Dogwood State Bank

Report on Financial Statements

For the years ended December 31, 2023 and 2022

Independent Auditor's Report

Board of Directors
Dogwood State Bank

Opinion

We have audited the financial statements of Dogwood State Bank (the "Company"), which comprise the balance sheets as of December 31, 2023 and 2022, the related statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the 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 the years then ended in accordance with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with auditing standards generally accepted in the United States of America (GAAS), the Company's internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations or the Treadway Commission in 2013, and our report dated March 29, 2024, expressed an unmodified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

We conducted our audit 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note 2 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.

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.

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, PLLC

Raleigh, North Carolina
March 29, 2024

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Independent Auditor's Report

Board of Directors
Dogwood State Bank

Opinion on Internal Control Over Financial Reporting

We have audited Dogwood State Bank's (the "Company") internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on the criteria established in *Internal Control—Integrated Framework* issued by COSO in 2013.

We also have audited, in accordance with auditing standards generally accepted in the United States of America (GAAS), the balance sheets as of December 31, 2023 and 2022, the related statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements (collectively, the "financial statements"). Our report dated March 29, 2024 expressed an unmodified opinion.

Basis for Opinion

We conducted our audit in accordance with GAAS. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of Internal Control Over Financial Reporting" section of our audit report. We are required to be independent of the Company and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for Internal Control Over Financial Reporting

Management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting.

Auditor's Responsibilities for the Audit of Internal Control Over Financial Reporting

Our objectives are to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects and to issue an auditor's report that includes our opinion on internal control over financial reporting. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material weakness when it exists.

In performing an audit of internal control over financial reporting in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Obtain an understanding of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

Definition and Inherent Limitations of Internal Control Over Financial Reporting

An entity's internal control over financial reporting is a process affected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of the Company's internal control over financial reporting included controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and with the Federal Financial Institutions Examination Council (FFIEC) Instructions for Consolidated Reports of Condition and Income. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that the receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Restriction on Use

This report is intended solely for the information and use of the Board of Directors and management of the Company, and the Federal Deposit Insurance Corporation, and is not intended to be, and should not be, used by anyone other than these specified parties.

Elliott Davis, PLLC

Raleigh, North Carolina
March 29, 2024

Dogwood State Bank

Balance Sheets

As of December 31, 2023 and 2022

(dollars in thousands, except per share information)

	2023	2022
Assets		
Cash and cash equivalents		
Cash and due from banks	$ 5,191	$ 3,149
Interest-earning deposits with banks	123,474	36,734
Total cash and cash equivalents	128,665	39,883
Investment securities available for sale (amortized cost of $53,361 and $45,533 at December 31, 2023 and 2022)	49,244	41,043
Investment securities held to maturity (fair value of $66,155 and $69,500 at December 31, 2023 and 2022)	77,556	81,512
Marketable equity securities	329	252
Loans held for sale	15,274	11,545
Paycheck Protection Program (PPP) loans	165	6,656
Loans, excluding PPP loans	1,095,174	876,122
Allowance for credit losses	(11,943)	(8,728)
Loans, net	1,083,231	867,394
Premises and equipment, net	18,707	17,377
Bank-owned life insurance	27,458	26,707
Goodwill	7,016	7,016
Accrued interest receivable and other assets	24,043	18,871
Total assets	$ 1,431,688	$ 1,118,256
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing demand	$ 291,910	$ 315,804
Interest-bearing demand	121,876	96,895
Money market and savings	620,209	339,872
Time	160,284	151,345
Total deposits	1,194,279	903,916
FHLB advances	50,000	60,000
Reserve for unfunded commitments	2,060	162
Lease liability	11,187	9,730
Accrued interest payable and other liabilities	9,659	6,531
Total liabilities	1,267,185	980,339
Commitments and contingencies (Note 11)		
Shareholders' Equity		
Preferred stock (1,000,000 shares authorized; no shares outstanding in any period)	-	-
Voting common stock, par value $1 (20,000,000 shares authorized; 9,264,818 and 8,382,996 shares issued and outstanding at December 31, 2023 and 2022, respectively)	9,265	8,383
Non-voting common stock, par value $1 (9,000,000 shares authorized; 5,444,920 shares issued and outstanding at December 31, 2023 and 2022, respectively)	5,445	5,445
Additional paid-in-capital	132,373	116,129
Retained earnings	22,406	13,199
Accumulated other comprehensive loss	(4,986)	(5,239)
Total shareholders' equity	164,503	137,917
Total liabilities and shareholders' equity	$ 1,431,688	$ 1,118,256

See Notes to Financial Statements

Dogwood State Bank

Statements of Income
For the years ended December 31, 2023 and 2022
(dollars in thousands)

	2023	2022
Interest Income		
Loans	$ 59,618	$ 36,920
Investment securities	3,405	2,643
Federal funds sold and interest-earning deposits	5,480	733
Total interest income	68,503	40,296
Interest Expense		
Deposits	23,649	3,141
FHLB advances	1,831	463
Lease liability	239	199
Total interest expense	25,719	3,803
Net interest income	42,784	36,493
Provision for credit losses	5,164	2,710
Net interest income after provision for credit losses	37,620	33,783
Non-interest income		
Government-guaranteed lending	8,421	9,841
Service charges and fees on deposit accounts	1,399	1,311
Bank-owned life insurance	751	696
Gain on payoff of FHLB advances	1,230	-
Other	328	224
Total non-interest income	12,129	12,072
Non-interest expense		
Salaries, employee benefits, and other compensation	24,139	21,632
Occupancy and equipment	2,403	2,210
Data processing	1,010	1,144
Amortization of other intangible assets	111	217
Loss on sale of portfolio loans	-	331
Other	8,414	6,669
Total non-interest expense	36,077	32,203
Income before income taxes	13,672	13,652
Income tax expense	3,024	3,057
Net income	$ 10,648	$ 10,595

See Notes to Financial Statements

Dogwood State Bank

Statements of Comprehensive Income

For the years ended December 31, 2023 and 2022

(dollars in thousands, except per share information)

	2023	2022
Net income	$ 10,648	$ 10,595
Other comprehensive income (loss)		
Unrealized gains (losses) on investment securities available for sale:		
Net unrealized gains (losses) on investment securities available for sale	131	(4,332)
Tax effect	(63)	1,017
Total change in unrealized gains (losses) on investment securities available for sale, net of tax	68	(3,315)
Unrealized losses on investment securities available for sale transferred to held to maturity:		
Unrealized losses on investment securities available for sale transferred to held to maturity	-	(2,154)
Tax effect	-	506
Accretion of unrealized losses on investment securities held to maturity previously recognized in other comprehensive income	242	474
Tax effect	(57)	(111)
Total change in unrealized losses on investment securities available for sale transferred to held to maturity, net of tax	185	(1,285)
Other comprehensive income (loss), net of tax	253	(4,600)
Total comprehensive income	$ 10,901	$ 5,995

See Notes to Financial Statements

Dogwood State Bank

Statements of Changes in Shareholders' Equity

For the years ended December 31, 2023 and 2022

(dollars in thousands, except per share information)

	Number of voting shares	Number of non-voting shares	Voting common stock	Non-voting common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
Balance, December 31, 2021	7,677,680	5,444,920	$ 7,678	$ 5,445	$ 103,869	$ 2,604	$ (639)	$ 118,957
Net income	-	-	-	-	-	10,595	-	10,595
Other comprehensive loss	-	-	-	-	-	-	(4,600)	(4,600)
Common stock issued	664,316	-	664	-	11,280	-	-	11,944
Restricted stock awards issued	58,500	-	59	-	(59)	-	-	-
Restricted stock awards forfeited	(17,500)	-	(18)	-	18	-	-	-
Stock-based compensation	-	-	-	-	1,021	-	-	1,021
Balance, December 31, 2022	8,382,996	5,444,920	8,383	5,445	116,129	13,199	(5,239)	137,917
Net income	-	-	-	-	-	10,648	-	10,648
Adoption of new accounting standard	-	-	-	-	-	(1,441)	-	(1,441)
Other comprehensive income	-	-	-	-	-	-	253	253
Common stock issued	819,333	-	820	-	15,537	-	-	16,357
Restricted stock awards issued	74,350	-	74	-	(74)	-	-	-
Restricted stock awards forfeited	(10,761)	-	(11)	-	11	-	-	-
Vested restricted stock funded	-	-	-	-	(210)	-	-	(210)
Vested restricted stock tax withholding	(1,100)	-	(1)	-	(23)	-	-	(24)
Stock-based compensation	-	-	-	-	1,003	-	-	1,003
Balance, December 31, 2023	9,264,818	5,444,920	$ 9,265	$ 5,445	$ 132,373	$ 22,406	$ (4,986)	$ 164,503

See Notes to Financial Statements

Dogwood State Bank

Statements of Cash Flows

For the years ended December 31, 2023 and 2022

(dollars in thousands)

	2023	2022
Operating activities		
Net income	$ 10,648	$ 10,595
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for credit losses	5,164	2,710
Deferred tax benefit	(1,136)	(779)
Depreciation and amortization	2,089	1,841
Stock-based compensation	1,003	1,021
Vesting restricted stock - tax witholding	(24)	-
Origination of loans held for sale	(139,490)	(148,318)
Proceeds from sale of loans held for sale	142,601	155,320
Gains on sale of loans	(6,840)	(9,217)
Gain on marketable equity securities	(77)	(9)
Change in cash surrender value of bank owned life insurance	(751)	(439)
Net increase in accrued interest payable	663	492
Net increase in accrued interest receivable	(642)	(1,276)
Net change in other assets	(3,165)	(4,661)
Net change in other liabilities	3,761	1,513
Net cash provided by operating activities	13,804	8,793
Investing activities		
Net increase in loans outstanding	(220,843)	(285,050)
Net decrease in PPP loans	6,491	54,671
Purchases of investment securities available for sale	(10,705)	(14,400)
Purchases of investment securities held to maturity	(445)	(12,413)
Proceeds from maturities, calls, and principal repayments of investment securities available for sale	2,740	3,888
Proceeds from maturities, calls, and principal repayments of investment securities held to maturity	4,258	7,497
Proceeds from sales of premises and equipment	1,598	558
Purchases of premises and equipment	(4,625)	(2,914)
Net cash used in investing activities	(221,531)	(248,163)
Financing activities		
Net increase in demand, money market, and savings deposits	281,424	64,085
Net increase in time deposits	8,939	52,117
Net increase (decrease) in FHLB advances	(10,000)	56,000
Proceeds from issuance of common stock, net	16,147	11,944
Net cash provided by financing activities	296,510	184,146
Change in cash and cash equivalents	88,782	(55,224)
Cash and cash equivalents, beginning of period	39,883	95,107
Cash and cash equivalents, end of period	$ 128,665	$ 39,883
Cash paid for:		
Interest	$ 25,056	$ 3,311
Income taxes	$ 4,846	$ 983
Supplemental disclosure of non-cash transactions		
Transfers of investment securities available for sale to investment securities held to maturity	$ -	$ 32,212
Adoption of CECL	$ (1,441)	$ -
Initial recognition of right-of-use asset	$ 2,287	$ 1,796
Initial recognition of lease obligation	$ 2,287	$ 1,796

See Notes to Financial Statements

Note 1. Nature of Operations and Basis of Presentation

Nature of operations:

Dogwood State Bank (the "Company") is a state-chartered bank organized under the laws of North Carolina. The Company is headquartered in Raleigh, North Carolina, and provides a wide range of banking services and products through its seven branch offices in Charlotte, Fayetteville, Greenville, Morehead City, Raleigh, Sanford and Wilmington, North Carolina. The Company has also received regulatory approval for a branch in Greenville, South Carolina. The Company also supports various guaranteed government lending (GGL) programs of the Small Business Administration (SBA) through its small business lending division.

Basis of presentation:

The accompanying financial statements include the accounts and transactions of the Company. The preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Summary of Significant Accounting Policies

Cash and cash equivalents:

Cash and cash equivalents include cash and due from banks, interest-earning deposits with banks, and federal funds sold. Cash and cash equivalents have original maturities of three months or less. The carrying amount of such instruments is considered a reasonable estimate of fair value.

Investment securities:

The Company classifies investment securities as held to maturity, available for sale, or trading at the time of purchase. Premiums and discounts are recognized in interest income using the interest method over the period to maturity. Debt securities are classified as held to maturity where the Company has both the intent and ability to hold the securities to maturity. These securities are reported at amortized cost.

Investment securities available for sale are carried at fair value and consist of debt securities not classified as trading or held to maturity. Unrealized holding gains and losses on investment securities available for sale are reported in other comprehensive income, net of related tax effects. Gains and losses on the sale of investment securities available for sale are determined using the specific identification method recorded on a trade date basis.

Note 2. Summary of Significant Accounting Policies, Continued

Marketable equity securities:

Investments in equity securities having readily determinable fair values are stated at fair value. Realized and unrealized gains and losses on these securities are determined by specific identification and are included in noninterest income.

Allowance for credit losses – Held to Maturity Securities:

Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type. Accrued interest receivable on held-to-maturity debt securities was excluded from the estimate of credit losses.

The estimate of expected credit losses is primarily based on historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. Management classifies the held-to-maturity portfolio into the following major security types: US Government agency securities, agency mortgage-backed securities, agency commercial mortgage obligations, commercial mortgage-backed securities, taxable municipal securities, and municipal securities.

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 held to maturity security is confirmed to be uncollectible All residential and commercial mortgage-backed securities held by the Company are issued by government-sponsored enterprises and agencies. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies and have a long history of no credit losses. The state and local government securities held by the Company are highly rated by major rating agencies. As a result, no allowance for credit losses was recorded on held-to-maturity securities at adoption of Accounting Standard Update (ASU) 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (CECL)* or at December 31, 2023.

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.

Note 2. Summary of Significant Accounting Policies, Continued

Allowance for credit losses – Available-for-sale securities, continued

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 adoption CECL and 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 was excluded from the estimate of credit losses.

Loans held for sale:

Loans held for sale include the guaranteed portion of loans originated through the small business lending division that are expected to be sold in the secondary market to investors. Loans held for sale are carried at fair value.

Paycheck Protection Program (PPP) loans:

Loans originated by the Company under the PPP represent the outstanding balance of loans to assist small businesses and non-profit organizations affected by the COVID-19 pandemic. PPP loans are fully guaranteed by the SBA, and management believes the Company will fully collect the outstanding balance of all of these loans. As of December 31, 2023 and 2022, PPP loans totaled $165 and $6,656, respectively. None of these loans are past due. As of December 31, 2023 and 2022, there was no allowance for PPP loans due to the full SBA guarantee.

Loans, excluding PPP loans:

Loans that the Company has the intent and ability to hold for the foreseeable future, or until maturity, are reported at their outstanding principal balance, adjusted for any charge-offs, deferred fees or costs on originated loans and unamortized premiums or discounts on acquired loans. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment to the yield of the related loan. Interest on loans is recorded based on the principal amount outstanding.

Note 2. Summary of Significant Accounting Policies, Continued

Loans, excluding PPP loans, continued:

Loans are placed on nonaccrual status when they are past due 90 days or more. When a loan is placed in nonaccrual status, all unpaid accrued interest is reversed, and subsequent collections of interest and principal payments are generally applied as a reduction to the principal outstanding. Should the credit quality of a nonaccrual loan improve, the loan may be returned to an accrual status after demonstrating consistent payment history for at least six months.

The Company's loan policies, guidelines, and procedures establish the basic guidelines governing its lending operations. They address the types of loans sought, target markets, underwriting, collateral requirements, term, interest rate, yield considerations and compliance with laws and regulations. The loan policies are reviewed and approved annually by the Board of Directors.

Purchased Credit Deteriorated Loans:

Upon adoption of CECL, loans that were designated as purchased credit impaired (PCI) loans under the previous accounting guidance were classified as purchased credit deteriorated (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 loans on an individual basis.

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.

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.

Note 2. Summary of Significant Accounting Policies, Continued

Allowance for credit losses – loans, continued

The allowance for credit losses (ACL) 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. Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications.

The ACL is a reserve established through a provision for credit losses charged to expense. Loan balances are charged off against the ACL when the collectability of principal is unlikely.

Subsequent recoveries, if any, are credited to the ACL. The ACL is maintained at a level based on management's best estimate of probable credit losses that are inherent in the loan portfolio. Management evaluates the adequacy of the ACL on at least a quarterly basis.

For the majority of loans the ACL is calculated using a discounted cash flow methodology applied at a loan level with a one-year reasonable and supportable forecast period and and then a reversion period. When the discounted cash flow method is used to determine the ACL, management adjusts the effective interest rate used to discount expected cash flows to incorporate expected prepayments. The Company measures expected credit losses for loans on a pooled basis when similar risk characteristics exist. Management evaluates loans originated under government guaranteed lending (GGL) programs separately from loans originated from traditional sources due to risks specific to GGL lending, including risks related to customers being out of the Company’s primary market areas. The Company’s loan segments, and the specific risks of each segment are described below.

Construction/development loans – Risks common to construction/development loans are cost overruns, changes in market demand for property, inadequate long-term financing arrangements and declines in real estate values. Construction/development loans are further segmented into residential construction/development loans, GGL construction/development loans and other construction/development loans. Residential construction/ development loans are also susceptible to risks associated with residential mortgage loans. Changes in market demand for property could lead to longer marketing times resulting in higher carrying costs, declining values, and higher interest rates.

Commercial real estate loans – Loans in this category are susceptible to declines in occupancy rates, business failure and general economic conditions. Also, declines in real estate values and lack of suitable alternative use for the properties are risks for loans in this category. Commercial real estate loans are further segmented into loans secured by non-owner occupied commercial real estate, loans secured by owner-occupied real estate that are originated under GGL programs, and loans secured by all other owner-occupied commercial real estate.

Note 2. Summary of Significant Accounting Policies, Continued

Allowance for credit losses, continued:

1-4 family loans – Residential mortgage loans are susceptible to weakening general economic conditions and increases in unemployment rates and declining real estate values. This segment includes loans secured by both first lien and subordinate lien positions.

Commercial and industrial loans – Risks to this loan category include industry concentration and the inability to monitor the condition of the collateral which often consists of inventory, accounts receivable and other non-real estate assets. Equipment and inventory obsolescence can also pose a risk. Declines in general economic conditions and other events can cause cash flows to fall to levels insufficient to service debt. Commercial and industrial loans are further segmented into commercial and industrial loans estate that are originated under GGL programs, including solar, and all other commercial and industrial loans.

Home equity loans – Risks common to home equity loans and lines of credit are general economic conditions, including an increase in unemployment rates, and declining real estate values which reduce or eliminate the borrower's home equity.

Other consumer loans – Risks common to these loans include regulatory risks, unemployment, and changes in local economic conditions as well as the inability to monitor collateral consisting of personal property.

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 management determines that foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

The Company evaluates loans that are classified as doubtful, substandard, or specialmention. This evaluation includes several factors, including review of the loan payment status and the borrower's financial condition and operating results such as cash flows, operating income, or loss.

Note 2. Summary of Significant Accounting Policies, Continued

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 aggregate reserve rates calculated for the funded portion of 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 liabilities on the Company's balance sheets.

Premises and equipment:

Land is carried at cost. Other components of premises and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method over the estimated useful lives of assets, which range from thirty-seven to forty years for buildings and three to seven years for furniture and equipment. Leasehold improvements are amortized over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Repairs and maintenance costs are charged to operations as incurred, and additions and improvements to premises and equipment are capitalized. Upon sale or retirement, the cost and related accumulated depreciation are removed from the accounts and any gains or losses are reflected in earnings.

Premises and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Assets to be disposed of are transferred to other real estate owned and are reported at the lower of the carrying amount or fair value less costs to sell.

Bank-owned life insurance:

The Company has purchased life insurance policies on certain current and former employees and directors. These policies are recorded at their cash surrender value, or the amount that could be realized by surrendering the policies. Income from these policies and changes in the net cash surrender value are recorded in non-interest income.

Note 2. Summary of Significant Accounting Policies, Continued

Income taxes:

Deferred tax assets and liabilities are included in other assets. Deferred tax assets and liabilities reflect the estimated future tax consequences attributable to differences between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are also recognized for operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which the temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that the tax benefits will not be realized.

Other real estate owned:

Other real estate owned is included in other assets and includes assets acquired through loan foreclosure. These properties are held for sale and are initially recorded at fair value less costs to sell upon foreclosure. After foreclosure, valuations are periodically performed, and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and valuation adjustments are included in noninterest expense. There was no other real estate owned as of December 31, 2023 or 2022.

Equity investments at cost:

As a requirement for membership, the Company has invested in common stock of the Federal Home Loan Bank of Atlanta. This investment, which is included in other assets, is carried at cost, and is periodically evaluated for impairment.

Stock-based compensation:

Compensation cost is recognized for restricted stock awards granted to employees. Compensation cost is based on the fair value of restricted stock awards based on the market price of the Company's common stock at the date of grant. Compensation cost is recognized over the required service period, generally defined as the vesting period for restricted stock awards.

Fair value measurements:

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company follows the fair value hierarchy which gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to management's assumptions (unobservable inputs). For assets and liabilities recorded at fair value, the Company's policy is to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements.

Note 2. Summary of Significant Accounting Policies, Continued

Fair value measurements, continued:

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Investment securities available for sale are recorded at fair value on a recurring basis. Additionally, the Company may be required to record at fair value other assets on a nonrecurring basis, such as impaired loans and other real estate owned. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Assets and liabilities measured at fair value are grouped in three levels, based on the markets in which the assets and liabilities are traded, and the reliability of the assumptions used to determine fair value. An adjustment to the pricing method used within either Level 1 or Level 2 inputs could generate a fair value measurement that effectively falls to a lower level in the hierarchy. These levels are described as follows:

Level 1: Valuations for assets and liabilities traded in active exchange markets.

Level 2: Valuations for assets and liabilities that can be obtained from readily available pricing sources via independent providers for market transactions involving similar assets or liabilities. The Company's principal market for these securities is the secondary institutional markets, and valuations are based on observable market data in those markets.

Level 3: Valuations for assets and liabilities that are derived from other valuation methodologies, including discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The determination of where an asset or liability falls in the fair value hierarchy requires significant judgment. The Company evaluates its hierarchy disclosures at each reporting period and based on various factors, it is possible that an asset or liability may be classified differently. However, management expects that changes in classifications between levels will be rare.

Accumulated other comprehensive income:

The Company's accumulated other comprehensive loss is comprised of unrealized gains and losses, net of taxes, on investment securities available for sale.

(dollars in thousands, except per share information)

Note 2. Summary of Significant Accounting Policies, Continued

Segment reporting:

Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Management has determined that the Company has a single operating segment, which is providing general commercial banking and financial services to individuals and businesses located in North Carolina and to customers in various states through its GGL Small Business Administration (SBA) lending program. The Company's various products and services are those generally offered by community banks, and the allocation of resources is based on the overall performance of the Company versus individual regions, branches, products, and services.

Revenue from contracts with customers:

All of the Company’s revenues that are within the scope of ASC 606 (Revenue Recognition) are recognized within noninterest income. The following table presents the Company’s sources of noninterest income for the years ended December 31, 2023 and 2022. Items outside the scope of Revenue Recognition are noted as such.

	2023	2022
Non-interest income		
Government-guaranteed lending[1]	$ 8,421	$ 9,841
Service charges and fees on deposit accounts	1,399	1,311
Gain on payoff of FHLB advances[1]	1,230	-
Bank-owned life insurance[1]	751	696
Other[2]	328	224
Total non-interest income	$ 12,129	$ 12,072

[1]Not within the scope of ASC 606

[2]The other category includes $328 and $224 of income sources that are within the scope of Revenue Recognition but determined immaterial as of December 31, 2023 and 2022, respectively.

There were no impairment losses recognized on any receivables or contract assets arising from the Company’s contracts with customers during the years ended December 31, 2023 and 2022. While the Company has noninterest income related to government-guaranteed lending, changes in cash surrender value of life insurance and sales of investment securities available for sale, these are not within the scope of Revenue Recognition. Service charge revenue generated from contracts with customers is noninterest income and relates to fees charged on deposit accounts and certain loan and deposit fees.

Note 2. Summary of Significant Accounting Policies, Continued

Revenue from contracts with customers, continued:

Revenues generated from each of these contracts are recognized when a performance obligation is met, and each obligation is associated with a transaction tied to an account. Given each of these accounts are transactional and the related contracts are day-to-day contracts, the performance obligations on these accounts occur when the contract provision is triggered on the account, which results in the related service charge.

Based on the Company's analysis, there are no fees generated for opening an account or for a service on the account where the good or service has not been transferred or prior to the performance obligation being met.

As of December 31, 2023 and 2022, the Company did not have amounts of material receivables, contract assets or contract liabilities tied to these contracts with customers. The Company believes that while loan and deposit accounts generate service charge income, these contracts do not create receivables, assets or liabilities given the fees associated with these service charges are typically charged and collected once the performance obligation is triggered.

In addition, during the years ended December 31, 2023 and 2022, the Company did not recognize revenue that was included in any contract liabilities, and no revenues were recognized related to performance obligations satisfied in prior reporting periods. The Company analyzes its payment streams associated with contracts with customers on a quarterly basis.

As of December 31, 2023 and 2022, the nature of the performance obligations within the contracts generating these service charges on deposit and loan accounts have a duration of one year or less. Also, based on the Company's analysis and the nature of the contracts discussed within this note, management determined that there are no significant judgements associated with the recognition of revenue associated with these contracts. Based on the Company's analysis, each of the service charge revenues discussed above are associated with the transfer of services through administration of a customer's deposit account or through an agreed-upon, fixed amount that is disclosed in the customer's contract and are charged to the customer when the related service is performed on the customer's account. In addition, based on the Company's analysis, none of the contracts discussed above required a material cost to obtain or fulfill the contract, which resulted in no capitalized asset associated with these contracts as of December 31, 2023 and 2022.

Note 2. Summary of Significant Accounting Policies, Continued

Accounting Standards Adopted in 2023:

FASB ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASC 326) (CECL)*

On January 1, 2023, the Company adopted CECL. 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.

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 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 CECL 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 $1,156, net of PCD gross up, which is presented as a reduction to net loans outstanding, and an increase in the allowance for credit losses on unfunded loan commitments of $583, which is recorded within Other Liabilities. The adoption of CECL had an insignificant impact on the Company's held-to-maturity and available-for-sale securities portfolios. The Company recorded a net decrease to retained earnings of $1,441 as of January 1, 2023, for the cumulative effect of adopting CECL, which reflects the transition adjustments noted above, net of the applicable deferred tax assets recorded. Results for reporting periods beginning after January 1, 2023, are presented under CECL while prior period amounts continue to be reported in accordance with previously applicable accounting standards ("Incurred Loss").

Note 2. Summary of Significant Accounting Policies, Continued

Accounting Standards Adopted in 2023, continued:

FASB ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASC 326), continued*

The Company adopted ASC 326 using the prospective transition approach for PCD assets that were previously classified as 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.

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.

FASB ASU 2022-02, Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures

In March 2022, the FASB issued ASU 2022-02. The amendments in this ASU: (i) eliminate the previous recognition and measurement guidance for TDRs and requires an entity to apply the loan refinancing and restructuring guidance to determine whether a modification results in a new loan or a continuation of an existing loan, (ii) require new disclosures for loan modifications when a borrower is experiencing financial difficulty and (iii) require disclosures of current period gross charge-offs by year of origination in the vintage disclosures.

The Company adopted ASU 2022-02 on January 1, 2023, along with the adoption of ASC 326. As a result of adopting this ASU, the Company did not have a material impact to our consolidated results of operations or our consolidated financial position. The additional disclosures were applied prospectively.

(dollars in thousands, except per share information)

Note 2. Summary of Significant Accounting Policies, Continued

Recently issued accounting pronouncements:

FASB ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures.

The update requires disclosure of specific categories in the rate reconciliation and information for reconciling items that meet a quantitative threshold. In addition, the update requires disaggregated disclosure of income taxes paid and income tax expense by jurisdiction. This guidance is effective for annual periods beginning after December 31, 2024. The Company does not expect the new guidance to have a material impact 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 3. Investment Securities

The following tables summarize the amortized cost, gross unrealized gains and losses, and fair value of investment securities available for sale and held to maturity by major classification:

	December 31, 2023			
	Amortized Cost	Unrealized Loss	Unrealized Gain	Fair Value
Investment securities available for sale:				
Agency residential mortgage-backed	$ 23,954	$ (1,727)	$ 85	$ 22,312
Corporate bonds	18,373	(1,516)	10	16,867
US Treasury securities	5,939	(584)	-	5,355
Agency commercial mortgage-backed	3,420	(336)	-	3,084
Agency CMO/REMIC	1,675	(51)	2	1,626
	$ 53,361	$ (4,214)	$ 97	$ 49,244
Investment securities held to maturity:				
Agency residential mortgage-backed	$ 34,189	$ (3,671)	$ 5	$ 30,523
Agency CMO/REMIC	22,384	(4,638)	-	17,746
Taxable municipals	12,867	(2,066)	-	10,801
Municipal securities	4,925	(771)	-	4,154
US Government agency securities	1,911	(89)	-	1,822
Commercial mortgage-backed	1,280	(171)	-	1,109
	$ 77,556	$ (11,406)	$ 5	$ 66,155

(dollars in thousands, except per share information)

Note 3. Investment Securities, Continued

	December 31, 2022			
	Amortized Cost	Unrealized Loss	Unrealized Gain	Fair Value
Investment securities available for sale:				
Agency residential mortgage-backed	$ 19,243	$ (2,067)	$ 34	$ 17,210
Corporate bonds	15,000	(1,424)	-	13,576
US Treasury securities	5,933	(686)	-	5,247
Agency commercial mortgage-backed	3,451	(311)	-	3,140
Agency CMO/REMIC	1,906	(55)	19	1,870
	$ 45,533	$ (4,543)	$ 53	$ 41,043
Investment securities held to maturity:				
Agency residential mortgage-backed	$ 36,012	$ (3,568)	$ -	$ 32,444
Agency CMO/REMIC	24,387	(4,690)	-	19,697
Taxable municipals	12,895	(2,485)	-	10,410
Municipal securities	4,990	(1,006)	-	3,984
US Government agency securities	1,885	(105)	-	1,780
Commercial mortgage-backed	1,343	(158)	-	1,185
	$ 81,512	$ (12,012)	$ -	$ 69,500

There is no allowance for credit losses on available-for-sale securities or held to maturity securities as of December 31, 2023.

The amortized cost and fair values of investment securities available for sale and held to maturity, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2023	
	Amortized Cost	Fair Value
Investment securities available for sale with scheduled maturities:		
Within 1 year	$ 755	$ 727
After 1 through 5 years	28,881	26,653
After 5 years through 10 years	23,725	21,864
	$ 53,361	$ 49,244
Investment securities held to maturity with scheduled maturities:		
After 1 through 5 years	$ 5,021	$ 4,561
After 5 years through 10 years	57,275	48,351
After 10 years	15,260	13,243
	$ 77,556	$ 66,155

(dollars in thousands, except per share information)

Note 3. Investment Securities, Continued

	December 31, 2022	
	Amortized Cost	Fair Value
Investment securities available for sale with scheduled maturities:		
Within 1 year	$ 1,500	$ 1,440
After 1 through 5 years	16,457	15,082
After 5 years through 10 years	27,576	24,521
	$ 45,533	$ 41,043
Investment securities held to maturity with scheduled maturities:		
After 1 through 5 years	$ 2,326	$ 2,209
After 5 years through 10 years	62,055	52,781
After 10 years	17,131	14,510
	$ 81,512	$ 69,500

During 2022, the Company transferred certain investment securities available for sale to investment securities held to maturity. At the time of the transfer the securities had an amortized cost basis of $34,365 and a fair value of $32,212. The $2,154 difference between the amortized cost basis and fair value at the date of transfer is amortized as a yield adjustment over the remaining life of the securities and the $32,213 fair value, adjusted for subsequent amortization, became the securities new cost basis.

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

	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Investment securities available for sale:						
Agency residential mortgage-backed	$ 1,211	$ (1)	$ 15,202	$ (1,726)	$ 16,413	$ (1,727)
Corporate Bonds	-	-	9,735	(1,516)	9,735	(1,516)
US Treasury securities	-	-	5,355	(584)	5,355	(584)
Agency commercial mortgage-backed	-	-	3,084	(336)	3,084	(336)
Agency CMO/REMIC	-	-	763	(51)	763	(51)
	$ 1,211	$ (1)	$ 34,139	$ (4,213)	$ 35,350	$ (4,214)

(dollars in thousands, except per share information)

Note 3. Investment Securities, Continued

The following table shows the gross unrealized losses and estimated fair value of available sale securities and held-to-maturity securities aggregated by category and length of time that securities have been in a continuous unrealized loss position at December 31, 2022:

	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Investment securities available for sale:						
Agency residential mortgage-backed	$ 4,621	$ (326)	$ 12,590	$ (1,708)	$ 17,211	$ (2,034)
Corporate bonds	6,577	(673)	4,749	(751)	11,326	(1,424)
US Treasury securities	-	-	5,246	(686)	5,246	(686)
Agency commercial mortgage-backed	1,382	(53)	1,756	(259)	3,138	(312)
Agency CMO/REMIC	876	(54)	-	-	876	(54)
	$ 13,456	$ (1,106)	$ 24,341	$ (3,404)	$ 37,797	$ (4,510)

	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Investment securities held to maturity:						
Agency residential mortgage-backed	$ 9,599	$ (574)	$ 20,408	$ (4,301)	$ 30,007	$ (4,875)
Agency CMO/REMIC	2,314	(402)	17,383	(4,720)	19,697	(5,122)
Taxable municipals	4,535	(644)	5,874	(1,811)	10,409	(2,455)
Municipal securities	-	-	3,984	(1,006)	3,984	(1,006)
US Government agency securities	-	-	1,779	(220)	1,779	(220)
Commercial mortgage-backed	-	-	1,186	(251)	1,186	(251)
	$ 16,448	$ (1,620)	$ 50,614	$ (12,309)	$ 67,062	$ (13,929)

The securities in an unrealized loss position as of December 31, 2023 and 2022 continue to perform and are expected to perform through maturity, and the issuers have not experienced significant adverse events that would call into question their ability to repay these debt obligations according to contractual terms.

As of December 31, 2023, the Company held no individual investment securities with an aggregate book value greater than 10 percent of total shareholders' equity.

(dollars in thousands, except per share information)

Note 3. Investment Securities, Continued

No investment securities available for sale were sold during the year ended December 31, 2023 and 2022. There were no realized gains or losses on investment securities available for sale for the year ended December 31, 2023 and 2022.

As of December 31, 2023, securities with a book value of $66,201 and a fair value of $55,361 pledged as collateral for public deposits and to the Bank Term Funding Program.

The Company owns 36,000 shares of common stock of a North Carolina community bank. This investment is classified as a marketable equity security and has a cost basis of $227. As of December 31, 2023 and 2022, the fair value was $329 and $252, respectively.

Note 4. Loans and Allowance for Credit Losses

The following table summarizes the Company's loans by type:

	2023	2022
Construction/development - GGL	$ 14,149	$ 39,926
Construction/development - other	107,022	74,616
Commercial real estate - owner occupied - GGL	50,611	30,375
Commercial real estate - owner occupied - other	223,325	187,096
Commercial real estate - non-owner occupied - GGL	10,815	9,226
Commercial real estate - non-owner occupied - other	334,273	247,339
Commercial and industrial - GGL	76,420	63,817
Commercial and industrial - other	111,991	83,153
1-4 family	138,480	108,400
Home equity	19,754	13,988
Construction/development - residential	5,955	16,551
Other consumer	2,379	1,635
	$ 1,095,174	$ 876,122

The preceding table and all following disclosures exclude $165 and $6,656 of PPP loans as of December 31, 2023 and 2022, respectively.

As of December 31, 2023 and 2022, loans with a recorded investment of $480,739 and $371,360, respectively, were pledged to secure borrowings or available lines of credit with correspondent banks.

As of December 31, 2023 and 2022, there were no loans to directors and executive officers outstanding.

(dollars in thousands, except per share information)

Note 4. Loans and Allowance for Credit Losses, Continued

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

	December 31, 2023					
	30-59 days past due	60-89 days past due	90+ days past due and still accruing	Nonaccrual Loans	Current Loans	Total Loans
Construction/development - GGL	$ -	$ -	$ -	$ -	$ 14,149	$ 14,149
Construction/development - other	-	-	-	-	107,022	107,022
Commercial real estate - owner occupied - GGL	343	177	-	85	50,006	50,611
Commercial real estate - owner occupied - other	-	-	-	-	223,325	223,325
Commercial real estate - non-owner occupied - GGL	-	-	-	-	10,815	10,815
Commercial real estate - non-owner occupied - other	-	-	-	-	334,273	334,273
Commercial and industrial - GGL	1,106	640	-	1,407	73,267	76,420
Commercial and industrial - other	-	-	-	-	111,991	111,991
1-4 family	113	-	-	114	138,253	138,480
Home equity	-	-	-	2	19,752	19,754
Construction/development - residential	-	-	-	-	5,955	5,955
Other consumer	43	125	-	-	2,211	2,379
	$ 1,605	$ 942	$ -	$ 1,608	$ 1,091,019	$ 1,095,174

There was $2 in interest income earned on one nonaccrual loan during the year ended December 31, 2023. There was $62 in interest income earned on nonaccrual loans during the year ended December 31, 2022.

(dollars in thousands, except per share information)

Note 4. Loans and Allowance for Credit Losses, Continued

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

	December 31, 2022					
	30-59 days past due	60-89 days past due	90+ days past due and still accruing	Nonaccrual Loans	Current Loans	Total Loans
Construction/development - GGL	$ -	$ -	$ -	$ -	$ 39,926	$ 39,926
Construction/development - other	-	-	-	-	74,616	74,616
Commercial real estate - owner occupied - GGL	-	535	-	214	29,626	30,375
Commercial real estate - owner occupied - other	193	-	-	-	186,903	187,096
Commercial real estate - non-owner occupied - GGL	-	-	-		9,226	9,226
Commercial real estate - non-owner occupied - other	-	-	-	-	247,339	247,339
Commercial and industrial - GGL	887	269	301	357	62,003	63,817
Commercial and industrial - other	-	-	-	367	82,786	83,153
1-4 family	58	-	-	77	108,265	108,400
Home equity	-	-	1	-	13,987	13,988
Construction/development - residential	-	-	-	-	16,551	16,551
Other consumer	-	2	-	-	1,633	1,635
	$ 1,138	$ 806	$ 302	$ 1,015	$ 872,861	$ 876,122

Note 4. Loans and Allowance for Credit Losses, Continued

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt including current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans according to credit risk. The Company uses the following general definitions for risk ratings:

Pass – These loans range from superior quality with minimal credit risk to loans requiring heightened management attention but that are still an acceptable risk and continue to perform as contracted.

Special Mention – Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard – Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful – Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Not Rated – Not rated loans represent loans not included in the individual credit grading process due to their relatively small balances or borrower type.

(dollars in thousands, except per share information)

Note 4. Loans and Allowance for Credit Losses, Continued

The following table presents the Company's recorded investment in loans by credit quality indicators by year of origination as of December 31, 2023:

	Term Loans by Year of Origination							
	2023	**2022**	**2021**	**2020**	**2019**	**Prior**	**Revolving**	**Total**
Construction/development - GGL								
Pass	$ 1,369	$ 1,165	$ 5,343	$ -	$ -	$ -	$ -	$ 7,877
Special Mention	-	-	-	-	-	-	-	
Classified	-	-	-	6,272	-	-	-	6,272
Total Construction/development - GGL	1,369	1,165	5,343	6,272	-	-	-	14,149
Current period gross write-offs	-	-	-	-	-	-	-	-
Construction/development - other								
Pass	67,682	23,133	12,248	295	2,432	93	43	105,926
Special Mention	-	-	-	-	-	-	-	-
Classified	668	-	-	-	-	-	-	668
Not Rated	428	-	-	-	-	-	-	428
Total Construction/development - other	68,778	23,133	12,248	295	2,432	93	43	107,022
Current period gross write-offs	-	-	-	-	-	-	-	-
Commercial real estate - owner occupied - GGL								
Pass	9,640	18,961	11,019	9,380	481	-	-	49,481
Special Mention	-	996	45	-	-	-	-	1,041
Classified	-	2	59	-	28	-	-	89
Total Commercial real estate - owner occupied - GGL	9,640	19,959	11,123	9,380	509	-	-	50,611
Current period gross write-offs	-	-	-	-	-	-	-	-

(dollars in thousands, except per share information)

Note 4. Loans and Allowance for Credit Losses, Continued

	Term Loans by Year of Origination							
	2023	**2022**	**2021**	**2020**	**2019**	**Prior**	**Revolving**	**Total**
Commercial real estate - owner occupied - other								
Pass	$ 49,814	$ 75,810	$ 59,416	$ 13,730	$ 11,409	$ 12,620	$ 150	$ 222,949
Special Mention	-	-	-	-	-	-	-	-
Classified	-	376	-	-	-	-	-	376
Total commercial real estate - owner occupied - other	49,814	76,186	59,416	13,730	11,409	12,620	150	223,325
Current period gross write-offs	-	-	-	-	-	-	-	-
Commercial real estate - non-owner occupied - GGL								
Pass	-	8,748	1,966	-	-	101	-	10,815
Special Mention	-	-	-	-	-	-	-	-
Classified	-	-	-	-	-	-	-	-
Total commercial real estate - non-owner occupied - GGL	-	8,748	1,966	-	-	101	-	10,815
Current period gross write-offs	-	-	-	-	-	-	-	-
Commercial real estate - non-owner occupied - other								
Pass	68,808	131,680	73,263	38,280	7,335	13,585	-	332,951
Special Mention	-	-	-	-	-	-	-	-
Classified	-	-	-	-	-	1,322	-	1,322
Total commercial real estate - non-owner occupied - other	68,808	131,680	73,263	38,280	7,335	14,907	-	334,273
Current period gross write-offs	-	-	-	-	-	-	-	-

(dollars in thousands, except per share information)

Note 4. Loans and Allowance for Credit Losses, Continued

	Term Loans by Year of Origination							
	2023	2022	2021	2020	2019	Prior	Revolving	Total
Commercial and industrial - GGL								
Pass	$ 18,985	$ 20,548	$ 6,129	$ 3,905	$ 111	$ 21,109	$ 132	$ 70,919
Special Mention	-	209	42	230	-	1,504	211	2,196
Classified	-	506	946	727	96	811	219	3,305
Not Rated	-	-	-	-	-	-	-	-
Total commercial and industrial - GGL	18,985	21,263	7,117	4,862	207	23,424	562	76,420
Current period gross write-offs	-	143	122	196	-	1,376	35	1,872
Commercial and industrial - other								
Pass	49,370	32,372	15,293	5,258	5,617	1,671	1,287	110,868
Special Mention	-	1,097	-	-	-	-	-	1,097
Classified	-	25	-	-	-	-	-	25
Not Rated	1	-	-	-	-	-	-	1
Total commercial and industrial - other	49,371	33,494	15,293	5,258	5,617	1,671	1,287	111,991
Current period gross write-offs	-	-	-	-	-	-	-	-
1-4 family								
Pass	27,798	73,030	17,155	10,320	2,570	5,549	1,870	138,292
Special Mention	-	-	-	-	-	-	-	-
Classified	-	73	-	55	-	60	-	188
Total 1-4 family	27,798	73,103	17,155	10,375	2,570	5,609	1,870	138,480
Current period gross write-offs	-	-	-	-	-	-	-	-

(dollars in thousands, except per share information)

Note 4. Loans and Allowance for Credit Losses, Continued

	Term Loans by Year of Origination							
	2023	2022	2021	2020	2019	Prior	Revolving	Total
Home Equity								
Pass	$ 7,469	$ 3,544	$ 4,097	$ 2,447	$ 459	$ 1,736	$ -	$ 19,752
Special Mention	-	-	-	-	-	-	-	-
Classified	-	-	-	-	-	2	-	2
Total Home Equity	7,469	3,544	4,097	2,447	459	1,738	-	19,754
Current period gross write-offs	-	-	-	-	-	1	-	1
Construction/development - residential								
Pass	4,151	1,637	-	-	-	-	167	5,955
Special Mention	-	-	-	-	-	-	-	-
Classified	-	-	-	-	-	-	-	-
Not Rated	-	-	-	-	-	-	-	-
Total construction/development - residential	4,151	1,637	-	-	-	-	167	5,955
Current period gross write-offs	-	-	-	-	-	-	-	-
Other Consumer								
Pass	1,152	233	517	79	-	269	-	2,250
Special Mention	-	-	-	-	-	-	125	125
Classified	-	-	-	-	-	1	-	1
Not Rated	-	-	3	-	-	-	-	3
Total other consumer	1,152	233	520	79	-	270	125	2,379
Current period gross write-offs	-	-	-	-	-	5	-	5

(dollars in thousands, except per share information)

Note 4. Loans and Allowance for Credit Losses, Continued

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

	December 31, 2022			
	Pass	Special Mention	Substandard	Total
Construction/development - GGL	$ 39,926	$ -	$ -	$ 39,926
Construction/development - other	69,066	5,550	-	74,616
Commercial real estate - owner occupied - GGL	30,148	-	227	30,375
Commercial real estate - owner occupied - other	185,749	-	1,347	187,096
Commercial real estate - non-owner occupied - GGL	9,117	109	-	9,226
Commercial real estate - non-owner occupied - other	245,968	-	1,371	247,339
Commercial and industrial - GGL	60,920	1,769	1,128	63,817
Commercial and industrial - other	81,726	1,060	367	83,153
1-4 family	108,323	-	77	108,400
Home equity	13,985	-	3	13,988
Construction/development - residential	16,551	-	-	16,551
Other consumer	1,627	7	1	1,635
	$ 863,106	$ 8,495	$ 4,521	$ 876,122

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 an Allowance Recorded	Nonaccrual Loans With No Allowance Recorded	Total Nonaccrual Loans	Nonaccrual Loans
Commercial and industrial - GGL	$ 79	$ 1,328	$ 1,407	$ 357
Commercial real estate - owner occupied - GGL	-	85	85	214
1-4 family	-	114	114	77
Home equity	-	2	2	-
Commercial and industrial - other	-	-	-	367
	$ 79	**$ 1,529**	**$ 1,608**	**$ 1,015**

(dollars in thousands, except per share information)

Note 4. Loans and Allowance for Credit Losses, Continued

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

Commercial and industrial - GGL	$	82
Commercial real estate - owner occupied - GGL		11
1-4 family		1
	$	94

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.

Commercial real estate loans can be secured by either owner-occupied commercial real estate or non-owner-occupied investment commercial real estate. Typically, owner-occupied commercial real estate loans are secured by office buildings, warehouses, manufacturing facilities and other commercial and industrial properties occupied by operating companies. Non-owner-occupied commercial real estate loans are generally secured by office buildings and complexes, retail facilities, multifamily complexes, land under development, industrial properties, as well as other commercial or industrial real estate.

Residential real estate loans are typically secured by first mortgages, and in some cases could be secured by a second mortgage.

Home equity lines of credit are generally secured by second mortgages on residential real estate property.

Consumer loans are generally secured by automobiles, motorcycles, recreational vehicles, and other personal property. Some consumer loans are unsecured and have no underlying collateral.

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

	December 31, 2023	
Commercial and industrial - GGL	$	1,407
1-4 family		114
Commercial real estate - owner occupied - GGL		85
Home equity		2
	$	1,608

(dollars in thousands, except per share information)

Note 4. Loans and Allowance for Credit Losses, Continued

Allowance for Credit Losses

The following table summarizes the activity related to the allowance for credit losses for the year ended December 31, 2023 under the CECL methodology.

	December 31, 2023												
	Construction/ development - GGL	Construction / development - other	Commercial real estate – owner - occupied- GGL	Commercial real estate – owner- occupied -other	Commercial real estate – non- owner occupied- GGL	Commercial real estate – non- owner occupied - other	Commercial and industrial - GGL	Commercial and industrial - other	1-4 family	Home equity	Construction/ development - residential	Other consumer	Total
Beginning balance	$ 876	$ 520	$ 643	$ 1,047	$ 212	$ 1,410	$ 2,430	$ 659	$ 750	$ 76	$ 89	$ 16	$ 8,728
Adjustment to allowance for adoption of ASU 2016-13	104	337	(16)	99	130	221	344	(11)	(92)	47	(7)	-	1,156
Charge-offs	-	-	-	-	-	-	(1,872)	-	-	(1)	-	(5)	(1,878)
Recoveries	-	-	18	-	-	-	35	7	26	1	-	-	87
Provision for credit losses	(513)	155	380	388	(178)	823	2,089	242	424	51	(31)	20	3,850
Ending balance	$ 467	$ 1,012	$ 1,025	$ 1,534	$ 164	$ 2,454	$ 3,026	$ 897	$ 1,108	$ 174	$ 51	$ 31	$ 11,943

(dollars in thousands, except per share information)

Note 4. Loans and Allowance for Credit Losses, Continued

Allowance for Credit Losses, Continued

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

	December 31, 2022													
	Construction/ development - GGL	Construction / development - other	Commercial real estate – owner - occupied- GGL	Commercial real estate – owner- occupied - other	Commercial real estate – non-owner occupied- GGL	Commercial real estate – non-owner occupied	Commercial and industrial - GGL	Commercial and industrial - other	1-4 family	Home equity	Construction/ development - residential	Other consumer	Total
Allowance for loans loss ending balance													
Collectively evaluated for impairment	$ 876	$ 518	$ 643	$ 1,047	$ 204	$ 1,410	$ 2,430	$ 659	$ 600	$ 76	$ 89	$ 13	$ 8,565
Individually evaluated for impairment	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchased credit non-impaired	-	2	-	-	8	-	-	-	2	-	-	3	15
Purchased credit impaired	-	-	-	-	-	-	-	-	148	-	-	-	148
	$ 876	$ 520	$ 643	$ 1,047	$ 212	$ 1,410	$ 2,430	$ 659	$ 750	$ 76	$ 89	$ 16	$ 8,728
Loans ending balance													
Collectively evaluated for impairment	$ 39,926	$ 74,347	$ 30,161	$ 185,939	$ 9,165	$ 242,098	$ 63,459	$ 82,783	$ 106,598	$ 13,150	$ 16,551	$ 1,534	$ 865,711
Individually evaluated for impairment	-	-	214	-		-	357	367	123	2	-	-	1,063
Purchased credit non-impaired	-	269	-	795	61	4,861	1	3	1,295	836	-	101	8,222
Purchased credit impaired	-	-	-	362	-	380	-	-	384	-	-	-	1,126
	$ 39,926	$ 74,616	$ 30,375	$ 187,096	$ 9,226	$ 247,339	$ 63,817	$ 83,153	$ 108,400	$ 13,988	$ 16,551	$ 1,635	$ 876,122

(dollars in thousands, except per share information)

Note 4. Loans and Allowance for Credit Losses, Continued

Allowance for Credit Losses, Continued

	December 31, 2022												
	Construction/ development - GGL	Construction / development - other	Commercial real estate – owner - occupied- GGL	Commercial real estate – owner- occupied -other	Commercial real estate – non- owner occupied- GGL	Commercial real estate – non- owner occupied - other	Commercial and industrial - GGL	Commercial and industrial - other	1-4 family	Home equity	Construction/ development - residential	Other consumer	Total
Beginning balance	$ 470	$ 642	$ 403	$ 885	$ -	$ 937	$ 1,945	$ 652	$ 564	$ 81	$ 16	$ 30	$ 6,625
Adjustment to allowance for													
Charge-offs	-	-	(132)	-	-	-	(471)	-	-	-	-	(5)	(608)
Recoveries	-	-	-	-	-	-	-	-	-	-	-	1	1
Provision for loan losses	406	(122)	372	162	204	473	956	15	186	(5)	73	(10)	2,710
Ending balance	$ 876	$ 520	$ 643	$ 1,047	$ 204	$ 1,410	$ 2,430	$ 667	$ 750	$ 76	$ 89	$ 16	$ 8,728

(dollars in thousands, except per share information)

Note 4. Loans and Allowance for Credit Losses, Continued

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 and all troubled debt restructurings (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:

	With a recorded allowance	With no allowance recorded	Total	Unpaid Principal Balance	Related Allowance Recorded
Home equity	$ -	$ 2	$ 2	$ 8	$ -
1-4 family	-	123	123	123	-
Commercial real estate - owner occupied - GGL	-	214	214	227	-
Commercial and industrial - other	-	367	367	367	-
Commercial and industrial - GGL	-	357	357	400	-
	$ -	$ 1,063	$ 1,063	$ 1,125	$ -

(dollars in thousands, except per share information)

Note 4. Loans and Allowance for Credit Losses, Continued

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.

There were no modifications made to borrowers experiencing financial difficulty for the year ended December 31, 2023.

Prior to the adoption of ASU 2016-13, the following table provides the number and recorded investment of TDRs outstanding at December 31, 2022:

	December 31, 2022	
	Recorded Investment	Number
1-4 family	$ 45	5
Commercial real estate - owner occupied - other	-	-
Home equity	2	1
	$ 47	6

As of December 31, 2022, there were no TDRs that were not performing in accordance with the modified loan terms.

For all periods presented, the Company used a one-year reasonable and supportable forecast period. Expected credit losses were estimated using a regression model for each segment based on historical data from peer banks combined with the Federal Reserve's baseline economic forecast to predict the change in credit losses. For periods beyond the reasonable and supportable forecast period of one year, United reverted to historical credit loss information on a straight line basis

(dollars in thousands, except per share information)

Note 4. Loans and Allowance for Credit Losses, Continued

At December 31, 2023, the Federal Reserve's baseline forecast was slightly better than at January 1, 2023. However, the Company's charge offs increased from January 1, 2023 to December 31, 2023 resulting in a higher quantitative ACL level at December 31, 2023. At December 31, 2023, the Company applied qualitative adjustments to the model output for all loans, with an additional qualitative reserve for GGL loans. The increase in qualitative reserves was primarily driven by an increase in loan volume. Compared to December 31, 2022, the allowance increased due to the implementation of ASC 326 which measures reserves based on an expected credit loss model, rather than an incurred loss model.

Note 5. Premises and Equipment

A summary of premises and equipment as of December 31, 2023 and 2022 is presented in the table below:

	2023	2022
Land	$ 836	$ 1,564
Building and leasehold improvements	18,658	15,617
Furniture and equipment	2,806	3,045
Less accumulated depreciation	(3,593)	(2,849)
	$ 18,707	$ 17,377

Depreciation on premises and equipment, which is recorded in occupancy and equipment expense, totaled $1,698 and $1,502 for the years ended December 31, 2023 and 2022, respectively.

As of December 31, 2023 and 2022, buildings and leasehold improvements included $10,457 and $9,124, respectively, related to the Company's right of use lease assets.

(dollars in thousands, except per share information)

Note 6. Leases

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

Description	Balance Sheet Classification	2023	2022
Assets:			
Finance	Premises and equipment, net	$ 10,457	$ 9,124
Operating	Accrued interest receivable and other assets	1,866	452
Total leased assets		$ 12,323	$ 9,576
Liabilities:			
Finance	Lease liability	$ 11,187	$ 9,730
Operating	Accrued interest payable and other liabilities	1,861	453
Total lease liabilities		$ 13,048	$ 10,183

The following table provides information regarding the minimum lease payments in future periods that will reduce lease-related liabilities outstanding as of December 31, 2023:

	Finance Leases	Operating Leases	Total
2024	$ 1,217	$ 292	$ 1,509
2025	1,356	268	1,624
2026	1,389	180	1,569
2027	1,423	186	1,609
2028	1,298	191	1,489
Thereafter	6,335	1,179	7,514
Total minimum lease payments	13,018	2,296	15,314
Discount	(1,831)	(435)	(2,266)
Lease liability	$ 11,187	$ 1,861	$ 13,048

The following table provides the weighted average remaining lease term (in years) and the weighted average discount rate of finance and operating leases as of December 31, 2023:

	Finance Leases	Operating Leases
Weighted average remaining lease term in years	9.4	9.3
Weighted average discount rate	3.06%	4.47%

(dollars in thousands, except per share information)

Note 7. Goodwill and Other Intangible Assets

The table below summarizes the changes in carrying amounts of goodwill and other intangible assets (core deposit intangible) for the periods presented:

	Goodwill	Other intangible assets
Balance at December 31, 2021	$ 7,016	$ 343
Accumulated amortization	-	(217)
Balance at December 31, 2022	7,016	126
Accumulated amortization	-	(111)
Balance at December 31, 2023	$ 7,016	$ 15

Goodwill represents the excess of the purchase price over the fair value of acquired net assets under the acquisition method of accounting. The acquisition that generated the Company's goodwill was a nontaxable event and, as a result, there is no tax basis in the goodwill, and none of the goodwill is deductible for tax purposes.

Goodwill is evaluated for impairment annually or more frequently if events occur or circumstances change that may indicate that impairment exists. The most recent goodwill impairment evaluation was performed as of December 31, 2023. No goodwill impairment was recorded during 2023 or 2022.

The value of other intangible assets was determined using the present value of the difference between a market participant's cost of obtaining alternative funds and the cost to maintain the acquired deposit base. The other intangible assets are amortized over a seven-year period using an accelerated method. Other intangible assets are evaluated for impairment if events and circumstances indicate impairment may exist.

The following table presents estimated future amortization expense for the Company's other intangible assets:

2024	$ 15
2025	-
2026	-
2027	-
2028	-
Thereafter	-
	$ 15

No impairment charges were recorded for other intangible assets during 2023 or 2024.

SBA servicing assets, which are included in other assets, represent the present value of projected future servicing income when an SBA loan is sold servicing retained. The SBA servicing asset was $4,641, net of $674 valuation allowance, at December 31, 2023, and $4,143, net of $975 valuation allowance at December 31, 2022. The SBA servicing asset is amortized over the servicing life of the loan and is subject to impairment based on changes in servicing values.

(dollars in thousands, except per share information)

Note 8. Income Taxes

The significant components of the provision for income taxes for the years ended December 31, 2023 and 2022 are as follows:

	2023	2022
Current tax provision:		
Federal	$ 3,724	$ 3,456
State	436	380
Total current tax expense	4,160	3,836
Deferred tax provision:		
Federal	(987)	(710)
State	(149)	(69)
Total deferred tax benefit	(1,136)	(779)
Total income tax expense	$ 3,024	$ 3,057

The difference between the provision for income taxes and the amounts computed by applying the statutory federal income tax rate of 21 percent for 2023 and 2022 to income before income taxes is summarized below:

	2023	2022
Income tax expense at federal statutory rate	$ 2,871	$ 2,867
Increase (decrease) resulting from:		
State income taxes, net of federal benefit	209	259
Bank-owned life insurance	(158)	(146)
Stock-based compensation	(52)	-
Nondeductible expenses	163	99
Other permanent difference, net	-	(13)
Other	(9)	(9)
Total income tax expense	$ 3,024	$ 3,057

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(dollars in thousands, except per share information)

Note 8. Income Taxes, Continued

Significant components of deferred taxes at December 31, 2023 and 2022 are as follows:

	2023	2022
Deferred tax asset relating to:		
Allowance for credit losses	$ 2,744	$ 2,023
Unfunded commitments	473	-
Deferred compensation	442	352
Stock-based compensation	594	463
Unrealized loss on investment securities available for sale	1,487	1,609
Amortization of intangible assets	111	125
Other	15	25
Total deferred tax assets	5,866	4,597
Deferred tax liabilities relating to:		
Premises and equipment	(1,127)	(836)
Acquisition accounting	(4)	(40)
Total deferred tax liabilities	(1,131)	(876)
Total deferred tax asset, net	$ 4,735	$ 3,721

As of December 31, 2022, the Company has no remaining post-2017 net operating losses. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, permits carryovers and carrybacks to offset 100 percent of taxable income for taxable years beginning before 2021. In addition, the CARES Act allows net operating losses incurred in 2020, 2019 and 2018 to be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes. The Company utilized this provision in the CARES Act by carrying back the 2019 net operating loss to tax years 2018, 2017 and 2016, generating a benefit through the ability to carry back to higher tax rate years.

The Company's net deferred tax asset was $4,735 and $3,721 at December 31, 2023 and 2022, respectively. In evaluating whether it will realize the full benefit of the net deferred tax asset, the Company evaluated both positive and negative evidence, including among other things recent earnings trends, projected earnings, and asset quality. No valuation allowance was recorded at December 31, 2023.

Significant negative trends in credit quality, losses from operations or other factors could impact the realization of the deferred tax asset in the future.

The Company's policy is to report interest and penalties, if any, related to uncertain tax positions in income tax expense. As of December 31, 2023 and 2022, the Company had no uncertain tax positions.

With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2020.

(dollars in thousands, except per share information)

Note 9. Deposits

The scheduled maturities of time deposits as of December 31, 2023 are presented below:

	Less than $250	$250 and Greater	Total
2024	$ 130,883	$ 16,679	$ 147,562
2025	4,314	-	4,314
2026	267	-	267
2027	7,870	-	7,870
2028	271	-	271
Total	$ 143,605	$ 16,679	$ 160,284

Brokered deposits totaled $109,545 and $74,218 as of December 31, 2023 and 2022, respectively. Time deposits, excluding brokered deposits, in excess of the FDIC insurance limit of $250 totaled $16,679 and $17,191 as of December 31, 2023 and 2022, respectively. As of December 31, 2023, the bank had one depositor that made up 5.78% of total deposits.

Note 10. FHLB Advances

A summary of FHLB advances as of December 31, 2023 and 2022 is presented below:

Description	Interest Rate	Maturity Date	2023	2022
Daily Rate Credit	4.57%	June 30, 2023	-	60,000
Daily Rate Credit	5.57%	June 28, 2024	30,000	-
Fixed Rate Credit	5.32%	July 22, 2024	20,000	-
			$ 50,000	$ 60,000

As of December 31, 2023, the Company had access to an additional $184,267 at the FHLB on a secured basis. As of December 31, 2023, the Company also had unused unsecured federal funds lines of credit with various counterparty banks totaling $80,000.

Note 11. Commitments and Contingencies

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the Company's maximum exposure. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

(dollars in thousands, except per share information)

Note 11. Commitments and Contingencies, Continued

Commitments to extend credit, which totaled $290,364 and $215,873 at December 31, 2023 and 2022, respectively, represent agreements to lend to a customer as long as there is no violation of conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee.

The Company maintains an allowance for off-balance sheet credit exposures such as unfunded balances for existing lines of credit, commitments to extend future credit, as well as both standby and commercial letters of credit when there is a contractual obligation to extend credit and when this extension of credit is not unconditionally cancellable (i.e., the commitment cannot be canceled at any time). The allowance for off-balance sheet credit exposures is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur, which is based on a historical funding study derived from internal information, and an estimate of expected credit losses on commitments expected to be funded over its estimated life, which are the same loss rates that are used in computing the allowance for credit losses on loans and are discussed in Note 4. The allowance for credit losses for unfunded loan commitments of $2,060 and $162 at December 31, 2023 and December 31, 2022, respectively, is separately classified on the balance sheet.

The following table presents the balance and activity in the allowance for credit losses for unfunded loan commitments for the year ended December 31, 2023.

Beginning Balance, December 31, 2022	$	162
Adjustment to the allowance for unfunded commitments for adoption of ASU 2016-13		584
Provision for unfunded commitments		1,314
Balance, December 31, 2023	$	2,060

Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer’s creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company, upon extension of credit is based on a credit evaluation of the borrower. Collateral obtained varies but may include real estate, equipment, stocks, bonds, and certificates of deposit.

Note 12. Stock-Based Compensation and Retirement Plans

Restricted Stock

The Company amended and restated the 2019 Omnibus Incentive Plan on June 20, 2023. The amended and restated plan authorizes an additional 500,000 shares in addition to the original 1,205,346 shares of the Company’s voting common stock to be awarded under various incentive programs. Pursuant to authority under the 2019 Omnibus Incentive Plan, the Company adopted a restricted stock program that allows shares of stock to be awarded to employees. All shares vest over a five-year period.

(dollars in thousands, except per share information)

Note 12. Stock-Based Compensation and Retirement Plans, Continued

The following table provides information on the number of shares of restricted stock awarded in each of the years ended December 31, 2023 and 2022, the aggregate number of shares awarded as of December 31, 2023 and 2022, the restricted stock expense recorded during the years ended December 31, 2023 and 2022, and the unrecognized compensation cost for non-vested restricted stock awards as of December 31, 2023 and 2022:

	2023	2022
Shares of restricted stock awarded during current year	74,350	58,500
Shares of restricted stock awarded as of December 31	1,247,840	1,173,490
Restricted stock expense recognized in current year	$ 1,003	$ 1,021
Unrecognized compensation cost related to non-vested restricted stock awards as of December 31	2,514	2,025

Defined Contribution Plans

The Company sponsors a 401(k) plan for substantially all employees. Participants may make voluntary contributions resulting in salary deferrals in accordance with Section 401(k) of the Internal Revenue Code. The plan provides for employer contributions of up to 4 percent of pre-tax salary contributed by each participant. Employer contributions to the 401(k) plans totaled $537 for the year ended December 31, 2023, compared to $459 for 2022.

Supplemental Executive Retirement Plans

As of December 31, 2023 and 2022, the Company had a $1,923 and $1,531 accrued liability related to retirement plans, respectively, included in accrued interest payable and other liabilities on the balance sheet. The Company had $907 in accrued liability as of both December 31, 2023 and 2022 related to obligations to two former employees, representing the present value of the future payments expected to be made pursuant to the terms of a non-qualified plan.

Additionally, in 2021 the Company implemented a long-term retention agreement with three current executives and has accrued an additional $392 and $357 as of December 31, 2023 and 2022, respectively, in accrued liability related to the present value of the future payments expected to be made to these executives under the new agreement. The long-term retention agreements provide for specified cash retention payment amounts for 10 years generally commencing on the date that the Executive attains age 62 provided that the Executive remains employed by the Company.

Note 13. Shareholders' Equity

During the first quarter of 2022, the Company completed a secondary offering of its voting common stock in a private placement. The Company issued a total of 664,316 shares at an offering price of $18 per share, resulting in an additional $11,944 of new capital.

During the first quarter of 2023, the Company completed a secondary offering of its voting common stock in a private placement. The Company issued a total of 819,333 shares at an offering price of $20 per share, resulting in an additional $16,357 of new capital.

Note 14. Fair Value

Fair value of financial instruments:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Fair value estimates may not be realized in an immediate settlement, and the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

Cash and cash equivalents:

The carrying amount reported in the balance sheets for cash and cash equivalents approximates fair value. The fair value of cash and cash equivalents is measured using level 1 inputs.

Investment securities available for sale:

Fair values are determined in the manner described above. The fair value of investment securities available for sale is measured using level 2 inputs.

Investment securities held to maturity:

Fair values are determined in the manner described above. The fair value of investment securities held to maturity is measured using level 2 inputs.

Marketable equity securities:

Fair values are based upon quoted market prices. The fair value of investment securities available for sale is measured using level 1 inputs.

Loans held for sale:

Fair values of SBA loans held for sale are based on estimated instrument-level gains or losses to be realized upon sale, which management consider to be level 2 inputs.

PPP loans:

The carrying value of PPP loans approximates fair value. Management believes the Company will be able to fully collect the outstanding balance of these loans.

Note 14. Fair Value, Continued

Loans, excluding PPP loans, net:

The fair value of loans represents the amount at which the loans of the Company could be exchanged on the open market, based upon the current lending rate for similar types of lending arrangements discounted over the remaining life of the loans. For fixed rate loans and for variable rate loans with infrequent re-pricing or re-pricing limits, fair value is based on discounted cash flows using current market rates applied to the cash flow analysis. The fair value of loans is measured using level 2 inputs. The fair value of collateral dependent loans relies on level 3 inputs.

Deposits:

The fair value of time deposits is based on discounted cash flows using current market rates applied to the cash flow analysis for each time deposit. Other non-maturity deposits are reported at their carrying values. The fair value of deposits is measured using level 2 inputs.

Short-term borrowings:

Fair values of short-term borrowings are estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. Estimated maturity dates are also included in the calculation of fair value for these borrowings. The fair value of short-term borrowings is measured using level 2 inputs.

Off-balance sheet instruments:

Off-balance sheet instruments include commitments to extend credit, standby letters of credit, and financial guarantees. Because of the uncertainty involved in attempting to assess the likelihood and timing of commitments being drawn upon, coupled with the lack of an established market and the wide diversity of fee structures, the Company does not believe it is meaningful to provide an estimate of fair value for these instruments.

(dollars in thousands, except per share information)

Note 14. Fair Value, Continued

The carrying amounts and fair values of the Company's financial instruments at December 31, 2023 and 2022 were as follows:

		Fair Value			
	December 31, 2023				
	Carrying Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total
Total cash and cash equivalents	$ 128,665	$ 128,665	$ -	$ -	$ 128,665
Investment securities available for sale	49,244	-	49,244	-	49,244
Investment securities held to maturity	77,556	-	66,155	-	66,155
Marketable equity securities	329	329	-	-	329
Loans held for sale	15,274	-	15,274	-	15,274
PPP loans	165	-	165	-	165
Loans, excluding PPP loans, net	1,083,231	-	1,028,597	1,608	1,030,205
Deposits	1,194,279	-	1,193,392	-	1,193,392
FHLB advances	50,000	-	50,000	-	50,000

	December 31, 2022				
	Carrying Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total
Total cash and cash equivalents	$ 39,883	$ 39,883	$ -	$ -	$ 39,883
Investment securities available for sale	41,043	-	41,043	-	41,043
Investment securities held to maturity	81,512	-	69,500	-	69,500
Marketable equity securities	252	252	-	-	252
Loans held for sale	11,545	-	11,545	-	11,545
PPP loans	6,656	-	6,656	-	6,656
Loans, excluding PPP loans, net	867,394	-	809,371	1,063	810,434
Deposits	903,916	-	901,435	-	901,435
FHLB advances	60,000	-	60,000	-	60,000

Recurring – Investment Securities Available for Sale:

Investment securities available for sale are reported at fair value utilizing measurements from independent third-party sources, which are level 2 inputs. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the bond's terms and conditions, among other inputs.

(dollars in thousands, except per share information)

Note 14. Fair Value, Continued

Recurring – loans held for sale:

Loans held for sale are reported at fair value utilizing projected sale price guidance, which is a level 2 input. The fair value measurements consider observable data that may include dealer quotes, market spreads, live trading levels, trade execution data, among other inputs.

The following tables summarize the Company's financial instruments measured at fair value on a recurring basis as of December 31, 2023 and December 31, 2022, segregated by the level of the valuation inputs within the fair value hierarchy.

	December 31, 2023			
	Level 1	**Level 2**	**Level 3**	**Total**
Agency mortgage-backed	$ -	$ 22,312	$ -	$ 22,312
Agency CMO/REMIC	-	1,626	-	1,626
Corporate bonds	-	16,867	-	16,867
US Treasury securities	-	5,355	-	5,355
Commercial mortgage-backed	-	3,084	-	3,084
Marketable equity security	329	-	-	329
Loans held for sale	-	15,274	-	15,274

	December 31, 2022			
	Level 1	**Level 2**	**Level 3**	**Total**
Agency mortgage-backed	$ -	$ 17,210	$ -	$ 17,210
Agency CMO/REMIC	-	1,870	-	1,870
Corporate bonds	-	13,576	-	13,576
US Treasury securities	-	5,247	-	5,247
Commercial mortgage-backed	-	3,140	-	3,140
Marketable equity security	252	-	-	252
Loans held for sale	-	11,545	-	11,545

Non recurring – loans held for investment:

The Company does not record loans at fair value on a recurring basis. However, from time to time, management concludes that payment of principal and interest will not be made in accordance with the contractual terms of the loan agreement. Management individually reviews these loans using one of several methods, including appraised collateral value and /or tax assessed value, liquidation value and discounted expected cash flow. Those loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. For real estate collateral, the Company frequently obtains appraisals prepared by external professional appraisers and applies of 10 percent depending on various factors including the type of property, condition, and location. . For equipment and other collateral, a discount of up to the advance rate as defined by the policy.

(dollars in thousands, except per share information)

Note 14. Fair Value, Continued

Non recurring – loans held for investment, continued:

In certain instances, the Company prepares internally generated valuations from on-site inspections, third-party valuation models or other information. Due to the significance of the unobservable market inputs and assumptions, as well as the absence of a liquid secondary market for most loans, these loans are classified as Level 3. No nonaccrual loans were recorded at fair value as of December 31, 2023 or 2022. The Company had a recorded investment in nonaccrual loans of $1,608 and $1,063 as of December 31, 2023 and 2022, respectively.

Note 15. Regulatory Capital Requirements

The Company is required to maintain reserve and clearing balances with the Federal Reserve Bank in the form of vault cash or deposits.

Banking regulators have established various ratios to monitor capital adequacy. Failure to comply with these capital adequacy requirements may affect various bank activities including the ability to undertake new business initiatives such as acquisitions and branch expansion, access to funding and cost of new business initiatives, the ability to pay dividends, the ability to repurchase shares or other capital instruments, the cost of deposit insurance, and the level of regulatory oversight.

Based on current regulatory guidance, banks are required to maintain a common equity tier 1 ratio of 4.50 percent, a tier 1 leverage ratio of 4.00 percent, a tier 1 risk-based capital ratio of 6.00 percent and a total risk-based capital ratio of 8.00 percent. Current regulations also require creation and maintenance of a capital conservation buffer in addition to the regulatory minimum capital requirements. The capital conservation buffer was phased in over four years beginning January 1, 2016, at 0.625 percent of risk-weighted assets. After increasing each subsequent year by an additional 0.625 percent, at January 1, 2018, the capital conservation buffer was 1.875 percent, and, as fully phased in on January 1, 2019, the capital conservation buffer is 2.50 percent.

As of December 31, 2023, and 2022, the Company exceeded all applicable capital adequacy requirements.

	2023					
	Actual		Minimum to be adequately capitalized		Minimum to be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common equity tier 1	$ 159,405	13.47%	$ 53,255	4.50%	$ 76,923	6.50%
Tier 1 leverage	159,405	11.05%	57,726	4.00%	72,157	5.00%
Tier 1 risk-based capital	159,405	13.47%	71,006	6.00%	94,675	8.00%
Total risk-based capital	173,409	14.65%	94,675	8.00%	118,343	10.00%

(dollars in thousands, except per share information)

Note 15. Regulatory Capital Requirements, Continued

	2022					
	Actual		Minimum to be adequately capitalized		Minimum to be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common equity tier 1	$ 133,475	14.20%	$ 42,309	4.50%	$ 61,112	6.50%
Tier 1 leverage	133,475	12.45%	42,879	4.00%	53,599	5.00%
Tier 1 risk-based capital	133,475	14.20%	56,411	6.00%	75,215	8.00%
Total risk-based capital	142,366	15.14%	75,215	8.00%	94,019	10.00%

Note 16. 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 January 31, 2024, the Company and Community First Bancorporation (Community First) entered into a definitive merger agreement, pursuant to which Community First and its wholly-owned bank subsidiary, Community First Bank, Inc. will merge with and into the Company. Under the terms of the agreement, each share of Community First common stock will be converted into 0.5875 shares of the Company’s voting common stock and each share of Community First preferred stock will be converted into 64.7719 shares of the Company’s voting common stock. Based on an assumed price for the Company’s voting common stock of $20.00 per share, which was used in the merger negotiations, the exchange ratio represents approximately $11.75 in value for each share of Community First common stock, or approximately $69,700 in total transaction value. The transaction is anticipated to close during the second half of 2024, subject to the receipt of regulatory approvals and the satisfaction of other customary closing conditions.

As of December 31, 2023, Community First reported approximately $685,000 in total assets, $579,000 in deposits and $511,000 in loans (unaudited). Through March 29, 2024, the Company has recognized $877 in merger-related costs.

Management has reviewed the events occurring through March 29, 2024, the date the financial statements were issued. No additional subsequent events occurred requiring accrual or disclosure.