Community First Bancorporation
2023 Annual Report

President's Report to the Shareholders of Community First Bancorporation

Dear Shareholders:

On behalf of Community First Bancorporation's Board of Directors, management team and associates, I am pleased to report the 2023 results for the Company.

In 2023 your Company produced the following achievements:

- Earnings per share of $0.71 for the year;
- Tangible book value increased to $8.84 at December 31, 2023, an increase of 13.6% from the end of 2022;
- Expansion into Franklin, North Carolina and Johnson City, Tennessee with full-service branch offices;
- Sustained asset quality with a ratio of non-performing assets to total assets of 0.10% as of December 31, 2023;
- Increased efficiency as reflected in a decrease in noninterest expense of more than 20% in 2023 compared to 2022.

On February 1, 2024 we announced a strategic merger with Dogwood State Bank. The proforma company is expected to have total assets of $2.2 billion, total deposits of $1.8 billion and net loans of $1.7 billion. We believe the combined company will offer the synergies associated with a larger branch network, additional products and services, and expanded technology.

2023 brought a host of challenges resulting from significant changes in interest rates and turmoil in the banking industry. The changes in the interest rate environment caused our net interest margin to decline in 2023 compared to 2022. The overall increase in rates changed the composition of our deposits which had the effect of increasing our cost of funds. It also sparked declines in mortgage banking activity and slowed our overall growth. However, the potential adverse effects of these changes on the Company were reduced by the ability of our associates to work with even greater efficiency. Our efficiency ratio improved in 2023 to 77.8%, from 80.1% in 2022 excluding the gain on the sale of SeaTrust, and 85.4% in 2021.

We are proud to report that loan growth paired with strong credit quality, a key driver of increased core earnings, continued in 2023. Our loan growth in 2023 was 5.4%, and fairly consistent with 2022 growth, which was 5.7%, and our credit quality has remained excellent. Our ratio of nonperforming assets as a percentage of total assets was 0.10% as of December 31, 2023. Our allowance for credit losses, which serves as a reserve against future losses, stands at 1.19% of total loans held for investment.

In 2023 we made additional investments in training for our associates. We believe that our best path to success lies in providing our clients with trusted professionals offering financial solutions and being appropriately compensated for providing valuable customer services.

At Community First our motto is "We Know What Matters". We believe that we share the essential values of community-based banking and our commitment to providing exceptional customer service with the bankers at Dogwood State Bank. We look forward to the opportunities that our combined talent can offer our communities, shareholders, customers, and friends.

We appreciate the support our shareholders and associates have offered Community First Bancorporation. We will continue to strive to enhance shareholder value and to offer customers high-quality financial solutions in the towns and communities we so proudly serve.

Sincerely,

Richard D. Burleson, Jr.

Richard D. Burleson
President and Chief Executive Officer

BUSINESS OF THE COMPANY

Community First Bancorporation (the "Company") is a South Carolina corporation and a bank holding company which commenced operations in 1997, upon effectiveness of the acquisition of Community First Bank (the "Bank") as a wholly owned subsidiary. The principal business of the Company is ownership and operation of the Bank.

On March 19, 2021, the Company acquired SFB Bancorp, Inc., the parent company of Security Federal Bank ("SFB"), in Elizabethton, Tennessee. SFB Bancorp, Inc. was merged into the Company and SFB was merged into the Bank. Shareholders of SFB as of March 19, 2021 received $33.00 per share in cash.

Business of the Bank

The Bank is a South Carolina state bank which commenced operations as a commercial bank in 1990. In 2017, the Bank established Community First Financial Services, which works through a trusted partner to offer online pricing options for various types of insurance products. To date, Community First Financial Services has engaged in limited operations. In 2019, SeaTrust Mortgage Company ("SeaTrust"), a wholly-owned subsidiary of the Bank headquartered in Wilmington, North Carolina, was established to offer mortgage loan services to consumers. In May 2022, the Bank sold SeaTrust for a pretax gain of $2,293,000.

At December 31, 2023, the Bank operated from its offices in Walhalla, Seneca, Anderson, Westminster, Williamston, and Greenville, South Carolina, Charlotte, Dallas, and Franklin, North Carolina, and Elizabethton and Johnson City, Tennessee. In July 2022, the Bank closed its Kingsport, Tennessee loan production office ("LPO"). Additionally, the Bank consolidated one of its Anderson, South Carolina branches and one of its Elizabethton, Tennessee branches into existing branches in December 2022. Early in 2023, the Bank converted its LPO in Waynesville, North Carolina to the full-service branch in Franklin, North Carolina. At December 31, 2023, the Bank no longer operated any LPO's.

On February 1, 2024, the Company jointly announced with Dogwood State Bank ("Dogwood") the signing of a definitive merger agreement for Dogwood State Bank to acquire Community First Bancorporation, and its subsidiary, Community First Bank in an all-stock merger. The merger agreement provides that each Community First Bancorporation common shareholder receive 0.5875 shares and each preferred shareholder will receive 64.7719 shares of Dogwood's voting common stock. The transaction is intended to qualify as a tax-free reorganization for federal income tax purposes and to provide a tax-free exchange for Community First Bancorporation stockholders. Based on Dogwood's most recent capital raise of $16.4 million in March 2023 at $20.00 per share, this would imply a transaction value per share of $11.75 for each Community First Bancorporation common share.

Deposits

The Bank offers a full range of deposit services, including checking accounts, NOW accounts, retirement accounts (including Individual Retirement Accounts), time deposits and savings accounts of various types, ranging from daily money market accounts to longer-term certificates of deposit. The transaction accounts and time certificates are tailored to the principal market area at rates competitive with those offered by other institutions in the area. All deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to the maximum amount permitted by law. The Bank solicits these accounts from individuals, businesses, associations and organizations, and government authorities. The Bank does not offer trust services.

Lending Activities

The Bank offers a range of lending services, including commercial loans, consumer loans, and real estate mortgage loans. The Bank offers secured and unsecured, short-to-intermediate term loans, with floating and fixed interest rates for commercial and consumer purposes. Consumer loans generally include car, recreational vehicle, and boat loans, home equity loans (secured by first and second mortgages), personal expenditure loans, education loans, and overdraft lines of credit. Commercial loans generally include short term unsecured loans, short and intermediate term real estate mortgage loans, loans secured by listed stocks, loans secured by equipment, inventory, and accounts receivable. Management believes that the credit staff possesses knowledge of the community and lending skills appropriate to enable the Bank to maintain a sufficient volume of high quality loans.

To address the risks inherent in making loans, management maintains an allowance for credit losses based on, among other things, an evaluation of the Bank's loan loss experience, management's experience at other financial institutions in the market area, peer data, the amount of and trends in past due and nonperforming loans, current economic conditions, and the values of loan collateral.

Other Services

The Bank participates in a network of automated teller machines that may be used by Bank customers throughout the United States and the world. The Bank offers credit and debit cards together with related lines of credit. The lines of credit may be used for overdraft protection as well as pre-authorized credit for personal purchases and expenses. The Bank also provides direct deposit of payroll and social security benefits, and automatic drafts for various accounts. The Bank offers foreign payments and currency exchange through a correspondent bank. The Bank offers an internet banking product accessible via the Bank's website at ***www.C1stbank.com***. The interactive banking product includes an electronic bill payment service that allows customers to make scheduled and/or recurring bill payments electronically. The Bank also offers mobile banking as a component of internet banking. Additionally, the Bank offers remote check deposit services, merchant services, and other related services to commercial and small business customers.

MANAGEMENT'S DISCUSSION OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following information describes various financial aspects of the Bank's business. This information should be read in conjunction with the consolidated financial statements of the Company, which appear elsewhere in this document.

Effect of Economic Trends

Over the past four years, the economy of the United States has experienced significant volatility. Market rates fell drastically in 2020 as a consequence of the effects of the COVID-19 pandemic, including business closures and supply chain disruptions and shortages. As the economy began to recover from the pandemic, inflation became a predominate economic factor. Early in 2022, geopolitical tensions increased, adding a layer of economic uncertainty. By mid-March of 2022, the Federal Reserve concluded that inflationary pressures would be more pervasive and persistent than initially expected. As a consequence, the Federal Reserve's Open Market Committee ("FOMC") initiated the first of a series of increases in short term interest rates aimed at reducing inflation rates. Through July of 2023, the FOMC increased short term interest rates by 525 basis points. This economic volatility has had an adverse impact upon Community First.

Earnings Performance

The Company reported net income of $4,080,000 in 2023 compared to $6,436,000 in 2022 and $3,620,000 in 2021. After adjusting for dividends allocated to preferred shares, the net income per common share was $0.71 for 2023, $1.14 for 2022, and $0.63 for 2021. Fully diluted net income per share was $0.71 for 2023. Stock based compensation in the form of vested options has the potential to create a difference between basic and fully diluted earnings per common share. In 2023, 2022 and 2021, the effect of vested options on earnings per common share was minimal. Net income decreased in 2023 relative to 2022 but remained higher than 2021. In 2022, the Company recorded a gain of $2,293,000 ($1,743,000 net of tax) on the sale of SeaTrust which was the primary difference in net income compared to 2023. Additionally, increased loan volume and interest income were entirely offset by increases in interest expense from deposits and borrowings during 2023.

The Company's recorded provision for credit losses increased to $266,000 in 2023 from $130,000 in 2022 primarily due to loan growth and the Company's adoption of ASU No. 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("CECL"), effective January 1, 2023. Refer to Notes 1 and 4 for additional information on the impact of the adoption of CECL.

The Company's net interest income (the difference between interest earned on interest-earning assets and interest paid on interest-bearing liabilities) after provision for credit losses decreased to $21,986,000 in 2023 from $23,020,000 and $19,253,000 in 2022 and 2021, respectively. The year-over-year decrease was primarily driven by changes in interest rates. Average gross loans grew $32,248,000, or 6.77%, in 2023 compared to 2022. Overall loan yields for 2023 were 5.54% compared to 4.82% in 2022. The yield on investments was 2.48% in 2023 compared to 2.15% in 2022. The Company recorded provisions to the allowance for credit losses of $266,000 in 2022, $130,000 in 2022, and $306,000 in 2021. Net charge-offs of $30,000 partially offset the increase in the allowance for credit losses for 2023 over 2022.

The Company had noninterest income of $3,924,000 in 2023 following $10,724,000 in 2022 and $13,394,000 in 2021. Noninterest income included gains on sales of mortgage loans and mortgage origination fee income of $3,000 in 2023, $2,589,000 in 2022, and $9,036,000 in 2021. Additionally, noninterest income in 2022 and 2021 included gains of $2,058,000 and $772,000, respectively, in fair value adjustments on mortgage banking derivatives. No gains on fair value adjustments on mortgage banking derivatives were recorded in 2023. The significant decreases in mortgage banking income and gains in fair value adjustments on mortgage banking derivatives were directly related to the sale of SeaTrust in the second quarter of 2022. As a result of the sale of SeaTrust, the Company recorded a gain in the amount of $2,293,000 in noninterest income in 2022. The Company had other operating expenses of $20,357,000, $25,287,000, and $28,153,000, in 2023, 2022, and 2021, respectively. The majority of the declines in noninterest expense year over year in 2023 and 2022 were also directly related to the sale of SeaTrust in 2022.

Net Interest Income

Net interest income is the amount of interest earned on interest-earning assets (loans, investment securities, deposits in other banks and federal funds sold), less the interest expenses incurred on interest-bearing liabilities (interest-bearing deposits and borrowed money) and is the principal source of the Bank's earnings. Net interest income is affected by the level of interest rates, the volume and mix of interest-earning assets, and the relative funding of these assets. Because the Bank’s and therefore, the Company’s, assets are largely monetary in nature, material changes in interest rates can have a material impact on its net interest income.

For the years ended December 31, 2023, 2022, and 2021, net interest income was $22,252,000, $23,150,000, and $19,559,000, respectively. The increase in net interest income in 2023 and 2022 compared to 2021 was primarily attributable to larger volumes of loans and investments, as well as higher interest rates on our interesting-bearing deposits due from banks. However, the decrease in net interest income in 2023 from 2022 was primarily the result of additional interest rate increases on interest-bearing liabilities during the year ended December 31, 2023 (see “Rate/Volume Analysis of Net Interest Income” below).

Interest income attributable to loans significantly increased due to higher rates and increased volume during 2023. In 2023, the average balance of loans outstanding increased $32,248,000 in comparison to 2022 average loan balances. Average yields on total loans increased to 5.54% in 2023 from 4.82% in 2022. Average balances of investment securities decreased by $5,217,000 in 2023, primarily driven by unrealized losses. Yields on investments increased to 2.48% in 2023 compared to 2.15% in 2022. Additionally, average balances of interest-earning cash decreased by $16,789,000 in 2023 compared to 2022 but interest income from such assets significantly increased by $999,000 in 2023 compared to 2022 due to higher interest rates. Average yields on total interest-earning assets increased from 4.09% in 2022 to 5.02% in 2023.

In 2023, the primary driver of changes in total interest expense was a continued increase in interest rates from 2022 subjecting interest-bearing liabilities to elevated rates for a full year. Early in 2022 and following the sale of SeaTrust in May 2022, the Bank’s composition of funding was trending lower in time deposits and borrowings and higher in non-maturing deposits. This change favorably impacted overall interest expense. However, by the fourth quarter of 2022, the trend reversed, and depositors began to move funds back into higher yielding account types. This trend accelerated as market interest rates increased rapidly late in 2022 and through July of 2023. The average rate for interest-bearing liabilities was 2.10% in 2023 compared to 0.56% in 2022. Average balances decreased to $481,333,000 in 2023 compared to $492,506,000 in 2022. The significantly elevated interest rates paid on interest-bearing liabilities, particularly on time deposits and money market accounts, resulted in interest expense increasing from $2,769,000 in 2022 to $10,092,000 in 2023. Consequently, lower average balances of interest bearing-liabilities had minimal impact on interest expense during 2023. See the Liquidity section of Management’s Discussion of Financial Condition and Results of Operations for additional discussion of the Company’s borrowings.

The following table, "Average Balances, Yields, and Rates," provides a detailed analysis of the effective yields and rates on the categories of interest-earning assets and interest-bearing liabilities for the Company for the years ended December 31, 2023, compared to 2022.

Average Balances, Yields, and Rates

(Dollars in thousands)

	Year Ended December 31, 2023			Year Ended December 31, 2022		
	Average Balances(1)	Interest Income/ Expense	Average Yields/ Rates(2)	Average Balances(1)	Interest Income/ Expense	Average Yields/ Rates(2)
Assets						
Interest-earning cash	$ 38,817	$ 1,738	4.48%	$ 55,606	$ 739	1.33%
Investment securities	96,728	2,398	2.48%	101,945	2,193	2.15%
Loans (3)	508,715	28,207	5.54%	476,467	22,987	4.82%
Total interest-earning assets	644,260	32,343	5.02%	634,018	25,919	4.09%
Noninterest-earning assets, net	37,050			38,967		
Total assets	$ 681,310			$ 672,985		
Liabilities and shareholders' equity						
Interest-bearing liabilities:						
Interest-bearing transaction accounts	$ 86,606	$ 63	0.07%	$ 127,298	$ 74	0.06%
Savings and money market	150,777	2,062	1.37%	173,664	640	0.37%
Time deposits	198,439	6,009	3.03%	152,676	907	0.59%
Borrowings	45,511	1,958	4.30%	38,868	1,148	2.95%
Total interest-bearing liabilities	481,333	10,091	2.10%	492,506	2,769	0.56%
Noninterest-bearing demand deposits and other Liabilities and equity	199,977			180,479		
Total liabilities and shareholders' equity	$ 681,310			$ 672,985		
Interest rate spread (4)			2.92%			3.53%
Net interest income and net yield on earning assets (5)		$ 22,252	3.45%		$ 23,150	3.65%
Interest free funds supporting earning assets (6)	$ 162,927			$ 141,512		

(1) Average balances of interest-earning assets and interest-bearing liabilities calculated on a daily basis.
(2) Calculated based on the number of days in the year that each type of asset or liability was in existence. Yield calculated on a pre-tax basis.
(3) Nonaccruing loans are included in the average loan balances and income on such loans is recognized on a cash basis.
(4) Total yield on interest-earning assets less the rate paid on total interest-bearing liabilities.
(5) Net interest income divided by total interest-earning assets.
(6) Total interest-earning assets less total interest-bearing liabilities.

Rate/Volume Analysis of Net Interest Income

As discussed under the caption "Net Interest Income," the Bank's net income is largely dependent on net interest income. The table below presents the relative impact on net interest income caused by changes in the average balances (volume) of interest sensitive assets and liabilities and the impact caused by changes in interest rates earned or paid. Each table compares two years as indicated below. The effect of a change in average balance has been determined by applying the average rate in the earlier year to the change in average balance in the later year, as compared with the earlier year. The effect of a change in the average rate has been determined by applying the average balance in the earlier year to the change in the average rate in the later year, as compared with the earlier year.

Year Ended December 31, 2023 compared to 2022

	Increase (Decrease) Due to			
	Rate	Volume	Rate/Volume(1)	Change
	(Dollars in thousands)			
Interest earned on:				
Securities (2)	$ 334	$ (112)	$ (17)	$ 205
Interest-earning cash	1,751	(223)	(529)	999
Loans	3,433	1,556	232	5,221
Total interest income	5,518	1,221	(314)	6,425
Interest paid on:				
Deposits	5,470	164	879	6,513
Borrowings	524	196	90	810
Total interest expense	5,994	360	969	7,323
Change in Net Interest Income	$ (476)	$ 861	$ (1,283)	$ (898)

(1) Rate/Volume is calculated as the difference between the average balances for the periods multiplied by the difference between the average rates for the periods.
(2) Income calculated on a pre-tax basis.

Interest Rate Sensitivity

Interest rate sensitivity measures the timing and magnitude of the repricing of assets compared with the repricing of liabilities and is an important part of asset/liability management. The objective of interest rate sensitivity management is to generate stable growth in net interest income, and to control the risks associated with interest rate movements. Management constantly reviews interest rate risk exposure and the expected interest rate environment so that adjustments in interest rate sensitivity can be made in a timely manner.

When interest sensitive liabilities exceed interest sensitive assets for a specific repricing "horizon," a negative interest sensitivity gap results. The gap is positive when interest sensitive assets exceed interest sensitive liabilities. For a bank with a negative gap, falling interest rates would be expected to have a positive effect on net interest income and increasing rates would be expected to have the opposite effect. However, if one or more assumptions prove incorrect, the margin may not be impacted in the manner expected. On a cumulative basis, rate sensitive liabilities exceeded rate sensitive assets, resulting in a liability-sensitive position at the end of 2023 at the one-year time horizon, assuming that all assets and liabilities would reprice at the earliest possible time. However, many instruments may not reprice in conjunction with final maturities and may not reprice in conjunction with or by the same magnitude as movements in market interest rates.

Noninterest Income

Noninterest income, which consists primarily of service charges on deposit accounts, mortgage banking income, other fee income, gains on sales of SBA loans, increases in the cash surrender value of bank owned life insurance contracts, loan referral fees, and fair value adjustments on mortgage banking derivatives, decreased by $6,800,000 from 2022 to 2023. The main reasons for the decrease are related to the sale of SeaTrust and the effect of higher interest rates, leading to a corresponding decline in mortgage banking income. Mortgage banking income decreased to $3,000 in 2023 compared to $2,589,000 in 2022 and gains on fair value adjustments on mortgage banking derivatives decreased to $0 in 2023 compared to $2,058,000 in 2022. While the Company continues to originate mortgage loans to consumers, the volume is limited to originations in the Bank's primary markets. The Company services the mortgage loans it originates. Relatively small increases in service charges on deposit accounts and referral fee income partially offset the significant decrease in mortgage banking income during 2023. Income from gains on sales of SBA loans was $266,000 in 2023 compared to $653,000 in 2022 and was driven strictly by lower SBA loan sales volume. As previously discussed, pre-tax income from the gain on sale of SeaTrust in 2022 was $2,293,000.

Noninterest Expenses

Noninterest expenses, which consist primarily of salaries and employee benefits, occupancy costs, data processing expenses, professional fees, expenses of foreclosed assets, and other expenses were $20,357,000 in 2023, $25,287,000 in 2022, and $28,153,000 in 2021. Salaries and employee benefits decreased during 2023 and 2022 after increasing in 2021. The continued decrease in expense in 2023 compared to 2022 and 2021 is primarily due to the sale of SeaTrust during 2022. The sale of SeaTrust also positively impacted other noninterest expenses. Data processing expenses declined by approximately $13,000 in 2023 in comparison to 2022 related to the sale of SeaTrust. These expenses also slightly decreased to $2,445,000 in 2022 compared to $2,471,000 in 2021. The majority of the increased levels of data processing expenses were related to additional lending automation software and the additional accounts related to the acquisition of SFB in 2021. Expenses of foreclosed assets decreased to $4,000 in 2023 from $18,000 in 2022 and from in $69,000 in 2021. The Company disposed of all its remaining foreclosed real estate in 2022 and held non-real estate repossessed assets of $170,000 by the end of 2023. Net occupancy and equipment expenses decreased by approximately $153,000 in 2023 compared to 2022 primarily the result of consolidating two branches near the end of 2022. Other noninterest expense was $3,091,000 in 2023, $4,469,000 in 2022, and $4,589,000 in 2021.

Income Taxes

The Company recorded income tax expense of $1,473,000 in 2023, $2,021,000 in 2022, and $874,000 in 2021. The change in recorded income tax expense is the result of significantly higher pre-tax income in 2022. Refer to Notes 1 and 15 to the Company's consolidated financial statements contained elsewhere herein for more information.

Liquidity

Liquidity is the ability to meet current and future obligations through liquidation or maturity of existing assets or the acquisition of additional liabilities. Adequate liquidity is necessary to meet the requirements of customers for loans and deposit withdrawals in the most timely and economical manner. Some liquidity is ensured by maintaining assets that may be immediately converted into cash at minimal cost (amounts due from banks and federal funds sold). However, the most manageable sources of liquidity are composed of liabilities, with the primary focus on liquidity management being on the ability to obtain deposits within the Bank's service area. Core deposits (total deposits less time deposits greater than $250,000 and brokered deposits) provide a relatively stable funding base, and were equal to 75.46% and 81.21% of total assets at December 31, 2023 and 2022, respectively.

The Bank has access to a line of credit with the Federal Home Loan Bank ("FHLB") of Atlanta, which is subject to various conditions and may be terminated at the option of the lender, as an additional source of liquidity funding. The line with the FHLB of Atlanta is equal to 25% of assets, provided that adequate collateral is available for pledging. The line may be used for short- or long-term funding needs and may be used on a fixed or variable-rate basis. As of December 31, 2023, the Bank had $38,000,000 in borrowings from the FHLB of Atlanta. As of December 31, 2023, approximately $137,655,000 of additional funds were available under the FHLB of Atlanta line provided that eligible collateral is available.

The Bank uses eligible loans and investment securities to collateralize advances. As of December 31, 2023, loans with a value of $301,605,000 were available as collateral to the FHLB for future borrowing capacity. Additional securities with a market value of $58,807,000 were unpledged and could be used as collateral for borrowings should the Bank require additional funding. Management believes that the Bank's overall liquidity sources are adequate to meet its operating needs in the ordinary course of its business.

In November 2020, the Company issued a $10,000,000 subordinated note to a third-party purchaser and recorded $199,000 of issuance costs. The funds from the subordinated note assisted the Company with the acquisition of SFB. For additional information on the Company's short and long-term borrowings see Notes 9 and 10.

Asset liquidity is provided from several sources, including amounts due from banks and federal funds sold, unpledged securities, and funds from maturing loans. The Company had $45,467,000 and $45,948,000 in cash and cash equivalents at December 31, 2023 and 2022, respectively.

Off-Balance Sheet Risk

The Company, through the operations of the Bank, makes contractual commitments to extend credit in the ordinary course of its business activities. These commitments are legally binding agreements to lend money to customers of the Bank at predetermined interest rates for a specified period of time. At December 31, 2023 and 2022, unfunded commitments to extend credit were $74,860,000 and $77,573,000, respectively. Past experience indicates that many of these commitments to extend credit will expire unused and it is unlikely that a large portion would be used in a short period of time. However, through its various sources of liquidity discussed above, the Bank believes that it will have the necessary resources to meet these obligations should the need arise.

The Bank offers an automatic overdraft protection product for non-maturing deposits. Approximately $11,726,000 of overdraft protection was available to customers under this product as of December 31, 2023. The Bank expects that much of this capacity will not be utilized. During 2023, the average balance of total non-maturing deposit overdrafts for participating bank customers was approximately $118,000.

In addition to commitments to extend credit, the Bank also issues standby letters of credit which are assurances to a third party that it will not suffer a loss if the Bank's customer fails to meet its contractual obligation to the third party. Standby letters of credit totaled approximately $377,000 at December 31, 2023. Past experience indicates that many of these standby letters of credit will expire unused. However, through its various sources of liquidity discussed above, the Bank believes that it will have the necessary resources to meet these obligations should the need arise.

Neither the Company nor the Bank is involved in other off-balance sheet contractual relationships, unconsolidated related entities that have off-balance sheet arrangements or transactions that could result in liquidity needs or other commitments or significantly impact earnings. Refer to Note 17 to the Company's consolidated financial statements for additional discussion on other commitments and contingencies and financial instruments with off-balance sheet risk.

Capital Resources

Total shareholders' equity increased from $47,053,000 at December 31, 2022 to $52,615,000 at December 31, 2023. The increase was due to a rebound in market values on the Company's available for sale securities causing a reduction in the accumulated other comprehensive loss and to its net income of $4,080,000 in 2023. The Company may determine that additional capital is required to support planned growth and expansion in the coming years. The Bank's internal policies require maintenance of sufficient capital to remain classified as a Well Capitalized institution under the regulatory capital guidelines.

The Bank is subject to regulatory capital adequacy standards. The Bank's regulatory capital requirements and positions are summarized in Note 13 to the consolidated financial statements contained elsewhere herein.

elliott davis

Independent Auditor's Report

Board of Directors
Community First Bancorporation and Subsidiaries
Walhalla, South Carolina

Opinion

We have audited the consolidated financial statements of Community First Bancorporation and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations, comprehensive (loss) income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2023, 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 its operations and its cash flows for each of the three years in the period ended December 31, 2023, 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 financial statements, the Company has changed its method of accounting for credit losses effective January 1, 2023 due to the adoption of Financial Accounting Standards Board Accounting Standards Codification No. 326, *Financial Instruments – Credit Losses (ASC 326)*. The Company adopted the new credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles. 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.

Responsibilities of Management for the Financial Statements, Continued

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 27, 2024

Consolidated Balance Sheets

Community First Bancorporation and Subsidiaries

(Dollars in thousands, except share information)

	December 31, 2023	December 31, 2022
ASSETS		
Cash and due from banks	$ 5,471	$ 6,553
Federal funds sold	3,682	5,609
Interest-bearing deposits due from banks	36,314	33,786
Cash and cash equivalents	45,467	45,948
Debt securities available-for-sale, at fair value	94,495	97,001
Equity securities, at fair value	12	4
Federal Home Loan Bank stock, at cost	2,267	1,731
Loans held for investment, gross	511,003	484,676
Allowance for credit losses	(6,077)	(5,594)
Loans, net	504,926	479,082
Premises and equipment, net	12,242	12,749
Accrued interest receivable	2,095	1,877
Bank-owned life insurance	16,284	15,866
Foreclosed assets	170	25
Deferred income tax assets	3,381	4,360
Goodwill and intangible assets	708	828
Other assets	2,614	1,704
Total assets	$ 684,661	$ 661,175
LIABILITIES		
Deposits		
Noninterest-bearing	$ 142,016	$ 121,169
Interest-bearing	437,252	447,464
Total deposits	579,268	568,633
Short-term borrowings	-	3,000
Long-term borrowings	47,922	39,882
Accrued interest payable	2,412	478
Other liabilities	2,444	2,129
Total liabilities	632,046	614,122
Commitments and contingent liabilities (Note 17)		
Shareholders' equity		
Preferred stock – Series A – non-voting 5% cumulative - $1,000 per share liquidation preference; 5,000 shares authorized, 3,150 shares issued and outstanding	3,126	3,126
Preferred stock – no par value; 9,995,000 shares authorized, none issued	-	-
Common stock – no par value; 10,000,000 shares authorized; 5,514,683 shares issued and outstanding at December 31, 2023 and 2022	40,668	40,668
Additional paid-in capital	10,873	10,849
Retained earnings	8,487	4,850
Accumulated other comprehensive loss	(10,539)	(12,440)
Total shareholders' equity	52,615	47,053
Total liabilities and shareholders' equity	$ 684,661	$ 661,175

The Notes to Consolidated Financial Statements are an integral part of these financial statements.

Consolidated Statements of Operations

Community First Bancorporation and Subsidiaries

(Dollars in thousands, except per common share information)

	Year Ended December 31, 2023	2022	2021
INTEREST INCOME			
Interest and fees on loans	$ 28,207	$ 22,987	$ 21,377
Interest on securities	2,280	2,145	1,101
Interest-bearing deposits	1,738	739	72
Other	118	48	49
Total interest income	32,343	25,919	22,599
INTEREST EXPENSE			
Interest on time deposits $100 and over	3,945	562	722
Interest on other deposits	4,188	1,059	993
Interest on short-term borrowings	-	181	418
Interest on long-term borrowings	1,958	967	907
Total interest expense	10,091	2,769	3,040
Net interest income	22,252	23,150	19,559
Provision for credit losses	266	130	306
Net interest income after provision for credit losses	21,986	23,020	19,253
NONINTEREST INCOME			
Service charges on deposit accounts	1,675	1,103	1,004
Mortgage banking income	3	2,589	9,036
Gain on sale of SBA loans	266	653	485
Net gain (loss) on investment securities transactions	-	(1)	153
Net gain on sale of subsidiary	-	2,293	-
Fair value adjustments on derivatives	-	2,058	772
Increase in cash surrender value of life insurance contracts	418	380	354
Other	1,562	1,649	1,590
Total other income	3,924	10,724	13,394
NONINTEREST EXPENSES			
Salaries and employee benefits	11,273	14,422	16,374
Net occupancy	1,343	1,502	1,510
Furniture and equipment	1,140	1,134	893
Legal and professional fees	758	958	991
FDIC insurance	316	295	322
Expenses of foreclosed assets	4	18	69
Data processing	2,432	2,445	2,471
Merger-related expenses	-	44	934
Other	3,091	4,469	4,589
Total other expenses	20,357	25,287	28,153
Income before income taxes	5,553	8,457	4,494
Income tax expense	1,473	2,021	874
Net income	**4,080**	**6,436**	**3,620**
Deductions for amounts not available to common shareholders:			
Dividends declared or accumulated on preferred stock	158	158	158
Net income available to common shareholders	**$ 3,922**	**$ 6,278**	**$ 3,462**
Per common share			
Net income	**$ 0.71**	**$ 1.14**	**$ 0.63**
Net income, assuming dilution	**$ 0.71**	**$ 1.14**	**$ 0.63**

The Notes to Consolidated Financial Statements are an integral part of these financial statements.

Consolidated Statements of Comprehensive (Loss) Income
Community First Bancorporation and Subsidiaries
(Dollars in thousands)

	Year Ended December 31, 2023	2022	2021
Net income	$ 4,080	$ 6,436	$ 3,620
Other comprehensive (loss) income:			
Unrealized gains (losses) on securities available for sale arising during the period	2,571	(15,819)	(1,409)
Less: Reclassification adjustment for net gains (losses) included in net income	-	1	(153)
Related income tax impact	(670)	3,635	498
Other comprehensive (loss) income	1,901	(12,183)	(1,064)
Comprehensive income (loss)	**$ 5,981**	**$ (5,747)**	**$ 2,556**

The Notes to Consolidated Financial Statements are an integral part of these financial statements.

Consolidated Statements of Changes in Shareholders' Equity
Community First Bancorporation and Subsidiaries
(Dollars in thousands, except share information)

	Preferred Stock	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained (Deficit) Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2020	3,126	5,494,612	40,668	10,528	(4,341)	807	50,788
Net income	-	-	-	-	3,620	-	3,620
Other comprehensive loss	-	-	-	-	-	(1,064)	(1,064)
Dividends paid on preferred stock	-	-	-	-	(158)	-	(158)
Proceeds from exercise of stock options and stock issuance	-	2,071	-	14	-	-	14
Stock based compensation	-	-	-	105	-	-	105
Balance, December 31, 2021	3,126	5,496,683	40,668	10,647	(879)	(257)	53,305
Net income	-	-	-	-	6,436	-	6,436
Other comprehensive loss	-	-	-	-	-	(12,183)	(12,183)
Issuance of restricted stock	-	18,000	-	-	-	-	-
Dividends paid on preferred stock	-	-	-	-	(158)	-	(158)
Dividends paid on common stock	-	-	-	-	(549)	-	(549)
Stock based compensation	-	-	-	202	-	-	202
Balance, December 31, 2022	$ 3,126	5,514,683	$ 40,668	$ 10,849	$ 4,850	$ (12,440)	$ 47,053
Adoption of ASU 2016-13	-	-	-	-	(285)	-	(285)
Net income	-	-	-	-	4,080	-	4,080
Other comprehensive income	-	-	-	-	-	1,901	1,901
Dividends paid on preferred stock	-	-	-	-	(158)	-	(158)
Stock based compensation	-	-	-	24	-	-	24
Balance, December 31, 2023	$ 3,126	5,514,683	$ 40,668	$ 10,873	$ 8,487	$ (10,539)	$ 52,615

The Notes to Consolidated Financial Statements are an integral part of these financial statements.

Consolidated Statements of Cash Flows
Community First Bancorporation and Subsidiaries
(Dollars in thousands)

	For the years ended December 31, 2023	2022	2021
OPERATING ACTIVITIES			
Net income	$ 4,080	$ 6,436	$ 3,620
Adjustments to reconcile net income to net cash provided by (used for) operating activities			
Provision for credit losses, including unfunded commitments	266	130	306
Depreciation	970	916	797
Gain on sale of premises and equipment	-	(50)	(15)
Write-down of premises and equipment	215	-	-
Accretion of net loan fees and costs	(1,062)	(905)	(770)
Securities discount accretion and premium amortization, net	397	469	530
Net losses (gains) realized on available-for-sale securities	-	1	(153)
Net change in fair value of equity securities	(8)	5	17
Stock based compensation	24	202	105
Increase in cash surrender value of life insurance	(418)	(380)	(354)
Loss (gain) on sale of foreclosed assets	16	(9)	(57)
Subsequent write-downs of foreclosed assets	10	15	59
Originations of loans held-for-sale	-	(116,515)	(236,218)
Proceeds from sales of loans held-for-sale	-	117,303	231,042
Gain on sales of loans held-for-sale	-	(1,212)	(8,011)
Gain on fair value adjustment of loans held-for-sale	-	(439)	(610)
Net gain (loss) on change in derivative assets and liabilities	-	216	(278)
(Increase) decrease in accrued interest receivable	(218)	(240)	160
Increase (decrease) in accrued interest payable	1,934	68	(372)
Decrease in deferred income tax assets	396	1,985	852
Increase in prepaid expenses and other assets, net	(1,162)	(297)	(1,571)
Increase (decrease) in accrued expenses, net	315	14	(15)
Net cash provided by (used for) operating activities	5,755	7,713	(10,936)
INVESTING ACTIVITIES			
Purchases of available-for-sale securities	-	(27,435)	(67,295)
Maturities, calls, and paydowns of available-for-sale securities	4,680	7,533	10,434
Proceeds from the sale of securities available-for-sale	-	-	14,715
(Purchase) sale of Federal Home Loan Bank stock	(536)	(509)	5
Net increase in loans made to customers	(25,291)	(24,947)	(7,414)
Purchases of premises and equipment	(678)	(537)	(823)
Proceeds from sale of premises and equipment	-	643	15
Net cash paid for acquisition of SFB	-	-	(1,732)
Net cash received for sale of SeaTrust	-	1,498	-
Proceeds from sale of foreclosed assets	72	424	496
Net cash used for investing activities	(21,753)	(43,330)	(51,599)
FINANCING ACTIVITIES			
Net increase in deposits	10,635	5,122	74,993
Net increase (decrease) in advances from Federal Home Loan Bank	5,000	7,968	(1,065)
Accretion of subordinated debt issuance costs	40	41	40
Net decrease in PPPLF	-	-	(4,394)
Net increase in warehouse lines of credit	-	-	4,684
Proceeds from exercise of stock options and stock issuance	-	-	14
Payment of dividends on common stock	-	(549)	-
Payment of dividends on preferred stock	(158)	(158)	(158)
Net cash provided by financing activities	15,517	12,424	74,114
(Decrease) increase in cash and cash equivalents	(481)	(23,193)	11,579
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	45,948	69,141	57,562
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 45,467	$ 45,948	$ 69,141
Supplemental Disclosure of Cash Flow Information			
Cash paid during the period for			
Interest	$ 8,156	$ 2,712	$ 3,371
Income taxes	967	468	235
Noncash investing and financing activities			
Transfer of loans to foreclosed assets	243	25	140
Unrealized gain (loss) on securities available-for-sale, net of tax	1,901	(12,183)	(1,064)
Loans transferred from held for sale to held-for-investment	-	-	9,216

The Notes to Consolidated Financial Statements are an integral part of these financial statements.

Notes to Consolidated Financial Statements
Community First Bancorporation and Subsidiaries
(Dollars in thousands, except per common share information)

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization - Community First Bancorporation (the “Company,” “we” and other such terms), a bank holding company, and its wholly-owned subsidiary, Community First Bank, Inc. (the “Bank”), are engaged in providing domestic commercial banking services from offices in Walhalla, Seneca, Anderson, Williamston, Westminster, and Greenville, South Carolina, Dallas and Charlotte, North Carolina, and Elizabethton and Johnson City, Tennessee. The Company is a South Carolina corporation and its banking subsidiary is a state chartered commercial bank with its deposits insured by the Federal Deposit Insurance Corporation (the “FDIC”). Therefore, the Company and its bank subsidiary operate under the supervision, rules and regulations of the Board of Governors of the Federal Reserve System (the “Federal Reserve”), FDIC and South Carolina State Board of Financial Institutions. Community First Bank was organized on December 1, 1988 and received its charter and commenced operations on March 12, 1990. The holding company was incorporated on May 23, 1997. In 2017, the Bank established Community First Financial Services, which works through a trusted partner to offer online pricing options for various types of insurance products. To date, Community First Financial Services has engaged in limited operations. SeaTrust Mortgage Company (“SeaTrust”), a wholly-owned subsidiary of the Bank headquartered in Wilmington, North Carolina, was established in 2019 to offer mortgage loan services to consumers in the Southeast. SeaTrust is a non-supervised lender and may originate, purchase, hold, service, and sell all types of loans, including multifamily loans. SeaTrust sells substantially all the mortgage loans it originates and does not retain any mortgage servicing rights. During 2022, the Bank sold SeaTrust and recorded a gain on sale in the consolidated statement of operations. The Company continues to originate and service mortgage loans to consumers in its primary markets.

Community First Bank, Inc. is a community-oriented institution offering a full range of traditional banking services, with the exception of trust services. Substantially all of its loans held for investment are made to individuals and businesses within its local markets in South Carolina, North Carolina, and Tennessee, and substantially all of its deposits are acquired within its local market areas.

On March 19, 2021, the Company acquired SFB Bancorp, Inc., the parent company of Security Federal Bank (“SFB”) in Elizabethton, Tennessee. SFB Bancorp, Inc. was merged into the Company and SFB was merged into the Bank. Shareholders of SFB as of March 19, 2021 received cash consideration of $33.00 per share.

Principles of Consolidation and Basis of Presentation - The consolidated financial statements include the accounts of the parent company and its subsidiaries after elimination of all significant intercompany balances and transactions. The accounting and reporting policies of the Company and its subsidiaries are in conformity with generally accepted accounting principles and general practices within the banking industry.

Accounting 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 revenues and expenses during the reporting period. Actual results could differ significantly 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, fair value of investment securities, and valuation of deferred tax assets. In connection with the determination of the allowance for credit losses, management has identified specific loans and adopted a policy of providing amounts for loan valuation purposes which are not identified with any specific loan but are derived from actual loss experience ratios, loan types, loan volume, economic conditions and industry standards. Management believes that the allowance for credit losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the banking subsidiary’s allowance for credit losses. Such agencies may require additions to the allowance based on their judgments about information available to them at the time of their examination.

Concentrations of Credit Risk - Most of the Company’s, and its banking subsidiary’s, activities are with customers located within the Company’s local market areas. See Note 4 for a discussion of the types of lending the Bank is engaged in. The ability of borrowers to comply with the terms of their loan contracts is largely dependent upon local real estate and general economic conditions in our market areas. We do not have any significant concentrations to any single industry or customer nor do we engage in originating, holding, guaranteeing, servicing or investing in loans where the terms of the loan give rise to a concentration of credit risk.

Business Combinations - The Company applies the acquisition method of accounting for all business combinations. The acquirer is the entity that obtains control of one or more businesses in the business combination and the acquisition date is the date the acquirer achieved control. The acquirer recognizes the fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree at the acquisition date. If the fair value of assets purchased exceeded the fair value of liabilities assumed, it results in a "gain on acquisition". If the consideration given exceeds the fair value of the net assets received, goodwill is recognized. Generally, fair values are subject to refinement for up to one year after the closing date of an acquisition as information relative to closing date fair values becomes available (the "measurement period"). During the measurement period, the Company may recognize adjustments to the initial amounts recorded as if the accounting for the business combination had been completed at the acquisition date. Adjustments are typically recorded as a result of new information received after the acquisition date that is necessary to identify and measure identifiable assets acquired and liabilities assumed. In many cases, the determination of acquisition-date fair values requires management to make estimates about discount rates, future expected cash flows, market conditions, and other future events that are subjective in nature and subject to change.

Securities - The majority of the securities invested by the Company and the Bank are considered to have low levels of credit risk. Equity securities that have readily determinable fair values and all debt securities are classified generally at the time of purchase into one of three categories: held-to-maturity, trading, or available-for-sale. Debt securities that we have the positive intent and ability to hold until ultimate maturity are classified as held-to-maturity and are accounted for at amortized cost. Debt and equity securities bought and held primarily for sale in the near term would be classified as trading, and accounted for on an estimated fair value basis, with unrealized gains and losses included in other income; however, we have never held any securities for trading purposes. Securities not classified as either held-to-maturity or trading are classified as available-for-sale and are accounted for at estimated fair value. Unrealized holding gains and losses on available-for-sale debt securities are excluded from net income and recorded as other comprehensive income, net of applicable income tax effects. The change in fair value of equity securities is recognized in net income. Dividend and interest income, including amortization of any premium or accretion of discount arising at acquisition, are included in earnings for all three categories of securities. Realized gains and losses on all categories of securities are included in other operating income, based on the amortized cost of the specific security on a trade date basis.

Management evaluates debt securities for credit impairment on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For debt securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a debt security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) impairment related to credit loss, which must be recognized in the income statement and 2) impairment related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Federal Home Loan Bank Stock - The Bank is a member of the Federal Home Loan Bank ("FHLB") of Atlanta and, accordingly, is required to own restricted stock in that institution in amounts that may vary from time to time. Additionally, the Bank owned restricted stock of FHLB Cincinnati as of December 31, 2022 due to borrowings assumed in the SFB acquisition, which was redeemed during 2023. The Bank is not a member of the FHLB of Cincinnati. Because of the restrictions imposed, the stock may not be sold to other parties, but is redeemable by the FHLB at the same price as that at which it was acquired by the Bank. We evaluate this security for impairment based on the probability of ultimate recoverability of the par value of the investment. No impairment has been recognized based on this evaluation.

Loans Held for Investment and Interest Income - Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts and deferred fees and costs. Accrued interest receivable related to loans totaled $1,706 at December 31, 2023 and was reported in accrued interest receivable on the consolidated balance sheets. Interest income is accrued on the unpaid principal balance. 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.

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 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.

Allowance for Credit Losses – On January 1, 2023, the Company adopted ASU 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASC 326). This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (“CECL”) methodology. CECL requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost, 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. Purchased credit deteriorated (“PCD”) loans will receive an initial allowance at the acquisition date that represents an adjustment to the amortized cost basis of the loan, with no impact to earnings.

In January 2023, the Company adopted ASU 2022-02, “Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures” (“ASU 2022-02”), which eliminated the accounting guidance for troubled debt restructurings (“TDRs”) while enhancing disclosure requirements for certain loan refinancing and restructurings by creditors when a borrower is experiencing financial difficulty. The Company adopted the guidance using the modified retrospective method. Upon adoption of this guidance, the Company no longer establishes a specific reserve for modifications to borrowers experiencing financial difficulty. Instead, these modifications are included in their respective cohort and a historical loss rate is applied to the current loan balance to arrive at the quantitative baseline portion of the allowance. The difference between the allowance previously determined and the current allowance was not material to the Company’s financial statements.

In addition, CECL made changes to the accounting for available-for-sale debt 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 $236, which includes an adjustment of PCD loans of $98 and is presented as a reduction to net loans outstanding, and an increase in the allowance for credit losses on unfunded loan commitments of $233, which is recorded within Other Liabilities. The Company recorded a net decrease to retained earnings of $285 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. The PCD adjustment of $98 is excluded from the impact on retained earnings. 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 PCD assets that were previously classified as purchased credit impaired (“PCI”) under ASC 310-30. In accordance with the standard, management did not reassess whether PCI assets met the criteria of PCD assets as of the date of adoption. On January 1, 2023, the amortized cost basis of PCD assets were adjusted to reflect the addition of $98 to establish the allowance for credit losses. The remaining interest-related discount of approximately $491 will be accredited into interest income at the effective interest rate as of January 1, 2023.

Regarding PCD assets, the Company elected to disaggregate the former PCI pools and no longer considers these pools to be the unit of account; contractually delinquent PCD loans will be reported as nonaccrual loans using the same criteria as other loans.

The Company adopted ASC 326 using the prospective transition approach for debt securities for which other-than-temporary impairment had been recognized prior to January 1, 2023. As of December 31, 2022, the Company did not have any other-than-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.

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

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 is compared to the amortized cost basis of the security and any excess is recorded as an allowance for credit loss, limited to the amount that the fair value is less than the amortized cost basis. Any amount of unrealized loss that has not been recorded through an allowance for credit loss is recognized in other comprehensive income.

Changes in the allowance for credit loss are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance for credit loss when management believes an available-for-sale security is confirmed to be uncollectible or when either of the criteria regarding intent or requirement to sell is met. 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 totaled $389 at December 31, 2023 and was excluded from the estimate of credit losses.

Allowance for Credit Losses – Loans:

The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility 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.

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. Management utilizes top-down loss data from prior cycles, both the Bank's own data and peer institution data from the Federal Financial Institutions Examination Council Call Report filings. This data has been used to inform regression analysis designed to quantify the impact of reasonable and supportable forecasts in projective models.

The Company uses the FOMC to obtain various forecasts for unemployment rate and gross domestic product. While national data is being utilized versus local data, the probability of default is calculated so it is specific to the

Bank through peer group data. Based on the final values in the forecast and the uncertainty of a post-pandemic recovery, the Company has elected to forecast the first four quarters of the credit loss estimate and revert to a long-run average of each considered economic factor as permitted in ASC 326.

The Company has identified the following portfolio segments and calculates the allowance for credit losses for each using the discounted cash flows methodology described above:

Commercial, financial, and, industrial

- These loans are for commercial, corporate, and business purposes across a variety of industries. These loans include general commercial and industrial loans, loans to purchase capital equipment, and other business loans for working capital and operational purposes. These loans are generally secured by accounts receivable, inventory, and other business assets.

Real estate – construction

- These loans finance the ground up construction, improvement, carrying for sale, and loans secured by raw or improved land. The repayment of construction loans is generally dependent upon the successful completion of the improvements by the builder for the end user, or sale of the property to a third-party.

- These loans also consist of loans to construct a borrower's primary or secondary residence or vacant land upon which the owner intends to construct a dwelling at a future date. These loans are typically secured by undeveloped or partially developed land in anticipation of completing construction of a 1-4 family residential property.

Real estate – mortgage

- These loans include real estate loans for a variety of commercial property types and purposes, including those secured by commercial office or industrial buildings, warehouses, retail buildings, and various special purpose properties.

- These loans also consist of loans to purchase or refinance the borrower's primary dwelling, second residence or vacation home and are often secured by 1-4 family residential property. Significant and rapid declines in real estate values can result in borrowers having debt levels in excess of the current market value of the collateral.

- Lastly, these loans consist of home equity lines of credit and other lines of credit secured by first or second liens on the borrower's primary residence. These loans are secured by both senior and junior liens on the residential real estate and are particularly susceptible to declining collateral values. This risk is elevated for loans secured by junior lines as a substantial decline in value could render the junior lien position effectively unsecured.

Consumer installment

- Consumer installment loans include loans secured by deposit accounts or personal property such as automobiles, boats, and motorcycles, as well as unsecured consumer debt like credit cards.

- Management determined the credit card portfolio should be assessed using the remaining life methodology rather than the discounted cash flow methodology. In the absence of loan level data to calculate the life of the Credit Card pool, management assumed a one-year life for the analysis. This assumption is based on management's expertise and judgement.

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. These qualitative adjustments may increase or reduce reserve levels and include adjustments for lending management 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 the borrower is experiencing financial difficulty and repayment is expected to be provided through operation or sale of the collateral, the expected credit losses are based on the fair value of collateral at the reporting date, adjusted for selling costs as appropriate.

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 income statements. 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 balance sheets.

Purchased Credit Deteriorated Loans - Upon adoption of ASC 326, loans that were designated as PCI loans under the previous accounting guidance were classified as PCD loans without reassessment.

In future acquisitions, the Company may purchase loans, some of which have experienced more than insignificant credit deterioration since origination. In those cases, the Company will consider internal loan grades, delinquency status and other relevant factors in assessing whether purchased loans are PCD. PCD loans are recorded at the amount paid. An initial allowance for credit loss is determined using the same methodology as other loans held for investment, but with no impact to earnings. The initial allowance for credit loss determined on a collective basis is allocated to individual loans. The sum of the loan's purchase price and allowance for credit loss becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Subsequent to initial recognition, PCD loans are subject to the same interest income recognition and impairment model as non-PCD loans, with changes to the allowance for credit loss recorded through provision expense.

Loans Held for Sale - The Company's loans held for sale consisted primarily of mortgages originated by SeaTrust with the intent to sell. SeaTrust's secondary market mortgage lending activities were comprised of accepting residential mortgage loan applications, qualifying borrowers to standards established by investors, funding residential mortgage loans, and selling mortgage loans to investors under pre-existing commitments. Funded residential mortgages held temporarily for sale to investors were recorded at the lower of cost or market value. Application and origination fees collected by SeaTrust were recognized as income at closing.

The Company elected the lower of cost or market in accounting for residential mortgage loans held for sale. These loans were initially recorded and carried at lower of cost or market value, with changes in fair value recognized in income or expense in the statements of operations.

Gains and losses on the sale of loans were recognized at the time of the sale. Additionally, losses on sales of loans were recognized when management determined that such loans would be sold at a price less than the carrying value. Gains and losses were determined by the difference between the net sales proceeds and the cost basis of the loans sold.

Gains and losses from the sale of mortgage loans and related fee income consisting of origination fees and ancillary fees were included in mortgage banking income on the consolidated statement of operations. Under the operations of SeaTrust, mortgage loans were sold servicing-released, without continuing involvement, and satisfied the criteria for sale accounting. Interest income on loans held for sale was recorded in the statements of operations.

Due to the sale of SeaTrust in 2022, the Company has no loans held for sale as of December 31, 2023 and 2022.

Derivative Financial Instruments - Under the operations of SeaTrust, the Company issued rate lock commitments to borrowers and forward sales commitments on prices quoted by secondary market investors. Derivatives related to these commitments were recorded as either assets or liabilities in the balance sheets and were measured at fair value. SeaTrust did not engage in activities that qualified for hedge accounting. Accordingly, changes in the fair value of the derivatives were reported in income or expense in the statements of operations as part of mortgage banking income. Due to the sale of SeaTrust in 2022, the Company has no derivatives as of December 31, 2023 and 2022. For additional discussion related to derivatives see Note 11.

Premises and Equipment - Premises and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method. Rates of depreciation are generally based on the following estimated useful lives: buildings - 40 years; land improvements - 15 years; furniture and equipment - 3 to 25 years. The cost of assets sold or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts and the resulting gains or losses are reflected in the consolidated statement of operations. Maintenance and repairs are charged to current expense as incurred and the costs of major renewals and improvements are capitalized. Capitalized leases are amortized using the same methods as premises and equipment over the estimated useful lives or lease terms, whichever is less.

Operating Leases - Effective January 1, 2022, the Company adopted ASU 2016-02, "Leases (Topic 842)" which requires for all operating leases the recognition of a right-of-use ("ROU") asset and a corresponding lease liability, in the balance sheet. Upon adoption, the Company elected practical expedients including existing leases retaining their classification as operating leases and combining lease and non-lease components. The Company also elected to not recognize right-of-use assets and lease liabilities arising from short-term leases. Disclosures about the Company's leasing activities are presented in Note 8.

Foreclosed Assets - Assets (primarily real estate and vehicles, including boats and recreational vehicles) acquired through, or in lieu of, foreclosure are held for sale and are initially recorded at fair value, less estimated costs to sell, at the date of foreclosure, establishing a new cost basis. Losses determined as of the date a collateral is acquired are charged against the allowance for credit losses. Subsequent to foreclosure or acquisition, valuations are periodically obtained from independent appraisers and the assets are carried at the lower of the new cost basis or fair value, less estimated costs to sell. Revenues and expenses from operations and changes in any subsequent valuation allowance are included in expenses of foreclosed assets.

Bank-Owned Life Insurance - In connection with the supplemental retirement benefits described in Note 16, the Bank has purchased life insurance policies on certain key executives, officers, and employees. The 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.

Goodwill and Intangible Assets - Goodwill arises from business combinations and is determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed. Goodwill and intangible assets with finite useful lives are amortized over their estimated useful lives to their estimated residual values. The Company has determined its goodwill and intangible assets, consisting of core deposit and acquired customer relationship intangible assets arising from whole bank and branch acquisitions, are amortized on an accelerated method over their estimated useful lives of 10 years.

Transfers of Financial Assets - Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from us, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) we do not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Revenue Recognition - The Company's primary source of revenue is derived from interest earned on loans, investment securities, and other financial instruments that are not within the scope of Topic 606. A description of the Company's revenue streams accounted for under ASC 606 follows:

- *Service charges on deposits* - Fees from these services are either transaction-based, for which the performance obligations are satisfied when the individual transaction is processed, or set periodic service charges, for which the performance obligations are satisfied over the period the service is provided. Transaction-based fees are recognized at the time the transaction is processed, and periodic service charges are recognized over the service period.

- *Gains on sales of foreclosed assets* - A gain on sale should be recognized when a contract for sale exists and control of the asset has been transferred to the buyer. ASC 606 lists several criteria required to conclude that a contract for sale exists, including a determination that the institution will collect substantially all of the consideration to which it is entitled. In addition to the loan-to-value, the analysis is based on various other factors, including credit quality of the borrower, the structure of the loan, and any other factors that may affect collectability.

Advertising - We expense advertising and promotion costs as they are incurred. See Note 14.

Retirement Plans - We have a salary reduction profit sharing plan pursuant to Section 401(k) of the Internal Revenue Code as more fully described in Note 16. We currently do not sponsor any other postretirement or postemployment benefits.

Deferred Income Taxes - We use an asset and liability approach for financial accounting and reporting of deferred income taxes. Deferred tax assets and liabilities are determined based on the difference between the financial statement and income tax bases of assets and liabilities as measured by the currently enacted tax rates, which are assumed will be in effect when these differences reverse. If it is more likely than not that some portion or all of a deferred tax asset will not be realized, a valuation allowance is recognized. Deferred income tax expense or credit is the result of changes in deferred tax assets and liabilities. See Note 15 for more information.

Net Income Per Common Share - Net income per common share is calculated by dividing net income available to common shareholders by the weighted average number of shares of the Company's common stock outstanding during the period. Net income per common share, assuming dilution, is calculated by dividing net income available to common shareholders by the total of the weighted average number of shares outstanding during the period and the weighted average number of any dilutive potential common shares and stock options that would have been outstanding if the dilutive potential shares and stock options had been issued. In computing the number of dilutive potential common shares, it is assumed that all dilutive stock options are exercised at the beginning of each year and that the proceeds are used to purchase shares of the Company's common stock at the average market price during the year. See Note 12.

Stock-Based Compensation - Compensation cost is recognized for stock options and restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards.

Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. The Company's accounting policy is to recognize forfeitures as they occur.

Comprehensive Income - Comprehensive income consists of net income for the current period and other comprehensive income (loss), defined as income, expenses, gains and losses that bypass the consolidated statements of operations and are reported directly in a separate component of shareholders' equity. We classify and report items of other comprehensive income (loss) according to their nature, report total comprehensive income in the consolidated statements of changes in shareholders' equity, and display the accumulated balance of other accumulated comprehensive income (loss) separately in the shareholders' equity section of the consolidated balance sheets. At December 31, 2023 and 2022, the only component of accumulated other comprehensive income was unrealized gains and losses on available-for-sale investments.

Consolidated Statements of Cash Flows - The consolidated statements of cash flows report net cash provided or used by operating, investing, and financing activities and the net effect of those flows on cash and cash equivalents. Cash equivalents include amounts due from banks, federal funds sold and securities purchased under agreements to resell.

Reclassifications - Certain reclassifications have been made to prior years' financial statements in order to comply with current year presentation. These reclassifications had no effect on previously reported results of operations or shareholders' equity.

NOTE 2 – BUSINESS COMBINATIONS

On March 19, 2021, the Company acquired SFB Bancorp, Inc., the parent company of Security Federal Bank ("SFB"), headquartered in Elizabethton, Tennessee. Upon consummation of the acquisition, SFB Bancorp, Inc. was merged with and into the Company, with the Company as the surviving entity in the merger; concurrently, SFB was merged with and into the Bank. Through the acquisition, the Company entered the eastern Tennessee market and expanded its deposit base to fund planned future growth. SFB operated two retail bank branches in Elizabethton. Under the terms of the acquisition, shareholders of SFB Bancorp, Inc. received $33.00 for each share of common stock owned. Goodwill of $635 arising from the acquisition consisted of synergies resulting from the combining of the operation of the companies. See Note 7 for additional information on goodwill.

The Company incurred merger-related expenses of $0, $44, and $934 for the years ended December 31, 2023, 2022, and 2021, respectively.

Acquired loans were evaluated to determine if they were purchased credit-impaired (PCI). PCI loans are loans with evidence of deterioration of credit quality since origination for which it is probable, at acquisition, that the Company will be unable to collect all contractually required payments receivable. See Note 4 for additional information on PCI loans prior to the adoption of ASU 2016-13.

NOTE 3 – SECURITIES

The aggregate amortized cost and estimated fair values of securities, as well as gross unrealized gains and losses of securities were as follows:

	December 31,							
	2023				2022			
	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Estimated Fair Value	Amortized Cost	Unrealized Holding Gains	Unrealized Holding Losses	Estimated Fair Value
Available-for-sale								
Mortgage-backed securities (MBS) issued by U.S. Government agencies	$ 64	$ -	$ 2	$ 62	$ 76	$ -	$ 3	$ 73
Government sponsored enterprises (GSEs)	16,838	-	1,883	14,955	17,109	-	2,395	14,714
Mortgage-backed securities issued by GSEs	44,719	-	6,285	38,434	48,045	-	6,914	41,131
Asset-backed securities and commercial MBS	20,601	-	2,334	18,267	21,835	-	2,906	18,929
U.S. Treasury securities	7,228	-	522	6,706	7,219	-	729	6,490
State, county and municipal	18,612	-	2,541	16,071	18,855	-	3,191	15,664
Total	$108,062	$ -	$ 13,567	$ 94,495	$113,139	$ -	$ 16,138	$ 97,001

There is no allowance for credit losses on available-for-sale securities as of December 31, 2023. The Company had no securities classified as held-to-maturity at December 31, 2023 and 2022.

The estimated fair values and gross unrealized losses of investment securities whose estimated fair values were less than amortized cost as of December 31, 2023 and 2022 for which an allowance for credit loss has not been recorded are presented below. The securities have been aggregated by investment category and the length of time that individual securities have been in a continuous unrealized loss position.

	December 31, 2023					
	Continuously in Unrealized Loss Position for a Period of					
	Less than 12 Months		12 Months or more		Total	
Available-for-sale	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Mortgage-backed securities (MBS) issued by U.S. Government agencies	$ -	$ -	$ 62	$ 2	$ 62	$ 2
Government-sponsored enterprises (GSEs)	-	-	14,955	1,883	14,955	1,883
Mortgage-backed securities issued by GSEs	-	-	38,434	6,285	38,434	6,285
Asset-backed securities and commercial MBS	-	-	18,267	2,334	18,267	2,334
U.S. Treasury securities	-	-	6,706	522	6,706	522
State, county and municipal securities	-	-	16,071	2,541	16,071	2,541
Total	$ -	$ -	$ 94,495	$ 13,567	$ 94,495	$ 13,567

	December 31, 2022					
	Continuously in Unrealized Loss Position for a Period of					
	Less than 12 Months		12 Months or more		Total	
Available-for-sale	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Mortgage-backed securities (MBS) issued by U.S. Government agencies	$ 73	$ 3	$ -	$ -	$ 73	$ 3
Government-sponsored enterprises (GSEs)	5,919	557	8,795	1,838	14,714	2.395
Mortgage-backed securities issued by GSEs	16,711	1,661	24,420	5,253	41,131	6,914
Asset-backed securities and commercial MBS	3,417	227	15,512	2,679	18,929	2,906
U.S. Treasury securities	-	-	6,490	729	6,490	729
State, county and municipal securities	5,224	634	10,440	2,557	15,664	3,191
Total	$ 31,344	$ 3,082	$ 65,657	$ 13,056	$ 97,001	$ 16,138

At December 31, 2023 and 2022, 0 and 43 securities, respectively, had been continuously in an unrealized loss position for less than 12 months, and 117 and 75 securities, respectively, had been continuously in an unrealized loss position for 12 months or more. We have not recognized unrealized losses into income because the unrealized losses involve primarily securities issued by government-sponsored enterprises and state, county and municipal governments, none of the rated securities have been downgraded below investment grade, and there have been no failures by the issuers to remit their periodic interest payments as required. Although we classify our investment securities as available-for-sale, management has not determined that any specific securities will be disposed of prior to maturity and believes that we have both the ability and the intent to hold those investments until a recovery of fair value, including until maturity. Substantially all of the issuers of state, county and municipal securities held were rated at least “investment grade” as of December 31, 2023 and 2022. For non-rated state, county and municipal government obligations with significant unrealized losses, management periodically reviews financial information and continuing disclosures to assess the issuers’ condition and ability to honor their obligations.

The amortized cost and estimated fair value of available-for-sale debt securities by contractual maturity are shown below:

	December 31, 2023 Available-for-sale		December 31, 2022 Available-for-sale	
Non-mortgage-backed securities issued by GSEs and by state, county and municipal issuers	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due within one year	$ 1,729	$ 1,680	$ 95	$ 95
Due after one through five years	17,829	16,223	12,688	11,589
Due after five through ten years	25,284	22,272	31,739	27,132
Due after ten years	18,437	15,824	20,496	16,981
	63,279	55,999	65,018	55,797
Mortgage-backed securities issued by:				
US Government agencies	64	62	76	73
GSEs	44,719	38,434	48,045	41,131
Total	$ 108,062	$ 94,495	$ 113,139	$ 97,001

Equity securities consist of Federal National Mortgage Association preferred stock and are measured at fair value. During 2023, 2022, and 2021, $8 of net gain, $5 and $17 of net loss, respectively, was recognized due to the change in fair value of equity securities.

During 2023, three securities were called, partially called, or paid off for no net impact to the results of operations. No securities were sold in 2023. During 2022, five securities were called, partially called, or paid off, resulting in net realized losses of approximately $1. No securities were sold in 2022. During 2021, four securities matured and six securities were called, in addition to one security being partially called, resulting in net realized losses of approximately $1. A total of 49 securities were sold during 2021 resulting in net realized gains of approximately $153.

At December 31, 2023 securities with a market value of $35,688 were pledged as collateral to secure public deposits and for other purposes required or permitted by law.

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

Loan Composition

At December 31, 2023 and 2022, loans held for investment consisted of the following:

	December 31, 2023	December 31, 2022
Commercial, financial, and industrial	$ 15,933	$ 17,675
Real estate - construction	38,457	43,360
Real estate - mortgage	289,357	271,112
Consumer installment	167,256	152,529
Total	511,003	484,676
Allowance for credit losses	(6,077)	(5,594)
Loans - net	$ 504,926	$ 479,082

Net deferred loan costs of $6,057 and $5,783 were allocated to the various loan categories as of December 31, 2023 and 2022, respectively.

The following table presents the outstanding balance and recorded investment of non-PCI loans accounted for under ASC 310-20 at December 31, 2022, prior to the adoption of ASU 2016-13:

	Outstanding Balance	Fair Value Mark	Recorded Investment
As of December 31, 2022			
Commercial, financial, and industrial	$ 1,000	$ 7	$ 1,007
Real estate - construction	1,042	(12)	1,030
Real estate - mortgage	17,004	(86)	16,918
Consumer installment	199	(4)	195
Total	$ 19,245	$ (95)	$ 19,150

The following table presents the outstanding balance and recorded investment of PCI loans accounted for under ASC 310-30 at December 31, 2022, prior to the adoption of ASU 2016-13:

	Outstanding Balance	Fair Value Mark	Recorded Investment
As of December 31, 2022			
Commercial, financial, and industrial	$ -	$ -	$ -
Real estate - construction	828	(90)	738
Real estate - mortgage	2,188	(391)	1,797
Consumer installment	23	(2)	21
Total	$ 3,039	$ (483)	$ 2,556

Certain officers and directors of the Company and its banking subsidiary, their immediate families and business interests were loan customers of, and had other transactions with, the banking subsidiary in the normal course of business. Related party loans are made on substantially the same terms, including interest rates and collateral, as loans made to unrelated third parties and do not involve more than normal risk of collectability of loans to such third parties. The aggregate dollar amount of these loans was $2,509 and $3,218 at December 31, 2023 and 2022, respectively. During 2023, $580 of new loans and advances on lines of credit were made and repayments and other reductions totaled $1,289.

As of December 31, 2023 and 2022 there were no significant concentrations of credit risk in any single borrower or groups of borrowers. Our loan portfolio consists primarily of extensions of credit to businesses and individuals in our market areas. The economy of these areas is diversified and does not depend on any one industry or group of related industries. Management has established loan policies and practices that include set limitations on loan-to-collateral value for different types of collateral, requirements for appraisals, obtaining and maintaining current credit and financial information on borrowers, and credit approvals. The Bank makes loans to consumers that are collateralized by personal property such as boats, recreational vehicles and automobiles through a direct relationship with fully vetted retailers that meet certain criteria. The Bank utilizes defined underwriting procedures which are designed to mitigate risks associated with such loans, which are financed indirectly to consumers. These loans are typically made with loan to actual collateral values averaging 94.59% and typically have terms ranging from 186 to 202 months on average. Internal policy limits allow a maximum loan to value of 130% and term of 240 months, respectively.

Paycheck Protection Program - The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") created the Paycheck Protection Program ("PPP") to provide certain small businesses with liquidity to support their operations during the COVID-19 pandemic. Entities must meet certain eligibility requirements to receive PPP loans, and they must maintain specified levels of payroll and employment to have the loans forgiven. The conditions are subject to audit by the U.S. government, but entities that borrow less than $2 million (together with any affiliates) will be deemed to have made the required certification concerning the necessity of the loan in good faith.

Under the PPP, eligible small businesses can apply to an SBA-approved lender for a loan that does not require collateral or personal guarantees. The loans have a 1% fixed interest rate. Loans issued prior to June 5, 2020 are due in two years unless otherwise modified and loans issued after June 5, 2020 are due in five years. However, they are eligible for forgiveness (in full or in part, including any accrued interest) under certain conditions. For loans (or parts of loans) that are forgiven, the lender will collect the forgiven amount from the U.S. government.

In response to the COVID-19 pandemic, the Company offered various forms of support to its customers, employees, and communities that experienced impacts from this development, including participation in the PPP. During 2020, the Company originated 411 PPP loans for a total of $19,187 and recorded deferred SBA lender fee income of $761, net of origination costs. Through December 31, 2022, the Company's customers had received forgiveness on all remaining outstanding PPP loans. At December 31, 2023 and 2022, the Company had $0 outstanding PPP loans. For the periods ended December 31, 2023, 2022 and 2021, the Company recognized SBA lender fee income related to PPP loans of approximately $0, $7, and $690, respectively, net of origination costs.

Credit Quality

The following tables provide an analysis of past-due loans:

	30-89 Days Past Due	Nonaccrual or 90 Days or More Past Due	Current	Total Loans
As of December 31, 2023				
Commercial, financial, and industrial	$ -	$ 79	$ 15,854	$ 15,933
Real estate - construction	-	-	38,457	38,457
Real estate - mortgage	167	363	288,827	289,357
Consumer installment	288	46	166,922	167,256
Total	$ 455	$ 488	$ 510,060	$ 511,003

	30-89 Days Past Due	Nonaccrual or 90 Days or More Past Due	Current	Total Loans
As of December 31, 2022				
Commercial, financial, and industrial	$ 15	$ -	$ 17,660	$ 17,675
Real estate - construction	16	16	43,328	43,360
Real estate - mortgage	243	35	270,834	271,112
Consumer installment	82	189	152,258	152,529
Total	$ 356	$ 240	$ 484,080	$ 484,676

As of December 31, 2022, PCI loans with a recorded investment totaling $93 are excluded from nonaccruing loans due to the accretion of discounts established in accordance with the acquisition method of accounting for business combinations.

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			December 31, 2022
	Nonaccrual Loans with No Allowance	Nonaccrual Loans with an Allowance	Total Nonaccrual Loans	Total Nonaccrual Loans
Commercial, financial, and industrial	$ 13	$ 66	$ 79	$ -
Real estate - construction	-	-	-	16
Real estate - mortgage	363	-	363	-
Consumer installment	46	-	46	189
Total	$ 422	$ 66	$ 488	$ 205

The following table represents the accrued interest receivables written off by reversing interest income during the year ended December 31, 2023:

	December 31, 2023
Commercial, financial, and industrial	$ 8
Real estate - mortgage	3
Consumer installment	7
Total loans	$ 18

The amount of interest income that would have been included in income if nonaccrual loans had been current in accordance with their terms was approximately $2 for the year ended December 31, 2022.

We categorize our loans into risk categories based on relevant information about the ability of the borrower to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. A description of the general characteristics of the risk grades is as follows:

- Pass - These loans range from minimal credit risk to average however still acceptable credit risk.
- Special mention - A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or the institution's credit position at some future date.
- Substandard - A substandard loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness, or weaknesses, that may jeopardize the liquidation of the debt. A substandard loan is characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.
- Doubtful - A doubtful loan has all of the weaknesses inherent in one classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of the currently existing facts, conditions and values, highly questionable and improbable.

The following table presents loan balances classified by credit quality indicators by year of origination as of December 31, 2023.

	Term Loans by Year of Origination					
	2023	2022	2021	Prior	Revolving	Total
Commercial, financial, and industrial						
Pass	$ 2,165	$ 4,518	$ 2,521	$ 4,702	$ 1,938	$ 15,844
Special Mention	-	-	5	5	-	10
Substandard	-	-	-	13	66	79
Total	$ 2,165	$ 4,518	$ 2,526	$ 4,720	$ 2,004	$ 15,933
Current period gross write-offs	-	-	-	-	-	-
Real estate - construction						
Pass	$ 13,988	$ 12,681	$ 7,020	$ 4,768	$ -	$ 38,457
Total	$ 13,988	$ 12,681	$ 7,020	$ 4,768	$ -	$ 38,457
Current period gross write-offs	-	-	-	-	-	-
Real estate - mortgage						
Pass	$ 32,050	$ 56,298	$ 54,696	$ 117,298	$ 26,840	$ 287,182
Special Mention	-	1,251	-	273	217	1,741
Substandard	-	-	203	184	47	434
Total	$ 32,050	$ 57,549	$ 54,899	$ 117,755	$ 27,104	$ 289,357
Current period gross write-offs	-	-	-	-	-	-
Consumer installment						
Pass	$ 41,627	$ 42,036	$ 21,329	$ 60,352	$ 1,563	$ 166,907
Special Mention	-	114	52	139	-	305
Substandard	-	-	-	44	-	44
Total	$ 41,627	$ 42,150	$ 21,381	$ 60,535	$ 1,563	$ 167,256
Current period gross write-offs	1	3	3	148	21	176
Total loans	$ 89,830	$ 116,898	$ 85,826	$ 187,778	$ 30,671	$ 511,003

The following table provides additional information about the credit quality of the Bank's loans, as indicated by its internal risk grading system as of December 31, 2022. The table excludes purchased loans.

As of December 31, 2022	Pass	Special Mention	Substandard	Doubtful	Total
Commercial, financial, and industrial	$ 16,566	$ 102	$ -	$ -	$ 16,668
Real estate - construction	41,592	-	-	-	41,592
Real estate - mortgage	250,787	1,565	45	-	252,397
Consumer installment	151,942	193	178	-	152,313
	$ 460,887	$ 1,860	$ 223	$ -	$ 462,970

The following table presents the Company's recorded investment of purchased loans accounted for under ASC 310-20 (non-PCI) as of December 31, 2022, prior to the adoption of ASU 2016-13:

As of December 31, 2022	Pass	Special Mention	Substandard	Doubtful	Total
Commercial, financial, and industrial	$ 1,007	$ -	$ -	$ -	$ 1,007
Real estate - construction	1,013	-	17	-	1,030
Real estate - mortgage	16,794	124	-	-	16,918
Consumer installment	195	-	-	-	195
	$ 19,009	$ 124	$ 17	$ -	$ 19,150

The following table presents the Company's recorded investment of purchased loans accounted for under ASC 310-30 (PCI) as of December 31, 2022, prior to the adoption of ASU 2016-13:

As of December 31, 2022	Pass	Special Mention	Substandard	Doubtful	Total
Commercial, financial, and industrial	$ -	$ -	$ -	$ -	$ -
Real estate - construction	691	47	-	-	738
Real estate - mortgage	1,525	214	58	-	1,797
Consumer installment	20	1	-	-	21
	$ 2,236	$ 262	$ 58	$ -	$ 2,556

Loans that are graded Special Mention are not believed to represent more than a minimal likelihood of loss. A rating of Special Mention indicates that a change in the borrower's circumstances, or some other event, has occurred such that an elevated level of monitoring is warranted. Such loans generally are evaluated collectively for purposes of estimating the allowance for credit losses. Loans graded Substandard are believed to present a moderate likelihood of loss due to the presence of well-defined weakness in the borrower's financial condition, a change in the customer's demonstrated repayment history, the effects of lower collateral values combined with other financial difficulties that the borrower may be experiencing, and deterioration of other indicators of the borrower's ability to service the loan as agreed. Loans graded Doubtful are believed to present a high likelihood of loss due to serious deterioration of a borrower's financial condition, severe past due status and/or substantial deterioration of collateral value, or other factors. Management updates its internal risk grading no less often than monthly.

Modifications to Borrowers Experiencing Financial Difficulty

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

Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses because of the measurement methodologies used to estimate the allowance, a change to the allowance for credit losses is generally not recorded upon modification. Occasionally, the Company modifies loans by providing principal forgiveness on certain of its real estate loans. When principal forgiveness is provided, the amortized cost basis of the asset is written off against the allowance for credit losses. The amount of the principal forgiveness is deemed to be uncollectible; therefore, that portion of the loan is written off, resulting in a reduction of the amortized cost basis and a corresponding adjustment to the allowance for credit losses.

In some cases, the Company will modify a certain loan by providing multiple types of concessions. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted. For multiple types of modifications made on the same loan within the current reporting period, the combination may be at least two of the following: a term extension, principal forgiveness, and interest rate reduction.

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

The Company did not modify any loans to borrowers experiencing financial difficulty during 2023. The Company has not committed to lend any additional amount to borrowers experiencing financial difficulty.

Troubled Debt Restructurings, Under the Incurred Loss Model

Troubled debt restructurings ("TDRs") occur when, for reasons related to a borrower's financial difficulties, we agree to modify the terms of a loan and, in the process, grant a concession. Modifications of loan terms and concessions granted may take many forms. Sometimes, both we and the borrower may grant concessions. In such cases, we are considered to have granted a concession if the value of the concession(s) we made in the borrower's favor exceed the value of the concession(s) made by the borrower in our favor.

Due to the concessions granted in loan modifications that result in TDRs, we generally recognize loan losses when such modifications are made. For loans in the real estate segment, TDR recognition generally indicates that the loans are collateral dependent. Consequently, we write down such restructured loans to the extent that the pre-modification outstanding recorded investment exceeds the fair value of the collateral, less estimated selling costs. For loans in the other segments, collateral may or may not be held. If we hold collateral and the loan is collateral dependent, we write down to the fair value of the collateral. If we hold no collateral, the expected cash flows under the modified terms are discounted at the effective interest rate of the original loan and, if there is a shortfall, we write down to that amount. In both cases, if we had previously allowed for the losses sufficiently in the allowance for loan losses, no further provision expense would result in the current period. If we had not previously allowed sufficiently, additional current expenses may be necessary to cover the shortfall.

At December 31, 2022, the recorded investment in TDRs totaled $469. There were no loans modified during 2022 that were considered to be TDRs. During 2022, there were no TDRs that subsequently defaulted payment within 12 months of the restructuring date.

All TDRs were considered classified and impaired at December 31, 2022. Of the balance outstanding at December 31, 2022, zero loans were on nonaccrual status. The remaining loans were accruing and performing in accordance with the new terms. The allowance for loan losses associated with troubled debt restructurings, on the basis of a current evaluation of loss, was $36 at December 31, 2022.

As of December 31, 2022, we had no new loan commitments to borrowers who have loans included in TDRs.

Collateral Dependent Loans

The Company has certain loans for which repayment is dependent upon the operation or sale of collateral, as the borrower is experiencing financial difficulty. 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, financial, and, industrial loans include general commercial and industrial loans, loans to purchase capital equipment, and other business loans for working capital and operational purposes. These loans are generally secured by accounts receivable, inventory, and other business assets.

- Real estate – construction loans finance the ground up construction, improvement, carrying for sale, and loans secured by raw or improved land. The repayment of construction loans is generally dependent upon the successful completion of the improvements by the builder for the end user, or sale of the property to a third-party. These loans also consist of loans to construct a borrower's primary or secondary residence or vacant land upon which the owner intends to construct a dwelling at a future date. These loans are typically secured by undeveloped or partially developed land in anticipation of completing construction of a 1-4 family residential property.

- Real estate – mortgage loans include real estate loans for a variety of commercial property types and purposes, including those secured by commercial office or industrial buildings, warehouses, retail buildings, and various special purpose properties. These loans also consist of loans to purchase or refinance the borrower's primary dwelling, second residence or vacation home and are often secured by 1-4 family residential property. Significant and rapid declines in real estate values can result in borrowers having debt levels in excess of the current market value of the collateral.

Lastly, these loans consist of home equity lines of credit and other lines of credit secured by first or second liens on the borrower's primary residence. These loans are secured by both senior and junior liens on the residential real estate and are particularly susceptible to declining collateral values. This risk is elevated for loans secured by junior lines as a substantial decline in value could render the junior lien position effectively unsecured.

- Consumer installment loans include loans secured by deposit accounts or personal property such as automobiles, boats, and motorcycles.

The following table details the amortized cost of collateral dependent loans:

	December 31, 2023
Commercial, financial, and industrial	$ 66
Total loans	$ 66

Allowance for Credit Losses

On January 1, 2023, we adopted the Current Expected Credit Loss (CECL) methodology for estimating credit losses, which resulted in an increase of $236 in our allowance for credit losses. The $277 provision for credit losses, excluding the provision for unfunded loan commitments, for the 12 months ended December 31, 2023 was driven primarily by $26,327 in loan growth for the year.

The following table summarizes the activity related to the allowance for credit losses for the year ended December 31, 2023 under the CECL methodology. The provision for credit losses in this table excludes the provision for unfunded loan commitments.

	For the Year Ended December 31, 2023					
	Real Estate-Construction	Real Estate-Mortgage	Commercial, Financial, and Industrial	Consumer-Installment	Unallocated	Total
Allowance for credit losses:						
Beginning balance	$ 139	$ 2,438	$ 81	$ 2,749	$ 187	$ 5,594
Adjustment for CECL	159	(300)	85	292	-	236
Charge-offs	-	-	-	(176)	-	(176)
Recoveries	15	82	36	13	-	146
Provision for credit losses	119	(53)	24	373	(186)	277
Ending balance	$ 432	$ 2,167	$ 226	$ 3,251	$ 1	$ 6,077

Prior to the adoption of ASC 326 on January 1, 2023, the Company calculated the allowance for credit losses under the incurred loss methodology. The following tables summarize the activity related to the allowance for credit losses in prior periods under this methodology.

	For the Year Ended December 31, 2022					
	Real Estate-Construction	Real Estate-Mortgage	Commercial, Financial, and Industrial	Consumer-Installment	Unallocated	Total
Allowance for credit losses:						
Beginning balance	$ 59	$ 2,570	$ 66	$ 2,233	$ 439	$ 5,367
Charge-offs	-	(3)	-	(89)	-	(92)
Recoveries	37	87	51	14	-	189
Provision for credit losses	43	(216)	(36)	591	(252)	130
Ending balance	$ 139	$ 2,438	$ 81	$ 2,749	$ 187	$ 5,594

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 nonaccrual status and accruing troubled debt restructurings. 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 Company individually assessed for impairment all nonaccrual loans greater than $50 and all troubled debt restructurings greater than $50 (including all troubled debt restructurings, whether or not currently classified as such). The tables below include all loans deemed impaired, whether or not individually assessed for impairment. If a loan was 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 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.

The following table presents loans individually evaluated for impairment by class of loans, excluding PCI loans, as of December 31, 2022:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
As of December 31, 2022					
With no related allowance recorded:					
Commercial, financial, and industrial	$ -	$ -	$ -	$ 18	$ -
Real estate - mortgage	2	2	-	114	2
Consumer installment	75	72	-	-	-
With an allowance recorded:					
Commercial, financial, and industrial	$ -	$ -	$ -	$ -	$ -
Real estate - construction	31	31	3	47	2
Real estate - mortgage	437	437	33	449	33
Total:					
Commercial, financial, and industrial	$ -	$ -	$ -	$ 18	$ -
Real estate - construction	31	31	3	47	2
Real estate - mortgage	439	439	33	563	35
Consumer installment	75	72	-	-	-
Total	$ 545	$ 542	$ 36	$ 628	$ 37

The following tables provide information about how we evaluated loans for impairment, the amount of the allowance for credit losses estimated for loans subjected to each type of evaluation, and the related total amounts, by loan portfolio segment:

	December 31, 2022					
	Real Estate-Construction	Real Estate-Mortgage	Commercial, Financial, and Industrial	Consumer Installment	Unallocated	Total
Allowance for credit losses						
Ending balance	$ 86	$ 2,570	$ 81	$ 2,749	$ 108	$ 5,594
Ending balance - individually evaluated for impairment	$ 3	$ 33	$ -	$ -	$ -	$ 36
Ending balance - collectively evaluated for impairment	$ 83	$ 2,537	$ 81	$ 2,749	$ 108	$ 5,558
Allowance for PCI loans	$ -	$ -	$ -	$ -	$ -	$ -
Loans						
Ending balance	$ 43,360	$ 271,112	$ 17,675	$ 152,529	$ -	$ 484,676
Ending balance - individually evaluated for impairment	$ 31	$ 439	$ -	$ 75	$ -	$ 545
Ending balance - collectively evaluated for impairment	$ 42,591	$ 268,876	$ 17,675	$ 152,433	$ -	$ 481,575
PCI loans	$ 738	$ 1,797	$ -	$ 21	$ -	$ 2,556

The following table presents a summary of changes in the accretable yield for PCI loans for the year ended December 31, 2022:

	December 31, 2022
Accretable yield, beginning of period	$ 498
Additions	-
Accretion	(273)
Reclassification of nonaccretable difference due to improvement in expected cash flows	273
Other changes, net	214
Accretable yield, end of period	$ 712

Allowance for Credit Losses – Unfunded Loan 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 consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its 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. The Company has identified the unfunded portion of certain lines of credit as unconditionally cancellable credit exposures, meaning the Company can cancel the unfunded commitment at any time. No credit loss estimate is reported for off-balance-sheet credit exposures that are unconditionally cancellable by the Company or for undrawn amounts under such arrangements that may be drawn prior to the cancellation of the arrangement.

On January 1, 2023, the Company recorded an adjustment for unfunded commitments of $233 for the adoption of ASC Topic 326. For the year ended December 31, 2023, the Company recorded a negative provision for credit losses for unfunded commitments of $11. At December 31, 2023, the liability for credit losses on off-balance-sheet credit exposures included in other liabilities was $222.

NOTE 5 – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	December 31, 2023	December 31, 2022
Land	$ 4,137	$ 4,081
Buildings and land improvements	10,755	10,429
Furniture and equipment	7,806	8,185
Construction in progress	82	493
Total	22,780	23,188
Accumulated depreciation	(10,538)	(10,439)
Premises and equipment - net	$ 12,242	$ 12,749

Depreciation expense for the years ended December 31, 2023, 2022, and 2021 was $970, $916, and $797, respectively.

NOTE 6 - FORECLOSED ASSETS

The following table summarizes activity with respect to foreclosed assets:

	December 31, 2023	December 31, 2022
Balance, beginning of year	$ 25	$ 430
Additions, net	243	25
Sales	(88)	(415)
Write-downs	(10)	(15)
Balance, end of year	$ 170	$ 25

NOTE 7 – GOODWILL AND INTANGIBLE ASSETS

The carrying amount of goodwill and other intangible assets is summarized below:

	December 31, 2023	December 31, 2022
Core deposit intangible	$ 638	$ 638
Goodwill	635	635
Less: accumulated amortization	(565)	(445)
Total goodwill and other intangible assets, net	$ 708	$ 828

The amortization expense for intangible assets subject to amortization for 2023, 2022 and 2021 was $119, $114, and $80, respectively, which was recognized in operating expenses. The estimated aggregate amortization expense for future periods is as follows:

Year	
2024	$ 112
2025	105
2026	98
2027	91
2028	83
Thereafter	219
Total	$ 708

NOTE 8 – LEASES

The Company's operating leases are office space and a bank branch. Certain leases include one or more options to renew, with renewal terms that can extend the lease term up to 12 additional years. The exercise of lease renewal options is at management's sole discretion. When it is reasonably certain that the Company will exercise our option to renew or extend the lease term, that option is included in estimating the value of the ROU and lease liability. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants. Most of the Company's lease agreements include periodic rate adjustments for inflation. The depreciable life of ROU assets and leasehold improvements are limited to the shorter of the useful life or the expected lease term. Leases with an initial term of 12 months or less are not recorded on the Company's Consolidated Balance Sheets. The Company recognizes lease expense for these leases over the lease term. The Company recognized $2, $5, and $0 of rent expense related to short-term leases during 2023, 2022, and 2021, respectively.

The following tables present supplemental balance sheet information related to operating leases. ROU assets are included in other assets and lease liabilities are included in other liabilities.

	December 31, 2023	December 31, 2022
Supplemental balance sheet information:		
ROU assets	$ 77	$ 95
Lease liabilities	$ 77	$ 95
Remaining lease terms (years)	4	5
Discount rate	3.75%	3.75%

The following schedule summarizes aggregate future minimum operating lease payments at December 31, 2023:

	Year	Amount
	2024	$ 21
	2025	21
	2026	22
	2027	17
	2028	-
Total undiscounted lease payments:		$ 81
Imputed interest:		$ 4
Net lease liabilities:		$ 77

NOTE 9 – DEPOSITS

A summary of deposits follows:

	December 31, 2023	December 31, 2022
Noninterest-bearing demand	$ 142,016	$ 121,169
Interest-bearing transaction accounts	149,844	212,623
Savings	64,557	79,441
Time deposits over $250	41,268	31,720
Other time deposits	181,583	123,680
Total deposits	$ 579,268	$ 568,633

As of December 31, 2023 and 2022, $119 and $79, respectively, of overdrawn deposit balances were reclassified as loans. As of December 31, 2023 and 2022, deposits of directors, officers and their related business interests totaled approximately $3,220 and $5,076, respectively.

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

Year		Amount
2024	$	185,186
2025		19,773
2026		11,203
2027		6,355
2028		334
	$	222,851

At December 31, 2023, it is estimated that approximately $59,858, or 10.33%, of the Company's deposit accounts were uninsured. The Company had no concentrations of depositors at December 31, 2023.

Also, at December 31, 2023, the Company had $21,346 deposits in brokered deposits, or deposits that were obtained outside the Company's primary market, while at December 31, 2022 the Company had $0 deposits in brokered deposits.

NOTE 10 – BORROWINGS

Short-Term Borrowings

The Company had no short-term borrowings at December 31, 2023. At December 31, 2022, short-term borrowings consisted of FHLB of Cincinnati advances in the amount of $3,000.

On April 15, 2022 and June 20, 2022 FHLB of Cincinnati advances in the amount of $1,000 each and interest rates of 1.77% and 1.00%, respectively, matured. On February 13, 2023 and March 20, 2023 FHLB of Cincinnati advances in the amount of $1,000 and 2,000 and interest rates of 1.77% and 1.00%, respectively, matured. The advances from FHLB of Cincinnati were collateralized by securities, cash and FHLB of Cincinnati stock. The Company subsequently closed all accounts with the FHLB of Cincinnati during 2023.

The Company has access to secured lines of credit through the Federal Reserve Bank of Richmond's (the "FRB") Discount Window. At December 31, 2023 the Company had $1,677 in collateral pledged to the FRB. Our access to the FRB Discount Window would allow us to additionally borrow up to approximately $58,807 from it at the end of 2023, subject to our providing collateral of sufficient market value.

The Company has arranged for unsecured lines of credit totaling $46,000 from correspondent banks. The Company has not pledged securities toward these lines and did not draw on these lines during 2023. The lines are usable on a short-term basis and may be withdrawn by the correspondent banks at any time.

Long-Term Borrowings

At December 31, 2023, long-term borrowings consisted of FHLB advances and subordinated debt. At December 31, 2023 and 2022, the Bank had the ability to borrow up to 25 percent of its total assets from the FHLB of Atlanta subject to available qualifying collateral and collateralization requirements. We may use different forms of collateral (certain eligible loans, certain investment securities, etc.) for each advance and the amounts of collateral required to secure borrowings vary depending upon the type of collateral utilized.

At December 31, 2023 and 2022, the outstanding balances of FHLB of Atlanta advances are summarized as follows:

	2023		2022	
	Balance	Weighted Average Coupon Rate	Balance	Weighted Average Coupon Rate
FHLB of Atlanta Advances	$ 38,000	4.19%	$ 30,000	3.56%

The scheduled maturity dates, conversion dates, and related interest rates on FHLB of Atlanta advances at December 31, 2023:

Maturity Date	Conversion Date Option	Interest Rate	Outstanding Amount
October 25, 2024	N/A	4.57%	$ 1,500
October 30, 2025	April 30, 2024	4.75%	5,000
May 18, 2026	May 20, 2024	3.84 %	6,500
June 12, 2026	June 12, 2024	4.07%	5,000
August 21, 2026	February 21, 2024	4.14%	5,000
August 21, 2026	February 21, 2024	4.27%	5,000
December 14, 2026	March 14, 2024	3.67%	5,000
November 5, 2027	N/A	4.59%	5,000
Total FHLB of Atlanta Advances			$ 38,000

The above advances can be converted to variable interest rates at the option of the FHLB of Atlanta. If the FHLB of Atlanta converts the advances to variable rates of interest, the Bank has the option to prepay the advances without penalty. As of December 31, 2023, none of the outstanding the FHLB of Atlanta advances have converted to variable rates of interest.

We have pledged certain of our first mortgage loans secured by one-to-four family residential properties and our holdings of FHLB stock (collectively, “qualifying collateral instruments”) to secure our debt due to the FHLB under a blanket lien agreement. The amount of qualifying collateral instruments pledged to secure any potential borrowings as of December 31, 2023 and 2022 was approximately $42,627 and $32,583, respectively.

On November 19, 2020, the Company entered into an agreement to issue a $10,000 subordinated note to a third party purchaser. The note pays interest semi-annually at a fixed rate of 5.125% with a floating rate period beginning November 19, 2025 and quarterly adjustments through the maturity date of November 19, 2030. The first semi-annual interest payment was due November 30, 2020. During the floating rate period, interest will be paid quarterly at the three-month Secured Overnight Financing Rate plus 4.843%. The subordinated note may be redeemed in whole or in part for qualifying reasons prior to November 19, 2025 and for any reason after November 19, 2025 until the maturity date. The recorded balance of the subordinated debt, net of unamortized debt issuance costs, was $9,922 and $9,882 at December 31, 2023 and 2022, respectively. Recorded interest expense on the subordinated debt totaled $553 in 2023, 2022, and 2021, respectively.

NOTE 11 – DERIVATIVES

Due to the sale of SeaTrust in 2022, the Company has no outstanding derivatives as of December 31, 2023 and 2022. The impact of the Company’s derivatives can be seen in the consolidated statements of operations and consolidated statements of cash flows for years ended December 31, 2022 and 2021.

In the ordinary course of business, the Company entered into various types of derivative transactions. For its related mortgage banking activities under SeaTrust, the Company held derivative instruments, which consisted of interest rate lock commitments related to expected funding of fixed-rate mortgage loans to customers and forward commitments to sell fixed-rate mortgage loans to investors.

The Company entered into mortgage loan commitments that are also referred to as derivative loan commitments, if the loan that resulted from exercise of the commitment was to be held for sale upon funding. The Company entered into commitments to fund residential mortgage loans at specified rates and times in the future, with the intention that these loans would subsequently be sold in the secondary market.

Outstanding derivative loan commitments exposed the Company to the risk that the price of the loans arising from exercise of the loan commitment might decline from inception of the rate lock to funding of the loan due to increases in mortgage interest rates. If interest rates increased, the value of these loan commitments typically decreased. Conversely, if interest rates decreased, the value of these loan commitments typically increased.

To protect against the price risk inherent in derivative loan commitments, the Company utilized both “mandatory delivery” and “best efforts” forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative loan commitments.

With a “mandatory delivery” contract, the Company committed to deliver a certain principal amount of mortgage loans to an investor at a specified price on or before a specified date. If the Company failed to deliver the amount of mortgages necessary to fulfill the commitment by the specified date, it was obligated to pay a “pair-off” fee, based on then-current market prices, to the investor to compensate the investor for the shortfall.

With a “best efforts” contract, the Company committed to deliver an individual mortgage loan of a specified principal amount and quality to an investor if the loan to the underlying borrower closed. Generally, the price the investor paid the seller for an individual loan was specified prior to the loan being funded (e.g., on the same day the lender committed to lend funds to a potential borrower). The Company expected that these forward loan sale commitments would experience changes in fair value opposite to the change in fair value of derivative loan commitments.

Derivatives related to these commitments were recorded as either a derivative asset or a derivative liability on the balance sheet and were measured at fair value. Both the interest rate lock commitments and the forward commitments were reported at fair value, with adjustments recorded in current period earnings in “mortgage banking income” within noninterest income in the consolidated statements of operations.

NOTE 12 – SHAREHOLDERS’ EQUITY

Preferred Stock - The Company issued 3,150 shares of Series A Cumulative Convertible Preferred Stock (“Series A”) on December 31, 2009. The shares were issued following the approval on January 27, 2009, by the Company’s shareholders, of an amendment to the Company’s articles of incorporation authorizing the issuance of up to 10,000,000 shares of preferred stock in one or more series with the preferences, limitations, and relative rights of each series to be determined by the Company’s Board of Directors before any such series is issued. The issued shares have a liquidation preference of $1,000 each. On the tenth anniversary of the Effective Date (as defined), or June 17, 2019, the shares became convertible to shares of common stock at the option of the holder. The original conversion ratio was 100 shares of common stock per surrendered share of preferred stock. The number of shares of common stock to be issued upon conversion was affected by 5% stock dividends issued in each of the years 2010 and 2011. As a result, on December 31, 2023, the total number of common shares that could be issued if all shares of preferred stock were surrendered to be converted into shares of common stock is 347,287 shares. As of December 31, 2023, zero shares of preferred stock have been converted into common stock.

Dividends on the Series A non-voting preferred shares accumulate at 5% per annum and, under the terms of the preferred stock, no cash dividends may be declared or become payable on common shares unless all of the accumulated preferred shares have been paid. The Company paid $158 in preferred dividends during 2023 and none are accrued as of December 31, 2023.

Common Stock - There were no shares of common stock issued by the Company during 2023 and 18,000 shares of common stock issued by the Company during 2022. Of the shares issued in 2022, all 18,000 were restricted stock issued under the performance awards provisions of the Company’s 2016 Long-Term Stock Incentive Plan (“The 2016 Plan”).

Stock Options - The Company currently awards incentive stock options under a plan approved by the Company's Shareholders in 2016, as amended. The 2016 Plan replaced the 1998 Stock Option Plan ("the 1998 Plan"). All options granted under the 1998 Plan expired, with none exercised, in 2016.

Pursuant to the 2016 Plan, as amended, 500,000 shares of the Company's authorized but unissued common stock were reserved for possible issuance pursuant to the exercise of stock awards. Under the 2016 Plan, eligible employees will be eligible for awards of non-qualified stock options ("NSOs"), incentive stock options ("ISOs"), rights to receive shares of common stock at a future date or dates ("Restricted Stock Units"), restricted shares of the Company's common stock ("Restricted Stock"), and/or performance units having a designated value ("Performance Units") (collectively "Awards") over the 10-year term of the 2016 Plan. Non-employees (including non-employee directors) will be eligible for awards of NSOs, Restricted Stock Units and/or Restricted Stock. Except with respect to Awards then outstanding, unless sooner terminated, all Awards must be granted or awarded on or before the 10th anniversary of the date on which the 2016 Plan was approved by the Company's shareholders, May 25, 2016.

In January 2022, 18,500 ISOs were granted to officers of the Company. Each option has an exercise price of $8.40 as determined on the grant date and expires 10 years from the grant date. The fair value of each option award was estimated on the date of the grant using the Black-Scholes option valuation model, which resulted in a per share fair value of $3.24. These options are scheduled to vest over a five-year period.

In October 2022, 5,000 ISOs were granted to an officer of the Company. Each option has an exercise price of $6.69 as determined on the grant date and expires 10 years from the grant date. The fair value of each option award was estimated on the date of the grant using the Black-Scholes option valuation model, which resulted in a per share fair value of $2.25. These options are scheduled to vest over a five-year period.

There were no options granted during 2023.

A summary of the activity in the 2016 Plan is presented below:

	Options to Acquire Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (1)
Outstanding at December 31, 2021	167,400	$ 7.08	5.7	$ 150,100
Options Granted	23,500	$ 8.04		
Exercised	-	$ -		
Forfeited	(12,500)	$ 7.22		
Outstanding at December 31, 2022	178,400	$ 7.20	5.1	$ 25,470
Options Granted	-	$ -		
Exercised	-	$ -		
Forfeited	(1,500)	$ 7.10		
Outstanding at December 31, 2023	176,900	$ 7.20	4.1	$ 9,650
Restricted stock awards approved, not issued, net of forfeitures	-			
Remaining unissued options or units under the 2016 Plan	293,129			

(1) The aggregate intrinsic value of a stock option in the table above represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price in the option). At each year end date the amount represents the value that would have been received by the option holders had all option holders exercised their options on that date. This amount changes based on changes in the market value of the Company's common stock.

In April 2022, the Company granted 18,000 restricted stock units to members of the Board of Directors. The restricted stock units vested over a nine month period ending December 31, 2022.

Total compensation expense recognized in the statement of operations for share-based payment arrangements during the years ended December 31, 2023, 2022, and 2021 was $24, $202, and $105, respectively.

As of December 31, 2023 and 2022, there was $46 and $70, respectively, of total unrecognized compensation expense related to non-vested share based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted average period of 2.94 years.

Net Income per Common Share - Net Income per common share and net income per common share, assuming dilution, were computed as follows:

	Year Ended December 31,		
	2023	2022	2021
Net income per common share, basic			
Numerator - net income available to common shareholders	$ 3,922	$ 6,278	$ 3,462
Denominator - Weighted average common shares issued and outstanding	5,514,683	5,508,913	5,495,086
Net income per common share, basic	$ 0.71	$ 1.14	$ 0.63

	Year Ended December 31,		
	2023	2022	2021
Net income per common share, diluted			
Numerator - net income available to common shareholders	$ 3,922	$ 6,278	$ 3,462
Denominator - Weighted average common shares issued and outstanding	5,514,683	5,508,913	5,495,086
Effect of dilutive stock options			
Stock options	1,513	15,261	3,528
Total shares	5,516,196	5,524,174	5,498,614
Net income per common share, assuming dilution	$ 0.71	$ 1.14	$ 0.63

At December 31, 2023, the Company excluded 131,700 potentially dilutive shares of common stock issuable upon exercise of stock options with a weighted average exercise price of $7.44 from the computation of dilutive income per common share because of their antidilutive effect. At December 31, 2022, the Company excluded 38,500 potentially dilutive shares of common stock issuable upon exercise of stock options with a weighted average exercise price of $8.27 from the computation of dilutive income per common share because of their antidilutive effect.

Dividends - In 2023 and 2022, the Company paid $158 in dividends, respectively, to preferred shareholders. In 2022, the Company paid $549 in dividends to common shareholders.

NOTE 13 – REGULATORY MATTERS

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

The Bank must maintain certain minimum capital ratios as set forth in the table below for capital adequacy purposes. In 2019, the regulatory agencies adopted a final rule, effective January 1, 2020, creating a community bank leverage ratio ("CBLR") for institutions with total consolidated assets of less than $10 billion and that meet other qualifying criteria. Qualifying institutions that elect to use the CBLR framework and that maintain a leverage ratio of greater than 9% will be considered to have satisfied the generally applicable risk-based and leverage capital requirements in the regulatory agencies' capital rules and to have met the well-capitalized ratio requirements. In April 2020, as directed by Section 4012 of the CARES Act, the regulatory agencies introduced temporary changes to the CBLR. These changes, which subsequently were adopted as a final rule, temporarily reduced the CBLR requirement to 8% through the end of calendar year 2020. Beginning in calendar year 2021, the CBLR requirement increased to 8.5% for the calendar year before returning to 9% in calendar year 2022. Management has elected to use the CBLR framework for the Bank. We may opt out of the framework at any time, without restriction, by reverting to the generally applicable risk-based capital rule.

Before electing to use the CBLR framework, the Bank was required to maintain a capital conservation buffer above certain minimum risk-based capital ratios for capital adequacy purposes in order to avoid certain restrictions on capital distributions and other payments including dividends and certain compensation. The capital conservation buffer was 2.5% at December 31, 2019, and the Bank exceeded the capital conservation buffer requirement at that time.

The actual capital amounts and ratios and minimum regulatory amounts and ratios for the Bank are presented in the table that follows.

	Actual		Minimum for Capital Adequacy		Minimum to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2023			(Dollars in thousands)			
Community First Bank						
CBLR	$ 71,406	10.1%	$ 63,772	9.0%	NA	NA

	Actual		Minimum for Capital Adequacy		Minimum to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2022			(Dollars in thousands)			
Community First Bank						
CBLR	$ 67,056	9.9%	$ 60,683	9.0%	NA	NA

NOTE 14 – NONINTEREST EXPENSES

Other expenses are summarized below:

	Year Ended December 31,		
	2023	2022	2021
Salaries and employee benefits	$ 11,273	$ 14,422	$ 16,374
Net occupancy	1,343	1,502	1,510
Furniture and equipment	1,140	1,134	893
Legal and professional fees	758	958	991
FDIC insurance	316	295	322
Foreclosed asset costs and expenses, net	4	18	69
Data processing	2,432	2,445	2,471
Merger-related expenses	-	44	934
Other			
Miscellaneous loan expenses	306	812	1,174
Stationery, printing and postage	95	151	123
Telephone	98	104	138
Advertising and promotion	502	744	810
Directors' compensation	324	446	270
Travel expense	149	240	226
Other	1,617	1,972	1,848
Total	$ 20,357	$ 25,287	$ 28,153

NOTE 15 – INCOME TAXES

The Company's provision for income taxes differs from applying the federal statutory income tax rate to income before income taxes.

Income tax expense consisted of:

	Year Ended December 31,		
	2023	2022	2021
Current			
Federal	$ 873	$ (143)	$ -
State	204	179	22
Total current	1,077	36	22
Deferred			
Federal	376	1,973	856
State	140	(16)	(28)
Change in valuation allowance against net deferred tax assets	(120)	28	24
Total deferred	396	1,985	852
Total income tax expense	$ 1,473	$ 2,021	$ 874

A reconciliation between the income tax expense (benefit) and the amount computed by applying the federal statutory rate of 21% for 2023, 2022, and 2021 to income before income taxes follows:

	Year Ended December 31		
	2023	2022	2021
Tax expense at statutory rate	$ 1,166	$ 1,776	$ 944
State income taxes, net of federal benefit	272	142	17
Tax-exempt interest income	(14)	(20)	(18)
Non-taxable increase in value of life insurance contracts	(87)	(79)	(74)
Merger costs	-	-	20
Change in valuation allowance against net deferred tax assets	(120)	28	-
Other, net	256	174	(15)
Total	$ 1,473	$ 2,021	$ 874

Deferred tax assets and liabilities included in the consolidated balance sheets consisted of the following:

	December 31, 2023	December 31, 2022	December 31, 2021
Deferred tax assets			
Allowance for credit losses	$ 1,391	$ 1,281	$ 1,220
Unfunded commitments	51	-	-
Write-downs of foreclosed assets	3	1	28
Non-qualified stock options	107	107	98
Deferred compensation	286	337	386
Excess charitable contributions carryforward	7	11	14
Net operating loss carryforward	68	788	2,391
Unrealized net holding losses on available-for-sale securities	3,056	3,724	90
Other	309	-	121
Gross deferred tax assets	5,278	6,249	4,348
Valuation allowance	(25)	(145)	(117)
Net deferred taxes	5,253	6,104	4,231
Deferred tax liabilities			
Accelerated depreciation and amortization	707	501	579
Deferred net loan fees	1,387	1,324	1,137
Acquired in business combination, net	43	56	70
Other	-	128	-
Gross deferred tax liabilities	2,137	2,009	1,786
Net deferred income tax assets	$ 3,116	$ 4,095	$ 2,445

As of December 31, 2023, we have South Carolina net operating loss carryforwards totaling $640 having no expiration.

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. The valuation allowance relates to the parent company's state operating loss carryforwards for which its ability to realize is uncertain. Realization of deferred tax assets is dependent upon sufficient taxable income during the period that deductible temporary differences and carryforwards are expected to be available to reduce taxable income. Based on management's projections, the deferred tax assets are more-likely-than-not to be fully recovered with projected taxable income.

As of December 31, 2023 and 2022, there were no uncertain tax positions. The amount of uncertain tax positions may increase or decrease in the future for various reasons including adding amounts for current tax positions, expiration of open tax returns due to statutes of limitations, changes in management's judgment about the level of uncertainty, status of examinations, litigation and legislative activity and the addition or elimination of uncertain tax positions. The Company's policy is to report interest and penalties, if any, related to uncertain tax positions in income tax expense. With few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2020.

NOTE 16 – RETIREMENT PLANS

The Company sponsors the Community First Bank 401(k) Plan (the "401(k) Plan") for the exclusive benefit of all eligible employees and their beneficiaries. Employees are eligible to participate in the 401(k) Plan with a minimum age requirement of 18, and there is no minimum service requirement for deferral. Employees are allowed to defer and contribute any amount of their salary, up to a maximum determined under the Internal Revenue Code each year. The Company provides a safe harbor match of 100% of each dollar deferred up to 3% of eligible compensation and 50% of each dollar deferred between 3% and 5% of eligible compensation. The Board of Directors can also elect to make discretionary contributions. Employees are fully vested in any discretionary contributions after five years of service. The employer contributions to the plan for 2023, 2022 and 2021 totaled $245, $376, and $299, respectively.

NOTE 17 – COMMITMENTS AND CONTINGENCIES

***Commitments to Extend Credit* -** In the normal course of business, the Bank is party to financial instruments with off-balance-sheet risk. These financial instruments include commitments to extend credit and standby letters of credit, and have elements of credit risk in excess of the amount recognized in the balance sheet. The exposure to credit loss in the event of nonperformance by the other parties to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual, or notional, amount of those instruments. Generally, the same credit policies used for on-balance-sheet instruments, such as loans, are used in extending loan commitments and standby letters of credit.

Following are the off-balance-sheet financial instruments whose contract amounts represent credit risk:

	December 31,	
	2023	2022
Loan commitments	$ 74,860	$ 77,573
Committed overdraft protection	11,726	12,129
Standby letters of credit	377	590

Loan commitments involve 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 some involve payment of a fee. Many of the commitments are expected to expire without being fully drawn; therefore, the total amount of loan commitments does not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if any, upon extension of credit is based on management's credit evaluation of the borrower. Collateral held varies but may include commercial and residential real properties, accounts receivable, inventory and equipment.

The Bank offers an automatic overdraft protection product for non-maturing deposits and expects that much of this capacity will not be utilized. During 2023, the average balance of total non-maturing deposit overdrafts for participating bank customers was approximately $118.

Standby letters of credit are conditional commitments to guarantee the performance of a customer to a third party. The credit risk involved in issuing standby letters of credit is the same as that involved in making loan commitments to customers.

***Litigation* –** As of December 31, 2023, the Bank was involved as a defendant in litigation brought by a former bank customer. The former customer is asserting tort claims, as well as a claim for an accounting, against the Bank and a former Bank employee based on allegations that the former employee, who held the former customer's power of attorney, misappropriated funds from the former customer's account. The former customer is seeking damages in excess of $1,750. The Bank is vigorously defending its interests, has denied all of the former customer's substantive allegations, has asserted various defenses, and has asserted counterclaims against the former customer of approximately $789. In September 2017, the Oconee County, South Carolina Court of Common Pleas entered an order granting the Bank summary judgment on all claims. Counsel for the former customer filed a motion to reconsider that order which was subsequently denied by the Court. Counsel for the former customer filed an appeal with the South Carolina Court of Appeals, and the Court of Appeals granted a writ of certiorari. Briefing for the appeal to the South Carolina Supreme Court has been completed, and oral argument is currently scheduled to occur by the end of March 2024.

NOTE 18 – DISCLOSURES ABOUT FAIR VALUES

Generally accepted accounting principles ("GAAP") defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly fashion between market participants at the measurement date. A three-level hierarchy is used for fair value measurements based upon the transparency of inputs to the valuation. For disclosure purposes, fair values for assets and liabilities are shown in the level of the hierarchy that correlates with the least observable level input that is significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are described as follows:

Level 1 inputs reflect quoted prices in active markets for identical assets or liabilities.

Level 2 inputs reflect observable inputs that may consist of quoted market prices for similar assets or liabilities, quoted prices that are not in an active market, or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets or liabilities being valued.

Level 3 inputs reflect the use of pricing models and/or discounted cash flow methodologies using other than contractual interest rates or methodologies that incorporate a significant amount of management judgment, use of the entity's own data, or other forms of unobservable data.

Valuation Techniques

Securities available-for-sale - Pricing for securities available-for-sale is obtained from an independent third-party that uses a process that may incorporate current prices, benchmark yields, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, other reference items and industry and economic events that a market participant would be expected to use as inputs in valuing the securities. Not all of the inputs listed apply to each individual security at each measurement date. The independent third party assigns specific securities into an "asset class" for the purpose of assigning the applicable level of the fair value hierarchy used to value the securities. Securities available-for-sale are measured at fair value with unrealized gains and losses, net of income taxes, recorded in other comprehensive income. The fair values of U.S. Treasury securities are based on quoted market prices using active markets and are classified as recurring Level 1. Remaining securities available-for-sale are classified as recurring Level 2.

Equity securities - The change in fair value of equity securities is recognized in net income in accordance with Accounting Standards Update ("ASU") 2016-01. Equity securities are classified as recurring Level 1.

Loans held for sale - Loans held for sale are comprised of loans originated for sale in the ordinary course of business. The fair value of loans originated for sale in the secondary market is based on purchase commitments or quoted prices for the same or similar loans and are classified as recurring Level 2.

Collateral dependent individually evaluated loans and foreclosed assets - Fair values of collateral dependent individually evaluated loans are estimated based on recent appraisals of the underlying properties or other information derived from market sources. The fair value of foreclosed assets is estimated based on recent appraisals or other information obtained from market sources. Management reviews all fair value estimates periodically or whenever new information indicates that there may have been a significant change in the fair value of a property. The Company has classified all collateral dependent impaired loans and foreclosed assets as nonrecurring Level 3.

The following is a summary of the measurement attributes applicable to financial assets and liabilities that would be measured at fair value on a recurring basis:

Description	Measured at Fair Value at December 31, 2023	Fair Value Measurement at Reporting Date Using Level 1	Level 2	Level 3
Securities available-for-sale:				
Mortgage-backed securities issued by U.S. Government agencies	$ 62	$ -	$ 62	$ -
GSEs	14,955	-	14,955	-
Mortgage-backed securities issued by by GSEs	38,434	-	38,434	-
Asset-backed securities and commercial MBS	18,267	-	18,267	-
U.S. Treasury securities	6,706	6,706	-	-
State, county and municipal	16,071	-	16,071	-
Total securities available-for-sale	94,495	6,706	87,789	-
Equity securities	12	12	-	-

Description	Measured at Fair Value at December 31, 2022	Fair Value Measurement at Reporting Date Using Level 1	Level 2	Level 3
Securities available-for-sale:				
Mortgage-backed securities issued by U.S. Government agencies	$ 73	$ -	$ 73	$ -
GSEs	14,714	-	14,714	-
Mortgage-backed securities issued by by GSEs	41,131	-	41,131	-
Asset-backed securities and commercial MBS	18,929	-	18,929	-
U.S. Treasury securities	6,490	6,490	-	-
State, county and municipal	15,664	-	15,664	-
Total securities available-for-sale	97,001	6,490	90,511	-
Equity securities	4	4	-	-

The following is a summary of assets measured at fair value on a nonrecurring basis in the consolidated balance sheets, including the general classification of such instruments pursuant to the valuation hierarchy.

Description	Measured at Fair Value at December 31, 2023	Fair Value Measurement at Reporting Date Using Level 1	Level 2	Level 3
Collateral dependent individually evaluated loans	$ 42	$ -	$ -	$ 42
Foreclosed assets	170	-	-	170

Description	Measured at Fair Value at December 31, 2022	Fair Value Measurement at Reporting Date Using Level 1	Level 2	Level 3
Impaired loans	$ 75	$ -	$ -	$ 75
Foreclosed assets	25	-	-	25

NOTE 19 – RECENT ACCOUNTING PRONOUNCEMENTS

In March 2022, the FASB issued ASU 2022-02 amendments which are intended to improve the decision usefulness of information provided to investors about certain loan re-financings, restructurings, and write-offs. The amendments are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company does not expect these amendments to have a material effect on its financial statements.

In March 2023, the FASB amended the Leases topic in the Accounting Standards Codification to provide a practical expedient for private companies and not-for-profit entities that are not conduit bond obligors to use the written terms and conditions of a common control arrangement to determine whether a lease exists and, if so, the classification of and accounting for that lease. The amendments also change the guidance for public and private companies to require that leasehold improvements be amortized over the useful life of those improvements to the common control group regardless of the lease term. The amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In December 2023, the FASB amended the Income Taxes topic in the Accounting Standards Codification to improve the transparency of income tax disclosures. 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 these amendments to have a material effect on its financial statements.

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.

NOTE 20 – CONDENSED FINANCIAL INFORMATION

The following is condensed financial information of Community First Bancorporation (parent company only).

	December 31,	
	2023	2022
Condensed Balance Sheets		
Assets		
Cash	$ 290	$ 743
Investment in banking subsidiary	61,544	55,429
Deferred income tax assets, net	636	636
Land	138	138
Other assets	43	32
Total assets	$ 62,651	$ 56,978
Liabilities		
Subordinated debt	$ 9,922	$ 9,882
Accrued interest payable	43	43
Other liabilities	71	-
Total liabilities	10,036	9,925
Shareholders' equity	52,615	47,053
Total liabilities and shareholders' equity	$ 62,651	$ 56,978

	Year Ended December 31,		
	2023	2022	2021
Condensed Statements of Income			
Income			
Distribution income from banking subsidiary	$ 246	$ 158	$ 158
Total income	246	158	158
Expenses			
Interest expense	553	553	553
Merger expenses	-	-	283
Other expenses	87	60	80
Total expenses	640	613	916
Loss before income taxes and equity in undistributed earnings of subsidiaries	(394)	(455)	(758)
Equity in undistributed earnings of banking subsidiary	4,474	6,845	3,952
Income before income taxes	4,080	6,390	3,194
Income tax benefit	-	(46)	(426)
Net income	$ 4,080	$ 6,436	$ 3,620

	Year Ended December 31,		
	2023	2022	2021
Condensed Statements of Cash Flows			
Operating activities			
Net income	$ 4,080	$ 6,436	$ 3,620
Adjustments to reconcile net income to net cash provided by operating activities			
Increase in accrued interest payable	-	-	1
Increase in other assets	(11)	(108)	(427)
Increase (decrease) in other liabilities	71	(1)	(37)
Equity in undistributed net income of banking subsidiary	(4,474)	(6,845)	(3,952)
Net cash used by operating activities	(334)	(518)	(795)
Investing activities			
Investment in banking subsidiary	-	-	(8,328)
Net cash used by investing activities	-	-	(8,328)
Financing activities			
Cash dividends paid	(158)	(707)	(158)
Proceeds from exercise of stock options and stock issuance	-	-	14
Other, net	39	41	40
Net cash used by financing activities	(119)	(666)	(104)
Decrease in cash and cash equivalents	(453)	(1,184)	(9,227)
Cash and cash equivalents, beginning	743	1,927	11,154
Cash and cash equivalents, ending	$ 290	$ 743	$ 1,927

NOTE 21 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Non-recognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date.

On February 1, 2024, the Company jointly announced with Dogwood State Bank the signing of a definitive merger agreement for Dogwood State Bank to acquire Community First Bancorporation, and its subsidiary, Community First Bank in an all-stock merger. The merger agreement provides that each Community First Bancorporation common shareholder receive 0.5875 shares and each preferred shareholder will receive 64.7719 shares of Dogwood's voting common stock. The transaction is intended to qualify as a tax-free reorganization for federal income tax purposes and to provide a tax-free exchange for Community First Bancorporation stockholders. Based on Dogwood's most recent capital raise of $16.4 million in March 2023 at $20.00 per share, this would imply a transaction value per share of $11.75 for each Community First Bancorporation common share. The Company incurred $312 in merger-related fees in 2024 through the date these consolidated financial statements were available to be issued.

The Company has disclosed deposit balances, mix, and concentrations in Note 9. In relation to current economic conditions, management has monitored deposits through the date the financial statements were issued noting no significant changes to balances, mix, or concentrations.

The Company has disclosed its investment portfolio position in Note 3. There has been no significant deterioration in the investment portfolio through the date the consolidated financial statements were issued.

Management has evaluated subsequent events through March 27, 2024, the date these consolidated financial statements were available to be issued, and has determined that there are no other subsequent events that would require recognition or disclosure in the Company's consolidated financial statements.

This Annual Report serves as the **ANNUAL FINANCIAL DISCLOSURE STATEMENT** furnished pursuant to Part 350 of the Federal Deposit Insurance Corporation's Rules and Regulations. **THIS STATEMENT HAS NOT BEEN REVIEWED OR CONFIRMED FOR ACCURACY OR RELEVANCE, BY THE FEDERAL DEPOSIT INSURANCE CORPORATION.** Community First Bancorporation will furnish free of charge a copy of this Annual Report upon written request to Community First Bancorporation, P.O. Box 1097, Walhalla, South Carolina 29691.