Trustar Bank

Consolidated Financial Statements
December 31, 2023 and 2022

Trustar Bank

Contents

Tel: 215-564-1900
Fax: 215-564-3940
www.bdo.com

Ten Penn Center
1801 Market Street, Suite 1200
Philadelphia, PA 19103

Independent Auditor's Report

Board of Directors
Trustar Bank
Great Falls, Virginia

Opinion

We have audited the consolidated financial statements of Trustar Bank (the Company), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated 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.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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 consolidated financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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.

BDO USA, P.C.

Philadelphia, Pennsylvania
March 28, 2024

Consolidated Financial Statements

Trustar Bank

Consolidated Balance Sheets
(in thousands)

Years Ended December 31,	2023	2022
Assets		
Cash (currency and coin)	$ 586	$ 561
Interest-bearing balances due from banks	87,377	49,501
Cash and cash equivalents	87,963	50,062
Securities held to maturity, at amortized cost, net of alllowance for credit losses of $90 at December 31, 2023	43,135	44,084
Securities available for sale, at fair value	51,368	32,915
Loans held for sale	-	919
Loans receivable, net of allowance for credit losses of $6,036 at December 31, 2023 and $5,318 at December 31, 2022	600,767	519,329
Bank premises and equipment, net	4,940	5,192
Accrued interest receivable	2,925	2,045
Restricted investment in bank stock, at cost	4,064	2,408
Goodwill	1,150	1,150
Operating lease right-of-use asset	5,453	4,568
Other assets	2,704	823
Total Assets	$ 804,469	$ 663,495
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Noninterest-bearing demand	$ 105,334	$ 114,970
Interest-bearing demand	35,832	16,585
Money market	193,803	209,139
Savings	10,543	5,210
Time deposits	302,249	192,067
Total deposits	647,761	537,971
FHLB advances	75,000	50,000
Accrued interest payable	1,196	608
Operating lease liability	7,301	5,768
Other liabilities	2,886	3,084
Total Liabilities	734,144	597,431
Shareholders' Equity		
Preferred stock, $5.00 par value; authorized 1,000,000 shares; 0 shares issued and outstanding at December 31, 2023 and 2022	-	-
Common stock, $5.00 par value; authorized 25,000,000 shares; 7,205,626 shares issued and outstanding at December 31, 2023 and 7,119,309 shares issued and outstanding at December 31, 2022	36,028	35,597
Additional paid-in capital	39,241	38,874
Accumulated deficit	(4,355)	(7,183)
Accumulated other comprehensive (loss)	(589)	(1,224)
Total Shareholders' Equity	70,325	66,064
Total Liabilities and Shareholders' Equity	$ 804,469	$ 663,495

See accompanying notes to consolidated financial statements.

Trustar Bank

Consolidated Statements of Operations

(in thousands)

Years Ended December 31,	2023	2022
Interest income		
Interest and fees on loans	$ 32,907	$ 21,643
Interest and dividends on securities	2,189	1,559
Interest-bearing balances due from banks	3,222	780
Total interest income:	38,318	23,982
Interest expense		
Deposits	17,584	5,031
Borrowings	2,488	703
Total Interest expense:	20,072	5,734
Net interest income	18,246	18,248
Provision for credit losses	1,064	1,627
Net interest income after provision for credit losses	17,182	16,621
Non-interest income (loss):		
Gain on sale of mortgage loans, net	548	1,175
Loss on trading securities	-	(333)
Net gain on sale of assets	500	-
Other non-interest income	527	483
Total non-interest income:	1,575	1,325
Non-interest expenses:		
Salaries and employee benefits	9,951	10,977
Occupancy	2,218	1,597
Data processing	650	530
Network services	633	524
Professional services	1,054	723
Advertising	395	340
Regulatory assessments	707	750
Gain on debt extinquishment	(773)	(997)
Other operating expenses	1,675	1,345
Total non-interest expenses:	16,510	15,789
Net income before income tax (benefit) expense	2,247	2,157
Income tax (benefit) expense	(765)	180
Net income	$ 3,012	$ 1,977

See accompanying notes to consolidated financial statements.

Trustar Bank

Consolidated Statements of Comprehensive Income

(in thousands)

Years Ended December 31,	2023	2022
Net Income	$ 3,012	$ 1,977
Other comprehensive income (loss):		
Unrealized holding gain (loss) on securities available for sale	635	(1,214)
Other comprehensive income (loss)	635	(1,214)
Total comprehensive income	$ 3,647	$ 763

See accompanying notes to consolidated financial statements.

Trustar Bank

Consolidated Statements of Shareholders' Equity
(in thousands)

		Common Stock		Additional Paid-In Capital		Accumulated Deficit		Accumulated Other Comprehensive Loss		Total
Balance, January 1, 2022	$	27,773	$	28,199	$	(9,160)	$	(10)	$	46,802
Net income		-		-		1,977		-		1,977
Net proceeds from the issuance common stock, net of offering costs		7,528		10,514		-		-		18,042
Other comprehensive loss		-		-		-		(1,214)		(1,214)
Net proceeds from the exercise of warrants		18		18		-		-		36
Stock-based compensation awards		278		143		-		-		421
Balance, December 31, 2022	$	35,597	$	38,874	$	(7,183)	$	(1,224)	$	66,064
Net income		-		-		3,012		-		3,012
Other comprehensive income		-		-		-		635		635
Adjustment due to the adoption of ASC 326						(184)				(184)
Net proceeds from the exercise of warrants		204		204		-		-		408
Stock-based compensation awards		227		163		-		-		390
Balance, December 31, 2023	$	36,028		39,241		(4,355)		(589)		70,325

See accompanying notes to consolidated financial statements.

Trustar Bank

Consolidated Statements of Cash Flows
(in thousands)

December 31,		2023		2022
Cash Flows from Operating Activities				
Net income	$	3,012	$	1,977
Adjustments to reconcile net income to net cash provided by operating activities:				
Net amortization of discounts and premiums		45		173
Provision for credit losses		1,064		1,627
Loans originated for sale		(43,426)		(87,449)
Gain on sale of mortgage loans, net		(548)		(664)
Proceeds received from sale of loans originated for sale		44,893		89,165
Decrease in trading securities		-		26,376
Loss on trading securities		-		333
Stock-based compensation awards		390		421
Depreciation of premises and equipment		592		364
Disposal of premises and equipment		37		-
Deferred tax benefit		(1,443)		-
Increase in accrued interest receivable & other assets		(2,421)		(5,996)
Increase in accrued interest payable & other liabilities		1,923		7,261
Net Cash Provided by Operating Activities		4,118		33,588
Cash Flows from Investing Activities				
Net increase in loans		(82,378)		(147,794)
Purchase of available for sale securities		(22,750)		(29,956)
Purchase of held to maturity securities		(2,209)		(32,728)
Proceeds from repayment of available for sale securities		5,141		-
Proceeds from repayment of held to maturity securities		2,814		827
Purchase of restricted bank stock		(1,656)		(1,119)
Purchases of premises and equipment		(377)		(4,348)
Net Cash Used in Investing Activities		(101,415)		(215,118)
Cash Flows from Financing Activities				
Net increase in deposits		109,790		100,997
Proceeds from FHLB borrowings		146,600		135,000
Paydowns of FHLB Borrowings		(121,600)		(115,000)
Proceeds from issuance of common stock, net of offering costs		-		18,042
Proceeds from the exercise of Class A & B warrants		408		36
Net Cash Provided by Financing Activities		135,198		139,075
Net increase (decrease)in cash and cash equivalents		37,901		(42,455)
Cash and Cash Equivalents, Beginning		50,062		92,517
Cash and Cash Equivalents, Ending	$	87,963	$	50,062
Supplementary Disclosures of Cash Flow Information				
Income taxes paid	$	309	$	180
Decrease to accumulated defecit for adoption of new accounting standard		184		-
Initial recognition of operating lease right of use asset		1,837		4,989
Initial recognition of operating lease liability		1,837		6,112
Cash paid during the period for interest		19,484		5,171

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

Organization and Nature of Operations

Trustar Bank (the "Bank") was incorporated on December 8, 2018, under the laws of the Commonwealth of Virginia and is a Virginia state-chartered bank. The Bank obtained its certificate of authorization to do business on May 30, 2019, commenced operations on July 10, 2019, and is a full-service bank providing personal and business lending and deposit services. As a state-chartered bank, the Bank is subject to regulation by the Commonwealth of Virginia State Corporation Commission and the Federal Deposit Insurance Corporation. The Bank maintains its principal office in Great Falls, Virginia and provides financial services primarily to greater Washington, D.C. metropolitan area.

Basis of Presentation

The accounting and financial reporting policies of the Bank conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. The policies that materially affect the determination of financial position, results of operations and cash flow are summarized below.

Principles of Consolidation

The consolidated financial statements include the accounts of the Bank and its wholly-owned subsidiaries, Trustar Mortgage, LLC ("Trustar Mortgage") and 774A Walker Road, LLC. Trustar Mortgage primarily originates and sells residential mortgage loans in the greater Washington, D.C. area. On November 1, 2023, the Bank sold its membership interest in Trustar Mortgage. 774A Walker Road LLC was created to purchase the real estate located at 774 Walker Road. The purchase settled on October 20, 2022. Trustar Bank is a tenant, along with five other unrelated businesses. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of 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 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. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses and the valuation of deferred tax assets.

Concentrations of Credit Risk

The Bank grants commercial loans, commercial mortgages, residential mortgages and consumer loans to businesses and individuals. Most of the Bank's activities are with customers located in the Greater Washington, D.C. metropolitan area. The concentration of credit by type of loan is set forth in Note 3. Its debtors' ability to honor their contracts is influenced by the region's economy.

Accounting Standards Adopted in 2023

On January 1, 2023, the Bank adopted ASC Topic 326, "Financial Instruments – Credit Losses (ASC 326)." This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. CECL requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities, and some off-balance sheet credit exposures such as unfunded commitments to extend credit.

In addition, ASC 326 makes changes to the accounting for credit-related impairment of available-for-sale debt securities by eliminating other-than-temporary impairment charges. Following the expected loss model, credited-related losses on available-for-sale debt securities will be reflected as a valuation allowance for credit losses on those securities.

Accrued interest for all financial instruments is included in a separate line on the face of the consolidated balance sheets. The Bank 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.

The following table illustrates the impact on the allowance for credit losses from the adoption of ASC 326:

	January 1, 2023 As reported Under ASC 326	December 31, 2022 Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
		(in thousands)	
Assets:			
Held to maturity securites, at amortized cost	$ 44,084	$ 44,084	$ -
Allowance for credit losses on held to maturity securities			
Corporate debt	$ 125	$ -	$ 125
Loans, at amortized cost	$ 524,647	$ 524,647	$ -
Allowance for credit losses on loans:			
Commercial and industrial	$ 342	$ 793	$ (451)
Commercial real estate	2,313	2,118	195
Construction	1,193	1,370	(177)
1-4 family residential	1,069	850	219
Home equity	242	159	83
Consumer	21	28	(7)
Allowance for credit losses on loans:	$ 5,180	$ 5,318	$ (138)
Liabilities:			
Allowance for credit losses on unfunded commitments	$ 197	$ -	$ 197

Presentation of Cash Flows

For the purpose of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold. Generally, federal funds are purchased or sold for one day periods. As of December 31, 2023, and 2022, the Bank did not have any federal funds sold, but rather overnight cash deposits held at the Federal Reserve Bank, the Federal Home Loan Bank, and its principal correspondent bank.

Securities

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date.

Securities classified as available-for-sale are those securities that the Bank intends to hold for an indefinite period of time but not necessarily to maturity. Securities available-for-sale are carried at fair value. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movement in interest rates, changes in maturity mix of the Bank's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Unrealized gains and losses are reported as increases or decreases in other comprehensive income, net of the deferred tax effect. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Securities classified as trading securities are bought principally for the purpose of selling them in the near term, thus held for only a short period of time. Trading securities are presented on the balance sheet at fair value at the end of each reporting period. Realized and unrealized gains and losses resulting from the change in fair value are included in non-interest income. The Bank had no trading securities at December 31, 2023 and 2022.

Securities classified as held-to-maturity are those debt securities the Bank has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost adjusted for the amortization of premium and accretion of discount, computed by a method which approximates the interest method over the terms of the securities.

Since its adoption of CECL, the Bank uses an outside source to measure expected credit losses on HTM debt securities on an individual security basis. Accrued interest receivable on HTM debt securities totaled $378,000 at December 31, 2023 and was excluded from the estimate of credit losses. The estimate of expected credit losses is primarily based on an extensive history of bond defaults and recoveries and incorporates a baseline forecast. The model utilizes a PD/LGD (probability of default/loss given default) approach and requires a comparable rating estimate for non-rated bonds.

For available-for-sale debt securities with an unrealized loss position, the Company will determine whether it has the intent to sell the debt security or whether it is more likely than not it will be required to sell the debt security before the recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income with the establishment of an allowance under CECL compared to a direct write down of the security under the previously applicable incurred loss methodology. For available-for-sale debt securities that do not meet the criteria, the Company evaluates whether any decline in fair value is due to the credit loss factors. In making this assessment, management considers any changes to the rating of the security by a rating agency and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security is compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit loss is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

Prior to the adoption of CECL, management evaluated securities for other-than-temporary impairment ("OTTI") on at least an annual basis, and more frequently when economic or market concerns warranted such evaluation. Other-than-temporary impairment accounting guidance specifies that (a) if a company does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When an entity does not intend to sell the security, and it is more likely than not, the entity will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment should be amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

Loans Held for Sale (“LHFS”)

Mortgage loans originated for sale are carried at fair value pursuant to the fair value option election under U.S. GAAP. Fair value is determined based on outstanding investor commitments or, in the absence of such commitments, on current investor yield requirements or third-party pricing models. LHFS are sold with the mortgage servicing rights released. As of December 31, 2023, and December 31, 2022, the fair value adjustment to loans held for sale amounted to $0 and $23,000, respectively, which is included in net gain on sale of mortgage loans on the statements of operations. Fair value is determined on an aggregate basis based on commitments from investors to purchase such loans and upon prevailing market rates and are evaluated on a recurring basis.

Representations and warranty reserves

Representation and warranty reserves are maintained to account for expected losses related to loans the Bank may be required to repurchase or the indemnity payments the Bank may have to make to purchasers. The Bank originates and sells residential mortgage loans in the secondary market. When the Bank sells mortgage loans, it makes customary representations and warranties to the purchasers about various characteristics of each loan, such as the ownership of the loan, the validity of the lien securing the loan, the nature and extent of underwriting standards applied, and the types of documentation being provided. These representations and warranties are generally enforceable over the life of the loan. If a defect in the origination process is identified, the Bank may be required to either repurchase the loan or indemnify the purchaser for losses it sustains on the loan. If there are no such defects, the Bank has no liability to the purchaser for losses it may incur on such loans.

The representation and warranty reserve reflects management's best estimate of probable lifetime loss based on borrower performance, repurchase demand behavior, and historical loan defect experience. The reserve considers both the estimate of expected losses on loans sold during the current accounting period as well as adjustments to the Bank’s previous estimate of expected losses on loans sold. Management monitors the adequacy of the overall reserve and adjusts the level of reserve, as necessary, after consideration of other qualitative factors.

At the time a loan is sold, the representation and warranty reserve is recorded as a decrease in Gain on loans, net, on the statements of operations and recorded in Other liabilities on the Bank's balance sheets. Changes to the reserve are recorded as an increase or decrease to Gain on loans, net, on the statements of operations. Management estimates that no reserve was necessary as of December 31, 2023, and 2022, respectively.

Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Bank is generally amortizing these amounts over the contractual life of the loan.

The loans receivable portfolio is segmented into commercial and consumer loans. Commercial loans consist of the following classes: commercial and industrial, commercial real estate, and commercial construction. Consumer loans consist of the following classes: 1-4 family residential, home equity, and other consumer.

For all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans, including impaired loans, generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

Allowance for Credit Losses-Loans

The allowance for loan 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. The allowance for loan losses is increased by the provision for credit losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for credit losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely.

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

The Bank measures expected credit losses for loans on a pooled basis when similar risk characteristics exist. The portfolio segmentation generally follows FDIC call code classifications and the allowance for credit losses is calculated using a 3rd party vintage model.

The Bank uses external sources in the creation of its forecasts, including current economic conditions and forecasts for macroeconomic variables over its reasonable and supportable forecast period (e.g., GDP growth rate, unemployment rate, BBB spread, commercial real estate and home price index). After the reasonable and supportable forecast period, which is currently a period of two years, the models revert the forecasted macroeconomic variables to their historical long-term trends, without specific predictions for the economy, over the expected life of the pool.

Additionally, the allowance for credit losses calculation includes subjective adjustment for qualitative risk factors that are likely to cause estimated credit losses to differ from historical experience. These qualitative factors include:

1. Volume and severity of past due, classified and nonaccrual loans and other loan modifications.
2. Nature and volume of the portfolio and terms of loans.
3. Lending policies and procedures, including underwriting standards and collections, charge-off & recovery practices.
4. Experience, ability and depth of lending management and staff.
5. National and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans.
6. Unfunded commitments & concentration of credit.
7. Quality of the Bank's loan review process.
8. Effect of external factors, such as competition and legal and regulatory requirements.
9. Loans with identified incomplete financial documentation.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for credit loss calculation.

Prior to the adoption of ASC 326, under the incurred loss methodology, the allowance for loan losses was maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management's periodic evaluation of the adequacy of the allowance was based on known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation was inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance consisted of specific, general and unallocated components. The specific component relates to loans that were classified as impaired and was established when the discounted cash flows (or collateral value or observable market price) of the impaired loan was lower than the carrying value of that loan.

The general component covers pools of loans by loan class including commercial loans not considered impaired, as well as smaller homogeneous loans. that are not designated as impaired and was based on historical loss experience adjusted for quantitative factors, principally historical loss trends, adjusted for qualitative factors. These pools of loans were evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors.

An unallocated component was maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflected the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A majority of the Bank's loan assets are loans to business owners of many types. The Bank makes commercial loans for real estate development, equipment financing, accounts receivable and inventory financing and other purposes as required by the customer base.

The Bank's credit policies determine advance rates against the different forms of collateral that can be pledged against commercial loans. Typically, the majority of loans will be limited to a percentage of their underlying collateral values such as real estate values, equipment, eligible accounts receivable and finished inventory or raw material. Individual loan advance rates may be higher or lower depending upon the financial strength of the borrower and/or the term of the loan.

Commercial loans are made to entrepreneurs, proprietors, professionals, partnerships, LLP's, LLC's and corporations. The assets financed are used within the business for its ongoing operation. Repayment of these kinds of loans generally comes from the cash flow of the business or the ongoing conversions of assets, such as accounts receivable and inventory, to cash. Commercial term loans may have maturities up to 10 years and generally have fixed interest rates for five to ten years. Commercial lines of credit are renewed annually and generally carry variable interest rates. Typical collateral for commercial loans include the borrower's accounts receivable, inventory and machinery and equipment.

Commercial real estate loans include long-term loans financing commercial properties, either owner occupied or rental properties. Repayment of this kind of loan is dependent upon either the ongoing cash flow of the borrowing entity or the resale of or lease of the subject property. Commercial real estate loans require a loan to value ratio of not greater than 80%. Loan amortizations vary from one year to 25 years and terms typically do not exceed ten years. Interest rates can be either floating or adjustable periods of up to five years with either a rate reset provision or a balloon payment.

Construction loans include loans to finance the construction or rehabilitation of either commercial properties or 1 to 4 family residential structures. The vast majority of the construction portfolio finances 1 to 4 family residential properties. The commercial construction portfolio is focused on small spot lot builders and smaller building companies. These loans carry variable interest rates and are usually interest only loans with maturities ranging from one year to three years.

Consumer home equity loans, home equity lines of credit, 1-4 family residential mortgages and residential construction loans are secured by the borrower's residential real estate in either a first or second lien position. Consumer home equity loans require a loan to value ratio of not greater than 85% with limited exceptions. Home equity lines of credit have variable rates and 10-year terms. Closed-end home equity loans have maturities up to 15 years and carry fixed interest rates. Residential mortgages have 5/1 adjustable rates with 30-year terms.

Other consumer loans include installment loans, car loans and overdraft lines of credit. The majority of these loans are unsecured.

Under CECL, collateral dependent loans are those loans that are non-accruing and on which the borrowers cannot demonstrate the ability to make and are not making regularly scheduled loan payments, thereby making repayment of the loan dependent upon the operation or sale of the collateral securing the loan. Collateral dependent loans are evaluated individually as they do not share similar risk characteristics with other loans and are removed from their respective homogeneous pools. Under CECL, for collateral dependent loans, the Company has adopted the practical expedient to measure the allowance for credit losses based on the fair value of the collateral.

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

For commercial loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For commercial and industrial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable aging or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets. Loans whose terms are modified are classified as troubled debt restructurings if the Bank grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate or an extension of a loan's stated maturity date. Nonaccrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as troubled debt restructurings are designated as impaired.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans criticized special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass. As of December 31, 2023, the Bank had $3.29 million loans rated special mention and $3.25 million loans rated substandard. All loans were rated pass as of December 31, 2022.

In addition, Federal regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for credit losses and may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for credit losses is adequate.

Transfers of Financial Assets

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

Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized to expense over the shorter of the term of the respective lease or the estimated useful life of the improvements.

Restricted Investment in Bank Stock

Restricted investment in bank stock as of December 31, 2023, and 2022 is comprised of Federal Home Loan Bank (“FHLB”) stock and is an equity interest in the FHLB, which does not have readily determinable fair values for purposes of FASB ASC Topic 320, Accounting for Certain Investments in Debt and Equity Securities, because ownership is restricted and the stock lacks a market. This stock is required for membership and can only be sold back to the member institution and is recorded at cost.

Unlike other types of stock, FHLB stock is acquired primarily for the right to receive advances and loan participations rather than for the purpose of maximizing dividends or stock growth. Management’s determination of whether this investment is impaired is based on their assessment of the ultimate recoverability of the cost rather than by recognizing temporary declines in value. Management believes no impairment charge is necessary related to the restricted stock as of December 31, 2023, and 2022.

Goodwill

The Bank accounts for business acquisitions under the acquisition method of accounting, which requires the acquiring entity in a business combination to recognize the fair value of all assets acquired, liabilities assumed and any noncontrolling interest in the acquiree, and establishes the acquisition date as the fair value measurement point. Accordingly, the Bank recognizes assets acquired and liabilities assumed in business combinations, including contingent assets and liabilities and noncontrolling interests in the acquiree, based on fair value estimates as of the date of acquisition. The Bank recognizes and measures goodwill, if any, as of the acquisition date, as the excess of the fair value of the consideration paid over the fair value of the identified net assets acquired.

Goodwill is not amortized but is tested for impairment periodically. We assess goodwill for potential impairment annually as of December 31, or during the year if an event or other circumstance indicates that we may not be able to recover the carrying amount of the asset.

The Bank compares the fair value of its reporting unit with its carrying amount, including goodwill. If the assessment indicates that the reporting unit’s carrying amount exceeds its fair value, the Bank recognizes an impairment charge up to this amount but not to exceed the total carrying value of the reporting unit’s goodwill.

The Bank performed a qualitative assessment as of December 31, 2023 and a quantitative assessment as of December 31, 2022. Based upon the results of these assessments, the Bank determined there was no goodwill impairment as of December 31, 2023, or December 31, 2022.

Interest Rate Lock Commitments

The Bank enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding (interest rate lock commitments). Interest rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. The Bank does not designate these derivatives as hedging instruments and, accordingly, recognizes the change in their fair value in earnings. The fair value for interest rate lock commitments is based on current market interest rates versus the committed interest rates. The fair value for interest rate lock commitments is recorded in other assets on the balance sheet.

The Bank recognizes the changes in fair value within the Gain on sale of mortgage loans, net on the statement of operations. In 2023, we recognized income of $26,000 and a loss in 2022 of $45,000.

Share-Based Compensation

The Bank follows the guidance set forth in FASB ASC Topic 718, *Compensation - Stock Compensation*. This guidance requires the Bank to recognize compensation costs related to share-based payment transactions and measure the cost based on the grant-date fair value of the award. The cost will be recognized over the period during which the employee, director, or organizer is required to provide services in exchange for the award.

Advertising Expense

The Bank follows the policy of charging the costs of advertising to expense as incurred. Advertising expenses totaled $395,000 and $340,000 for the years ended December 31, 2023, and 2022, respectively.

Income Taxes

Current income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the current period taxable income. The Bank determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax basis of assets and liabilities, net operating loss carryforwards, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense (benefit) results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of the evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Bank accounts for uncertain tax positions if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than

50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold consider the facts, circumstances, and information available at the reporting date and is subject to management's judgment. The Bank had no uncertain tax positions as of December 31, 2023 and 2022.

The Bank recognizes interest and penalties on income taxes, if any, as a component of the provision for income taxes. There were no interest and penalties recognized during the years ended December 31, 2023 and 2022.

Federal and state tax returns for the years ended December 31, 2022, 2021 and 2020 are open for examination as of December 31, 2023.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded in the balance sheet when they are funded.

Trustar Mortgage, LLC Disposition

On November 1, 2023, the Bank completed the sale of all of its membership interest in Trustar Mortgage to Archer Mortgage, LLC for a purchase price of $500,000. Cash received at the time of the sale was $125,000 with the remaining $375,000, included in other assets in the consolidated balance sheets, to be received annually for three years on the anniversary date of the sale. Net assets sold and liabilities transferred amounted to $22 thousand. The Company recorded a gain of $500,000 related to the sale during 2023.

Reclassifications

For comparative purposes, the prior year's financial statements have been reclassified to conform to report classifications of the current year. These reclassifications had no impact on net income or shareholders' equity.

2. Securities

The amortized costs and fair value of securities as of December 31, 2023, are summarized as follows:

December 31,2023	Amoritized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Allowance for Credit Losses
	(In thousands)				
US treasury	43,071	-	(595)	42,476	-
Corporate debt	999	1	-	1,000	-
Collateralized mortgage obligation	4,183	6	(14)	4,175	-
Municpal securities	991	6	-	997	-
SBA securities	2,713	7	-	2,720	-
Total available for sale	51,957	20	(609)	51,368	-
US treasury	2,494	-	(85)	2,409	-
Corporate debt	16,436	-	(2,436)	14,000	(90)
Collateralized mortgage obligation	10,100	-	(555)	9,545	-
Municpal securities	14,195	-	(1,183)	13,012	-
Total held to maturity	43,225	-	(4,259)	38,966	(90)

The amortized costs and fair value of securities as of December 31, 2022, are summarized as follows:

December 31,2022	Amoritized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(In thousands)			
US treasury	30,114	-	(1,146)	28,968
Corporate debt	4,025	-	(78)	3,947
Total available for sale	34,139	-	(1,224)	32,915
US treasury	4,490	-	(214)	4,276
Corporate debt	16,559	-	(1,967)	14,592
Collateralized mortgage obligation	8,718	-	(555)	8,163
Municpal securities	14,317	-	(1,653)	12,664
Total held to maturity	44,084	-	(4,389)	39,695

The amortized cost and fair value of available for sale and held to maturity securities as of December 31, 2023, by contractual maturity, are shown below (in thousands). Expected maturities may differ from contractual maturities because the securities may be called or prepaid with or without prepayment penalties.

December 31, 2023	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Maturing				
Due under one year	39,636	39,143	-	-
Due after one year through five years	5,424	5,329	17,352	16,281
Due after five years through ten years	-	-	15,773	13,140
Collaterized mortgage obligations	4,183	4,176	10,100	9,545
SBA securities	2,714	2,720	-	-
	51,957	51,368	43,225	38,966

The activity in the allowance for credit losses for held to maturity securities for the year ended December 31, 2023, is summarized as follows:

	12/31/2022	1/1/2023	Adjusted Balance	Provision	Ending Balance
US treasury	$ -	-	-	-	$ -
Corporate debt	-	125	125	(35)	90
Collateralized mortgage obligation	-	-	-	-	-
Municipal securities	-	-	-	-	-
Total	$ -	125	125	(35)	$ 90

The amortized cost and fair value of available for sale and held to maturity securities as of December 31, 2022, by contractual maturity, are shown below (in thousands). Expected maturities may differ from contractual maturities because the securities may be called or prepaid with or without prepayment penalties.

December 31, 2022	Available for Sale		Held to Maturity	
	Amoritized Cost	Fair Value	Amoritized Cost	Fair Value
Maturing				
Due under one year	1,994	1,922	2,001	1,923
Due after one year through five years	32,145	30,993	10,438	9,573
Due after five years through ten years	-	-	22,927	20,036
Collaterized mortgage obligations	-	-	8,718	8,163
	34,139	32,915	44,084	39,695

The following shows the Bank's securities' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2023, and 2022 (in thousands):

December 31,2023	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. treasury	$ 14,739	$ (2)	$ 30,146	$ (678)	$ 44,885	$ (680)
Corporate debt	-	-	14,000	(2,436)	14,000	(2,436)
Collateralized mortgage obligation	4,490	(71)	7,412	(498)	11,902	(569)
Municpal securities	-	-	13,012	(1,183)	13,012	(1,183)
	$ 19,229	$ (73)	$ 64,570	$ (4,795)	$ 83,799	$ (4,868)

December 31,2022	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. treasury	$ 33,244	$ (1,360)	$ -	$ -	$ 33,244	$ (1,360)
Corporate debt	12,767	(1,523)	5,772	(522)	18,539	(2,045)
Collateralized mortgage obligation	8,163	(555)	-	-	8,163	(555)
Municpal securities	12,664	(1,653)	-	-	12,664	(1,653)
	$ 66,838	$ (5,091)	$ 5,772	$ (522)	$ 72,610	$ (5,613)

The unrealized losses as of December 31, 2023, relate principally to changes in interest rates and prepayment assumptions subsequent to the acquisition of specific securities. In management's opinion, credit risk for these securities is minimal. Management has the intent and ability to hold debt securities until recovery and does not believe it will have to sell the securities prior to recovery.

At December 31, 2023, there was no allowance for credit losses related to the available-for-sale portfolio. At December 31, 2022, there was no other than temporary impairment related to the available-for-sale portfolio.

As of December 31, 2023, the Bank had 13 US treasuries, 8 corporate securities, 5 mortgage backed securities, and 6 municipal bonds that had been in an unrealized loss position for 12 months or more and 3 U.S. treasuries and 4 mortgage-backed securities in an unrealized loss position less than 12 months. None of these losses exceeded 36.89% of the security's carrying amount.

As of December 31, 2022, the Bank had two corporate securities in an unrealized loss position for 12 months or more and 15 U.S. treasuries,10 corporate, 6 municipals, and 5 collateralized mortgage obligation securities in an unrealized loss position less than 12 months, none of which exceeded 8.7% of the security's carrying amount.

Securities with a fair value of $54,232,000 and $48,809,000 were pledged as collateral on with the FHLB as of December 31, 2023, and 2022, respectively.

The Bank had no sales from the available for sale or held to maturity portfolios in 2023 or 2022. The trading portfolio was sold in 2022 for a loss of $333,000.

3. Loans Receivable

The composition of loans receivable as of December 31, 2023, and 2022 is as follows (in thousands):

	2023	2022
Commercial and industrial	$ 79,453	$ 60,063
Commercial real estate	243,406	199,564
Construction	126,165	122,132
1-4 family residential	141,340	123,607
Home equity	15,257	17,762
Consumer	1,104	1,468
Total loans	606,725	524,596
Unearned net loan origination fees and costs	78	51
Allowance for loan losses	(6,036)	(5,318)
Net Loans	$ 600,767	$ 519,329

The Bank had no nonaccrual loans as of December 31, 2023. The Bank had one loan past due more than 90 days but still accruing as of December 31, 2023. The Bank has no impaired, non-accrual or past due loans as of December 31, 2022.

4. Allowance for Credit Losses

The following tables summarize the activity in the allowance for credit losses by loan class for the year ended December 31, 2023, (in thousands):

	Allowance for Credit Losses						
	Beginning Balance	Adjustment for adoption of ASU 2016-13	Adjusted Balance	Charge-offs	Recoveries	Provisions	Ending Balance
Commercial and industrial	$ 793	(451)	$ 342	-	$ -	$ 251	$ 593
Commercial real estate	2,118	195	2,313	-	-	519	2,832
Construction	1,370	(177)	1,193	-	-	(18)	1,175
1-4 family residential	850	219	1,069	(222)	-	338	1,185
Home equity	159	83	242	-	-	(50)	192
Consumer	28	(7)	21	-	-	38	59
	$ 5,318	(138)	$ 5,180	(222)	$ -	$ 1,078	$ 6,036

The following tables summarize the activity in the allowance for credit losses for unfunded commitments for the year ended December 31, 2023 (in thousands):

	Allowance for Credit Losses				
	Beginning Balance	Adjustment for adoption of ASU 2016-13	Adjusted Balance	Provisions	Ending Balance
Unfunded commitments	$ -	$ 197	$ 197	$ 21	$ 218

The allowance for credit losses for unfunded commitments is separately classified on the consolidated balance sheet within other liabilities.

The following tables summarize the activity in the allowance for loan losses by loan class for the year ended December 31, 2022, and information in regard to the allowance for loan losses and the recorded investment in loans receivable by loan class as of December 31, 2022 (in thousands):

	Allowance for Loan Losses				
	Beginning Balance	Charge-offs	Recoveries	Provisions	Ending Balance
Commercial and industrial	$ 471	$ -	$ -	$ 322	$ 793
Commercial real estate	1,477	-	-	641	2,118
Construction	1,000	-	-	370	1,370
1-4 family residential	526	-	-	324	850
Home equity	184	-	-	(25)	159
Consumer	19	-	-	9	28
Unallocated	14	-	-	(14)	-
	$ 3,691	$ -	$ -	$ 1,627	$ 5,318

	Allowance for Loan Losses			Loans Receivable		
	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial and industrial	$ 793	$ -	$ 793	$ 60,063	$ -	$ 60,063
Commercial real estate	2,118	-	2,118	199,564	-	199,564
Construction	1,370	-	1,370	122,132	-	122,132
1-4 family residential	850	-	850	123,607	-	123,607
Home equity	159	-	159	17,762	-	17,762
Consumer	28	-	28	1,468	-	1,468
	$ 5,318	$ -	$ 5,318	$ 524,596	$ -	$ 524,596

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Bank's Internal risk rating system as of December 31, 2023 (in thousands) based on the loan's origination date:

Commercial and Industrial	2019	2020	2021	2022	2023	Total
Pass	$ 3,617	$ 15,257	$ 16,664	$ 15,947	$ 27,968	$ 79,453
Special mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
	$ 3,617	$ 15,257	$ 16,664	$ 15,947	$ 27,968	$ 79,453

Commercial Real Estate	2019	2020	2021	2022	2023	Total
Pass	$ 28,526	$ 50,287	$ 63,594	$ 54,975	$ 45,674	$ 243,056
Special mention	-	-	-	-	-	-
Substandard	-	-	350	-	-	350
Doubtful	-	-	-	-	-	-
	$ 28,526	$ 50,287	$ 63,944	$ 54,975	$ 45,674	$ 243,406

Construction	2019	2020	2021	2022	2023	Total
Pass	$ 2,725	$ 9,607	$ 20,064	$ 43,594	$ 44,579	$ 120,569
Special mention	-	-	3,292	-	-	3,292
Substandard	833	136	1,335	-	-	2,304
Doubtful	-	-	-	-	-	-
	$ 3,558	$ 9,743	$ 24,691	$ 43,594	$ 44,579	$ 126,165

1-4 Family Residential	2019	2020	2021	2022	2023	Total
Pass	$ 2,538	$ 18,076	$ 33,884	$ 55,558	$ 30,687	$ 140,743
Special mention	-	-	-	-	-	-
Substandard	-	-	-	597	-	597
Doubtful	-	-	-	-	-	-
	$ 2,538	$ 18,076	$ 33,884	$ 56,155	$ 30,687	$ 141,340

Home Equity	2019	2020	2021	2022	2023	Total
Pass	$ -	$ 2,820	$ 6,404	$ 3,068	$ 2,965	$ 15,257
Special mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
	$ -	$ 2,820	$ 6,404	$ 3,068	$ 2,965	$ 15,257

Consumer	2019	2020	2021	2022	2023	Total
Pass	$ -	$ 339	$ -	$ 113	$ 652	$ 1,104
Special mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
	$ -	$ 339	$ -	$ 113	$ 652	$ 1,104

	2019	2020	2021	2022	2023	Total
Pass	$ 37,406	$ 96,386	$ 140,610	$ 173,255	$ 152,525	$ 600,182
Special mention	-	-	3,292	-	-	3,292
Substandard	833	136	1,685	597	-	3,251
Doubtful	-	-	-	-	-	-
Totals	$ 38,239	$ 96,522	$ 145,587	$ 173,852	$ 152,525	$ 606,725

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Bank's Internal risk rating system as of December 31, 2022 (in thousands):

	Commercial and Industrial	Commercial Real Estate	Construction	1-4 Family Residential	Home Equity	Consumer, Other	Total
Pass	$ 60,063	$ 199,564	$ 122,132	$ 123,607	$ 17,762	$ 1,468	$ 524,596
Special mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-
	$ 60,063	$ 199,564	$ 122,132	$ 123,607	$ 17,762	$ 1,468	$ 524,596

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due status as of December 31, 2023 (in thousands):

	30-59 Days Past Due	60-90 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivables	Recorded Investment >90 Days and Accruing
Commercial and industrial	$ -	$ -	$ -	$ -	$ 79,453	$ 79,453	$ -
Commercial real estate	-	-	-	-	243,406	243,406	-
Construction	-	-	-	-	126,165	126,165	-
1-4 family residential	-	-	597	-	140,743	141,340	597
Home equity	-	-	-	-	15,257	15,257	-
Consumer	-	-	-	-	1,104	1,104	-
	$ -	$ -	$ 597	$ -	$ 606,128	$ 606,725	$ -

The Bank identifies loans in which the borrower cannot demonstrate the ability to make regularly scheduled payments and the repayment of the loan is dependent upon the operation or sale of the collateral of the loan. These collateral dependent loans are evaluated individually for allowance for credit losses based on the fair value of the collateral.

The following table presents an analysis of collateral-dependent loans of the Bank by class of loans as of December 31, 2023 (in thousands):

December 31, 2023		Residential Property	Business Assets	Commercial Property	Total Collateral-Dependent
Commercial and industrial	$	-	-	-	-
Commercial real estate		-	-	350	350
Construction		2,304	-	-	2,304
1-4 family residential		597	-	-	597
Home equity		-	-	-	-
Consumer		-	-	-	-
Total	**$**	**2,901**	**-**	**350**	**3,251**

During the year ended December 31, 2023, the Bank adopted ASU 2022-02, Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures, which eliminated the accounting guidance for troubled debt restructurings by creditors while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty.

Modifications to borrowers experiencing financial difficulty may include interest rate reductions, principal or interest forgiveness, forbearances, term extensions, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral. There were no modifications to borrowers experiencing financial difficulty during the year ended December 31, 2023.

Prior to January 1, 2023, when a loan was modified and a concession was made to a borrower experiencing financial difficulty, the modification was considered a trouble debt restructuring. There were no troubled debt restructurings during the year ended December 31, 2022.

5. Bank Premises and Equipment

The components of premises and equipment as of December 31, 2023, and 2022 are as follows (in thousands):

	2023	2022	Estimated Useful Lives
Land	$ 540	$ 540	0
Building	2,160	2,160	40
Leasehold Improvements	2,280	2,018	3-10
Furniture	506	385	3-10
Office Equipment	306	282	3-10
Network Systems	351	321	3-10
Branch Systems & Equipment	190	326	3-10
Vehicles	112	112	5
Total bank premises and equipment before depreciation	6,445	6,144	
Accumulated depreciation	(1,505)	(952)	
Net total bank premises and equipment	$ 4,940	$ 5,192	

Depreciation expense charged to operations amounted to $592,000 and $364,000 for the years ended December 31, 2023, and 2022, respectively.

6. Deposits

The components of deposits as of December 31, 2023, and 2022 are as follows (in thousands):

December 31,	2023	2022
Noninterest-bearing demand	$ 105,334	$ 114,970
Interest-bearing demand	35,832	16,585
Money market	193,803	209,139
Savings	10,543	5,210
Time, <$250,000	176,398	84,445
Time, >= $250,000	125,851	107,622
Total Deposits	647,761	537,971

As of December 31, 2023, the scheduled maturities of time deposits are as follows (in thousands):

December 31,	2023
2024	$ 232,462
2025	18,102
2026	22,723
2027	16,213
2028	12,749
	$ 302,249

7. Borrowings

As of December 31, 2023, the Bank's remaining borrowing capacity (excess of collateral) with the Federal Home Loan Bank of Atlanta (FHLB) was $32.4 million. This was calculated using a "lendable collateral value" of $143.4 million less a "total credit exposure" of $111.0 million. "Lendable collateral value" represents the total value of eligible collateral pledged. As of December 31, 2023, the Bank had a $36.0 million letter of credit to secure public funds and the following credit exposure with the FHLB (in thousands):

Product Description	Maturity Date	Principal Balance	Current Rate
Fixed Rate	10/21/27	10,000	4.61%
Fixed Rate	10/22/27	20,000	4.57%
Fixed Rate	9/5/28	10,000	4.45%
Fixed Rate	10/10/28	10,000	4.78%
Fixed Rate	10/24/28	10,000	4.99%
Fixed Rate	11/2/28	10,000	4.83%
Variable Rate	5/31/24	5,000	5.57%
		75,000	4.75%

As of December 31, 2022, the Bank's remaining borrowing capacity (excess of collateral) with the Federal Home Loan Bank of Atlanta (FHLB) stood at $60.7 million "lendable collateral value" of $135.7 million less "total credit exposure" of $50.0 million. "Lendable collateral value" represents the total value of eligible collateral pledged. As of December 31, 2022, the Bank had a $25.0 million letter of credit to secure public funds and the following credit exposure with the FHLB (in thousands):

Product Description	Maturity Date	Principal Balance	Current Rate
Fixed Rate	10/14/27	10,000	4.34%
Fixed Rate	10/27/27	10,000	4.61%
Fixed Rate	10/22/27	20,000	4.57%
Fixed Rate	9/15/28	10,000	3.87%
		50,000	4.39%

Additionally, as of December 31, 2023, the Bank maintained a $10.0 million unsecured federal funds overnight line of credit with PNC Bank, N.A. (PNC) and a $20.0 million unsecured overnight line of credit with Pacific Coast Bankers' Bank (PCBB). As of December 31, 2023, and December 31,2022 there were no outstanding balances with either PNC or PCBB.

8. Income Taxes

The components of income tax (benefit) expense for the years ended December 31, 2023 and 2022 are as follows (in thousands):

	2023	2022
Current	$ 678	$ 180
Deferred	(1,443)	-
	$ (765)	$ 180

Differences between the statutory tax rate of 21% and the effective rate are primarily the result of the removal of the valuation allowance of the deferred tax asset as of December 31, 2023, and the valuation allowance in effect on the net deferred tax assets as of December 31, 2022.

The components of the net deferred asset as of December 31, 2023, and 2022 are as follows (in thousands):

	2023	2022
Deferred tax assets:		
Organizational costs	$ 170	$ 186
State bonus depreciation	27	37
Compensation accrual	116	288
ASC 842 leases	432	280
Equity compensation	1	74
Disallowed contribution carryover	-	-
Intangible assets	50	11
Bad debt expense	1,417	1,243
Other reserves	72	-
Unrealized loss on AFS securities	138	-
Net operating loss carryforwards	-	521
Gross deferred tax assets	2,423	2,640
Valuation allowance	-	(1,749)
Total deferred tax assets, net of valuation allowance	2,423	891
Deferred tax liabilities:		
Property equipment	(361)	(362)
Prepaid expenses	(39)	(36)
Deferred loan costs	(580)	(493)
Total deferred tax liability	(980)	(891)
Net deferred taxes	$ 1,443	$ -

In assessing the realizability of deferred tax assets as of December 31, 2023, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and prudent, feasible and permissible as well as available tax planning strategies in making this assessment. Based on its review of all available evidence, Management determined it was more likely than not that the deferred tax assets will be realized and removed the valuation allowance on the deferred tax asset as of December 31, 2023. The Bank has no net operating loss carryforwards available for federal income tax or state tax purposes.

9. Lease Commitments

In 2019, the Bank entered into an operating lease agreement for back-office operations in Great Falls, Virginia. The original lease commenced on April 1, 2019, and had a 3-year term. In October 2022, Trustar Bank created a wholly-owned subsidiary (774A Walker Road, LLC) and purchased the building from the landlord who is also a member of the Board of Directors. The rent expense for this office totaled $99,168 in 2022.

The Bank entered into a 10-year lease agreement that commenced on June 1, 2020, for a branch office in Reston, Virginia. The rent expense for this office was $181,000 in 2023 and $175,000 in 2022.

The Bank also leases office space in McLean, Virginia. The original lease commenced on July 1, 2019, and houses commercial lending operations, compliance, legal, as well as a branch office. Effective November 2022, the Bank entered into a new eleven-year lease agreement with the landlord and moved to a different floor. The rent expense for this location totaled $191,801 in 2023 and $271,143 in 2022.

In January 2021, the Bank entered into a multi-year sublease agreement with Capital One for its Great Falls branch office. The total rent expense for this branch office was $255,000 in 2023 and $255,000 in 2022.

In February 2021, the Bank began renting a small office located in Potomac, Maryland on a “month-to-month” basis. Rent expense for this location was $6,000 in 2023 and $6,000 in 2022.

In July 2022, the Bank began renting a small office located in Washington, D.C. on a “month-to-month” basis. Rent expense for this location was $13,758 in 2023 and $6,000 in 2022.

Upon acquisition of Trustar Mortgage, LLC in 2020, the Bank assumed the existing lease in Fairfax, Virginia for office space. Rent expense totaled $0 in 2023 and $67,500 in 2022. The Bank’s final monthly rent obligation ended with the September 2022 payment as the lease was not renewed, and the Trustar Mortgage staff was moved to the office space in McLean, Virginia.

In January 2023, the Bank entered into a 10-year lease agreement with 748 Walker Road, LLC for the relocation of its Great Falls branch office, slated to occur late 2024. The total rent expense for this branch office was $168,750 in 2023.

On January 1, 2022, the Bank adopted ASU No. 2016-02 *“Leases”* (“Topic 842”) and all subsequent ASUs that modified Topic 842. All of the leases in which the Bank is the lessee are classified as operating leases, and therefore, were previously not recognized on the balance sheet. With the adoption of Topic 842, operating lease agreements are required to be recognized on the balance sheet as a right of use asset and a corresponding lease liability. The Bank has elected not to include short-term leases (i.e., leases with initial terms of twelve months or less) on the balance sheet.

The following table presents the balance sheet classification of our ROU assets and lease liabilities:

As of December 31, 2023		
Lease ROU assets	$	5,453
Lease liabilities	$	7,301
As of December 31, 2022		
Lease ROU assets	$	4,568
Lease liabilities	$	5,768

The calculation of the ROU assets and lease liabilities in the table above are impacted by the length of the lease term and the discount rate used to calculate the present value of the minimum lease payments, which is the Bank's incremental borrowing rate for a loan term similar to the lease term.

The weighted-average remaining lease term was 6.5 years and the weighted-average discount rate was 2.68% as of December 31, 2023.

Lease expense was $1,023,000 and $880,000 for the years ended December 31, 2023, and 2022, respectively.

Cash paid on operating lease liabilities amounted to $1,478,000 and $1,092,000 for the years ended December 31, 2023, and 2022, respectively.

Future minimum lease payments by year and in the aggregate, under these operating lease agreements with initial terms of one year or more as of December 31, 2023, are as follows (in thousands):

Year Ending December 31,		
2024	$	970
2025		909
2026		931
2027		954
2028		978
Thereafter		4,082
Total	$	8,824
Less: imputed interest		(1,523)
Net, future minimum lease payments	$	7,301

Excludes "month-to-month" lease expense for Potomac, MD and Washington, DC locations.

10. Transactions with Related Parties

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, principal shareholders, their immediate families and affiliated companies (commonly referred to as related parties). There were 11 loans receivable totaling $12,790,000 and 11 loans receivable totaling $13,318,000 to related parties as of December 31, 2023, and December 31, 2022, respectively. During 2023, $632,000 of advances were made and repayments totaled $1,160,000 on related party loans. During 2022, $3,090,000 of advances were made and repayments totaled $10,507,000 on related party loans. Deposits of related parties totaled $27,430,000 and $12,974,000 as of December 31, 2023, and 2022.

11. Financial Instruments with Off-Balance Sheet Risk

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

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

A summary of the Bank's financial instrument commitments as of December 31, 2023, and 2022 is as follows (in thousands):

December 31,	Contract Amount	
	2023	2022
Unfunded commitments under lines of credit	$ 105,406	$ 105,038
Letters of credit	1,252	1,237

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

Outstanding letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next twelve months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Bank requires collateral supporting these letters of credit as deemed necessary. As of December 31, 2023, and 2022, the Bank had $1,252,000 and $1,237,000 in standby letters of credit with customers, respectively.

12. Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth below) of total, Tier 1, and Common Equity Tier 1 capital (as defined in the regulations) to risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of December 31, 2023 and 2022, that the Bank meets all capital adequacy requirements to which it is subject. The Bank is considered well capitalized as of December 31, 2023 and 2022.

The Bank's actual capital amounts and ratios as of December 31, 2023, and 2022 are presented in the following table (in thousands):

December 31, 2023	Actual		For Capital Adequacy Purposes		Minimum Capital Adequacy with Capital Buffer Amount		To Be Well Capitalized Under Prompt Corrective Action Provisions Ratio	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets):	$ 76,109	12.22%	$ 49,839	8.00%	$ 65,413	10.50%	$ 62,298	10.00%
					-		-	
Tier 1 capital (to risk-weighted assets):	$ 69,764	11.20%	$ 28,034	4.50%	$ 43,609	7.00%	$ 40,494	6.50%
					-		-	
Common Equity Tier 1 capital (to risk-weighted assets):	$ 69,764	11.20%	$ 37,379	6.00%	$ 52,954	8.50%	$ 49,839	8.00%
					-		-	
Leverage capital (to average assets):	$ 69,764	9.19%	$ 30,358	4.00%	$ 49,333	6.50%	$ 37,948	5.00%

December 31, 2022	Actual		For Capital Adequacy Purposes		Minimum Capital Adequacy with Capital Buffer Amount		Under Prompt Corrective Action Provisions Ratio	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets):	$ 71,456	13.15%	$ 43,459	8.00%	$ 57,040	10.50%	$ 54,324	10.00%
Tier 1 capital (to risk-weighted assets):	$ 66,138	12.17%	$ 24,446	4.50%	$ 38,027	7.00%	$ 35,311	6.50%
Common Equity Tier 1 capital (to risk-weighted assets):	$ 66,138	12.17%	$ 32,594	6.00%	$ 46,175	8.50%	$ 43,459	8.00%
Leverage capital (to average assets):	$ 66,138	10.27%	$ 25,770	4.00%	$ 41,876	6.50%	$ 32,212	5.00%

The Bank is subject to certain restrictions on the amount of cash dividends that it may declare due to regulatory considerations.

13. Stock Compensation Plans

On February 24, 2020, the Board of Directors adopted the 2020 Stock Incentive Plan (the "2020 Plan"). The 2020 Plan provides for grants of incentive stock options, nonqualified stock options, restricted stock, restricted stock units, stock appreciation rights, stock awards, and performance units to key employees, non-employee directors, and consultants or advisors of the Bank or its subsidiaries. The maximum number of shares available for issuance under the Plan is 1,000,000. As of December 31, 2023, only stock options and restricted grants have been issued.

Under the Plan, employees, non-employee directors, consultants or advisors are eligible to receive options to purchase shares of common stock at no less than the fair value on the date the option is granted. Each grant vests over a period determined by the grant agreement and expire no later than ten years from the date of the grant.

Employees, non-employee directors, consultants or advisors are eligible to receive grants of restricted stock under the Plan. Terms of each grant are specified in the grant agreement.

The weighted average grant-date calculated value of options granted to employees in 2023 and 2022 was $2.61 and $2.45, respectively. The calculated value of the options awarded under the option plans is estimated on the date of grant using the Black-Scholes valuation model with the following weighted average assumptions in 2023 and 2022, which is dependent upon certain assumptions as presented below:

December 31, 2023	
Expected life (in years)	6.48
Risk-free interest rate	3.93%
Expected volatility	33.70%
Expected dividend yield	0.00%

December 31, 2022	
Expected life (in years)	10
Risk-free interest rate	1.83%
Expected volatility	20.00%
Expected dividend yield	0.00%

The expected life of the options was estimated using the average vesting period of the options granted and represents the period of time that options granted are expected to be outstanding. The risk-free interest rate is the U.S. Treasury rate commensurate with the expected life of the options on the grant date. Volatility of the Bank’s stock price in 2023 was based on the Bank’s experience and 2022 was based on historical volatility of a selected peer group.

Information regarding the Bank's stock option plan for the years ended December 31, 2023, and 2022 is as follows (dollars in thousands, except exercise prices):

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Options outstanding, January 1, 2023	190,400	$ 10.00	
Options granted	108,682	12.00	
Options exercised	-	-	
Options forfeited	37,500	11.35	
Options expired	7,500	10.29	
Options Outstanding, December 31, 2023	254,082	11.08	7.4 years
Options Exercisable, December 31, 2023	72,952	$ 10.31	6.3 years

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Options outstanding, January 1, 2022	131,500	$ 10.00	
Options granted	58,900	10.00	
Options exercised	-	-	
Options forfeited	-	-	
Options expired			
Options Outstanding, December 31, 2022	190,400	10.00	9.1 years
Options Exercisable, December 31, 2022	26,300	$ 10.00	8.2 years

Information pertaining to options outstanding at and for the year ended December 31, 2023, and 2022 is as follows:

	Shares		Weighted Average Grant Date Calculated Value
Nonvested options, January 1, 2023	149,100	$	1.46
Granted	108,682		2.61
Vested	39,152		1.40
Forfeited	37,500		1.95
Nonvested options, December 31, 2023	181,130	$	2.03

	Shares		Weighted Average Grant Date Calculated Value
Nonvested options, January 1, 2022	116,500	$	0.91
Granted	58,900		2.29
Vested	26,300		0.91
Forfeited	-		-
Nonvested options, December 31, 2022	149,100	$	1.46

Stock-based compensation expense related to stock options for the years ended December 31, 2023, and 2022 totaled $80,000 and $44,000, respectively. The unamortized stock option expense was approximately $297,000 as of December 31, 2023. Stock-based compensation awards are generally amortized over a period of five years from the date they are granted.

The following table provides information about nonvested restricted stock for the years ended December 31, 2023, and 2022:

	Shares		Weighted Average Grant Date Calculated Value
Nonvested options, January 1, 2022	242,000	$	6.82
Granted	13,000		8.57
Vested	45,500		7.31
Forfeited	-		-
Nonvested options, December 31, 2022	209,500	$	6.82

	Shares		Weighted Average Grant Date Calculated Value
Nonvested options, January 1, 2022	278,500	$	6.73
Granted	9,000		9.61
Vested	45,500		6.79
Forfeited	-		-
Nonvested options, December 31, 2022	242,000	$	6.82

Stock-based compensation expense related to restricted stock for the year ended December 31, 2023, and 2022 totaled $310,000 and $377,000, respectively. Restricted stock grants vest over 1-, 2-, 3-, or 10-year period. A total of 140,500 grants have vested as of December 31, 2023. The unamortized stock compensation cost related to restricted stock was approximately $1.2 million as of December 31, 2023.

14. Shareholders' Equity

Stock Warrants

The Bank issued Class A and Class B stock purchase warrants in connection with its initial stock offering.

Class A warrants were issued as part of the stock purchase unit, with each unit consisting of 100 shares of common stock and 25 Class A warrants. Each Class A warrant is exercisable to acquire one share of common stock for an exercise price of $10.00 per share. Class A warrants expire on the fifth anniversary of the date that the Bank opened for business (July 10, 2019), subject to earlier call for exercise after the third anniversary of the date that the Bank opened for business by the Bank's board of directors.

Class B warrants were issued in connection with its initial stock offering giving certain organizers and directors the right to purchase a total of 96,000 shares of common stock at the initial offering price of $10.00 per share. For organizers, the warrants serve as a reward and compensation for bearing the financial risk of the Bank's organization by advancing "seed money" for its organizational and pre-opening expenses. For the initial directors, the warrants serve as an incentive for them to build the Bank's business. Each Class B warrant is exercisable to acquire one share for an exercise price of $10.00 per share. Class B warrants expire on the tenth anniversary of the date that the Bank opened for business (July 10, 2019). If the Bank's federal or state regulators require the Bank raise additional capital, the Class B warrants must be exercised with 31 calendar days of the issuance of such capital directive.

The fair values of the Class A and B warrants were estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions: dividend yield of 0% for both, risk-free interest rate of 1.84% for Class A warrants and 2.05% for Class B warrants, expected life of 3 years for Class A warrants and 10 years for Class B warrants, and expected volatility of 20% for both. The fair value of Class A and B warrants was $1.62 and $3.29 per share, respectively.

December 31, 2023	Number of Warrants	Weighted-Average Exercise Price
Outstanding, beginning of year	1,462,291	$ 10.00
Granted	-	
Exercised	40,817	10.00
Outstanding, end of year	1,421,474	$ 10.00
Exercisable at end of year	1,421,474	$ 10.00

December 31, 2022	Number of Warrants	Weighted-Average Exercise Price
Outstanding, beginning of year	1,465,916	$ 10.00
Granted	-	
Exercised	3,625	10.00
Outstanding, end of year	1,462,291	$ 10.00
Exercisable at end of year	1,462,291	$ 10.00

The warrants have a weighted-average remaining contractual life of 0.86 years as of December 31, 2023.

15. Fair Value Measurements and Fair Values of Financial Instruments

Management uses its best judgment in estimating the fair value of the Bank's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Bank could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year ends and have not been re-evaluated or updated for the purpose of these financial statements subsequent to these respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each reporting date.

The Bank uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. In accordance with the accounting guidance adopted by the Bank, the fair value of a financial instrument 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 Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Fair value measurement guidance establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 - Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported with little or no market activity).

An asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Loans Held for Sale

Loans held for sale are classified within Level 2 of the valuation hierarchy.

For Level 2 loans held for sale, fair value is determined based on outstanding investor commitments or, in the absence of such commitments, on current investor yield requirements or third-party pricing models.

Securities at Fair Value

The Bank's available for sale and trading securities are reported at fair value. These securities are valued by an independent third party. The valuations are based on market data. They utilize evaluated pricing models that vary by asset and incorporate available trade, bid and other market information. For securities that do not trade on a daily basis, their evaluated pricing applications apply available information such as benchmarking and matrix pricing. The market inputs normally sought in the evaluation of securities include benchmark yields, reported trades, broker/dealer quotes (only obtained from market makers or broker/dealers recognized as market participants), issuer spreads, two-sided markets, benchmark securities, bid, offers and reference data. For certain securities additional inputs may be used or some market inputs may not be applicable. Inputs are prioritized differently on any given day based on market conditions.

Interest Rate Lock Commitments

The Bank estimates the fair value of interest rate lock commitments based on the value of the underlying mortgage loan, quoted mortgage-backed security (MBS) prices, and estimates of the fair value of the mortgage servicing rights and the probability that the mortgage loan will fund within the terms of the interest rate lock commitments.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used as of December 31, 2023, and 2022 is as follows (in thousands):

December 31, 2023	Total	Quoted Prices in Active Markets for Indentical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for Sale Securities:				
US treasury	$ 42,476	$ -	$ 42,476	$ -
Corporate debt	1,000	-	1,000	-
Collateralized mortgage obligations	4,176	-	4,176	-
Municipal securities	996	-	996	-
SBA securities	2,720	-	2,720	-

December 31, 2022	Total	Quoted Prices in Active Markets for Indentical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate lock commitments	$ 26	$ -	$ 26	$ -
Loans held for sale	919	-	919	-
Available for Sale Securities:				
US treasury	28,968	-	28,968	-
Corporate debt	3,947	-	3,947	-

December 31, 2023	Total	Quoted Prices in Active Markets for Indentical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Commercial and industrial	$ -	-	-	-
Commercial real estate	350	-	-	350
Construction	2,304	-	-	2,304
1-4 family residential	597	-	-	597
Home equity	-	-	-	-
Consumer	-	-	-	-
Total	**$ 3,251**	**- -**	**-**	**3,251**

There were no assets or liabilities measured at fair value on a nonrecurring basis as of December 31, 2023, and 2022.

Below is management's estimate of the fair value of all financial instruments. The following information should not be interpreted as an estimate of the fair value of the entire Bank since a fair value calculation is only provided for a limited portion of the Bank's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Bank's disclosures and those of other companies may not be meaningful.

December 31, 2023 (in thousands)	Carrying Amount	Fair Value
Financial Assets:		
Cash (currency & coin)	$ 586	$ 586
Interest bearing balances due from banks	87,377	87,377
Securities held to maturity	43,135	38,876
Securities available for sale	51,368	51,368
Loans receivable, net	600,767	584,362
Restricted investment in bank stock	4,064	4,064
Accrued interest receivable	2,925	2,925
Financial Liabilities:		
Noninterest-bearing demand deposits	105,334	105,334
Interest-bearing demand deposits	35,832	35,832
Money market	193,803	193,803
Savings	10,543	10,543
Time deposits	302,249	303,891
FHLB borrowings	75,000	76,989
Accrued interest payable	1,196	1,196
Off-balance sheet instruments	-	-

December 31, 2022 (in thousands)	Carrying Amount	Fair Value
Financial Assets:		
Cash (currency & coin)	$ 561	$ 561
Interest bearing balances due from banks	49,501	49,501
Securities held to maturity	44,084	39,695
Securities available for sale	32,915	32,915
Loans held for sale	919	919
Loans receivable, net	519,329	496,275
Restricted investment in bank stock	2,408	2,408
Accrued interest receivable	2,045	2,045
Financial Liabilities:		
Noninterest-bearing demand deposits	114,970	114,970
Interest-bearing demand deposits	16,585	16,585
Money market	209,139	209,139
Savings	5,210	5,210
Time deposits	192,067	190,437
FHLB borrowings	50,000	50,564
Accrued interest payable	608	608
Off-balance sheet instruments	-	-

16. Revenue Recognition

Topic 606's core principle is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled.

Management determined that revenue derived from financial instruments, including revenue from loans receivable, along with non-interest income resulting from other loans receivable related fees, are not within the scope of Topic 606.

Topic 606 is applicable to non-interest income streams such as service charges on deposits and other non-interest income. Non-interest revenue streams in-scope of Topic 606 are discussed below.

Service Charges and Activity Fees on Deposits

Service charges on deposit accounts consist of monthly ATM Income, Wire Transfer Fees, and other Deposit related fees. The Bank's performance obligation for monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transactional based, and therefore, the Bank's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts. The Bank's performance obligation for wire transfers and returned deposit fees, are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month.

Other

Other non-interest income consists primarily of other non-recurring revenue which is not recorded in the categories listed above. This revenue is miscellaneous in nature and is recognized as income upon receipt.

The following presents non-interest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the years ended December 31, 2023, and 2022 (in thousands).

	2023	2022
Non-Interest Income		
In-scope of Topic 606		
Service Charges and Activity Fees on Deposits	$ 214	$ 148
Other	681	66
Non-Interest Income (in-scope of Topic 606)	895	214
Non-Interest Income (out-of-scope of Topic 606)	680	1,111
Total Non-Interest Income	$ 1,575	$ 1,325

Contract Balances

A contract asset balance occurs when an entity performs a service for a customer before the customer pays consideration (resulting in a contract receivable) or before payment is due (resulting in a contract asset). A contract liability balance is an entity's obligation to transfer a service to a customer for which the entity has already received payment (or payment is due) from the customer. The Bank's non-interest revenue streams are largely based on transactional activity. Consideration is often received immediately or shortly after the Bank satisfies its performance obligation and revenue is recognized. The Bank does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of December 31, 2023, and 2022, the Bank did not have any contract balances.

17. Subsequent Events

The Bank has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2023, for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through March 28, 2024, the date these financial statements were available to be issued.