Triad Business Bank

Audited Financial Statements

For the years ended December 31, 2023 and 2022

Contents

Page

Independent Auditor's Report 1-2

Financial Statements

Balance Sheets 3

Statements of Operations 4

Statements of Comprehensive Loss 5

Statements of Changes in Shareholders' Equity 6

Statements of Cash Flows 7

Notes to Financial Statements 8-40

FORVIS

1003 Red Banks Road / Greenville, NC 27858
P 252.321.0505 / F 252.321.1527
forvis.com

Independent Auditor's Report

Audit Committee
Triad Business Bank
Greensboro, North Carolina

Opinion

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

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

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Bank changed its method of accounting for its allowance for credit losses effective January 1, 2023 due to the adoption of Accounting Standards Update No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13").

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

FORVIS, LLP

Greenville, North Carolina
March 28, 2024

Triad Business Bank

Balance Sheets

December 31, 2023 and 2022

	2023	2022
Assets		
Cash and due from banks	$ 4,542,133	$ 4,672,924
Interest-bearing deposits in other banks	29,068,838	25,504,752
Investment in marketable equity securities, at fair value	1,662,500	1,627,500
Investment securities available-for-sale ("AFS"), at fair value (net of allowance for credit losses of $300,250 in 2023 and $0 in 2022)	121,484,095	120,531,885
Investment securities held-to-maturity ("HTM"), at amortized cost	14,390,848	14,998,967
Loans, net of deferred fees and costs	334,142,073	273,048,889
Allowance for credit losses on loans	(3,729,925)	(3,418,841)
Loans, net	330,412,148	269,630,048
Premises and equipment, net	1,639,020	1,421,172
Accrued interest receivable	1,759,845	1,445,163
Other assets	6,192,254	5,276,406
Total assets	$ 511,151,681	$ 445,108,817
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Noninterest-bearing	$ 99,389,815	$ 176,820,321
Interest-bearing	361,058,640	216,041,953
Total deposits	460,448,455	392,862,274
Borrowings	9,000,000	10,000,000
Accrued interest payable	399,136	88,513
Allowance for credit losses on unfunded commitments	678,444	-
Other liabilities	3,022,942	3,718,727
Total liabilities	473,548,977	406,669,514
Commitments and contingencies - Note 14		
Shareholders' equity		
Preferred stock no par value; 5,000,000 shares authorized; none outstanding	-	-
Common stock no par value; 20,000,000 shares authorized; 6,695,121 shares issued and oustanding at December 31, 2023 and 6,602,984 shares issued and oustanding at December 31, 2022	66,692,747	65,824,784
Accumulated deficit	(11,779,488)	(7,334,489)
Accumulated other comprehensive loss	(17,310,555)	(20,050,992)
Total shareholders' equity	37,602,704	38,439,303
Total liabilities and shareholders' equity	$ 511,151,681	$ 445,108,817

See Notes to Financial Statements

Triad Business Bank

Statements of Operations

Years Ended December 31, 2023 and 2022

	2023	2022
Interest income		
Interest and fees on loans	$ 17,093,432	$ 9,940,384
Interest on investment securities	4,444,100	3,570,880
Other interest income	1,729,907	669,498
Total interest income	23,267,439	14,180,762
Interest expense		
Deposits	11,652,393	2,544,908
Borrowings	752,643	101,808
Other interest expense	252,775	70,657
Total interest expense	12,657,811	2,717,373
Net interest income	10,609,628	11,463,389
Provision for credit losses	2,915,181	1,317,726
Net interest income after provision for credit losses	7,694,447	10,145,663
Noninterest income		
Service charges on deposit accounts	205,696	184,555
Gains (losses) on investment securities	35,000	(156,156)
Small Business Investment Company ("SBIC") income	404,110	412,237
Other noninterest income	228,115	146,589
Total noninterest income	872,921	587,225
Noninterest expense		
Salaries and employee benefits	8,604,883	7,699,839
Occupancy and equipment expense	725,161	663,107
Data processing expense	624,762	557,170
Professional services	621,514	535,615
Marketing and business development expense	376,148	306,886
Regulatory assessments	448,194	320,256
Other noninterest expense	1,486,546	946,444
Total noninterest expense	12,887,208	11,029,317
Net loss before tax	(4,319,840)	(296,429)
Income tax expense	-	67,244
Net loss	$ (4,319,840)	$ (363,673)
Basic loss per common share	$ (0.65)	$ (0.06)
Diluted loss per common share	$ (0.65)	$ (0.06)
Weighted average common shares outstanding	6,653,922	6,602,984
Weighted average dilutive common shares outstanding	6,653,922	6,602,984

See Notes to Financial Statements

Triad Business Bank

Statements of Comprehensive Loss

Years Ended December 31, 2023 and 2022

	2023	2022
Net loss	$ (4,319,840)	$ (363,673)
Other comprehensive income (loss):		
Unrealized gains (losses) on investment securities AFS	689,625	(18,874,677)
Tax effect, net of valuation allowance adjustment	-	-
Unrealized gains (losses) on securities AFS, net of taxes	689,625	(18,874,677)
Reclassification adjustment for allowance for credit losses included in net loss	2,050,812	-
Tax effect	-	-
Reclassification adjustment, net of taxes	2,050,812	-
Reclassification adjustment for gains included in net loss	-	(11,144)
Tax effect	-	-
Reclassification adjustment, net of taxes	-	(11,144)
Total other comprehensive income (loss)	2,740,437	(18,885,821)
Comprehensive loss	$ (1,579,403)	$ (19,249,494)

See Notes to Financial Statements

Triad Business Bank

Statements of Changes in Shareholders' Equity

Years Ended December 31, 2023 and 2022

	Common Stock		Accumulated	Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	Deficit	Income (Loss)	Equity
Balance, January 1, 2022	6,602,984	$ 65,112,537	$ (6,970,816)	$ (1,165,171)	$ 56,976,550
Net loss	-	-	(363,673)	-	(363,673)
Other comprehensive loss	-	-	-	(18,885,821)	(18,885,821)
Amortization of stock-based compensation	-	712,247	-	-	712,247
Balance, December 31, 2022	6,602,984	65,824,784	(7,334,489)	(20,050,992)	38,439,303
Cumulative effect of change in accounting principle	-	-	(125,159)	-	(125,159)
Net loss	-	-	(4,319,840)	-	(4,319,840)
Other comprehensive income	-	-	-	2,740,437	2,740,437
Shares issued upon vesting of restricted stock units	92,137	(125,321)	-	-	(125,321)
Amortization of stock-based compensation	-	993,284	-	-	993,284
Balance, December 31, 2023	6,695,121	$ 66,692,747	$ (11,779,488)	$ (17,310,555)	$ 37,602,704

See Notes to Financial Statements

Triad Business Bank

Statements of Cash Flows

Years Ended December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Net loss	$ (4,319,840)	$ (363,673)
Adjustments to reconcile net loss to net cash (used in) provided by operations:		
Depreciation and amortization	88,492	85,665
Gain on sale or call of investment securities AFS	-	(11,144)
Unrealized holding (gains) losses on marketable equity securities	(35,000)	167,300
Provision for credit losses	2,915,181	1,317,726
Amortization of stock-based compensation	993,284	712,247
Net amortization of premium on securities	399,522	771,696
Lease right-of-use assets and liabilities, net	(1,833)	6,859
Changes in other assets and liabilities:		
Increase in accrued interest receivable	(314,682)	(363,792)
Increase in other assets	(588,248)	(675,380)
Increase in accrued interest payable	310,623	67,624
(Decrease) increase in other liabilities	(984,750)	1,337,859
Net cash (used in) provided by operating activities	(1,537,251)	3,052,987
Cash flows from investing activities		
Activities in investment securities AFS:		
Purchases	(13,201,335)	(24,075,404)
Proceeds from sales	269,400	3,262,781
Proceeds from calls/maturities/paydowns	12,297,134	13,818,003
Activities in investment securities HTM:		
Purchases	-	(1,008,090)
Proceeds from calls/maturities/paydowns	580,813	590,896
Net increase in loans	(61,093,184)	(93,786,056)
Purchases of premises and equipment	(15,542)	(16,964)
Net increase in Federal Home Loan Bank ("FHLB") stock	(127,600)	(500,900)
(Increase) decrease in SBIC investments	(200,000)	588,462
Net cash used in investing activities	(61,490,314)	(101,127,272)
Cash flows from financing activities		
Net increase in deposits	67,586,181	87,542,372
Proceeds of borrowings	251,000,000	203,783,000
Repayments on borrowings	(252,000,000)	(201,816,689)
Tax withholding cash issued in lieu of stock upon vesting of restricted stock units	(125,321)	-
Net cash provided by financing activities	66,460,860	89,508,683
Net increase (decrease) in cash and cash equivalents	3,433,295	(8,565,602)
Cash and cash equivalents, beginning	30,177,676	38,743,278
Cash and cash equivalents, ending	$ 33,610,971	$ 30,177,676

Supplemental cash flow information - Note 19

See Notes to Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies

Organization:

Triad Business Bank (the "Bank") was incorporated on February 6, 2020, in Greensboro, North Carolina under the laws of the State of North Carolina. The Bank currently operates three banking offices in the Triad region of North Carolina. As a state-chartered bank, which is not a member of the Federal Reserve, the Bank is subject to regulation by the North Carolina Commissioner of Banks and the Federal Deposit Insurance Corporation ("FDIC").

On February 19, 2019, TBB Organization, LLC ("The LLC") began the start-up activity of forming the Bank. The LLC launched an offering of common stock with the stated goal of raising at least $45 million in net regulatory capital for the Bank. Subscriptions of the Bank's stock were sold for $10 per share. Members of The LLC (the "Organizers"), invested $3.01 million in The LLC to fund the organizational and start-up expenses of the Bank. Upon the receipt of approval to commence operations, on March 13, 2020 The LLC was legally merged into the Bank. As a result, net expenses of The LLC amounting to $2,231,717 prior to the merger are reflected as part of accumulated deficit on the balance sheets.

Also on March 13, 2020, 4,976,942 shares of common stock were issued for subscriptions received prior to that date. The Organizers' investments in The LLC were converted to common stock with the Organizers also receiving an aggregate of 301,000 warrants to purchase common stock with a ten-year life. On March 16, 2020, the Bank began operations. A second stock issuance of 126,042 shares occurred on April 27, 2020 for subscriptions received from March 13, 2020 through April 27, 2020.

Basis of presentation:

The accompanying financial statements have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Use of estimates:

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Cash and cash equivalents:

For purposes of reporting cash flow in the financial statements, cash equivalents include cash and amounts due from banks and interest-bearing deposits with banks that have an original maturity of three months or less.

Investment securities:

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held- to-maturity" and recorded at amortized cost net of any allowance for credit losses. Trading securities are recorded at fair value with changes in fair value included in earnings. Securities not classified as held-to-maturity or trading are classified as "available- for-sale" and recorded at fair value, with unrealized gains and losses (unrelated to credit issues) excluded from earnings and reported in other comprehensive income (loss). Unrealized losses related to credit issues are reported in an allowance for credit losses and netted against fair value. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Equity securities are carried at fair value, with changes in fair value reported in net loss.

Securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment.

Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Loans receivable:

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or repayment are reported at their outstanding principal amount adjusted for any charge-offs and deferred loan origination fees and costs. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method. Discounts and premiums on any purchased loans are amortized to income using the interest method over the remaining period to contractual maturity.

Interest is accrued and credited to income based on the principal amount outstanding. The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized on the cash basis or cost recovery method, as appropriate. When facts and circumstances indicate the borrower has regained the ability to meet the required payments, the loan is returned to accrual status. Past due status of loans is determined based on contractual terms.

Loan modifications or restructurings due to borrower financial difficulty:

Loan modifications or restructurings due to a borrower's financial difficulties involve the Bank making certain concessions to the borrower that it would not otherwise consider. Modifications may include term extensions, interest rate reductions, principal or interest forgiveness, forbearance, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral. Generally, a nonaccrual loan that has been modified or restructured remains on nonaccrual status for a period of six months to demonstrate that the borrower is able to meet the terms of the modified loan. However, performance prior to the modification, or significant events that coincide with the modification or restructure, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status at the time of loan modification or restructure or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, the loan remains on nonaccrual status.

Allowance for credit losses:

On January 1, 2023, the Bank adopted Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 326, Current Expected Credit Loss standard ("CECL"). ASC 326 introduces a new credit loss methodology which requires earlier recognition of credit losses, replacing multiple existing impairment methods in current GAAP, which generally require a loss to be incurred before it is recognized. ASC 326 requires loss estimates be determined over the lifetime of the assets and broadens the information an entity must consider in developing its expected credit losses. ASC 326 does not specify a method for measuring expected credit losses and allows an entity to apply methods that reasonably reflect its expectations of the credit losses based on the entity's size, complexity, and risk profile. The CECL methodology applies to the Bank's loans, unfunded loan commitments, and debt securities HTM.

Securities AFS do not follow the CECL model. However, the ASC provides a separate impairment model which requires an unrealized loss due to credit-related factors to be recorded through an allowance for credit loss.

Effective January 1, 2023, the Bank adopted ASC 326 using a modified retrospective approach through a cumulative-effect adjustment of $125,159 to accumulated deficit. The adjustments recorded at adoption decreased the allowance for credit losses on loans by $278,155 and established an allowance for credit losses on unfunded commitments of $403,314. The allowance for credit losses on loans is presented as a reduction to net loans outstanding, and the allowance for credit losses on unfunded loan commitments is classified separately within the liabilities section on the balance sheets. No allowance was established at adoption for securities HTM or securities AFS as unrealized losses at adoption were deemed to be primarily the result of changes in market interest rates and not a decline in credit quality. The Bank elected not to measure an allowance for credit losses for accrued interest receivable and instead elected to reverse interest income on loans that are placed on nonaccrual status, which is generally when the loan is 90 days past due, or earlier if the Bank believes the collection of interest is doubtful.

ASC 326 also eliminates the accounting guidance for troubled debt restructurings by creditors that have adopted the CECL model and enhances the disclosure requirements for loan refinancings and restructurings made with borrowers experiencing financial difficulty. Additionally, public business entities are required to disclose current-period gross write-offs by year of origination for financing receivables and net investment in leases in the vintage disclosures. The Bank adopted these provisions on a prospective basis on January 1, 2023.

Allowance for credit losses on loans:

The allowance for credit losses on loans is a valuation account that is deducted from the loans' amortized cost bases as a contra asset on the balance sheets to present the net amount expected to be collected on the loans and is established through the provision for credit losses in the statements of operations. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Accrued interest receivable on loans totaled $1,023,780 at December 31, 2023 and was excluded from the measurement of credit losses.

The allowance for credit losses represents management's estimate of lifetime credit losses inherent in loans as of the balance sheet date and is based on relevant available information, from both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. The Bank's allowance for credit losses on loans is determined by analyzing both quantitative and qualitative components present as of the evaluation date. Loans are segmented based on the type of loan and internal risk ratings.

Loans that share common risk characteristics are collectively assessed. Loss estimates within the collectively assessed population are based on a combination of pooled assumptions and loan-level characteristics. The Bank has a limited loss history, and as a result, utilizes a non-discounted cash flow methodology, leveraging a third-party index for probability of default, loss given default, and prepayment speeds. The model incorporates the Federal National Mortgage Association 12-month economic forecast. Loans that do not share risk characteristics similar to others in the pool are evaluated on an individual basis. Individually assessed loans are evaluated under either the fair value of collateral method or the discounted cash flow method.

Model outputs are adjusted through a qualitative assessment to reflect trends not captured within the models. Such trends may include changes in lending policies and procedures; changes in national and local economic and business conditions; changes in the nature and volume of the portfolio; changes in staff; changes in the volume and severity of past due, rated, and nonaccrual assets; changes in the loan review system; changes in collateral value for non-collateral dependent loans; changes in concentrations of credit; changes in the regulatory, legal, and competitive environment; and changes in the interest rate environment. These qualitative adjustments may increase or reduce reserve levels.

Prior to the adoption of ASC 326, as a de novo bank with a limited loss history, management agreed with the North Carolina Commissioner of Banks that during the first three years of operations, which ended March 20, 2023, the Bank would maintain a minimum allowance for loan losses of 1.25 percent of total loans.

Allowance for credit losses on unfunded commitments:

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

The Bank records an allowance for credit losses on off-balance-sheet credit exposures, unless the commitments to extend credit are unconditionally cancelable, through a charge to provision for credit losses in the Bank's statements of operations. The allowance for credit losses on off-balance-sheet credit exposures is estimated by loan segment at each balance sheet date under the CECL model using the same methodologies as loans receivable, taking into consideration the likelihood that funding will occur as well as any third-party guarantees. The allowance for credit losses on unfunded loan commitments is classified separately within the liabilities section on the balance sheets.

Allowance for credit losses on securities HTM:

Management measures expected credit losses on debt securities HTM on a collective basis by major security type when similar risk characteristics exist. Accrued interest on debt securities HTM totaled $40,339 at December 31, 2023 and was excluded from the measurement of credit losses.

Management evaluates industry analyst reports and forecasts, credit ratings, and other market data relevant to the collectability of securities to determine if a credit loss exists. No allowance for credit losses was recorded on securities HTM at December 31, 2023.

Allowance for credit losses on securities AFS:

Management evaluates securities AFS at least on an annual basis, and more frequently when economic or market concerns warrant such evaluation. If the Bank has the intent to sell the security, or it is more likely than not that the Bank will be required to sell the security, the security is written down to fair value, and the entire loss is recorded in the provision for credit losses.

If either of the above criteria are not met, a decline in the fair value of a security AFS below its amortized cost is evaluated to determine whether the decline is due to changes in market interest rates or credit-related factors. In making the assessment, the Bank may consider various factors including the extent to which fair value is less than amortized cost, performance on any underlying collateral, downgrades in the ratings of the security by a rating agency or the Bank's internal credit review team, the failure of the issuer to make scheduled interest or principal payments, and adverse conditions specifically related to the security. If a decline in fair value is due to market interest rates and the Bank has the intent and ability to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value, there is no expected loss. If the assessment indicates that a credit loss exists, the credit loss evaluation includes consideration of available information relevant to the collectability of the security, including information about past events, current conditions, and reasonable and supportable forecasts. That information includes the remaining payment terms of the security, the financial condition of the issuer(s), expected defaults, industry analyst reports and forecasts, credit ratings, and other market data that are relevant to the collectability of the security. Based on this evaluation, the present value of cash flows expected to be collected is compared to the amortized cost basis of the security and any excess is recorded as an allowance for credit losses, limited to the amount that the fair value is less than the amortized cost basis. Any amount of unrealized loss that has not been recorded through an allowance for credit losses is recognized in other comprehensive income (loss).

Changes in the allowance for credit losses are recorded as a provision for (or reversal of) credit losses in the statements of operations. Losses are charged against the allowance for credit losses when it is determined that a portion of an investment is uncollectible or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest on debt securities AFS totaled $695,726 at December 31, 2023 and was excluded from the measurement of credit losses.

Prior to the adoption of ASC 326 in January of 2023, management evaluated securities for other-than-temporary impairment at least on an annual basis, and more frequently when economic or market concerns warranted such evaluation. Consideration was given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. The unrealized losses in 2022 were primarily the result of non-credit-related volatility in the market and market interest rates. At December 31, 2022, there were no unrealized losses that were deemed to be other-than-temporary.

Derivatives:

In accordance with ASC 815, Derivatives and Hedging, all derivative instruments are recorded on the balance sheets at their respective fair values. The accounting for changes in fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship. If the derivative instrument is not designated as a hedge, changes in the fair value of the derivative instrument are recognized in earnings in the period of change.

Premises and equipment:

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization of premises and equipment is computed using the straight-line method over the assets' estimated useful lives. Useful lives are estimated to be seven years for furniture, five years for computer equipment, and five years for vehicles. The shorter of the estimated useful life or the term of the lease is used for leasehold improvements, while the expected lease term is used for right-of-use ("ROU") assets.

Variable interest entities:

The Bank has made investments in SBIC limited partnerships that meet the definition of variable interest entities ("VIEs") as related to the Bank's investment. VIEs are legal entities in which equity investors do not have sufficient equity at risk to independently finance its activities, or as a group, the holders of the equity investment at risk lack the power to direct the activities of the entity. Consolidation of the financial statements is required if there is a controlling financial interest. The Bank would be considered to hold a controlling financial interest in a VIE if it were the primary beneficiary. The Bank is not the primary beneficiary of these VIEs and does not have the power to direct the activities of these entities. Therefore, consolidation in its financial statements is not appropriate. These investments are equity investments with no readily determinable fair values. The Bank's ownership is minor in relation to the SBIC entities' equity, and the Bank does not have the ability to exert influence over the SBIC's decisions. As a result, the Bank records these investments at cost, less any impairment. The SBIC investments are included in the other assets portion of the balance sheets. The Bank's maximum exposure to loss from the unconsolidated VIEs is the investment cost, net of any recognized impairment. Refer to the other unfunded commitments section in Note 14 for further disclosures regarding the Bank's VIEs.

Reclassifications:

Certain immaterial reclassifications have been made to the 2022 financial statements. These include combined presentation of core loans and Small Business Administration-Paycheck Protection Program ("SBA-PPP") loans on the balance sheets and statements of cash flows.

Revenue recognition:

In the ordinary course of business, the Bank recognizes two primary sources of revenue from customers in its statements of operations: interest income and noninterest income. Interest income on loans to customers is recognized on an accrual basis. Interest on investment securities, although not generated from customers, is also recognized on an accrual basis. Other interest income consists primarily of interest on deposit balances at other banks and is recorded as received when credited to the Bank's accounts.

Noninterest income consists of revenue from various types of transactions and services provided to customers including service charges on deposit accounts and card and payment related fees. The Bank recognizes revenue from contracts with customers as performance obligations are satisfied. The performance obligations are generally short term in nature and are typically satisfied in one month or less. Service charges on deposit accounts include monthly maintenance fees and other deposit-related fees that are recognized as the services are provided to the customer. Card and payment related fees include interchange fees from debit cards that are recognized daily as the payment networks process transactions and merchant processing fees that are generally recognized monthly.

Income taxes:

Amounts provided for income taxes are based on income reported for financial statement purposes. Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Bank's assets and liabilities. During the start-up phase of the Bank, there is a valuation allowance which fully impairs the deferred tax asset. When sufficient, verifiable evidence exists (generally, sustained profitability) demonstrating that the deferred tax asset will more likely than not be realized, the valuation allowance will be eliminated.

The Bank believes that its income tax filing positions taken or expected to be taken in its tax returns will more likely than not be sustained upon an audit by the taxing authorities and does not anticipate any adjustments that will result in a material adverse impact on the Bank's financial condition, results of operations, or cash flows. Therefore, no reserves for uncertain tax positions have been recorded. Tax years 2020 and forward are open and subject to examination.

Basic loss per share:

Basic loss per share is computed by dividing loss available to shareholders by the weighted average number of shares outstanding during the year.

Diluted loss per share:

The computation of diluted loss per share is similar to the computation of basic loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if dilutive potential common shares had been issued. The numerator is adjusted for any changes in loss that would result from the assumed conversion of those potential common shares.

Stock-based compensation:

The Bank accounts for grants of restricted stock units and stock options under the fair value recognition provisions of ASC 718, Compensation – Stock Compensation. Compensation expense is recognized as salaries and employee benefits in the statements of operations for grants to employees and as other expense for grants to directors.

Comprehensive loss:

Annual comprehensive loss reflects the change in the Bank's equity during the year arising from transactions and events other than investment by and distributions to shareholders. It consists of net loss plus certain other changes in assets and liabilities that are reported as separate components of shareholders' equity rather than as income or expense.

Recent accounting standards:

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

Note 2. Restrictions on Cash and Cash Equivalents

To comply with banking regulations, the Bank may be required to maintain certain cash reserve balances. The cash reserve requirement was $0 at December 31, 2023 and 2022.

Note 3. Investment Securities

Investment securities have been classified on the balance sheets according to management's intent. The amortized cost, unrealized gains and losses, and fair values along with allowance for credit losses of securities AFS, investments in marketable equity securities, and securities HTM at December 31, 2023 are:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Allowance for Credit Losses	Fair Value
Investment securities AFS:					
U.S. Treasury securities	$ 5,891,827	$ 4,012	$ -	$ -	$ 5,895,839
Small Business Administration ("SBA") pools	3,992,188	-	(672,559)	-	3,319,629
Mortgage-backed securities	63,616,075	54,764	(7,216,141)	-	56,454,698
Corporate bonds	61,270,179	45,300	(8,847,855)	(300,250)	52,167,374
Municipal bonds	4,324,631	-	(678,076)	-	3,646,555
Total AFS	$ 139,094,900	$ 104,076	$ (17,414,631)	$ (300,250)	$ 121,484,095
Investment in marketable equity securities	$ 1,750,000	$ -	$ (87,500)	$ -	$ 1,662,500
Investment securities HTM:					
SBA pools	$ 3,253,349	$ -	$ (408,833)	$ -	$ 2,844,516
Mortgage-backed securities	7,677,885	-	(1,383,995)	-	6,293,890
Municipal bonds	3,459,614	-	(556,794)	-	2,902,820
Total HTM	$ 14,390,848	$ -	$ (2,349,622)	$ -	$ 12,041,226

The amortized cost, unrealized gains and losses, and fair values of securities AFS, investments in marketable equity securities, and securities HTM at December 31, 2022 are:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Investment securities AFS:				
SBA pools	$ 4,015,961	$ -	$ (677,738)	$ 3,338,223
Mortgage-backed securities	68,540,116	47,272	(8,603,566)	59,983,822
Corporate bonds	63,692,280	-	(9,934,255)	53,758,025
Municipal bonds	4,334,520	-	(882,705)	3,451,815
Total AFS	$ 140,582,877	$ 47,272	$ (20,098,264)	$ 120,531,885
Investment in marketable equity securities	$ 1,750,000	$ -	$ (122,500)	$ 1,627,500
Investment securities HTM:				
SBA pools	$ 3,469,949	$ -	$ (513,815)	$ 2,956,134
Mortgage-backed securities	8,041,873	-	(1,564,324)	6,477,549
Municipal bonds	3,487,145	-	(748,893)	2,738,252
Total HTM	$ 14,998,967	$ -	$ (2,827,032)	$ 12,171,935

The Bank had no realized gains on the sale of investment securities AFS for the year ended December 31, 2023. For the year ended December 31, 2022, the Bank had gross realized gains on the sale of investment securities AFS of $11,144. The Bank recognized in income unrealized gains of $35,000 on its investments in marketable equity securities for the year ended December 31, 2023 and recognized unrealized losses of $167,300 for the year ended December 31, 2022.

The amortized cost and fair value of securities AFS and securities HTM as of December 31, 2023, by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without penalties. Because SBA pools and mortgage-backed securities have both known principal repayment terms as well as unknown principal repayments due to potential borrower prepayments, it is difficult to accurately predict the final maturity of these investments. Consequently, these securities are shown separately.

	AFS		HTM	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 5,891,827	$ 5,895,839	$ -	$ -
Due in one to five years	28,869,028	24,222,980	-	-
Due in five to ten years	26,781,377	22,752,746	1,006,108	895,430
Due after ten years	9,944,405	8,838,203	2,453,506	2,007,390
SBA pools	3,992,188	3,319,629	3,253,349	2,844,516
Mortgage-backed securities	63,616,075	56,454,698	7,677,885	6,293,890
Total	$ 139,094,900	$ 121,484,095	$ 14,390,848	$ 12,041,226

The following table details unrealized losses and related fair values in the Bank's investment securities AFS and HTM portfolios, aggregated by the length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2023:

	2023					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Investment securities AFS:						
SBA pools	$ -	$ -	$ 3,319,629	$ (672,559)	$ 3,319,629	$ (672,559)
Mortgage-backed securities	1,489,719	(16,185)	48,489,211	(7,199,956)	49,978,930	(7,216,141)
Corporate bonds	-	-	46,122,074	(8,847,855)	46,122,074	(8,847,855)
Municipal bonds	-	-	3,646,555	(678,076)	3,646,555	(678,076)
Total AFS	1,489,719	(16,185)	101,577,469	(17,398,446)	103,067,188	(17,414,631)
Investment securities HTM:						
SBA pools	-	-	2,844,516	(408,833)	2,844,516	(408,833)
Mortgage-backed securities	-	-	6,293,890	(1,383,995)	6,293,890	(1,383,995)
Municipal bonds	-	-	2,902,820	(556,794)	2,902,820	(556,794)
Total HTM	-	-	12,041,226	(2,349,622)	12,041,226	(2,349,622)
Total	$ 1,489,719	$ (16,185)	$ 113,618,695	$ (19,748,068)	$ 115,108,414	$ (19,764,253)

The following table details unrealized losses and related fair values in the Bank's investment securities AFS and HTM portfolios, aggregated by the length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2022:

	2022					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Investment securities AFS:						
SBA pools	$ -	$ -	$ 3,338,223	$ (677,738)	$ 3,338,223	$ (677,738)
Mortgage-backed securities	8,699,784	(544,839)	44,853,960	(8,058,727)	53,553,744	(8,603,566)
Corporate bonds	20,483,596	(2,159,979)	33,274,429	(7,774,276)	53,758,025	(9,934,255)
Municipal bonds	-	-	3,451,815	(882,705)	3,451,815	(882,705)
Total AFS	29,183,380	(2,704,818)	84,918,427	(17,393,446)	114,101,807	(20,098,264)
Investment securities HTM:						
SBA pools	-	-	2,956,134	(513,815)	2,956,134	(513,815)
Mortgage-backed securities	-	-	6,477,549	(1,564,324)	6,477,549	(1,564,324)
Municipal bonds	858,920	(148,243)	1,879,332	(600,650)	2,738,252	(748,893)
Total HTM	858,920	(148,243)	11,313,015	(2,678,789)	12,171,935	(2,827,032)
Total	$ 30,042,300	$ (2,853,061)	$ 96,231,442	$ (20,072,235)	$ 126,273,742	$ (22,925,296)

At December 31, 2023, there were two SBA pools, 22 mortgage-backed securities, 30 corporate bonds, and 11 municipal bonds in unrealized loss positions for greater than 12 months. There was one mortgage-backed security in an unrealized loss position for less than 12 months. At December 31, 2022, there were two SBA pools, 15 mortgage-backed securities, 19 corporate bonds, and 10 municipal bonds in unrealized loss positions for greater than 12 months. There were six mortgage-backed securities, 15 corporate bonds, and one municipal bond in unrealized loss positions for less than 12 months. These unrealized losses are primarily the result of non-credit-related volatility in the market and market interest rates. The Bank has the ability and intent to retain these securities for a period of time sufficient to recover such losses.

The Bank recognized no allowance for credit losses on investments securities AFS upon the adoption of ASC 326 on January 1, 2023. At December 31, 2023, the Bank had an allowance for credit losses of $300,250 on corporate bonds AFS. There was no allowance for credit losses on any other category of investment securities AFS at December 31, 2023 or during the year then ended. The following is an analysis of activity in the allowance for credit losses on investment securities AFS as of and for the year ended December 31, 2023:

Balance, December 31, 2022	$ -
Additions for securities for which no previous expected credit losses were recognized	2,050,812
Write-offs charged against the allowance	(1,750,562)
Balance, December 31, 2023	$ 300,250

On March 12, 2023, the FDIC was appointed as receiver of Signature Bank that was closed that day. As of that date, the Bank had a $2,000,000 investment in a subordinated debt bond of that financial institution with an amortized cost of $2,019,962 that was purchased on November 19, 2020 and included in investment securities AFS at fair value. As a result of the March 12, 2023 event, the Bank recorded an allowance for credit losses of $1,750,562 and subsequently sold the investment on March 14, 2023 for $269,400 and charged the loss against the allowance for credit losses.

Management evaluates industry analyst reports and forecasts, credit ratings, and other market data relevant to the collectability of securities to determine if a credit loss exists. As a result of this analysis, an allowance for credit losses was established on one corporate bond at December 31, 2023, based upon the present value of expected cash flows. At December 31, 2023, there was a $300,250 allowance for credit losses on investment securities AFS.

Management classifies investment securities HTM into the following major security types: SBA pools, mortgage-backed securities, and municipal bonds. Securities issued by government sponsored enterprises and agencies are either explicitly or implicitly guaranteed by the U.S government, are highly rated by major rating agencies, and have a long history of no credit losses. The Bank's municipal bonds are highly rated by major rating agencies. The following table summarizes the amortized cost of municipal bonds HTM, aggregated by credit quality indicators:

Aa1/AA+	$ 1,601,122
Aa2/AA+/AA	1,858,492
	$ 3,459,614

As a result, no allowance for credit losses was recorded on investment securities HTM at December 31, 2023.

A security is considered past due once it is 30 days contractually past due under the terms of the agreement. At December 31, 2023, the Bank had no investment securities that were past due 30 days or more as to principal or interest payments. The Bank had no investment securities HTM classified as nonaccrual for the year ended December 31, 2023.

The carrying value of securities pledged as collateral was $104,209,439 and $77,137,056 at December 31, 2023 and 2022, respectively.

Note 4. Loans Receivable

The major components of loans on the balance sheets as of December 31, 2023 and 2022 are as follows:

	2023	2022
Commercial real estate	$ 163,739,472	$ 125,891,285
Residential real estate	23,823,897	15,329,759
Construction	62,479,932	48,101,041
Commercial and industrial	82,662,290	83,393,792
Other	1,436,482	333,012
Total	$ 334,142,073	$ 273,048,889

The commercial real estate component consists of commercial real estate loans that are either owner occupied or non-owner occupied. Residential real estate loans are 1-4 family lines of credit, 1-4 family closed end loans, and multifamily loans. Construction loans are made up of 1-4 family residential construction and other construction loans. Commercial and industrial loans consist of unsecured lines of credit, secured lines of credit, term loans, and deposit overdrafts. Other loans are other revolving loans.

A substantial portion of the Bank's loan portfolio is commercial in nature, and the risk characteristics and credit quality indicators that are monitored for each of the major components of loans are similar. The Bank closely monitors economic conditions and loan performance trends to manage and evaluate the exposure to credit risk within the loan portfolio based on our defined loan categories. In doing so, several credit quality indicators are used, including trends in delinquency rates, nonperforming status, analysis of probability of default and loss given default factors, updated credit scores, debt service coverage, and originated and updated loan to value ratios.

There were no loans classified as nonaccrual or past due 90 days or more and still accruing interest at December 31, 2023 and 2022, respectively, or during the years then ended.

Unearned net costs associated with loans amounted to $206,718 at December 31, 2023 compared to unearned net costs of $41,409 at December 31, 2022.

At December 31, 2023, loans totaling $66,909,603 were pledged as collateral to the FHLB of Atlanta compared to $39,566,978 at December 31, 2022. At December 31, 2023, loans totaling $104,637,429 were pledged to the Federal Reserve Bank of Richmond's discount window. There were no loans pledged to the discount window at December 31, 2022.

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

The following is an analysis of activity in the allowance for credit losses on loans under the CECL methodology as of and for the year ended December 31, 2023:

	December 31, 2023					
	Commercial Real Estate	Residential Real Estate	Construction	Commercial and Industrial	Other	Total
Allowance for credit losses:						
Beginning balance	$ 1,166,206	$ 152,835	$ 759,609	$ 1,334,673	$ 5,518	$ 3,418,841
CECL adoption adjustment	69,433	(199)	153,340	(498,362)	(2,367)	(278,155)
Charge-offs	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-
Provision	257,515	55,934	216,687	48,160	10,943	589,239
Ending balance	$ 1,493,154	$ 208,570	$ 1,129,636	$ 884,471	$ 14,094	$ 3,729,925

The following is an analysis of activity in the allowance for loan losses by portfolio segment in addition to the disaggregation of the allowance and outstanding loan balances by impairment method as of and for the year ended December 31, 2022:

	December 31, 2022					
	Commercial Real Estate	**Residential Real Estate**	**Construction**	**Commercial and Industrial**	**Other**	**Total**
Allowance for loan losses:						
Beginning balance	$ 733,986	$ 101,595	$ 384,213	$ 878,028	$ 3,293	$ 2,101,115
Charge-offs	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-
Provision	432,220	51,240	375,396	456,645	2,225	1,317,726
Ending balance	$ 1,166,206	$ 152,835	$ 759,609	$ 1,334,673	$ 5,518	$ 3,418,841
Allowance for loan losses:						
Ending balance individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance collectively evaluated for impairment	1,166,206	152,835	759,609	1,334,673	5,518	3,418,841
Total	$ 1,166,206	$ 152,835	$ 759,609	$ 1,334,673	$ 5,518	$ 3,418,841
Loan balance:						
Ending balance individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance collectively evaluated for impairment	125,891,285	15,329,759	48,101,041	83,393,792	333,012	273,048,889
Total	$ 125,891,285	$ 15,329,759	$ 48,101,041	$ 83,393,792	$ 333,012	$ 273,048,889

Internally assigned risk ratings assist the Bank in determining the risk profile of each loan in the loan portfolio, and changes in the internally assigned risk ratings are useful in monitoring trends in the loan portfolio quality. The four major categories used by the Bank are pass, special mention, substandard, and doubtful and can be generally described as follows:

- Pass – these loans have a risk profile which ranges from superior quality with minimal credit risk to loans requiring management attention but still have an acceptable risk profile and continue to perform primarily as contracted.

- Special mention – these loans generally have underwriting guideline tolerances and/or exceptions with no identifiable mitigating factors. These loans may also be currently performing satisfactorily but with potential weaknesses that may, if not corrected, weaken the asset or inadequately protect the Bank's position at some future date. Potential weaknesses are the result of deviations from prudent lending practices. The loans may also have adverse economic conditions that developed subsequent to the loan origination that do not jeopardize liquidation of the debt but do substantially increase the level of risk.

- Substandard – these loans are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified as substandard must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt; they are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. These loans are no longer considered to be adequately protected due to the borrower's declining net worth, lack of earnings capacity, declining collateral margins, and/or unperfected collateral positions. A possibility of loss of a portion of the loan balance cannot be ruled out. The repayment ability of the borrower is marginal or weak, and the loan may have exhibited excessive overdue status or extensions and/or renewals.

- Doubtful – these loans have all the weaknesses inherent in loans classified as substandard, plus the added characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions, and values highly questionable and improbable. The ability of the borrower to service the debt is extremely weak, overdue status is constant, the debt has been placed on nonaccrual status, and no definite repayment schedule exists. Certain events may occur which would salvage the debt including an injection of capital into the borrower, alternative financing obtained by the borrower, or liquidation of assets or the pledging of additional collateral by the borrower.

The following is an analysis of the loan portfolio by origination year based upon the internally assigned risk ratings as of December 31, 2023:

	Origination Year					Revolving Converted	
	2023	**2022**	**2021**	**Prior**	**Revolving**	**to Term**	**Total**
Commercial real estate							
Pass	$ 31,511,389	$ 52,806,311	$ 52,438,399	$ 25,286,061	$ 1,647,312	$ -	$ 163,689,472
Substandard	-	-	50,000	-	-	-	50,000
Total commercial real estate	31,511,389	52,806,311	52,488,399	25,286,061	1,647,312	-	163,739,472
Residential real estate							
Consumer home equity							
Pass	-	-	-	-	481,529	-	481,529
All other residential real estate							
Pass	4,204,384	9,033,577	3,088,142	4,975,472	2,040,793	-	23,342,368
Total residential real estate	4,204,384	9,033,577	3,088,142	4,975,472	2,522,322	-	23,823,897
Construction							
Pass	19,617,870	21,300,645	5,270,866	-	9,669,504	-	55,858,885
Substandard	6,621,047	-	-	-	-	-	6,621,047
Total construction	26,238,917	21,300,645	5,270,866	-	9,669,504	-	62,479,932
Commercial and industrial							
Pass	14,066,553	12,378,979	13,288,194	4,026,102	31,333,558	661,799	75,755,185
Special Mention	-	-	-	-	6,757,186	-	6,757,186
Substandard	-	-	-	-	149,919	-	149,919
Total commercial and industrial	14,066,553	12,378,979	13,288,194	4,026,102	38,240,663	661,799	82,662,290
Other							
Pass	-	-	-	-	1,436,482	-	1,436,482
Total other	-	-	-	-	1,436,482	-	1,436,482
Total loans	$ 76,021,243	$ 95,519,512	$ 74,135,601	$ 34,287,635	$ 53,516,283	$ 661,799	$ 334,142,073

There were no loan charge-offs during the year ended December 31, 2023 or prior.

The following is an analysis of the loan portfolio based upon the internally assigned risk ratings as of December 31, 2022:

	Commercial Real Estate	**Residential Real Estate**	**Construction**	**Commercial and Industrial**	**Other**	**Total**
Pass	$ 125,891,285	$ 15,329,759	$ 44,532,574	$ 83,393,792	$ 333,012	$ 269,480,422
Special mention	-	-	3,568,467	-	-	3,568,467
Total	$ 125,891,285	$ 15,329,759	$ 48,101,041	$ 83,393,792	$ 333,012	$ 273,048,889

The following is a past due aging analysis of the Bank's loan portfolio by loan class as of December 31, 2023 and 2022:

	December 31, 2023						
	30-59 Days Past Due & Still Accruing	60-89 Days Past Due & Still Accruing	90 Days or Greater & Still Accruing	Total Past Due & Still Accruing	Nonaccrual Loans	Current Loans	Total Loans
Commercial real estate	$ -	$ -	$ -	$ -	$ -	$ 163,739,472	$ 163,739,472
Residential real estate	-	-	-	-	-	23,823,897	23,823,897
Construciton	-	-	-	-	-	62,479,932	62,479,932
Commercial and industrial	-	-	-	-	-	82,662,290	82,662,290
Other	-	-	-	-	-	1,436,482	1,436,482
Total	$ -	$ -	$ -	$ -	$ -	$ 334,142,073	$ 334,142,073

	December 31, 2022						
	30-59 Days Past Due & Still Accruing	60-89 Days Past Due & Still Accruing	90 Days or Greater & Still Accruing	Total Past Due & Still Accruing	Nonaccrual Loans	Current Loans	Total Loans
Commercial real estate	$ -	$ -	$ -	$ -	$ -	$ 125,891,285	$ 125,891,285
Residential real estate	-	-	-	-	-	15,329,759	15,329,759
Construciton	-	-	-	-	-	48,101,041	48,101,041
Commercial and industrial	-	-	-	-	-	83,393,792	83,393,792
Other	-	-	-	-	-	333,012	333,012
Total	$ -	$ -	$ -	$ -	$ -	$ 273,048,889	$ 273,048,889

Modifications made to borrowers experiencing financial difficulty:

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

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

Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses due to the measurement methodologies used to estimate the allowance, a change to the allowance for credit losses is generally not recorded upon modification. If the Bank modifies a loan by providing principal forgiveness, the amount of the principal forgiveness is deemed to be uncollectible; therefore, that portion of the loan is written off, resulting in a reduction of the amortized cost basis and a corresponding adjustment to the allowance for credit losses.

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

There was one loan modified or restructured due to a borrower's financial difficulty as of December 31, 2023. The following table shows the amortized cost basis of the loan modified in 2023 shown by class of loan and type of concession granted and describes the financial effect of the modification:

	Term Extension		
	Amortized Cost Basis	**% of Total Loan Type**	**Financial Effect**
Construction	$ 6,621,047	10.60%	Extended term less than a year.

At the time of modification, the Bank committed to lend additional amounts totaling $3,336,000 to the borrower included in the previous table.

During the year ended December 31, 2023, there were no loans that were modified due to borrowers experiencing financial difficulty that had a payment default within the 12 months following modification, and there were no loans that were modified due to borrowers experiencing financial difficulty that were past due or classified as nonaccrual as of December 31, 2023.

Unfunded commitments:

The Bank maintains an allowance for off-balance-sheet credit exposures such as unfunded balances for existing lines of credit, commitments to extend future credit, as well as standby letters of credit when there is a contractual obligation to extend credit and when this extension of credit is not unconditionally cancellable. The allowance for credit losses on unfunded commitments of $678,444 at December 31, 2023 is classified separately within the liabilities section on the balance sheets. There was no allowance for credit losses on unfunded commitments at December 31, 2022.

The following is an analysis of activity in the allowance for credit losses on unfunded commitments as of and for the year ended December 31, 2023:

Balance, December 31, 2022	$ -
Adjustment to allowance for unfunded commitments for adoption of ASC 326	403,314
Provision for unfunded commitments	275,130
Balance, December 31, 2023	$ 678,444

Note 6. Derivatives

The Bank entered into two interest rate swaps to facilitate customers' transactions and meet their financing needs. The Bank entered into offsetting positions with a derivative counterparty to minimize its risk on the fixed components of the customer interest rate swap agreements. These swaps qualify as derivatives but are not designated as hedging instruments. These interest rate swap agreements are reported at fair value in other assets and other liabilities on the balance sheets with any resulting gain or loss recorded in current period earnings as other noninterest income. A summary of the Bank's interest rate swaps as of December 31, 2023 and 2022 is presented below:

	2023		2022	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Assets	$ 6,831,650	$ 312,725	$ 7,081,980	$ 479,345
Liabilities	6,831,650	(312,725)	7,081,980	(479,345)

Note 7. Premises and Equipment

Premises and equipment at December 31, 2023 and 2022 is summarized by major classifications as follows:

	2023	2022
ROU assets	$ 1,438,786	$ 1,149,821
Deferred rent	(63,552)	(65,386)
ROU assets, net	1,375,234	1,084,435
Leasehold improvements	5,631	5,631
Furniture	356,440	352,570
Computer equipment	160,099	148,428
Vehicles	45,584	45,584
Less, accumulated depreciation	(303,968)	(215,476)
Total fixed assets, net	263,786	336,737
Total premises and equipment, net	$ 1,639,020	$ 1,421,172

Depreciation expense for the years ended December 31, 2023 and 2022 was $88,492 and $85,665, respectively.

Note 8. Leases

The Bank follows ASC 842, Leases, and subsequent amendments thereto, which requires the Bank to recognize most leases on the balance sheet. The Bank has operating leases for three offices in Greensboro, High Point, and Winston-Salem, North Carolina.

The following table summarizes the Bank's lease assets and liabilities as of December 31, 2023 and 2022:

Description	Balance Sheet Classification	2023	2022
Assets:			
Operating	Premises and equipment	$ 1,375,234	$ 1,084,435
Total lease assets		1,375,234	1,084,435
Liabilities:			
Operating	Other liabilities	1,438,786	1,149,821
Total lease liabilities		$ 1,438,786	$ 1,149,821

Rent expense relating to the leases mentioned above totaled $321,617 and $317,476, respectively during the years ended December 31, 2023 and 2022. The Bank's lease liability is determined using the incremental borrowing rates at the time the leases were negotiated and entered. The weighted average incremental borrowing rate as of December 31, 2023 and 2022 was 5.72% and 4.65%, respectively. At December 31, 2023 and 2022, the weighted average remaining lease term for the operating leases was 5.1 years and 4.6 years, respectively. No renewals were assumed in the determination of lease terms as they are not reasonably assured.

Future minimum lease payments are as follows:

2024	$ 327,342
2025	337,174
2026	322,348
2027	255,437
2028	263,100
Thereafter	130,512
Total	1,635,913
Less amount representing interest	(197,127)
Total lease liability	$ 1,438,786

Note 9. Deposits

The major classifications of deposits on the balance sheets as of December 31, 2023 and 2022 are as follows:

	2023	2022
Noninterest-bearing demand deposits	$ 99,389,815	$ 176,820,321
Interest-bearing demand deposits	14,204,733	-
Interest-bearing NOW	22,518,830	13,209,174
Interest-bearing MMA and savings	162,854,389	159,857,410
Time deposits	161,480,688	42,975,369
Total	$ 460,448,455	$ 392,862,274

The aggregate amount of time deposits that met or exceeded the FDIC insurance limit of $250,000 or more at December 31, 2023 and 2022 was $8,002,974 and $2,760,327, respectively. At December 31, 2023, the scheduled maturities of all time deposits were as follows:

2024	$ 82,180,658
2025	79,300,030
	$ 161,480,688

As part of management's funding strategy, the Bank accepts brokered deposits to complement its core deposit base. At December 31, 2023 and 2022, the Bank had $139,859,453 and $36,213,632 in brokered time deposits, respectively.

The Bank has a relationship with IntraFi Network, the sponsoring entity for the Certificate of Deposit Account Registry Service® ("CDARS"). Through CDARS, the Bank is able to provide deposit customers with access to aggregate FDIC insurance in amounts exceeding $250,000. The Bank also participates with the IntraFi Network using Insured Cash Sweep®, a product which provides the Bank the capability of providing additional deposit insurance to customers in the context of a checking account or money market account. This product is analogous to the CDARS product. Under the Economic Growth, Regulatory Relief, and Consumer Protection Act signed into law on May 24, 2018, the Bank may hold reciprocal deposits up to the lesser of 20 percent of its total liabilities or $5 billion without those deposits being treated as brokered deposits. The Bank had reciprocal deposits of $103,873,141 and $3,012,964 at December 31, 2023 and 2022, respectively, of which $9,163,345 was treated as brokered at December 31, 2023 and none was treated as brokered at December 31, 2022 and which were in addition to the brokered time deposits above.

The Bank classifies deposit overdrafts within the commercial and industrial loan category. As of December 31, 2023 and 2022, these deposit overdrafts totaled $3,000 and $1,025, respectively.

Note 10. Borrowings

Federal Reserve Bank advances:

At January 1, 2022, the Bank had $8,033,689 in borrowings under the Paycheck Protection Program Liquidity Facility ("PPPLF") whereby the Federal Reserve Bank of Richmond accepts SBA-PPP loans pledged as collateral and provides funding to the Bank at 0.35% for the term of the SBA-PPP loans which is generally 60 months. The contractual final maturity of these borrowings was April 5, 2026. Those borrowings were repaid in 2022, and the Bank had no borrowings under the PPPLF at December 31, 2023 or 2022.

The Bank has access to the Federal Reserve Bank of Richmond's discount window. At December 31, 2023, the carrying value of securities pledged to the discount window was $31,494,906, and the outstanding principal balance of loans pledged to the discount window was $104,637,429. At December 31, 2022, the carrying value of securities pledged to the discount window was $16,832,346. There were no loans pledged to the discount window at December 31, 2022. There were no discount window borrowings at December 31, 2023 or 2022.

Other borrowings:

The Bank has a line of credit with the FHLB that can equal up to 25% of total assets of the Bank, subject to sufficient, qualified collateral having been pledged to the FHLB. The FHLB line of credit totaled $124,571,000 and

$110,332,250 as of December 31, 2023 and 2022, respectively. As of December 31, 2023, FHLB advances totaled $9,000,000, composed of a $5,000,000 Fixed Rate Credit ("FRC") hybrid advance with an interest rate of 4.24% maturing April 17, 2026 and a $4,000,000 FRC hybrid advance with an interest rate of 4.91% maturing July 6, 2026. The FRC hybrid advance has a one-time option to add an interest rate cap or floor and allows a member to prepay the advance below par and realize a gain if interest rates have risen sufficiently since the advance was originated; however, a prepayment fee does apply. As of December 31, 2022, the FHLB advance total was $10,000,000. This $10,000,000 was a Daily Rate Credit ("DRC") advance with a rate of 4.57% at December 31, 2023 and a maturity date of December 11, 2023. The DRC interest rate adjusts daily, and advances can be voluntarily repaid in whole or in part, prior to the maturity date. Based upon collateral pledged, remaining borrowing capacities at December 31, 2023 and 2022 were $89,976,882 and $72,359,750, respectively. In order to be a member of the FHLB, the Bank must invest in its stock and is required to maintain stock equal to a percentage of the Bank's assets and the Bank's advances. The Bank's investment in FHLB stock at December 31, 2023 and 2022 was $739,100 and $611,500, respectively.

The Bank also has additional unsecured lines of credit with correspondent banks totaling $25,000,000, of which there were no outstanding balances as of December 31, 2023 and 2022.

Note 11. Fair Value of Financial Instruments

The Bank utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities AFS, equity securities with readily determinable fair values, trading securities, and derivatives, if present, are recorded at fair value on a recurring basis. Additionally, from time to time, the Bank may be required to record at fair value other assets on a nonrecurring basis, such as equity securities without readily determinable fair values, loans held for sale, impaired loans held for investment, and certain other assets. The nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Fair value hierarchy:

Under ASC 820, Fair Value Measurements and Disclosures, the Bank groups assets and liabilities at fair values 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. These levels are:

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

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

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

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

Investment securities AFS and marketable equity securities:

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

Derivative asset (liability):

Derivatives are recorded at fair value on a recurring basis. Derivatives are valued by a third party using significant assumptions that are observable in the market and can be corroborated by market data. The Bank's derivatives are classified as Level 2.

General:

The Bank had no assets and no liabilities measured at fair value on a nonrecurring basis as of December 31, 2023 and 2022. Below is a summary of the assets and liabilities carried at fair value or measured at fair value on a recurring basis as of December 31, 2023 and 2022:

	2023			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets:				
Investment securities AFS:				
U.S. Treasury securities	$ 5,895,839	$ -	$ 5,895,839	$ -
SBA pools	3,319,629	-	3,319,629	-
Mortgage-backed securities	56,454,698	-	56,454,698	-
Corporate bonds	52,167,374	-	48,112,224	4,055,150
Municipal bonds	3,646,555	-	3,646,555	-
Total investment securities AFS	121,484,095	-	117,428,945	4,055,150
Investment in marketable equity securities	1,662,500	-	1,662,500	-
Derivative – interest rate swap	312,725	-	312,725	-
Total assets at fair value	$ 123,459,320	$ -	$ 119,404,170	$ 4,055,150
Liabilities:				
Derivative – interest rate swap	$ 312,725	$ -	$ 312,725	$ -
Total liabilities at fair value	$ 312,725	$ -	$ 312,725	$ -

	2022			
	Total	Level 1	Level 2	Level 3
Assets:				
Investment securities AFS:				
SBA pools	$ 3,338,223	$ -	$ 3,338,223	$ -
Mortgage-backed securities	59,983,822	-	59,983,822	-
Corporate bonds	53,758,025	-	49,348,275	4,409,750
Municipal bonds	3,451,815	-	3,451,815	-
Total investment securities AFS	120,531,885	-	116,122,135	4,409,750
Investment in marketable equity securities	1,627,500	-	1,627,500	-
Derivative – interest rate swap	479,345	-	479,345	-
Total assets at fair value	$ 122,638,730	$ -	$ 118,228,980	$ 4,409,750
Liabilities:				
Derivative – interest rate swap	$ 479,345	$ -	$ 479,345	$ -
Total liabilities at fair value	$ 479,345	$ -	$ 479,345	$ -

The following tables present the changes in Level 3 assets that are measured at fair value on a recurring basis for the years ended December 31, 2023 and 2022 using a bond price calculator for bonds acquired in private placements which are not publicly traded:

	January 1 2023	Purchases, Sales, Issuances and Settlements, Net	Change in Fair Value	Transfers In and/or Out of Level 3	December 31 2023
Corporate bonds	$ 4,409,750	$ -	$ (354,600)	$ -	$ 4,055,150

	January 1 2022	Purchases, Sales, Issuances and Settlements, Net	Change in Fair Value	Transfers In and/or Out of Level 3	December 31 2022
Corporate bonds	$ 4,750,000	$ -	$ (340,250)	$ -	$ 4,409,750

Financial instruments not recorded at fair value:

For financial instruments that are not recorded at fair value, estimates of fair value are based on relevant market data and other ascertainable information. For certain financial instruments, an active market does not exist, and fair value estimates are based on current economic conditions and interest rate characteristics, loss experience, and other factors which involve uncertainties and matters of significant judgment. For some of these instruments, the fair value estimates cannot be substantiated by comparison to independent markets. Additionally, changes in assumptions could significantly impact these fair value estimates.

The following table presents financial assets and liabilities not recorded at fair value as of December 31, 2023 and 2022:

		2023		2022	
	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:					
Cash and cash equivalents	Level 1	$ 33,610,971	$ 33,610,971	$ 30,177,676	$ 30,177,676
Investment securities HTM	Level 2	14,390,848	12,041,226	14,998,967	12,171,935
Loans, net of allowance for credit losses	Level 3	330,412,148	314,272,000	269,630,048	260,827,000
FHLB stock	Level 2	739,100	739,100	611,500	611,500
Accrued interest receivable	Level 2	1,759,845	1,759,845	1,445,163	1,445,163
Liabilities:					
Non-maturity deposits	Level 2	298,967,767	290,826,000	349,886,905	321,343,000
Time deposits	Level 2	161,480,688	161,642,000	42,975,369	42,168,000
Borrowings	Level 2	9,000,000	9,015,000	10,000,000	9,956,000
Accrued interest payable	Level 2	399,136	399,136	88,513	88,513

Note 12. Shareholders' Equity and Loss Per Share

Upon the completion of its initial common stock offering, the Bank issued 5,102,984 shares of common stock in 2020. The Bank is authorized to issue 20,000,000 shares of common stock with no par value. The Organizers of The LLC received stock warrants giving them the right to purchase one share of common stock for every $10 invested in The LLC prior to forming the Bank. The Organizers collectively contributed a total of $3.01 million, and a total of 301,000 warrants with an exercise price of $10 per share were issued on March 13, 2020. The warrants were immediately vested upon issuance and expire ten years from the date of issuance. The relative fair value of the warrants was determined at the time of the stock issuance, and the values of stock and the warrants are both classified in common stock. On August 3, 2021, the Bank completed the sale of an additional 1,500,000 shares of common stock at a price of $10 per share.

Loss per share:

The following table details the computation of basic and dilutive loss per share for the years ended December 31, 2023 and 2022:

	2023	2022
Net loss	$ (4,319,840)	$ (363,673)
Weighted average shares outstanding	6,653,922	6,602,984
Effect of dilutive securities	-	-
Weighted average shares outstanding, diluted	6,653,922	6,602,984
Basic loss per common share	$ (0.65)	$ (0.06)
Dilutive loss per common share	$ (0.65)	$ (0.06)

No dilutive effect was considered for the 301,000 warrants, 226,852 restricted stock units, and 11,500 stock options outstanding as of December 31, 2023 and for the 301,000 warrants, 239,700 restricted stock units, and

11,500 stock options outstanding as of December 31, 2022 due to the anti-dilutive effect they would produce. The weighted averages of these were 301,000 warrants, 242,049 restricted stock units, and 11,500 stock options for the year ended December 31, 2023 and 301,000 warrants, 211,862 restricted stock units, and 4,127 stock options for the year ended December 31, 2022.

Note 13. Income Taxes

Operating loss carryforwards:

The Bank has a loss carryforward as of December 31, 2023 of approximately $4,560,000 for federal income tax purposes and $4,600,000 for state income tax purposes that may be used to offset future taxable income. The loss carryforward as of December 31, 2022 was approximately $1,350,000 for federal income tax purposes and $1,120,000 for state income tax purposes. If not previously utilized, the state loss carryforward will begin to expire in 2035. The federal loss carryforward can be carried forward indefinitely.

Current and deferred income tax expense components:

The components of income tax expense (substantially all federal) for the years ended December 31, 2023 and 2022 are as follows:

	2023	2022
Current	$ -	$ 67,244
Deferred	(924,459)	(133,936)
Change in valuation allowance	924,459	133,936
Income tax expense	$ -	$ 67,244

Deferred income tax analysis:

The significant components of net deferred taxes at December 31, 2023 and 2022 are summarized as follows:

	2023	2022
Deferred tax assets		
Allowance for credit losses	$ 1,081,805	$ 785,479
Organizational and start-up costs	293,554	319,558
Federal NOL carryforwards	958,301	283,984
State NOL carryforwards	115,068	28,061
Lease liability	330,561	264,171
Accrued expenses	29,486	54,066
Stock-based compensation	283,701	302,818
Unrealized losses on securities AFS	3,977,100	4,606,715
Unrealized losses on equity securities	20,103	28,144
Other	6,011	11,472
Valuation allowance	(6,526,070)	(6,202,472)
Deferred tax asset	569,620	481,996
Deferred tax liabilities		
Right-of-use asset	315,960	249,149
Deferred loan costs	231,674	193,372
Property and equipment	19,533	22,881
Other	2,453	16,594
Deferred tax liability	569,620	481,996
Net deferred tax liability	$ -	$ -

Valuation allowance analysis:

The changes in the valuation allowance for the years ended December 31, 2023 and 2022 are as follows:

	2023	2022
Balance beginning of year	$ 6,202,472	$ 1,729,519
Increase related to current year operations	924,459	133,936
Increase related to retained deficit	28,754	-
(Decrease) increase related to unrealized losses on securities AFS	(629,615)	4,339,017
Balance end of year	$ 6,526,070	$ 6,202,472

Income tax expense analysis:

The income tax expense for the years ended December 31, 2023 and 2022 is reconciled to the amount of income tax computed at the federal statutory rate of 21 percent on income before income taxes as follows:

	2023	2022
Tax benefit at statutory rate	$ (907,166)	$ (62,250)
State income tax benefit, net of federal benefit	(85,317)	(5,854)
Non-deductible expenses	39,251	17,991
Tax-exempt interest	(9,634)	(11,862)
Adjustment to stock-based compensation tax deduction	53,816	-
Other	(15,409)	(4,717)
Increase in valuation allowance related to current year operations	924,459	133,936
Income tax expense	$ -	$ 67,244

The Bank has analyzed the tax positions taken or expected to be taken in its tax returns and concluded it has no liability related to uncertain tax positions.

The Bank files income tax returns with the federal government and the state of North Carolina.

Note 14. Commitments and Contingencies

Litigation:

Management is unaware of any legal proceedings against the Bank.

Financial instruments with off-balance-sheet risk:

The Bank is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments may include commitments to extend credit and standby letters of credit. These instruments may involve, to varying degrees, credit risk in excess of the amount recognized in the balance sheet.

The Bank'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 is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as for on-balance-sheet instruments.

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

Collateral held varies but may include accounts receivable, inventory, property and equipment, commercial and residential real estate, and other commercial properties.

Standby letters of credit are conditional financial commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies as specified above and is required in instances which the Bank deems necessary.

At December 31, 2023 and 2022, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2023	2022
Unfunded commitments to extend credit	$135,959,421	$102,576,003
Standby letters of credit	186,252	277,240
Total	$136,145,673	$102,853,243

Other unfunded commitments:

The Bank subscribes to SBIC investments. During 2022, funded commitments of $588,462 and unfunded commitments of $2,511,538 were sold. During 2023, there was a $1,000,000 commitment reduction. At December 31, 2023, $3,800,000 of all commitments were funded, with $1,200,000 unfunded. At December 31, 2022, $3,600,000 of all commitments were funded, with $2,400,000 unfunded.

Concentrations of credit risk:

Most of the Bank's loans and commitments to extend credit have been granted to customers in the Bank's market area, and such customers are generally depositors of the Bank. The concentrations of credit by type of loan are set forth in Note 4.

The Bank from time to time may have cash and cash equivalents on deposit with other financial institutions that exceed federally insured limits.

Note 15. Regulatory Restrictions

Dividends:

The Bank, as a North Carolina banking corporation, may pay dividends only out of undivided profits (retained earnings) as determined pursuant to North Carolina General Statutes Section 53C. However, regulatory authorities may limit payment of dividends by any bank when it is determined that such a limitation is in the public interest and is necessary to ensure financial soundness of the bank.

Capital requirements:

The Bank is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory (and possibly additional discretionary) actions by regulators that, if undertaken, could have a direct material effect on the 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 amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total, Tier I, and common equity Tier I capital to risk-weighted assets, and of Tier I capital to average assets, as all those terms are defined in the applicable regulations.

As of December 31, 2023 and 2022, the Bank met all capital adequacy requirements to which it was subject and met the criteria to be considered well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, common equity Tier I risk-based, and Tier I leverage ratios. These minimum requirements as well as the Bank's actual capital amounts and ratios are presented in the following tables:

	Actual		**Minimum Capital Requirement**		**Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
December 31, 2023						
Total capital (to risk-weighted assets)	$ 59,322	12.70%	$ 37,365	8.00%	$ 46,706	10.00%
Tier I capital (to risk-weighted assets)	$ 54,913	11.76%	$ 28,024	6.00%	$ 37,365	8.00%
Common equity Tier I capital (to risk-weighted assets)	$ 54,913	11.76%	$ 21,018	4.50%	$ 30,359	6.50%
Tier I capital (to average assets)	$ 54,913	10.52%	$ 20,872	4.00%	$ 26,090	5.00%

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2022						
Total capital (to risk-weighted assets)	$ 61,909	15.45%	$ 32,055	8.00%	$ 40,069	10.00%
Tier I capital (to risk-weighted assets)	$ 58,490	14.60%	$ 24,041	6.00%	$ 32,055	8.00%
Common equity Tier I capital (to risk-weighted assets)	$ 58,490	14.60%	$ 18,031	4.50%	$ 26,045	6.50%
Tier I capital (to average assets)	$ 58,490	12.44%	$ 18,806	4.00%	$ 23,508	5.00%

The Basel III rules limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier I capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements. At December 31, 2023 and 2022, the Bank exceeded such requirements, respectively.

Note 16. Transactions with Related Parties

The Bank has made loans to certain directors and their affiliates (related parties). Such loans were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features. Aggregate activity for these loans consisted of the following:

	2023	2022
Balance beginning of year	$ 11,896,635	$ 8,451,394
New loans and advances	27,089,481	20,717,652
Repayments	(24,517,410)	(14,349,583)
Changes in related parties	2,737,340	(2,922,828)
Balance end of year	$ 17,206,046	$ 11,896,635

Available lines of credit to directors and their affiliates at December 31, 2023 and 2022 totaled $15,689,553 and $17,234,886, respectively.

Deposits from related parties held by the Bank at December 31, 2023 and 2022 were approximately $131,558,258 and $172,574,012, respectively.

The Audit Committee of the Bank is charged with reviewing and approving all transactions, other than the aforementioned credit facilities and deposits, that the Bank may have from time to time with related parties. All material facts of each transaction and the related party's interest are discussed by all disinterested directors and a decision is made about whether the transaction is fair to the Bank. A majority vote of all disinterested directors is required to approve any transaction involving a related party.

At December 31, 2023 and 2022 and during the years then ended, the Bank had invested in a SBIC that is managed by an entity in which one of the Bank's directors is a partner. In 2022, two directors, through entities in which they have a controlling interest, each acquired one third of the Bank's investment in a SBIC at the Bank's cost and assumed one third of the Bank's remaining unfunded commitment in that investment. Also in 2022, an executive officer of the Bank acquired the Bank's investment in a community-oriented venture capital fund at the Bank's cost and assumed the remaining unfunded commitment in that investment. The Bank did not record a gain or loss on the sale transactions. None of these transactions or investments were material to the Bank's financial position or results of operations.

During both years, the Bank had several immaterial operating transactions involving directors or their business interests. All of these transactions were in the normal course of business on terms comparable to those offered by other providers, and no transaction had significant influence on the Bank or the director's business interests.

Note 17. Employee Benefit Plans

The Bank maintains a profit-sharing plan pursuant to Section 401(k) of the Internal Revenue Code of 1986, as amended (the "Code"). The plan covers substantially all full-time employees who are 21 years of age and have completed 90 days of service. Participants may contribute a percentage of compensation, subject to a maximum allowed under the Code. In addition, the Bank matches certain contributions and may make additional contributions at the discretion of the Board of Directors. The Bank's matching contributions during the years ended December 31, 2023 and 2022 were $444,948 and $443,379, respectively. There were no additional Bank contributions for the years ended December 31, 2023 and 2022, respectively.

In 2023, the Bank established a nonqualified deferred compensation plan for selected key management. The plan and its obligations are not material to the financial statements.

Note 18. Long-Term Stock Incentive Plan

The Bank has a Long-Term Stock Incentive Plan (the "Plan"). Under the Plan as originally approved, up to 485,000 shares were authorized to be issued. The Plan was amended on June 8, 2022 to increase the number of shares that may be issued to 660,000. The Plan provides for a variety of grants including restricted stock, restricted stock units ("RSUs"), qualified stock options, and other instruments.

Activity under the Plan during the year ended December 31, 2023 is summarized below:

	Available for Grant	Granted
Beginning balance	408,800	251,200
Forfeited	4,390	(4,390)
Granted	(100,322)	100,322
Exercised/vested	16,643	(108,780)
Outstanding at December 31, 2023	329,511	238,352

Restricted stock units

There were 100,322 and 81,200 RSUs granted during the years ended December 31, 2023 and 2022, respectively. The weighted average fair value of each RSU is estimated on the date of grant based on the fair value of the Bank's stock at time of grant. During the year ended December 31, 2023, 108,780 RSUs vested of which 16,643 shares were withheld to satisfy tax withholding requirements. There were no RSUs that vested during the year ended December 31, 2022.

A summary of restricted stock unit activity under the Plan during the years ended December 31, 2023 and 2022 is presented below:

	Units Outstanding	Weighted Average Grant Price	Average Remaining Contractual Term
Outstanding at January 1, 2022	158,500	$ 10.01	
Granted	81,200	10.00	
Forfeited	-	-	
Vested	-	-	
Outstanding at December 31, 2022	239,700	10.01	1.35 years
Granted	100,322	7.97	
Forfeited	(4,390)	9.77	
Vested	(108,780)	9.93	
Outstanding at December 31, 2023	226,852	9.11	1.55 years

Stock-based compensation cost for RSUs is recognized on a straight-line basis over the vesting period. The vesting period for employee RSUs is three years. The vesting period for director RSUs is three years for RSUs granted in 2022 and prior years and one year for RSUs granted in 2023. RSU compensation cost recognized during 2023 and 2022 was $981,875 and $708,444, respectively. Employee RSU compensation cost of $400,671 and $393,555 during 2023 and 2022, respectively, is recognized as salaries and employee benefits in the statements of operations. Director RSU compensation cost of $581,204 and $314,889 during 2023 and 2022, respectively, is recognized as other expense. In 2023, the Compensation Committee of the Bank's Board of Directors approved accelerating the vesting of 12,780 shares as a result of two directors deciding not to stand for reelection and the death of one other director. This resulted in a net increase of approximately $42,000 in director RSU compensation cost for 2023 over what the cost would have been otherwise.

Total unrecognized compensation cost related to outstanding non-vested RSUs will be recognized over the following years:

2024	$ 601,983
2025	203,893
2026	41,009
Total	$ 846,885

<u>*Stock options*</u>

There were 11,500 stock options granted in 2022. There were no stock options granted in 2023 or in years prior to 2022. The fair value of each option granted is estimated on the date of grant using the Black-Scholes options-pricing model. The following assumptions were used for grants in 2022: no expected dividends; expected volatility of 35.00%; risk-free interest rate of 2.78%; and expected options term of ten years. The fair value of options granted in 2022 was $4.96.

A summary of stock option activity under the Plan during the year ended December 31, 2023 is presented below:

	Shares Outstanding	Weighted Average Exercise Price	Average Remaining Contractual Term
Outstanding at January 1, 2023	11,500	$ 9.90	9.60 years
Granted	-	-	
Exercised	-	-	
Forfeited or expired	-	-	
Outstanding at December 31, 2023	11,500	9.90	8.60 years
Exercisable at December 31, 2023	-	-	

The outstanding stock options had no intrinsic value at December 31, 2023. Intrinsic value represents the amount by which the fair value of underlying stock exceeds the option exercise price.

Of the stock options issued in 2022, 1,500 shares cliff vest on the fourth anniversary date, and the remaining 10,000 shares cliff vest on the fifth anniversary date. In accordance with ASC 718, compensation cost for an employee award with only service conditions that has a graded vesting schedule may be recognized either on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards, or on a straight-line basis over the requisite service period for the entire award (that is, over the requisite service period of the last separately vesting portion of the award). The Bank has elected the latter. Stock-based compensation cost for stock options of $11,408 and $3,803 during 2023 and 2022, respectively, is recognized as salaries and employee benefits in the statements of operations.

Total unrecognized compensation cost related to outstanding non-vested stock options will be recognized over the following years:

2024	$ 11,408
2025	11,408
2026	11,408
2027	7,605
Total	$ 41,829

Note 19. Supplemental Cash Flow Information

Supplemental cash flow information for the years ended December 31, 2023 and 2022 is presented below:

	2023	2022
Cash paid for:		
Interest	$ 12,347,188	$ 2,649,749
Income taxes	9,018	66,000
Significant non-cash investing activities:		
Effect of adoption of ASC 326	$ 125,159	$ -
Increase in operating lease right-of-use asset	559,544	-
Increase in operating lease liability	559,544	-
Reduction in SBIC commitment	(1,000,000)	-
Change in unrealized losses on investment securities	2,740,437	(18,874,677)

Note 20. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Management has reviewed events occurring through March 28, 2024, the date the financial statements were available to be issued, and, other than the events discussed within the notes, no subsequent events occurred requiring accrual or disclosure.