Community Heritage Financial, Inc.

Financial Report

December 31, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders
Community Heritage Financial, Inc.

Opinion

We have audited the consolidated financial statements of Community Heritage Financial, Inc. and its subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, the related consolidated statements of income, comprehensive income (loss), changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

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

Basis for Opinion

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

Emphasis of Matter

As discussed in Notes 1 and 5 to the financial statements, the Company 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.*

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Other Information Included in the Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the shareholder letter and selected financial data but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Yount, Hyde & Barbour, P.C.

Roanoke, Virginia
March 28, 2024

COMMUNITY HERITAGE FINANCIAL, INC. and SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of December 31, 2023 and 2022

		2023		2022
Assets				
Cash and due from banks	$	16,664,061	$	15,393,207
Securities available-for-sale, at fair value		40,927,086		39,510,486
Securities held-to-maturity (fair value of $88,006,352 and $90,685,097 at December 31, 2023 and 2022, respectively)		96,111,626		101,005,393
Less allowance for credit losses		103,949		-
Securities held-to-maturity, net		96,007,677		101,005,393
Resticted equity securities		1,363,600		406,400
Loans		812,932,872		748,450,525
Less allowance for credit losses		7,742,297		7,330,436
Loans, net		805,190,575		741,120,089
Loans held for sale		1,651,118		4,725,495
Premises and equipment, net		6,329,832		7,053,532
Right-of-use assets		2,380,555		2,841,736
Accrued interest receivable		2,972,952		2,616,879
Deferred tax assets		4,766,376		5,277,275
Bank-owned life insurance		7,172,917		6,817,058
Goodwill		1,656,507		1,656,507
Other assets		1,544,870		1,708,412
Total Assets	**$**	**988,628,126**	**$**	**930,132,469**
Liabilities and Shareholders' Equity				
Liabilities				
Deposits:				
Non-interest-bearing demand	$	260,204,859	$	276,829,209
Interest-bearing		616,461,031		562,601,082
Total Deposits		876,665,890		839,430,291
Subordinated debt, net of amortized issuance cost		14,932,727		14,843,030
Other borrowings		18,000,000		-
Lease liabilities		2,450,133		2,908,707
Accrued interest payable		458,540		236,624
Other liabilities		4,889,735		5,572,659
Total Liabilities		**917,397,025**		**862,991,311**
Shareholders' Equity				
Preferred stock, par value $.01; shares authorized 1,000,000; no shares issued and outstanding		-		-
Common stock, par value $.01; shares authorized 10,000,000; shares issued and outstanding at December 31, 2023 and 2022, 2,911,670 and 2,905,973, respectively		29,117		29,060
Additional paid in capital		41,096,972		40,861,802
Retained earnings		38,669,620		35,757,761
Accumulated other comprehensive loss		(8,564,608)		(9,507,465)
Total Shareholders' Equity		**71,231,101**		**67,141,158**
Total Liabilities and Shareholders' Equity	**$**	**988,628,126**	**$**	**930,132,469**

See Notes to the Consolidated Financial Statements

COMMUNITY HERITAGE FINANCIAL, INC. and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2023 and 2022

	2023	2022
Interest Income		
Loans, including fees	$ 39,596,735	$ 29,365,769
Securities	3,020,444	2,804,729
Fed funds sold and other	890,774	200,851
Total interest income	43,507,953	32,371,349
Interest Expense		
Deposits	15,510,740	3,437,720
Borrowed funds	925,582	522,598
Subordinated debt	952,197	952,197
Total interest expense	17,388,519	4,912,515
Net interest income	26,119,434	27,458,834
(Recovery of) provision for credit losses	(747,330)	812,855
Net interest income after (recovery of) provision for credit losses	26,866,764	26,645,979
Non-interest income		
Service charges on deposits	786,938	747,100
Earnings on bank-owned life insurance	197,694	58,826
Gain on sale of premises and equipment, net	16,849	65,448
Gain on sale of loans held for sale	263,708	1,220,206
Other secondary market income	889,415	854,021
Other non-interest income	1,108,440	983,348
Total non-interest income	3,263,044	3,928,949
Non-interest expense		
Salaries and employee benefits	14,133,013	12,098,456
Occupancy and equipment	3,598,439	3,110,087
Legal and professional fees	928,984	710,697
Advertising	301,300	276,520
Data processing	2,860,788	2,661,680
FDIC premiums	639,080	570,508
Other intangible amortization	-	695
Other	1,986,239	1,828,549
Total non-interest expense	24,447,843	21,257,192
Income before taxes	5,681,965	9,317,736
Income tax expense	1,386,803	2,462,232
Net Income	$ 4,295,162	$ 6,855,504
Basic earnings per common share	$1.48	$2.85
Diluted earnings per common share	$1.47	$2.84

See Notes to the Consolidated Financial Statements

COMMUNITY HERITAGE FINANCIAL, INC. and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the Years Ended December 31, 2023 and 2022

		2023		2022
Net Income	$	4,295,162	$	6,855,504
Other comprehensive income (loss):				
Unrealized holding income (loss) on securities available-for-sale net of tax of $47,697 and $(730,200), respectively		125,620		(1,923,144)
Unrealized holding (loss) on securities transferred from available-for-sale to held-to-maturity, net of tax of $(2,805,636)		-		(7,389,261)
Amortization of unrealized holding loss from the transfer of available-for-sale securities to held-to-maturity, net of tax of $310,297 and $265,173, respectively		817,237		698,390
Other comprehensive income (loss), net of tax		942,857		(8,614,015)
Comprehensive income (loss)	$	5,238,019	$	(1,758,511)

See Notes to the Consolidated Financial Statements

COMMUNITY HERITAGE FINANCIAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2023 and 2022

	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2021	$ 22,513	$ 28,537,379	$ 29,288,449	$ (893,450)	$ 56,954,891
Net Income	-	-	6,855,504	-	6,855,504
Other comprehensive loss	-	-	-	(8,614,015)	(8,614,015)
Stock based compensation expense	-	177,171	-	-	177,171
2022 capital raise (649,526 shares at $21 per share, $0.01 par)	6,496	12,195,091	-	-	12,201,587
Restricted stock vested and common shares issued (7,474 shares less 2,347 shares surrendered)	51	(47,839)	-	-	(47,788)
Cash dividends ($0.16 per share)	-	-	(386,192)	-	(386,192)
Balance, December 31, 2022	$ 29,060	$ 40,861,802	$ 35,757,761	$ (9,507,465)	$ 67,141,158
Adoption of ASU 2016-13	-	-	(685,528)	-	(685,528)
Net Income	-	-	4,295,162	-	4,295,162
Other comprehensive income	-	-	-	942,857	942,857
Stock based compensation expense	-	277,785	-	-	277,785
Restricted stock vested and common shares issued (8,373 shares less 2,676 shares surrendered)	57	(42,615)	-	-	(42,558)
Cash dividends ($0.24 per share)	-	-	(697,775)	-	(697,775)
Balance, December 31, 2023	$ 29,117	$ 41,096,972	$ 38,669,620	$ (8,564,608)	$ 71,231,101

See Notes to Consolidated Financial Statements

COMMUNITY HERITAGE FINANCIAL, INC. and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2023 and 2022

CASH FLOWS FROM OPERATING ACTIVITIES:	2023	2022
Net Income	$ 4,295,162	$ 6,855,504
Adjustments to reconcile net income to cash resulting from operating activities:		
Depreciation and amortization of premises and equipment	952,231	880,914
(Recovery of) provision for credit losses	(747,330)	812,855
(Gain) loss on sale of premises and equipment	(16,849)	(65,448)
Write-down of long-lived premises and equipment	100,798	-
Gain on sale of loans held for sale	(263,708)	(1,220,206)
Originations of loans held for sale	(79,010,981)	(154,767,849)
Proceeds from sales of loans held for sale	82,349,066	156,685,918
Amortization of intangibles	-	695
Amortization of debt issuance cost	89,697	89,697
Amortization of right-of-use assets	486,944	446,502
Stock-based compensation expense	277,785	177,171
Earnings on bank-owned life insurance	(197,694)	(58,826)
Deferred tax expense	413,194	134,215
(Increase) in accrued interest receivable	(356,073)	(645,861)
(Increase) decrease in other assets	161,122	(143,201)
Increase in accrued interest payable	221,916	46,782
Increase (decrease) in other liabilities	(839,534)	45,571
Amortization of premium and discounts on investment securities, net	583,834	648,499
NET CASH PROVIDED BY OPERATING ACTIVITIES	8,499,580	9,922,932
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of securities available-for-sale and held-to-maturity	(4,030,950)	(20,039,542)
Proceeds from maturities, repayments and calls of securities available-for-sale and held-to-maturity	8,225,134	11,009,799
Proceeds from sale of premises and equipment	21,900	102,858
Net (increase) in loans	(64,490,331)	(137,931,153)
(Purchase) of FHLB stock, net	(957,200)	(68,700)
Purchases of premises and equipment	(334,380)	(1,200,636)
Purchases of bank-owned life insurance	(158,165)	(283,165)
NET CASH (USED IN) INVESTING ACTIVITIES	(61,723,992)	(148,410,539)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in non-interest-bearing demand deposits	(16,624,350)	4,429,583
Net increase in interest-bearing deposits	53,859,949	98,315,639
Net increase (repayment) of other borrowings	18,000,000	(1,887,060)
Net proceeds from issuance of common stock	-	12,201,587
Cash dividends paid	(697,775)	(386,192)
Net settlement of restricted stock units	(42,558)	(47,788)
NET CASH PROVIDED BY FINANCING ACTIVITIES	54,495,266	112,625,769
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,270,854	(25,861,838)
CASH AND CASH EQUIVALENTS, BEGINNING BALANCE	15,393,207	41,255,045
CASH AND CASH EQUIVALENTS, ENDING BALANCE	$ 16,664,061	$ 15,393,207
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	$ 17,076,906	$ 4,776,036
Income taxes	$ 1,570,341	$ 1,214,937
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Unrealized gain (loss) on securities available-for-sale	$ 173,317	$ (2,653,344)
Unrealized holding losses on securities prior to transfer to held-to-maturity	$ -	$ (10,194,897)
Amortization of unrealized holding losses on securities transferred to held-to-maturity	$ 1,127,534	$ 963,563
Securities transferred from available-for-sale to held-to-maturity	$ -	$ (106,275,366)
Reduction in right-of-use assets from termination of lease liabilities	$ (437,437)	$ (335,588)
Lease liabilities arising from right-of-use assets	$ 460,780	$ 1,331,854

See Notes to the Consolidated Financial Statements

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations:

Community Heritage Financial, Inc. ("CMHF" or the "Company" on a consolidated basis and collectively), is the parent company and sole shareholder of Middletown Valley Bank (the "Bank"). CMHF was established in November 2018 under the laws of the State of Maryland to serve as the holding company for the Bank. Establishment of the holding company occurred subsequent to an affirmative vote by shareholders and receipt of regulatory approval. Upon formation of the holding company, the Company's reorganization was completed through a one-for-one share exchange in which the Bank's shareholders received one share of CMHF's common stock with a par value of $0.01 in exchange for each share of their $1 par value common stock of the Bank. CMHF is regulated under the Bank Holding Company Act of 1956, as amended, and is subject to regulation, supervision, and examination by the Federal Reserve Board.

Middletown Valley Bank is the parent company and sole shareholder of Millennium Financial Group, Inc. ("Mlend"). The Bank is an independent and community-oriented financial institution offering a full range of retail and commercial banking services to individuals and businesses in its market area. Services are primarily provided to customers located in Frederick County and Washington County, Maryland, as well as the surrounding communities through the Bank's network of seven branch locations. Its primary deposit products are demand, savings, and time deposits, and its primary lending products are real estate mortgages, commercial business loans and installment loans.

Middletown Valley Bank began serving customers in 1908 and is headquartered in Middletown, Maryland. The Bank is a Maryland chartered bank subject to regulation, supervision, and examination by the Maryland Office of Commissioner of Financial Regulation and the Federal Deposit Insurance Corporation ("FDIC"). The Bank's deposits are insured by the FDIC up to $250,000 per depositor. In addition to the branch office in Middletown, the Bank also has branches in:

- Jefferson, Maryland,
- Myersville, Maryland
- Boonsboro, Maryland
- Hagerstown, Maryland (2), and
- Waynesboro, Pennsylvania

Millennium Financial Group Inc. is a full-service residential mortgage company, headquartered in Middletown, Maryland with additional lending offices located in Crofton, Maryland and Oakland, Maryland. Mlend is licensed in Maryland, Pennsylvania, Virginia, West Virginia and the District of Columbia and offers a full range of residential mortgage products to homebuyers for home purchases, refinancing and construction. Programs include but are not limited to conventional, USDA, VA, FHA, and Maryland Mortgage Program loans.

Basis of Presentation:

The accounting and reporting policies of the Company conform to generally accepted accounting principles in the United States of America ("GAAP") and to general practices of the banking and mortgage industries.

The consolidated financial statements include the accounts of the Company and all wholly owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation. In preparing consolidated financial statements in conformity with GAAP, 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 change in the near term relate to the determination of the allowance for credit losses and valuation of goodwill.

Reclassifications of certain previously reported amounts, if needed, have been made to conform to current period presentation. No such reclassifications were significant.

A summary of the more significant accounting policies followed in the preparation of the consolidated financial statements are disclosed in Note 1.

Adoption of New Accounting Standards:

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

The Company adopted ASC 326 and all related subsequent amendments thereto effective January 1, 2023 using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. The transition adjustment of the adoption of CECL included an increase in the allowance for credit losses ("ACL") on loans of $867,404, which is presented as a reduction to net loans outstanding, and a decrease in the ACL on unfunded commitments of $76,150, which is recorded within other liabilities. The Company recorded an ACL for held-to-maturity securities of $154,563, which is presented as a reduction to held-to-maturity securities outstanding. The Company recorded a net decrease to retained earnings of $685,528 as of January 1, 2023 for the cumulative effect of adopting CECL, which reflects the transition adjustments noted above, net of the applicable deferred tax assets recorded. Results for reporting periods beginning after January 1, 2023, are presented under CECL while prior period amounts continue to be reported in accordance with previously applicable accounting standards.

The Company adopted ASC 326 using the prospective transition approach for purchase credit deteriorated ("PCD") assets that were previously classified as purchase credit impaired ("PCI") under ASC 310-30. As of January 1, 2023 and December 31, 2023, the Company had no loans classified as PCD.

The Company adopted ASC 326 using the prospective transition approach for debt securities for which other-than-temporary impairment had been recognized prior to January 1, 2023. As of December 31, 2022, the Company did not have any other-than-temporary impaired investment securities. Therefore, upon adoption of ASC 326, the Company determined that an allowance for credit losses on available-for-sale securities was not required.

The Company elected not to measure an ACL for accrued interest receivable and instead elected to reverse interest income on loans or securities that are placed on nonaccrual status, which is generally when the instrument is 90 days past due, or earlier if the Company believes the collection of interest is doubtful. The Company has concluded that this policy results in the timely reversal of uncollectible interest.

The following table illustrates the impact of ASU 2016-13:

	December 31, 2022	January 1, 2023	January 1, 2023
	Pre-CECL Adoption	Impact of CECL Adoption	Post-CECL Adoption
Assets:			
Securities held-to-maturity	$ 101,005,393	$ -	$ 101,005,393
Allowance for credit losses	-	154,563	154,563
Securities held-to-maturity, net	$ 101,005,393	$ (154,563)	$ 100,850,830
Loans, gross	$ 748,450,525	$ -	$ 748,450,525
Allowance for credit losses:			
Commercial real estate	3,272,369	(188,296)	3,084,073
Residential real estate	2,473,645	445,104	2,918,749
Commercial	1,550,572	587,588	2,138,160
Consumer	33,850	23,008	56,858
Allowance for credit losses	7,330,436	867,404	8,197,840
Loans, net	$ 741,120,089	$ (867,404)	$ 740,252,685
Deferred tax assets, net	$ 5,277,275	$ 260,289	$ 5,537,564
Liabilities and Shareholders' Equity:			
Reserve for off-balance sheet exposure	$ 776,520	$ (76,150)	$ 700,370
Shareholders' equity	$ 67,141,158	$ (685,528)	$ 66,455,630

ASU 2022-02:
On January 1, 2023, the Company adopted ASU 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 standards (ASU 2016-13) that introduced the CECL model. The amendments eliminate the accounting guidance for troubled debt restructurings (TDRs) by creditors that have adopted the CECL model and enhance the disclosure requirements for certain loan refinancings ("Loan Modifications") by creditors when a borrower is experiencing financial difficulty. In addition, the amendments required that the Company disclose current-period gross write-offs for financing receivables and net investment in leases by year of origination in the vintage disclosures. The Company adopted the update prospectively and it did not have a material impact on the consolidated financial statements.

Business Segments:

In addition to retail and commercial banking services offered to individuals and businesses, common to most community-oriented financial institutions, the Company operates a mortgage banking business segment. The mortgage banking segment engages primarily in the origination of residential mortgages for sale into the secondary market, unlike other deposit and loan activities conducted by the Company which are done for investment purposes. As of and for the years ended December 31, 2023 and 2022, the mortgage banking segment did not meet the prescribed quantitative thresholds for separate disclosure.

Presentation of Cash Flows:

For the purposes of reporting cash flows, the Company considers cash and cash equivalents as those amounts that are highly liquid instruments with an original maturity of three months or less. They are included in the Consolidated Balance Sheets caption, "Cash and due from banks".

Securities:

Investments in debt securities are classified as either held-to-maturity, available-for-sale, or trading. Currently, the Company holds available-for-sale and held-to-maturity securities. FHLB stock is classified as restricted and carried at cost. Available-for-sale securities are carried at fair value, with unrealized gains and losses that have not been recorded through an allowance for credit losses excluded from earnings and reported in accumulated other comprehensive income (loss). Held-to-maturity securities are carried at amortized cost, before adoption of CECL, and at amortized cost, net of an allowance for credit losses, after adoption of CECL. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Allowance for Credit Losses - Held-to-Maturity Securities
After adoption of CECL, the Company estimates expected credit losses on held-to-maturity securities on an individual basis based on a Probability of Default/Loss Given Default ("PD/LGD) methodology primarily using security-level credit ratings. The primary indicators of credit quality for the Company's held-to-maturity portfolio are security type and credit ratings, which are influenced by several factors including obligor cash flow, geography, seniority, among other factors. The Company's held-to-maturity securities with credit risk are municipal bonds and corporate debt securities. All other held-to-maturity securities are covered by the explicit or implied guarantee of the United States government or one of its agencies.

Changes in the ACL are recorded as a provision for (or recovery of) credit losses in the Consolidated Statements of Income. The Company recorded an ACL for held-to-maturity securities of $154,563 upon adoption of ASC 326. As of December 31, 2023, the ACL for held-to-maturity securities was $103,949.

Accrued interest receivable on held-to-maturity securities totaled $394,561 as of December 31, 2023, and was excluded from the estimate of credit losses.

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

If either of the above criteria is not met, the Company evaluates whether the decline in fair value is the result of credit losses or other factors. In making the assessment, the Company may consider various factors including the extent to which fair value is less than amortized cost, downgrades in the ratings of the security by a rating agency, the failure of the issuer to make scheduled interest or principal payments and adverse conditions specific to the security. If the assessment indicates that a credit loss exists, the present value of cash flows expected to be collected are compared to the amortized cost basis of the security and any deficiency is recorded as an allowance for credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any amount of unrealized loss that has not been recorded through an ACL is recognized in other comprehensive income.

Changes in the ACL are recorded as a provision for (or recovery of) credit losses in the Consolidated Statements of Income. Losses are charged against the ACL when management believes an available-for-sale security is confirmed to be uncollectible or when either of the criteria regarding intent or requirement to sell is met. As of December 31, 2023, there was no ACL related to the available-for-sale securities portfolio.

Accrued interest receivable on available-for-sale securities totaled $267,718 as of December 31, 2023, and was excluded from the estimate of credit losses.

For restricted equity securities, impairment is based on the ultimate recovery of par value. The impairment of a restricted equity security results in a write-down included on the Consolidated Statements of Income.

Gains or losses on the disposition of available-for-sale securities or restricted equity securities are based on the net proceeds and the adjusted carrying amount of the securities, using the specific identification method.

Loans:

Loans are reported at their recorded investment, which is the principal amount outstanding, as adjusted for net deferred fees or cost of loan originations. The balance of the ACL for loans is netted against the recorded investment in loans on the balance sheet. Interest income is accrued on the unpaid principal balance. Loan origination fees and certain direct origination costs are deferred and recognized as an adjustment of the yield on the related loans using the interest method. Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. Accrual of interest on all classes of loans is discontinued either when reasonable doubt exists as to the full, timely collection of interest or principal in accordance with the loan's contractual terms, or when a loan becomes contractually past due by ninety days or more with respect to principal or interest. All interest accrued but not collected for loans placed on nonaccrual or charged off is reversed against interest income. Income on such loans is then recognized only to the extent that cash is received and where the future collection of loan principal is probable. Accruals are resumed on loans only when they are brought fully current with respect to interest and principal and when, in the judgment of management, the loan is estimated to be fully collectible as to both principal and interest. Loans are considered past due when the borrower is not current with their payments in accordance with the contractual terms of their loan agreement.

Management segments the loan portfolio based on risk characteristics into the following loan classes: commercial real estate, residential real estate, commercial, and consumer loans. Characteristics associated with each loan class are detailed below:

- Loans secured by commercial real estate, including residential construction and land development, carry risks associated with the success of the business and the ability to generate a positive cash flow sufficient to service debts. Real estate security diminishes risks only to the extent that a market exists for the subject collateral.
- Residential real estate loans, including home equity loans and excluding construction of a primary or secondary residence, carry risks associated with the continued creditworthiness of the borrower and changes in the value of the collateral.
- Commercial loans not secured by real estate carry risks associated with the successful operation of a business, and the repayments of these loans depend on the profitability and cash flows of the business. Additional risk relates to the value of collateral, if any, where depreciation occurs, and the valuation is less precise.
- Consumer loans carry risks associated with the continued creditworthiness of the borrower and the value of the collateral, such as automobiles, which may depreciate more rapidly than other assets. In addition, these loans may be unsecured. Consumer loans are more likely than real estate loans to be immediately affected in an adverse manner by job loss, divorce, illness, or personal bankruptcy.

Loans Held for Sale:

The Company engages in the sale of residential mortgages, with originations initiated through the Bank and Mlend. Loans originated and intended for sale (Loans Held for Sale) in the secondary market are carried at the lower of cost or market on an individual basis. Gains and losses on loans sold (sales proceeds minus carrying value) are recorded as a component of non-interest income in the Consolidated Statements of Income. Direct loan origination costs and fees are deferred at origination of the loan and are recognized in non-interest income upon the sale of the loan. The servicing of loans held for sale is not retained once the sale is complete.

Loan Modifications and Troubled Debt Restructurings:

Management strives to identify borrowers in financial difficulty early and work with them to modify their loan to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. Prior to the adoption of CECL, these modifications were classified as TDRs.

On January 1, 2023, the Company adopted ASU 2022-02, which eliminated the accounting guidance for TDRs by creditors that have adopted the CECL model and enhanced the disclosure requirements for certain loan refinancings ("Loan Modifications") by creditors when a borrower is experiencing financial difficulty.

Loan Modifications exclude modifications with insignificant payment delays. ASU 2022-02 identifies the following factors when determining if a modification has an insignificant payment delay: (i) the amount of the restructured payments subject to the delay is insignificant relative to the unpaid principal or collateral value of the debt and will result in an insignificant shortfall in the contractual amount due, and (ii) the delay in timing of the restructured payment period is insignificant relative to the frequency of payments due under the debt, the debt's original contractual maturity or the debt's original expected duration.

The ACL incorporates an estimate of lifetime expected credit losses and is recorded upon asset origination or acquisition. The starting point for the calculation of the ACL is historical loss information, which includes losses from modifications of receivables to borrowers experiencing financial difficulties. Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the ACL, a change to the ACL is generally not recorded upon Loan Modification. When principal forgiveness is provided, the amount is deemed uncollectible and is written off against the ACL. The amortized cost basis of the asset is reduced, resulting in a corresponding adjustment to the ACL.

The Company made no Loan Modifications to borrowers experiencing financial difficulty during the year ended December 31, 2023.

<u>Troubled Debt Restructurings – prior to adoption of CECL and ASU 2022-02</u>
In cases where borrowers were granted new terms that provided for a reduction of either interest or principal, management measured any impairment on the restructuring as noted below in "Allowance for Credit Losses – Incurred Loss Method prior to CECL Adoption". As of December 31, 2022, TDRs totaled $1,578,921. There were no commitments to lend additional funds to these borrowers as of December 31, 2022.

During 2020, the Bank approved payment deferrals for customers experiencing hardships related to COVID-19. These deferrals were for no more than six months in duration and for loans that were not more than 30 days past due as of December 31, 2019. However, there were three loans included in the COVID-19 loan deferral program for which payment deferrals were deferred until maturity. These loans were not considered TDRs based on the relief provisions of the Coronavirus Aid, Relief and Economic Security ("CARES") Act and later interagency regulatory guidance. As of December 31, 2023 and 2022, the principal balance of the three loans totaled $2,353,859 and $2,691,239, respectively.

Allowance for Credit Losses for Loans:

The ACL for loans represents an amount which, in management's judgment, is adequate to absorb the lifetime expected losses that may be sustained on outstanding loans at the balance sheet date based on the evaluation of the size and current risk characteristics of the loan portfolio, past events, current economic conditions, reasonable and supportable forecasts of future economic conditions, and payment experience. The ACL for loans is measured and recorded upon the initial recognition of a financial asset. The ACL for loans is reduced by charge-offs, net of recoveries of previous losses, and is increased or decreased by a provision for (or recovery of) credit losses, which is recorded in the Consolidated Statements of Income. The ACL for loans is determined for two distinct categories of loans: (i) loans evaluated collectively, and (ii) loans evaluated individually for credit losses.

Loans Evaluated Collectively: The Company is utilizing a discounted cash flow model to estimate its current expected credit losses. For the purposes of calculating its quantitative reserves, the Company has segmented its loan portfolio based on loans which share similar risk characteristics. Within the quantitative portion of the calculation, the Company utilizes at least one or a combination of loss drivers, which may include unemployment rates, home price indices, and/or gross domestic product ("GDP), to adjust its loss rates over a reasonable and supportable forecast period of one year. A straight-line reversion technique is used for the following eight quarters, at which time the Company reverts to historical averages. To further adjust the ACL for expected losses not already included within the quantitative component of the calculation, the Company may consider qualitative factors, including but not limited to: variability in the economic forecast, changes in volume and severity of adversely classified loans, changes in concentrations of credit, changes in the nature and volume of the loan segments, factors related to credit administration, and other idiosyncratic risks not embedded in the data used in the model.

Loans Evaluated Individually: Loans that do not share risk characteristics with loans evaluated collectively are evaluated on an individual basis. The Company designates all loans on nonaccrual status and loans risk rated Substandard or worse to be evaluated individually. The ACL for loans that are evaluated individually may be determined based on their expected cash flows. In the case of loans for which repayment is expected substantially through the sale of collateral, the Company has adopted the practical expedient to measure the ACL based on the fair value of collateral. The ACL is calculated based on the shortfall between the fair value of the loan's collateral, which is adjusted for liquidation costs/discounts, and loan's amortized cost. If the fair value of the collateral exceeds the amortized cost, no ACL is required. Conversely, a specific ACL would be required.

The following is a summary of the Company's internal risk rating categories:

- Pass – these loans do not currently pose undue credit risk and can range from average to highest quality, depending on the degree of potential risk.
- Special Mention – these loans have a heightened credit risk, but not to the point of justifying a classification of Substandard. Loans in this category are currently acceptable but are nevertheless potentially weak.
- Substandard or Worse – these loans are inadequately protected by the paying capacity and current financial strength of the borrower. There exists a well-defined weakness or weaknesses that jeopardize the repayment of the debt.

The adoption of CECL did not result in significant change in any other credit risk management and monitoring processes, including identification of past due or delinquent borrowers, nonaccrual practices or charge-off policy.

Reserves for Off-balance Sheet Credit Exposures

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

The Company records a reserve for off-balance sheet credit exposures ("Reserve for OBS"), unless the commitments to extend credit are unconditionally cancelable, through a charge to provision for (or recovery of) credit losses in the Consolidated Statements of Income. The Reserve for OBS is estimated by loan segment at each balance sheet date under the current expected credit losses model using the same methodology as the loan portfolio, taking into consideration the likelihood that funding will occur as well as any third-party guarantees. The Reserve for OBS is included in other liabilities on the Company's Consolidated Balance Sheets and totaled $451,213 as of December 31, 2023, $700,370 as of January 1, 2023, upon the adoption of CECL, and $776,520 as of December 31, 2022.

Accrued Interest Receivable

The Company elected to exclude the accrued interest from the amortized cost basis in its determination of the ACL for loans and to write-off accrued interest receivable directly through the reversal of interest income. Accrued interest receivable for loans totaled $2,262,236 as of December 31, 2023, and is included in "Accrued Interest Receivable" on the Company's Consolidated Balance Sheets.

Allowance for Credit Losses – Incurred Loss Method prior to CECL Adoption:

As of December 31, 2022, the ACL totaled $7,330,436, a balance deemed appropriate by management to provide for known and inherent losses that are probable within the loan portfolio. The ACL is an amount that management believes will be adequate to absorb probable losses on existing loans, based on evaluations of the collectability of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrowers' ability to pay. The evaluations are inherently subjective as they require estimates that are susceptible to significant revision as more information becomes available. Loans deemed uncollectible are charged off and deducted from the ACL, while subsequent recoveries are credited to the ACL.

The ACL consists of specific and general components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, a specific allowance is established when the present value of expected future cash flows, the observable market price, or the fair value of the collateral, if the loan is collateral dependent, of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical losses adjusted for qualitative factors.

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

Large groups of smaller balance consumer loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer loans for impairment disclosures, unless such loans are the subject of a restructuring agreement and classified as a TDR.

As the first step in determining the general component of the allowance for credit losses, management calculates the historical loss percentage. The historical loss percentage is calculated based on the Bank's experience as well as the experience of its peers. In instances where the Bank has not experienced losses, peer information will be used. The historical loss percentage calculated is applied to the quarter end balance of each portfolio segment. The historical component is further adjusted by management's evaluation of various conditions per segment including the economy, trends in portfolio volume, concentrations, changes in experience and depth of lending staff, trends in problem loans, and trends in collateral and debt ratio exceptions.

Transfers of Financial Assets:

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (i) the assets have been isolated from the Bank – put presumptively beyond reach of the transferor and its creditors, even in bankruptcy or other receivership, (ii) 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 (iii) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Other Real Estate Owned:

Properties acquired by foreclosure, or deed in lieu of foreclosure are initially recorded at fair value less cost to sell and subsequently at the lower of the initially recorded amount and capitalized costs or estimated fair value less cost to sell. Costs of carrying the real estate are charged to expense. As of December 31, 2023, and 2022, the Bank had no other real estate owned. As of December 31, 2023, and 2022, the Bank had no consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process.

Paycheck Protection Program:

Beginning in April 2020, the Bank originated loans under the Paycheck Protection Program (PPP) of the Small Business Administration (SBA). All PPP loans were repaid or forgiven by June 30, 2022. During 2022, the Company recognized the remaining unamortized net deferred fees of $416,123 as interest income.

Premises and Equipment:

Land is carried at cost. Premises and equipment, including construction of major capital additions, are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis. The estimated useful lives for computing depreciation on premises and equipment range from 3 to 50 years in each of these categories. Maintenance and repairs are charged to operating expenses as incurred.

Bank-Owned Life Insurance:

The Bank owns life insurance policies on certain key executives and other officers. Bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value. Any increase in the cash surrender value is recorded as non-interest income in the Consolidated Statements of Income. In the event of the death of an individual under these policies, the Bank would receive a death benefit which would also be recorded as non-interest income on the Consolidated Statements of Income. No such death benefits were received during 2023 or 2022.

Equity-Based Compensation:

Compensation cost is recognized for equity awards issued to employees, based on the fair value of these awards at the date of grant using an observable market price. The Company classifies stock awards as equity. Compensation cost is recognized over the required service period on a straight-line basis. The Company's accounting policy is to recognize forfeitures as they occur.

Earnings Per Common Share:

Basic earnings per common share ("EPS") represent income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted EPS is calculated by assuming dilution of common shares and adjusting net income for compensation cost attributable to the equity-based compensation plan. Basic average shares outstanding for the years ending December 31, 2023 and 2022 were 2,907,304 and 2,408,516, respectively. Diluted average shares outstanding were 2,928,985 and 2,410,177 for the years ended December 31, 2023 and 2022, respectively. Basic earnings per share were $1.48 and $2.85 for the years ended December 31, 2023 and 2022, respectively. Diluted earnings per share were $1.47 and $2.84 for the years ended December 31, 2023 and December 31, 2022, respectively.

Income Taxes:

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences, operating loss carryforwards, and tax credit carryforwards. Deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits, if any, in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the Consolidated Statements of Income. As of December 31, 2023, and 2022, there was no liability recorded for unrecognized tax benefits.

Advertising Costs:

The Company accounts for its advertising costs as a charge to operations as the costs are incurred. Advertising costs were $301,300 and $276,520 for the years ended December 31, 2023 and 2022, respectively, and are included in other non-interest expenses in the Consolidated Statements of Income.

Comprehensive Income (Loss):

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on the available-for-sale security portfolio, are reported as a separate component of the equity section of the consolidated balance sheet, such items, along with net income, are components of other comprehensive income (loss). All the Company's other comprehensive income (loss) relates to unrealized gains and losses on the available-for-sale securities portfolio for the year ended December 31, 2023 and December 31, 2022.

Restrictions on Retained Earnings:

According to certain banking regulations, there is a restriction on availability of the Bank's retained earnings for the payment of dividends.

Goodwill and Other Intangible Assets:

Goodwill arises from business combinations and is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized but tested for impairment at least annually or more frequently if events and circumstances exists that indicate that a goodwill impairment test should be performed. The Company performs an annual goodwill impairment test, which is generally conducted in the fourth quarter. As of December 31, 2023, and 2022 there was no impairment to goodwill. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. There is no intangible amortization expense in 2023. Intangible amortization expense was $695 in 2022.

Recent Accounting Pronouncements:

In June 2022, the Financial Accounting Standards Board (FASB) issued ASU 2022-03, "Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions." ASU 2022-03 clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The ASU is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2023. Early adoption is permitted. The Company does not expect the adoption of ASU 2022-03 to have a material impact on its consolidated financial statements.

In December 2022, FASB issued ASU 2022-06, "Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848." ASU 2022-06 extends the period of time preparers can utilize the reference rate reform relief guidance provided in ASU-2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting" to December 31, 2024. The Company is assessing ASU 2022-06 and its impact on the Company's transition away from LIBOR for its loan and other financial instruments.

In March 2023, the Financial Accounting Standards Board (FASB) issued ASU 2023-01, "Leases (Topic 842): Common Control Arrangements." These amendments require entities to amortize leasehold improvements associated with common control leases over the useful life to the common control group. The ASU is effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted. If an entity adopts the amendments in an interim period, it must adopt them as of the beginning of the fiscal year that includes that interim period. Transition can be done either retrospectively or prospectively. The Company does not expect the adoption of ASU 2023-01 to have a material impact on its consolidated financial statements.

In November 2023, the Financial Accounting Standards Board (FASB) issued ASU 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures." The amendments in this ASU are intended to improve reportable segment disclosure requirements primarily through enhanced disclosures about significant segment expenses. This ASU requires disclosure of significant segment expenses that are regularly provided to the chief operating decision mark (CODM), an amount for other segment items by reportable segment and a description of its composition, all annual disclosures required by FASB ASU Topic 280 in interim periods as well, and the title and position of the CODM and how the CODM uses the reported measures. Additionally, this ASU requires that at least one of the reported segment profit and loss measures should be the measure that is most consistent with the measurement principles used in an entity's consolidated financial statements. Lastly, this ASU requires public business entities with a single reportable segment to provide all disclosures required by these amendments in this ASU and all existing segment disclosures in Topic 280. This ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The amendments should be applied retrospectively. The Company does not expect the adoption of ASU 2023-07 to have a material impact on its consolidated financial statements.

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 Company does not expect the adoption of ASU 2023-09 to have a material impact on its consolidated financial statements.

Note 2. Earnings Per Common Share (EPS)

Basic EPS excludes dilution and is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. The basic and diluted earnings per share calculations for the years ended December 31, 2023 and 2022 are as follows:

	2023	2022
Numerator:		
Net income available to shareholders	$ 4,295,162	$ 6,855,504
Basic EPS weighted average shares outstanding	2,907,304	2,408,516
Effect of dilutive securities:		
Incrementable shares attributable to restricted stock units	21,681	1,661
Diluted EPS weighted-average shares	2,928,985	2,410,177
Basic earnings per common share	$ 1.48	$ 2.85
Diluted earnings per common share	$ 1.47	$ 2.84

Note 3. Goodwill and Other Intangibles

Goodwill and other intangibles were recorded with CMHF's acquisition of Mlend in 2019. As of December 31, 2022, other intangibles, which totaled $25,000 and were composed solely of a non-compete agreement, had been fully amortized. Amortization during 2022 totaled $695. Goodwill associated with the transaction totaled $1,656,507 as of December 31, 2023 and 2022.

Note 4. Investment Securities

The amortized cost and estimated fair value of securities available-for-sale and held-to-maturity (with gross unrealized gains and losses) as of December 31, 2023 and 2022, and allowance for credit losses as of December 31, 2023 were as follows:

As of December 31, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Allowance for Credit Losses
Securities Available-for-Sale:					
U.S. Government Agency	$ 3,497,829	$ -	$ (466,684)	$ 3,031,145	$ -
Mortgage-Backed	16,507,803	7,420	(1,109,204)	15,406,019	-
Municipal	7,277,495	3,593	(403,477)	6,877,611	-
Corporate	17,356,673	30,494	(1,774,856)	15,612,311	-
Total AFS	44,639,800	41,507	(3,754,221)	40,927,086	-
Securities Held-to-Maturity:					
U.S. Government Agency	1,924,760	-	(132,110)	1,792,650	-
Mortgage-Backed	58,748,163	1,139	(5,514,879)	53,234,423	-
Municipal	28,630,015	-	(2,090,302)	26,539,713	(2,371)
Corporate	6,808,688	-	(369,122)	6,439,566	(101,578)
Total HTM	96,111,626	1,139	(8,106,413)	88,006,352	(103,949)
Total Securities:					
U.S. Government Agency	5,422,589	-	(598,794)	4,823,795	-
Mortgage-Backed	75,255,966	8,559	(6,624,083)	68,640,442	-
Municipal	35,907,510	3,593	(2,493,779)	33,417,324	(2,371)
Corporate	24,165,361	30,494	(2,143,978)	22,051,877	(101,578)
Total	$ 140,751,426	$ 42,646	$ (11,860,634)	$ 128,933,438	$ (103,949)

As of December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities Available-for-Sale:				
U.S. Government Agency	$ 3,512,807	$ -	$ (454,607)	$ 3,058,200
Mortgage-Backed	15,152,271	-	(1,475,948)	13,676,323
Municipal	7,352,152	3,225	(604,817)	6,750,560
Corporate	17,379,286	231,980	(1,585,863)	16,025,403
Total AFS	43,396,516	235,205	(4,121,235)	39,510,486
Securities Held-to-Maturity:				
U.S. Government Agency	1,892,611	-	(177,591)	1,715,020
Mortgage-Backed	63,844,269	-	(6,327,727)	57,516,542
Municipal	28,530,524	-	(3,296,092)	25,234,432
Corporate	6,737,989	-	(518,886)	6,219,103
Total HTM	101,005,393	-	(10,320,296)	90,685,097
Total Securities:				
U.S. Government Agency	5,405,418	-	(632,198)	4,773,220
Mortgage-Backed	78,996,540	-	(7,803,675)	71,192,865
Municipal	35,882,676	3,225	(3,900,909)	31,984,992
Corporate	24,117,275	231,980	(2,104,749)	22,244,506
Total	$ 144,401,909	$ 235,205	$ (14,441,531)	$ 130,195,583

Securities carried at estimated fair value of $69,250,813 and $10,966,126 as of December 31, 2023 and 2022 respectively, were pledged to secure public funds and for other purposes as required or permitted by law. The Company recognized no gross gains or gross losses on sales of securities in 2023 or 2022.

On April 1, 2022, the Company transferred 112 securities designated as available-for-sale with a combined book value of $116,470,263, market value of $106,275,366, and unrealized loss of $10,194,897 to held-to-maturity. The unrealized loss is amortized monthly over the life of the securities with an increase to the carrying value of the securities and a decrease to the related accumulated other comprehensive loss and is included in the shareholders' equity section of the Company's Consolidated Balance Sheets. The amortization of the unrealized loss on the transferred securities totaled $1,127,534, or $817,237 net of tax and $963,563, or $698,390 net of tax, for the years ended December 31, 2023 and 2022, respectively.

The securities selected for transfer had larger potential decreases in their fair market values in higher interest rate environments than most of the other securities in the available-for-sale portfolio and included agency, municipal, mortgage-backed and corporate securities. The securities were transferred to mitigate the potential unfavorable impact that higher interest rates may have on the carrying value of the securities and on the related accumulated other comprehensive loss. Securities designated as held-to-maturity are carried on the balance sheet at amortized cost, while securities designated as available-for-sale are carried at fair market value.

The amortized cost and estimated fair value of debt securities as of December 31, 2023 and 2022, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties:

	Securities Available-for-Sale		Securities Held-to-Maturity		Total Securities	
As of December 31, 2023	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due one year or less	$ -	$ -	$ -	$ -	$ -	$ -
Due after one year through five years	9,931,576	9,321,210	8,880,152	8,406,309	18,811,728	17,727,519
Due after five years through ten years	20,379,195	18,173,725	11,041,159	10,352,292	31,420,354	28,526,017
Due after ten years	14,329,029	13,432,151	76,190,315	69,247,751	90,519,344	82,679,902
	$ 44,639,800	$ 40,927,086	$ 96,111,626	$ 88,006,352	$ 140,751,426	$ 128,933,438

	Securities Available-for-Sale		Securities Held-to-Maturity		Total Securities	
As of December 31, 2022	Amortized Cost	Estimated Fair	Amortized Cost	Estimated Fair	Amortized Cost	Estimated Fair
Due one year or less	$ -	$ -	$ -	$ -	$ -	$ -
Due after one year through five years	9,959,504	9,071,754	3,572,297	3,320,162	13,531,801	12,391,916
Due after five years through ten years	19,860,940	18,157,606	11,722,305	10,674,122	31,583,245	28,831,728
Due after ten years	13,576,072	12,281,126	85,710,791	76,690,813	99,286,863	88,971,939
	$ 43,396,516	$ 39,510,486	$ 101,005,393	$ 90,685,097	$ 144,401,909	$ 130,195,583

The following tables show the securities available-for-sale and held-to-maturity with gross unrealized losses and estimated fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2023 and 2022:

		Less than Twelve Months		Twelve Months or Greater		Total	
As of December 31, 2023	No. of Securities	Estimated Fair Value	Gross Unrealized	Estimated Fair Value	Gross Unrealized	Estimated Fair Value	Gross Unrealized
Securities Available-for-Sale:							
U.S. Government Agency	2	$ -	$ -	$ 3,031,145	$ (466,684)	$ 3,031,145	$ (466,684)
Mortgage-Backed	13	1,789,250	(8,748)	11,801,020	(1,100,456)	13,590,270	(1,109,204)
Municipal	12	-	-	6,363,059	(403,477)	6,363,059	(403,477)
Corporate	22	224,938	(32,599)	14,221,864	(1,742,257)	14,446,802	(1,774,856)
Total AFS	49	2,014,188	(41,347)	35,417,088	(3,712,874)	37,431,276	(3,754,221)
Securities Held-to-Maturity:							
U.S. Government Agency	2	-	-	1,792,650	(132,110)	1,792,650	(132,110)
Mortgage-Backed	59	-	-	53,116,342	(5,514,879)	53,116,342	(5,514,879)
Municipal	41	1,807,158	(46,742)	24,732,555	(2,043,560)	26,539,713	(2,090,302)
Corporate	9	-	-	6,439,566	(369,122)	6,439,566	(369,122)
Total HTM	111	1,807,158	(46,742)	86,081,113	(8,059,671)	87,888,271	(8,106,413)
Total Securities:							
U.S. Government Agency	4	-	-	4,823,795	(598,794)	4,823,795	(598,794)
Mortgage-Backed	72	1,789,250	(8,748)	64,917,362	(6,615,335)	66,706,612	(6,624,083)
Municipal	53	1,807,158	(46,742)	31,095,614	(2,447,037)	32,902,772	(2,493,779)
Corporate	31	224,938	(32,599)	20,661,430	(2,111,379)	20,886,368	(2,143,978)
Total	160	$ 3,821,346	$ (88,089)	$ 121,498,201	$ (11,772,545)	$ 125,319,547	$ (11,860,634)

As of December 31, 2022	No. of Securities	Less than Twelve Months Estimated Fair Value	Less than Twelve Months Gross Unrealized	Twelve Months or Greater Estimated Fair Value	Twelve Months or Greater Gross Unrealized	Total Estimated Fair Value	Total Gross Unrealized
Securities Available-for-Sale:							
U.S. Government Agency	2	$ -	$ -	$ 3,058,200	$ (454,607)	$ 3,058,200	$ (454,607)
Mortgage-Backed	12	6,377,966	(416,689)	7,298,357	(1,059,259)	13,676,323	(1,475,948)
Municipal	12	4,016,307	(224,220)	2,220,443	(380,597)	6,236,750	(604,817)
Corporate	21	7,052,843	(624,707)	6,373,616	(961,156)	13,426,459	(1,585,863)
Total AFS	47	17,447,116	(1,265,616)	18,950,616	(2,855,619)	36,397,732	(4,121,235)
Securities Held-to-Maturity:							
U.S. Government Agency	2	-	-	1,715,020	(177,591)	1,715,020	(177,591)
Mortgage-Backed	60	8,135,749	(767,032)	49,380,794	(5,560,695)	57,516,543	(6,327,727)
Municipal	41	8,517,796	(972,010)	16,716,636	(2,324,082)	25,234,432	(3,296,092)
Corporate	9	819,331	(73,901)	5,399,772	(444,985)	6,219,103	(518,886)
Total HTM	112	17,472,876	(1,812,943)	73,212,222	(8,507,353)	90,685,098	(10,320,296)
Total Securities:							
U.S. Government Agency	4	-	-	4,773,220	(632,198)	4,773,220	(632,198)
Mortgage-Backed	72	14,513,715	(1,183,721)	56,679,151	(6,619,954)	71,192,866	(7,803,675)
Municipal	53	12,534,103	(1,196,230)	18,937,079	(2,704,679)	31,471,182	(3,900,909)
Corporate	30	7,872,174	(698,608)	11,773,388	(1,406,141)	19,645,562	(2,104,749)
Total	159	$ 34,919,992	$ (3,078,559)	$ 92,162,838	$ (11,362,972)	$ 127,082,830	$ (14,441,531)

Management evaluates securities for impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. As of December 31, 2023 the Bank had 157 available-for-sale and held-to-maturity securities totaling $134,405,763 that had been in an unrealized loss position for twelve consecutive months or longer. The unrealized losses on debt securities were reflective of interest rate fluctuations and were not a reflection of credit deterioration. Because the Bank does not intend to sell these investments and it is more likely than not that the Bank will not be required to sell these investments before recovery of the amortized cost basis, which may be maturity, the Bank does not consider these investments to be impaired as of December 31, 2023 and no ACL has been recorded.

Credit Quality Indicators and Allowance for Credit Losses – Held-to-Maturity Securities

The Company monitors the credit quality of debt securities held-to-maturity using credit ratings provided by Moody's and S&P. The Company monitors the credit ratings quarterly. The amortized cost of debt securities held-to-maturity as of December 31, 2023, aggregated by credit quality indicators, is as follows:

As of December 31, 2023	U.S. Government Agency	Mortgage-Backed	Municipal	Corporate	Total
Aaa / AAA	$ -	$ -	$ 6,720,107	$ -	$ 6,720,107
Aa / AA	1,924,760	-	21,909,908	1,943,310	25,777,978
A	-	-	-	3,013,892	3,013,892
Baa / BBB	-	-	-	1,851,486	1,851,486
Not rated	-	-	-	-	-
U.S. Agencies/Sponsored Agencies	-	58,748,163	-	-	58,748,163
Total	$ 1,924,760	$ 58,748,163	$ 28,630,015	$ 6,808,688	$ 96,111,626

The following table summarizes the change in the allowance for credit losses for held-to-maturity securities for the year ended December 31, 2023:

As of and for the year ended December 31, 2023	U.S. Government Agency	Mortgage-Backed	Municipal	Corporate	Total
Beginning balance	$ -	$ -	$ -	$ -	$ -
Impact of CECL adoption	-	-	841	153,722	154,563
Provision for credit losses	-	-	1,530	(52,144)	(50,614)
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
Ending balance	$ -	$ -	$ 2,371	$ 101,578	$ 103,949

As of December 31, 2023, there were no held-to-maturity securities past due 30-days or more as to principal or interest payments nor were any securities held-to-maturity classified as nonaccrual.

Note 5. Loans, Allowance for Credit Losses and Credit Quality

Loans

Loans outstanding, the ACL for loans and the reserve for off-balance sheet credit exposures ("Reserve for OBS") as of December 31, 2023 and 2022, are as follows:

	2023		2022	
	Amount	Percent	Amount	Percent
Commercial real estate:				
Construction and land development	$ 89,525,228	11.1%	$ 70,396,959	9.4%
Multifamily	21,784,953	2.7%	23,679,358	3.2%
Other	287,430,613	35.5%	267,799,528	35.9%
Residential real estate	280,523,837	34.7%	231,904,389	31.1%
Commercial	128,933,413	15.9%	150,421,114	20.2%
Consumer	1,203,039	0.1%	1,160,983	0.2%
Total gross loans	$ 809,401,083	100.0%	$ 745,362,331	100.0%
Net deferred loan costs	3,531,789		3,088,194	
Allowance for credit losses	(7,742,297)		(7,330,436)	
Total net loans	$ 805,190,575		$ 741,120,089	
Reserve for off-balance sheet credit exposures (1)	$ 451,213		$ 776,520	

(1) Included in other liabilities on the Consolidated Balance Sheets.

As of December 31, 2023 and 2022, overdraft deposits reclassified as loans totaled $74,168 and $249,034, respectively.

Allowance for Credit Losses

The following tables summarize the activity in the ACL for loans by loan class and the Reserve for OBS for the years ended December 31, 2023 and 2022:

	ACL for Loans					
As of and for the year ended December 31, 2023:	Commercial Real Estate	Residential Real Estate	Commercial	Consumer	Total	Reserve for OBS
Beginning balance	$ 3,272,369	$ 2,473,645	$ 1,550,572	$ 33,850	$ 7,330,436	$ 776,520
Impact of CECL adoption	(188,296)	445,104	587,588	23,008	867,404	(76,150)
Provision for credit losses	(69,909)	232,423	(610,998)	925	(447,559)	(249,157)
Charge-offs	-	-	(19,984)	-	(19,984)	-
Recoveries	-	-	12,000	-	12,000	-
Ending Balance	$ 3,014,164	$ 3,151,172	$ 1,519,178	$ 57,783	$ 7,742,297	$ 451,213

	ACL for Loans					
As of and for the year ended December 31, 2022:	Commercial Real Estate	Residential Real Estate	Commercial	Consumer	Total	Reserve for OBS
Beginning balance	$ 2,855,744	$ 1,747,451	$ 1,849,474	$ 47,021	$ 6,499,690	$ 985,953
Provision for credit losses	416,625	733,302	(342,571)	5,499	812,855	(209,433)
Charge-offs	-	(7,108)	-	(18,670)	(25,778)	-
Recoveries	-	-	43,669	-	43,669	-
Ending Balance	$ 3,272,369	$ 2,473,645	$ 1,550,572	$ 33,850	$ 7,330,436	$ 776,520

The provision for credit losses on off-balance sheet credit exposures for the year ended December 31, 2022 of $209,433 was recorded in non-interest expense on the consolidated statements of income.

The following tables summarize the ACL for loans by individually evaluated and collectively evaluated loans and by loan class as of December 31, 2023 and 2022:

As of December 31, 2023	Commercial Real Estate	Residential Real Estate	Commercial	Consumer	Total
Individually evaluated	$ -	-	73,748	20,000	$ 93,748
Collectively evaluated	3,014,164	3,151,172	1,445,430	37,783	7,648,549
Total	$ 3,014,164	$ 3,151,172	$ 1,519,178	$ 57,783	$ 7,742,297

As of December 31, 2022	Commercial Real Estate	Residential Real Estate	Commercial	Consumer	Total
Individually evaluated	$ -	$ -	$ 47,195	$ 20,000	$ 67,195
Collectively evaluated	3,272,369	2,473,645	1,503,377	13,850	7,263,241
Total	$ 3,272,369	$ 2,473,645	$ 1,550,572	$ 33,850	$ 7,330,436

The following tables summarize the loan portfolio by individually evaluated and collectively evaluated loans and by loan class as of December 31, 2023 and 2022:

As of December 31, 2023	Commercial Real Estate	Residential Real Estate	Commercial	Consumer	Total
Individually evaluated	$ 303,992	$ 1,256,644	$ 58,747	$ 20,000	$ 1,639,383
Collectively evaluated	398,436,802	279,267,193	128,874,666	1,183,039	807,761,700
Total	$ 398,740,794	$ 280,523,837	$ 128,933,413	$ 1,203,039	$ 809,401,083

As of December 31, 2022	Commercial Real Estate	Residential Real Estate	Commercial	Consumer	Total
Individually evaluated	$ 44,919	$ 2,360,627	$ 47,195	$ 20,000	$ 2,472,741
Collectively evaluated	361,830,926	229,543,762	150,373,919	1,140,983	742,889,590
Total	$ 361,875,845	$ 231,904,389	$ 150,421,114	$ 1,160,983	$ 745,362,331

Individually evaluated loans include collateral dependent loans. A loan is considered collateral dependent when, based on management's assessment, the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. In such cases, expected credit losses are based on the fair value of the collateral. The fair value of the collateral supporting a collateral dependent loan is generally evaluated based on a current appraisal. The underlying collateral may vary based on loan type.

The following table presents individually evaluated collateral dependent loans by loan class and collateral type as of December 31, 2023:

	Real Estate Secured	Non-Real Estate Secured	Total Collateral Dependent Loans	ACL Recorded on Collateral Dependent Loans
Commercial Real Estate:				
Construction and land development	$ -	$ -	$ -	$ -
Multifamily	-	-	-	-
Other	303,992	-	303,992	-
Residential Real Estate	1,256,644	-	1,256,644	-
Commercial	58,747	-	58,747	73,748
Consumer	-	-	-	-
Total	$ 1,619,383	$ -	$ 1,619,383	$ 73,748

During the year ended December 31, 2023, the Company made no loan modifications to borrowers experiencing financial difficulty.

Credit Quality

Management evaluates the credit quality of all loans based on an internal grading system that estimates the capability of the borrower to repay the contractual terms of their loan agreement as scheduled or at all. The Bank's internal risk grading is based on experiences with similarly graded loans. The migration of loans through the various internal risk categories is a significant component of the ACL methodology under the CECL and incurred loss models. Assigning risk ratings involves judgement. Risk ratings may be changed based on new information obtained and the ongoing monitoring procedures performed by loan officers, credit staff or third-party loan review consultants engaged by the Bank. The Bank uses the following definitions for adverse risk ratings:

- **Pass** – these loans do not currently pose undue credit risk and can range from average to highest quality, depending on the degree of potential risk.

- **Special Mention** – these loans have a heightened credit risk, but not to the point of justifying a classification of Substandard. Loans in this category are currently acceptable but are nevertheless potentially weak.

- **Substandard or Worse** – these loans are inadequately protected by the paying capacity and current financial strength of the borrower. There exists a well-defined weakness or weaknesses that jeopardize the repayment of the debt.

The following table presents designated internal risk categories by loan class and by origination year, as of December 31, 2023:

	Term Loans - by Origination Year						Revolving Loans	Revolving Loans converted to Term Loans in 2023	Total
	2023	2022	2021	2020	2019	Prior			
Commercial real estate:									
Construction and land development:									
Pass	$ 21,357,373	$ 27,058,172	$ 19,275,714	$ 4,499,574	$ 2,745,033	$ 9,001,984	$ 5,587,378	$ -	$ 89,525,228
Special Mention	-	-	-	-	-	-	-	-	-
Substandard or Worse	-	-	-	-	-	-	-	-	-
Total	21,357,373	27,058,172	19,275,714	4,499,574	2,745,033	9,001,984	5,587,378	-	89,525,228
Charge-offs during the year 2023	-	-	-	-	-	-	-	-	-
Multifamily:									
Pass	400,000	12,709,392	1,132,117	4,057,004	332,685	3,153,755	-	-	21,784,953
Special Mention	-	-	-	-	-	-	-	-	-
Substandard or Worse	-	-	-	-	-	-	-	-	-
Total	400,000	12,709,392	1,132,117	4,057,004	332,685	3,153,755	-	-	21,784,953
Charge-offs during the year 2023	-	-	-	-	-	-	-	-	-
Other:									
Pass	29,092,696	59,467,906	48,979,923	37,751,052	30,963,029	77,372,707	3,499,308	-	287,126,621
Special Mention	-	-	-	-	-	-	-	-	-
Substandard or Worse	-	-	-	-	-	257,962	46,030	-	303,992
Total	29,092,696	59,467,906	48,979,923	37,751,052	30,963,029	77,630,669	3,545,338	-	287,430,613
Charge-offs during the year 2023	-	-	-	-	-	-	-	-	-
Residential real estate:									
Pass	43,187,863	96,477,656	54,140,102	18,049,366	7,138,390	28,804,163	26,331,424	3,887,034	278,015,998
Special Mention	-	-	-	-	-	-	-	-	-
Substandard or Worse	-	-	-	-	-	2,442,062	65,777	-	2,507,839
Total	43,187,863	96,477,656	54,140,102	18,049,366	7,138,390	31,246,225	26,397,201	3,887,034	280,523,837
Charge-offs during the year 2023	-	-	-	-	-	-	-	-	-
Commercial:									
Pass	18,676,725	25,934,264	13,493,623	14,327,011	11,295,321	9,419,438	35,710,813	17,470	128,874,665
Special Mention	-	-	34,055	-	-	-	24,693	-	58,748
Substandard or Worse	-	-	-	-	-	-	-	-	-
Total	18,676,725	25,934,264	13,527,678	14,327,011	11,295,321	9,419,438	35,735,506	17,470	128,933,413
Charge-offs during the year 2023	-	-	-	-	(19,984)	-	-	-	(19,984)
Consumer:									
Pass	620,024	110,578	31,982	9,781	25,878	4,138	380,658	-	1,183,039
Special Mention	-	-	-	-	-	-	-	-	-
Substandard or Worse	-	-	-	-	-	-	20,000	-	20,000
Total	620,024	110,578	31,982	9,781	25,878	4,138	400,658	-	1,203,039
Charge-offs during the year 2023	-	-	-	-	-	-	-	-	-
Total:									
Pass	113,334,681	221,757,968	137,053,461	78,693,788	52,500,336	127,756,185	71,509,581	3,904,504	806,510,504
Special Mention	-	-	34,055	-	-	-	24,693	-	58,748
Substandard or Worse	-	-	-	-	-	2,700,024	131,807	-	2,831,831
Total	113,334,681	221,757,968	137,087,516	78,693,788	52,500,336	130,456,209	71,666,081	3,904,504	809,401,083
Charge-offs during the year 2023	-	-	-	-	(19,984)	-	-	-	(19,984)

The information present in the preceding table is not required to be disclosed for periods prior to the adoption of CECL. The following tables presents the most comparable required information as of December 31, 2022:

	Pass	Special Mention	Substandard or Lower	Total
Commercial real estate:				
Construction and land development	$ 70,396,959	$ -	$ -	$ 70,396,959
Multifamily	23,679,358	-	-	23,679,358
Other	260,416,839	7,002,380	380,309	267,799,528
Residential real estate	229,250,451	-	2,653,938	231,904,389
Commercial	150,373,919	-	47,195	150,421,114
Consumer	1,140,983	-	20,000	1,160,983
Total gross loans	$ 735,258,509	$ 7,002,380	$ 3,101,442	$ 745,362,331

The following tables reflect past due and nonaccrual loans as of December 31, 2023 and 2022:

	Accruing and:					
As of December 31, 2023	30-59 Days Past Due	60-89 Days Past Due	90 or More Days Past Due	Nonaccrual Loans	Current Loans	Total Loans
Commercial Real Estate:						
Construction and Land Development	$ -	$ -	$ -	$ -	$ 89,525,228	$ 89,525,228
Multifamily	-	-	-	-	21,784,953	21,784,953
Other	-	-	-	303,992	287,126,621	287,430,613
Residential Real Estate	177,773	-	-	1,499,220	278,846,844	280,523,837
Commercial	-	-	-	-	128,933,413	128,933,413
Consumer	-	-	-	20,000	1,183,039	1,203,039
Total gross loans	$ 177,773	$ -	$ -	$ 1,823,212	$ 807,400,098	$ 809,401,083

	Accruing and:					
As of December 31, 2022	30-59 Days Past Due	60-89 Days Past Due	90 or More Days Past Due	Nonaccrual Loans	Current Loans	Total Recorded Investment in Loans
Commercial Real Estate:						
Construction and Land Development	$ -	$ -	$ -	$ -	$ 70,396,959	$ 70,396,959
Multifamily	-	-	-	-	23,679,358	23,679,358
Other	-	-	-	44,419	267,755,109	267,799,528
Residential Real Estate	210,970	-	-	1,616,028	230,077,391	231,904,389
Commercial	-	-	-	47,195	150,373,919	150,421,114
Consumer	-	-	-	20,000	1,140,983	1,160,983
Total gross loans	$ 210,970	$ -	$ -	$ 1,727,642	$ 743,423,719	$ 745,362,331

The following is a summary of nonaccrual loans by loan class as of December 31, 2023 and 2022:

	CECL			Incurred Loss
	2023			2022
	Nonaccrual Loans			
	With No Allowance	With an Allowance	Total	Nonaccrual Loans
Commercial Real Estate:				
Construction and land development	$ -	$ -	$ -	$ -
Multifamily	-	-	-	-
Other	303,992	-	303,992	44,419
Residential Real Estate	1,256,644	242,576	1,499,220	1,616,028
Commercial	-	-	-	47,195
Consumer	-	20,000	20,000	20,000
Total gross loans	$ 1,560,636	$ 262,576	$ 1,823,212	$ 1,727,642

Prior to the adoption of CECL, loans were considered impaired when, based on current information and events, it was probable the Company would be unable to collect all amounts due in accordance with the original contractual terms of the loan agreements. Impaired loans included loans on nonaccrual status and accruing TDRs. The Company identifies loans for potential restructure primarily through direct communication with the borrower and evaluation of the borrower's financial statements, revenue projections, tax returns, and credit reports. Even if the borrower is not presently in default, management will consider the likelihood that cash flow shortages, adverse economic conditions and negative trends may result in a payment default in the future. The following table summarizes information regarding impaired loans, including TDRs, presented by loan class as of and for the year ended December 31, 2022:

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With No Related Allowance Recorded:					
Commercial Real Estate:					
Construction and Land Development	$ -	$ -	$ -	$ -	$ -
Multifamily	-	-	-	-	-
Other	549,039	44,419	-	82,729	-
Residential Real Estate	2,701,438	2,360,627	-	2,599,972	29,646
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
	$ 3,250,477	$ 2,405,046	$ -	$ 2,682,701	$ 29,646
With an Allowance Recorded:					
Commercial Real Estate:					
Construction and Land Development	$ -	$ -	$ -	$ -	$ -
Multifamily	-	-	-	-	-
Other	-	-	-	-	-
Residential Real Estate	-	-	-	-	-
Commercial	57,500	47,195	47,195	63,193	-
Consumer	20,000	20,000	20,000	20,000	-
	$ 77,500	$ 67,195	$ 67,195	$ 83,193	$ -

There were no new TDR loans during the year ended December 31, 2022. There were no TDRs that subsequently defaulted within 12 months of their modification during the year ended December 31, 2022.

Note 6. Premises and Equipment

The components of premises and equipment as of December 31, 2023 and 2022 are as follows:

	2023	2022
Premises and land	$ 7,699,943	$ 7,800,741
Leasehold improvements	1,698,454	1,596,560
Furniture and fixtures	946,947	931,149
Equipment and software	3,664,950	3,738,286
Total Cost	$ 14,010,294	$ 14,066,736
Accumulated depreciation	(7,680,462)	(7,013,204)
Total premises and equipment, net	$ 6,329,832	$ 7,053,532

Depreciation expense amounted to $952,231 and $880,914 during the years ended December 31, 2023 and 2022, respectively.

Note 7: Leases

The Company follows ASU No. 2016-02 *"Leases (Topic 842)"* and all subsequent ASUs that modified Topic 842. The Company elected the prospective application approach provided by ASU 2018-11 and did not adjust prior periods for ASC 842. The Company also elected certain practical expedients within the standard and consistent with such elections did not reassess whether any expired or existing contracts are or contain leases, did not reassess the lease classification for any expired or existing leases, and did not reassess any initial direct costs for existing leases. The right-of-use assets and lease liabilities detailed below include five locations used by the Bank and two locations used by Mlend at December 31, 2023 and five locations used by the Bank and three locations used by Mlend at December 31, 2022. The lease associated with one of the three Mlend locations was terminated during the first quarter of 2023. The Company paid an early termination fee of $150,000. Short-term leases, including those with initial terms of 12 months or less, are not included in these balances. Lease payments for short-term leases are recognized as lease expense on a straight-line basis over the lease term, or for variable lease payments, in the period in which the obligation was incurred.

Lease liabilities represent the Company'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 the Company's incremental borrowing rate in effect at the commencement date of the lease. Right-of-use assets represent the Company'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 Company's long-term lease agreements are classified as operating leases. Certain of these leases offer the option to extend the lease term and the Company has included such extensions in its calculation of the lease liabilities to the extent the options are reasonably certain 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 table presents information about the Company's leases as of and for the years ended December 31, 2023 and 2022:

	2023	2022
Lease liabilities	$ 2,450,133	$ 2,908,707
Right-of-use assets	$ 2,380,555	$ 2,841,736
Weighted average remaining lease term	6.4 years	6.7 years
Weighted average discount rate	3.50 %	3.23 %
Operating lease cost	$ 571,610	$ 566,049
Short-term lease cost	2,072	1,642
Total Lease cost	$ 573,682	$ 567,691
Cash paid for amounts included in the measurment of lease liabilities	$ 718,664	$ 509,747

A maturity analysis of the Company's operating lease liabilities and reconciliation of the undiscounted cash flows to the total of operating lease liabilities as of December 31, 2023, is as follows:

Lease payments due in:	
2024	$ 553,593
2025	492,661
2026	350,977
2027	348,803
2028	355,134
Thereafter	636,415
Total undiscounted cash flow	2,737,583
Discount	(287,450)
Lease liability	$ 2,450,133

Note 8. Deposits

The components of deposits as of December 31, 2023 and 2022 were as follows:

	2023	2022
Non-interest bearing deposits	$ 260,204,859	$ 276,829,209
Interest bearing deposits		
NOW accounts	164,536,186	96,222,649
Money market accounts	248,898,935	284,548,295
Savings accounts	72,374,445	82,944,507
Time deposits accounts	130,651,465	98,885,631
Total interest bearing deposits	616,461,031	562,601,082
Total deposits	$ 876,665,890	$ 839,430,291

The following is a schedule of the future maturities of time deposits during each year presented as of December 31, 2023:

Maturing in:	
2024	$ 63,113,780
2025	45,967,073
2026	9,039,737
2027	11,317,739
2028	1,213,136
	$ 130,651,465

Time deposits in denominations of $250,000 or more amounted to $43,905,587 and $34,540,757 as of December 31, 2023 and 2022, respectively. Included in total deposits at December 31, 2023 and 2022 were insured cash sweep (ICS) deposits in the amount of $150,843,308 and $78,223,211, respectively. As of December 31, 2023, brokered deposits included in total deposits totaled $10,000,000. There were no brokered deposits as of December 31, 2022.

Note 9. Income Taxes

The Company files income tax returns in the U.S. federal jurisdiction and the state of Maryland. With few exceptions, the Company is no longer subject to U.S. federal and state income tax examination by tax authorities for years prior to 2020.

The following table reflects the provision for income taxes charged (credited) to operations for the years ending December 31, 2023 and 2022:

	2023	2022
Current tax expense	$ 973,609	$ 2,328,017
Deferred tax expense	413,194	134,215
Total income tax	$ 1,386,803	$ 2,462,232

A reconciliation of the federal statutory income tax rate on pre-tax income to the provision for income taxes was as follows for the years ending December 31, 2023 and 2022:

	2023	2022
Federal tax statutory rate	21%	21%
Federal tax at statutory rate	$ 1,193,213	$ 1,956,725
Increase (decrease) resulting from the following:		
State income taxes, net of federal tax benefit	333,495	597,546
Tax-exempt interest income	(207,675)	(119,704)
Bank owned life insurance income	(41,516)	(12,353)
Non-deductible interest expense	24,764	5,996
Other non-deductible expenses	35,389	22,874
Other, net	49,133	11,148
Total income tax expense	$ 1,386,803	$ 2,462,232

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities as of December 31, 2023 and 2022 were as follows:

		2023		2022
Deferred Tax Assets:				
Allowance for loan credit losses	$	2,130,680	$	2,017,338
Allowance for HTM securites credit losses		28,607		-
Lease liabilties		674,276		800,476
Supplemental benefits expense		130,721		132,988
Deferrred compensation liability		187,042		165,262
Allowance for off-balance sheet credit exposures		124,174		213,698
Unrealized loss on securites		3,251,904		3,609,898
Non-accrual interest		113,642		243,943
Other		69,990		54,849
Total deferred tax asset	$	6,711,036	$	7,238,452
Deferred Tax Liabilities				
Right of use assets		(655,129)		(782,046)
Deferred loan costs, net		(977,064)		(849,871)
Depreciation		(312,467)		(329,260)
Total deferred tax liabilities		(1,944,660)		(1,961,177)
Net deferred tax assets	$	4,766,376	$	5,277,275

Note 10. Borrowings

Borrowings as of December 31, 2023 and 2022, and the related maximum amounts outstanding at the end of any month in each of the two years presented were as follows:

					Maximum Outstanding			
		2023		2022		2023		2022
Federal Home Loan Bank advances	$	15,000,000	$	-	$	30,000,000	$	50,000,000
Federal Reserve - Bank Term Funding Program		-		Na		40,000,000		Na
Other borrowings:								
Unsecured lines of credit		3,000,000		-		3,000,000		10,000,000
	$	18,000,000	$	-				

The Federal Home Loan Bank ("FHLB") advances consisted of the following two, 4-year term loans as of December 31, 2023: (i) $10,000,000 advanced on April 28, 2023 with an interest rate of 3.95% and (ii) $5,000,000 advanced on May 18, 2023 with an interest rate of 4.05%.

As of December 31, 2023, the Company had additional borrowing capacity of $174,618,124 with the FHLB, without the pledge of additional collateral. In addition, the Company had access to $1,392,640 in short-term (generally up to 90 days) borrowing capacity from the Federal Reserve Discount Window and $57,191,849 in short-term (up to one year) borrowing capacity from the Federal Reserve under the Bank Term Funding Program, based on current collateral pledged. The Company also had $12,500,000 of additional availability as of December 31, 2023 under unsecured lines of credit with other financial institutions with interest rates equal to the prevailing federal funds rate.

The Company also had a $1,000,000 letter of credit with another financial institution as of December 31, 2023 for contingency funding use.

Note 11. Related Party Transactions

The Company has, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, principal stockholders, their immediate families, and affiliated companies (collectively referred to as "Related Parties"). These transactions are executed on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other customers.

The following schedule presents the activity of loans with the Company's Related Parties for the years ended December 31, 2023 and 2022:

	2023	2022
Beginning balance	$ 11,580,538	$ 4,574,087
Effect of changes in the composition of related parties	(185,991)	6,182,173
Advances	6,028,526	3,708,684
Principal payments	(4,666,709)	(2,884,406)
Ending balance	$ 12,756,364	$ 11,580,538

The aggregate amount of deposits of executive officers, directors, and their related interests was $37,894,672 and $42,520,321 as of December 31, 2023 and 2022, respectively.

During both 2023 and 2022, Mlend leased its Oakland, Maryland location from an entity owned by a member of executive management. The related lease liability included in total lease liabilities disclosed in Note 7. – Leases was $64,170 and $74,535 at December 31, 2023 and 2022, respectively.

During 2022 and through February 28, 2023, Mlend leased its Middletown, Maryland location from an entity owned by a member of executive management. The early termination of the lease resulted in a termination penalty of $150,000 paid by the Company to the executive officer. The related lease liability included in total lease liabilities disclosed in Note 7. – Leases was $447,532 at December 31, 2022.

Note 12. Commitments and Contingencies

The Company is subject to legal proceedings which are incidental to the ordinary course of business. In the opinion of the management of the Company, there are no material pending legal proceedings to which the Company is a party to, or which involve any of its property.

Note 13. Financial Instruments with Off-Balance-Sheet Risk

The Company, primarily through the Bank, is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financial needs of its customers and to reduce its own exposure to fluctuations in interest rates. 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 balance sheet. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit and financial guarantees written is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

The contract amounts of these financial instruments as of December 31, 2023 and 2022 are as follows:

	2023	2022
Commitments to extend credit	$ 209,484,000	$ 219,991,000
Standby letters of credit and financial guarantees written	$ 4,617,183	$ 4,990,184

Commitments to extend credit are agreements to lend to a customer if 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 some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, by the Company upon extension of credit is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, real estate, equipment, and income-producing commercial properties.

Standby letters of credit and financial guarantees written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Company holds collateral supporting those commitments when deemed necessary by management.

As of December 31, 2023 and 2022, the Company, primarily through Mlend, had interest rate lock commitments to originate mortgage loans totaling $2,382,200 and $1,719,445, respectively. The Company enters into corresponding commitments with third-party investors to sell each of these loans that close on a best-efforts basis.

Note 14. Concentrations of Credit Risk

The Company extends credit for real estate construction, land development, commercial and residential loans, to customers throughout its market area. Although the Company has a diversified loan portfolio, a substantial portion of its customers' ability to honor their contracts is dependent upon the real estate economic sector. As of December 31, 2023 and 2022, the commercial and residential loan classes totaled $679,264,631, or 84% of total gross loans, and $593,780,234 or 80% of total gross loans, respectively.

The Company has concentrations of deposits with other financial institutions. As of December 31, 2023 and 2022, there was $1,083,648 and $2,620,525, respectively of cash balances on deposit in excess of the FDIC insurance levels.

Note 15. Profit Sharing Plans

The Company has a deferred compensation, (401(k)), profit sharing plan and trust for all employees, of the Bank and Mlend, who are 18 years of age or older and who have completed 90 days of employment. The plan permits eligible participants to contribute the maximum percentage allowable by law. At its discretion, the Company may make matching and/or profit-sharing plan contributions. The Company made discretionary contributions of $278,745 and $236,448 to the plan during the years ended December 31, 2023 and 2022, respectively.

Note 16. Other Benefit Plans

The Company adopted a defined benefit SERP for certain Executive Officers. The defined benefit SERP on the Executive Officers includes a vesting schedule. The supplemental benefit expense was $41,762 for the year ended December 31, 2023 and a recovery of $4,421 for the year ended December 31, 2022. The related liability balance as of December 31, 2023 and 2022 was $475,004 and $483,242, respectively. The plans are unfunded; however, life insurance has been acquired on the life of the employees in amounts sufficient to help meet the costs of the obligations.

In 2018, the Company established a nonqualified deferred compensation plan which allows certain key employees to defer a portion of their compensation and provide for supplemental retirement benefits. The plan is unfunded; however, such deferrals accumulate gains and losses based on certain deemed investment options. The Company may also, at its discretion, make matching contributions to participant accounts. All such contributions vest over a three-year period from the end of the year in which the contributions are made. Plan participation began in 2019, and the net deferred compensation liability recorded in other liabilities on the Consolidated Balance Sheets was $808,494 and $600,518 as of December 31, 2023 and 2022, respectively. The Company purchased bank-owned life insurance to economically hedge changes in the nonqualified deferred compensation liability.

Note 17. Regulatory Matters

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

As of December 31, 2023 and 2022, 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 the minimum ratios as set forth in the following tables.

Management believes, as of December 31, 2023 and 2022 the Bank met all applicable capital adequacy requirements. The actual and required capital amounts and ratios as of December 31, 2023 and 2022 are presented below:

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
As of December 31, 2023	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk weighted assets)	$ 100,771,992	13.10%	$ 61,558,869	8.00%	$ 76,948,586	10.00%
Tier 1 capital (to risk weighted assets)	$ 92,474,533	12.02%	$ 46,169,152	6.00%	$ 61,558,869	8.00%
Common equity tier 1 capital (to risk weighted assets)	$ 92,474,533	12.02%	$ 34,626,864	4.50%	$ 50,016,581	6.50%
Tier 1 leverage (to average assets)	$ 92,474,533	9.10%	$ 40,646,851	4.00%	$ 50,808,564	5.00%

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Action Provisions	
As of December 31, 2022	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk weighted assets)	$ 97,091,969	13.33%	$ 58,255,544	8.00%	$ 72,819,430	10.00%
Tier 1 capital (to risk weighted assets)	$ 88,985,013	12.22%	$ 43,691,658	6.00%	$ 58,255,544	8.00%
Common equity tier 1 capital (to risk weighted assets)	$ 88,985,013	12.22%	$ 32,768,744	4.50%	$ 47,332,630	6.50%
Tier 1 leverage (to average assets)	$ 88,985,013	9.53%	$ 37,435,269	4.00%	$ 46,794,086	5.00%

As a FHA-approved mortgagee, Mlend must maintain a minimum adjusted net worth of $1,000,000 plus 1% of the total volume in excess of $25,000,000 of FHA single family mortgages originated, underwritten, serviced, and/or purchased during the prior fiscal year, up to a maximum required adjusted net worth of $2,200,000. Mlend must also maintain liquid assets of at least 20% of its required adjusted net worth. Adjusted net worth is defined as shareholders' equity, less certain unacceptable assets. As of December 31, 2023 and 2022, Mlend met these requirements.

Note 18. Fair Value Measurements

The Company 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-820, the fair value of an instrument is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market and in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company'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. GAAP requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. 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 fair value under current market conditions.

In accordance with this guidance, the Company 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. The three levels of the fair value hierarchy based on these two types of inputs are as follows:

Level 1 – Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2 – Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.

Level 3 – Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

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

Securities portfolio: 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). Securities held-to-maturity are carried at amortized cost. 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).

Interest rate lock commitments: The Company recognizes interest rate lock commitments at fair value based on the price of the underlying loans obtained from an investor for loans that will be delivered on a best-efforts basis while taking into consideration the probability (pull-through) that the rate lock commitments will close (Level 3). The pull-through rate is considered a Level 3 input which as of December 31, 2023, ranged from 80% - 90%, with a weighted average of 89% based on the relative fair values of these assets.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used are as follows for the years ending December 31, 2023 and 2022:

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)	Total
Assets:				
Securities available-for-sale:				
U.S. Government Agency	$ -	$ 3,031,145	$ -	$ 3,031,145
Mortgage Backed	-	15,406,019	-	15,406,019
Municipal	-	6,877,611	-	6,877,611
Corporate	-	15,612,311	-	15,612,311
Interest rate lock commitments	-	-	33,070	33,070
Total assets measured on a recurring basis	$ -	$ 40,927,086	$ 33,070	$ 40,960,156

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)	Total
Assets:				
Securities available-for-sale:				
U.S. Government Agency	$ -	$ 3,058,200	$ -	$ 3,058,200
Mortgage Backed	-	13,676,323	-	13,676,323
Municipal	-	6,750,560	-	6,750,560
Corporate	-	16,025,403	-	16,025,403
Interest rate lock commitments	-	-	25,650	25,650
Total assets measured on a recurring basis	$ -	$ 39,510,486	$ 25,650	$ 39,536,136

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 Company to measure certain assets recorded at fair value on a nonrecurring basis in the financial statements:

Loans Held for Sale: Loans held for sale are carried at the lower of cost or estimated fair 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 Company records any fair value adjustments on a nonrecurring basis. No nonrecurring fair value adjustments were recorded on loans held for sale as of December 31, 2023 and 2022.

Individually Evaluated Collateral Dependent Loans and Impaired Loans (prior to the adoption of CECL): Collateral dependent loans are individually evaluated if, based on management's assessment, the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. Prior to the adoption of CECL, loans were designated as impaired when, in the judgment of management based on current information and events, it was probable that all amounts due according to the contractual terms of the loan agreements would not be collected. The measurement of loss associated with individually evaluated collateral dependent loans and impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the Company's collateral is real estate. The value of real estate collateral is determined utilizing a market valuation approach based on an appraisal, of one year or less, conducted by an independent, licensed appraiser using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the property is more than one year old and not solely based on observable market comparables or management determines the fair value of the collateral is further impaired below the appraised value, then a Level 3 valuation is considered to measure the fair value. The value of business equipment is based upon an outside appraisal, of one year or less, if deemed significant, or the net book value on the applicable business's financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivable collateral are based on financial statement balances or aging reports (Level 3).

These loans are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for credit losses on the Consolidated Statements of Income. None of these loans were carried at fair value as of December 31, 2023 and 2022.

Other Real Estate Owned: OREO is measured at fair value in the same manner as described for impaired loans. 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 non-interest expense on the Consolidated Statements of Income. The Company had no other real estate owned as of December 31, 2023 and 2022.

For financial assets measured at fair value on a non-recurring basis the Bank had no non-recurring assets with fair values as of December 31, 2023 and 2022.

FASB ASC 825, Financials Instruments, requires disclosure about fair value of financial instruments, including those financial assets and financial liabilities that are not required to be measured and reported at fair value on a recurring or nonrecurring basis. ASC 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company. The carrying amounts and estimated fair values of the Company's financial instruments are presented in the following tables whether or not recognized on the Consolidated Balance Sheets at fair value.

The estimated fair value of the Company's financial instruments is summarized as follows as of December 31, 2023 and 2022:

		2023		2022	
	Level in FairValue Hierarchy	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:					
Cash and due from banks	Level 1	$ 16,664,061	$ 16,664,061	$ 15,393,207	$ 15,393,207
FHLB Stock	Level 1	1,363,600	1,363,600	406,400	406,400
Securities available-for-sale	Level 2	40,927,086	40,927,086	39,510,486	39,510,486
Securities held-to-maturity, net	Level 2	96,007,677	87,902,403	101,005,393	90,685,097
Loans held for sale	Level 2	1,651,118	1,651,118	4,725,495	4,725,495
Loans, net	Level 3	805,190,575	756,078,786	741,120,089	712,998,895
Accrued interest receivable	Level 2	2,972,952	2,972,952	2,616,879	2,616,879
Bank owned life insurance	Level 2	7,172,917	7,172,917	6,817,058	6,817,058
Interest rate lock commitments	Level 3	33,070	33,070	25,650	25,650
Financial liabilities:					
Time Deposits	Level 3	$ 130,651,465	$ 128,597,458	$ 98,885,631	$ 95,981,631
Other Deposits	Level 2	746,014,425	746,014,425	740,544,660	740,544,660
Accrued interest payable	Level 2	458,540	458,540	236,624	236,624
Subordinated Debt	Level 3	14,932,727	14,550,000	14,843,030	14,640,300
Other Borrowings	Level 3	18,000,000	17,895,000	-	-

Note 19. Derivatives

The Company maintains and accounts for derivatives, in the form of interest-rate lock commitments ("IRLCs"), in accordance with the FASB guidance on accounting for derivative instruments and hedging activities. Gains and losses on IRLCs related to the mortgage loan pipeline are recognized in non-interest income and non-interest expense in the Consolidated Statements of Income. IRLCs on mortgage loans that are intended to be sold in the secondary market are considered derivatives. The Company is exposed to price risk from the time a mortgage loan closes until the time the loan is sold. The period between issuance of a loan commitment and closing and sale of the loan generally ranges from 14 days to 60 days with a limited number of IRLCs of up to 90 days. As of December 31, 2023 and 2022, the derivative assets and liabilities were included in the Consolidated Balance Sheets in other assets and other liabilities, respectively.

Information pertaining to the notional amounts and fair values of the Company's derivative financial instruments as of December 31, 2023 and 2022 are as follows:

	2023		2022	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Asset - IRLCs	$ 2,382,200	$ 33,070	$ 1,719,445	$ 25,650

Note 20. Subordinated Debt

The Company issued long-term private placement subordinated fixed-to-floating rate debt ("Notes") for $15 million in October 2019 to multiple investors in the form of Subordinated Note Purchase Agreements. Subject to limited exceptions permitting earlier redemption, the Notes may be redeemed on or after October 24, 2024. Unless redeemed earlier, the notes will mature on October 30, 2029. The notes bear a fixed rate of 5.75% for 5 years and will bear a floating rate equal to three-month SOFR plus 439.5 basis points thereafter. The notes are carried at their principal amount, less unamortized issuance costs and are structured to qualify as Tier 2 capital. The initial debt issuance costs were $448 thousand. As of December 31, 2023 and 2022, the unamortized issuance costs were $67,273 and $156,970, respectively.

Note 21. Common Stock

As of December 31, 2023 and 2022, there were 2,911,670 and 2,905,973 shares of common stock outstanding, respectively. On October 16, 2020, the board of directors voted and approved an increase in the total authorized capital stock of the Company from 5,000,000 shares to 11,000,000 shares, designated as 10,000,000 shares of common stock and 1,000,000 shares of preferred stock. As of December 31, 2023, there were 7,088,330 shares of common stock and 1,000,000 shares of preferred stock available to be issued.

On February 11, 2021, the Company's Human Capital Management Committee approved the details of the "Community Heritage Financial, Inc. Equity Incentive Plan", which was approved by shareholders on October 16, 2020. The plan allows the Company to grant stock options, stock appreciation rights, restricted or unrestricted stock, restricted stock units, phantom stock, performance awards, other stock-based awards, or any combination of the foregoing to certain officers and employees of the Company and its subsidiaries. The aggregate number of shares of common stock issuable pursuant to all awards under the plan is limited to 500,000 shares. Since inception through December 31, 2023, the Company had only awarded restricted stock units under the plan.

On October 1, 2022, the Company announced the closing of its underwritten public offering of 649,526 shares of common stock at a public offering price of $21.00 per share. The net proceeds to the Company, after deducting underwriting, discount and estimated offering expenses was approximately $12.2 million.

Share-Based Compensation

Restricted stock units are an award of units that correspond in number and value to a specified number of shares of employer stock which the recipient receives according to a vesting plan and distribution schedule after achieving required performance milestones or upon remaining with the employer for a particular length of time. Each restricted stock unit that vests entitles the recipient to receive one share of common stock on a specified issuance date.

Unless otherwise specified, the restricted stock awards are subject to a 4- year vesting schedule in one fourth per year vesting, with the first one-fourth vesting occurring one year from the grant date. The recipient does not have any stockholder rights, including voting, dividend, or liquidation rights, with respect to the shares underlying awarded restricted stock units until vesting has occurred and the recipient becomes the record holder of those shares. The unvested restricted stock units will vest on the established schedule provided the recipient remains employed by the Company on the future vesting dates.

A summary of the activity for the Company's restricted stock units (RSUs) for the years ended December 31, 2023 and 2022, is presented in the following table:

	2023		2022	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Unvested, beginning of year	22,488	$ 21.89	10,000	$ 23.00
Granted	16,924	18.10	19,962	20.79
Vested	(10,872)	21.11	(7,474)	20.44
Forfeited	-	-	-	-
Unvested, end of year	28,540	$ 19.77	22,488	$ 21.89

Compensation expense related to restricted stock unit awards recognized for the year ended December 31, 2023 and December 31, 2022, was $277,785 and $177,171, respectively. During 2023, 10,872 RSUs vested. Of the 10,872 RSUs vested, 8,373 were converted to 5,697 common shares, after withholding 2,676 shares to cover taxes. The remaining 2,499 vested RSUs were converted to common shares after December 31, 2023. During 2022, 7,474 RSUs vested and, after withholding 2,347 shares to cover taxes, 5,127 common shares were issued. There were no forfeitures of unvested RSUs as of December 31, 2023 or 2022.

Note 22. Other Non-interest Expenses

The following table describes the significant components of other non-interest expenses included in the Consolidated Statements of Income for the years ended December 31, 2023 and 2022:

	2023	2022
ATM and check card expenses	$ 622,425	$ 489,708
Public Relations and charitable contributions	384,387	310,245
Director fees	144,050	194,500
Other miscellaneous operating expenses	835,377	834,096
Total other non-interest expenses	$ 1,986,239	$ 1,828,549

Note 23. Revenue from Contracts with Customers

Substantially all the Company's revenue from contracts with customers that is within the scope of ASC 606, "Revenue from Contracts with Customers" is reported within non-interest income. Certain other in-scope items such as gains and losses on OREO are recorded in non-interest expense. The recognition of interest income and certain sources of non-interest income (e.g.: gains on security transactions, bank-owned life insurance income, gains on loans held for sale, etc.) are governed by other areas of U.S. GAAP. Significant revenue streams that are within the scope of ASC 606 and included in non-interest income are discussed in the following paragraphs.

<u>Service Charges on Deposit Accounts</u>
A significant portion of noninterest income is derived from short-term contracts associated with services provided for deposit account holders. These revenue streams are principally comprised of overdrawn account charges, account maintenance charges, ATM fees, and monthly account fees. The Bank's performance obligations on revenue generated from deposit accounts are generally satisfied immediately, when the transaction occurs, or by month-end. Typically, the duration of a contract does not extend beyond the services performed. Due to the short duration of most customer contracts which generate these sources of noninterest income, no significant judgments must be made in the determination of the amount and timing of revenue recognized.

<u>VISA Check Card Income</u>
The Bank earns interchange fees from debit cardholder transactions conducted through the VISA payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

<u>Gains and Losses on the Sale of Other Real Estate Owned</u>
The Company records a gain or loss from the sale of other real estate owned ("OREO") when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of OREO to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. During the years ended December 31, 2023 and 2022, the Company had no gains or losses associated with the sale of OREO.

The following table describes the in-scope and out-of-scope noninterest income elements related to ASC Topic 606 for the years ended December 31, 2023 and 2022:

	2023	2022
In-scope of ASC topic 606:		
Service charges on deposit accounts:		
Monthly service and other activity charges	$ 699,250	$ 663,867
ATM fees	87,688	83,233
VISA check card income	979,410	906,974
Gain on sale of premises and equipment	16,849	65,448
Other operating income	121,610	76,374
Total non-interest income within the scope of ASC-606	1,904,807	1,795,896
Out-of-scope of ASC 606 [1]	1,358,237	2,133,053
	$ 3,263,044	$ 3,928,949

(1) Includes bank owned life insurance, gain on sale of loans, other mortgage banking income, gain on IRLCs, and gain on sale of securities.

Contract Balances

The Company's in-scope non-interest revenue streams are largely based on transactional activity. Consideration is often received immediately or shortly after the Company satisfied its performance obligation and revenue is recognized. The Company does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of December 31, 2023 and 2022, the Company did not have any significant contract balances.

Note 24. Subsequent Events

The Company evaluates subsequent events that have occurred after the balance sheet date, but before the financial statements are issued. There are two types of subsequent events: (i) 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 (ii) non-recognized, 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 March 28, 2024, the date financial statements were available to be issued.