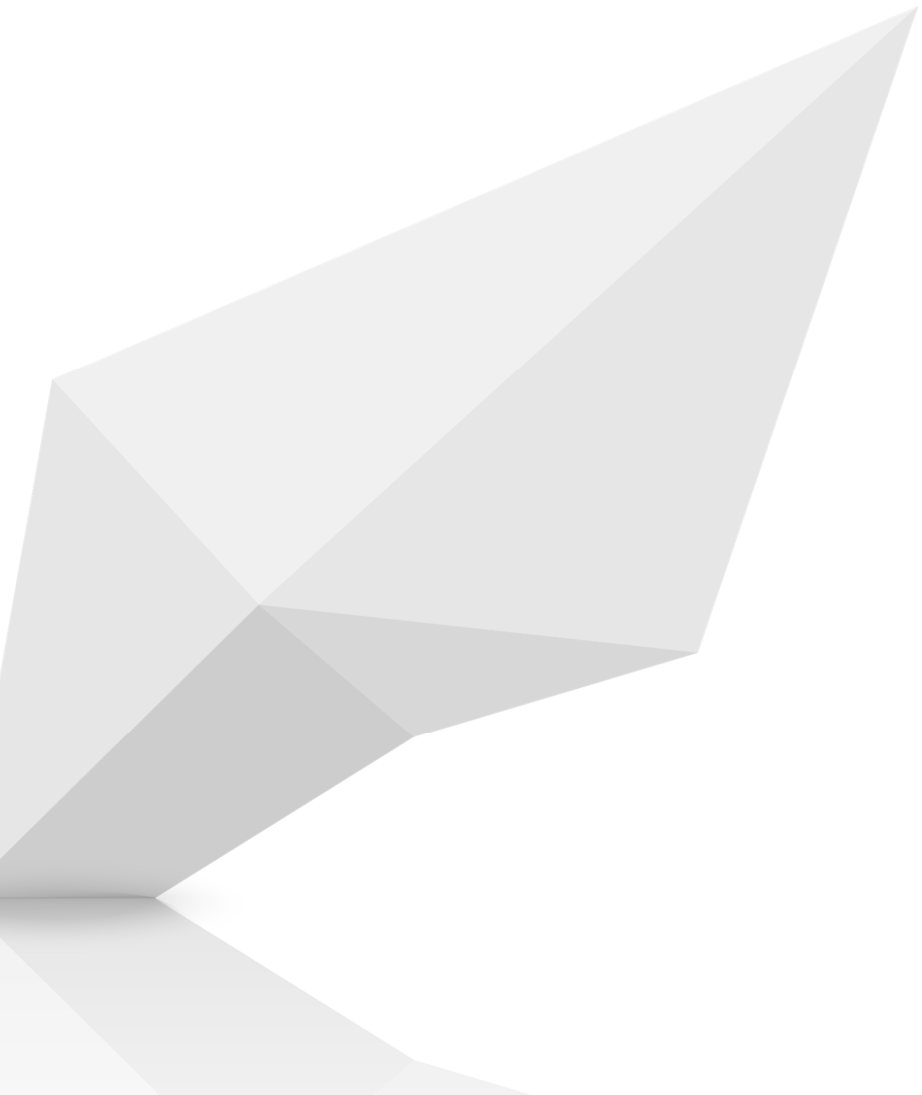
The Upstate National Bank

Financial Statements

Years Ended December 31, 2024 and 2023



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Board of Directors
The Upstate National Bank
Rochester, New York

Opinion

We have audited the accompanying financial statements of The Upstate National Bank (the "Bank"), which comprise the balance sheets as of December 31, 2024 and 2023, and the related statements of operations, comprehensive loss, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2024 and 2023, 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 (''GAAP'').

Basis for Opinion

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

Emphasis of Matter

As described in Note 14 to the financial statements, the Bank is currently the subject of a Consent Order that was issued by the Office of the Comptroller of the Currency (the "OCC") and signed by the Bank on November 16, 2023. The OCC contends the Bank has weaknesses in board oversight and corporate governance, capital, management, liquidity, and interest rate risk management. The Consent Order requires the Bank to change policies, change the composition of the board of directors, maintain complete and accurate books and records and operate within certain parameters, including maintaining higher regulatory capital ratios. The Consent Order also restricts the Bank's ability to pay dividends. See Notes 11 and 14 for more details regarding the Consent Order. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Wipfli LLP

Wipfli LLP
Atlanta, Georgia

March 28, 2025

The Upstate National Bank
Balance Sheets

As of December 31,	2024	2023
Assets:		
Cash and due from banks	$ 347,308	$ 274,781
Interest-bearing deposits due from other banks	13,344,222	38,814,769
Cash and cash equivalents	13,691,530	39,089,550
Investment securities available for sale (amortized cost of $28,752,953 and $33,085,420 at December 31, 2024 and 2023, respectively)	24,391,347	28,680,936
Investment securities held to maturity	10,000	10,000
Other investments	4,172,600	4,535,500
Loans held for sale	-	5,542,973
Gross loans	219,863,369	248,173,905
Allowance for credit losses on loans	(2,834,947)	(2,648,591)
Loans, net	217,028,422	245,525,314
Premises and equipment, net	181,801	200,410
Deferred tax asset, net	2,376,837	1,487,604
Accrued interest receivable and other assets	1,528,624	1,180,262
Total assets	$ 263,381,161	$ 326,252,549
Liabilities:		
Deposits:		
Demand	$ 21,845,139	$ 17,061,507
Interest-bearing demand	17,840,138	16,976,700
Time	130,776,544	167,032,060
Total deposits	170,461,821	201,070,267
Other borrowings	65,000,000	93,382,000
Accrued interest payable and other liabilities	1,375,704	2,384,263
Total liabilities	236,837,525	296,836,530
Stockholders' Equity:		
Preferred stock, $2.50 par value; 3,880 shares authorized; 2,825 issued and outstanding at December 31, 2024 and 2023, respectively	7,062	7,062
Common stock, $0.01 par value; 50,000,000 shares authorized; 35,585,748 shares issued at December 31, 2024 and 2023, respectively	356,102	356,102
Additional paid in capital	29,265,229	29,265,229
Retained earnings	382,508	3,293,979
Treasury stock, 39,460 and 39,520 shares at December 31, 2024 and 2023, respectively	(21,596)	(27,597)
Accumulated other comprehensive loss	(3,445,669)	(3,478,756)
Total stockholders' equity	26,543,636	29,416,019
Total liabilities and stockholders' equity	$ 263,381,161	$ 326,252,549

See accompanying notes to financial statements.

The Upstate National Bank
Statements of Operations

Years Ended December 31,	2024	2023
Interest and dividend income:		
Interest and fees on loans	$ 12,318,964	$ 13,041,645
Interest on investment securities	678,687	813,261
Other interest and dividends	1,907,831	1,005,659
Total interest and dividend income	14,905,482	14,860,565
Interest expense:		
Deposits	7,928,459	7,785,603
Other borrowings	3,153,039	2,716,983
Total interest expense	11,081,498	10,502,586
Net interest income	3,823,984	4,357,979
Provision for credit losses	284,368	80,000
Net interest income after provision for credit losses	3,539,616	4,277,979
Noninterest income:		
Service charges	42,372	87,790
Other noninterest income	267,081	55,806
Total noninterest income	309,453	143,596
Noninterest expenses:		
Salaries and employee benefits	3,288,652	2,525,497
Occupancy and equipment	218,606	236,508
Net loss on sale and write down of loans	-	513,897
Realized loss on investment securities available for sale	-	82,269
Other noninterest expense	4,023,463	2,461,929
Total noninterest expenses	7,530,721	5,820,100
Net loss before income taxes	(3,681,652)	(1,398,525)
(Benefit) provision for income taxes	(770,181)	422,715
Net loss	$ (2,911,471)	$ (1,821,240)

See accompanying notes to financial statements.

The Upstate National Bank
Statements of Comprehensive Loss

Years Ended December 31,	2024	2023
Net loss	$ (2,911,471)	$ (1,821,240)
Other comprehensive income:		
Unrealized holding gains on investment securities available for sale arising during period	37,637	209,938
Reclassification adjustment for losses included in net loss	-	82,269
Total other comprehensive income before tax	37,637	292,207
Income tax benefit (expense) related to other comprehensive income	(4,550)	(64,298)
Other comprehensive income, net of tax	33,087	227,909
Total comprehensive loss	$ (2,878,384)	$ (1,593,331)

See accompanying notes to financial statements.

The Upstate National Bank

Statements of Changes in Stockholders' Equity

For the Years Ended December 31, 2024 and 2023

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balances as of January 1, 2023	$ 7,062	$ 260,934	$ 19,360,397	$ 5,115,219	$ (3,706,665)	$ (27,597)	$ 21,009,350
Net loss	-	-	-	(1,821,240)	-	-	(1,821,240)
Other comprehensive income	-	-	-	-	227,909	-	227,909
Proceeds from sale of common stock	-	95,168	9,904,832	-	-	-	10,000,000
Balances as of December 31, 2023	7,062	356,102	29,265,229	3,293,979	(3,478,756)	(27,597)	29,416,019
Net loss	-	-	-	(2,911,471)	-	-	(2,911,471)
Other comprehensive income	-	-	-	-	33,087	-	33,087
Sale of treasury stock	-	-	-	-	-	6,001	6,001
Balances as of December 31, 2024	$ 7,062	$ 356,102	$ 29,265,229	$ 382,508	$ (3,445,669)	$ (21,596)	$ 26,543,636

See accompanying notes to financial statements.

The Upstate National Bank
Statements of Cash Flows

Years Ended December 31,	2024	2023
Cash flows from operating activities:		
Net loss	$ (2,911,471)	$ (1,821,240)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, amortization and accretion	62,053	(2,594)
Provision for credit losses	284,368	80,000
Realized loss on investment securities available for sale	-	82,269
Proceeds from sale of loans held for sale	5,542,973	-
Provision for deferred income (benefit) tax	(893,783)	406,603
Changes in operating assets and liabilities:		
Change in accrued interest receivable and other assets	(348,363)	311,604
Change in accrued interest payable and other liabilities	(1,051,859)	1,286,972
Net cash provided by operating activities	683,918	343,614
Cash flows from investing activities:		
Proceeds from sales of investment securities available for sale	2,599,931	-
Proceeds from calls, maturities and paydowns of investment securities available for sale	1,698,613	2,357,745
Purchases of other investments	(280,100)	(3,386,300)
Net change in loans	28,255,825	(3,349,400)
Proceeds from other investments	643,000	2,088,800
Purchases of investment securities held to maturity	(10,000)	-
Proceeds from calls, maturities and paydowns of investment securities held to maturity	10,000	10,000
Purchases of premises and equipment	(14,762)	-
Net cash provided by (used in) investing activities	32,902,507	(2,279,155)
Cash flows from financing activities:		
Net change in deposits	(30,608,446)	(35,777,619)
Proceeds from other borrowings	-	53,382,000
Repayment of other borrowings	(28,382,000)	(9,500,000)
Proceeds from sale of treasury stock	6,001	-
Proceeds from sale of common stock	-	10,000,000
Net cash (used in) provided by financing activities	(58,984,445)	18,104,381
Net change in cash and cash equivalents	(25,398,020)	16,168,840
Cash and cash equivalents at beginning of year	39,089,550	22,920,710
Cash and cash equivalents at end of year	$ 13,691,530	$ 39,089,550

The Upstate National Bank

Statements of Cash Flows (Continued)

Years Ended December 31,	2024	2023
Supplemental cash flow information:		
Cash paid during the year for:		
Interest	$ 9,123,296	$ 9,475,753
Income taxes	61,796	219,082
Noncash investing and financing activities:		
Change in net unrealized loss on investment securities available for sale, net of tax	$ 33,087	$ 227,909

See accompanying notes to financial statements.

Note 1: Summary of Significant Accounting Policies

Nature of Operations

The accounting and reporting policies of The Upstate National Bank (the "Bank") and the methods of applying those principles, conform with accounting principles generally accepted in the United States of America (“GAAP”) and with general practices within the banking industry. The following is a summary of the significant policies and procedures.

Basis of Presentation

The Bank commenced business in 1922 upon receipt of its national charter from the Office of the Comptroller of the Currency ("OCC"). The Bank is primarily regulated by the OCC and undergoes periodic examinations by this regulatory authority. The Bank provides a full range of customary banking services throughout Monroe, St. Lawrence, Jefferson and other surrounding counties in New York.

In preparing financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts in the financial statements. Actual results could differ significantly from these estimates. Material estimates common to the banking industry that are particularly susceptible to significant change in the near term include, but are not limited to, the determination of the allowance for credit losses, fair value of securities, and valuation allowances associated with the realization of deferred tax assets, which are based on future taxable income.

Cash and Cash Equivalents

For purposes of reporting cash flows in the financial statements, cash and cash equivalents include cash on hand, interest-bearing and non-interest-bearing accounts in other financial institutions, and federal funds sold, all of which have original maturities of three months or less and are utilized in the daily operations of the Bank.

Investment Securities

Debt securities are classified as available for sale and held to maturity. Held to maturity securities are carried at amortized cost. Securities not classified as held to maturity are classified as available for sale with unrealized gains and losses reported in other comprehensive income or loss. Amortization of premiums and accretion of discounts are recognized in interest income using the interest method. Premiums that exceed the amount repayable by the issuer at the next call date are amortized to the next call date. Other premiums and discounts are amortized (accreted) over the estimated lives of the securities. Gains and losses on the sale of securities are recorded on the trade date and determined using the specific-identification method.

The Bank uses a current expected credit loss ("CECL") model to estimate the allowance for credit losses on securities held to maturity. The CECL model considers historical loss rates and other qualitative adjustments, as well as a forward-looking component that considers reasonable and supportable forecasts over the expected life of each security.

Note 1: Summary of Significant Accounting Policies (Continued)

Investment Securities (Continued)

Management believes the Bank will collect all amounts owed on securities held to maturity issued by the U.S. government or a U.S. government-sponsored agency since these securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies, and have a long history of no credit losses.

The Bank evaluates individual securities available for sale in an unrealized loss position by first determining whether the decline in fair value below the amortized cost basis of the security has resulted from a credit loss or other factors. A credit loss exists when the present value of cash flows expected to be collected from the security is less than the amortized cost basis of the security. In determining whether a credit loss exists, the Bank considers the extent to which the fair value is less than the amortized cost basis, adverse conditions related to the security, the industry, or geographic areas, the payment structure of the debt security, failure of the issuer to make scheduled payments, and any changes to the rating of the security. Impairment related to credit losses is recognized through an allowance for credit losses up to the amount that fair value is less than the amortized cost basis. Changes to the allowance are recognized through earnings as a provision for (or recovery of) credit losses. Impairment related to other factors is recognized in other comprehensive income.

If the Bank intends to sell, or it is more likely than not the Bank will be required to sell, the security before recovery of its amortized cost basis, any allowance for credit losses is written off and the amortized cost basis is written down to the security's fair value at the reporting date with any incremental impairment recognized in earnings.

The past due status of a security is based on the contractual terms in the security. The accrual of interest on a security is discontinued whenever management believes the issuer will be unable to make payments as they become due. When securities are placed on nonaccrual status, all unpaid accrued interest is reversed against interest income.

The Bank excludes accrued interest receivable from the amortized cost basis of investment securities when estimating credit losses and when presenting required disclosures in the financial statements. Accrued interest on investment securities totaling approximately $184,000 and $143,000 at December 31, 2024 and 2023, respectively, was excluded from the amortized cost basis of investment securities and is included in accrued interest receivable and other assets on the balance sheet.

Other Investments

Other investments include equity securities without a readily determinable fair value, Federal Home Loan Bank (FHLB) stock, Federal Reserve Bank (FRB) stock and the Atlantic Commercial Bankers Bank (ACBB) stock. The Bank has elected to account for equity securities without readily determinable fair values using the alternative measurement method. Under this method, these securities are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment. The Bank is required to hold FHLB stock as a member of the FHLB and transfer of the stock is substantially restricted. FHLB, FRB, and ACBB stocks are evaluated for impairment on an annual basis.

Note 1: Summary of Significant Accounting Policies (Continued)

Loans Held for Sale

Loans that management has the intent to sell are classified as held for sale and reported at their net realizable value. As of December 31, 2024, there were no loans held for sale. As of December 31, 2023, loans with a carrying value of approximately $5,543,000 were reflected as held for sale as these loans were sold during 2024 resulting in a loss of approximately $82,000, which is reflected in loss on sale and write down of loans in the accompanying statement of operations for the year ended December 31, 2023.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are reported at their outstanding unpaid principal balances adjusted for purchase premiums or discounts, deferred loan fees, charge-offs, and an allowance for credit losses. Interest on loans is accrued and credited to income based on the unpaid principal balance. Loan-origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The past due status of a loan is based on the contractual terms in the loan agreement. The accrual of interest on a loan is discontinued when the loan becomes 90 days delinquent or whenever management believes the borrower will be unable to make payments as they become due. When loans are placed on nonaccrual status or charged off, all unpaid accrued interest is reversed against interest income. The interest on these loans is subsequently accounted for on the cash basis if collection of the remaining recorded investment in the loan is still expected or using the cost-recovery method when collection of the remaining recorded investment is in doubt. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Credit Losses on Loans and Unfunded Commitments

The allowance for credit losses on loans is a valuation allowance that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the Bank's loan portfolio. The allowance for credit losses on loans is established through provisions for credit losses charged against earnings. When available information confirms that specific loans, or portions thereof, are uncollectible, these amounts are charged against the allowance for credit losses on loans, and subsequent recoveries, if any, are credited to the allowance for credit losses on loans.

Management considers the following when assessing risk in the Bank's loan portfolio segments:

- Residential mortgage and multi-family loans are affected by the local residential real estate market, the local economy, and, for variable rate mortgages, movement in indices tied to these loans. At the time of origination, the Bank evaluates the borrower's repayment ability through a review of debt to income, credit scores and potential rental income. Appraisals are obtained to support the loan amount. Financial information is obtained from the borrowers and/or the individual project to evaluate cash flows sufficiency to service debt at the time of origination.

Note 1: Summary of Significant Accounting Policies (Continued)

Allowance for Credit Losses on Loans and Unfunded Commitments (Continued)

- Commercial real estate loans are dependent on the industries tied to these loans. Commercial real estate loans are primarily secured by strip malls, retail shopping facilities, split-use buildings and owner occupied commercial real estate. Financial information is obtained from the borrowers and/or the individual project to evaluate cash flows sufficiency to service debt and is periodically updated during the life of the loan. Loan performance may be adversely affected by factors impacting the general economy or conditions specific to the real estate market such as geographic location and/or property type.

- Construction and land development loans are secured by vacant land and/or property that are in the process of improvement, including (a) land development preparatory to erecting vertical improvements or (b) the on-site construction of industrial, commercial, residential, or farm buildings. Repayment of these loans can be dependent on the sale of the property to third parties or the successful completion of the improvements by the builder for the end user. In the event a loan is made on property that is not yet improved for the planned development, there is the risk that necessary approvals will not be granted or will be delayed. Construction loans also run the risk that improvements will not be completed on time or in accordance with specifications and projected costs.

- Commercial and industrial loans are primarily for working capital, physical asset expansion, asset acquisition loans and other. These loans are made based primarily on historical and projected cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not behave as forecasted and collateral securing loans may fluctuate in value due to economic or individual performance factors. Financial information is obtained from the borrowers to evaluate cash flows sufficiency to service debt and are periodically updated during the life of the loan.

- Consumer loans may take the form of installment loans, demand loans, or single payment loans and are extended to individual for household, family, and other personal expenditures. At the time of origination, the Bank evaluates the borrower's repayment ability through a review of debt to income and credit scores.

The Bank uses a CECL model to estimate the allowance for credit losses on loans. The CECL model considers historical loss rates and other qualitative adjustments, as well as a forward-looking component that considers reasonable and supportable forecasts over the expected life of each loan. To develop the allowance for credit losses on loans estimate under the CECL model, the Bank segments the loan portfolio into loan pools based on loan type and similar credit risk elements; performs an individual evaluation of certain collateral dependent and other credit-deteriorated loans; calculates the historical loss rates for the segmented loan pools; applies the loss rates over the calculated life of the collectively evaluated loan pools; adjusts for forecasted macro-level economic conditions and other anticipated changes in credit quality; and determines qualitative adjustments based on factors and conditions unique to the Bank's loan portfolio.

Note 1: Summary of Significant Accounting Policies (Continued)

Allowance for Credit Losses on Loans and Unfunded Commitments (Continued)

Under the CECL model, loans that do not share similar risk characteristics with loans in their respective pools are individually evaluated for expected credit losses and are excluded from the collectively evaluated loan credit loss estimates. Management individually evaluates all nonaccrual loans and other loans with evidence of credit deterioration. For loans individually evaluated, a specific reserve is estimated based on either the fair value of collateral or the discounted value of expected future cash flows.

A loan is considered to be collateral dependent when, based upon management's assessment, the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. For collateral dependent loans, expected credit losses are based on the fair value of the collateral as of the date of the balance sheet, with consideration for estimated selling costs if satisfaction of the loan depends on the sale of the collateral.

The following describes the types of collateral that secure collateral dependent loans:

- Residential mortgage loans are primarily secured by first and junior liens on residential real estate.
- Multi-family loans are primarily secured by residential buildings maintaining over five residential units.
- Commercial real estate loans are primarily secured by strip malls, retail shopping facilities, split-use buildings and owner occupied commercial real estate.
- Construction and land development loans considered collateral dependent are primarily secured by vacant land and/or property that are in the process of improvement.
- Commercial and industrial loans are primarily secured by accounts receivable, inventory, and equipment.
- Consumer loans considered collateral dependent are primarily secured by certificates of deposit.

Management evaluates all collectively evaluated loan pools using the weighted average remaining life ("remaining life") methodology. The remaining life methodology applies calculated quarterly net loss rates to collectively evaluated loan pools on a periodic basis based on the estimated remaining life of each pool. The estimated losses under the remaining life methodology are then adjusted for qualitative factors deemed appropriate by management.

The estimated remaining life of each pool is determined using quarterly, pool-based attrition measurements using the Bank's loan-level historical data. The Bank's historical call report data is utilized for historical loss rate calculations, and the lookback period for each collectively evaluated loan pool is determined by management based upon the estimated remaining life of the pool.

Note 1: Summary of Significant Accounting Policies (Continued)

Allowance for Credit Losses on Loans and Unfunded Commitments (Continued)

The quantitative analysis described above is supplemented with other qualitative factors based on the risks present for each collectively evaluated loan pool. These qualitative factors include: lending policies and procedures; economic and business conditions; nature and volume of the portfolio; lending management and staff; volume/severity of past due, nonaccrual and classified loans; loan review; concentrations of credit; and other external factors.

The Bank excludes accrued interest receivable from the amortized cost basis of loans when estimating credit losses and when presenting required disclosures in the financial statements. Accrued interest on loans totaling approximately $598,000 and $783,000 at December 31, 2024 and 2023, respectively, was excluded from the amortized cost basis of loans and is included in accrued interest receivable and other assets on the balance sheet.

In addition to the allowance for credit losses on loans, the Bank maintains a reserve for unfunded loan commitments at a level that management believes is adequate to absorb estimated probable credit losses over the contractual terms of the Bank's noncancellable loan commitments. The reserve for unfunded commitments, which is included in accrued interest payable and other liabilities on the accompanying balance sheet is established through provisions for credit losses charged against earnings.

Unfunded loan commitments are segmented into the same pools used for estimating the allowance for credit losses on loans. Estimated credit losses on unfunded loan commitments are based on the same methodology, inputs, and assumptions used to estimate credit losses on collectively evaluated loans, adjusted for estimated funding probabilities. The estimated funding probabilities represent management's estimate of the amount of the current unfunded loan commitment that will be funded over the remaining contractual life of the commitment and is based on historical data. As of December 31, 2023, the reserve for unfunded commitments was determined to be immaterial. As of December 31, 2024, the reserve for unfunded commitments totaled approximately $43,000.

The Bank may modify loans to borrowers experiencing financial difficulty and grant certain concessions that include principal forgiveness, a term extension, an other-than-insignificant payment delay, an interest rate reduction, or a combination of these concessions. An assessment of whether the borrower is experiencing financial difficulty is made at the time of the loan modification.

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

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets.

Note 1: Summary of Significant Accounting Policies (Continued)

Off-Balance-Sheet Instruments

In the ordinary course of business, the Bank has entered into off-balance-sheet financial instruments, including commitments to extend credit, unfunded commitments under lines of credit, and standby letters of credit. Such financial instruments are recorded in the financial statements when they become payable.

Income Taxes

Deferred tax assets and liabilities have been determined using the liability method. Deferred tax assets and liabilities are determined based on the difference between the financial statements and tax bases of assets and liabilities as measured by the current enacted tax rates which will be in effect when these differences are expected to reverse. Provision (credit) for deferred taxes is the result of changes in the deferred tax assets and liabilities.

The Bank may also recognize a liability for unrecognized tax benefits from uncertain tax positions. Unrecognized tax benefits represent the differences between a tax position taken or expected to be taken in a tax return and the benefit recognized and measured in the financial statements. Interest and penalties related to unrecognized tax benefits are classified as income tax expense.

With few exceptions, the Bank is no longer subject to federal or state examination by tax authorities for years ending before 2021.

Treasury Stock

Treasury stock is recorded at cost. Subsequent issuances are recorded at average cost.

Comprehensive Income/Loss

Comprehensive income/loss is shown on the statement of comprehensive loss. Accumulated other comprehensive income/loss consists of unrealized gains and losses on securities available for sale, net of tax, and is shown on the statement of changes in stockholders' equity.

Note 1: Summary of Significant Accounting Policies (Continued)

Revenue Recognition

The Bank records revenue from contracts with customers in accordance with Accounting Standards Codification (ASC) 606, Revenue from Contracts with Customers (ASC 606). Under ASC 606, the Bank must identify the contract with a customer, identify the performance obligation(s) within the contract, determine the transaction price, allocate the transaction price to the performance obligation(s) within the contract, and recognize revenue when (or as) the performance obligation(s) are/is satisfied. The core principle under ASC 606 requires the Bank to recognize revenue to depict the transfer of services or products to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those services or products recognized as performance obligations are satisfied. The Bank generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Since performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying ASC 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers.

The majority of the Bank's revenue is not subject to ASC 606, including net interest income, fees related to loans and loan commitments, and gain on sales of securities and loans.

Other types of revenue contracts, the income from which is included in non-interest income, that are within the scope of ASC 606 are:

Service charges on deposit accounts: The deposit contract obligates the Bank to serve as a custodian of the customer's deposited funds and is generally terminable at will by either party. The contract permits the customer to access the funds on deposit and request additional services for which the Bank earns a fee, including NSF and analysis charges, related to the deposit account. Income for deposit accounts is recognized over the statement cycle period (typically on a monthly basis) or at the time the service is provided if additional services are requested.

Debit card income: A contract between the Bank, as a card-issuing bank, and its customers whereby the Bank receives a transaction fee from the merchant's bank whenever a customer uses a debit or credit card to make a purchase. These fees are earned as the service is provided (i.e., when the customer uses a debit or ATM card).

Other non-interest income: Other non-interest income includes several items, such as wire transfer income, check cashing fees, rental income from bank properties and safe deposit box rental fees. This income is generally recognized at the time the service is provided and/or the income is earned.

Note 1: Summary of Significant Accounting Policies (Continued)

Subsequent Events

Subsequent events have been evaluated through March 28, 2025, which is the date the financial statements were available to be issued.

Reclassifications

Certain reclassifications have been made to the 2023 financial statements to conform to the 2024 classifications.

Note 2: Securities

The amortized cost and estimated fair value of securities with gross unrealized gains and losses at December 31, 2024 and 2023 follows:

2024	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available for sale:				
U.S. government and agency securities	$ 963,185	$ -	$ 13,960	$ 949,225
State, county, and municipal securities	9,477,462	-	1,102,740	8,374,722
SBA loan-backed securities	3,672,542	-	594,108	3,078,434
Mortgage-backed securities	14,639,764	-	2,650,798	11,988,966
Total securities available for sale	$ 28,752,953	$ -	$ 4,361,606	$ 24,391,347

2023				
Securities available for sale:				
U.S. government and agency securities	$ 941,404	$ -	$ 24,297	$ 917,107
State, county, and municipal securities	9,519,562	-	1,110,422	8,409,140
SBA loan-backed securities	4,429,753	-	630,277	3,799,476
Mortgage-backed securities	18,194,701	23,477	2,662,965	15,555,213
Total securities available for sale	$ 33,085,420	$ 23,477	$ 4,427,961	$ 28,680,936

Fair values of debt securities are generally estimated based on financial models or prices paid for similar securities. It is possible interest rates or other key inputs to the valuation estimate could change considerably resulting in a material change in the estimated fair value of debt securities.

Note 2: Securities (Continued)

The following table shows the fair value and gross unrealized losses of securities with unrealized losses at December 31, 2024 and 2023, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2024						
Securities available for sale:						
U.S. government and agency securities	$ -	$ -	$ 949,225	$ 13,960	$ 949,225	$ 13,960
State, county, and municipal securities	-	-	8,374,722	1,102,740	8,374,722	1,102,740
SBA loan-backed securities	-	-	3,078,434	594,108	3,078,434	594,108
Mortgage-backed securities	797,617	4,126	11,186,779	2,646,672	11,984,396	2,650,798
Total	$ 797,617	$ 4,126	$ 23,589,160	$ 4,357,480	$ 24,386,777	$ 4,361,606
2023						
Securities available for sale:						
U.S. government and agency securities	$ -	$ -	$ 917,107	$ 24,297	$ 917,107	$ 24,297
State, county, and municipal securities	-	-	8,409,140	1,110,422	8,409,140	1,110,422
SBA loan-backed securities	-	-	3,799,476	630,277	3,799,476	630,277
Mortgage-backed securities	1,203,863	56,770	12,457,750	2,606,195	13,661,613	2,662,965
Total	$ 1,203,863	$ 56,770	$ 25,583,473	$ 4,371,191	$ 26,787,336	$ 4,427,961

These unrealized losses relate principally to the changes in interest rates and are not due to changes in the financial condition of the issuer, the quality of any underlying assets, or applicable credit enhancements. In reaching the conclusion that an allowance for credit losses is unnecessary, management observed that the securities were issued by a government body or agency, the securities continue to be highly rated where applicable, the issuer continues to make contractual payments, and the quality of any underlying assets or credit enhancements has not changed. Since management has the ability to hold debt securities for the foreseeable future, the Bank expects to recover the amortized cost basis of these securities before they are sold or mature.

Note 2: Securities (Continued)

The following table presents the number and aggregate depreciation from the Bank's amortized cost basis of debt securities available for sale in an unrealized loss position by security type at December 31, 2024:

	Number of Securities	Aggregate Depreciation
U.S. government and agency securities	1	(1)%
State, county, and municipal securities	14	(12)%
SBA loan-backed securities	6	(16)%
Mortgage-backed securities	28	(18)%
Total	49	(15)%

The following is a summary of amortized cost and estimated fair value of available for sale debt securities by contractual maturity as of December 31, 2024. Contractual maturities will differ from expected maturities for mortgage-related securities because borrowers may have the right to call or prepay obligations without penalties.

	Available for Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$ -	$ -
Due after one year through five years	3,067,649	2,815,918
Due after five years through ten years	8,703,247	7,682,956
Due after ten years	2,342,293	1,903,507
Subtotal	14,113,189	12,402,381
Mortgage-backed securities	14,639,764	11,988,966
Total	$ 28,752,953	$ 24,391,347

There were no sales of securities available for sale for the year ended December 31, 2023. During 2024, the Bank sold securities available for sale with a book value of approximately $2,675,000 resulting in a realized loss of approximately $82,000, which was recognized in the accompanying statement of operations for the year ended December 31, 2023. No securities were pledged for deposits as of December 31, 2024 and 2023.

Note 3: Loans

The following table presents total loans at December 31, 2024 and 2023, by portfolio segment and class of loan:

	2024	2023
Residential Mortgage	$ 96,615,096	$ 110,666,078
Commercial Real Estate	71,799,431	76,319,567
Multi-family	43,347,607	49,556,010
Construction and Land Development	898,176	4,670,398
Commercial and Industrial	5,673,910	5,103,970
Consumer and other	27,396	114,206
Subtotal	218,361,616	246,430,229
Allowance for credit losses	(2,834,947)	(2,648,591)
Deferred costs and fees, net	909,510	1,070,012
Unamortized premiums	592,243	673,664
Loans, net	$ 217,028,422	$ 245,525,314

Deposit accounts in an overdraft position and reclassified as loans totaled approximately $2,000 at December 31, 2024 and $78,000 at December 31, 2023.

Note 3: Loans (Continued)

Activity in the allowance for credit losses on loans by portfolio segment follows:

	Residential Mortgage	Commercial Real Estate	Multi-family	Construction and Land Development	Commercial and Industrial	Consumer and Other	Unallocated	Total
Balance at January 1, 2023	$ 1,051,808	$ 699,431	$ 627,722	$ 47,554	$ 38,785	$ 122	$ 100,902	$ 2,566,324
Provision for credit losses on loans	(36,136)	186,561	73,202	(27,421)	(26,602)	189	(89,793)	80,000
Loans charged off	-	-	-	-	-	-	-	-
Recoveries of loans previously charged off	-	-	-	-	2,267	-	-	2,267
Balance at December 31, 2023	1,015,672	885,992	700,924	20,133	14,450	311	11,109	2,648,591
Provision for credit losses on loans	(140,800)	(90,362)	(244,531)	(13,859)	25,166	(161)	705,614	241,067
Loans charged off	-	-	(62,000)	-	-	-	-	(62,000)
Recoveries of loans previously charged off	-	-	-	-	7,289	-	-	7,289
Balance at December 31, 2024	$ 874,872	$ 795,630	$ 394,393	$ 6,274	$ 46,905	$ 150	$ 716,723	$ 2,834,947

In addition to the allowance for credit losses on loans, the Bank has established an allowance for unfunded commitments. The allowance for unfunded commitments was $43,301 at December 31, 2024 and was deemed immaterial at December 31, 2023. The amounts are classified in accrued interest payable and other liabilities on the balance sheets.

The composition of the provision for credit losses for the years-ended December 31 was as follows:

	2024	2023
Provision for credit losses on:		
Loans	$ 241,067	$ 80,000
Unfunded commitments	43,301	-
Total	$ 284,368	$ 80,000

Note 3: Loans (Continued)

There was no accrued interest written off by reversing interest income during the years ended December 31, 2024 and 2023.

There were no individually analyzed or collateral dependent loans as of December 31, 2023. Information regarding collateral dependent loans as of December 31, 2024 follows:

	Recorded Investment	Related Allowance
2024		
Multi-family	$ 58,515	$ -
Total	$ 58,515	$ -

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

- **Pass.** Loans with adequate collateral and debt service ability such that collectability of the contractual loan payments is highly probable.

- **Special mention.** Potential weakness exists that could cause future impairment, including deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date. Collateral values generally afford adequate coverage but may not be immediately marketable.

- **Substandard.** Specific and well-defined weaknesses exist that may include poor liquidity and deterioration of financial ratios. Loans in this category are inadequately protected by current sound net worth, paying capacity of the obliger, or pledged collateral. There is a distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

- **Doubtful.** Specific weaknesses characterized as Substandard that management has determined that repayment of principal and interest in full is highly questionable. Loans may be severely delinquent and/or under-collateralized with a speculative, yet unrealized, source of repayment.

Internally prepared ratings for commercial loans are updated on an ongoing basis.

Residential and consumer loans are generally evaluated based on whether or not the loan is performing according to the contractual terms of the loan as of the balance sheet date.

Note 3: Loans (Continued)

Information regarding the credit quality indicators most closely monitored for commercial loans by class as of December 31, 2024 and 2023 follows:

	Pass	Special Mention/ Watch	Substandard	Doubtful	Total
2024					
Residential Mortgage	$ 96,615,096	$ -	$ -	$ -	$ 96,615,096
Commercial Real Estate	68,232,231	3,567,200	-	-	71,799,431
Multi-family	43,289,092	-	-	58,515	43,347,607
Construction and Land Development	898,176	-	-	-	898,176
Commercial and Industrial	5,673,910	-	-	-	5,673,910
Consumer and other	27,396	-	-	-	27,396
Total	$ 214,735,901	$ 3,567,200	$ -	$ 58,515	$ 218,361,616
2023					
Residential Mortgage	$ 110,666,078	$ -	$ -	$ -	$ 110,666,078
Commercial Real Estate	75,612,719	706,848	-	-	76,319,567
Multi-family	49,556,010	-	-	-	49,556,010
Construction and Land Development	4,670,398	-	-	-	4,670,398
Commercial and Industrial	5,103,970	-	-	-	5,103,970
Consumer and other	114,206	-	-	-	114,206
Total	$ 245,723,381	$ 706,848	$ -	$ -	$ 246,430,229

Note 3: Loans (Continued)

Loan aging information as of December 31, 2024 and 2023 follows:

	Current Loans	Loans Past Due 30-59 Days	Loans Past Due 60-89 Days	Loans Past Due 90+ Days	Total Loans
2024					
Residential Mortgage	$ 96,615,096	$ -	$ -	$ -	$ 96,615,096
Commercial Real Estate	71,799,431	-	-	-	71,799,431
Multi-family	43,347,607	-	-	-	43,347,607
Construction and Land Development	898,176	-	-	-	898,176
Commercial and Industrial	5,673,910	-	-	-	5,673,910
Consumer and other	27,396	-	-	-	27,396
Total	$ 218,361,616	$ -	$ -	$ -	$ 218,361,616
2023					
Residential Mortgage	$ 110,666,078	$ -	$ -	$ -	$ 110,666,078
Commercial Real Estate	76,319,567	-	-	-	76,319,567
Multi-family	49,556,010	-	-	-	49,556,010
Construction and Land Development	4,670,398	-	-	-	4,670,398
Commercial and Industrial	5,103,970	-	-	-	5,103,970
Consumer and other	114,206	-	-	-	114,206
Total	$ 246,430,229	$ -	$ -	$ -	$ 246,430,229

No loans were on non-accrual and no loans were 90+ days past due and accruing interest at December 31, 2024 and 2023.

The Bank did not have any loan modifications to borrowers experiencing financial difficulty during the years ended December 31, 2024 and 2023.

Directors and executive officers of the Bank, including their families and firms in which they are principal owners, are considered related parties. There were no related party loans for the years ended December 31, 2024 and 2023.

Note 4: Premises and Equipment

An analysis of premises and equipment at December 31, 2024 and 2023, is as follows:

	2024	2023
Land	$ 90,788	$ 90,788
Buildings and improvements	609,270	594,508
Furniture and equipment	140,243	140,243
Computer equipment	269,214	269,214
Subtotal	1,109,515	1,094,753
Accumulated depreciation	(927,714)	(894,343)
Totals	$ 181,801	$ 200,410

Depreciation and amortization of premises and equipment totaled approximately $33,000 during 2024 and $40,000 during 2023.

Note 5: Deposits

Time deposits that meet or exceed the Federal Deposit Insurance Corporation (FDIC) insurance limit of $250,000 totaled approximately $31,769,000 and $36,407,000 at December 31, 2024 and 2023, respectively.

As of December 31, 2024 and 2023, the Bank had approximately $26,438,000 and $59,950,000, respectively, of brokered deposits.

Deposits from directors, executive officers, principal shareholders and their affiliates totaled $10,505,000 and $5,634,000 at December 31, 2024 and 2023, respectively.

The scheduled maturities of time deposits at December 31, 2024, are summarized as follows:

	2024
2025	$ 72,910,695
2026	28,475,933
2027	17,726,987
2028	9,753,897
2029	1,909,032
Total	$ 130,776,544

Note 6: Borrowed Funds

Borrowed funds consist of the following at December 31, 2024 and 2023:

	2024		2023	
(Dollars in Thousands)	Amount	Rates	Amount	Rates
Federal Home Loan Bank Advances:				
Fixed rate, fixed term advance maturing April 17, 2025	$ 5,000	1.03 %	$ 5,000	1.03 %
Fixed rate, fixed term advance maturing August 27, 2024	-	-	2,000	0.76
Fixed rate, fixed term advance maturing August 31, 2026	3,000	1.11	3,000	1.11
Fixed rate, fixed term advance maturing July 1, 2027	5,000	3.58	5,000	3.58
Fixed rate, fixed term advance maturing October 1, 2027	6,000	4.56	6,000	4.56
Fixed rate, fixed term advance maturing December 1, 2028	10,000	4.28	10,000	4.28
Fixed rate, fixed term advance maturing December 5, 2024	-	-	5,000	4.82
Fixed rate, fixed term advance maturing December 5, 2025	4,000	4.44	4,000	4.44
Fixed rate, fixed term advance maturing June 28, 2027	7,000	4.50	7,000	4.50
Fixed rate, fixed term advance maturing October 31, 2028	25,000	5.10	25,000	5.10
Federal Reserve Bank Discount Window				
Fixed rate, fixed term advance maturing December 13, 2024	-	-	21,382	5.050
Totals	$ 65,000		$ 93,382	

All borrowings with the FHLB are secured by certain qualified commercial and residential real estate loans and FHLB stock. The Bank pledged loans of approximately $92,317,000 and $120,784,000 as of December 31, 2024 and 2023, respectively. At December 31, 2024 and 2023, the Bank's available and unused portion of this borrowing agreement totaled approximately $18,668,000 and $39,252,000. However, as of December 31, 2024, the Bank was only able to borrow 30% of total liabilities and capital, equaling $78,945,026, which leaves an available balance of approximately $5,296,000.

All borrowings with the FRB are secured by certain qualified investment securities. At December 31, 2024, the Bank had no advances outstanding from the FRB. The Bank pledged securities with a carrying value of approximately $33,147,000 as of December 31, 2023.

Note 7: Employee Benefit Plan

The Bank sponsors a 401(k) plan that covers substantially all employees, subject to minimum service requirements. The Bank contributed approximately $86,000 during 2024 and $70,000 during 2023 to the plan.

Note 8: Commitments, Contingencies, and Credit 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 instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheets.

The Bank's exposure to credit loss is represented by the contractual, or notional, amount of these commitments. The Bank follows the same credit policies in making commitments as it does for on-balance-sheet instruments. Since some of the commitments are expected to expire without being drawn upon and some of the commitments may not be drawn upon to the total extent of the commitment, the notional amount of these commitments does not necessarily represent future cash requirements.

The following commitments were outstanding at December 31, 2024 and 2023:

(Dollars in Thousands)	2024	2023
Commitments to extend credit	$ 11,231	$ 16,100
Standby letters of credit	7,350	8,229

Commitments to extend credit are agreements to lend to a customer at fixed or variable rates as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable; inventory; property, plant, and equipment; real estate; and stocks and bonds.

Standby letters of credit are conditional lending commitments issued by the Bank to guarantee the performance of a customer member to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

In the ordinary course of conducting business, the Bank occasionally becomes involved in legal proceedings relating to contracts, environmental issues, or other matters. While any proceeding or litigation has an element of uncertainty, management of the Bank believes that the outcome of any pending or threatened actions will not have a material adverse effect on the business or financial condition of the Bank.

Note 9: Stockholders' Equity

Preferred Stock

In accordance with the Amended and Restated Articles of Association dated April 14, 2005, the Bank authorized an aggregate of 21,200,000 shares of series A, B and C preferred stock with a par value of $2.50 per share and series D preferred stock with a par value of $0.01 per share (collectively, "Preferred Stock"), which capital stock may be increased or decreased from time to time in accordance with the provisions of the laws of the United States. Of the Preferred Stock, 3,880 shares are designated Series A Preferred Stock (the "Series A"), 196,120 shares are designated Series B Preferred Stock (the "Series B"), 1,000,000 shares are designated Series C Preferred Stock (the "Series C"), and 20,000,000 shares are designated Series D Preferred Stock (the "Series D").

The Common Stock shall be the only class of capital stock which shall possess voting rights prior to the receipt of regulatory approval. Regulatory approval shall mean the approval by the OCC (or any successor thereto) of the change in control applications. If a proposed amendment would affect two or more classes or series of stock in the same or a substantially similar manner, all the classes or series so affected must vote together as a single voting group on the proposed amendment, in addition to any other class voting rights specified.

Each share of Series A shall be convertible into five shares of Common Stock at any time. Each holder of the Series B and Series C stock shall have the right, at any time after the receipt of any required approval by the OCC, to convert some or all of such holder's shares of into 14.973 shares of Common Stock. Each holder of the Series D Preferred Stock shall have the right, at any time after the receipt of the Regulatory Approvals, if necessary, to convert some or all of such holder's shares of Series D Preferred Stock into one share of Common Stock. In the event the outstanding shares of Common Stock shall be subdivided (by stock dividends, splits or otherwise) into a greater number of shares of Common and Preferred Stock then in effect shall, concurrently with the effectiveness of such subdivision, be proportionately increased. In the event the outstanding shares of Common Stock shall be combined or consolidated, by reclassification or otherwise, into a lesser number of shares of Common and Preferred Stock then in effect shall, concurrently with the effectiveness of such combination or consolidation, be proportionately decreased.

In the event of a voluntary or involuntary liquidation, each share of Series B, C and/or D Stock shall be entitled to receive an amount in cash, after payment of all debts and liabilities of the Bank and prior to any distribution of such assets or proceeds to the holders of Common Stock equal to: the Series B issuance price for each share of Series B Preferred Stock, the Series C issuance price for each share of Series C Preferred Stock and the Series D issuance price for each share of Series D Preferred Stock. The holder of Series B and C and/or D Stock shall have no right to share in any other assets of the Bank upon liquidation. If the assets and funds of the Bank are insufficient to provide for the payment of the full liquidation preference to the holders of the Preferred Stock, such assets and funds as are available shall be distributed ratably among the holders of the Preferred Stock in proportion to the full liquidation preference each such holder is otherwise entitled to receive. After the payment or the setting apart of the payment of the full liquidation preference to the holders of the Preferred Stock, the holders of the Common Stock shall be entitled to receive all remaining assets and funds of the Bank ratably on a per-share basis. The Series B and C issuance price shall mean $10.197838 and Series D issuance price shall mean $0.443.

Note 9: Stockholders' Equity (Continued)

Common Stock

In 2023, the Bank raised $10,000,000, net of offering costs, in a private placement of common stock to an existing stockholder.

Note 10: Dividend Restrictions

Banking regulations restrict the amount of dividends the Bank may pay without obtaining prior approval. In addition to the formal statutes and regulations, regulatory authorities also consider the adequacy of the Bank's total capital in relation to its assets, deposits, and other such items. Capital adequacy considerations could further limit the availability of dividends from the Bank. Additionally, the Bank is prohibited from paying dividends due to the Consent Order discussed in notes 11 and 14.

Note 11: Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of Common Equity Tier 1, Tier 1, and Total capital to risk-weighted assets and of Tier 1 capital to average assets.

The Bank is currently operating under a Consent Order with the OCC as discussed in note 14. The Consent Order requires the Bank to maintain increased capital amounts and ratios in excess of the minimum amounts otherwise required by the federal banking agencies. As a result of the Consent Order, the Bank is considered adequately capitalized as of December 31, 2024.

Note 11: Regulatory Matters (Continued)

The Bank's actual capital amounts and ratios as of December 31, 2024 and 2023, are presented in the following table:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in Thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
2024						
Common Equity Tier 1 capital (to risk-weighted assets)	$ 27,593	14.98 %	≥ $ 8,289	≥ 4.50 %	≥ $ 11,973	≥ 6.50 %
Tier 1 capital (to risk-weighted assets)	27,612	14.99	≥ 11,052	≥ 6.00	≥ 14,736	≥ 8.00
Total capital (to risk-weighted assets)	29,922	16.24	≥ 14,736	≥ 8.00	≥ 18,420	≥ 10.00
Tier 1 capital (to average assets)	27,612	9.95	≥ 11,200	≥ 4.00	≥ 16,801	≥ 6.00
2023						
Common Equity Tier 1 capital (to risk-weighted assets)	$ 31,503	15.00 %	≥ $ 9,452	≥ 4.50 %	≥ $ 13,652	≥ 6.50 %
Tier 1 capital (to risk-weighted assets)	31,522	15.01	≥ 12,602	≥ 6.00	≥ 16,803	≥ 8.00
Total capital (to risk-weighted assets)	34,148	16.26	≥ 16,803	≥ 8.00	≥ 21,004	≥ 10.00
Tier 1 capital (to average assets)	31,522	9.80	≥ 12,863	≥ 4.00	≥ 19,294	≥ 6.00

Note 12: Income Taxes

The components of the provision for income taxes are as follows:

	2024	2023
Current	$ 123,602	$ 17,015
Deferred	(1,121,860)	(272,754)
Change in valuation allowance	228,077	678,454
Totals	$ (770,181)	$ 422,715

Note 12: Income Taxes (Continued)

A summary of the sources of differences between income taxes at the federal statutory rate and the provision for income taxes for the years ended December 31, 2024 and 2023, is as follows:

	2024	2023
Tax expense (benefit) at statutory rate	$ (773,147)	$ (293,690)
Increase (decrease) in taxes resulting from:		
Change in valuation allowance	228,077	678,454
State income taxes and other	(248,060)	38,777
Other	22,949	(826)
Totals	$ (770,181)	$ 422,715

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Bank's assets and liabilities. The major components of the net deferred tax asset as of December 31, 2024 and 2023, are presented below:

	2024	2023
Deferred tax assets:		
State and federal net operating loss carryforwards	$ 1,953,432	$ 894,164
Allowance for credit losses	416,583	341,263
Other	3,255	30,577
Unrealized loss on securities available for sale	915,937	920,487
Total deferred tax assets	3,289,207	2,186,491
Deferred tax liabilities:		
Other	(5,839)	(20,433)
Total deferred tax liabilities	(5,839)	(20,433)
Valuation allowance	(906,531)	(678,454)
Totals	$ 2,376,837	$ 1,487,604

The future tax consequences of the differences between the financial reporting and tax basis of the Bank's assets and liabilities resulted in a net deferred tax asset. A valuation allowance of approximately $907,000 was established as of December 31, 2024 related to state tax credit carryforwards that will likely expire prior to realization. At December 31, 2024, the Bank has remaining loss carryforwards of $4,634,000 for federal and $16,070,000 for state income tax purposes, which begin to expire in 2040, if not previously utilized.

Note 13: Fair Value Measurements

Some assets and liabilities, such as securities available for sale, are measured at fair value on a recurring basis under GAAP. Other assets and liabilities, such as collateral dependent loans, may be measured at fair value on a nonrecurring basis.

Following is a description of the valuation methodology and significant inputs used for each asset and liability measured at fair value on a recurring or nonrecurring basis, as well as the classification of the asset or liability within the fair value hierarchy.

Securities available for sale - Securities available for sale may be classified as Level 1, Level 2, or Level 3 measurements within the fair value hierarchy. Level 1 securities include debt securities traded on a national exchange. The fair value measurement of a Level 1 security is based on the quoted price of the security. Level 2 securities include U.S. government and agency securities, obligations of states and political subdivisions, corporate debt securities, and mortgage related securities. The fair value measurement of a Level 2 security is obtained from an independent pricing service and is based on recent sales of similar securities and other observable market data. Level 3 securities include corporate securities in less liquid markets.

Loans - Loans are not measured at fair value on a recurring basis. However, loans considered to be collateral dependent or individually evaluated (see Note 1) may be measured at fair value on a nonrecurring basis. The fair value measurement of a collateral dependent or individually evaluated loan that is collateral dependent is based on the fair value of the underlying collateral. Independent appraisals are obtained that utilize one or more valuation methodologies - typically they will incorporate a comparable sales approach and an income approach. Management routinely evaluates the fair value measurements of independent appraisers and adjusts those valuations based on differences noted between actual selling prices of collateral and the most recent appraised value. Such adjustments are usually significant, which results in a Level 3 classification. All other collateral dependent or individually evaluated loan measurements are based on the present value of expected future cash flows discounted at the applicable effective interest rate. There were no loans recorded at fair value as of December 31, 2024 and 2023.

Note 13: Fair Value Measurements (Continued)

Information regarding the fair value of assets and liabilities measured at fair value on a recurring basis as of December 31, 2024 and 2023, follows:

	Recurring Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
2024				
Assets:				
Securities available for sale:				
U.S. government and agency securities	$ -	$ 949,225	$ -	$ 949,225
State, county and municipal securities	-	8,374,722	-	8,374,722
SBA loan-backed securities	-	3,078,434	-	3,078,434
Mortgage-backed securities	-	11,988,966	-	11,988,966
Totals	$ -	$ 24,391,347	$ -	$ 24,391,347
2023				
Assets:				
Securities available for sale:				
U.S. government and agency securities	$ -	$ 917,107	$ -	$ 917,107
State, county and municipal securities	-	8,409,140	-	8,409,140
SBA loan-backed securities	-	3,799,476	-	3,799,476
Mortgage-backed securities	-	15,555,213	-	15,555,213
Totals	$ -	$ 28,680,936	$ -	$ 28,680,936

Note 14: Consent Order

Effective November 16, 2023, the Bank entered into a Consent Order with the OCC to initiate cease and desist proceedings against the Bank for engaging in unsafe or unsound practices. The provisions of the Consent Order require the Bank to: 1) appoint a Compliance Committee to monitor and oversee the Bank's compliance with the Consent Order; 2) improve board oversight and corporate governance; 3) develop a strategic plan that establishes the Bank's risk profile, earnings performance, growth, balance sheet mix, off-balance sheet activities, liability structure, and capital and liquidity adequacy; 4) develop a capital plan that establishes a total capital ratio of at least 15%, a common equity tier 1 capital ratio of at least 14%, and a leverage ratio of at least 10%; 5) develop an enhanced Interest Rate Risk management program; 6) develop an enhanced Liquidity Risk management program; 7) maintain accurate books and records for the Bank; 8) develop an enhanced Third-Party Risk management program; and 9) direct the board of directors to take corrective actions required by the Consent Order.