# BANKFLORIDA BANCORP, INC.

## Holding Company for

Bank
FLORIDA

**Audited Consolidated Financial Statements**

**At December 31, 2022 and 2021 and the Years Then Ended**

**(Together with Independent Auditor's Report)**

# Independent Auditor's Report

Stockholders and the Board of Directors of
BankFLORIDA Bancorp, Inc.
Dade City, Florida

***Opinion***

We have audited the accompanying consolidated financial statements of BankFLORIDA Bancorp, Inc. and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive income, stockholders' 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 consolidated financial position of the Company as of December 31, 2022 and 2021, 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 Consolidated 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 Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with GAAP, 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 for a period of one year subsequent to the date of this report.

***Auditor's Responsibilities for the Audit of the Consolidated 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.

Hacker, Johnson & Smith PA

HACKER, JOHNSON & SMITH PA
Tampa, Florida
March 20, 2023

**BANKFLORIDA BANCORP, INC. AND SUBSIDIARY**

**Consolidated Balance Sheets**
**($ in thousands, except per share amounts)**

| | At December 31, 2022 | 2021 |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | $ 745 | 1,906 |
| Interest-bearing deposits in banks | 42,926 | 72,161 |
| Total cash and cash equivalents | 43,671 | 74,067 |
| Debt securities available for sale | 29,881 | 15,849 |
| Loans, net of allowance for loan losses of $2,799 and $1,790 | 230,202 | 171,523 |
| Accrued interest receivable | 807 | 462 |
| Federal Home Loan Bank stock, at cost | 197 | 148 |
| Premises and equipment, net | 13,251 | 6,544 |
| Deferred income taxes | 2,109 | 1,191 |
| Bank-owned life insurance | 1,145 | 1,119 |
| Other assets | 916 | 765 |
| Total assets | $ 322,179 | 271,668 |
| **Liabilities and Stockholders' Equity** | | |
| Deposits: | | |
| Noninterest-bearing demand | 81,979 | 82,286 |
| Interest-bearing demand | 18,557 | 12,066 |
| Savings and money market | 160,376 | 132,557 |
| Time | 22,924 | 15,158 |
| Total deposits | 283,836 | 242,067 |
| Note payable | 8,000 | - |
| Accrued expenses and other liabilities | 697 | 290 |
| Total liabilities | 292,533 | 242,357 |
| Commitments and contingencies (Notes 4, 13 and 14) | | |
| Stockholders' equity: | | |
| Preferred share: $1 par value, $10,000,000 shares authorized; none issued and outstanding | - | - |
| Common stock: $1 par value; 50,000,000 shares authorized; 3,180,332 and 3,180,332 shares issued and outstanding | 3,180 | 3,180 |
| Additional paid-in capital | 33,956 | 33,772 |
| Accumulated deficit | (4,859) | (7,545) |
| Accumulated other comprehensive loss | (2,631) | (96) |
| Total stockholders' equity | 29,646 | 29,311 |
| Total liabilities and stockholders' equity | $ 322,179 | 271,668 |

See Accompanying Notes to Consolidated Financial Statements.

## BANKFLORIDA BANCORP, INC. AND SUBSIDIARY

### Consolidated Statements of Income
**(In thousands)**

| | Year Ended December 31, 2022 | 2021 |
|---|---|---|
| Interest income: | | |
| Loans | $ 11,067 | 7,040 |
| Debt securities available for sale | 652 | 249 |
| Other interest-earning assets | 789 | 56 |
| Total interest income | 12,508 | 7,345 |
| Interest expense: | | |
| Deposits | 1,208 | 890 |
| Other interest | 197 | 2 |
| Total interest expense | 1,405 | 892 |
| Net interest income | 11,103 | 6,453 |
| Provision for loan losses | 1,000 | 570 |
| Net interest income after provision for loan losses | 10,103 | 5,883 |
| Noninterest income: | | |
| Mortgage brokerage fees | 151 | - |
| Service charges and fees | 67 | 53 |
| Financial services fees | 39 | 179 |
| Earnings on bank-owned life insurance | 26 | 26 |
| Other | 21 | 13 |
| Total noninterest income | 304 | 271 |
| Noninterest expense: | | |
| Salaries and benefits | 4,377 | 3,383 |
| Occupancy and equipment | 404 | 432 |
| Data processing | 920 | 658 |
| Regulatory assessments | 251 | 178 |
| Professional fees | 186 | 152 |
| Other | 659 | 506 |
| Total noninterest expense | 6,797 | 5,309 |
| Income before income taxes | 3,610 | 845 |
| Income taxes | 924 | 199 |
| Net income | $ 2,686 | 646 |

See Accompanying Notes to Consolidated Financial Statements.

## BANKFLORIDA BANCORP, INC. AND SUBSIDIARY

### Consolidated Statements of Comprehensive Income
**(In thousands)**

| | Year Ended December 31, | |
|---|---|---|
| | **2022** | **2021** |
| Net income | $ 2,686 | 646 |
| Other comprehensive loss: | | |
| Change in unrealized loss on debt securities available for sale- | | |
| Unrealized loss arising during the year | (3,210) | (141) |
| Income tax benefit | 675 | 29 |
| Total other comprehensive loss | (2,535) | (112) |
| Comprehensive income | $ 151 | 534 |

See Accompanying Notes to Consolidated Financial Statements.

## BANKFLORIDA BANCORP, INC. AND SUBSIDIARY

## Consolidated Statements of Stockholders' Equity

## Years Ended December 31, 2022 and 2021

**($ in thousands, except per share amounts)**

| | Common Stock Shares | Common Stock Amount | Additional Paid-In Capital | Accumulated Deficit | Accumulated Other Compre-hensive Income (Loss) | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| Balance at December 31, 2020 | 2,676,446 | $ 2,676 | 28,733 | (8,191) | 16 | 23,234 |
| Net income | - | - | - | 646 | - | 646 |
| Proceeds from the issuance of common stock | 503,886 | 504 | 5,039 | - | - | 5,543 |
| Net unrealized loss on debt securities available for sale, net of income tax benefit | - | - | - | - | (112) | (112) |
| Balance at December 31, 2021 | 3,180,332 | 3,180 | 33,772 | (7,545) | (96) | 29,311 |
| Net income | - | - | - | 2,686 | - | 2,686 |
| Stock based compensation | - | - | 184 | - | - | 184 |
| Net unrealized loss on debt securities available for sale, net of income tax benefit | - | - | - | - | (2,535) | (2,535) |
| Balance at December 31, 2022 | 3,180,332 | $ 3,180 | 33,956 | (4,859) | (2,631) | 29,646 |

See Accompanying Notes to Consolidated Financial Statements.

## BANKFLORIDA BANCORP, INC. AND SUBSIDIARY

### Consolidated Statements of Cash Flows
**(In thousands)**

| | Year Ended December 31, 2022 | 2021 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 2,686 | 646 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 360 | 315 |
| Provision for loan losses | 1,000 | 570 |
| Net accretion of loan fees, premiums and discounts | (231) | (374) |
| Net amortization of premiums and discounts on debt securities | 1,239 | 36 |
| Deferred tax (benefit) expense | (243) | 199 |
| Earnings on bank-owned life insurance | (26) | (26) |
| Increase in accrued interest receivable | (345) | (56) |
| Increase in other assets | (151) | (11) |
| Increase in accrued expenses and other liabilities | 407 | 28 |
| Stock-based compensation | 184 | - |
| Net cash provided by operating activities | 4,880 | 1,327 |
| Cash flows from investing activities: | | |
| Proceeds from paydowns of debt securities available for sale | 1,099 | 1,424 |
| Purchase of debt securities available for sale | (19,580) | (11,133) |
| Net increase in loans | (59,448) | (64,602) |
| Purchase of premises and equipment | (7,067) | (706) |
| Purchase of Federal Home Loan Bank stock, net | (49) | (5) |
| Net cash used in investing activities | (85,045) | (75,022) |
| Cash flows from financing activities: | | |
| Net increase in deposits | 41,769 | 92,667 |
| Repayment of Federal Home Loan Bank advances | - | (625) |
| Proceeds from the issuance of common stock, net of offering costs | - | 5,543 |
| Increase in notes payable | 8,000 | - |
| Net cash provided by financing activities | 49,769 | 97,585 |
| Net (decrease) increase in cash and cash equivalents | (30,396) | 23,890 |
| Cash and cash equivalents, beginning of year | 74,067 | 50,177 |
| Cash and cash equivalents, end of year | $ 43,671 | 74,067 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the year for: | | |
| Interest | $ 1,366 | 903 |
| Income taxes | $ 751 | - |
| Noncash transactions- | | |
| Net change in unrealized loss on debt securities available for sale, net of income tax benefit | $ (2,535) | (112) |

See Accompanying Notes to Consolidated Financial Statements.

## (1) Summary of Significant Accounting Policies

***Organization.*** BankFLORIDA Bancorp, Inc. (the "Holding Company") owns 100% of the outstanding common stock of BankFLORIDA (the "Bank") (collectively, the "Company"). On April 30, 2021, the Bank's stockholders approved a Plan of Reorganization and share exchange under which the Bank became a wholly-owned subsidiary of the Holding Company. The Bank's stockholders exchanged their common stock for shares of the Holding Company. As a result, all 2,764,642 shares of the previously issued $1 par value common stock of the Bank were exchanged for 2,764,642 shares of the $1 par value common stock of the Holding Company. The Holding Company's merger with the Bank was accounted as a reorganization of entities under common control at historical cost and the financial data for periods presented include the results of the Bank.

The Holding Company's primary activity is the operation of the Bank. The Bank is a state-chartered bank organized in 2007 under the laws of the State of Florida. The Bank's financial services consist of deposit and lending activities provided through its branch locations in Pasco, Palm Beach and Osceola counties, Florida. The Bank's deposit accounts are insured up to the applicable limits by the Federal Deposit Insurance Corporation ("FDIC"). The Bank is regulated by various Federal and State agencies and is subject to periodic examinations by those regulatory authorities.

The following is a description of the significant accounting policies and practices followed by the Company, which conform to accounting principles generally accepted in the United States of America ("GAAP") and prevailing practices within the banking industry.

***Subsequent Events.*** Management has evaluated events occurring subsequent to the balance sheet date through March 20, 2023 (the consolidated financial statement issuance date), determining no events require additional disclosure in these consolidated financial statements.

***Basis of Presentation***. The consolidated financial statements include the accounts of the Holding Company and the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

***Use of Estimates.*** In preparing consolidated financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change in the near term are the determination of the allowance for loan losses and the realization of deferred tax assets.

(continued)

**(1) Summary of Significant Accounting Policies, Continued**

***Cash and Cash Equivalents.*** Cash and cash equivalents include balances due from banks and interest-bearing deposits in banks.

The Company may be required under Federal Reserve Board regulations to maintain reserves, generally consisting of vault cash or deposits with the Federal Reserve Bank or in pass-through accounts with other qualified banks, against its transaction deposit accounts. At December 31, 2022 and 2021, the Company did not have a reserve requirement as the Federal Reserve Board lowered the requirements to zero for all depository institutions.

***Debt Securities.*** Debt securities may be classified as either trading, held to maturity or available for sale. Trading debt securities are held principally for resale and recorded at their fair values. Unrealized gains and losses on trading debt securities are included immediately in income. Held-to-maturity debt securities are those which the Company has the positive intent and ability to hold to maturity and are reported at amortized cost. Debt securities available for sale consist of securities not classified as trading debt securities or as held-to-maturity debt securities. Unrealized holding gains and losses, on debt securities available for sale are excluded from income and reported in accumulated other comprehensive loss. Gains and losses on the sale of debt securities available for sale are recorded on the trade date determined using the specific-identification method. Premiums and discounts on debt securities available for sale are recognized in interest income using the interest method over the period to maturity.

Management evaluates debt securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

***Loans.*** The Company grants real estate, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by real estate loans. The ability of the Company's debtors to honor their contracts is dependent upon real estate and general economic conditions.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. Loans are charged-off if collection of principal or interest is considered doubtful.

(continued)

**(1) Summary of Significant Accounting Policies, Continued**

***Loans, Continued.*** All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. 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 Loan Losses.*** The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. There were no changes to the Company's accounting policies or methodology during the years ended December 31, 2022 or 2021.

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

The allowance consists of specific and general components. The specific component relates to loans that are considered impaired. For such loans, an allowance is established when the discounted cash flows or collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers all other loans and is based on historical loss experience adjusted for qualitative factors.

The historical loss component of the allowance is determined by losses recognized by portfolio segment over the preceding eighteen months. This is supplemented by the risks for each portfolio segment. Risk factors impacting loans in each of the portfolio segments include any deterioration of property values, reduced consumer and business spending as a result of unemployment and reduced credit availability and lack of confidence in a sustainable economy. The historical experience is adjusted for the following qualitative factors: (a) the existence and effect of any concentrations of credit and changes in the level of such concentrations; (b) changes in national, regional and local economic conditions that affect the collectability of the loan portfolio; (c) changes in levels or trends in charge-offs and recoveries; (d) changes in the volume and severity of past due loans, nonaccrual loans or loans classified special mention, substandard, doubtful or loss; (e) changes in the nature and volume of the loan portfolio and terms of loans; (f) changes in lending policies and procedures, risk selection and underwriting standards; (g) changes in the experience, ability and depth of lending management and other relevant staff; (h) quality of loan review; and (i) the effect of other external factors, trends or uncertainties that could affect management's estimate of probable losses, such as competition and industry conditions.

(continued)

**(1) Summary of Significant Accounting Policies, Continued**

***Allowance for Loan Losses.*** A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement, or if the loan is identified as a troubled debt restructuring. 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 real estate 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.

***Premises and Equipment.*** Land is carried at cost. Buildings, building and leasehold improvements, furniture and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed principally by the straight-line method over the estimated useful lives of the assets, or the lesser of the remaining lease term or useful life of leasehold improvements.

***Advertising.*** Advertising costs are expensed as incurred.

***Stock-Based Compensation.*** The Company records stock-based compensation at fair value. The Company recognizes the effects of stock-based compensation in the accompanying consolidated statements of income on a straight-line basis over the vesting period. The Company accounts for forfeitures as they occur.

***Transfer of Financial Assets.*** Transfers of financial assets or a participating interest in an entire financial asset 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 Company, (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 Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. A participating interest is a portion of an entire financial asset that (1) conveys proportionate ownership rights with equal priority to each participating interest holder (2) involves no recourse (other than standard representations and warranties) to, or subordination by, any participating interest holder, and (3) does not entitle any participating interest holder to receive cash before any other participating interest holder.

(continued)

**(1) Summary of Significant Accounting Policies, Continued**

***Fair Value Measurements.*** Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP has established a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities that are not active; and model-driven valuations whose inputs are observable or whose significant value drivers are observable. Valuations may be obtained from, or corroborated by, third-party pricing services.

Level 3: Unobservable inputs to measure fair value of assets and liabilities for which there is little, if any market activity at the measurement date, using reasonable inputs and assumptions based upon the best information at the time, to the extent that inputs are available without undue cost and effort.

The following describes valuation methodologies used for assets measured at fair value-

*Debt Securities Available for Sale.* Where quoted prices are available in an active market, debt securities are classified within Level 1 of the valuation hierarchy. Level 1 debt securities include highly liquid government bonds and certain mortgage products. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of debt securities with similar characteristics, or discounted cash flows. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include certain mortgage-backed debt securities, taxable municipal securities and U.S. Government agency debt securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, debt securities are classified within Level 3 of the valuation hierarchy. Securities classified within Level 3 include certain residual interests in securitizations and other less liquid securities.

***Off-Balance Sheet Instruments.*** In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit, unused lines of credit and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded.

(continued)

## (1) Summary of Significant Accounting Policies, Continued

***Revenue from Contracts with Customers***. The majority of the Company's revenues come from interest income and financial assets, including loans, debt securities and bank-owned life insurance which are outside the scope of the accounting guidance with respect to revenue from contracts with customers. The Company's services that fall within this guidance are presented within noninterest income and are recognized as revenue as the Company satisfies its obligation to the customer. Elements of noninterest income within the scope of this guidance are limited to mortgage brokerage fees, service charges and fees on deposit accounts and financial service fees. The following summarizes the Company's revenue recognition accounting policy for certain noninterest income activities:

***Mortgage Brokerage Fees.*** The Company earns mortgage brokerage fees related to the referral of mortgage loans to other correspondent financial institutions ("originating institution"). Mortgage brokerage fees are generally earned as a percentage of the loan balance that is referred to the originating institution. The Company believes that the performance obligation is satisfied on the origination date because that is when the mortgage note is executed, the referral fee is agreed upon, and the risks and rewards of the mortgage loan are assumed by the originating institution. As such, these fees are recognized into operations at the time of origination of the mortgage loan.

***Service Charges on Deposit Accounts.*** Deposit related fees consist of fees earned on transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as wire fees, ATM use fees, debit card interchange fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the performance obligation. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

***Financial Services Fees.*** Financial services fees consists of referral fees received by a third-party financial advisor for commissions earned by the third-party on customers referred to them by the Company and are recognized at the time the transaction is executed as that is the point in time the Company fulfills the performance obligation.

***Income Taxes.*** Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between book and tax basis of the various asset and liabilities in the consolidated statements of financial condition and gives recognition to changes in tax rates and laws. A valuation allowance, if needed, reduces deferred tax assets to the expected amount more likely than not to be realized. Realization of deferred tax assets is dependent upon the level of historical income, prudent and feasible tax planning strategies, reversal of deferred tax liabilities and estimates of future taxable income.

(continued)

**(1) Summary of Significant Accounting Policies, Continued**

***Income Taxes, Continued.*** The Company evaluates uncertain tax positions at the end of each reporting period. The Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefit recognized in the consolidated financial statements from any such position is measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. Any interest and/or penalties related to income taxes are reported as a component of income tax expense.

***Comprehensive Income.*** GAAP requires that recognized revenue, expenses, gains and losses be included in income. Although certain changes in assets and liabilities, such as unrealized gains and losses on debt securities available for sale, are reported as a separate component of the equity section of the consolidated balance sheet, such items, along with net income are components of comprehensive income.

***Recent Pronouncements.*** In June 2016, FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326)*. The ASU requires the Company to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. The Company will continue to use judgment to determine which loss estimation method is appropriate for its circumstances. The ASU requires enhanced disclosures to help investors and other consolidated financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the consolidated financial statements. Additionally, the ASU amends the accounting for credit losses on debt securities available for sale and purchased financial assets with credit deterioration. The ASU was effective on January 1, 2023. The Company is in the process of determining the effect of the ASU on its consolidated financial statements.

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## (2) Debt Securities Available for Sale

The following table summarizes the amortized cost and fair value of debt securities available for sale and the corresponding amounts of unrealized gains and losses therein (in thousands):

| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|
| *At December 31, 2022:* | | | | |
| Mortgage-backed securities | $ 12,549 | - | (1,747) | 10,802 |
| Taxable municipal securities | 13,143 | - | (1,412) | 11,731 |
| U.S. government agency debt securities | 7,519 | - | (171) | 7,348 |
| | $ 33,211 | - | (3,330) | 29,881 |
| *At December 31, 2021:* | | | | |
| Mortgage-backed securities | 12,738 | 20 | (137) | 12,621 |
| Taxable municipal securities | 3,231 | 30 | (33) | 3,228 |
| | $ 15,969 | 50 | (170) | 15,849 |

The amortized cost and fair value of debt securities available for sale, segregated by contractual maturity as of December 31, 2022, are shown below (in thousands):

| | Amortized Cost | Fair Value |
|---|---|---|
| Due after one year through five years | $ 9,154 | 8,968 |
| After five years through ten years | 10,665 | 9,969 |
| After ten years | 13,392 | 10,944 |
| | $ 33,211 | 29,881 |

Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

(continued)

**(2) Debt Securities Available for Sale, Continued**

Debt securities available for sale measured at fair value on a recurring basis are summarized below (in thousands):

| | Total | Fair Value Hierarchy Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| *December 31, 2022:* | | | | |
| Mortgage-backed securities | $ 10,802 | - | 10,802 | - |
| Taxable municipal securities | 11,731 | - | 11,731 | - |
| U.S. government agency debt securities | 7,348 | - | 7,348 | - |
| Total | $ 29,881 | - | 29,881 | - |
| *December 31, 2021:* | | | | |
| Mortgage-backed securities | 12,621 | - | 12,621 | - |
| Taxable municipal securities | 3,228 | - | 3,228 | - |
| Total | $ 15,849 | - | 15,849 | - |

The following table summarizes debt securities available for sale with unrealized losses, aggregated by investment category and length of time in a continuous unrealized loss position (in thousands):

| | Less Than Twelve Months | | Twelve Months or More | |
|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| *December 31, 2022:* | | | | |
| Mortgage-backed securities | $ - | - | 10,802 | 1,747 |
| Taxable municipal securities | - | - | 11,731 | 1,412 |
| U.S. government agency debt securities | - | - | 7,348 | 171 |
| | $ - | - | 29,881 | 3,330 |
| *December 31, 2021:* | | | | |
| Mortgage-backed securities | 10,295 | 135 | 732 | 2 |
| Taxable municipal securities | 784 | 18 | 583 | 15 |
| | $ 11,079 | 153 | 1,315 | 17 |

At December 31, 2022 and 2021, the unrealized losses on thirty-eight and fourteen debt securities were caused by market conditions. It is expected that the debt securities available for sale would not be settled at a price less than the par value of the investments. Because the decline in fair value is attributable to market conditions and not credit quality, and because the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

(continued)

## (3) Loans

The segments and classes of loans are as follows (in thousands):

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Real estate loans: | | |
| One-to-four family | $ 37,795 | 35,713 |
| Commercial | 160,228 | 108,456 |
| Home equity | 1,617 | 1,639 |
| Multi-family | 2,436 | - |
| Total real estate loans | 202,076 | 145,808 |
| Commercial business | 31,372 | 27,813 |
| Consumer | 1 | 4 |
| Total loans | 233,449 | 173,625 |
| Allowance for loan losses | (2,799) | (1,790) |
| Net deferred fees | (510) | (437) |
| Premiums and discounts on purchased loans, net | 62 | 125 |
| Loans, net | $ 230,202 | 171,523 |

The Company has divided the loan portfolio into three portfolio segments, each with different risk characteristics and methodologies for assessing risk. All loans are underwritten in accordance with policies set forth and approved by the Company's Board of Directors. The portfolio segments and classes are identified by the Company as follows:

***Real Estate Loans.*** Real estate loans are segmented into four classes: One-to-four family, commercial, home equity and multi-family.

*One-To-Four Family Real Estate.* The Company originates fixed-rate and adjustable-rate residential real estate loans for purchase of a home or refinance of a mortgage loan. These loans are collateralized by 1-4 family residential properties located within the Company's market area. Market conditions could fluctuate negatively and affect the home's final value.

(continued)

**(3) Loans, Continued**

*Commercial Real Estate.* Commercial real estate loans consist of loans to finance real estate purchases, refinancing, expansions, construction and improvements to commercial properties. These loans are secured by first liens on office buildings, apartments, farms, retail and mixed-use properties, churches, warehouses and restaurants located within the market area. The Company's underwriting analysis includes credit verification, independent appraisals, a review of the borrower's financial condition, and a detailed analysis of the borrower's underlying cash flows. Commercial real estate loans generally have greater credit risk as compared to one-to-four family residential real estate loans and home equity loans, as they usually involve larger loan balances secured by non-homogeneous or specific use properties. Repayment of these loans typically relies on the continued successful operation of a business or the generation of lease income by the property and is therefore more sensitive to adverse conditions in the economy and real estate market.

*Home Equity.* Home equity loans are lines of credit secured by 1-4 family residential properties. Market conditions could fluctuate negatively and affect the home's final value.

*Multi-Family.* Multi-family residential real estate loans generally involve a greater degree of credit risk than residential real estate loans but are normally smaller individual loan balances than commercial real estate loans. Multi-family residential real estate loans involve a greater degree of credit risk as compared to residential real estate loans due to the reliance on the successful operation of the project. These loans are also more sensitive to adverse economic conditions.

***Commercial Business.*** Commercial loans consist of loans to small- and medium-sized companies in the Company's market area. Commercial loans are generally used for working capital purposes or for acquiring equipment, inventory or fixtures. Primarily all of the Company's commercial loans are secured loans, along with a small amount of unsecured loans. The Company's underwriting analysis consists of a review of the consolidated financial statements of the borrower, the lending history of the borrower, the debt service capabilities of the borrower, the projected cash flows of the business, the value of the collateral, if any, and whether the loan is guaranteed by the principals of the borrower. These loans are generally secured by accounts receivable, inventory and equipment. Commercial and industrial loans are typically made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business, which makes them of higher risk than real estate loans and the collateral securing loans may be difficult to appraise and may fluctuate in value based on the success of the business. The Company seeks to minimize these risks through our underwriting standards.

***Consumer.*** Consumer loans typically consist of automobile and personal loans. Most of the Company's consumer loans share approximately the same level of risk as residential mortgages.

(continued)

## (3) Loans, Continued

The following table presents the contractual aging of past due loans by class of loans (in thousands):

| | Accruing Loans | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30-59 Days Past Due | 60-89 Days Past Due | Over 90 Days Past Due | Total Past Due | Current | Nonaccrual Loans | Total |
| ***December 31, 2022:*** | | | | | | | |
| Real estate loans: | | | | | | | |
| One-to-four family | $ - | - | - | - | 37,795 | - | 37,795 |
| Commercial | - | - | - | - | 160,228 | - | 160,228 |
| Home equity | 1,196 | - | - | 1,196 | 421 | - | 1,617 |
| Multi-family | - | - | - | - | 2,436 | - | 2,436 |
| Total real estate loans | 1,196 | - | - | 1,196 | 200,880 | - | 202,076 |
| Commercial business | 11 | - | - | 11 | 31,361 | - | 31,372 |
| Consumer | - | - | - | - | 1 | - | 1 |
| Total loans | $ 1,207 | - | - | 1,207 | 232,242 | - | 233,449 |
| ***December 31, 2021:*** | | | | | | | |
| Real estate loans: | | | | | | | |
| One-to-four family | - | - | - | - | 35,713 | - | 35,713 |
| Commercial | - | - | - | - | 108,456 | - | 108,456 |
| Home equity | - | - | - | - | 1,639 | - | 1,639 |
| Total real estate loans | - | - | - | - | 145,808 | - | 145,808 |
| Commercial business | 586 | - | 142 | 728 | 26,887 | 198 | 27,813 |
| Consumer | - | - | - | - | 4 | - | 4 |
| Total loans | $ 586 | - | 142 | 728 | 172,699 | 198 | 173,625 |

(continued)

## (3) Loans, Continued

Activity in the allowance for loan losses is as follows (in thousands):

| | Real Estate Loans | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | One-to-Four Family | Commercial | Home Equity | Multi-Family | Commercial Business | Consumer | Unallocated | Total |
| ***Year Ended December 31, 2022:*** | | | | | | | | |
| Beginning balance | $ 138 | 1,431 | 3 | - | 218 | - | - | 1,790 |
| Provision for loan losses | 25 | 910 | 2 | 11 | 35 | - | 17 | 1,000 |
| Charge-offs | - | - | - | - | - | - | - | - |
| Recoveries | - | - | - | - | 9 | - | - | 9 |
| Ending balance | $ 163 | 2,341 | 5 | 11 | 262 | - | 17 | 2,799 |
| Individually evaluated for impairment: | | | | | | | | |
| Recorded investment | $ - | - | - | - | 103 | - | - | 103 |
| Balance in allowance for loan losses | $ - | - | - | - | 68 | - | - | 68 |
| Collectively evaluated for impairment: | | | | | | | | |
| Recorded investment | $ 37,795 | 160,228 | 1,617 | 2,436 | 31,269 | 1 | - | 233,346 |
| Balance in allowance for loan losses | $ 163 | 2,341 | 5 | 11 | 194 | - | 17 | 2,731 |
| ***Year Ended December 31, 2021:*** | | | | | | | | |
| Beginning balance | 129 | 849 | 4 | 10 | 201 | - | 3 | 1,196 |
| Provision (credit) for loan losses | 9 | 582 | (1) | (10) | (7) | - | (3) | 570 |
| Charge-offs | - | - | - | - | - | - | - | - |
| Recoveries | - | - | - | - | 24 | - | - | 24 |
| Ending balance | $ 138 | 1,431 | 3 | - | 218 | - | - | 1,790 |
| Individually evaluated for impairment: | | | | | | | | |
| Recorded investment | $ - | - | - | - | 198 | - | - | 198 |
| Balance in allowance for loan losses | $ - | - | - | - | 83 | - | - | 83 |
| Collectively evaluated for impairment: | | | | | | | | |
| Recorded investment | $ 35,713 | 108,456 | 1,639 | - | 27,615 | 4 | - | 173,427 |
| Balance in allowance for loan losses | $ 138 | 1,431 | 3 | - | 135 | - | - | 1,707 |

(continued)

**(3) Loans, Continued**

The Company utilizes an internal risk rating system as a means of reporting problem and potential problem loans. Under the risk rating system, the Company classifies problem and potential problem loans as "Special Mention," "Substandard" or "Doubtful." Loans that do not currently expose the Company to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses that deserve management's close attention are deemed to be Special Mention. Substandard loans include those characterized by the distinct possibility the Company may sustain some loss if the deficiencies are not corrected. Loans classified as Doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Generally, the Company reviews all revolving credit relationships, regardless of amount, and any other loan relationship in excess of $500,000 on an annual basis. However, risk ratings are updated any time the facts and circumstances warrant.

The following table presents the internal risk ratings of loans (in thousands):

| | Pass | Special Mention | Substandard | Doubtful | Total |
|---|---|---|---|---|---|
| ***December 31, 2022:*** | | | | | |
| Real estate loans: | | | | | |
| One-to-four family | $ 37,490 | 305 | - | - | 37,795 |
| Commercial | 153,292 | 6,936 | - | - | 160,228 |
| Home equity | 1,617 | - | - | - | 1,617 |
| Multi-family | 2,436 | - | - | - | 2,436 |
| Total real estate loans | 194,835 | 7,241 | - | - | 202,076 |
| Commercial business | 30,229 | 1,040 | 103 | - | 31,372 |
| Consumer | 1 | - | - | - | 1 |
| | $ 225,065 | 8,281 | 103 | - | 233,449 |
| ***December 31, 2021:*** | | | | | |
| Real estate loans: | | | | | |
| One-to-four family | 35,398 | 315 | - | - | 35,713 |
| Commercial | 105,596 | 691 | 2,169 | - | 108,456 |
| Home equity | 1,639 | - | - | - | 1,639 |
| Multi-family | - | - | - | - | - |
| Total real estate loans | 142,633 | 1,006 | 2,169 | - | 145,808 |
| Commercial business | 27,615 | - | 198 | - | 27,813 |
| Consumer | 4 | - | - | - | 4 |
| | $ 170,252 | 1,006 | 2,367 | - | 173,625 |

(continued)

**(3) Loans, Continued**

The Company grants the majority of its loans to borrowers throughout Southeast and Central, Florida. A significant portion of its borrowers' ability to honor their contracts is dependent upon the economy in these Florida regions. Although the Company has a diversified loan portfolio, a substantial portion of its borrowers' ability to repay their loans is dependent upon economic conditions in the market areas of its borrowers. The amount of collateral obtained, if any, is based on management's credit evaluation of the borrowers' ability to repay, reputation, credit risk, and other factors.

The following summarizes the amount of impaired loans (in thousands):

| | With No Related Allowance Recorded | | With an Allowance Recorded | | | Total | | |
|---|---|---|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Contractual Principal Balance | Recorded Investment | Unpaid Contractual Principal Balance | Related Allowance | Recorded Investment | Unpaid Contractual Principal Balance | Related Allowance |
| ***December 31, 2022:*** | | | | | | | | |
| Commercial business | $ - | - | 103 | 404 | 68 | 103 | 404 | 68 |
| ***December 31, 2021:*** | | | | | | | | |
| Commercial business | $ - | - | 198 | 499 | 83 | 198 | 499 | 83 |

The average net investment in impaired loans and interest income recognized and received on impaired loans are as follows (in thousands):

| | Average Balance | Interest Income Recognized | Interest Income Received |
|---|---|---|---|
| ***Year Ended December 31, 2022-*** | | | |
| Commercial business | $ 151 | - | - |
| ***Year Ended December 31, 2021-*** | | | |
| Commercial business | $ 238 | - | - |

(continued)

**(4) Premises and Equipment**

Components of premises and equipment are as follows (in thousands):

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Land | $ 6,015 | 2,129 |
| Buildings | 5,075 | 3,099 |
| Building improvements | 719 | 619 |
| Leasehold improvements | 69 | 69 |
| Construction in progress | 1,238 | 343 |
| Furniture and equipment | 1,225 | 1,107 |
| | 14,341 | 7,366 |
| Less: Accumulated depreciation and amortization | (1,090) | (822) |
| Premises and equipment, net | $ 13,251 | 6,544 |

The second story of the Company's Kissimmee banking office is leased to several tenants under operating leases. The leases have remaining terms ranging from one to two years. Some of the leases have renewal options. Rental income for the years ended December 31, 2022 and 2021 was $143,000 and $109,000, respectively. Estimated future rental income over the remaining noncancelable lease term at December 31, 2022 is as follows (in thousands):

| Year Ending December 31, | Operating Lease Income |
|---|---|
| 2023 | $ 103,969 |
| 2024 | 46,472 |
| 2025 | 15,776 |
| | $ 166,217 |

(continued)

**(4) Premises and Equipment, Continued**

The Company leases its banking office in Dade City, Florida. The lease term was eighteen months which expired December 2021. Once the term expired, the Company has a month-to-month continuance option through December 2023. This lease requires payment of taxes, insurance and maintenance costs in addition to rental payments. Rental expense relating to operating leases amounted to approximately $56,000 in 2022 and $52,000 in 2021.

During 2022, the Company purchased property in St. Cloud, Florida for $1,200,000. The Company is in the process of building a future branch office.

During 2022, the Company purchased property in Dade City, Florida for $710,000 to build a future headquarters.

As of December 31, 2022, the Company is committed to an additional $7,600,000 to complete these construction projects.

**(5) Deposits**

Time deposits in amounts equal to or greater than $250,000 were approximately $19.1 million and $7.2 million at December 31, 2022 and 2021, respectively.

The following table sets forth the maturities of time deposits as of December 31, 2022 (in thousands):

| | Amount |
|---|---|
| 2023 | $ 20,127 |
| 2024 | 998 |
| 2025 | 1,298 |
| 2026 | 233 |
| 2027 | 268 |
| | $ 22,924 |

(continued)

## (6) Note Payable

During 2022, the Company entered into a Note Payable with another bank. The Company borrowed $8 million at a fixed interest rate of 4.25%. The note matures during March 2027 and is secured by the Bank's common stock. As of December 31, 2022, the outstanding balance of the note was $8 million. The note is subject to certain covenants and at December 31, 2022, the Company was in compliance with the covenants.

## (7) Federal Home Loan Bank Advance and Other Borrowings

The Company maintains a blanket floating lien with the FHLB on qualifying loans secured by first loans. At December 31, 2022, under this blanket lien, the Company has available credit of $80.5 million and no outstanding advances.

At December 31, 2022, the Company had $9.5 million available under federal funds purchase facilities from correspondent banks. Disbursements on the lines of credit are subject to the approval of the correspondent banks.

## (8) Income Taxes

Income taxes consist of the following (in thousands):

| | Year Ended December 31, | |
|---|---|---|
| | 2022 | 2021 |
| Current - federal | $ 919 | - |
| Current - state | 248 | - |
| Deferred - federal | (198) | 153 |
| Deferred - state | (45) | 46 |
| Income taxes | $ 924 | 199 |

The effective tax rate differs from the statutory federal income tax rate as follows ($ in thousands):

| | Year Ended December 31, | |
|---|---|---|
| | 2022 | 2021 |
| Income taxes at current statutory rate of 21% | $ 758 | 178 |
| Increase (decrease) from: | | |
| State income tax, net of federal tax benefit | 160 | 36 |
| Tax-exempt interest | (12) | (13) |
| Bank-owned life insurance | (5) | (5) |
| Other, net | 23 | 3 |
| Income taxes | $ 924 | 199 |
| Effective tax rate | 25.6% | 23.5% |

(continued)

## (8) Income Taxes, Continued

Deferred tax assets and liabilities were as follows (in thousands):

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Deferred tax assets: | | |
| Net operating loss carryforwards | $ 595 | 560 |
| Allowance for loan losses | 709 | 454 |
| Nonaccrual interest | 114 | 106 |
| Organization and startup costs | - | 7 |
| Accumulated depreciation | - | 40 |
| Unrealized losses on debt securities available for sale | 699 | 24 |
| Other | 14 | - |
| Total deferred tax assets | 2,131 | 1,191 |
| Deferred tax liability- | | |
| Accumulated depreciation | (22) | - |
| Net deferred tax asset | $ 2,109 | 1,191 |

At December 31, 2022, the Company had federal and state net operating loss carry forwards of approximately $2.4 million and $2.0 million, respectively, which are subject to an annual limitation under Internal Revenue Code Section 382 and have no expiration.

The Company had no unrecognized tax benefits as of December 31, 2022. The Company has no tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase within the next twelve months. The Company is no longer subject to federal and state income tax examinations for the tax years before 2019.

(continued)

## (9) Benefit Plans

The Company has established a 401(k) profit sharing plan (the "Plan") which covers all employees meeting certain age and service requirements. The Plan qualifies as a "Safe Harbor 401(k) Plan." As a Safe Harbor 401(k) Plan, an employee who is eligible to make salary deferrals under the Plan is eligible to receive Safe Harbor matching as defined in the Plan. Other employer contributions are discretionary and are determined annually by the Board of Directors. Safe Harbor matching amounted to approximately $94,000 and $86,000 for the years ending December 31, 2022 and 2021, respectively.

## (10) Stock-Based Compensation

The Company has a Directors' Stock Option Plan and an Officers' and Employees' Stock Option Plan (the "Plans"). The total options available to be granted under the Plans are 535,289 shares. At December 31, 2022, options remaining available for grant under the Plans totaled 184,289.

A summary of the status of the Company's outstanding stock options is presented below:

| | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term |
|---|---|---|---|
| Outstanding and exercisable as of December 31, 2020 | 460 | $ 11.05 | |
| Granted | 363,500 | 11.00 | |
| Expired | (460) | (11.05) | |
| Forfeited | (1,000) | (11.01) | |
| Outstanding at December 31, 2021 | 362,500 | 11.00 | |
| Forfeited | (11,500) | | |
| Outstanding at December 31, 2022 | 351,000 | $ 11.00 | 8.5 years |

At December 31, 2022, there was approximately $461,000 of total unrecognized compensation expense related to nonvested share-based compensation arrangements granted under the plans. The cost is expected to be recognized over a weighted-average period of thirty-one months. The total fair value of shares vesting and recognized as compensation and other noninterest expense was approximately $184,000, with related income tax benefit of $15,000 during the year ended December 31, 2022.

(continued)

## (10) Stock-Based Compensation, Continued

The fair value of each option granted for the year ended December 31, 2021 is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

| | |
|---|---|
| Risk-free interest rate | 1.28% |
| Expected dividend yield | - |
| Expected stock volatility | 15.10% |
| Expected life in years | 6.25 |
| Per share grant-date fair value of options issued during the year | $ 2.03 |

The Company used the guidance issued by the Securities and Exchange Commission to determine the estimated life of options issued. Expected volatility is based on historical volatility of similar peer banks' common stock. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The dividend yield assumption is based on the Company's historical and expected dividend payments.

## (11) Transactions with Related Parties

In the ordinary course of business, the Company has accepted deposits from and made loans to its principal officers and directors and their affiliates. At December 31, 2022 and 2021, these related party deposits amount to $72 million and $29 million, respectively. At December 31, 2022 and 2021, these related party loans amount to $5.2 million and $43,000, respectively.

## (12) Regulatory Matters

The Bank is subject to various regulatory capital requirements including the Basel III Framework ("Basel III") administered by the 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 Company's and the Bank's consolidated 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 amount and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Under Basel III, the Bank is subject to the capital conservation buffer rules which place limitations on distributions, including dividend payments, and certain discretionary bonus payments to executive officers. In order to avoid these limitations, a bank must hold a capital conservation buffer above its minimum risk-based capital requirements. As of December 31, 2022, the Bank's capital conservation buffer exceeds the minimum requirement. At December 31, 2022, the conservation buffer was 2.50%.

(continued)

**(12) Regulatory Matters, Continued**

As of December 31, 2022, the Bank was well capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately capitalized the Bank must maintain a minimum Common equity tier 1 capital ratio, Tier 1 capital ratio, Total capital ratio and Tier 1 leverage ratio as set forth in the table. Management believes, as of December 31, 2022, that the Bank meets all capital adequacy requirements to which it is subject. The Bank's actual capital amounts and percentages are presented in the table ($ in thousands):

| | Actual | | For Capital Adequacy Purposes | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** | **Amount** | **%** |
| ***As of December 31, 2022:*** | | | | | | |
| Common equity tier 1 capital ratio | $ 38,504 | 14.24% | $ 12,171 | 4.50% | $ 17,850 | 6.50% |
| Tier I capital ratio | 38,504 | 14.24 | 16,228 | 6.00 | 21,638 | 8.00 |
| Total capital ratio | 41,303 | 15.27 | 21,638 | 8.00 | 27,047 | 10.00 |
| Tier 1 leverage ratio | 38,504 | 11.69 | 13,175 | 4.00 | 16,468 | 5.00 |
| ***As of December 31, 2021:*** | | | | | | |
| Common equity tier 1 capital ratio | 28,489 | 13.10 | 9,789 | 4.50 | 14,140 | 6.50 |
| Tier I capital ratio | 28,489 | 13.10 | 13,052 | 6.00 | 17,403 | 8.00 |
| Total capital ratio | 30,279 | 13.92 | 17,403 | 8.00 | 21,754 | 10.00 |
| Tier 1 leverage ratio | 28,489 | 11.54 | 9,877 | 4.00 | 12,346 | 5.00 |

**(13) Off-Balance Sheet Financial Instruments**

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments are commitments to extend credit, unused lines of credit and standby letters of credit and may involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the balance sheet. The contract amounts of these instruments reflect the extent of involvement the Company has in these financial instruments.

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

(continued)

## (13) Off-Balance Sheet Financial Instruments, Continued

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company, upon extension of credit, is based on management's credit evaluation of the counterparty.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit to customers is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments. Standby letters of credit generally have expiration dates within one year.

Commitments to extend credit, unused lines of credit and standby letters of credit typically result in loans with a market interest rate when funded. A summary of the contractual amounts of the Company's financial instruments with off-balance-sheet risk at December 31, 2022 follows (in thousands):

| | Contractual Amount |
|---|---|
| Commitments to extend credit | $ 8,380 |
| Unused lines of credit | $ 58,157 |
| Standby letters of credit | $ 821 |

## (14) Legal Contingencies

Various legal claims arise from time to time in the normal course of business which, in the opinion of management, will not have a material effect on the Company's consolidated financial statements.