lived Assets

During 2019, the Bank made a strategic decision to sell their condo unit and move their commercial loan department to a new location. The previously owned assets were transferred to held for sale when all criteria were met under accounting guidance for disposal for long-lived assets. The property was being carried at fair value until it was sold in 2022 for $581,087.

Bank Owned Life Insurance

The Bank has purchased life insurance policies on certain key employees. Bank owned life insurance is carried at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value.

Other Real Estate Owned

Other real estate owned includes real estate acquired by foreclosure (in partial or complete satisfaction of debt) and is recorded at fair value on the date of transfer from loans (net of estimated selling costs). Subsequent to transfer, these assets are adjusted through a valuation allowance to the lower of net carrying value or fair value (net of estimated selling expenses) based upon periodic appraisals. Upon disposition, any gains or losses realized are reflected in non-interest expense. Net costs of maintaining foreclosed properties are expensed as incurred. The Bank did not have any consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process as of December 31, 2023.

Income Taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more likely than not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information.

The determination of whether or not a tax position has met the more likely than not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Bank recognizes interest and penalties, if any, on income taxes as a component of income tax expense.

As of December 31, 2023 and 2022, the Bank had no uncertain tax positions or related liability recorded.

Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. No such items exist as of December 31, 2023 and 2022. For the years ended December 31, 2023 and 2022, the weighted average number of shares outstanding for calculating basic and diluted earnings per share was 399,829 and 403,035, respectively.

Cash Equivalents

Cash equivalents for the statements of cash flows include amounts due from banks, federal funds sold and interest-bearing deposits in banks with maturities of three months or less.

Advertising

The Bank follows the policy of charging the costs of advertising to expense as incurred. Total advertising expense incurred for 2023 and 2022 was $82,612 and $132,503, respectively.

Comprehensive Income (Loss)

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, net of related income tax, are reported as a separate component of the equity section of the balance sheet. Such items, along with net income, are components of comprehensive income (loss). For the years ended December 31, 2023 and 2022, the Bank's only component of other comprehensive income (loss) was unrealized gains and losses on available for sale securities, net of related income tax. Any reclassification out of accumulated other comprehensive income is a result of realized securities gains or losses and is included in "loss on sale of securities".

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 Bank, 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 Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Restrictions on Cash

Cash on hand or on deposit with the Federal Reserve Bank may be required to meet regulatory reserve and clearing requirements.

Dividend Restriction

Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to stockholders.

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 judgement regarding interest rates, credit risk, prepayment, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Recent Accounting Pronouncements

In December 2023, the Financial Accounting Standards Board (FASB) issued ASU 2023-09, “Income Taxes (Topic 740): Improvements to Income Tax Disclosures.” The amendments in this ASU require an entity to disclose specific categories in the rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold, which is greater than five percent of the amount computed by multiplying pretax income by the entity’s applicable statutory rate, on an annual basis. Additionally, the amendments in this ASU require an entity to disclose the amount of income taxes paid (net of refunds received) disaggregated by federal, state, and foreign taxes and the amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions that are equal to or greater than five percent of total income taxes paid (net of refunds received). Lastly, the amendments in this ASU require an entity to disclose income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign and income tax expense (or benefit) from continuing operations disaggregated by federal, state, and foreign. This ASU is effective for annual periods beginning after December 15, 2024. Early adoption is permitted. The amendments should be applied on a prospective basis; however, retrospective application is permitted. The Bank does not expect the adoption of ASU 2023-09 to have a material impact on its financial statements.

Recently Adopted Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The ASU, as amended, requires an entity to measure expected credit losses for financial assets carried at amortized cost based on historical experience, current conditions, and reasonable and supportable forecasts. Among other things, the ASU also amended the impairment model for available for sale securities and addressed purchased financial assets with deterioration. ASU 2016-13 was effective for the Bank on January 1, 2023. At adoption, the Bank recorded an adjustment of $150,000 to the reserve for unfunded loan commitments and no adjustment to the allowance for credit losses on loans. The adjustment net of tax recorded to stockholders' equity totaled $108,720. See the Allowance for Credit Losses on Loans above for further details of adoption and changes to the Bank's significant accounting policies.

In March 2022, the FASB issued ASU No. 2022-02, "Financial Instruments-Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures." ASU 2022-02 addresses areas identified by the FASB as part of its post-implementation review of the credit losses standard (ASU 2016-13) that introduced the CECL model. The amendments eliminate the accounting guidance for troubled debt restructurings by creditors that have adopted the CECL model and enhance the disclosure requirements for loan refinancings and restructurings made with borrowers experiencing financial difficulty. In addition, the amendments require a public business entity to disclose current-period gross write-offs for financing receivables and net investment in leases by year of origination in the vintage disclosures. The amendments in this ASU should be applied prospectively, except for the transition method related to the recognition and measurement of troubled debt restructurings, an entity has the option to apply a modified retrospective transition method, resulting in a cumulative effect adjustment to retained earnings in the period of adoption. ASU 2022-02 was effective for the Bank on January 1, 2023. The Bank adopted ASU 2022-02 effective January 1, 2023 on a prospective basis. Adoption of ASU 2022-02 did not have a material impact on the Bank's financial statements. See Note 3 for new disclosures required by ASU 2022-02.

Note 2. Securities

On January 1, 2023, the Bank adopted ASC 326, which made changes to accounting for available for sale debt securities whereby credit losses should be presented as an allowance, rather than as a write-down when management does not intend to sell and does not believe that it is more likely than not they will be required to sell a security prior to its maturity. Should the Bank classify debt securities as held to maturity in future periods, ASC 326 would also require the Bank to measure expected credit losses using a methodology that requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. All securities information presented as of December 31, 2023, is in accordance with ASC 326. All securities information presented as of December 31, 2022, or a prior date is presented in accordance with previously applicable GAAP.

The amortized cost and fair value of debt securities available for sale, with gross unrealized gains and losses, as of the dates indicated, follows:

December 31, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Obligations of state and political subdivisions	$ 29,767,812	$ 748	$ (4,381,426)	$ 25,387,134
Mortgage-backed securities	77,808,115	- -	(11,204,047)	66,604,068
Total debt securities available for sale	$ 107,575,927	$ 748	$ (15,585,473)	$ 91,991,202

December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
U.S. Treasury securities	$ 1,998,322	$ - -	$ (16,922)	$ 1,981,400
Obligations of state and political subdivisions	32,934,688	37,244	(5,663,503)	27,308,429
Mortgage-backed securities	90,661,686	- -	(12,107,903)	78,553,783
Total debt securities available for sale	$ 125,594,696	$ 37,244	$ (17,788,328)	$ 107,843,612

No allowance for credit loss on securities available for sale was recorded as of December 31, 2023.

The deferred tax asset for the net unrealized loss on securities available for sale was $4,288,916 as of December 31, 2023 and $4,885,099 as of December 31, 2022. The deferred tax asset is included in other assets on the Balance Sheet.

The amortized cost and fair value of single maturity securities available for sale, by contractual maturity as of the date indicated, are shown below. Mortgage-backed securities are categorized by final maturity. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

December 31, 2023	Amortized Cost	Fair Value
Due in one year or less	$ 205,042	$ 204,662
Due after one year through five years	2,756,183	2,605,194
Due after five years through ten years	12,473,805	11,231,557
Due after ten years	92,140,897	77,949,789
Total debt securities available for sale	$ 107,575,927	$ 91,991,202

December 31, 2022	Amortized Cost	Fair Value
Due in one year or less	$ 1,998,322	$ 1,981,400
Due after one year through five years	3,773,028	3,610,504
Due after five years through ten years	17,439,315	15,898,194
Due after ten years	102,384,031	86,353,514
Total debt securities available for sale	$ 125,594,696	$ 107,843,612

Information pertaining to securities with gross unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous loss position as of the dates indicated, follows:

December, 31 2023	Less than 12 Months		12 Months or Longer	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of state and political subdivisions	$ - -	$ - -	$ 24,961,385	$ 4,381,426
Mortgage-backed securities	- -	- -	66,604,068	11,204,047
Total	$ - -	$ - -	$ 91,565,453	$ 15,585,473

December, 31 2022	Less than 12 Months		12 Months or Longer	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities	$ 1,981,400	$ 16,922	$ - -	$ - -
Obligations of state and political subdivisions	17,948,561	2,784,249	7,491,323	2,879,254
Mortgage-backed securities	46,806,202	4,915,509	31,747,581	7,192,394
Total	$ 66,736,163	$ 7,716,680	$ 39,238,904	$ 10,071,648

The Bank evaluates securities available for sale that are in unrealized loss positions to determine whether the impairment is due to credit-related factors or noncredit-related factors. Consideration is given to the extent to which the fair value is less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Bank to retain its investment in the security for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2023, the Bank had 110 securities with a fair value of $91,565,453 in an unrealized loss position. The Bank reviews securities in an unrealized loss position to evaluate credit risk. The Bank considers payment history, risk ratings from external parties, financial statements for municipal and corporate securities, public statements from issuers and other available credible published sources in evaluating credit risk. No credit risk was found and no ACL on securities available for sale was recorded as of December 31, 2023. The unrealized losses are attributed to noncredit-related factors, including changes in interest rates and other market conditions. The Bank does not have the intent to sell any of these securities and believes that it is more likely than not that the Bank will not have to sell any such securities before a recovery of cost. The contractual terms of the investments do not permit the issuers to settle the securities at a price less than the cost basis of the investments. The fair value is expected to recover as the securities approach their maturity date or repricing date or if market yields for such investments decline.

Realized Securities Gains and Losses

During 2023 and 2022, the Bank sold securities and realized a net loss of $56,633 and $142,435, respectively. The tax effect applicable to the realized losses during 2023 and 2022 was $15,585 and $39,198, respectively. Information pertaining to realized gains and losses on sold securities for the period indicated follows:

	For the Year Ended December, 31 2023				
	Proceeds	Book Value	Gross Gain	Gross Loss	Net Loss
Available for Sale	$ 11,062,953	$ 11,119,586	$ 73,403	$ 130,036	$ (56,633)

	For the Year Ended December, 31 2022				
	Proceeds	Book Value	Gross Gain	Gross Loss	Net Loss
Available for Sale	$ 5,800,703	$ 5,943,138	$ - -	$ 142,435	$ (142,435)

Restricted Stock

The Bank held restricted stock of $347,200 as of December 31, 2023 and $257,200 as of December 31, 2022. Restricted stock is reported separately from available for sale securities. As a member of the Federal Reserve and the FHLB, the Bank is required to maintain certain minimum investments in the common stock of those entities. Required levels of investment are based upon the Bank's capital and a percentage of qualifying assets. The Bank purchases stock from or sells stock back to the correspondents based on their calculations. The stock is held by member institutions only and is not actively traded.

Redemption of FHLB stock is subject to certain limitations and conditions. At its discretion, the FHLB may declare dividends on the stock. In addition to dividends, the Bank also benefits from its membership with FHLB through eligibility to borrow from the FHLB, using as collateral the Bank's capital stock investment in the FHLB and qualifying real estate mortgage loans totaling $76,794,127 as of December 31, 2023. Management reviews for impairment based upon the ultimate recoverability of the cost basis of the FHLB stock, and as of December 31, 2023, management did not determine any impairment.

Pledged Securities

As of December 31, 2023 and 2022, securities with a market value of $37,926,733 and $8,648,939, respectively, were pledged to secure municipal deposits and available credit through the Federal Reserve Bank Term Funding Program and the Federal Reserve discount window.

Note 3. Loans and Allowance for Credit Losses

The composition of loans was as follows at December 31:

	2023	2022
Commercial real estate	$ 111,923,233	$ 100,290,331
Residential real estate	107,886,944	97,854,598
Multifamily real estate	19,596,447	13,019,325
Real estate construction	8,440,591	6,353,050
Other construction and land development	4,477,879	8,227,142
Commercial	26,641,643	28,011,260
Consumer	553,885	654,428
	$ 279,520,622	$ 254,410,134
Less allowance for credit losses	(3,263,154)	(3,299,435)
Deferred costs, net	263,239	303,175
Net loans	$ 276,520,707	$ 251,413,874

Overdraft deposit accounts totaling $21,963 and $14,316 were reclassified as loans at December 31, 2023 and 2022, respectively.

Allowance for Credit Losses on Loans and Nonperforming Assets

Please refer to Note 1: Summary of Significant Accounting Policies for information on evaluation of collectively evaluated loans and individually evaluated loans and associated reserves, and policies regarding nonaccruals, past due status and charge-offs.

A detailed analysis showing the allowance activity by portfolio segment for the periods indicated follows:

Activity in the Allowance for Credit Losses on Loans for the Year Ended December 31, 2023									
	Commercial Real Estate	Residential Real Estate	Multifamily Real Estate	Real Estate Construction	Other Construction	Commercial	Consumer	Unallocated	Total
Beginning balance	$ 1,568,181	$ 1,050,695	$ 127,628	$ 60,592	$ 79,531	$ 393,361	$ 5,931	$ 13,516	$ 3,299,435
Adoption of ASU 2016-13	--	--	--	--	--	--	--	--	--
Chargeoffs	--	--	--	--	--	--	(14,431)	--	(14,431)
Recoveries	--	--	--	--	--	--	3,150	--	3,150
Provision for (recovery of) credit losses	(386,839)	19,635	53,026	34,391	38,266	65,459	11,410	139,652	(25,000)
Ending balance	$ 1,181,342	$ 1,070,330	$ 180,654	$ 94,983	$ 117,797	$ 458,820	$ 6,060	$ 153,168	$ 3,263,154

	Activity in the Allowance for Loan Losses for the Year Ended December 31, 2022								
	Commercial Real Estate	Residential Real Estate	Multifamily Real Estate	Real Estate Construction	Other Construction	Commercial	Consumer	Unallocated	Total
Beginning balance	$ 1,338,058	$ 969,916	$ 145,471	$ 77,190	$ 86,825	$ 271,841	$ 10,808	$ 6,247	$ 2,906,356
Chargeoffs	- -	- -	- -	- -	- -	- -	(7,219)	- -	(7,219)
Recoveries	- -	- -	- -	- -	- -	- -	298	- -	298
Provision for (recovery of) loan losses	230,123	80,779	(17,843)	(16,598)	(7,294)	121,520	2,044	7,269	400,000
Ending balance	$ 1,568,181	$ 1,050,695	$ 127,628	$ 60,592	$ 79,531	$ 393,361	$ 5,931	$ 13,516	$ 3,299,435

A detailed analysis showing the allowance and loan portfolio by segment and evaluation method as of the dates indicated follows:

	Allowance for Credit Losses on Loans by Segment and Evaluation Method as of December 31, 2023								
	Commercial Real Estate	Residential Real Estate	Multifamily Real Estate	Real Estate Construction	Other Construction	Commercial	Consumer	Unallocated	Total
Allowance for credit losses:									
Individually evaluated	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -
Collectively evaluated	1,181,342	1,070,330	180,654	94,983	117,797	458,820	6,060	153,168	3,263,154
Ending balance	$ 1,181,342	$ 1,070,330	$ 180,654	$ 94,983	$ 117,797	$ 458,820	$ 6,060	$ 153,168	$ 3,263,154

	Loans by Segment and Evaluation Method as of December 31, 2023							
	Commercial Real Estate	Residential Real Estate	Multifamily Real Estate	Real Estate Construction	Other Construction	Commercial	Consumer	Total
Individually evaluated	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -
Collectively evaluated	111,923,233	107,886,944	19,596,447	8,440,591	4,477,879	26,641,643	553,885	279,520,622
Ending balance	$ 111,923,233	$ 107,886,944	$ 19,596,447	$ 8,440,591	$ 4,477,879	$ 26,641,643	$ 553,885	$ 279,520,622

	Allowance for Loan Losses by Segment and Evaluation Method as of December 31, 2022								
	Commercial Real Estate	Residential Real Estate	Multifamily Real Estate	Real Estate Construction	Other Construction	Commercial	Consumer	Unallocated	Total
Allowance for loan losses:									
Individually evaluated	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -
Collectively evaluated	1,568,181	1,050,695	127,628	60,592	79,531	393,361	5,931	13,516	3,299,435
Ending balance	$ 1,568,181	$ 1,050,695	$ 127,628	$ 60,592	$ 79,531	$ 393,361	$ 5,931	$ 13,516	$ 3,299,435

	Loans by Segment and Evaluation Method as of December 31, 2022							
	Commercial Real Estate	Residential Real Estate	Multifamily Real Estate	Real Estate Construction	Other Construction	Commercial	Consumer	Total
Individually evaluated	$ - -	$ 86,688	$ - -	$ - -	$ - -	$ 368,800	$ - -	$ 455,488
Collectively evaluated	100,290,331	97,767,910	13,019,325	6,353,050	8,227,142	27,642,460	654,428	253,954,646
Ending balance	$ 100,290,331	$ 97,854,598	$ 13,019,325	$ 6,353,050	$ 8,227,142	$ 28,011,260	$ 654,428	$ 254,410,134

A summary of the ratios for the allowance for credit losses, as of the dates indicated follows:

	December 31,	
	2023	2022
Ratio of ACLL to the end of period loans, net of deferred fees and costs	1.17%	1.30%

The Bank had no loans which were classified as non-accrual as of December 31, 2023 and 2022.

In accordance with CECL, the Bank identifies individually evaluated loans when their risk characteristics become different from their pool. Under previous GAAP, the Bank identified loans for potential impairment through a variety of means, including, but not limited to, ongoing loan review, renewal processes, delinquency data, market communications, and public information. When the Bank determined that it was probable all principal and interest amounts due would not be collected in accordance with the contractual terms of the loan agreement, the loan was generally deemed impaired and individually evaluated. The Bank had no individually evaluated loans as of December 31, 2023 and $455,488 in individually evaluated loans in 2022 as can be seen in the table below.

The following table shows the average recorded investment and interest income recognized for individually evaluated loans under the incurred loss model for the period indicated. Only classes with individually evaluated loans are presented.

	2022				
	Unpaid Principal Balance	**Recorded Investment**	**Related Allowance**	**Average Recorded Investment**	**Interest Income Recognized**
With No Related Allowance Recorded					
Residential Real Estate	$ 170,918	$ 86,688	$ - -	$ 90,870	$ - -
Commercial	368,800	368,800	- -	373,389	14,378
	$ 539,718	$ 455,488	$ - -	$ 464,259	$ 14,378

The following tables present the aging of past due loans, by loan pool as of the dates indicated:

December 31, 2023	Accruing Loans: Current Loans	Accruing Loans: 30-89 Days Past Due	Accruing Loans: 90 or More Days Past Due	Nonaccrual Loans	Total Loans	Accruing and Nonaccrual 90 or More Days Past Due
Commercial real estate	$ 111,923,233	$ - -	$ - -	$ - -	$ 111,923,233	$ - -
Residential real estate	107,813,355	39,461	34,128	- -	107,886,944	34,128
Multifamily real estate	19,596,447	- -	- -	- -	19,596,447	- -
Real estate construction	8,440,591	- -	- -	- -	8,440,591	- -
Other construction and land development	4,477,879	- -	- -	- -	4,477,879	- -
Commercial	26,641,643	- -	- -	- -	26,641,643	- -
Consumer	553,355	530	- -	- -	553,885	- -
Total	$ 279,446,503	$ 39,991	$ 34,128	$ - -	$ 279,520,622	$ 34,128

December 31, 2022	Accruing Loans: Current Loans	Accruing Loans: 30-89 Days Past Due	Accruing Loans: 90 or More Days Past Due	Nonaccrual Loans	Total Loans	Accruing and Nonaccrual 90 or More Days Past Due
Commercial real estate	$ 100,290,331	$ - -	$ - -	$ - -	$ 100,290,331	$ - -
Residential real estate	97,854,598	- -	- -	- -	97,854,598	- -
Multifamily real estate	13,019,325	- -	- -	- -	13,019,325	- -
Real estate construction	6,353,050	- -	- -	- -	6,353,050	- -
Other construction and land development	8,227,142	- -	- -	- -	8,227,142	- -
Commercial	27,813,088	198,172	- -	- -	28,011,260	- -
Consumer	654,014	414	- -	- -	654,428	- -
Total	$ 254,211,548	$ 198,586	$ - -	$ - -	$ 254,410,134	$ - -

Loans are collateral dependent when repayment is expected substantially through the operation or sale of the collateral and the borrower is experiencing financial difficulty. Collateral dependent loans are individually evaluated. The Bank measures the ACL on collateral dependent loans based upon the fair value of the collateral, as permitted by ASU 2016-13. Fair value of the collateral is adjusted for liquidation costs/discounts. If the fair value of the collateral falls below the amortized cost of the loan, the shortfall is recognized in the ACLL. If the fair value of the collateral exceeds the amortized cost, no ACL is required. The Bank had no collateral dependent loans as of December 31, 2023.

Credit Quality

The Bank categorizes loans by risk based on relevant information about the ability of borrowers to service their debt, including: collateral and financial information, historical payment experience, credit documentation and current economic trends, among other factors. At origination, each loan is assigned a risk rating. Ongoing analysis of the loan portfolio adjusts risk ratings on an individual loan basis to reflect updated information. General descriptions of risk ratings are as follows:

- Pass: loans with acceptable credit quality are rated pass.
- Special mention: loans with potential weaknesses due to challenging economic or financial conditions are rated special mention.

- Substandard: loans with well-defined weaknesses that heighten the risk of default are rated classified.

The following table presents the amortized cost basis of the loan portfolio, by year of origination, loan class, and credit quality, as of the date indicated.

	Term Loans Amortized Cost Basis by Origination Year (Dollars in Thousands)								
December 31, 2023	Prior	2019	2020	2021	2022	2023	Revolving	Revolving Loans Converted to Term	Total
Commercial real estate									
Pass	$ 18,378	$ 14,862	$ 14,646	$ 22,138	$ 21,613	$ 17,970	$ - -	$ - -	$ 109,607
Special Mention	188	- -	2,128	- -	- -	- -	- -	- -	2,316
Total	$ 18,566	$ 14,862	$ 16,774	$ 22,138	$ 21,613	$ 17,970	$ - -	$ - -	$ 111,923
Residential real estate									
Pass	$ 18,008	$ 3,851	$ 12,775	$ 25,605	$ 19,081	$ 10,399	$ 17,786	$ - -	$ 107,505
Special Mention	11	- -	- -	296	- -	- -	- -	- -	307
Substandard	75	- -	- -	- -	- -	- -	- -	- -	75
Total	$ 18,094	$ 3,851	$ 12,775	$ 25,901	$ 19,081	$ 10,399	$ 17,786	$ - -	$ 107,887
Multifamily real estate									
Pass	$ 4,218	$ 1,687	$ 2,072	$ 2,352	$ 3,729	$ 5,538	$ - -	$ - -	$ 19,596
Real estate construction									
Pass	$ - -	$ - -	$ - -	$ - -	$ 1,497	$ 6,944	$ - -	$ - -	$ 8,441
Other construction and land development									
Pass	$ 44	$ 31	$ - -	$ 147	$ 2,512	$ 1,744	$ - -	$ - -	$ 4,478
Commercial									
Pass	$ 3,006	$ 3,283	$ 2,091	$ 2,679	$ 9,716	$ 5,824	$ - -	$ - -	$ 26,599
Special Mention	- -	43	- -	- -	- -	- -	- -	- -	43
Substandard	- -	- -	- -	- -	- -	- -	- -	- -	- -
Total	$ 3,006	$ 3,326	$ 2,091	$ 2,679	$ 9,716	$ 5,824	$ - -	$ - -	$ 26,642
Consumer									
Pass	$ 22	$ 25	$ 91	$ 50	$ 49	$ 113	$ 204	$ - -	$ 554
Total Loans									
Pass	$ 43,676	$ 23,739	$ 31,675	$ 52,971	$ 58,197	$ 48,532	$ 17,990	$ - -	$ 276,780
Special Mention	199	43	2,128	296	- -	- -	- -	- -	2,666
Substandard	75	- -	- -	- -	- -	- -	- -	- -	75
Total	$ 43,950	$ 23,782	$ 33,803	$ 53,267	$ 58,197	$ 48,532	$ 17,990	$ - -	$ 279,521
YTD gross charge-offs	$ 14	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -	$ 14

Based on the most recent analysis performed, the risk category of loans by class of loans was as follows as of December 31, 2022:

	December 31, 2022			
	Pass	Special Mention	Substandard	Total
Commercial Real Estate	$ 96,357,522	$ 3,932,809	$ - -	$ 100,290,331
Residential Real Estate	97,413,633	354,277	86,688	97,854,598
Multifamily Real Estate	13,019,325	- -	- -	13,019,325
Real estate construction	6,353,050	- -	- -	6,353,050
Other construction and land acquisition	8,227,142	- -	- -	8,227,142
Commercial	26,912,864	447,916	650,480	28,011,260
Consumer	654,428	- -	- -	654,428
Total	$ 248,937,964	$ 4,735,002	$ 737,168	$ 254,410,134

Loan Modifications to Borrowers Experiencing Financial Difficulty

The Bank modifies loans for a variety of reasons. At the date of modification, the Bank assesses whether the borrower is experiencing financial difficulty. If the borrower is experiencing financial difficulty, the loan's risk rating is evaluated and is typically changed to special mention or classified, which results in individual evaluation of the loan for the ACLL. The Bank did not modify any loans to borrowers experiencing financial difficulty during the year ended December 31, 2023.

Under GAAP in effect for December 31, 2022, the Bank reported TDRs totaling $455,488 as of December 31, 2022. No new TDRs were recognized during 2022.

ACL on Unfunded Commitments

The following table presents information on the ACL for unfunded commitments for the year ended December 31, 2023:

Allowance For Credit Losses on Unfunded Commitments	
Balance, December 31, 2022	$ 10,043
Adoption of ASU 2016-13	150,000
Provision for credit losses	26,000
Balance, December 31, 2023	$ 186,043

Note 4. Bank Premises and Equipment

The major classifications of bank premises and equipment were as follows at December 31:

	2023	2022
Land	$ 470,503	$ 470,503
Buildings and improvements	3,102,640	3,035,019
Equipment	3,430,459	3,172,585
Capital assets in progress	72,791	189,008
Total	$ 7,076,393	$ 6,867,115
Less accumulated depreciation	4,788,090	4,513,654
Bank premises and equipment, net	$ 2,288,303	$ 2,353,461

Depreciation of bank premises and equipment charged to non-interest expense amounted to $274,435 in 2023 and $355,197 in 2022.

Note 5. Deposits

The aggregate amount of time deposits, that meet or exceed the FDIC limit of $250,000, was $19,871,155 and $10,289,223 at December 31, 2023 and 2022, respectively.

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

2024	$ 54,180,891
2025	6,370,442
2026	2,280,608
2027	2,184,823
2028	1,380,575
	$ 66,397,339

There were no customers with individual deposit balances exceeding five percent of total deposits as of December 31, 2023 and 2022.

Note 6. Provision for Income Taxes

The income tax expense in the statements of income consisted of the following components for the years ended December 31:

	2023	2022
Current:		
Federal	$ 843,118	$ 631,896
State	323,727	240,179
	$ 1,166,845	$ 872,075
Deferred income tax expense (benefit)	3,624	(36,944)
Total provision for income tax	$ 1,170,469	$ 835,131

Significant components of the Bank's deferred tax assets and liabilities were as follows as of December 31:

	2023	2022
Deferred tax assets:		
Allowance for credit losses	$ 908,400	$ 864,081
Nonaccrued interest	24,684	23,342
Lease liability	319,616	412,323
Unrealized loss on securities available for sale	4,288,916	4,885,099
Total deferred tax assets	$ 5,541,616	$ 6,184,845
Deferred tax liabilities:		
Right-of-use asset	$ (293,605)	$ (387,195)
Excess tax depreciation	(96,898)	(72,353)
Other	(33,018)	(48,615)
Total deferred tax liabilities	$ (423,521)	$ (508,163)
Net deferred tax assets	$ 5,118,095	$ 5,676,682

The net deferred tax assets are included in the balance sheets with other assets.

Income tax expense of $1,170,469 and $835,131 for 2023 and 2022 was 24.2% and 22.5%, respectively, of income before taxes as compared to the maximum statutory rate for federal income taxes, reconciled as follows:

	2023		2022	
	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Computed tax at statutory rate	$ 1,016,268	21.0	$ 776,877	21.0
Increase (decrease) in taxes resulting from:				
Tax-exempt interest income	(111,009)	(2.3)	(117,068)	(3.2)
State income taxes, net of federal income tax benefit	255,745	5.3	189,741	5.1
Other	9,465	0.2	(14,419)	(0.4)
Recorded income tax expense	$ 1,170,469	24.2	$ 835,131	22.5

Note 7. Borrowings

The Bank is a member of the Federal Home Loan Bank, which allows for participation in FHLB borrowing programs. As of December 31, 2023, the Bank had maximum borrowing capacity with the FHLB of $101,698,000, which is limited by available collateral. FHLB advances are secured by a blanket floating lien on one-to-four family first mortgages, one-to-four second mortgages, home equity lines of credit and commercial real estate loan portfolios totaling $76,794,127 and $109,842,564 at December 31, 2023 and 2022, respectively, and FHLB stock with a book value of $322,200 and $232,200, respectively. The borrowing capacity has no scheduled maturity date. There were no outstanding advances from FHLB at December 31, 2023 or 2022.

At December 31, 2023, the Bank had lines of credit available with various financial institutions totaling $13.5 million. The Bank had no outstanding borrowings against these lines at December 31, 2023 or 2022. The Bank has an agreement with the Federal Reserve Bank to borrow from the discount window, which is classified as a short-term borrowing. As of December 31, 2023 and 2022, the Bank had no borrowings from the discount window.

In 2023, the Federal Reserve created the Bank Term Funding Program (BTFP), which offers loans of up to one year in length to financial institutions pledging eligible collateral, including U.S. Treasuries, U.S. agency securities, and U.S. agency mortgage-backed securities. Under this program the securities are valued at par value with margin being 100% of par value. As of December 31, 2023, the Bank had $34,257,960 in par value securities pledged to the BTFP with no outstanding borrowings.

Note 8. Employee Benefit Plans

401(k) Profit Sharing Plan

The Bank has a Section 401(k) profit sharing plan covering employees meeting certain eligibility requirements as to minimum age and years of service. Employees may make voluntary contributions to the Plan through payroll deductions on a pre-tax basis, subject to certain limitations. The Bank's 401(k) Profit Sharing Plan includes a 3% annual nondiscretionary employer contribution. 401(k) plan expense for the years ended December 31, 2023 and 2022 was $148,358 and $130,889, respectively.

Employee Stock Ownership Plan (ESOP)

The Bank has implemented an ESOP. The purpose of the Plan is to enable full-time employees who are at least 18 years of age and have been employed for at least one year to acquire stock ownership in the Bank. The Bank made no ESOP contributions and did not issue any shares in 2023. The total number of allocated shares in the Plan as of December 31, 2023 and 2022 was 11,590 and 14,774 shares, respectively.

No shares were unearned or unallocated during 2023 or 2022. The fair value of shares subject to repurchase obligation of the Bank was $643,245 and $797,796 at December 31, 2023 and 2022, respectively. During 2023, a total of 3,184 shares were eligible for repurchase by ESOP participants. The participants elected for the 3,184 shares to be repurchased by the Bank resulting in the Bank retiring 3,184 shares and the distribution of $176,692 in cash to participants.

Note 9. Related Party Transactions

In the ordinary course of business, the Bank has loan transactions with members of its Board of Directors and its policy making officers. Analysis of the activity of loans outstanding, both direct and indirect, to directors and policy making officers during 2023 and 2022 is shown below.

	2023	2022
Balance, beginning of year	$ 81,162	$ 536,304
New loans	38,841	103,566
Repayments	(15,822)	(558,708)
Balance, end of year	$ 104,181	$ 81,162

Deposits from related parties held by the Bank at December 31, 2023 and 2022 amounted to $5,294,285 and $3,037,566, respectively.

The Bank owns 15% of Guilford Office Center, LLC. The Bank's investment in the LLC of $267,748 and $244,942 at December 31, 2023 and 2022 is included in other assets on the balance sheet. Guilford Office Center, LLC began operations in 2001. The Bank's share of the 2023 and 2022 net income was $22,807 and $38,000 and is included in other income. Guilford Office Center, LLC originated a $175,000 business line of credit with Woodsboro Bank at market terms in July 2019. The line of credit did not have an outstanding balance at December 31, 2023.

The Bank purchased a 20% interest in Market 83, LLC in August 2022. Market 83, LLC owns the office building where the Bank's commercial department is located. The Bank's investment in the LLC of $192,620 and $245,620 at December 31, 2023 and 2022 is included in other assets on the balance sheet. The Bank's share of Market 83, LLC's 2023 and 2022 net loss was $53,000 and $36,000 and is included in other income.

Note 10. Lease Commitments

The Bank's leases are recorded under ASC Topic 842, "Leases." The Bank examines its contracts to determine whether they are or contain a lease. A contract with a lease is further examined to determine whether the lease is a short-term, operating or finance lease. As permitted by ASC Topic 842, the Bank elected not to capitalize short-term leases, defined by the standard as leases with terms of 12 months or less. The Bank also elected the practical expedient not to separate non-lease components from lease components within a single contract.

Lease liabilities represent the Bank's obligation to make lease payments and are presented at each reporting date as the net present value of the remaining contractual cash flows. Cash flows are discounted at Woodsboro Bank's incremental borrowing rate in effect at the commencement date of the lease. Right-of-use assets represent the Bank's right to use the underlying asset for the lease term and are calculated as the sum of the lease liability and if applicable, prepaid rent, initial direct costs, and any incentives received from the lessor.

The Bank's long-term lease agreements are classified as operating leases. Certain of these leases offer the option to extend the lease term and the Bank has included such extensions in its calculation of the lease liabilities to the extent the options are reasonably assured of being exercised. The lease agreements do not provide for residual value guarantees and have no restrictions or covenants that would impact dividends or require incurring additional financial obligations.

The following tables present information about the Bank's leases at December 31:

	2023	2022
Lease liabilities	$ 1,161,397	$ 1,498,268
Right-of-use assets	$ 1,066,879	$ 1,406,957
Weighted average remaining lease term	4.9 years	5.5 years
Weighted average discount rate	3.24%	3.21%

The weighted average discount rate is calculated based on Federal Home Loan Bank (FHLB) liquidity and funding advance fixed rates for borrowings with terms similar to the expected lease terms in effect at the date of lease inception.

The operating lease cost for the years ended December 31, 2023 and 2022 was $307,845 and $341,990, respectively. The variable or short-term lease costs for the years ended December 31, 2023 and 2022 was $7,596 and $7,574. Cash paid for amounts included in the measurement of lease liability totaled $309,485 and $331,946, for the years ended December 31, 2023, and 2022, respectively.

A maturity analysis of operating lease liabilities and reconciliation of the undiscounted cash flows to the total of operating lease liabilities is as follows:

Years Ending December 31,	Lease Payments Due
2024	$ 259,720
2025	252,342
2026	259,054
2027	239,033
2028	178,975
Thereafter	67,435
Total future lease payments	$ 1,256,559
Discount of cashflows	(95,162)
Present value of future lease payments	$ 1,161,397

The Bank closed its Guilford branch in April 2023 and continued to pay the lease until the lease was terminated in July 2023.

Note 11. Commitments, Off-Balance Sheet Risk and Contingencies

In the normal course of business there are various outstanding commitments and contingent liabilities, which are not reflected in the accompanying financial statements. Management does not anticipate any material losses as a result of these transactions.

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements. The Bank's exposure to credit loss in the event of nonperformance by the other party to these financial instruments is represented by the contractual amount of the instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

A summary of the contract or notional amount of the Bank's exposure to off-balance-sheet risk as of December 31, 2023 and 2022 is as follows:

	2023	2022
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 3,855,000	$ 4,054,750
Unfunded loan commitments	42,254,801	37,832,176
Standby letters of credit	488,976	289,633

Commitments to extend credit are agreements to lend to a customer, as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

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 uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Bank is committed.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

The Bank maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Bank has not experienced any losses in such accounts. The Bank believes it is not exposed to any significant credit risk on cash and cash equivalents. As of December 31, 2023, deposits in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC) were $2.2 million, representing 10.3% of the Bank’s capital. The Bank may be required to maintain average balances on hand or with the Federal Reserve Bank. There was no reserve balance requirement at December 31, 2023 and 2022.

Note 12. Regulatory Matters

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, 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 final rules implementing Basel Committee on Banking Supervision’s capital guidelines for U.S. Banks (Basel III rules) became effective for the Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer was implemented in a phased approach from 0.00% for 2015 to 2.5% by 2019. The Bank’s capital conservation buffer was 4.79% and 4.27% as of December 31, 2023 and 2022, respectively. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital.

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.

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 total, Tier 1, and Common Equity Tier 1 capital, (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to average assets (as defined). Management believes, as of December 31, 2023 and 2022, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2023, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based, Common Equity Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios are also presented in the table.

	Actual		Minimum Capital Requirement (1)		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Amount in Thousands)			
As of December 31, 2023:						
Total Capital (to Risk Weighted Assets)	$ 36,110	12.79%	$ 29,635	10.500%	$ 28,224	10.0%
Tier 1 Capital (to Risk Weighted Assets)	$ 32,661	11.57%	$ 23,990	8.500%	$ 22,579	8.00%
Common Equity Tier 1 (to Risk Weighted Assets)	$ 32,661	11.57%	$ 19,757	7.000%	$ 18,346	6.50%
Tier 1 Capital (to Average Assets)	$ 32,661	7.57%	$ 17,249	4.00%	$ 21,561	5.00%
As of December 31, 2022:						
Total Capital (to Risk Weighted Assets)	$ 32,601	12.27%	$ 27,895	10.500%	$ 26,567	10.0%
Tier 1 Capital (to Risk Weighted Assets)	$ 29,292	11.03%	$ 22,582	8.500%	$ 21,253	8.00%
Common Equity Tier 1 (to Risk Weighted Assets)	$ 29,292	11.03%	$ 18,597	7.000%	$ 17,268	6.50%
Tier 1 Capital (to Average Assets)	$ 29,292	6.68%	$ 17,550	4.00%	$ 21,937	5.00%

(1) Except with regard to the Bank's Tier 1 capital to average assets ratio, the minimum capital requirement includes the phased-in portion of the Basel III Capital Rules capital conservation buffer which is added to the minimum capital requirements for capital adequacy purposes. The capital conservation buffer was phased in through four equal annual installments of 0.625% from 2016 to 2019, with full implementation in January 2019 (2.5%). Although the capital conservation buffer is not part of regulatory minimum risk-based capital requirements, it does determine minimums to avoid certain limitations. Failure to maintain the prescribed levels would result in, among other things, limitations on capital distributions and discretionary bonuses to executives.

Note 13. Fair Value Measurements

Determination of Fair Value

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the "Fair Value Measurements and Disclosures" topic of FASB ASC, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market and in an orderly transaction between market participants at the measurement date (exit price). Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of the fair value under current market conditions.

Fair Value Hierarchy

In accordance with this guidance, the Bank groups its assets and liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded, and the reliability of the assumptions used to determine fair value.

> Level 1 – Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
>
> Level 2 – Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on 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 for substantially the full term of the asset or liability.
>
> Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

The following describes the valuation techniques used by the Bank to measure certain financial assets recorded at fair value on a recurring basis in the financial statements:

Securities available for sale: Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that consider observable market data (Level 2). If the inputs used to provide the evaluation for certain securities are unobservable and/or there is little, if any, market activity then the security would fall to the lowest level of the hierarchy (Level 3).

The Bank's investment portfolio is valued using fair value measurements that are considered to be Level 2. The Bank has contracted with a third-party portfolio accounting service vendor for valuation of its securities portfolio. The Bank's source for security valuation is FHN Financial.

The following table presents the balances of financial assets measured at fair value on a recurring basis as of December 31, 2023 and 2022:

		Fair Value Measurements at December 31, 2023 Using		
Description	**Balance as of December 31, 2023**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Obligations of state and political subdivisions	$ 25,387,134	$ - -	$ 25,387,134	$ - -
Mortgage-backed securities	66,604,068	- -	66,604,068	- -
	$ 91,991,202	$ - -	$ 91,991,202	$ - -

		Fair Value Measurements at December 31, 2022 Using		
Description	**Balance as of December 31, 2022**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
U.S. Treasuries securities	$ 1,981,400	$ 1,981,400	$ - -	$ - -
Obligations of state and political subdivisions	27,308,429	- -	27,308,429	- -
Mortgage-backed securities	78,553,783	- -	78,553,783	- -
	$ 107,843,612	$ 1,981,400	$ 105,862,212	$ - -

Certain assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.

The following describes the valuation techniques used by the Bank to measure certain assets recorded at fair value on a nonrecurring basis in the financial statements:

Individually Evaluated Collateral-Dependent Loans: The estimated fair value of individually evaluated collateral-dependent loans is based on the value of the underlying collateral or the value of the underlying collateral, less estimated costs to sell, as appropriate. Collateral is generally real estate; however, collateral may include vehicles, equipment, inventory, accounts receivable, and/or other business assets. The value of real estate collateral is generally determined using a market valuation approach based on a full appraisal conducted by an independent, licensed appraiser or in certain circumstances for smaller properties, internal evaluations, tax assessments or other market value estimates. Estimates of selling costs, where applicable, are derived from the Bank's prior experience in selling similar properties. The values of collateral other than real estate may also be based on an appraisal, market quotations, aging schedules, or other sources. Collateral-dependent individually evaluated loans are classified within Level 3 of the fair value hierarchy. Any fair value adjustments are recorded in the period incurred as a provision for credit losses on the Statements of Income

Other Real Estate Owned (OREO): Property acquired in satisfaction of loans is carried at the lower of cost or market value. The value of real estate is determined by utilizing a market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Bank using observable market data (Level 2). However, if the real estate is a house or building in the process of construction, if an appraisal of the real estate property is over two years old or if an income valuation approach was used, then the fair value is considered Level 3. Any initial fair value adjustment is charged against the allowance for credit losses. Subsequent fair value adjustments are recorded in the period incurred and included in other real estate owned expense, net on the Statements of Income. There was no OREO at December 31, 2023 and 2022.

Loans Held for Sale: Loans held for sale are carried at the lower of cost or market value. These loans currently consist of one-to-four family residential loans originated for sale in the secondary market. Fair value is based on the price secondary markets are currently offering for similar loans using observable market data which is not materially different than cost due to the short duration between origination and sale (Level 2). As such, the Bank records any fair value adjustments on a nonrecurring basis. No nonrecurring fair value adjustments were recorded on loans held for sale during the years ended December 31, 2023 and 2022. Loans held for sale as of December 31, 2023 and 2022 was $124,782 and $0, respectively.

The Bank had no assets carried on the balance sheet at December 31, 2023 and 2022, for which a nonrecurring change in fair value has been recorded.

Accounting guidance requires disclosure of the fair value of financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring or non-recurring basis. The carrying values and estimated fair values of the Bank's financial instruments at December 31, 2023 and 2022 are as follows:

	December 31, 2023		Fair Value Measurements at December 31, 2023 Using		
Description	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and due from banks	$ 4,529,033	$ 4,529,033	$ 4,529,033	$ --	$ --
Interest-bearing deposits in banks	20,647,308	20,647,308	20,647,308	--	--
Securities available for sale	91,991,202	91,991,202	--	91,991,202	--
Restricted investments	347,200	347,200	--	347,200	--
Loans held for sale	124,782	124,782		124,782	--
Loans, net	276,520,707	265,370,284	--	--	265,370,284
Accrued interest receivable	1,071,504	1,071,504	--	1,071,504	--
Bank owned life insurance	7,008,264	7,008,264	--	7,008,264	--
Financial liabilities:					
Deposits	388,054,079	386,672,740	--	321,656,740	65,016,000
Accrued interest payable	154,323	154,323	--	154,323	--

	December 31, 2022		Fair Value Measurements at December 31, 2022 Using		
Description	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and due from banks	$ 4,028,562	$ 4,028,562	$ 4,028,562	$ --	$ --
Interest-bearing deposits in banks	17,149,485	17,149,485	17,149,485	--	--
Securities available for sale	107,843,612	107,843,612	1,981,400	105,862,212	--
Restricted investments	257,200	257,200	--	257,200	--
Loans, net	251,413,874	243,201,188	--	--	243,201,188
Accrued interest receivable	1,086,953	1,086,953	--	1,086,953	--
Bank owned life insurance	6,853,971	6,853,971	--	6,853,971	--
Financial liabilities:					
Deposits	380,348,278	377,923,822	--	339,653,822	38,270,000
Accrued interest payable	32,843	32,843	--	32,843	--

Interest Rate Risk

The Bank assumes interest rate risk, the risk that general interest rate levels will change, as a result of its normal operations. As a result, the fair values of the Bank's financial instruments will change, and that change may be either favorable or unfavorable to the Bank. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Bank's overall interest rate risk.

Note 14. Revenue Recognition

The Bank recognizes revenue in accordance with ASC Topic 606. Most revenue associated with the Bank's financial instruments, including interest income and gains/losses on investment securities are outside the scope of Topic 606. The Bank's services that fall within the scope of Topic 606 are presented within non-interest income and are recognized as revenue as the Bank satisfies its obligation to the customer. A description of the Bank's primary revenue streams accounted for under Topic 606 are as follows:

- Service Fees: The Bank earns fees from its deposit customers for overdraft, account maintenance services, ATM, wire transfer services and interchange fees. Overdraft fees are recognized when the overdraft occurs. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Bank satisfies the performance obligation. ATM and wire service charges are recognized in income at the time the Bank's performance obligation is satisfied.

  The Bank earns interchange fees from debit cardholder transactions conducted through various payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services.

- Other Income: The Bank earns fees from its customers for transaction-based services. Such services include fees or commissions on loan insurance, investment referrals, check products, and safe deposit box. In each case, these service charges and fees are recognized in income at the time or within the same period that the Bank's performance obligation is satisfied. Investment income consists of recurring revenue streams such as commissions from sales of mutual funds and other investments. Commissions from the sale of mutual funds and other investments are recognized on trade date, which is when the Bank has satisfied its performance obligation. The Bank also receives periodic service fees (i.e., trailers) from mutual fund companies typically based on a percentage of net asset value. Trailer revenue is recorded over time, usually monthly or quarterly, as net asset value is determined. The Bank has a referral agreement with an Investment/Brokerage firm where the Bank will refer investment/brokerage clients. The Bank receives revenue from a percentage of the investment sales.

- Gains/Losses on Sales of OREO: The Bank records a gain/loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Bank finances the sale of OREO to the buyer, the Bank assesses whether the buyer is committed to perform the obligations under the contract and whether collectability of the transaction price is probable. In determining the gain/loss on the sale, the Bank adjusts the transaction price and the related gain/loss on sale if a significant financing component is present. The Bank recognized a loss on the sale of one property held for sale during 2022. The loss is included in "loss on impairment and sale of property held for sale" in non-interest expense.

The following table presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the years ended December 31, 2023 and 2022:

	2023	2022
Noninterest Income		
Service fees	$ 1,082,878	$ 1,095,987
Other income	172,157	190,868
Noninterest income (in-scope of Topic 606)	$ 1,255,035	$ 1,286,855
Noninterest income (out-of-scope of Topic 606)	91,999	70,164
Total noninterest income	$ 1,347,034	$ 1,357,019

Note 15. Subsequent Events

The Bank evaluated subsequent events that have occurred after the balance sheet date, but before the consolidated financial statements are issued. There are two types of subsequent events (1) recognized, or those that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, and (2) nonrecognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date.

Subsequent events have been considered through April 16, 2024, the date the financial statements were available to be issued. Based on the evaluation, the Bank did not identify any recognized or nonrecognized subsequent events that would have required adjustment to or disclosure in the consolidated financial statements.