Southern Financial Corporation

Report on Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

Contents

elliott davis

Independent Auditor's Report

Board of Directors
Southern Financial Corporation and Subsidiary
Spartanburg, South Carolina

Opinion

We have audited the consolidated financial statements of Southern Financial Corporation and Subsidiary (the "Company"), which comprise the consolidated statements of financial condition as of December 31, 2023 and 2022, the related consolidated statements of income, comprehensive loss, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the "financial statements").

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

Basis for Opinion

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

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the Company adopted ASU 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASC 326)*, effective January 1, 2023. This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL"). Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

Elliott Davis, LLC

Greenville, South Carolina
March 18, 2024

Southern Financial Corporation

Consolidated Statements of Financial Condition

As of December 31, 2023 and 2022 (Dollars in Thousands except per share data)

	2023	2022
Assets		
Cash and due from banks	$ 5,183	$ 4,333
Federal funds sold	4,151	6,790
Total cash and cash equivalents	9,334	11,123
Securities available-for-sale	79,331	48,120
Restricted equity securities	727	73
Loans receivable, net of allowance for credit losses net of $2,204 and $1,526, respectively	181,788	150,590
Accrued interest receivable	1,129	689
Premises and equipment	15,213	7,547
Foreclosed real estate	115	273
Bank owned life insurance	4,328	4,208
Deferred tax assets, net of deferred tax liabilities	1,617	1,379
Other assets	1,021	402
Total assets	$ 294,603	$ 224,404
Liabilities		
Deposits:		
Noninterest-bearing	$ 26,565	$ 29,624
Interest-bearing	229,916	169,705
Total deposits	256,481	199,329
Federal Home Loan Bank Advances - short term	2,000	-
Federal Home Loan Bank Advances - long term	10,000	-
Subordinated debt	4,919	4,890
Accrued expenses and other liabilities	1,100	755
Derivative liability	1,186	-
Borrower's escrow payable	117	160
Total liabilities	275,803	205,134
Commitments & Contingencies (Notes 7, 8, 9 and 13)		
Shareholders' Equity		
Preferred stock - $0.01 par value, authorized 1,000,000 shares, 2,250 shares issued and outstanding at December 31, 2023 and December 31, 2022	-	-
Common stock - $0.01 par value, authorized 10,000,000 shares, 2,802,568 and 2,797,490 shares issued and outstanding at December 31, 2023 and December 31, 2022, respectively	28	28
Additional paid-in capital	14,619	14,474
Retained earnings	8,175	8,428
Accumulated other comprehensive loss	(4,022)	(3,660)
Total shareholders' equity	18,800	19,270
Total liabilities and shareholders' equity	$ 294,603	$ 224,404

See Notes to Consolidated Financial Statements

Southern Financial Corporation

Consolidated Statements of Income

For the years ended December 31, 2023 and 2022 (Dollars in Thousands except per share data)

	2023	2022
Interest income		
Loans, including fees	$ 10,136	$ 6,979
Securities available-for-sale	2,849	953
Federal funds sold	466	201
Other bank deposits	68	19
Dividends	18	3
Total interest income	13,537	8,155
Interest expense		
Deposits	5,587	1,282
Borrowings	466	273
Total interest expense	6,053	1,555
Net interest income	7,484	6,600
Provision for credit losses	600	600
Net interest income after provision for credit losses	6,884	6,000
Noninterest income		
Customer service fees	266	228
Mortgage banking income	218	95
Increase in cash surrender value of bank owned life insurance	120	101
Net loss on investment securities transactions	(13)	-
Other	20	32
Total noninterest income	611	456
Noninterest expenses		
Salaries and employee benefits	4,497	3,820
Occupancy expenses	1,066	696
Data processing	447	366
Legal and accounting fees	162	301
Advertising	238	177
Net (gain)/loss on sale of foreclosed real estate	(14)	31
Other expenses of foreclosed real estate	6	107
Deposit insurance premiums	187	104
Other	690	545
Total noninterest expenses	7,279	6,148
Income before income taxes	216	308
Provision for income taxes	66	58
Net income per common share	$ 150	$ 250
Earnings per common share		
Basic	$ 0.05	$ 0.11
Diluted	$ 0.05	$ 0.10
Weighted average common shares outstanding		
Basic	2,801,650	2,256,711
Diluted	3,033,924	2,484,813

See Notes to Consolidated Financial Statements

Southern Financial Corporation

Consolidated Statements of Comprehensive Loss

For the years ended December 31, 2023 and 2022 (Dollars in Thousands)

	2023	2022
Net income	$ 150	$ 250
Other comprehensive loss:		
Investment securities available for sale:		
Unrealized holding gains/(losses) on securities available-for-sale arising during the period, net	729	(4,641)
Reclassification to net income	(13)	-
Related income tax impact	(178)	1,152
Derivatives & hedges:		
Unrealized holding losses on cash flow hedges arising during the period, net	(444)	-
Unrealized holding losses on fair value hedges arising during the period, net	(742)	-
Reclassification to net income	(9)	-
Related income tax impact	295	-
Other comprehensive loss	(362)	(3,489)
Comprehensive loss	$ (212)	$ (3,239)

See Notes to Consolidated Financial Statements

Southern Financial Corporation

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31, 2023 and 2022 (Dollars in Thousands except per share data)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balance, December 31, 2021	-	$ -	2,050,395	$ 21	$ 5,690	$ 8,178	$ (172)	$ 13,717
Net income	-	-	-	-	-	250	-	250
Sale of 747,095 shares of common stock	-	-	747,095	7	6,689	-	-	6,696
Sale of 2,250 shares of preferred stock	2,250	-	-	-	2,016	-	-	2,016
Stock based compensation	-	-	-	-	79	-	-	79
Other comprehensive loss	-	-	-	-	-	-	(3,488)	(3,488)
Balance, December 31, 2022	2,250	-	2,797,490	28	14,474	8,428	(3,660)	19,270
Net income	-	-	-	-	-	150	-	150
Cumulative effect of change in accounting principles	-	-	-	-	-	(403)	-	(403)
Stock issued in lieu of compensation	-	-	5,078	-	46	-	-	46
Stock based compensation	-	-	-	-	99	-	-	99
Other comprehensive loss	-	-	-	-	-	-	(362)	(362)
Balance, December 31, 2023	2,250	$ -	2,802,568	$ 28	$ 14,619	$ 8,175	$ (4,022)	$ 18,800

See Notes to Consolidated Financial Statements

Southern Financial Corporation

Consolidated Statements of Cash Flows

For the years ended December 31, 2023 and 2022 (Dollars in Thousands)

	2023	2022
Cash flows from operating activities		
Net income	$ 150	$ 250
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	600	600
Depreciation	355	225
Net (accretion)/amortization of investment securities	(228)	54
Amortization of debt issuance costs	29	29
(Gain)/loss on sale of foreclosed real estate	(14)	31
Loss on disposal of fixed asset	2	-
Net loss on investment securities transactions	13	-
Write-down of foreclosed real estate	-	99
Increase in cash surrender value of BOLI	(120)	(101)
Deferred tax expense (benefit)	13	(52)
Stock based compensation	99	79
Increase in operating assets:		
Accrued interest receivable	(440)	(290)
Other assets	(693)	(101)
Increase in operating liabilities:		
Accrued interest payable	273	129
Accrued expenses and other liabilities	72	460
Net cash provided by operating activities	111	1,412
Cash flows from investing activities		
Proceeds from sales, calls and maturities of investment securities:		
Available-for-sale	2,758	220
Purchases of investment securities:		
Available-for-sale	(37,807)	(27,503)
Proceeds from principal paydowns of available-for-sale securities	4,769	2,257
Purchase of FHLB Stock	(654)	(26)
Redemption of certificate of deposits with other banks	-	648
Net increase in loans	(32,313)	(51,974)
Proceeds from sale of foreclosed real estate	172	192
Purchase of bank owned life insurance	-	(2,000)
Purchases of property and equipment	(8,023)	(4,622)
Net cash used for investing activities	(71,098)	(82,808)

See Notes to Consolidated Financial Statements

Southern Financial Corporation

Consolidated Statements of Cash Flows

For the years ended December 31, 2023 and 2022 (Dollars in Thousands)

	2023	2022
Cash flows from financing activities		
Net increase in demand deposits, NOW accounts, money market deposit accounts and savings accounts	17,462	10,109
Net increase in time deposits	39,690	63,705
Proceeds from Federal Home Loan Bank advances	12,000	-
Issuance of preferred stock	-	2,016
Net proceeds from issuance of common stock	46	6,698
Net cash provided by financing activities	69,198	82,528
Net (decrease) increase in cash and cash equivalents	(1,789)	1,132
Cash and cash equivalents, beginning of year	11,123	9,991
Cash and cash equivalents, end of year	$ 9,334	$ 11,123
Cash paid during the year for		
Interest	$ 5,312	$ 1,426
Income taxes, net of refunds	146	(205)
Noncash investing and financing activities		
Change in unrealized loss on securities available for sale	$ 716	$ (4,641)
Transfers of loans to foreclosed real estate	-	41
Loans charged off	437	47
Adoption of CECL	537	-

See Notes to Consolidated Financial Statements

Note 1. Significant Accounting Policies

The accounting and reporting policies of Southern Financial Corporation (the “Company”) are in accordance with generally accepted accounting principles and conform to general practices within the banking industry. The more significant policies are briefly summarized below:

Principles of consolidation:

The accompanying consolidated financial statements present the accounts of the Company, a one-bank holding company, and its wholly-owned subsidiary, Southern Bank (the Bank), headquartered in Sardis, Georgia. Material inter-company transactions have been eliminated in consolidation.

Nature of operations:

The Bank operates under a State of Georgia charter and provides full banking services. The Bank is a member of the Federal Deposit Insurance Corporation and is therefore subject to regulation of that agency and the Georgia Department of Banking and Finance. The area served by the Bank is historically Burke, Jenkins, Screven, Richmond, and Glascock counties with services provided by four full-service offices in the cities of Sardis, Waynesboro, Hephzibah, and Gibson. During 2022, the Bank expanded into the upstate of South Carolina, by opening a full-service branch in Greenville, and in 2023, by opening full-service branches in Spartanburg and Aiken.

Use of estimates:

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

Cash and cash equivalents:

For purposes of the presentation in the consolidated statement of cash flows, cash and cash equivalents are defined as those amounts included in the balance sheet caption "Cash and due from banks" and "Federal funds sold."

Note 1. Significant Accounting Policies, Continued

Accounting standards adopted in 2023:

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

In addition, CECL made changes to the accounting for available for sale securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available for sale debt securities if management does not intend to sell and does not believe that it is more likely than not, they will be required to sell.

The Company adopted ASC 326 and all related subsequent amendments thereto effective January 1, 2023, using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. The transition adjustment of the adoption of CECL included an increase in the allowance for credit losses on loans of $517 (which is presented as a reduction to net loans outstanding), and an increase in the allowance for credit losses on unfunded commitments of $20 (which is recorded in other liabilities). The Company recorded a net decrease to retained earnings of $403 as of January 1, 2023, for the cumulative effect of adopting CECL, which reflects the transition adjustments noted above, net of the applicable deferred tax assets recorded. Results for reporting periods beginning after January 1, 2023, are presented under CECL while prior period amounts continue to be reported in accordance with previously applicable accounting standards ("Incurred Loss").

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

Note 1. Significant Accounting Policies, Continued

Securities available-for-sale:

Debt securities are classified as "available-for-sale" and are reflected at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities unless they are callable. Gains and losses on the sale of available-for-sale securities are determined using the specific identification method.

Prior to the adoption of CECL, declines in value of available-for-sale securities below their cost that were deemed to be other-than-temporary were reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considered (1) the length of time and the extent to which 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 Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. During 2022 no such events occurred.

Allowance for credit losses – available for sale securities:

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

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

Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit loss expenses. Losses are charged against the allowance for credit losses when management believes an available for sale security is confirmed to be uncollectible or when either criteria regarding intent or requirement to sell is met. At December 31, 2023, there was no allowance for credit loss related to the available for sale portfolio.

Accrued interest receivable on available-for-sale debt securities at December 31, 2023 totaled $451, is included in accrued interest receivable, and was excluded from the estimate of credit losses.

Note 1. Significant Accounting Policies, Continued

Loans receivable:

The Bank grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is secured by real estate loans in the Bank's primary trade areas of Southeast Georgia and Upstate South Carolina. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions of these areas.

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at amortized cost. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts and deferred fees and costs. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using methods that approximate a level yield without anticipating prepayments.

Accrued interest receivable related to loans amounted to $656 and $464 at December 31, 2023 and 2022, respectively, is included in accrued interest receivable on the balance sheet and is excluded from the estimate of credit losses. Interest income is accrued on the unpaid principal balance. The accrual of interest is generally discontinued when a loan becomes 90 days past due and is not well collateralized and in the process of collection, or when management believes, after considering economic and business conditions and collection efforts, that the principal or interest will not be collectible in the normal course of business. Past due status is based on the contractual terms of the loan. A loan is considered to be past due when a scheduled payment has not been received 30 days after the contractual due date.

All accrued interest is reversed against interest income when a loan is placed on nonaccrual status. Interest received on such loans is accounted for using the cost-recovery method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current, there is a sustained period of repayment performance, and future payments are reasonably assured. The amount of interest written off by reversing interest income during 2023 was $37.

Allowance for credit losses – loans:

Under CECL, the former terms allowance for loan losses (ALL) and provision for loan losses, have been replaced with allowance for credit losses (ACL) and provision for credit losses (PCL) to coincide with their broader scope. This section provides a description of the methodology used to calculate ACL for loans under CECL for 2023 and under the Incurred Loss Method for 2022.

CECL

The ACL is a valuation account that is deducted from the loan's amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged against the ACL when management believes the uncollectability of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Accrued interest receivable is excluded from the estimate of credit losses.

Note 1. Significant Accounting Policies, Continued

Allowance for credit losses – loans, continued:

The allowance for credit losses represents management's estimate of lifetime credit losses inherent in loans as of the balance sheet date. The allowance for credit losses is estimated by management using relevant available information from both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts.

The Company measures expected credit losses for loans on a pooled basis when similar risk characteristics exist. The Company has identified the following loan portfolio segments and calculates the allowance for credit losses for each pool using both the Open Pool and Weighted Average Remaining Maturity ("WARM") methodology.

- Residential mortgage – Residential mortgage loans are susceptible to weakening general economic conditions, increases in unemployment rates and declining real estate values.
- Residential Construction – Residential construction loans are susceptible to the same risk as residential mortgage loans, and changes in market demand for property leading to longer marketing times resulting in higher carrying costs and declining values.
- Commercial Construction – Commercial construction loans are susceptible to the same risk as residential mortgage loans, and other risks common to this category are cost overruns, changes in market demand for property, inadequate long-term financing arrangements and declines in real estate values.
- Owner occupied commercial real estate – Loans in this category are susceptible to the same risks as residential mortgage loans. In addition, they are susceptible to business failure and general economic conditions.
- Non-owner occupied commercial real estate – Loans in this category are susceptible to the same risks as owner occupied commercial real estate loans. They are also susceptible to declines in occupancy rates and lack of suitable alternative use for the property.
- Commercial & Industrial loans – Risks to this loan category include the inability to monitor the condition of the collateral, which often consists of inventory, accounts receivable and other non-real estate assets. Equipment and inventory obsolescence can also pose a risk. Declines in general economic conditions and other events can cause cash flows to fall to levels insufficient to service debt.
- Consumer loans – Risks common to consumer loans include unemployment and changes in local economic conditions as well as the ability to monitor collateral consisting of personal property.

The WARM is calculated by considering the current balance and stated contractual maturity date of each loan in each pool. An annual prepayment rate is estimated by loan pool using guidance from the Federal Reserve and Federal Housing Finance Agency's quarterly prepayment monitoring report.

Additionally, the allowance for credit losses calculation includes subjective adjustments for qualitative risk factors that are likely to cause estimated credit losses to differ from historical experience and risk tolerance, loan review and audit results, asset quality and portfolio trends, loan portfolio growth, industry concentrations, trends in underlying collateral, external factors and economic conditions not already captured.

Loans that do not share risk characteristics are evaluated on an individual basis. When management determines that foreclosure is probable and the borrower is experiencing financial difficulties, the expected credit losses are based on the fair value of the collateral at the reporting date adjusted for selling costs as appropriate.

Note 1. Significant Accounting Policies, Continued

Allowance for credit losses – loans, continued:

Incurred Loss Method

Under the Incurred Loss Method, the ALL was established as losses were estimated to have occurred through a provision for loan losses charged to earnings. Loans were charged against the allowance when management believed the collectability of a loan balance was doubtful. Subsequent recoveries, if any, were credited to the allowance.

The allowance for loan losses was evaluated on a regular basis by management and was based upon management's periodic review of the collectability of the loans considering historical experience, known and inherent risks in the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation was inherently subjective as it required estimates that were susceptible to significant revision as more information became available.

Allowance for credit losses – unfunded commitments:

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit issued to meet customer financing needs. The Company's exposure to credit 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 Company 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 unfunded commitments in the Company's Statements of Income. The allowance for credit losses on off-balance sheet credit exposures is estimated by loan segment at each balance sheet date under the current expected credit loss model using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur as well as any third-party guarantees. The allowance for unfunded commitments is included in other liabilities on the Company's consolidated statements of financial condition.

Derivative financial instruments – Interest rate swaps:

The Company uses interest rate swap agreements to mitigate interest rate risk volatility regarding its exposure to changes in interest rates. During 2023, the Company entered into agreements to hedge fixed rate investment securities and variable rate customer deposit accounts. One agreement effectively converts $8 million of the bank's fixed rate agency securities into a variable rate from October 2023 through October 2028. This agreement is designated as a fair value hedge under the terms of FASB authoritative guidance for derivatives and hedging.

The second agreement effectively converts $17 million in deposit accounts subject to change in market rates to a fixed rate from October 2023 through October 2026. This agreement is designated as a cash flow hedge under the terms of FASB authoritative guidance for derivatives and hedging.

December 31, 2023 and 2022 (Dollars in Thousands except per share data)

Note 1. Significant Accounting Policies, Continued

Derivative financial instruments – Interest rate swaps, continued:

In November 2023, the bank entered into another interest rate swap agreement. This one effectively converts $9 million (at the time of inception) of amortizing fixed rate mortgage-backed securities to a variable rate from November 2023 through November 2038. This agreement is designated as a fair value hedge under the terms of FASB authoritative guidance for derivatives and hedging.

Cash flows from derivative instruments that are accounted for as fair value hedges or cash flow hedges are classified in the same category as cash flows from the item being hedged. At December 31, 2023, cash and due from banks includes $1,250 of collateral posted for these derivatives.

These agreements can be terminated at the discretion of the Company due to anticipated changes in the interest rate environment. At that time, any unrealized gains or losses would be reclassified from other comprehensive income into net income. At December 31, 2023, there were no realized gains or losses related to these agreements.

These derivatives are required to be disclosed at fair value. The fair value disclosures are listed in *Note 19 Fair Value Measurements*.

The Company elects to record the gross assets and liabilities of derivative financial instruments executed with the same counterparty on its consolidated balance sheets. The fair value of the Company's derivative financial instruments on a gross bases included in the consolidated balance sheet are as follows at December 31, 2023:

	Notional	Balance Sheet Location	Asset/(Liability)
Derivatives designated as hedging instruments:			
Fair Value Swap	$ 17,105	derivative liability	$ (742)
Cash Flow swap	17,000	derivative liability	(445)
Total derivative financial instruments	$ 34,105		$ (1,186)

Since these agreements are all effective in offsetting the variability of the hedged cash flows and fair values, changes in the fair values of the derivatives are not included in earnings but are included in Other Comprehensive Income.

All derivative financial instruments held by the Bank are held for purposes other than trading.

Foreclosed real estate:

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less estimated selling costs at the date of foreclosure establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in the Consolidated Statements of Income. The historical average holding period for such properties is eighteen months.

Note 1. Significant Accounting Policies, Continued

Premises and equipment:

Land is carried at cost. Buildings, furniture, and equipment are carried at cost, less accumulated depreciation. The provision for depreciation is computed principally on the straight-line method over the estimated useful lives of the assets, which range as follows: buildings - 20 to 45 years; furniture and equipment - 3 to 10 years. Costs of major additions and improvements are capitalized. Expenditures for maintenance and repairs are charged to operations as incurred. Gains or losses from the disposition of property are reflected in non interest income on the consolidated statements of income, and the asset accounts and related allowances for depreciation are reduced.

Leases

The Company is both a lessee and a lessor. The Company leases for its own use certain copiers and postage machines. The lease on the postage machine is for a period of 36 months, and the copiers are leased for 60 months. These payments are included in occupancy expenses for the years ended December 31, 2023 and 2022, respectively. From time to time, the bank leases out unused space in its operations center. In August 2023, the bank entered into a seven-month lease agreement. These rental income payments offset occupancy expense.

Restricted equity securities:

Restricted equity securities consist of investments in the stock of the Federal Home Loan Bank of Atlanta (“FHLB”), which is carried at cost. The Company is a member of the FHLB. As a requirement of membership, the Company invests in stock of FHLB. FHLB stock is carried at cost and evaluated periodically for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Bank owned life insurance:

The Bank has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Deferred tax assets, net of deferred tax liabilities:

Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

The Company and the Bank file consolidated income tax returns. The Bank provides for income taxes on a separate return basis, and remits to the Company amounts determined to be currently payable. Management reviews all tax positions when preparing tax provisions and evaluating reasonableness of tax liabilities and assets in the financial statements. All provisions, liabilities and assets were reviewed for prior periods with open statutes of limitations to determine if they were adequate as required by FASB Codification Section 740, Income Taxes. Management did not identify any uncertain positions that would give rise to additional liabilities, penalties or interest. Therefore, no additional liabilities or assets were recorded in the financial statements for uncertain tax positions, nor for interest or penalties.

Note 1. Significant Accounting Policies, Continued

Subordinated debt:

On October 21, 2021, the Company issued $5,000 in subordinated debt that matures on October 21, 2031. The cost to issue this debt was $145 and is being amortized over five years because the debt is fully redeemable on October 21, 2026.

Private placement:

As part of a plan to expand its operations into the upstate region of South Carolina, the Company completed a private placement on September 15, 2022, for a total of 747,095 shares of the Company's common stock to accredited investors at $9 per share. This transaction resulted in proceeds to the Company of $6,697 net of fees of $27.

Preferred stock:

On September 16, 2022, the Company amended its Articles of Incorporation to provide for the issuance of Series A {Non-Voting} Convertible Perpetual Preferred Stock of up to 5,000 shares. Each share of Series A Preferred Stock is convertible to 100 shares of Common Stock at the option of the holder provided the holder does not own more than 9.99% of common stock after the conversion. On September 28, 2022, the Company completed its first preferred stock offering by selling 2,250 shares to accredited investors at $900 per share. This transaction resulted in proceeds to the Company of $2,016 net of fees of $9.

Stock-based compensation:

Included in salaries and employee benefits is the compensation cost related to common stock options which totaled $99 and $79 for the years ended December 31, 2023 and 2022, respectively. Compensation cost is recognized when these awards are issued to employees and directors, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options. The calculated weighted-average grant date fair values used for calculating compensation expense were $2.84 and $2.22 per share for 2023 and 2022, respectively. Compensation cost is recognized over the required service period, generally defined as the vesting period. The Company's accounting policy is to recognize compensation cost net of estimated forfeitures.

Advertising costs:

The Company follows the practice of expensing advertising costs as they are incurred. These amounts are disclosed as a separate line item on the Consolidated Statements of Income.

Net income per share of common stock:

Basic earnings per common share is net income divided by the weighted average number of shares of common stock outstanding during the period. All shares issuable to participants in the Company's deferred compensation plan are considered to be participating securities for purposes of calculating basic earnings per share. Diluted earnings per common share includes the dilutive effect of additional potential shares of common stock issuable under stock options and securities convertible to common stock.

Note 1. Significant Accounting Policies, Continued

Revenue from contracts with customers:

The Company records revenue from contracts with customers in accordance with Accounting Standards Codification Topic 606, *"Revenue from Contracts with Customers" ("Topic 606")*. Under Topic 606, the Company must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the Company satisfies a performance obligation. Significant revenue has not been recognized in the current reporting period that results from performance obligations satisfied in previous periods.

The Company's primary sources of revenue are derived from interest and dividends earned on loans, investment securities, and other financial instruments that are not within the scope of Topic 606. The Company has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the Consolidated Statements of Income was not necessary. The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, the Company has made no significant judgments in applying the revenue guidance prescribed in Topic 606 that affect the determination of the amount and timing of revenue from contracts with customers.

Comprehensive loss:

Comprehensive loss consists of net income for the current period and other comprehensive loss, defined as income, expenses, gains, and losses that bypass the consolidated statements of income and are reported directly in a separate consolidated statement of comprehensive loss. In this statement, the Company reports items of other comprehensive loss according to their nature. Total comprehensive loss is also reported in the consolidated statements of changes in shareholders' equity. The accumulated balance of accumulated other comprehensive loss is shown separately in the shareholders' equity section of the consolidated statements of financial condition. At December 31, 2023, accumulated other comprehensive losses include unrealized holding losses on available-for-sale investment securities and unrealized holding losses on the interest rate swaps.

Reclassification of prior year amounts:

Certain amounts presented in the prior year data have been reclassified to be consistent with the current year's presentation. These reclassifications had no material effect on previously reported results of operations or shareholders' equity.

Note 1. Significant Accounting Policies, Continued

Risk and uncertainties:

In the normal course of its business, the Company encounters two significant types of risks: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Company is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or on different bases, than its interest-earning assets. Credit risk is the risk of default on the Company's loan and investment portfolios that result from a borrower's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of collateral underlying securities, loans receivable and the valuation of real estate held by the Company.

The Company is subject to the regulations of various governmental agencies (regulatory risk). These regulations can change significantly from period to period. The Company also undergoes periodic examinations by the regulatory agencies, which may subject it to further changes with respect to asset valuations, amounts of required loss allowances and operating restrictions from the regulators' judgments based on information available to them at the time of their examination.

Subsequent events:

The Company has disclosed its investment portfolio position in Note 2. There has been no significant deterioration in the investment portfolio through the date the consolidated financial statements were issued.

Management has reviewed events occurring through March 18, 2024, the date the consolidated financial statements were available to be issued and has not identified any other subsequent events that have occurred requiring accrual or disclosure.

Recently issued accounting pronouncements:

The following is a summary of recent authoritative pronouncements that affect accounting, reporting, and disclosure of financial information by the Company:

In December 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2023-09—*Income Taxes (Topic 740): Improvements to Income Tax Disclosures.* The ASU improves the transparency of income tax disclosures by requiring (1) consistent categories and greater disaggregation of information in the rate reconciliation and (2) income taxes paid disaggregated by jurisdiction. It also includes certain other amendments to improve the effectiveness of income tax disclosures. For public business entities, the standard is effective for annual periods beginning after December 15, 2024. For other entities, the amendments are effective for annual periods beginning after December 15, 2025. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance. The Company does not expect the adoption of this standard to have a material effect on its financial position, results of operations or cash flows.

Note 1. Significant Accounting Policies, Continued

Recently issued accounting pronouncements, continued:

In October 2023, the FASB issued ASU 2023-06—*Disclosure improvements: Codification Amendments in Response to the SEC's Disclosure Updated and Simplification Initiative.* In 2018, the SEC referred certain of its disclosure requirements that overlap, but require more information than GAAP, to the FASB for potential incorporation into the code. This update is a result of that initiative. For public entities, the effective date will be the date on which the removal of the related disclosure from Regulation S-X or S-K becomes effective. For all other entities, the amendments will be effective two years later. The Company does not expect the adoption of this standard to have a material effect on its financial position, results of operations or cash flows.

In March 2023, the FASB issued ASU 2023-02—*Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method* (a consensus of the Emerging Issues Task Force). This update allows entities to account for their tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met. For public entities, the amendments are effective for fiscal years beginning after December 15, 2023. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2024. The Company does not expect the adoption of this standard to have a material effect on its financial position, results of operations or cash flows as we are not invested in any joint ventures.

Also in March 2023, the FASB issued ASU 2023-01—*Leases (Topic 842): Common Control Arrangements.* The amendments in this Update provide a practical expedient for private companies and not-for-profit entities to use the written terms and conditions of a common control arrangement to determine 1) if a lease exists, and if so 2) the classification and accounting for that lease. It also allows leasehold improvements to be amortized over the useful life of the leasehold improvement instead of the term of the lease due to the transfer of value between commonly controlled entities at the end of the lease. The amendments in this update are effective for fiscal years beginning after December 15, 2023, with earlier adoption permitted. The Company does not expect the adoption of this standard to have a material effect on its financial position, results of operations or cash flows as we are not involved in any common control lease arrangements.

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

December 31, 2023 and 2022 (Dollars in Thousands except per share data)

Note 2. Securities Available-for-Sale

Debt and equity securities have been classified in the consolidated statements of financial condition according to management's intent. The carrying amounts of securities and their approximate fair values at December 31, 2023 and 2022 follow. At December 31, 2023, there was no allowance for credit loss related to the available for sale portfolio.

	December 31, 2023			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Agency securities	$ 10,877	$ 25	$ 1,155	$ 9,747
U.S. Treasury securities	1,030	-	106	924
State and municipal securities	601	-	12	589
State and municipal securities - taxable	5,762	-	854	4,908
Mortgage-backed securities	48,782	493	1,903	47,372
Asset-backed securities	10,462	5	11	10,456
Corporate securities	5,972	-	637	5,335
	$ 83,486	$ 523	$ 4,678	$ 79,331

	December 31, 2022			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Agency securities	$ 8,526	$ -	$ 1,359	$ 7,167
U.S. Treasury securities	1,036	-	131	905
State and municipal securities	2,539	1	76	2,464
State and municipal securities - taxable	5,733	-	1,110	4,623
Mortgage-backed securities	29,422	24	1,886	27,560
Corporate securities	5,735	-	334	5,401
	$ 52,991	$ 25	$ 4,896	$ 48,120

The following table shows the gross unrealized losses and estimated fair value of available for sale securities for which an allowance for credit losses has not been recorded aggregated by category and length of time that securities have been in a continuous loss position at December 31, 2023.

December 31, 2023 and 2022 (Dollars in Thousands except per share data)

Note 2. Securities Available-for-Sale, Continued

	Less Than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
U.S. Agency	$ 498	$ 1	$ 6,881	$ 1,154	$ 7,379	$ 1,155
U.S. Treasuries	-	-	924	106	924	106
State & municipal	179	1	210	11	389	12
State & municipal – taxable	-	-	4,908	854	4,908	854
Mortgage-backed	15,697	161	14,927	1,742	30,624	1,903
Asset-backed	6,584	11	-	-	6,584	11
Corporate	658	78	3,677	559	4,335	637
Total	$ 23,616	$ 252	$ 31,527	$ 4,426	$ 55,143	$ 4,678

Unrealized losses on U.S. Agency securities and U.S. Treasuries have not been recognized into income because they are issued by the federal government or government-sponsored corporations. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies, and have a long history of no credit losses. Management does not intend to sell, and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions.

Unrealized losses on state and municipal securities have not been recognized into income because they are of high credit quality (rated AA or higher), management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions.

Unrealized losses on mortgage-backed securities have not been recognized into income because they are of high credit quality (rated AA or higher), management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The issuer(s) continue to make timely principal and interest payments. The fair value is expected to recover as the mortgage backs approach maturity.

Unrealized losses on asset-backed securities have not been recognized into income because they are of high credit quality (rated AAA or higher), management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The issuer(s) continue to make timely principal and interest payments. The fair value is expected to recover as they approach maturity.

Unrealized losses on corporate bonds have not been recognized into income because they are of high credit quality, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The issuer(s) continue to make timely interest payments on the bonds. The fair value is expected to recover as the bonds approach maturity.

December 31, 2023 and 2022 (Dollars in Thousands except per share data)

Note 2. Securities Available-for-Sale, Continued

The following table shows the gross unrealized losses and estimated fair value of available for sale securities aggregated by category and length of time that securities have been in a continuous unrealized loss position at December 31, 2022. The Company had no asset-backed securities at December 31, 2022.

	Less Than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
U.S. Agency	$ 1,450	$ 42	$ 5,717	$ 1,317	$ 7,167	$ 1,359
U.S. Treasuries	-	-	905	131	905	131
State & municipal	2,263	76	-	-	2,263	76
State & municipal – taxable	898	86	3,724	1,024	4,622	1,110
Mortgage-backed	16,405	442	8,281	1,444	24,686	1,886
Corporate	2,096	140	1,556	194	3,652	334
Total	$ 23,112	$ 786	$ 20,183	$ 4,110	$ 43,295	$ 4,896

At December 31, 2022, the unrealized losses on debt securities arose due to changing interest rates and market conditions and are considered to be temporary because of acceptable investment grades where the repayment sources of principal and interest are largely backed by the U.S. Government.

At December 31, 2023 and 2022, securities with a carrying value of $13,602 and $14,962, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law. At December 31, 2023 securities with a carrying value of $11,187 were pledged to the Federal Home Loan Bank line of credit.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2023 follow:

	December 31, 2023	
	Available-for-sale securities	
	Amortized Cost	Fair Value
Due within one year	$ 1,199	$ 1,195
Due after one year through five years	35,727	34,890
Due after five years through ten years	30,104	27,376
Due after ten years	16,456	15,870
	$ 83,486	$ 79,331

Proceeds from sales, calls and maturities of available-for-sale securities totaled $2,758 during 2023. Of this amount, the Company sold $648 of securities at a gross realized gain of $39 and sold $2,075 of securities at a gross realized loss of $52. Another $35 was called with no gain or loss recognized. The Company decided to sell these securities and take the loss because in the current interest rate environment, the Company would recover its loss in less than two months through increased interest income. There were no sales of investment securities during 2022. Proceeds from calls and maturities of available-for-sale securities totaled $220 during 2022 resulting in no gain or loss recognized in 2022.

December 31, 2023 and 2022 (Dollars in Thousands except per share data)

Note 3. Loans and Allowance for Credit Losses

Loans by major category:

The following is a summary of the major categories of total loans outstanding shown net of unamortized deferred loan costs which are recorded net of unaccreted deferred loan origination fees:

	2023	2022
Construction & land ("Construction")	$ 28,924	$ 20,930
Farmland	1,421	840
Residential real estate ("Real estate")	40,230	39,275
Multi-family real estate ("Multifamily")	2,502	2,657
Commercial real estate ("Commercial RE")	88,185	62,530
Commercial & industrial ("C&I")	15,841	17,205
Consumer	6,889	8,679
Total loans	183,992	152,116
Less allowance for credit losses	2,204	1,526
Total loans, net	$ 181,788	$ 150,590

At December 31, 2023 residential real estate loans with a carrying value of $8,607 and commercial real estate loans with a carrying value of $29,272 were pledged to the FHLB as collateral for the bank's line of credit.

Delinquency disclosures:

The following table presents an analysis of past-due loans as of December 31, 2023:

	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Loans 90 Days or More Past Due and Still Accruing	Non-accrual Loans	Current Loans	Total Loans
Construction & land	$ 56	$ -	$ -	$ -	$ 28,868	$ 28,924
Farmland	-	152	-	-	1,269	1,421
Residential real estate	733	435	-	865	38,197	40,230
Multi-family real estate	-	-	-	-	2,502	2,502
Commercial real estate	324	-	-	535	87,326	88,185
Commercial & industrial	26	42	-	280	15,493	15,841
Consumer	156	32	-	59	6,642	6,889
Total	$ 1,295	$ 661	$ -	$ 1,739	$ 180,297	$ 183,992

December 31, 2023 and 2022 (Dollars in Thousands except per share data)

Note 3. Loans and Allowance for Credit Losses, Continued

Delinquency disclosures, continued:

The following table presents an analysis of past-due loans as of December 31, 2022:

	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Loans 90 Days or More Past Due and Still Accruing	Non-accrual Loans	Current Loans	Total Loans
Construction & land	$ 59	$ -	$ -	$ -	$ 20,871	$ 20,930
Farmland	-	-	-	-	840	840
Residential real estate	570	165	-	873	37,667	39,275
Multi-family real estate	-	-	-	-	2,657	2,657
Commercial real estate	-	547	-	-	61,983	62,530
Commercial & industrial	44	96	-	-	17,065	17,205
Consumer	174	-	-	65	8,440	8,679
Total	$ 847	$ 808	$ -	$ 938	$ 149,523	$ 152,116

Risk ratings and vintage disclosures:

The Company categorizes loans receivable into risk categories based on common credit quality indicators such as: current financial information, historical payment experience, credit documentation, public information, and current industry and economic trends among other factors. For collateralized loans, the Company also looks at the value of the collateral and the debt-to-value ratios. Based on this analysis, the Company individually classifies the loans as to credit risk. This analysis is performed on a continual basis. The Company's nine definitions for its risk ratings are described below along with their presentation in this footnote.

- Included in the "Pass" line in the upcoming vintage disclosure table are the following internal categories:
  - Virtually No Risk, Minimal Credit Risk, Satisfactory Credit Risk and Acceptable Credit Risk – Loans in these four categories are considered to have a low probability of default and do not meet the criteria of the risk categories below.
  - Weak Pass – This grade is given to loans that show signs of weakness in either adequate sources of repayment or collateral but have demonstrated mitigating factors that minimize the risk of delinquency or loss. Payments have generally been made as agreed with only minor and isolated delinquencies.
- Special Mention – Loans with underwriting guideline tolerances or exceptions and with no mitigating factors. Loans where adverse economic conditions that develop after the loan origination that do not jeopardize liquidation of the debt but do substantially increase the level of risk may also warrant this rating.
- Substandard – A Substandard loan is 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 institution will sustain some loss if the deficiencies are not corrected. Loans consistently not meeting the repayment schedule are downgraded to this classification.
- The following internal categories are rarely used as loans are usually charged off before they reach one of these two categories. There are no loans in either category at December 31, 2022 or 2023:

December 31, 2023 and 2022 (Dollars in Thousands except per share data)

Note 3. Loans and Allowance for Credit Losses, Continued

Risk ratings and vintage disclosures, continued:

- Doubtful – Loans classified Doubtful have all the weaknesses inherent in loans classified Substandard, plus the added characteristic that the weaknesses make collection or liquidation in full based on 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 non-accrual status, and no definite repayment schedule exists. Doubtful is a temporary grade where a loss is expected but is presently not quantified with any degree of accuracy. Once the loss position is determined, the amount is charged off.
- Loss – loans categorized as Loss have the same characteristics as Doubtful; however probability of loss is certain. Loans classified as Loss are generally charged off within 30 days of receiving this risk rating.

The following table presents the Company's recorded investment in loans by credit quality indicators by year of origination as of December 31, 2023. The Company had no revolving loans outstanding at December 31, 2023.

	2023	2022	2021	2020	2019	Prior	Total
Construction & land							
Pass	$ 16,329	$ 8,685	$ 2,980	$ 368	$ 29	$ 533	$ 28,924
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Total Construction	$ 16,329	$ 8,685	$ 2,980	$ 368	$ 29	$ 533	$ 28,924
Current period Gross write-offs	-	-	-	-	-	-	-
Farmland							
Pass	$ 960	$ -	$ 18	$ 68	$ -	$ 375	$ 1,421
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Total Farmland	$ 960	$ -	$ 18	$ 68	$ -	$ 375	$ 1,421
Current period Gross write-offs	-	-	-	-	-	-	-
Residential real estate							
Pass	$ 5,365	$ 13,758	$ 12,372	$ 2,942	$ 1,187	$ 3,403	$ 39,027
Special Mention	-	-	-	93	3	209	305
Substandard	-	-	172	-	-	726	898
Total Real estate	$ 5,365	$ 13,758	$ 12,544	$ 3,035	$ 1,190	$ 4,338	$ 40.230
Current period Gross write-offs	-	-	-	-	-	-	-

December 31, 2023 and 2022 (Dollars in Thousands except per share data)

Note 3. Loans and Allowance for Credit Losses, Continued

Risk ratings and vintage disclosures, continued:

	2023	2022	2021	2020	2019	Prior	Total
Multifamily							
Pass	$ -	$ 1,306	$ 1,133	$ -	$ -	$ 63	$ 2,502
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Total Multifamily	$ -	$ 1,306	$ 1,133	$ -	$ -	$ 63	$ 2,502
Current period							
Gross write-offs	-	-	-	-	-	-	-
Commercial real estate							
Pass	$ 23,463	$ 30,200	$ 25,342	$ 6,938	$ 688	$ 1,019	$ 87,650
Special Mention	-	-	535	-	-	-	535
Substandard	-	-	-	-	-	-	-
Total Commercial RE	$ 23,463	$ 30,200	$ 25,877	$ 6,938	$ 688	$ 1,019	$ 88,185
Current period							
Gross write-offs	-	-	-	-	-	-	-
Commercial & Industrial							
Pass	$ 4,596	$ 6,182	$ 4,076	$ 212	$ 4	$ -	$ 15,070
Special Mention	-	534	92	-	-	-	626
Substandard	-	145	-	-	-	-	145
Total C&I	$ 4,596	$ 6,861	$ 4,168	$ 212	$ 4	$ -	$ 15,841
Current period							
Gross write-offs	-	372	-	-	-	-	372
Consumer							
Pass	$ 929	$ 5,079	$ 443	$ 346	$ 19	$ 13	$ 6,829
Special Mention	-	-	17	7	-	-	24
Substandard	-	31	5	-	-	-	36
Total Consumer	$ 929	$ 5,110	$ 465	$ 353	$ 19	$ 13	$ 6,889
Current period							
Gross write-offs	23	13	22	2	5	-	65

The following table presents the Company's recorded investment in loans by credit quality indicators as of December 31, 2022:

	Pass	Special Mention	Substandard	Total
Construction & land	$ 20,930	$ -	$ -	$ 20,930
Farmland	840	-	-	840
Residential real estate	38,103	-	1,172	39,275
Multifamily real estate	2,657	-	-	2,657
Commercial real estate	62,530	-	-	62,530
Commercial and industrial	16,723	-	482	17,205
Consumer	8,596	-	83	8,679
	$ 150,379	$ -	$ 1,737	$ 152,116

December 31, 2023 and 2022 (Dollars in Thousands except per share data)

Note 3. Loans and Allowance for Credit Losses, Continued

Nonaccrual disclosures:

The following table is a summary of the Company's nonaccrual loans by major categories for the periods indicated.

	CECL			Incurred Loss
	December 31, 2023			Dec 31, 2022
	Nonaccrual loans			Nonaccrual Loans
	No Allowance	With An Allowance	Total	Total
Construction & land	$ -	$ -	$ -	$ -
Farmland	-	-	-	-
Residential real estate	-	865	865	873
Multifamily real estate	-	-	-	-
Commercial real estate	-	535	535	-
Commercial and industrial	-	280	280	65
Consumer	-	59	59	-
	$ -	$ 1,739	$ 1,739	$ 938

The Company recognized no income on nonaccrual loans during the year ended December 31, 2023, or 2022. The amount of interest written off by reversing interest income during 2023 was $37.

Collateral dependent disclosures:

The Company has certain loans on nonaccrual and individually assessed that are collateral dependent loans. Collateral dependent loans are loans for which the repayment is expected to be provided substantially through the operations or sale of the collateral and the borrower is experiencing financial difficulty. These loans do not share common risk characteristics and are not included within the collectively evaluated loans for determining the allowance for credit losses. Under CECL, for collateral dependent loans, the Company has adopted the practical expedient to measure the allowance for credit losses on the fair value of the collateral. The allowance for credit losses is calculated on an individual basis based on the shortfall between the fair value of the loan's collateral, which is adjusted for liquidation costs/discounts, and amortized cost. If the fair value of the collateral exceeds the amortized cost, no allowance is required. The underlying collateral can vary based upon the type of loan. The following provides more detail about the types of collateral that secure collateral dependent loans.

- Commercial real estate loans can be secured by either owner occupied commercial real estate or non-owner occupied commercial real estate. Typically, owner occupied commercial real estate loans are secured by office buildings, warehouses, manufacturing facilities and other commercial and industrial properties occupied by the operating companies. Non-owner occupied commercial real estate loans are generally secured by office buildings and complexes, retail facilities, multifamily complexes, land under development, industrial properties, as well as other commercial or industrial real estate.
- Residential real estate loans are typically secured by first mortgages, and in some cases could be secured by a second mortgage.
- Consumer loans are generally secured by automobiles, motorcycles, recreational vehicles, and other personal property. Some consumer loans are unsecured and have no underlying collateral.

December 31, 2023 and 2022 (Dollars in Thousands except per share data)

Note 3. Loans and Allowance for Credit Losses, Continued

Collateral dependent disclosures, continued:

The following table details the amortized cost of nonaccrual collateral dependent loans at December 31.

	2023
Residential real estate	$ 865
Commercial real estate	535
Commercial & industrial	280
Total collateral dependent loans on nonaccrual	$ 1,680

Allowance for credit losses disclosures:

The following table summarizes the activity related to the allowance for credit losses under the CECL methodology for the year ended December 31, 2023, and under the incurred loss method for the year ended December 31, 2022. The Company had no purchased credit impaired loans at December 31, 2023 or 2022.

	Construction and Land		Farmland		Residential Real Estate	
	2023	2022	2023	2022	2023	2022
Available for credit losses:						
Beginning balance	$ 157	$ 44	$ 7	$ 8	$ 381	$ 277
Adoption of CECL	(63)	-	(1)	-	(84)	-
Chargeoffs	-	-	-	-	-	-
Recoveries	-	-	-	-	-	3
Provisions	82	113	6	(1)	61	101
Total	$ 176	$ 157	$ 12	$ 7	$ 358	$ 381

	Multi-Family Real Estate		Commercial Real Estate		Commercial & Industrial	
	2023	2022	2023	2022	2023	2022
Beginning balance	$ 44	$ 4	$ 513	$ 418	$ 149	$ 95
Adoption of CECL	83	-	575	-	23	-
Chargeoffs	-	-	-	-	(372)	(14)
Recoveries	-	-	-	-	-	-
Provisions	(112)	40	(316)	95	900	68
Total	$ 15	$ 44	$ 772	$ 513	$ 700	$ 149

	Consumer		Unallocated		Totals	
	2023	2022	2023	2022	2023	2022
Beginning balance	$ 142	$ 84	$ 133	$ 32	$ 1,526	$ 962
Adoption of CECL	116	-	(132)	-	517	-
Chargeoffs	(65)	(33)	-	-	(437)	(47)
Recoveries	13	8	-	-	13	11
Provisions	(35)	83	(1)	101	585	600
Total	$ 171	$ 142	$ -	$ 133	$ 2,204	$ 1,526

Note 3. Loans and Allowance for Credit Losses, Continued

Allowance for credit losses disclosures, continued:

The increase in loans charged off during 2023 is attributable to one relationship on a participated loan where the borrower was experiencing financial difficulties. Instead of seeking a modification, the borrower offered cash to settle the loan now. The decision was made by the lead bank, and the Company concurred, to take the offer.

Impaired loan disclosures (prior period):

Prior to the adoption of ASU 2016-13, loans were considered impaired when, based on current information and events, it was probable the Company would be unable to collect all amounts due in accordance with the original contractual terms of the loan agreements. Impaired loans include loans on non accrual status and accruing trouble debt restructurings. The Company had none of the latter at December 31,2022. When determining if the Company would be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement, the Company considered the borrower's capacity to pay, which included such factors as the borrower's current financial statements, an analysis of global cash flow sufficient to pay all debt obligations and an evaluation of secondary sources of repayment, such as guarantor support and collateral value.

The following table includes all loans deemed impaired, whether or not individually assessed for impairment. If a loan as deemed impaired, a specific valuation allowance was allocated, if necessary, so that the loan was reported net, at the present value of estimated future cash flows using the loan's existing rate of the or at the fair value of collateral if repayment was expected solely from the collateral. Interest payments on impaired loans were typically applied to principal unless collectability of the principal amount was reasonably assured, in which case interest was recognized on a cash basis.

December 31, 2023 and 2022 (Dollars in Thousands except per share data)

Note 3. Loans and Allowance for Credit Losses, Continued

Impaired loan disclosures (prior period), continued:

Impaired loans at December 31, 2022:

With no related allowance recorded:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Construction, Land and Land Development	$ -	$ -	$ -	$ -	$ -
Farmland	-	-	-	-	-
Residential Real Estate	-	-	-	-	-
Multi-family Real Estate	-	-	-	-	-
Commercial Real Estate	-	-	-	-	-
Loans to Farmers	-	-	-	-	-
Commercial	-	-	-	-	-
Individuals	-	-	-	-	-
Overdrafts	-	-	-	-	-
Subtotal	$ -	$ -	$ -	$ -	$ -
With allowance recorded:					
Construction, Land and Land Development	$ -	$ -	$ -	$ -	$ -
Farmland	-	-	-	-	-
Residential Real Estate	873,495	886,066	87,349	872,852	-
Multi-family Real Estate	-	-	-	-	-
Commercial Real Estate	-	-	-	-	-
Loans to Farmers	-	-	-	-	-
Commercial	-	-	-	-	-
Individuals	64,601	69,734	46,255	62,952	-
Overdrafts	-	-	-	-	-
Subtotal	$ 938,096	$ 955,800	$ 133,604	$ 935,804	$ -
Total impaired loans:					
Construction, Land and Land Development	$ -	$ -	$ -	$ -	$ -
Farmland	-	-	-	-	-
Residential Real Estate	873,495	886,066	87,349	872,852	-
Multi-family Real Estate	-	-	-	-	-
Commercial Real Estate	-	-	-	-	-
Loans to Farmers	-	-	-	-	-
Commercial	-	-	-	-	-
Individuals	64,601	69,734	46,255	62,952	-
Overdrafts	-	-	-	-	-
Totals	$ 938,096	$ 955,800	$ 133,604	$ 935,804	$ -

December 31, 2023 and 2022 (Dollars in Thousands except per share data)

Note 3. Loans and Allowance for Credit Losses, Continued

Modifications made to borrowers experiencing financial difficulties:

The Company made no modifications to borrowers experiencing financial difficulties during 2023 or 2022.

Loan maturity disclosures:

Scheduled maturities and next repricing date of loans at December 31, 2023 are as follows:

	Within One year	Greater than one year through five years	Greater than five years	Total
Variable rate loans	$ 36,737	$ 7,932	$ 243	$ 44,912
Fixed rate loans	13,302	109,043	16,735	139,080
	$ 50,039	$ 116,975	$ 16,978	$ 183,992

Scheduled maturities of loans at December 31, 2022 are as follows:

	Within One year	Greater than one year through five years	Greater than five years	Total
Variable rate loans	$ 37,652	$ -	$ -	$ 37,652
Fixed rate loans	11,401	87,113	15,950	114,464
	$ 49,053	$ 87,113	$ 15,950	$ 152,116

Unfunded commitments:

The Company maintains a separate reserve for credit losses on off-balance-sheet credit exposures, including unfunded loan commitments, which is included in other liabilities on the consolidated balance sheet. The reserve for credit losses on off-balance-sheet credit exposures is adjusted as a provision for credit losses in the income statement. The estimate includes the consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over it estimated life, utilizing the same models and approaches for the Company's other loan portfolio segments described above, as these unfunded commitments share similar risk characteristics as its loan portfolio segments.

On January 1, 2023, the Company recorded an adjustment to the reserve for unfunded commitments of $20 for the adoption of ASC Topic 326. For the year ended, December 31, 2023, the Company recorded a provision for credit losses for unfunded commitments of $15. At December 31, 2023, the liability for credit losses on off-balance sheet credit exposures included in other liabilities was $35.

December 31, 2023 and 2022 (Dollars in Thousands except per share data)

Note 4. Premises and Equipment

Components of premises and equipment included in the consolidated statements of financial condition at December 31, 2023 and 2022 were as follows:

	2023	2022
Land	$ 4,684	$ 2,999
Bank premises	5,623	4,363
Furniture and equipment	1,654	1,219
Fixed assets in process	5,237	596
Total cost	17,198	9,177
Less: accumulated depreciation	1,985	1,630
	$ 15,213	$ 7,547

Charges to occupancy expense for the years ended December 31, 2023, and 2022 for depreciation of property and equipment aggregated to $355 and $225, respectively. During 2023, the company disposed of $3 in outdated equipment resulting in loss on disposal of $2. During 2022, there were no disposals of assets.

The Company had no material equipment leases as of December 31, 2023, or 2022. The Company owns all land and buildings. Included in accrued expenses and other liabilities at December 31, 2023 is $33 of accrued property taxes related to the Company's real and personal property reported above. These estimates are based on preliminary notices from the taxing authorities and previous experiences. All such taxes were paid before the printing of this annual report.

Note 5. Foreclosed Real Estate

Activity in foreclosed real estate was as follows:

	2023	2022
Balance net of valuation allowance, beginning of year	$ 273	$ 554
Foreclosures	-	41
Sales	(172)	(192)
Write downs	-	(99)
Gain/(loss) on disposition	14	(31)
Balance, net of valuation allowance, end of year	$ 115	$ 273

The valuation allowance balance was $25 and $99 at December 31, 2023 and 2022, respectively. Expenses applicable to foreclosed assets include the following:

	2023	2022
Net (gain)/loss on sales of foreclosed real estate	$ (14)	$ 30
Adjustments to valuation allowance	-	99
Operating expenses - net	6	9
	$ (8)	$ 138

There were no repossessed automobiles or trucks that are held for resale at December 31, 2023 or 2022.

December 31, 2023 and 2022 (Dollars in Thousands except per share data)

Note 6. Deposits

The following table illustrates the breakdown of deposits by type and non-interest-bearing totals and interest bearing totals:

	December 31, 2023		December 31, 2022	
	Non-interest Bearing	Interest Bearing	Non-interest Bearing	Interest Bearing
Deposits:				
Demand deposits and NOW accounts	$ 26,565	$ 15,910	$ 29,624	$ 17,524
Savings and money market accounts	-	54,839	-	32,703
Certificates of deposits and IRA's	-	159,167	-	119,478
Totals	$ 26,565	$ 229,916	$ 29,624	$ 169,705

The aggregate amount of time deposits exceeding $250 at December 31, 2023 and 2022 was $43,909 and $24,158, respectively. At December 31, 2023, the scheduled maturities of all time deposits are as follows:

	CD's $250,000 or less	CD's Over $250,000	Total
2024	$ 68,469	$ 13,977	$ 82,446
2025-2026	38,486	2,941	41,427
After 2026	8,303	26,991	35,294
Total	$ 115,258	$ 43,909	$ 159,167

Note 7. Federal Home Loan Bank Advances and Other Lines of Credit

The Company has a line of credit established with the Federal Home Loan Bank of Atlanta ("FHLB") in the amount of 25% of total assets. Investment securities, residential real estate and commercial real estate loans have been pledged to secure the line. The lendable value of these pledged assets as determined by the FHLB ultimately determines the capacity on the Company's line of credit. The following table outlines the pledges and lendable value at December 31, 2023.

	Carrying Value Pledged	Lendable Value	Amount Borrowed	Amount Available
Loans receivable	$ 37,879	$ 22,738	$ 12,000	$ 10,738
Securities available-for-sale	11,187	8,994	-	8,994
Totals	$ 49,066	$ 31,732	$ 12,000	$ 19,732

December 31, 2023 and 2022 (Dollars in Thousands except per share data)

Note 7. Federal Home Loan Bank Advances and Other Lines of Credit, Continued

The following table reflects the advances outstanding at December 31, 2023 and their relevant information. There was no outstanding balances on the line of credit at December 31, 2022.

	Grant Date	Maturity Date	Fixed Rate	Amount Outstanding
Thirty day advance	12/22/2023	1/19/2024	5.44%	$ 2,000
Three-year advance	11/10/2023	11/10/2026	4.88%	5,000
Five-year advance	4/25/2023	4/25/2028	3.78%	5,000
Total				$ 12,000

The Company also maintains lines of credit for Federal Funds Purchased in the amount of $6,000 with First National Bankers Bank, $6,000 with South State Bank, $5,000 with The Independent Bankers Bank and $5,000 with United Bankers Bank. At December 31, 2023 and 2022, no amounts were outstanding on these lines of credit.

The Bank also has access to the Federal Reserve Discount Window.

Note 8. Subordinated Debt

On October 21, 2021, the Company issued $5 million of subordinated debentures with a maturity of October 21, 2031. The Company may redeem the subordinated debentures, in whole or in part, in a principal amount with integral multiples of $1,000, on or after October 21, 2026, at 100% of the principal amount, plus accrued and unpaid interest. The subordinated debentures are also redeemable in whole or in part from time to time, upon the occurrence of specific events defined within the subordinated debentures.

The subordinated debentures may be included in Tier 2 capital (with certain limitations applicable) under current regulatory guidelines and interpretations. The subordinated debentures have a fixed rate of 4.875% until October 21, 2026. After that date, the debentures have a variable rate of interest equal to the three month Secured Overnight Financing Rate (SOFR) plus 3.93%. At December 31, 2023, and 2022, the Company had $81 and $110 of remaining unamortized capitalized expenses related to the debt issuance costs that are being amortized over 5 years.

Note 9. Financial Instruments with Off Balance Sheet Risk

The Company is a party to financial instruments with off balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit and have been issued for purposes other than trading. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Bank has in those particular financial instruments.

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

December 31, 2023 and 2022 (Dollars in Thousands except per share data)

Note 9. Financial Instruments with Off Balance Sheet Risk, Continued

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 credit worthiness 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. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. All letters of credit are due within one year of the original commitment date. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

The notional value of commitments to make loans and standby letters of credit were as follows:

	2023	2022
Financial instruments whose contract amounts represent credit risk at December 31:		
Commitments to extend credit	$ 14,101	$ 18,363
Standby letters of credit	22	20

At December 31, 2023, and 2022, there is a reserve for unfunded commitments of $35 and $0, respectively, included in other liabilities.

Note 10. Market and Concentration of Credit Risks

Most of the Company's business activity is with customers located in the Bank's market area, Southeastern Georgia and the upstate of South Carolina. Investment in state and municipal securities primarily are with governmental entities within Georgia and South Carolina. The concentrations by type of loan are set forth in Note 3.

The distribution of commitments to extend credit approximated the distribution of loans outstanding. Standby letters of credit were granted primarily to commercial borrowers.

The contractual amounts of credit-related financial instruments, such as commitments to extend credit and letters of credit, represent the amounts of potential accounting loss should the contract be fully drawn upon, the customer defaults, and the value of any existing collateral becomes worthless.

The Bank maintains cash balances and Federal Funds balances with five financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $250. Uninsured balances aggregate $17,550 at December 31, 2023 and $8,890 at December 31, 2022.

December 31, 2023 and 2022 (Dollars in Thousands except per share data)

Note 11. Federal and State Income Taxes

The Company and the subsidiary Bank file consolidated federal income tax returns on a calendar-year basis. The Bank uses the experience method to determine bad debt deductions which differs from the provision used for financial reporting. The tax years 2020, 2021, and 2022 are subject to examination and adjustment by taxing authorities. The statute of limitations expires three years from filing dates, including extensions.

The consolidated provision for income taxes consisted of the following for the years ended December 31:

	2023	2022
Current tax provision:		
Federal	$ 45	$ 104
State	8	4
Total current	53	108
Deferred:		
Federal	37	(20)
State	(32)	(11)
Total deferred	5	(31)
Change in valuation allowance	8	(19)
Total provision	$ 66	$ 58

The reasons for the differences between the statutory federal income tax rates and the effective tax rates are summarized as follows:

	2023	2022
Statutory rates	21.00%	21.00%
Increase (decrease) resulting from:		
State income taxes, net of federal benefits	(8.76)%	(1.93)%
Effect of tax-exempt income	(5.00)%	(3.50)%
Disallowed interest	1.10%	0.23%
Cash surrender value of bank-owned life insurance	(11.66)%	(6.92)%
Expiration of tax credits	12.77%	7.02%
Adjust deferred taxes to actual	-	1.69%
Change in valuation allowance	3.80%	(6.10)%
Stock options	5.82%	3.42%
Nondeductible dues	1.72%	1.31%
Other	9.72%	2.48%
	30.51%	18.70%

December 31, 2023 and 2022 (Dollars in Thousands except per share data)

Note 11. Federal and State Income Taxes, Continued

Deferred tax assets and liabilities included in other assets at December 31 consist of the following:

	2023	2022
Deferred tax assets:		
Allowance for loan losses	$ 435	$ 298
Unfunded commitments	8	-
Accrued expenses	25	-
Foreclosed real estate	16	45
Deferred compensation	21	14
NOL and credits	196	157
Stock options	19	9
Net unrealized loss on hedges	295	-
Net unrealized loss on available for sale securities	1,033	1,211
Deferred tax asset	2,048	1,734
Valuation allowance	(150)	(142)
Deferred tax asset, net of valuation allowance	1,898	1,592
Deferred tax liabilities:		
Accumulated depreciation	228	213
Other	53	-
Deferred tax liability	281	213
Net deferred tax asset	$ 1,617	$ 1,379

Deferred tax assets represent the future tax benefit of deductible differences and, if it is more likely than not that a tax asset will not be realized, a valuation allowance is required to reduce the recorded deferred tax assets to net realizable value. As of December 31, 2023, management has determined it is likely the majority of the deferred tax asset from continuing operations will be realized. The valuation allowance of $150 relates to the Company's state operating loss and credit carryforwards for which realizability is uncertain.

Note 12. Related Parties

The Company has engaged in transactions with its directors, significant shareholders, and their affiliates ("related parties"). The amount of loans to such related parties at December 31, 2023 and 2022 is as follows.

	2023	2022
Balance, beginning of year	$ 2,614	$ 2,339
New loans originated	4,338	413
Repayments	(314)	(138)
Balance, end of year	$ 6,638	$ 2,614

These totals exclude loans made in the ordinary course of business to other companies with which the Bank has no relationship other than the association of one of its directors in the capacity of officer or director. These loan transactions were made on substantially the same terms as those prevailing at the time for comparable loans to other persons. They did not involve more than the normal risk of collectability or present other unfavorable features.

Note 12. Related Parties, Continued

The aggregate balances of deposits of related parties held by the Company at December 31, 2023 and 2022 was $10,911 and $6,484, respectively. These deposit transactions were made on substantially the same terms as those prevailing at the time for comparable deposits of other persons.

Note 13. Commitments and Contingencies

In the ordinary course of business, the Company has various outstanding commitments and contingent liabilities that are not reflected in the accompanying consolidated financial statements. None are expected to have a material adverse effect on the consolidated financial condition of the Bank.

Note 14. Restrictions on Retained Earnings

The approval of the Georgia Department of Banking and Finance is required before the Bank's dividends in a given year may exceed fifty percent of its net profit (as defined) for the preceding year or if the ratio of equity capital to adjusted total assets is less than six percent. During 2023, the Bank paid dividends of $0 to the Holding Company. At December 31, 2023, approximately $208 were available for dividend distributions without prior regulatory approval. There were no appropriations of, or restrictions on, retained earnings at December 31, 2023.

Note 15. Pension and Profit-Sharing Plans

The Company maintains a defined contribution profit-sharing plan under the provisions of Section 401(k) of the Internal Revenue Code. As of January 1, 2022, the plan was amended to qualify as a Safe Harbor plan. As such, the plan now covers all the Bank's employees and contributions by the Company are mandatory. The plan continues to allow for voluntary employee pre-tax deferrals. The company matches 100% on the first 3% contributed by the employee and 50% on the next 2% contributed by the employee. The employee is immediately 100% vested in the employer match under the Safe Harbor provisions. The Company contributed $79 and $43 to the plan for the years ended December 31, 2023 and 2022, respectively.

Note 16. Stock-Based Compensation

The Company’s 2021 Equity Incentive Plan (stock option plan or the Plan), which is director and shareholder-approved, permits the grant of share options to its employees and directors for up to 10% of shares of common stock outstanding, which equates to 280,257 shares at December 31, 2023. Option awards are generally granted with an exercise price equal to the market price of the Company’s common stock at the date of grant; those option awards have vesting periods ranging from 3 to 5 years and have 10-year contractual terms.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model that uses the assumptions in the following table. Due to the limited trading in the Company’s stock, expected volatilities are based on historical volatilities of a custom peer group of bank holding companies similar in size and scope to our Company. Likewise, the expected term of options granted is based on management’s experience at similar institutions and represents the period that options granted are expected to be outstanding, which considers that the options are not transferrable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

December 31, 2023 and 2022 (Dollars in Thousands except per share data)

Note 16. Stock-Based Compensation, Continued

The fair value of options granted was determined using the following weighted-average assumptions as of grant date:

	2023
Risk-free interest rate	3.40%
Expected term	6 years
Expected stock price volatility	24.28%
Dividend yield	-%

A summary of the activity in the stock option plan for 2023 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)
Outstanding at beginning of year	136,550	$ 8.02	8.70
Granted	35,300	9.00	9.06
Exercised	-	-	-
Forfeited or expired	-	-	-
Outstanding at end of year	171,850	8.22	8.00
Exercisable at end of year	69,967	8.01	7.47

As of December 31, 2023, there was $132 of total unrecognized compensation cost related to nonvested stock options granted under the Plan. The cost is expected to be recognized over a weighted-average period of 3.09 years.

Note 17. Earnings Per share

	2023	2022
Net Income	$ 150	$ 250
Net income per common share:		
Basic	0.05	0.11
Diluted	0.05	0.10
Weighted Average common shares:		
Basic	2,801,650	2,256,711
Effect of dilutive securities:		
Stock Options	7,274	3,102
Convertible Preferred Stock	225,000	225,000
Diluted	3,033,924	2,484,813

Note 18. Regulatory Matters

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available for sale securities is included in computing regulatory capital. Management believes as of December 31, 2023, the Company and Bank meet all capital adequacy requirements to which they are subject.

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

In 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio framework (CBLR framework), for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020, and was elected by the Bank as of December 31, 2020. In April 2020, the federal banking agencies issued an interim final rule that makes temporary changes to the CBLR framework, pursuant to section 4012 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and a second interim final rule that provides a graduated increase in the community bank leverage ratio requirement after the expiration of the temporary changes implemented pursuant to section 4012 of the CARES Act.

The community bank leverage ratio removes the requirement for qualifying banking organizations to calculate and report risk-based capital but rather only requires a Tier 1 to average assets (leverage) ratio. Qualifying banking organizations that elect to use the community bank leverage ratio framework and that maintain a leverage ratio of greater than required minimums will be considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies’ capital rules (generally applicable rule) and, if applicable, will be considered to have met the well capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. Under the interim final rules, the community bank leverage ratio minimum requirement is 9% for calendar year 2022 and beyond. The interim rule allows for a two-quarter grace period to correct a ratio that falls below the required amount, provided that the bank maintains a leverage ratio of 8% for calendar year 2022 and beyond.

Under the final rule, an eligible banking organization can opt out of the CBLR framework and revert to the risk-weighting framework without restriction. As of December 31, 2023 the Bank was a qualifying community banking organization as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework.

December 31, 2023 and 2022 (Dollars in Thousands except per share data)

Note 18. Regulatory Matters, Continued

The leverage capital guidelines presently only apply on a consolidated basis to any bank holding company with consolidated assets of $3 billion or more, unless the holding company is engaged in certain activities as defined by the Federal Reserve Board. The Company does not anticipate that it would be subject to the consolidated leverage capital measures. However, as a holding company with less than $3 billion of assets, the Company would be subject to the Federal Reserve Board's Small Bank Holding Company Policy Statement.

Actual and required capital amounts and ratios are presented in the table.

	Amount		To Be Well Capitalized Under Prompt Corrective Action Regulations (CBLR Framework)	
	Amount	Ratio	Amount	Ratio
As of December 31, 2023:				
Tier 1 Capital				
(to Average Assets)				
Consolidated	$ 22,823	8.99%	N/A	N/A
Southern Bank	$ 25,849	10.18%	$ 22,850	≥9.0%

	Amount		To Be Well Capitalized Under Prompt Corrective Action Regulations (CBLR Framework)	
	Amount	Ratio	Amount	Ratio
As of December 31, 2022:				
Tier 1 Capital				
(to Average Assets)				
Consolidated	$ 22,930	12.72%	N/A	N/A
Southern Bank	$ 25,837	13.89%	$ 16,745	≥9.0%

Note 19. Fair Value Measurements

Generally accepted accounting principles provide a framework for measuring and disclosing fair value which requires disclosures about the fair value of assets and liabilities recognized in the balance sheet, whether the measurements are made on a recurring basis (for example, available-for-sale investment securities) or on a nonrecurring basis (for example, individually evaluated loans).

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between willing market participants on the measurement date. It also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Note 19. Fair Value Measurements, Continued

Generally accepted accounting principles related to fair-value measurements and disclosures establishes three levels of inputs that may be used to measure fair value:

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

Level 2: Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

Level 3: Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

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

Securities available-for-sale: Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid government securities and certain other products. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

Note 19. Fair Value Measurements, Continued

Individually evaluated loans: The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan may be considered individually evaluated and an allowance for credit losses may be established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered individually evaluated. Once a loan is identified as individually evaluated, management measures the impairment in accordance with FASB ASC 326. The fair value of individually evaluated loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those individually evaluated loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. In accordance with FASB ASC 820, “Fair Value Measurement and Disclosures,” individually evaluated loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company considers the individually evaluated loan as nonrecurring Level 2. The Company’s current loan and appraisal policies require the Company to obtain updated appraisals on an “as is” basis at renewal, or in the case of an individually evaluated loan, on an annual basis, either through a new external appraisal or an appraisal evaluation. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company considers the individually evaluated loan as nonrecurring Level 3. The fair value of individually evaluated loans may also be estimated using the present value of expected future cash flows to be realized on the loan, which is also considered a Level 3 valuation. These fair value estimates are subject to fluctuations in assumptions about the amount and timing of expected cash flows as well as the choice of discount rate used in the present value calculation.

Foreclosed real estate: Foreclosed properties are adjusted to fair value upon transfer of the loans to foreclosed real estate. Subsequently, foreclosed real estate is carried at the lower of carrying value or fair value minus selling costs. When the fair value of the property is based on an observable market price or a current appraised value, the foreclosed real estate is recorded as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the property requires reduction for estimated selling costs or is further impaired below the appraised value and there is no observable market price, the foreclosed real estate is recorded as a nonrecurring Level 3 measurement.

Derivative Financial instruments: The Company estimates the fair value of its interest rate swaps based on the underlying value of the investments securities or deposit accounts hedged. The investment securities fair values are based on quoted market prices (Level 2). The Company estimates the fair value of the derivative liability based on changes in the benchmark interest rate component of the hedged deposits. The estimated variable rate cash inflows were compared to the fixed rate outflows and such difference was discounted to a present value to estimate the fair value of the interest rate swaps. The components of the valuation were observable or could be corroborated by observable market data and, therefore, were classified within Level 2 of the valuation hierarchy.

December 31, 2023 and 2022 (Dollars in Thousands except per share data)

Note 19. Fair Value Measurements, Continued

The following tables present the recorded amounts of assets measured at fair value on a recurring basis and nonrecurring basis.

	December 31, 2023			
Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements				
Securities available-for-sale	$ -	$ 79,331	$ -	$ 79,331
Total assets measured at fair value on a recurring basis	$ -	$ 79,331	$ -	$ 79,331
Nonrecurring fair value measurements				
Individually assessed loans	$ -	$ -	$ 1,402	$ 1,402
Foreclosed real estate	-	-	115	115
Total assets measured at fair value on a Non-recurring basis	$ -	$ -	$ 1,517	$ 1,517
Liabilities				
Recurring fair value measurements				
Derivative liabilities	$ -	$ 1,186	$ -	$ 1,186
Total liabilities measured at fair value on a recurring basis	$ -	$ 1,186	$ -	$ 1,186

	December 31, 2022			
	Level 1	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements				
Securities available-for-sale	$ -	$ 48,120	$ -	$ 48,120
	$ -	$ 48,120	$ -	$ 48,120
Nonrecurring fair value measurements				
Impaired loans	$ -	$ -	$ 802	$ 802
Foreclosed real estate	-	-	273	273
	$ -	$ -	$ 1,075	$ 1,075

December 31, 2023 and 2022 (Dollars in Thousands except per share data)

Note 20. Condensed Financial Information of Parent Corporation

Condensed Balance Sheets

	2023	2022
Assets		
Cash	$ 1,861	$ 1,944
Investment in bank subsidiary	21,827	22,177
Due from bank subsidiary	-	72
Other Assets	79	15
Total assets	$ 23,767	$ 24,208
Liabilities and Shareholders' Equity		
Liabilities	$	$
Subordinated debt	4,919	4,890
Accrued interest payable	47	47
Other accrued liabilities	1	1
Total liabilities	4,967	4,938
Shareholders' Equity		
Preferred stock	-	-
Common stock	28	28
Additional paid-in capital	14,619	14,474
Retained earnings	8,175	8,428
Accumulated other comprehensive loss	(4,022)	(3,660)
Total shareholders' equity	18,800	19,270
Total liabilities and shareholders' equity	$ 23,767	$ 24,208

Condensed Statements of Income

	2023	2022
Operating income		
Interest expense	$ (273)	$ (273)
Other operating expenses, net of income tax benefit	8	18
Loss before equity in undistributed net income of subsidiary	(265)	(255)
Equity in undistributed net income of bank subsidiary	415	505
Net income	$ 150	$ 250

December 31, 2023 and 2022 (Dollars in Thousands except per share data)

Note 20. Condensed Financial Information of Parent Corporation, Continued

Condensed Statements of Cash Flows

	2023	2022
Cash flow from operating activities:		
Net income	$ 150	$ 250
Adjustments to reconcile net income to net cash used by operating activities:		
Subsidiary's undistributed income	(415)	(505)
Amortization of debt issuance costs	29	29
Stock based compensation	99	79
Increase in other assets	(64)	-
Decrease (increase) in due from subsidiary	72	(53)
Net cash used for operating activities	(129)	(200)
Cash flow from investing activities:		
Additional investment in bank subsidiary	-	(7,500)
Net cash used for investing activities	-	(7,500)
Cash flow from financing activities:		
Net proceeds from the issuance common stock	46	6,697
Issuance of preferred stock	-	2,016
Net cash provided by financing activities	46	8,713
Net (decrease)/increase in cash and cash equivalents	(83)	1,013
Cash and equivalents, beginning of year	1,944	931
Cash and equivalents, end of year	$ 1,861	$ 1,944
Supplemental disclosure of cash flow information		
Cash paid during the year for:		
Income taxes, net of refunds	$ 146	$ (205)