FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

VERUS BANK OF COMMERCE

December 31, 2023 and 2022

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Verus Bank of Commerce
Fort Collins, Colorado

Opinion

We have audited the financial statements of Verus Bank of Commerce, which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of income, 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 present fairly, in all material respects, the financial position of Verus Bank of Commerce as of December 31, 2023 and 2022, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

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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 Verus Bank of Commerce'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 Verus Bank of Commerce'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.

Fortner Bayens, PC

Denver, Colorado
April 25, 2024

Verus Bank of Commerce

BALANCE SHEETS

	December 31, 2023	December 31, 2022
	(in thousands)	
ASSETS		
Cash and due from banks	$ 8,587	$ 5,880
Interest-bearing deposits with banks	14,913	14,124
Federal funds sold	-	17,340
Cash and cash equivalents	23,500	37,344
Interest-bearing time deposits with banks	8,632	21,343
Nonmarketable equity securities	1,350	1,236
Loans	159,308	149,136
Less allowance for loan credit losses	(1,352)	(1,394)
	157,956	147,742
Premises and equipment	408	551
Accrued interest receivable	544	452
Other assets	634	662
	$ 193,024	$ 209,330
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	$ 53,085	$ 77,882
Interest-bearing	99,681	90,786
	152,766	168,668
Federal Home Loan Bank borrowings	-	1,500
Short-term borrowings	978	-
Accrued interest payable	56	23
Other liabilities	2,271	4,333
Total liabilities	156,071	174,524
Commitments (notes C and G)		
Stockholders' equity		
Preferred stock - $1,000 par value, 8,766 shares authorized; 0 shares issued and outstanding at December 31, 2023 and 2022, respectively	-	-
Common stock - $2.50 par value, 7,000,000 shares authorized; 5,382,996 and 5,383,133 shares issued and outstanding at December 31, 2023 and 2022, respectively	13,457	13,458
Capital surplus	13,318	13,319
Retained earnings	10,178	8,029
	36,953	34,806
	$ 193,024	$ 209,330

The accompanying notes are an integral part of these financial statements.

Verus Bank of Commerce

STATEMENTS OF INCOME

	Years Ended December 31,	
	2023	2022
	(in thousands)	
Interest and dividend income		
Interest and fees on loans	$ 8,456	$ 8,038
Federal funds sold	363	175
Interest-bearing deposits with banks	1,374	856
Dividends	87	59
Total interest and dividend income	10,280	9,128
Interest expense		
Deposits	1,380	742
Federal Home Loan Bank borrowings	479	99
Total interest expense	1,859	841
Net interest income	8,421	8,287
Provision for (reduction in) loan credit losses	(42)	(700)
Provision for unfunded loan commitment credit losses	42	-
Total provision for (reduction in) credit losses	-	(700)
Net interest income after provision for credit losses	8,421	8,987
Noninterest income		
Service charges on deposit accounts	394	529
Fees from servicing government-guaranteed loans	1	1
Other	176	187
Total noninterest income	571	717
Noninterest expense		
Salaries and employee benefits	3,511	3,642
Occupancy and equipment	435	413
Other expenses	1,240	1,178
Total noninterest expense	5,186	5,233
Income before income taxes	3,806	4,471
Income tax expense	957	1,124
NET INCOME	$ 2,849	$ 3,347

The accompanying notes are an integral part of these financial statements.

Verus Bank of Commerce

STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 2023 and 2022

	Common Stock	Capital Surplus	Retained Earnings	Total
Balance at December 31, 2021	$ 13,511	$ 13,404	$ 9,743	$ 36,658
Repurchase of 21,393 shares of common stock	(53)	(85)	-	(138)
Comprehensive income				
Net income	-	-	3,347	3,347
Common stock dividends declared	-	-	(5,061)	(5,061)
Balance at December 31, 2022	13,458	13,319	8,029	34,806
Repurchase of 137 shares of common stock	(1)	(1)	-	(2)
Comprehensive income				
Net income	-	-	2,849	2,849
Common stock dividends declared	-	-	(700)	(700)
Balance at December 31, 2023	$ 13,457	$ 13,318	$ 10,178	$ 36,953

The accompanying notes are an integral part of these financial statements.

Verus Bank of Commerce

STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2023	2022
	(in thousands)	
Cash flows from operating activities		
Net income	$ 2,849	$ 3,347
Adjustments to reconcile net income to net cash flows from operating activities		
Depreciation and amortization of premises and equipment	191	180
Provision for (reduction in) credit losses	-	(700)
Federal Home Loan Bank stock dividends	(38)	(11)
Deferred income taxes	(26)	214
Principal reduction on operating lease liability	(138)	(134)
Net changes in:		
Accrued interest receivable and other assets	(38)	(23)
Accrued interest payable and other liabilities	(1,891)	433
Net cash provided by operating activities	909	3,306
Cash flows from investing activities		
Net change in interest-bearing time deposits with banks	12,711	(20,098)
Purchases of nonmarketable equity securities	(370)	-
Redemptions of nonmarketable equity securities	294	186
Loan originations and principal collections, net	(10,214)	19,112
Expenditures for premises and equipment	(48)	(52)
Net cash provided (used) by investing activities	2,373	(852)
Cash flows from financing activities		
Net change in deposits	(15,902)	(61,506)
Payments on long-term borrowings	(1,500)	(6,500)
Change in short-term borrowings	978	-
Repurchase of common stock	(2)	(138)
Cash dividends paid on common stock	(700)	(5,061)
Net cash used by financing activities	(17,126)	(73,205)
Net change in cash and cash equivalents	(13,844)	(70,751)
Cash and cash equivalents at beginning of year	37,344	108,095
Cash and cash equivalents at end of year	$ 23,500	$ 37,344
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	$ 1,826	$ 861
Income taxes	1,016	757

The accompanying notes are an integral part of these financial statements.

NOTE A - SUMMARY OF ACCOUNTING POLICIES

Nature of Operations

The Verus Bank of Commerce (the Bank) provides a full range of banking and mortgage services to individual and corporate customers, principally in Larimer County, Colorado and the surrounding area. Verus Acquisition Group, Inc. (Verus), a Bank holding company located in Fort Collins, Colorado owns an 86% interest in the Bank.

The Bank provides banking services to individuals, businesses and other customers located in its community. A variety of deposit products are offered, including checking, savings, money market, individual retirement accounts and certificates of deposit. The principal market for the Bank's financial services is the community in which it is located and the areas immediately surrounding that community. The Bank is also subject to regulation by certain governmental agencies and undergoes periodic examinations by those regulatory agencies.

Use of Estimates

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan credit losses and the valuation of foreclosed real estate.

In connection with the determination of the allowance for loan credit losses and the valuation of foreclosed real estate, management obtains independent appraisals for significant properties and assesses estimated future cash flows from borrowers' operations and the liquidation of loan collateral.

Management believes that the allowance for loan credit losses is adequate. While management uses available information to recognize losses on loans, changes in economic conditions may necessitate revisions in future years.

Significant Group Concentrations of Credit Risk

Most of the Bank’s activities are with customers located in the Larimer County, Colorado area. Note B discusses the types of lending that the Bank engages in.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents include cash and balances due from banks, interest-bearing deposits with banks and federal funds sold.

Interest-Bearing Time Deposits with Banks

Interest-bearing time deposits with banks are carried at cost, mature within two years and are fully covered by federal deposit insurance.

Nonmarketable Equity Securities

Nonmarketable equity securities, consisting of Federal Home Loan Bank and Federal Reserve Bank stock, are recorded at cost.

Loans

The Bank primarily grants construction, land and land development and real estate loans to customers primarily in the Larimer County, Colorado area. The ability of the Bank's borrowers to honor their contracts is dependent upon the real estate and general economic conditions in this area.

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 and the allowance for loan credit losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment on the related loan yield using the effective yield method.

The accrual of interest on all loans is discontinued at the time a loan is 90 days delinquent unless the loan is well secured and in process of collection. Additionally, loans are placed on nonaccrual at an earlier date if collection of principal or interest is considered doubtful. When placing a loan on nonaccrual status, interest accrued to date is generally reversed and is charged against the current year's interest income. Payments received on a loan on nonaccrual status are applied against the balance of the loan. A loan is returned to accrual status when principal and interest are no longer past due and collectability is no longer doubtful.

Past due loans are any loans for which payments of interest, principal or both have not been received within the timeframes designated by the loan agreements. Loans with payments in arrears but for which borrowers have resumed making scheduled payments are considered past due until arrearages are brought current. Loans that experience insignificant payment delays or payment shortfalls generally are not considered past due. 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.

Financial difficulty modification loans are loans containing concessions in terms as a result of the borrower experiencing financial difficulty. Generally, concessions granted to customers include lower interest rates and modification of the payment stream to lower or defer payments. Interest on financial difficulty modification loans is accrued under the new terms if the loans are performing and full collection of principal and interest is expected. However, interest accruals are discontinued on financial difficulty modification loans that meet the Bank's nonaccrual criteria. A loan may be considered a financial difficulty modification loan regardless of whether it is considered a continuation of an existing loan or a new loan that replaces an existing loan.

The quality of the Bank's loan portfolio is assessed as a function of the levels of past due loans and nonaccrual loans, and internal credit quality ratings which are updated quarterly by management. The ratings on the Bank's internal credit scale are an important part of the Bank's overall credit risk management process and are considered in the determination of the allowance for loan credit losses. The ratings on the Bank's internal credit scale are broadly grouped into the categories "non-classified" and "classified," with detailed ratings as follows:

Non-Classified

Pass - Loans with minimal to average identified credit risk. These loans have borrowers considered creditworthy who have the ability to repay the debt in the normal course of business. Borrowers have a sound primary and secondary repayment source, with sufficient cash generation to meet ongoing debt service requirements. Loans are typically fully secured with marketable, margined collateral.

Special mention - Loans with potential credit weaknesses which deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of repayment prospects or the Bank's credit position at some future date. These loans exhibit characteristics such as declining or stressed financial condition of the borrower, and declining or narrow collateral coverage.

Classified

Substandard - Loans inadequately protected by the current financial condition and paying capacity of the borrower or the collateral pledged, if any. These loans have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. These loans are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. In some instances, though not all, the weakness or weaknesses in these loans will necessitate nonaccrual treatment.

Doubtful - Loans in this category have all the weaknesses inherent in those classified as Substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The probability of loss is extremely high, but because of certain important and reasonably specific factors that may work to the advantage and strengthening of the loans, classification as a loss is deferred until more exact status may be determined. All doubtful loans necessitate nonaccrual treatment.

Loss - Loans considered loss are considered uncollectable and of such little value that their continuance as a bankable asset, even with a valuation allowance, is not warranted. This does not mean the loans have no recovery or salvage value, but rather it is not practical or desirable to defer a charge-off even though a partial recovery may be effected in the future. Loans classified as a loss are charged-off in the period they are deemed uncollectible.

Loans are charged off in whole or in part when they become significantly past due and/or management's periodic analysis classifies the loan as "loss." Charge off amounts are determined based upon the carrying amount of loans and the amount estimated to be collectable as determined by analyses of expected future cash flows and the liquidation of loan collateral.

Allowance for Loan Credit Losses

General Accounting Policies

The allowance for loan credit losses is a contra-asset valuation account that is deducted from the amortized cost basis of loans to present management's best estimate of the net amount expected to be collected. Loans are charged-off against the allowance when deemed uncollectible by management. Subsequent recoveries, if any, are credited to the allowance. Adjustments to the allowance, other than charge-offs and recoveries, are recorded to the income statement as a provision or reversal for credit loss.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the starting point for the estimation of expected credit losses. Adjustments to historical loss rates are made for differences between past, current and future expected loan risk characteristics such as economic conditions and the nature and volume of the loan portfolio – including internal credit ratings, the volume and severity of past due loans, credit concentrations, lending policies, management experience, collateral values, loan review systems and other relevant factors.

The allowance is measured on a collective (pool) basis when similar risk characteristics exist. Loans that do not share similar risk characteristics are evaluated on an individual basis. For purposes of collective evaluation, the Bank classifies its loan portfolio by loan type, with classification types aggregated into broader segments for certain disclosure purposes. Loan classifications and segments are described in Note B to the financial statements. For purposes of specific evaluation, the Bank evaluates loans graded special mention, substandard, doubtful and loss. Although the allowance is determined through collective evaluation by loan type and through specific evaluation, the entire allowance is available for any loan that, in management's judgment, should be charged off.

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

Effect of Adoption of New Accounting Standards

Effective January 1, 2023, the Bank adopted Accounting Standards Update ("ASU") 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 implements Accounting Standards Codification ("ASC") Topic 326 ("ASC 326"), replacing the previous "incurred loss" model for measuring credit losses with an "expected loss" model that encompasses allowances for losses expected to be incurred over the life of the portfolio based on historical experience, current conditions, and reasonable and supportable forecasts. Adoption did not result in the Bank recording any adjustments to the allowance for credit losses on loans as of the date of adoption, but as discussed below resulted in changes in the manner in which credit losses on loans are estimated.

Allowance for Loan Credit Losses Methodology – 2023

The allowance analysis is prepared at least quarterly. For each loan pool type the Bank calculates a long-term average annual internal net charge-off rate and multiplies this rate by the period-end pool balance outstanding to determine the aggregate projected life-of-loan losses for the pool based on the minimal historical experience. The projected aggregate life-of-loan loss amount is converted to a percentage of the current period-end pool balance, adjusted for loan risk characteristics expected to cause future charge-off rates to differ from the long-run historical average, and multiplied by the current period end outstanding pool balance to determine the collective credit loss amount. This amount is added to any credit loss determined on an individually evaluated loans. Adjustments to life-of-loan historical loss rates for the effect of loan risk characteristics are inherently subjective and subject to significant revision as expectations about future conditions change.

For individually evaluated loans for which repayment is expected solely from the collateral, the allowance for credit losses is measured based on the fair value of the collateral. For other individually evaluated loans, the allowance for credit losses may be measured based on the fair value of the collateral or expected future cash flows determined through an analysis of the borrower's current and future expected financial condition and other relevant factors. Individually evaluated loans are assessed at least quarterly, though certain underlying information such as collateral appraisals and tax returns could be updated more infrequently depending on particular circumstances of the loan and type of information.

The Bank has elected not to estimate an allowance for loan credit losses on accrued interest receivable and record losses against current year interest income when loans are placed on nonaccrual.

Allowance for Credit Losses Methodology – Prior to 2023

The allowance analysis was prepared at least quarterly. Similar to current methodology, the allowance for loan credit loss was determined by multiplying the period-end balance of each loan pool by an adjusted historical charge-off rate and adding the result to credit loss determined on individually evaluated loans. The primary differences to current methodology are that charge-off rates were applied to estimate losses currently within each loan pool rather than over the life of the loan pool, type stratification of loan pools was less granular at the model input level, and individually analyzed loans were limited to loans considered "impaired" which included only nonaccrual loans and certain loans modified to borrowers experiencing financial difficulty. The Bank did not estimate an allowance for loan credit losses on accrued interest receivable and recorded losses against current year interest income when loans were placed on nonaccrual.

Allowance for Credit Losses Methodology –2022 vs. 2023

Although the 2022 methodology was an "incurred loss" methodology as compared to the 2023 "expected loss" methodology, the 2022 methodology contemplated expected losses due to limited loss history and heavier reliance on risk characteristic adjustments, which is still very similar to 2023. As a result, the change in methodology in from 2022 to 2023 did not result in a significant change to allowance for loan credit loss amounts, even with risk characteristic adjustments more forward thinking as of December 31, 2023. Certain loan and allowance for loan credit loss disclosures in Note B for 2022 have been modified to conform to the disclosure requirements under ASC 326.

Off- Balance Sheet Financial Instruments

In the ordinary course of business, the Bank enters into off-balance-sheet financial instruments consisting of commitments to extend credit, unused lines of credit, standby letters of credit and undisbursed loans in process. These financial instruments are recorded in the financial statements when they are funded.

In conjunction with the determination of the allowance for credit losses on loans, and using the same criteria, the Bank determines the extent of credit risk on its unfunded loan commitments and whether there are credit losses on those instruments for which a loss provision is necessary. Prior to January 1, 2023, the Bank determined that there is minimal credit risk on its unfunded loan commitments and accordingly did not record a credit loss provision or allowance for those instruments separate from the provision and allowance for credit losses on loans. As a result of the January 1, 2023 adoption of Accounting Standards Update ("ASU") 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, the Bank began recording estimated credit losses on unfunded loan commitments. The allowance for credit losses on unfunded loan commitments is carried as a component of Other Liabilities, and changes in the allowance are recorded as a credit loss provision or reversal. Adoption did not result in the Bank recording an initial increase to the allowance for credit losses on unfunded commitments through retained earnings as of the date of adoption.

Foreclosed Real Estate

Real estate acquired through, or in lieu of, loan foreclosure, is held for sale and is initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other expenses.

Premises and Equipment

Land is carried at cost. Buildings, leasehold improvements, furniture, and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets or the expected terms of the lease for financial statement purposes. Expected terms include lease option periods to the extent that the exercise of such option is reasonable assured. Normal costs of maintenance and repairs are charged to expense as incurred.

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 the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

The Bank has adopted guidance issued by the Financial Accounting Standards Board with respect to accounting for uncertainty in income taxes. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax purposes, not meeting the "more likely than not" test, no tax benefit is recorded. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that a portion of the deferred tax asset may not be realized within a year.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be relinquished when the assets have been isolated from the Bank, 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 the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Fair Value Measurement

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (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. There are three levels of inputs that may be used to measure fair values:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect a bank's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Noninterest Income

Noninterest income is substantially comprised of service charges on deposit accounts, ATM, and debit card income. Service charges on deposit accounts consist of monthly account fees, stop payment charges, and charges or deposit items returned for non-sufficient funds or paid as an overdraft (net of fees waived or refunded). ATM and debit card income is comprised of ATM charges for non-customer use of Bank ATMs and debit card interchange income. In all instances, noninterest income is recognized concurrent with the Bank's satisfaction of the underlying performance obligation, which typically occurs at a single point in time as a transaction or statement cycle is completed. Charges for deposit accounts continuously overdrawn are equivalent to interest and included as a component of interest and fees on loans.

Subsequent Events

Management evaluates events occurring after the balance sheet date, through the date the financial statements are eligible to be issued, to determine whether the events require recognition or disclosure in the financial statements. If a subsequent event evidences conditions existing at the balance sheet date, the effects are recognized in the financial statements (recognized subsequent event). If a subsequent event evidences conditions arising after the balance sheet date, the effects are not recognized in the financial statements but rather disclosed in the notes to the financial statements (non-recognized subsequent events). The effects of subsequent events are only recognized if material or disclosed if the financial statements would otherwise be misleading.

With respect to the December 31, 2023 financial statements, Management has considered subsequent events through April 25, 2024.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. The Bank has no other comprehensive income for the years ended December 31, 2023 and 2022.

NOTE B - LOANS AND ALLOWANCE FOR LOAN CREDIT LOSSES

A summary of the balances of loans follows:

	December 31,	
	2023	2022
	(in thousands)	
Construction, land and land development		
Residential 1-4 family	$ 269	$ 864
Other	5,977	8,830
	6,246	9,694
Real estate		
Residential 1-4 family	21,412	19,844
Multifamily	825	1,770
Commercial	119,950	105,003
Farmland	287	278
	142,474	126,895
Commercial and industrial	10,494	12,466
Consumer and other	94	81
	$ 159,308	$ 149,136

At December 31, 2023, the Bank had approximately $20,080,000 of SBA 504 and $58,000 of SBA 7A loans. Management believes these loans are considered liquid assets given the active and mature secondary market for these loans as well as their associated premiums. Management includes these assets as part of its liquidity measurement and includes them in the Bank's Contingent Liquidity Plan, which is updated quarterly. These loans may be periodically sold for liquidity purposes and to manage industry concentrations and interest rate risk.

The carrying amount of loans by past due and performance status are as follows:

December 31, 2023
(in thousands)

	Loans By Past Due and Performance Status				
	Accruing Loans				
	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual Loans	Total Loans
Construction, land and land development					
Residential 1-4 family	$ 269	$ -	$ -	$ -	$ 269
Other	5,977	-	-	-	5,977
	6,246	-	-	-	6,246
Real estate					
Residential 1-4 family	21,412	-	-	-	21,412
Multifamily	825	-	-	-	825
Commercial	119,950	-	-	-	119,950
Farmland	287	-	-	-	287
	142,474	-	-	-	142,474
Commercial and industrial	10,494	-	-	-	10,494
Consumer and other	94	-	-	-	94
	$ 159,308	$ -	$ -	$ -	$ 159,308

December 31, 2022
(in thousands)

Loans By Past Due and Performance Status

	Accruing Loans				
	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual Loans	Total Loans
Construction, land and land development					
Residential 1-4 family	$ 864	$ -	$ -	$ -	$ 864
Other	8,830	-	-	-	8,830
	9,694	-	-	-	9,694
Real estate					
Residential 1-4 family	19,844	-	-	-	19,844
Multifamily	1,770	-	-	-	1,770
Commercial	105,003	-	-	-	105,003
Farmland	278	-	-	-	278
	126,895	-	-	-	126,895
Commercial and industrial	12,466	-	-	-	12,466
Consumer and other	81	-	-	-	81
	$ 149,136	$ -	$ -	$ -	$ 149,136

The carrying amount of loans by credit quality indicator are as follows:

	December 31, 2023 (in thousands)				
	Loans By Credit Quality Indicator				
	Pass	Special Mention	Substandard	Doubtful	Total Loans
Construction, land and land development					
Residential 1-4 family	$ 269	$ -	$ -	$ -	$ 269
Other	5,977	-	-	-	5,977
	6,246	-	-	-	6,246
Real estate					
Residential 1-4 family	19,627	1,785	-	-	21,412
Multifamily	825	-	-	-	825
Commercial	114,220	1,153	4,577	-	119,950
Farmland	287	-	-	-	287
	134,959	2,938	4,577	-	142,474
Commercial and industrial	9,586	901	7	-	10,494
Consumer and other	94	-	-	-	94
	$ 150,885	$ 3,839	$ 4,584	$ -	$ 159,308

December 31, 2022
(in thousands)

Loans By Credit Quality Indicator

	Pass	Special Mention	Substandard	Doubtful	Total Loans
Construction, land and land development					
Residential 1-4 family	$ 864	$ -	$ -	$ -	$ 864
Other	8,830	-	-	-	8,830
	9,694	-	-	-	9,694
Real estate					
Residential 1-4 family	19,792	52	-	-	19,844
Multifamily	1,770	-	-	-	1,770
Commercial	103,652	123	1,228	-	105,003
Farmland	278	-	-	-	278
	125,492	175	1,228	-	126,895
Commercial and industrial	12,411	-	55	-	12,466
Consumer and other	81	-	-	-	81
	$ 147,678	$ 175	$ 1,283	$ -	$ 149,136

At December 31, 2023, the Bank has no loans modified in 2023 where the modification was deemed a financial difficulty modification.

Transactions in the allowance for loan credit losses are as follows:

	Year ended December 31, 2023 (in thousands)				
	Construction, land and land development	Real estate	Commercial and industrial	Consumer and other	Total
Balance at December 31, 2022	$ 87	$ 1,200	$ 106	$ 1	$ 1,394
Provision for loan credit losses	(44)	33	(31)	-	(42)
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
Net (charge-offs) recoveries	-	-	-	-	-
Balance at December 31, 2023	$ 43	$ 1,233	$ 75	$ 1	$ 1,352

	Year ended December 31, 2022 (in thousands)				
	Construction, land and land development	Real estate	Commercial and industrial	Consumer and other	Total
Balance at December 31, 2021	$ 106	$ 1,870	$ 117	$ 1	$ 2,094
Provision for loan credit losses	(19)	(670)	(11)	-	(700)
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
Net (charge-offs) recoveries	-	-	-	-	-
Balance at December 31, 2022	$ 87	$ 1,200	$ 106	$ 1	$ 1,394

The Bank had no nonaccrual loans as of December 31, 2023 and 2022. There was no interest income recognized on nonaccrual loans for 2023 and 2022.

Components of the allowance for loan credit losses, and the related carrying amount of loans for which the allowance is determined are as follows:

	December 31, 2023 (in thousands)				
	Construction, land and land development	Real estate	Commercial and industrial	Consumer and other	Total
Allocation of Allowance To:					
Loans - evaluated individually	$ -	$ -	$ -	$ -	$ -
Loans - evaluated collectively	43	1,233	75	1	1,352
	$ 43	$ 1,233	$ 75	$ 1	$ 1,352
Recorded Investment In:					
Loans - evaluated individually	$ -	$ -	$ -	$ -	$ -
Loans - evaluated collectively	6,246	142,474	10,494	94	159,308
	$ 6,246	$ 142,474	$ 10,494	$ 94	$ 159,308

	December 31, 2022 (in thousands)				
	Construction, land and land development	Real estate	Commercial and industrial	Consumer and other	Total
Allocation of Allowance To:					
Loans - evaluated individually	$ -	$ -	$ -	$ -	$ -
Loans - evaluated collectively	87	1,200	106	1	1,394
	$ 87	$ 1,200	$ 106	$ 1	$ 1,394
Recorded Investment In:					
Loans - evaluated individually	$ -	$ -	$ -	$ -	$ -
Loans - evaluated collectively	9,694	126,895	12,466	81	149,136
	$ 9,694	$ 126,895	$ 12,466	$ 81	$ 149,136

The quality of the Bank’s loan portfolio is impacted by a number of risk factors, often interrelated, that are considered by management in the development of the allowance for loan credit losses. For agricultural loans, including farmland and agricultural production, significant risk factors include livestock and crop prices, input costs, production yields and lack or restriction of water supply. For mortgage loans secured by residential real estate, major risk factors include unemployment levels and real estate prices. For mortgage loans secured by commercial real estate, major risk factors include demand levels for products and services, rental rates and real estate prices. For commercial non real estate loans, major risk factors include demand for products and services, and general economic activity levels including the strength of tourism. For consumer and other loans, the major risk factor is unemployment levels. High interest rates, inflation and energy prices are also pertinent risk factors across all loan segments.

In assessing the risk factors as of December 31, 2023, management considers current conditions to be stressed and future conditions to be uncertain with an economic downturn possible, which are similar assessments to December 31, 2022. The following tables present quantitative information on the composition of the allowance for loan credit losses. There is no significant change in the allowance composition from 2022 to 2023 due to limited charge-off history and lack of credit losses over the applicable lookback periods. The historical loss component is zero pre- and post-ASC 326 as the Bank has not experienced any credit losses over the previous 10-year loss history.

December 31, 2023
(dollars in thousands)

	Total Allowance		Portion Based on Historical Charge-Offs		Portion Based on Risk Factor Adjustments		Portion Based on Specific Allocations	
	Amount	Percent of Outstanding Loans	Amount	Percent of Outstanding Loans	Amount	Percent of Outstanding Loans	Amount	Percent of Outstanding Loans
Construction, land and land development	$ 43	0.69	$ -	-	$ 43	0.69	$ -	-
Real estate	1,233	0.87	-	-	1,233	0.87	-	-
Commercial and industrial	75	0.71	-	-	75	0.71	-	-
Consumer and other	1	1.06	-	-	1	1.06	-	-
	$ 1,352	0.85	$ -	-	$ 1,352	0.85	$ -	-

December 31, 2022
(dollars in thousands)

	Total Allowance		Portion Based on Historical Charge-Offs		Portion Based on Risk Factor Adjustments		Portion Based on Specific Allocations	
	Amount	Percent of Outstanding Loans	Amount	Percent of Outstanding Loans	Amount	Percent of Outstanding Loans	Amount	Percent of Outstanding Loans
Construction, land and land development	$ 87	0.90	$ -	-	$ 87	0.90	$ -	-
Real estate	1,200	0.95	-	-	1,200	0.95	-	-
Commercial and industrial	106	0.85	-	-	106	0.85	-	-
Consumer and other	1	1.23	-	-	1	1.23	-	-
	$ 1,394	0.93	$ -	-	$ 1,394	0.93	$ -	-

NOTE C - PREMISES AND EQUIPMENT

Premises and equipment, less accumulated depreciation and amortization consisted of the following:

	December 31, 2023	December 31, 2022
	(in thousands)	
Right-of-use asset for premises operating lease	$ 578	$ 578
Leasehold improvements	678	678
Furniture, fixtures and equipment	1,553	1,529
Work in Process	24	-
	2,833	2,785
Accumulated depreciation and amortization	(2,425)	(2,234)
	$ 408	$ 551

The Bank's operating lease liability for leased premises totaled $307,000 and $445,000 at December 31, 2023 and 2022, respectively, and is included as a component of other liabilities. Total rent expense for the premises operating lease, including variable costs, was $203,000 and $192,000 in 2023 and 2022, respectively.

Future undiscounted minimum rent commitments for the premises operating lease are as follows:

Years ending December 31,	(in thousands)
2024	$ 148
2025	151
2026	13
	$ 312

The $5,000 difference between the lease liability and the rent commitment total in the table above is the future interest component of the liability to be included in rent expense over the remaining term of the lease.

NOTE D – DEPOSITS

The aggregate amount of time deposits in denominations of $250,000 or more at December 31, 2023 and 2022 was approximately $13,830,000 and $16,997,000, respectively.

At December 31, 2023, the scheduled maturities of certificates of deposit are as follows:

Years ending December 31,	(in thousands)
2024	$ 15,049
2025	968
2028	1
	$ 16,018

NOTE E – BORROWINGS

Federal Home Loan Bank (FHLB) Borrowings

As of December 31, 2023, the Bank had no term advances outstanding with the Federal Home Loan Bank. As of December 31, 2022, the Bank had term advances outstanding with the Federal Home Loan Bank totaling $1,500,000 with an average weighted rate of 3.18%. The Bank has executed a blanket pledge and security agreement with the Federal Home Loan Bank, which encompasses certain loans as collateral for these credit facilities.

At December 31, 2023 and 2022, loans totaling $86,163,000 and $89,702,000 were pledged to secure all Federal Home Loan Bank borrowings. At December 31, 2023, the Bank had additional borrowing capacity at the Federal Home Loan Bank of approximately $57,257,000.

Federal Funds

At December 31, 2023, the Bank maintained various additional short and long-term lines of credit from other institutions with gross available facilities of $29,700,000. As of December 31, 2023, the Bank had $978,000 outstanding with Bankers' Bank of the West with a rate of 5.65%. There were no other amounts outstanding under these lines. No amounts were outstanding under these lines as of December 31, 2022. The federal funds lines are uncommitted, and funding requests made by the Bank are subject to the lending institutions' approval and funding availability at the time of request.

NOTE F – INCOME TAXES

Following is an analysis of income taxes included in the statements of income:

	2023	2022
	(in thousands)	
Current tax expense (benefit)		
Federal	$ 806	$ 747
State	177	163
	983	910
Deferred tax expense (benefit)		
Federal	(23)	187
State	(3)	27
	(26)	214
	$ 957	$ 1,124

Listed below are the components of the net deferred tax assets, which are included in other assets:

	December 31,	
	2023	2022
	(in thousands)	
Deferred tax assets		
Allowance for credit losses	$ 341	$ 341
Deferred loan fees	85	72
Other, net	53	44
Total deferred tax assets	479	457
Deferred tax liabilities		
FHLB dividends	(16)	(20)
Total deferred tax liabilities	(16)	(20)
Net deferred tax asset before valuation allowance	463	437
Less valuation allowance	-	-
Net deferred tax asset	$ 463	$ 437

The reasons for the differences between the statutory federal income tax rate and the effective tax rate are summarized as follows:

	Year Ended December 31, 2023	Year Ended December 31, 2022
	(percentage)	
Statutory federal tax rate	21.00	21.00
Increase (decrease) resulting from:		
State tax, net of federal tax benefit	3.60	3.36
Other	0.54	0.78
Effective rate	25.14	25.14

NOTE G - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and stand-by letters of credit.

Those instruments involve, to a varying degree, elements of credit risk in excess of the amount recognized in the statement of financial position. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

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

At December 31, 2023 and 2022, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2023	2022
	(in thousands)	
Commitments to extend credit	$ 20,982	$ 23,697
Letters of credit	844	844

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.

Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank upon extension of credit is based on management's credit evaluation. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties.

Stand-by letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer 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.

At December 31, 2023 and 2022 the Bank has an allowance for credit losses on unfunded loan commitments of $42,000 and $0, respectively, carried as a component of Other Liabilities. In 2023 and 2022, the Bank recorded credit loss provisions related to unfunded loan commitments of $42,000 and $0, respectively.

NOTE H - EMPLOYEE BENEFIT AND COMPENSATION PLANS

401(k) Plan

The Bank maintains a 401(k) retirement plan whereby substantially all employees who meet certain age and length of service requirements may participate in the plan. For 2023 and 2022, expense attributable to the Plan amounted to approximately $65,000 and $60,000, respectively.

Employment Agreements

The Bank has employment agreements with its CEO and President. The agreements establish a salary that is increased annually based on performance factors relating to Bank earnings, asset growth and asset quality. The CEO and President are also entitled to participate in annual bonuses based on Bank earnings and asset quality. These are subject to annual review and approval by the Board.

Stock Appreciation Rights

The Bank has a Stock Appreciation Rights (SAR) plan for senior officers. Under the plan, participants are granted a number of SARs at the discretion of the Bank's Board of Directors. Each SAR entitles the holder to the book value appreciation in one share of the Bank's common stock for the periods following the date of grant. The value of the stock appreciation vests immediately, at which time the holder is entitled to receive the value in cash. Expense attributable to the plan in 2023 and 2022 was $319,000 and $561,000, respectively. All expenses were paid as part of 2023 and 2022 compensation, and no liability related to this expense existed as of December 31, 2023 and 2022.

NOTE I – RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank may make loans to executive officers, directors and principal shareholders of the Bank, including their immediate families and companies in which they are principal owners. At December 31, 2023 and 2022, total loans to these persons approximated $13,517,000 and $692,000, respectively. Deposits by related parties held by the Bank at December 31, 2023 and 2022 were approximately $8,203,000 and $8,310,000, respectively.

NOTE J – STOCKHOLDERS' EQUITY AND DIVIDENDS

Federal banking regulations place certain restrictions on dividends paid by the Bank to its shareholders. Approval by the banking regulators is required if the total of all dividends declared by the Bank exceeds the total of its net profits for the year combined with its retained net profits of the preceding two years.

In addition, dividends paid by the Bank would be prohibited if the effect thereof would cause the Bank's capital to be deemed below the applicable minimum capital requirements.

NOTE K - MINIMUM REGULATORY CAPITAL REQUIREMENTS

The Bank is subject to various regulatory capital requirements administered by state and 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 their assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to other factors. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes, as of December 31, 2023 and 2022, that the Bank meets all capital adequacy requirements to which it is subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year end 2023 and 2022, the most recent regulatory notification categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

In 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy the community bank leverage ratio framework ("CBLR framework"), for qualifying community banking organizations, consistent with Section 201 of Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020 and was elected by the Bank as of December 31, 2020. In April 2020, the federal banking agencies issued an interim final rule that makes temporary changes to the CBLR framework, pursuant to section 4012 of the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, and a second interim final rule that provides a graduated increase in the community bank leverage ratio requirement after the expiration of the temporary changes implemented pursuant to section 4012 of the CARES Act.

The community bank leverage ratio removes the requirement for qualifying banking organizations to calculate and report risk-based capital but rather only requires a Tier 1 to average assets (leverage) ratio. Qualifying banking organizations that elect to use the CBLR framework and that maintain a leverage ratio of greater than required minimums will be considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies' capital rules (generally applicable rule) and, if applicable, will be considered to have met the well capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. Under the interim final rules, the community bank leverage ratio minimum requirement is 9% for calendar year 2022 and beyond. The interim rule allows for a two-quarter grace period to correct a ratio that falls below the required amount, provided that the bank maintains a leverage ratio 8% for calendar year 2022 and beyond.

Under the final rule, an eligible banking organization can opt out of the CBLR framework and revert back to the risk-weighting framework without restriction. As of December 31, 2023, the Bank was a qualifying community banking organization as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework.

Actual and required capital amounts and ratios are presented below:

	Actual		To be well capitalized under Prompt Corrective Action Regulations (CBLR Framework)	
	Amount	Ratio	Amount	Ratio
	(in thousands)			
As of December 31, 2023				
Tier 1 capital (to average total assets)	$ 36,516	18.2%	$ 18,063	9.0%
As of December 31, 2022				
Tier 1 capital (to average total assets)	$ 34,154	15.7%	$ 19,526	9.0%

Regulatory authorities can initiate certain mandatory actions if the Bank fails to meet the minimum capital requirements, which could have a direct and material effect on the Bank's financial statements. Management believes, as of December 31, 2023, that the Bank meets all capital adequacy requirements to which it is subject, and that the Bank exceeds the minimum levels necessary to be considered "well capitalized".

Federal banking regulations place certain restrictions on dividends paid by the Bank. Approval by federal regulators is required if the total of all dividends declared by the Bank exceeds the total of its net profits for the year combined with its retained net profits of the preceding two years.

In addition, dividends paid by the Bank would be prohibited if the effect thereof would cause the Bank's capital to be deemed below the applicable minimum capital requirements.

NOTE L – FAIR VALUE MEASUREMENT

The Bank used the following methods and significant assumptions to estimate fair value:

Collateral Dependent Loans – The Bank does not record loans at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these loans to reflect (1) partial write-downs that are based on the current appraised or market-quoted value of the underlying collateral or (2) the full charge-off of the loan carrying value. In some cases, the properties for which market quotes or appraised values have been obtained are located in areas where comparable sales data is limited, outdated, or unavailable. Fair value estimates for collateral dependent loans are obtained from real estate brokers or other third-party consultants (Level 3).

Foreclosed Real Estate – Nonrecurring adjustments to certain commercial and residential real estate properties classified as foreclosed real estate are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property, resulting in Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

At December 31, 2023 and 2022, there were no collateral dependent loans and no foreclosed real estate. During 2023 and 2022, there were no changes or amounts in Level 3 assets or liabilities recorded at fair value on a recurring basis.

NOTE M – SUBSEQUENT EVENTS

On January 2, 2024, the Bank's Board of Directors declared a dividend of $430,640 payable to shareholders of record on that date, which was paid on January 23, 2024.