HELM BANK USA

FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

HELM BANK USA

TABLE OF CONTENTS:

MARCUM
ACCOUNTANTS ▲ ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Helm Bank USA

Opinion

We have audited the financial statements of Helm Bank USA, which comprise the balance sheet as of December 31, 2022, and the related statement of income, comprehensive (loss) income, changes in stockholders' equity, and cash flows for the year 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 Helm Bank USA as of December 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Other Matter

The financial statements of Helm Bank USA as of December 31, 2021 were audited by other auditors whose report dated July 15, 2022 expressed an unmodified opinion on those financial statements.

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 Helm Bank USA's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Helm Bank USA'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 Helm Bank USA'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.

Marcum LLP

Hartford, CT
April 28, 2023

HELM BANK USA

BALANCE SHEETS
DECEMBER 31,
(IN THOUSANDS, EXCEPT SHARE DATA)

ASSETS	2022	2021
CASH AND CASH EQUIVALENTS:		
Cash and due from banks	$ 52,970	$ 59,427
Interest-bearing cash deposits	69,853	132,187
TOTAL CASH AND CASH EQUIVALENTS	122,823	191,614
Securities available for sale, at fair value	479,101	255,674
Marketable equity securities, at fair value	881	996
Federal Home Loan Bank stock, at cost (restricted)	454	441
Loans, net	460,798	450,682
Deferred tax asset, net	16,721	2,855
Property and equipment, net	351	414
Right-of-use asset	1,741	-
Accrued interest receivable and other assets	7,820	6,312
TOTAL ASSETS	**$ 1,090,690**	**$ 908,988**

LIABILITIES AND STOCKHOLDERS' EQUITY	2022	2021
DEPOSITS:		
Demand deposits	$ 579,507	$ 416,211
Savings, NOW and money-market deposits	307,060	226,493
Time deposits	129,740	159,174
TOTAL DEPOSITS	1,016,307	801,878
Advance payments by borrowers for taxes and insurance	2,995	3,749
Lease liabilities	1,765	-
Accrued interest payable and other liabilities	4,754	4,414
TOTAL LIABILITIES	1,025,821	810,041
COMMITMENTS AND CONTINGENCIES (NOTE 16)		
STOCKHOLDERS' EQUITY:		
Common stock, $10 par value, 1,000,000 shares authorized; 900,000 shares issued and outstanding	9,000	9,000
Additional paid-in capital	8,800	8,800
Retained earnings	91,007	81,721
Accumulated other comprehensive loss, net of tax effect	(43,938)	(574)
TOTAL STOCKHOLDERS' EQUITY	64,869	98,947
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 1,090,690**	**$ 908,988**

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

HELM BANK USA

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31,
(IN THOUSANDS)

	2022	2021
INTEREST INCOME:		
Loans, including fees	$ 20,480	$ 21,990
Securities available for sale	10,015	4,445
Other	2,815	74
TOTAL INTEREST INCOME	33,310	26,509
INTEREST EXPENSE:		
Deposits	1,186	1,134
TOTAL INTEREST EXPENSE	1,186	1,134
NET INTEREST INCOME	32,124	25,375
RECOVERY OF LOAN LOSSES	(258)	(3,562)
NET INTEREST INCOME AFTER RECOVERY OF LOAN LOSSES	32,382	28,937
NONINTEREST INCOME:		
Fee income on wire transfers	1,912	1,719
Service fees and charges on customer deposit accounts	932	958
Net realized (loss) gain on sales of debt securities available for sale (includes ($5) and $1 accumulated other comprehensive income reclassifications for unrealized net gains on debt securities available for sale, respectively)	(6)	2
Foreign currency transaction income	3,254	2,336
Credit card income	555	399
Gain on sale of foreclosed assets	-	21
Net unrealized loss on marketable equity securities	(115)	(29)
Other	306	95
TOTAL NONINTEREST INCOME	6,838	5,501
NONINTEREST EXPENSES:		
Salaries and employee benefits	16,076	14,466
Representative offices	2,393	2,120
Data processing	1,246	923
Occupancy	1,427	1,367
Consulting fees	815	807
Professional fees	998	1,012
Information technology support	881	767
Software licenses	595	591
Depreciation and amortization	227	135
Other	2,840	2,631
TOTAL NONINTEREST EXPENSES	27,498	24,819
INCOME BEFORE PROVISION FOR INCOME TAXES	11,722	9,619
PROVISION FOR INCOME TAXES (includes $1 income tax benefit from reclassification items for the year ended December 31, 2022)	2,436	1,986
NET INCOME	**$ 9,286**	**$ 7,633**

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

HELM BANK USA

STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(IN THOUSANDS)

2022				
NET INCOME			$	9,286
OTHER COMPREHENSIVE LOSS, NET OF TAX EFFECT				
Unrealized loss on securities				
Unrealized holding losses arising during period (net of tax effect of $14,432)	$	(43,368)		
Less: reclassification adjustment for losses included in net income (net of tax effect of $1)		4		(43,364)
COMPREHENSIVE LOSS			**$**	**(34,078)**
2021				
NET INCOME			$	7,633
OTHER COMPREHENSIVE LOSS, NET OF TAX EFFECT				
Unrealized loss on securities				
Unrealized holding losses arising during period (net of tax effect of $1,515)	$	(4,719)		
Less: reclassification adjustment for gains included in net income (net of tax effect of $0)		(1)		(4,720)
COMPREHENSIVE INCOME			**$**	**2,913**

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

HELM BANK USA

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(IN THOUSANDS)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), net of tax effect	Total Stockholders' Equity
BALANCES AT JANUARY 1, 2021	$ 9,000	$ 8,800	$ 83,588	$ 4,146	$ 105,534
Net income	-	-	7,633	-	7,633
Dividends	-	-	(9,500)	-	(9,500)
Other comprehensive loss	-	-	-	(4,720)	(4,720)
BALANCES AT DECEMBER 31, 2021	9,000	8,800	81,721	(574)	98,947
Net income	-	-	9,286	-	9,286
Other comprehensive loss	-	-	-	(43,364)	(43,364)
BALANCES AT DECEMBER 31, 2022	**$ 9,000**	**$ 8,800**	**$ 91,007**	**$ (43,938)**	**$ 64,869**

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

HELM BANK USA

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,
(IN THOUSANDS)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 9,286	$ 7,633
Adjustments to reconcile net income to net cash provided by operating activities:		
Recovery of loan losses	(258)	(3,562)
Net amortization of securities available for sale	442	1,326
Net amortization (accretion) of deferred loan fees	508	(5)
Net amortization of loan premiums	945	1,325
Depreciation and amortization of property and equipment	227	135
Amortization of right-of-use asset	648	-
Net gain on sale of foreclosed assets	-	(21)
Net realized loss (gain) on sales of securities available for sale	6	(2)
Net unrealized loss on marketable equity securities	115	29
Deferred income tax provision	282	1,063
Net change in operating assets and liabilities:		
Accrued interest receivable and other assets	(1,450)	242
Lease liabilities	(624)	-
Accrued interest payable and other liabilities	340	(916)
NET CASH PROVIDED BY OPERATING ACTIVITIES	10,467	7,247
CASH FLOWS FROM INVESTING ACTIVITIES:		
Activity in securities available for sale:		
Sales	110	20,070
Maturities, prepayments and calls	17,358	55,629
Purchases	(298,913)	(104,770)
Net change in Federal Home Loan Bank stock, at cost (restricted)	(14)	317
Net change in loans	(11,310)	75,939
Proceeds from sales of foreclosed assets	-	370
Additions to property and equipment	(164)	(78)
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(292,933)	47,477
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in deposits	214,429	35,599
Net change in advance payments by borrowers for taxes and insurance	(754)	(953)
Payments of dividends	-	(9,500)
NET CASH PROVIDED BY FINANCING ACTIVITIES	213,675	25,146
NET CHANGE IN CASH AND CASH EQUIVALENTS	(68,791)	79,870
CASH AND CASH EQUIVALENTS, beginning of year	191,614	111,744
CASH AND CASH EQUIVALENTS, end of year	**$ 122,823**	**$ 191,614**
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid on deposits and borrowed funds	**$ 1,725**	**$ 1,673**
Cash paid for income taxes	**$ 730**	**$ 1,045**
Capitalization of right-of-use asset under operating leases	**$ 2,369**	**$ -**

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

(IN THOUSANDS)

1. GENERAL

Nature of Operations

Helm Bank USA (the "Bank") is a State of Florida chartered commercial banking financial institution. The Bank provides a variety of financial products and services in Miami, Florida and through its representative offices in Colombia and Venezuela. The Bank is authorized by federal regulators and the State of Florida to conduct general banking business. The Bank is a member of the Federal Deposit Insurance Corporation (“FDIC”) and is supervised and regulated by the Office of Financial Regulation of the State of Florida (“OFR”) and by the FDIC.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statement Presentation

The accounting policies and reporting practices of the Bank conform with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and to predominant practices in the banking industry.

Use of Estimates

In preparing the financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet and reported amounts of revenues and expenses during the reporting 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 losses, valuation of foreclosed assets, valuation of deferred tax assets, and the fair value of financial instruments.

Concentrations of Credit Risk

Credit risk represents the maximum accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value. Concentrations of credit risk (whether on or off-balance sheet) arising from financial instruments exist in relation to certain groups of customers. A group concentration arises when a number of counterparties have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Bank does not have a significant exposure to any individual customer or counterparty.

The Bank’s loan portfolio is significantly concentrated in residential real estate loans. The Bank controls credit risk through credit approvals, credit limits, and monitoring procedures. The Bank performs ongoing credit evaluations of its customers’ financial condition. During 2022 and 2021, approximately 96% of the Bank’s loan portfolio was collateralized by residential real estate; of which approximately 83% and 87% for 2022 and 2021, respectively, is collateralized by condominiums and planned unit developments. Loans collateralized by real estate are located primarily in South Florida. Circumstances that negatively impact the South Florida real estate industry or the South Florida economy, in general, could adversely impact the Bank’s loan portfolio.

Loans outstanding to customers whose principal residence is outside the U.S. at December 31, 2022 and 2021 were $334,928 and $345,671, respectively. The following is a summary of the loan portfolio by country of customer residence at December 31:

	2022	2021
Brazil	28%	32%
United States	28	24
Colombia	12	14
Other	32	30
	100%	100%

(IN THOUSANDS)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED

Concentrations of Credit Risk (Continued)

Deposits outstanding from customers whose principal residence is outside the U.S. at December 31, 2022 and 2021 were $818,981 and $670,981, respectively. The following is a summary of total deposits by country of customer residence at December 31:

	2022	2021
Colombia	42%	37%
United States	19	18
Ecuador	14	17
Other	25	28
	100%	**100%**

Deposits outstanding included one customer whose total relationship exceeded 10% of the Bank's total deposits. This customer's total relationship balance at December 31, 2022 and 2021 was $101,911 and $73,150, respectively, which represented 10% and 9%, respectively, of total deposits.

In the ordinary course of business, the Bank maintains deposits with other qualified financial institutions. The exposure to the Bank from these transactions is dependent upon the balances it keeps and the financial strength of the respective depository institution in situations where the balance with the financial institution exceeds the FDIC limit of insurance of $250.

Foreign Operations

The Bank's operations in various geographic regions expose the Bank to risks inherent in doing business in each of the countries in which the Bank transacts business. Operations in countries other than the United States are subject to various risks particular to each country. With respect to any particular country, these risks may include:

- Expropriation and nationalization of the Bank's assets or the Bank's customers in that country;
- Political and economic instability;
- Civil unrest, acts of terrorism, force majeure, war or other armed conflict;
- Natural disasters including those related to earthquakes, hurricanes, tsunamis and flooding;
- Inflation;
- Currency fluctuations, devaluations, conversion and expropriation restrictions;
- Confiscatory taxation or other adverse tax policies;
- Governmental activities that limit or disrupt markets, payments, or limit the movement of funds;
- Governmental activities that may result in the deprivation of contract rights; and
- Trade restrictions and economic embargoes imposed by the United States and other countries.

Cash and Cash Equivalents

For the purposes of the statements of cash flows, cash and cash equivalents includes cash and due from banks, and interest-bearing cash deposits in banks with original maturity dates of ninety days or less.

The Bank was not required to maintain average balances on hand or with the Federal Reserve Bank at December 31, 2022 and 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Debt Securities

The Bank determines the appropriate classification of its investments in debt securities at the time of purchase and reevaluates such determinations at each balance sheet date. Debt securities are classified as held to maturity when the Bank has the positive intent and ability to hold the securities to maturity. Debt securities for which the Bank does not have the intent or ability to hold to maturity are classified as available for sale. Debt securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value, with unrealized gains and losses recognized in earnings. Debt securities not classified as held to maturity or as trading, are classified as available for sale, and are carried at fair market value, with the unrealized gains and losses, net of tax effect, included in the determination of comprehensive (loss) income and reported in stockholders' equity. At December 31, 2022 and 2021, all of the Bank's debt securities were classified as available for sale.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level yield method. Gains and losses on sales of securities are determined using the specific identification method.

The Bank recognizes other-than-temporary impairments for debt securities classified as available for sale in accordance with U.S. GAAP. Accordingly, the Bank assesses whether it intends to sell or it is more likely than not that it will be required to sell a security before recovery of its amortized cost basis less any current-period credit losses. For debt securities that are considered other-than-temporarily impaired and that the Bank does not intend to sell and will not be required to sell prior to recovery of the amortized costs bases, the Bank separates the amount of the impairment into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is the difference between the security's amortized cost basis and the present value of its expected future cash flows discounted at the security's effective yield. The remaining difference between the security's fair value and the present value of future expected cash flows is due to factors that are not credit related and, therefore, is not required to be recognized as losses in the statements of income, but is recognized in other comprehensive (loss) income.

Marketable Equity Securities

Marketable equity securities are carried at fair value with unrealized gains and losses included in earnings.

Federal Home Loan Bank Stock, at cost (restricted)

The Bank, as a member of the Federal Home Loan Bank ("FHLB") (Atlanta) system, is required to maintain an investment in capital stock of the FHLB. Based on redemption provisions of the FHLB, the stock has no quoted market value and is carried at cost. At its discretion, the FHLB may declare dividends on the stock. Management reviews for impairment based on the ultimate recoverability of the cost basis in the FHLB stock. At December 31, 2022 and 2021, the Bank owned 4,454 and 4,405 shares, respectively, with a carrying value of $454 and $441, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans, net

Loans are reported at their recorded investment, which is the outstanding principal balance plus accrued interest and net of any unearned income, such as deferred fees or costs, charge-offs, unamortized premiums or discounts on originated loans, and the allowance for loan losses. Interest on loans is recognized over the term of the loan and is calculated on principal amounts outstanding. Certain loan origination fees and costs are deferred and the net amount is recognized as an adjustment to interest income using the interest method over the contractual life of the loans.

The allowance for loan losses reflects management's judgment of probable loan losses inherent in the portfolio at the balance sheet date. Management uses a disciplined process and methodology to establish the allowance for loan losses each quarter. To determine the total allowance for loan losses, the Bank estimates the reserves needed for each segment of the portfolio, including loans analyzed individually and loans analyzed on a pooled basis.

To determine the balance of the allowance account, loans are pooled by portfolio segment and losses are modeled using historical experience, quantitative and other mathematical techniques over the loss emergence period. For each class of loan, management exercises significant judgment to determine the estimated method that fits the credit risk characteristics of its portfolio segment. For purposes of determining the allowance for loan losses, the Bank has segmented certain loans in the portfolio by product type. Loans are segmented into the following pools: residential real estate, commercial real estate, commercial and industrial, and consumer loans. The Bank also sub-segments these segments into classes based on the associated risks within those segments. Residential real estate loans are divided into the following four classes: revolving 1-4 family, single family residences, condominiums and planned unit developments. Commercial real estate loans are divided into the following four classes: other construction and development, multifamily residential, non-residential owner occupied, and non-residential investor owned. Commercial and industrial loans are divided into the following two classes: trucks and trailers and certificate of deposit ("CD") secured. Consumer loans are divided into the following two classes: credit cards and other consumer. Management must use judgment in establishing additional input metrics for the modeling processes. The models and assumptions used to determine the allowance are independently validated and reviewed to ensure that their theoretical foundation, assumptions, data integrity, computational processes, reporting practices, and end-user controls are appropriate and properly documented.

The following is how management determines the balance of the allowance account. The loans are pooled by class and a historical loss percentage is applied to each class. Based on credit risk assessment and management's analysis of leading predictors of losses, additional loss multipliers are applied to loan balances to adjust the historical loss percentage for environmental factors. Historical loan losses are calculated by utilizing a five-year weighted average methodology with an equal weighting applied to each period.

Reflected in the portions of the allowance previously described is an amount for imprecision or uncertainty that incorporates the range of probable outcomes inherent in estimates used for the allowance, which may change from period to period. This amount is the result of the Bank's judgment of risks inherent in the portfolios, economic uncertainties, historical loss experience and other subjective factors, including industry trends, calculated to better reflect the Bank's view of risk in each loan portfolio. No single statistic or measurement determines the adequacy of the allowance for loan loss. While the allowance for loan losses is estimated by portfolio segment, it is available to absorb credit losses on the loan portfolio as a whole. Changes in the allowance for loan loss and the related provision expense can materially affect net income.

The establishment of the allowance for loan losses relies on a consistent process that requires multiple layers of management review and judgment and responds to changes in economic conditions, member behavior, and collateral value, among other influences. From time to time, events or economic factors may affect the loan portfolio, causing management to provide additional amounts to or release balances from the allowance for loan losses. The Bank's allowance for loan losses is sensitive to risk ratings assigned to individually evaluated loans and economic assumptions and delinquency trends driving statistically modeled reserves. Individual loan risk ratings are evaluated based on each situation by experienced senior credit officers.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans, net (continued)

Management monitors differences between estimated and actual incurred loan losses. This monitoring process includes periodic assessments by senior management of loan portfolios and the models used to estimate incurred losses in those portfolios. Additions to the allowance for loan losses are made by charges to the provision for loan losses. Credit exposures deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of previously charged-off amounts are credited to the allowance for loan losses.

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the balance sheet date. The Bank considers the allowance for loan losses of $8,118 and $8,364 adequate to cover loan losses inherent in the loan portfolio at December 31, 2022 and 2021, respectively.

Regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses. Such agencies may require the recognition of additions and/or decreases to the allowance for loan losses based on their judgment of information available at the time of their examination.

Consumer loans are generally fully or partially charged down to the fair value of the collateral securing the asset when:

- The loan is in excess of 120 days past due, unless collateral covering the loan has been repossessed;
- 90 days have lapsed since repossession of collateral;
- Management judges the asset to be uncollectible;
- Repayment is deemed to be protracted beyond reasonable time; or
- If after liquidation of the collateral, payment of any resulting deficiency by borrower or guarantor is highly improbable.

For real estate, and commercial and industrial loans the Bank's charge-off policies are as follows. A loan is charged-off when:

- The loan is classified as a loss by the Bank, and is considered uncollectible or of such little value that the continuance of the loan as an active asset is no longer warranted;
- The loan is classified as a loss by the regulatory authorities; or
- The loan is impaired and there is a known anticipated loss, the amount of the loss is charged-off.

In situations where, for economic or legal reasons related to a borrower's financial difficulties, management may grant a concession for other than an insignificant period of time to the borrower that would not otherwise be considered, the related loan is classified as a troubled debt restructuring ("TDR"). Management strives to identify borrowers in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as it does for impaired loans.

The Bank offers a variety of modifications to borrowers. The modification categories offered can generally be described in the following categories:

Rate Modification - A modification in which the interest rate is changed.

Term Modification - A modification in which the maturity date, timing of payments, or frequency of payments is changed.

Interest Only Modification – A modification in which the loan is converted to interest only payments for a period of time.

Combination Modification – Any other type of modification, including the use of multiple categories above.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans, net (continued)

In addition to the allowance for the pooled portfolios, management has developed a separate allowance for loans that are identified as impaired through a TDR. These loans are excluded from pooled loss forecasts and a separate reserve is provided under the accounting guidance for loan impairment.

The Bank's grading analysis estimates the capability of the borrower to repay the contractual obligation of the loan agreements as scheduled or at all. The Bank's internal credit risk grading system is based on experiences with similarly graded loans. Credit risk grades are refreshed each quarter as they become available, at which time management analyzes the resulting scores, as well as other external statistics and factors, to track loan performances.

The Bank's internally assigned grades are as follows:

Pass - No change in credit rating of borrower and loan-to-value ratio of asset.

Especially Mentioned - Loans to borrowers displaying a preponderance of declining trends. While the situation has not deteriorated to work-out status, its present condition is unsatisfactory. Existing loans will be included in this group if, based on actual experience and other events, it is unlikely that they would be granted on similar terms.

Substandard - Work-out and/or non-performing loans with no principal loss anticipated.

Doubtful - Work-out and/or non-performing loans with weaknesses that make collection or liquidation in full highly questionable and improbable.

Loss - Loans considered uncollectible and of such little value that their continuance as bankable assets is not warranted.

Management considers a loan to be impaired when, based on current information and events, it is determined that the Bank will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Determination of impairment is treated the same across all classes of loans. When management identifies a loan as impaired, the impairment is measured based on a present value of expected future cash flows, discounted at the loan's effective interest rate, except when the source of repayment for the loan is the operation or liquidation of the collateral. In these cases, management uses the current fair value of the collateral, less selling costs when foreclosure is probable, instead of discounted cash flows. If management determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance.

When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method.

The Bank generally places loans on nonaccrual status when the full and timely collection of interest or principal becomes uncertain, part of the principal balance has been charged-off and no restructuring has occurred or the loans reach more than ninety days past due.

When management places a loan on nonaccrual status, the accrued unpaid interest receivable is reversed against interest income and the loan is accounted on the cash or cost recovery method, until it qualifies for return to accrual status. Generally, management returns a loan to accrual status when (a) all delinquent interest and principal become current under the terms of the loan agreement or (b) the loan is both well-secured and in the process of collection and collectability is no longer doubtful.

The Bank has determined that the entire balance of a loan is contractually delinquent for all classes if the minimum payment is not received by the specified due date on the borrower's statement. Interest and fees continue to accrue on past due loans until the date the loan goes into nonaccrual status, if applicable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans, net (continued)

In addition to the allowance for loan losses, the Bank also estimates probable losses related to unfunded lending commitments, such as letters of credit, financial guarantees and unfunded loan commitments. Unfunded lending commitments are subject to individual reviews and are analyzed and segregated by risk according to the Bank's internal risk rating scale. These risk classifications, in conjunction with an analysis of historical loss experience, current economic conditions, performance trends within specific portfolio segments and any other pertinent information, result in the estimation of the reserve for unfunded lending commitments. Provision for credit losses related to the loan portfolio and unfunded lending commitments are reported in the statements of income. At December 31, 2022 and 2021, the provision for unfunded lending commitments amounted to $65 and is included in accrued interest payable and other liabilities on the accompanying balance sheets.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are 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 foreclosed assets, net in the accompanying statements of income.

Property and Equipment, net

Property and equipment are carried at cost, less accumulated depreciation and amortization computed on the straight-line method over the estimated useful lives of the assets or the expected terms of the leases if shorter. The estimated useful lives of these assets are as follow:

Leasehold improvements	Shorter of life or term of lease
Furniture, fixtures and equipment	3 - 7 years

Maintenance and repairs are charged to expense as incurred; improvements and betterments are capitalized. When assets are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and any resulting gains or losses are included in the results of operations for the respective period.

Impairment of Long-Lived Assets

The Bank's long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet. The Bank did not recognize an impairment charge during the years ended December 31, 2022 and 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

The Bank determines if an arrangement contains a lease at inception based on whether or not the Bank has the right to control the asset during the control period and other facts and circumstances.

Lessee

The Bank evaluates the classification of leases as operating or finance at inception. Leases that meet one or more of the following criteria will be classified as finance leases:

- The lease agreement contains provision where the lessee has the option to purchase the asset, and the portion is reasonably certain to be exercised.
- The ownership of the leased asset is transferred to the Bank at the end of the lease period.
- The duration of the lease encompasses at least 75% of the useful life of the leased assets.
- The present value of the minimum lease payments under the lease represent at least 90% of the fair value of the leased asset.
- The asset is so specialized in nature that it provides no alternative use to the lessor after the lease term.

All other leases are classified as operating leases.

The Bank is the lessee in a lease contract when the Bank obtains the right to control the asset. Operating and finance lease right-of-use ("ROU") assets represent the Bank's right to use an underlying asset for the lease term, and lease liabilities represent the Bank's obligation to make lease payments arising from the lease, both of which are recognized based on the present value of the future minimum lease payments over the lease term at the implementation date or the lease commencement date for leases that the Bank entered into subsequent to the standard's implementation. The Bank determines the lease term by assuming the exercise of renewal options that are reasonably certain. As most of the Bank's leases do not provide an implicit interest rate, the Bank utilizes the risk-free rate for the period comparable to the lease term as of the implementation date or the commencement date for lease agreements that the Bank entered into subsequent to the implementation date, in determining the present value of future payments.

Leases with a lease term of 12 months or less at inception are not recorded on the Bank's balance sheet and are expensed on a straight-line basis over the lease term in the Bank's statement of income. Additionally, the Bank does not record ROU assets and the related lease liabilities for leases where the greater of the ROU asset or related lease liability is less than $1.

Interest Income

Interest income is recognized as earned, based upon the principal amount outstanding, on an accrual basis.

Advertising Costs

Advertising costs are expensed as incurred. For the years ended December 31, 2022 and 2021, advertising costs amounted to $238 and $47, respectively, and are included in other noninterest expenses on the accompanying statements of income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Bank recognizes positions taken or expected to be taken in a tax return in accordance with existing accounting guidance on income taxes which prescribes a recognition threshold and measurement process. Interest and penalties on tax liabilities, if any, would be recorded in interest expense and other noninterest expense, respectively.

Foreign Currency Adjustments

The Bank's functional currency for all operations worldwide is the U.S. dollar. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred.

Interest Rate Risk

The Bank's performance is dependent to a large extent on its net interest income, which is the difference between income on interest-earning assets and its interest expense on interest-bearing liabilities. The Bank, like most financial institutions, is affected by changes in general interest rate levels and by other economic factors beyond its control. Interest rate risk arises from mismatches between the dollar amount of repricing or maturing assets and liabilities (the interest rate sensitivity gap). More liabilities repricing or maturing than assets over a given time frame is considered liability-sensitive, or a negative gap. An asset-sensitive position will generally enhance earnings in a rising interest rate environment and will negatively impact earnings in a falling interest rate environment, while a liability-sensitive position will generally enhance earnings in a falling interest rate environment and negatively impact earnings in a rising interest rate environment. Fluctuations in interest rates are not predictable or controllable. The Bank has attempted to structure its asset and liability management strategies to mitigate the impact on net interest income resulting from changes in market interest rates.

Comprehensive (Loss) Income

Comprehensive (loss) income consists of net income and other comprehensive (loss) income. Other comprehensive (loss) income includes unrealized gains on securities available for sale, and unrealized losses related to factors other than credit on securities.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in NOTE 18. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

FASB's Accounting Standards Codification ("ASC") Topic No. 606, Revenue from Contracts with Customers ("ASC 606"), establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or series recognized as performance obligations are satisfied.

The majority of the Bank's revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as loans, investment securities, and sales of investment securities. Revenue generating activities that are within the scope of ASC 606 are components of noninterest income which include certain fees such as card income, wire transfer fees, foreign currency transaction income, and service fees and charges on customer deposit accounts.

Subsequent Events

The Corporation has evaluated the accompanying consolidated financial statements for subsequent events and transactions through April 28, 2023 the date these consolidated financial statements were available for issuance. Based on FASB ASC 855, Subsequent Events, no matters were identified requiring accounting or disclosure, including changes in liquidity, compliance with regulatory capital, material deposit concentration withdrawals, material delinquencies in loans or other need to sell investment securities in an unrealized loss position.

Recently Adopted Accounting Pronouncements

Reference Rate Reform

In March 2020, the FASB issued an Accounting Standard Update ("ASU") to provide guidance related to recognizing the effects of reference rate reform on financial reporting. The update is effective for all entities as of March 12, 2020 through December 31, 2022. The Bank adopted the amendments for the year ended December 31, 2022. There have not been any such contracts modified as of December 31, 2022.

Lease Accounting

In February 2016, the FASB issued an ASU which amends existing lease guidance. The update requires lessees to recognize a right-of-use asset and related lease liability for many operating leases now currently off-balance sheet under current U.S. GAAP. Also, the FASB has issued amendments to the update with practical expedients related to land easements, lessor accounting, and disclosures related to accounting changes and error corrections.

The guidance was adopted by the Bank effective January 1, 2022. As a result of the adoption, the Bank recorded an operating lease ROU assets and operating lease liabilities of $2,353 each at implementation.

As part of the implementation of this standard, the Bank elected the practical expedient package where:

- An entity need not reassess whether any expired or existing contracts are or contain leases.
- An entity need not reassess the lease classification for any expired or existing leases.
- An entity need not reassess initial direct costs for any existing leases.

The election of the practical expedient was applied to any leases that expired or existed as of the implementation date. In addition, the Bank elected not to separate non-lease components from lease components. As a result, the Bank accounts for the non-lease components associated with a lease component as a single lease component.

(IN THOUSANDS)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Pronouncements

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued an ASU which will replace the current incurred loss impairment methodology in U.S. GAAP with a methodology that reflects the expected credit losses. The update is intended to provide financial statement users with more decision-useful information about expected credit losses. Also, the FASB has issued amendments to the update with transition relief intended to improve comparability of financial statement information for some entities, to decrease costs for some financial statement preparers, and to clarify some disclosures. This update is effective on a modified retrospective basis for financial statements issued for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018 including interim periods in those fiscal years.

Simplifying the Accounting for Income Taxes

In December 2019, the FASB issued an ASU designed to reduce the complexity in accounting for income taxes by removing certain exceptions and changing or clarifying certain recognition and other requirements. The update is effective for financial statements issued for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022, with early application permitted.

Receivables – Nonrefundable Fees and Other Costs

In October 2020, the FASB issued an ASU to clarify that an entity should reevaluate callable debt securities for each reporting period. The update is to be applied on a prospective basis as of the beginning of the period of adoption and is effective for fiscal years beginning after December 15, 2021 and interim periods within fiscal years beginning after December 15, 2022. Early adoption is permitted.

3. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has granted loans to employees. There were no loans to employees outstanding at December 31, 2022. Activity at December 31, 2021 consisted of the following:

	2021
Beginning balance	$ 132
Repayments	(132)
Ending balance	**$ -**

Deposits from related parties held by the Bank at December 31, 2022 and 2021 were $66,875 and $27,193 respectively.

Interest earned and paid on loans and deposits during the years ended December 31 were as follows:

	For Year Ended December 31,	
	2022	**2021**
Interest earned on employee loans	$ -	$ 2
Interest paid on related party deposits	$ 36	$ 19

The interest rates on related party transactions were as follows during the years ended December 31:

	2022	2021
Deposits	0.00 - 0.50%	0.00 - 0.50%

(IN THOUSANDS)

3. RELATED PARTY TRANSACTIONS (CONTINUED)

The Bank has a service agreement with an entity related by virtue of common ownership to purchase various support services, which renews annually. During the years ended December 31, 2022 and 2021, the Bank incurred fees under this service agreement of $238 and $236, respectively, which are included in consulting fees on the accompanying statements of income.

The Bank subleases office space from a related party for its disaster recovery center. During the year ended December 31, 2021, the Bank incurred fees under this sublease agreement of $5. The sublease was terminated during 2021.

The Bank leases office space to a related party (NOTE 8).

Directors' fees amounted to $258 for each year ended December 31, 2022, and 2021.

4. SECURITIES

The amortized cost and fair value of debt securities, with gross unrealized gains and losses, follows at:

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
Debt securities:				
U.S. Government-sponsored enterprises (GSEs)	$ 79,927	$ -	$ (19,417)	$ 60,510
U.S. Treasury notes	80,642	-	(2,884)	77,758
Municipal bonds	155,352	113	(13,075)	142,390
GSE residential mortgage-backed	221,486	-	(23,043)	198,443
Total securities available for sale	**$ 537,407**	**$ 113**	**$ (58,419)**	**$ 479,101**

	December 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
Debt securities:				
U.S. Government-sponsored enterprises (GSEs)	$ 72,212	$ 13	$ (2,405)	$ 69,820
Municipal bonds	78,522	3,547	(345)	81,724
GSE residential mortgage-backed	105,707	423	(2,000)	104,130
Total securities available for sale	**$ 256,441**	**$ 3,983**	**$ (4,750)**	**$ 255,674**

The amortized cost and fair value of available for sale debt securities by contractual maturity follows at:

	December 31, 2022	
	Amortized Cost	Fair Value
Securities Available for Sale		
Within 1 year	$ -	$ -
After 1 year through 5 years	83,890	80,527
After 5 years through 10 years	116,010	106,866
Over 10 years	337,507	291,708
Total securities available for sale	**$ 537,407**	**$ 479,101**

(IN THOUSANDS)

4. SECURITIES (CONTINUED)

For the years ended December 31, 2022 and 2021, proceeds from sales of securities available for sale amounted to $110 and $20,069, respectively. Gross realized gains were $135 for the year ended December 31, 2021. There were no realized gains for the year ended December 31, 2022. Gross realized losses were $6 and $133 for the years ended December 31, 2022 and 2021, respectively.

The following table shows the gross unrealized losses and fair value of the Bank's securities available for sale with unrealized losses that are not deemed to be other-than-temporarily impaired aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2022 and 2021.

	Less than Twelve Months		Over Twelve Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2022						
U.S. Government-sponsored enterprises (GSEs)	$ 11,455	$ (2,132)	$ 49,054	$ (17,285)	$ 60,509	$ (19,417)
U.S. Treasury notes	77,758	(2,884)	-	-	77,758	(2,884)
Municipal bonds	109,162	(8,256)	13,721	(4,819)	122,883	(13,075)
GSE residential mortgage-backed	134,491	(8,369)	63,952	(14,674)	198,443	(23,043)
Total securities available for sale	**$ 332,866**	**$ (21,641)**	**$ 126,727**	**$ (36,778)**	**$ 459,593**	**$ (58,419)**

	Less than Twelve Months		Over Twelve Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2021						
U.S. Government-sponsored enterprises (GSEs)	$ 38,148	$ (1,187)	$ 25,779	$ (1,218)	$ 63,927	$ (2,405)
Municipal bonds	15,813	(275)	2,434	(70)	18,247	(345)
GSE residential mortgage-backed	68,397	(1,272)	16,432	(728)	84,829	(2,000)
Total securities available for sale	**$ 122,358**	**$ (2,734)**	**$ 44,645**	**$ (2,016)**	**$ 167,003**	**$ (4,750)**

GSE debt securities. The unrealized losses on the forty-seven investments in GSEs was caused by interest rate increases. The contractual terms of these investments does not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Bank does not intend to sell the investments before recovery of their amortized cost basis, which may be maturity, and it is not more likely than not that the Bank will be required to sell the investments, the Bank does not consider those investments to be other-than-temporarily impaired at December 31, 2022 and 2021.

U.S. Treasury notes. The unrealized losses on the twenty-nine investments in municipal bonds were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Bank does not intend to sell the investments before recovery of their amortized cost basis, which may be maturity, and it is not more likely than not that the Bank will be required to sell the investments, the Bank does not consider those investments to be other-than-temporarily impaired at December 31, 2022.

Municipal bonds. The unrealized losses on the 178 investments in municipal bonds were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Bank does not intend to sell the investments before recovery of their amortized cost basis, which may be maturity, and it is not more likely than not that the Bank will be required to sell the investments, the Bank does not consider those investments to be other-than-temporarily impaired at December 31, 2022 and 2021.

GSE residential mortgage-backed securities. The unrealized losses on the Bank's investment in 132 GSE residential mortgage-backed securities were caused by interest rate increases. During 2022, the Bank purchased those investments at a discount relative to their face amount, and the contractual cash flows of those investments are guaranteed by an agency of the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost basis of the Bank's investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Bank does not intend to sell the investments before recovery of their amortized cost basis, which may be maturity, and it is not more likely than not that the Bank will be required to sell the investments, the Bank does not consider those investments to be other-than-temporarily impaired at December 31, 2022 and 2021.

(IN THOUSANDS)

4. SECURITIES (CONTINUED)

The Bank's marketable equity securities, with carrying values of $881 and $996 for the years ended December 31, 2022 and 2021, respectively, consisted exclusively of two Community Reinvestment Act ("CRA") related mutual funds. There was unrealized losses of $119 and $4 on the mutual funds at December 31, 2022 and 2021, respectively. The increase in the unrealized loss of $115 and $29 in 2022 and 2021, respectively, is included in other noninterest income in the accompanying statements of income.

5. LOANS, NET

Loans classified by segment and class are summarized as follows at December 31:

	2022	2021
Residential Real Estate	$ 445,255	$ 436,880
Commercial Real Estate	7,694	5,644
Commercial and Industrial	2,558	3,351
Consumer	10,256	9,310
	465,763	455,185
Unamortized loan premiums	3,665	3,865
Net deferred loan fees	(512)	(4)
Allowance for loan losses	(8,118)	(8,364)
	$ 460,798	**$ 450,682**

A reconciliation of the recorded investment in loans is as follows at December 31:

	2022	2021
Gross loans	$ 465,763	$ 455,185
Accrued interest receivable	2,894	3,103
Unamortized loan premiums	3,665	3,865
Net deferred loan fees	(512)	(4)
Recorded investment in loans	**$ 471,810**	**$ 462,149**

(IN THOUSANDS)

5. LOANS, NET (CONTINUED)

There were no outstanding advances under existing lines of credit (NOTE 11) and no loans pledged as of December 31, 2022 and 2021.

During 2022 and 2021, the Bank purchased $32,850 and $41,253, respectively, in residential real estate loans for which there was, at acquisition, no evidence of deterioration of credit quality since origination. The purchase premium amounted to $141 and $1,262 for 2022 and 2021, respectively.

The following tables present by portfolio segment, the changes in the allowance for loan losses and recorded investment in loans for the years ended December 31, 2022 and 2021:

For the Year Ended December 31, 2022

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Total
Allowance for loan losses:					
Beginning balance	$ 7,746	$ 46	$ 27	$ 545	$ 8,364
Charge-offs	(54)	-	-	(56)	(110)
Recoveries	44	-	-	78	122
Provision (reversal)	8	23	(6)	(283)	(258)
Ending balance	**$ 7,744**	**$ 69**	**$ 21**	**$ 284**	**$ 8,118**
Ending balance: individually evaluated for impairment	$ 1	$ -	$ -	$ 150	$ 151
Ending balance: collectively evaluated for impairment	$ 7,743	$ 69	$ 21	$ 134	$ 7,967
Recorded investment in loans:					
Ending balance	**$ 451,171**	**$ 7,754**	**$ 2,584**	**$ 10,301**	**$ 471,810**
Ending balance: individually evaluated for impairment	$ 7,225	$ 198	$ -	$ 140	$ 7,563
Ending balance: collectively evaluated for	$ 443,946	$ 7,556	$ 2,584	$ 10,161	$ 464,247

(IN THOUSANDS)

5. LOANS, NET (CONTINUED)

For the Year Ended December 31, 2021

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Total
Allowance for loan losses:					
Beginning balance	$ 10,678	$ 107	$ 25	$ 1,006	$ 11,816
Charge-offs	(255)	-	-	(93)	(348)
Recoveries	447	-	-	11	458
Provision (reversal)	(3,124)	(61)	2	(379)	(3,562)
Ending balance	**$ 7,746**	**$ 46**	**$ 27**	**$ 545**	**$ 8,364**
Ending balance: individually evaluated for impairment	$ 1	$ -	$ -	$ 408	$ 409
Ending balance: collectively evaluated for impairment	$ 7,745	$ 46	$ 27	$ 137	$ 7,955
Recorded investment in loans:					
Ending balance	**$ 443,710**	**$ 5,715**	**$ 3,377**	**$ 9,347**	**$ 462,149**
Ending balance: individually evaluated for impairment	$ 13,139	$ 594	$ -	$ 458	$ 14,191
Ending balance: collectively evaluated for impairment	$ 430,571	$ 5,121	$ 3,377	$ 8,889	$ 447,958

(IN THOUSANDS)

5. LOANS, NET (CONTINUED)

The following tables represent credit exposures at recorded investment by internally assigned grades for the years ended December 31, 2022 and 2021:

For the Year Ended December 31, 2022

	Pass	Especially Mentioned	Substandard	Total
Single family residences	$ 78,137	$ -	$ 380	$ 78,517
Condominiums	198,616	-	1,782	200,398
Planned unit developments	169,044	544	2,668	172,256
Other construction and development	2,614	-	-	2,614
Multifamily residential	1,171	-	-	1,171
Non-residential owner occupied	851	245	207	1,303
Non-residential investor owned	2,496	170	-	2,666
Trucks and trailers	414	-	-	414
CD secured	2,170	-	-	2,170
Credit cards	1,955	-	-	1,955
Other consumer	8,346	-	-	8,346
Total	**$ 465,814**	**$ 959**	**$ 5,037**	**$ 471,810**

For the Year Ended December 31, 2021

	Pass	Especially Mentioned	Substandard	Total
Single family residences	$ 57,679	$ 146	$ 186	$ 58,011
Condominiums	212,420	184	4,469	217,073
Planned unit developments	162,804	205	5,617	168,626
Other construction and development	172	-	-	172
Multifamily residential	1,226	382	-	1,608
Non-residential owner occupied	933	250	212	1,395
Non-residential investor owned	2,541	-	-	2,541
Trucks and trailers	487	-	-	487
CD secured	2,890	-	-	2,890
Credit cards	1,871	-	-	1,871
Other consumer	7,396	-	79	7,475
Total	**$ 450,419**	**$ 1,167**	**$ 10,563**	**$ 462,149**

(IN THOUSANDS)

5. LOANS, NET (CONTINUED)

The following tables present performing and nonperforming loans at recorded investment based on payment activity for the years ended December 31, 2022 and 2021. Payment activity is reviewed by management on a monthly basis to determine how loans are performing.

Nonperforming loans also include certain loans that have been modified in TDRs where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Bank's loss mitigation activities and could include reductions in the interest rate, payment extensions, forbearance or other actions. Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months.

For the Year Ended December 31, 2022

	Performing	Nonperforming	Total
Single family residences	$ 78,137	$ 380	$ 78,517
Condominiums	198,616	1,782	200,398
Planned unit developments	169,588	2,668	172,256
Construction and development	2,614	-	2,614
Multifamily residential	1,171	-	1,171
Non-residential owner occupied	1,303	-	1,303
Non-residential investor owned	2,666	-	2,666
Trucks and trailers	414	-	414
CD secured	2,170	-	2,170
Credit cards	1,955	-	1,955
Other consumer	8,348	-	8,348
Total	**$ 466,982**	**$ 4,830**	**$ 471,812**

For the Year Ended December 31, 2021

	Performing	Nonperforming	Total
Single family residences	$ 57,825	$ 186	$ 58,011
Condominiums	212,604	4,469	217,073
Planned unit developments	163,009	5,617	168,626
Construction and development	172	-	172
Multifamily residential	1,608	-	1,608
Non-residential owner occupied	1,183	212	1,395
Non-residential investor owned	2,541	-	2,541
Trucks and trailers	487	-	487
CD secured	2,890	-	2,890
Credit cards	1,871	-	1,871
Other consumer	7,396	79	7,475
Total	**$ 451,586**	**$ 10,563**	**$ 462,149**

(IN THOUSANDS)

5. LOANS, NET (CONTINUED)

Following are tables which include an aging analysis of the recorded investment in past due loans as of December 31, 2022 and 2021:

For the Year Ended December 31, 2022	30-89 Days Past Due	>90 days and Accruing	Nonaccrual	Total Past Due	Current	Total Loans
Single family residences	$ 99	$ -	$ 380	$ 479	$ 78,038	$ 78,517
Condominiums	4,413	-	1,782	6,195	194,203	200,398
Planned unit developments	3,354	-	2,668	6,022	166,234	172,256
Construction and development	-	-	-	-	2,614	2,614
Multifamily residential	-	-	-	-	1,171	1,171
Non-residential owner occupied	-	-	-	-	1,303	1,303
Non-residential investor owned	-	-	-	-	2,666	2,666
Trucks and trailers	-	-	-	-	414	414
CD secured	-	-	-	-	2,170	2,170
Credit cards	5	-	-	5	1,950	1,955
Other consumer	-	-	-	-	8,346	8,346
Total	**$ 7,871**	**$ -**	**$ 4,830**	**$ 12,701**	**$ 459,109**	**$ 471,810**

For the Year Ended December 31, 2021	30-89 Days Past Due	>90 days and Accruing	Nonaccrual	Total Past Due	Current	Total Loans
Single family residences	$ 165	$ -	$ 186	$ 351	$ 57,660	$ 58,011
Condominiums	1,333	-	4,469	5,802	211,271	217,073
Planned unit developments	1,370	-	5,617	6,987	161,639	168,626
Construction and development	-	-	-	-	172	172
Multifamily residential	-	-	-	-	1,608	1,608
Non-residential owner occupied	-	-	212	212	1,183	1,395
Non-residential investor owned	-	-	-	-	2,541	2,541
Trucks and trailers	-	-	-	-	487	487
CD secured	674	-	-	674	2,216	2,890
Credit cards	-	8	-	8	1,863	1,871
Other consumer	70	-	79	149	7,326	7,475
Total	**$ 3,612**	**$ 8**	**$ 10,563**	**$ 14,183**	**$ 447,966**	**$ 462,149**

The following tables include the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount, if applicable, at December 31, 2022 and 2021. Also presented are the average recorded investments in the impaired loans and the related amounts of interest recognized during the time within the years ended December 31, 2022 and 2021 that the impaired loans were impaired. The average balances are calculated based on the month-end balances of the loans of the period reported.

(IN THOUSANDS)

5. LOANS, NET (CONTINUED)

As of and for the Year Ended December 31, 2022

	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
With no specific allowance recorded:					
Single family residences	$ 377	$ 374	$ -	$ 282	$ 3
Condominiums	1,764	1,761	-	3,117	3
Planned unit developments	2,688	2,651	-	4,153	37
Construction and development	-	-	-	-	-
Multifamily residential	-	-	-	-	-
Non-residential owner occupied	198	198	-	205	-
Non-residential investor owned	-	-	-	-	-
Trucks and trailers	-	-	-	-	-
CD secured	-	-	-	-	-
Credit cards	-	-	-	-	-
Other consumer	-	-	-	40	-
	5,027	4,984	-	7,797	43
With an allowance recorded:					
Single family residences	41	41	-	42	-
Condominiums	1,601	1,601	1	1,793	-
Planned unit developments	754	754	-	797	-
Construction and development	-	-	-	-	-
Multifamily residential	-	-	-	191	-
Non-residential owner occupied	-	-	-	-	-
Non-residential investor owned	-	-	-	-	-
Trucks and trailers	-	-	-	-	-
CD secured	-	-	-	-	-
Credit cards	-	-	-	-	-
Other consumer	140	139	150	260	1
	2,536	2,535	151	3,083	1
Total:					
Single family residences	418	415	-	324	3
Condominiums	3,365	3,362	1	4,910	3
Planned unit developments	3,442	3,405	-	4,950	37
Construction and development	-	-	-	-	-
Multifamily residential	-	-	-	191	-
Non-residential owner occupied	198	198	-	205	-
Non-residential investor owned	-	-	-	-	-
Trucks and trailers	-	-	-	-	-
CD secured	-	-	-	-	-
Credit cards	-	-	-	-	-
Other consumer	140	139	150	300	1
Total	**$ 7,563**	**$ 7,519**	**$ 151**	**$ 10,880**	**$ 44**

(IN THOUSANDS)

5. LOANS, NET (CONTINUED)

As of and for the Year Ended December 31, 2021

	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
With no specific allowance recorded:					
Revolving 1-4 family	$ -	$ -	$ -	$ 66	$ -
Single family residences	186	182	-	297	4
Condominiums	4,469	4,415	-	5,423	54
Planned unit developments	5,617	5,543	-	5,173	74
Construction and development	-	-	-	-	-
Multifamily residential	-	-	-	-	-
Non-residential owner occupied	212	204	-	211	8
Non-residential investor owned	-	-	-	-	-
Trucks and trailers	-	-	-	-	-
CD secured	-	-	-	-	-
Credit cards	-	-	-	-	-
Other consumer	79	79	-	45	-
	10,563	10,423	-	11,215	140
With an allowance recorded:					
Revolving 1-4 family	-	-	-	-	-
Single family residences	43	43	-	112	-
Condominiums	1,985	1,926	1	4,382	59
Planned unit developments	839	797	-	913	42
Construction and development	-	-	-	-	-
Multifamily residential	382	374	-	385	8
Non-residential owner occupied	-	-	-	-	-
Non-residential investor owned	-	-	-	-	-
Trucks and trailers	-	-	-	-	-
CD secured	-	-	-	-	-
Credit cards	-	-	-	-	-
Other consumer	379	376	408	628	3
	3,628	3,516	409	6,420	112
Total:					
Revolving 1-4 family	-	-	-	66	-
Single family residences	229	225	-	409	4
Condominiums	6,454	6,341	1	9,805	113
Planned unit developments	6,456	6,340	-	6,086	116
Construction and development	-	-	-	-	-
Multifamily residential	382	374	-	385	8
Non-residential owner occupied	212	204	-	211	8
Non-residential investor owned	-	-	-	-	-
Trucks and trailers	-	-	-	-	-
CD secured	-	-	-	-	-
Credit cards	-	-	-	-	-
Other consumer	458	455	408	673	3
Total	**$ 14,191**	**$ 13,939**	**$ 409**	**$ 17,635**	**$ 252**

(IN THOUSANDS)

5. LOANS, NET (CONTINUED)

As of December 31, 2022 and 2021, the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process amounted to $253 and $1,013, respectively.

As of and during the years ended December 31, 2022 and 2021, there were no financing receivables modified as troubled debt restructurings within the previous twelve months.

As of December 31, 2022 and 2021, there were no commitments to lend additional funds to debtors owing receivables whose terms have been modified in a troubled debt restructuring.

6. FORECLOSED ASSETS

Income (expenses) applicable to foreclosed assets include the following for the year ended December 31, 2021:

Net gains on sales of foreclosed assets	$ 47
Operating expenses	(26)
	$ 21

There were no foreclosed assets or associated income (expenses) as of and for the year ended December 31, 2022.

7. PROPERTY AND EQUIPMENT, NET

A summary of the cost and accumulated depreciation and amortization of property and equipment follows at December 31:

	2022	**2021**
Leasehold improvements	$ 2,523	$ 2,467
Furniture, fixtures and equipment	1,113	1,005
	3,636	3,472
Less: Accumulated depreciation and amortization	(3,285)	(3,058)
	$ 351	**$ 414**

Depreciation and amortization expense amounted to $227 and $135 for the years ended December 31, 2022 and 2021, respectively. The Bank had approximately $625 of disposals during the year ended December 31, 2021, for which the assets' carrying amount and related accumulated depreciation were removed from the accounts. There were no disposals of property and equipment during the year ended December 31, 2022.

(IN THOUSANDS)

8. OPERATING LEASES

Operating Leases

The Bank leases some of its operating equipment and office facilities for various terms under long-term, non-cancelable operating lease agreements. The leases expire at various dates through 2025 and provide for renewal options ranging from one to three years. In the normal course of business, it is expected that these leases will be renewed or replaced.

The Bank entered into a sublease agreement with a related party for office space, which expires September 30, 2025.

Some of the leases provide for increases in future minimum annual rental payments based on defined increases in the Consumer Price Index, subject to certain minimum increases. Also, the agreements generally require the Bank to pay executory costs (taxes, insurance, and repairs).

Total operating lease costs were approximately $1,574 and $1,296 for the years ended December 31, 2022 and 2021, respectively. Cash amounts included in the measurement of the operating lease liability was approximately $624 for the year ended December 31, 2022. Operating lease ROU assets obtained in exchange for operating lease obligations were approximately $2,369 for the year ended December 31, 2022.

Information associated with the measurement of the remaining operating lease obligations as of December 31, 2022 is as follows:

Weighted average remaining lease term in years	2.72
Weighted average discount rate for operating leases	0.97%

The Bank subleases office space and parking lot facilities to related party through an operating agreement expiring in 2025. Sublease income totaled $190 and $159 for the years ended December 31, 2022 and 2021, respectively.

Estimated future minimum lease payments, exclusive of taxes and other charges, are as follows:

Year Ended December 31,	Annual Amount	Sublease Amounts	Net Minimum Payment
2023	$ 645	$ 74	$ 571
2024	663	76	587
2025	480	58	422
Total operating lease payments	1,788	208	1,580
Less: Imputed interest	23	-	23
	$ 1,765	**$ 208**	**$ 1,557**

(IN THOUSANDS)

9. ACCRUED INTEREST RECEIVABLE AND OTHER ASSETS

Accrued interest receivable and other assets consist of the following at December 31:

	2022	2021
Accrued interest receivable - loans	$ 2,894	$ 3,103
Accrued interest receivable - securities	2,832	1,166
Prepaids	1,392	1,335
Income tax receivable	-	523
Other	702	185
	$ 7,820	**$ 6,312**

10. DEPOSITS

The aggregate amount of time deposits in denominations of $250, or more, was approximately $92,000 and $114,000 at December 31, 2022 and 2021, respectively.

Scheduled maturities of time deposits are as follows:

Year Ending December 31,	
2023	$ 112,958
2024	14,937
2025	1,844
	$ 129,740

The aggregate amount of deposits reclassified as loan balances at December 31, 2021 amounted to $2. The aggregate amount of deposits reclassified as loan balances at December 31, 2022 was immaterial.

11. BORROWINGS

FHLB Advances

The Bank has an available line of credit with the FHLB of Atlanta at an interest rate that adjusts daily. Borrowings under the line are limited to 25% of the Bank's total assets at December 31, 2022 and 2021. All borrowings from the FHLB of Atlanta are secured by a blanket lien on the carrying value of first mortgage loans on residential property, which amounted to $314,108 and $342,187 at December 31, 2022 and 2021, respectively.

The Bank did not have any advances under the line of credit during the years ended December 31, 2022 and 2021.

Federal Funds Purchased and Other Lines

The Bank has federal funds purchased and other unsecured lines with other depository institutions, which allow the Bank to borrow short term funds as needed to manage liquidity. The Bank's available lines totaled $64,000 at December 31, 2022 and 2021. There were no outstanding balances as of December 31, 2022 and 2021.

(IN THOUSANDS)

12. ACCRUED INTEREST PAYABLE AND OTHER LIABILITIES

Accrued interest payable and other liabilities consist of the following at December 31:

	2022	2021
Accruals	$ 2,246	$ 1,750
Deferred compensation	799	1,605
Income tax payable	915	-
Accrued interest	265	190
Other	529	869
	$ 4,754	**$ 4,414**

13. REVENUE RECOGNITION

The Bank generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgement involved in applying Topic 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers.

All of the Bank's revenue from contracts with customers within the scope of Topic 606 is included in noninterest income on the accompanying statements of income. The following is a description of the Bank's revenue streams accounted for under Topic 606:

Credit card income – Card income includes annual, late and over-limit fees as well as fees earned from interchange, cash advances and other miscellaneous transactions and is presented net of direct costs. Interchange fees are recognized upon settlement of the credit and debit card payment transactions and are generally determined on a percentage basis for credit cards and fixed rates for debit cards based on the corresponding payment network's rates. Substantially all card fees are recognized at the transaction date, except for certain time-based fees such as annual fees, which are recognized over 12 months. Card income amounted to $555 and $399 for the years ended December 31, 2022 and 2021, respectively.

Fee income on wire transfers – Wire transfer and other remittance fees consist of fees earned for funds transfer services. The Banks's obligation is satisfied at the time of the funds transfer services. Fee income on wire transfers amounted to $1,912 and $1,719 for the years ended December 31, 2022 and 2021, respectively.

Service fees and charges on customer deposit accounts – The Bank earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include but are not limited to services such as ATM use fees, stop payment charges, statement rendering, ACH fees, are recognized at the time the transaction is executed as that is the point in time the Bank fulfills the customer's request. Maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Bank 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. Service fees and charges on customer deposit accounts amounted to $932 and $958 for the years ended December 31, 2022 and 2021, respectively.

Foreign currency transaction income – The Bank earns and recognizes income from foreign exchange transactions at the time the transaction is executed as that is the point in time the Bank fulfills the customer's request. Foreign currency transaction income amounted to $3,254 and $2,336 for the years ended December 31, 2022 and 2021, respectively.

Gain/loss on sale of foreclosed assets – The Bank records a gain or loss from the sale of foreclosed assets when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. There are no ASC 606 implications unless the Bank finances the sale of the foreclosed asset. There are no instances of the Bank financing the sale of its foreclosed properties as of December 31, 2022 and 2021.

(IN THOUSANDS)

14. INCOME TAXES

Allocation of federal and state income taxes between current and deferred portions is as follows for the years ended December 31:

Allocation of federal and state income taxes

	2022	2021
Current tax provision:		
Federal	$ 1,770	$ 751
State	384	172
	2,154	923
Deferred tax provision provision:		
Federal	241	967
State	41	96
	282	1,063
Total	**$ 2,436**	**$ 1,986**

The actual income tax expense for 2022 and 2021 differs from the statutory tax expense for the year (computed by applying the U.S. federal corporate tax rate of 21% to income before provision from income taxes) as follows for the years ended December 31:

	2022	2021
Federal income taxes, at statutory rate	$ 2,462	$ 2,020
State income taxes, net of federal tax benefit	484	343
Tax-exempt interest	(499)	(283)
Other permanent differences	74	38
Change in Florida tax rate	(85)	(132)
Total	**$ 2,436**	**$ 1,986**

The Bank's deferred tax assets (liabilities) are as follows at December 31:

	2022	2021
Deferred tax assets (liabilities):		
Net unrealized loss on securities available for sale	$ 14,619	$ 187
Allowance for loan losses	2,098	2,165
Deferred compensation	200	400
Depreciation and amortization	128	163
Other	(324)	(60)
Deferred tax asset, net	**$ 16,721**	**$ 2,855**

In assessing the realizability of deferred tax assets, management considered whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

14. INCOME TAXES (CONTINUED)

The U.S. Federal jurisdiction and Florida are the major tax jurisdictions where the Bank files income tax returns. The Bank is no longer subject to U.S. Federal or State examinations by tax authorities for years before 2019.

For the years ended December 31, 2022 and 2021, the Bank did not have any unrecognized tax benefits as a result of tax positions taken during a prior period or during the current period. No interest or penalties have been recorded as a result of tax uncertainties.

15. REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the 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 the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under U.S. GAAP, regulatory reporting requirements, and regulatory capital standards. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulatory capital standards to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total, Tier 1 and common equity Tier 1 capital (as defined) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2022, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2022 and 2021, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based, common equity Tier 1 risk-based capital, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution’s category.

(IN THOUSANDS)

15. REGULATORY MATTERS (CONTINUED)

The Bank's actual capital amounts and ratios as of December 31, 2022 and 2021 are presented in the following table:

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2022						
Total risk-based capital (to risk weighted assets)	$ 113,603	29.87%	$ 30,426	8.00%	$ 38,033	10.00%
Tier 1 capital (to risk weighted assets)	108,807	28.61%	22,820	6.00%	30,426	8.00%
Common equity tier 1 capital (to risk weighted assets)	108,807	28.61%	17,115	4.50%	24,721	6.50%
Tier 1 capital (to average total assets)	108,807	9.34%	46,591	4.00%	58,238	5.00%
2021						
Total risk-based capital (to risk weighted assets)	$ 103,917	29.89%	$ 27,811	8.00%	$ 34,763	10.00%
Tier 1 capital (to risk weighted assets)	99,521	28.63%	20,858	6.00%	27,810	8.00%
Common equity tier 1 capital (to risk weighted assets)	99,521	28.63%	15,644	4.50%	22,596	6.50%
Tier 1 capital (to average total assets)	99,521	10.17%	39,134	4.00%	48,917	5.00%

The Bank's payment of dividends is subject to the limitations set by state banking regulations.

(IN THOUSANDS)

16. COMMITMENTS AND CONTINGENCIES

Financial Instruments with Off-Balance Sheet Risk

The Bank is a party to credit-related 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 standby letters of credit and commitments to extend credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets.

The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policies in making commitments as it does for on balance-sheet instruments. At December 31, 2022 and 2021, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2022	2021
Unfunded commitments under lines of credit	$ 2,608	$ 660
Standby letters of credit	1,246	1,246
Commitments to grant loans	5,183	4,653
	$ 9,037	**$ 6,559**

Unfunded commitments under lines of credit are commitments for possible future extensions of credit to existing customers. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Bank, is based on management's credit evaluation of the customer.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds collateral supporting those commitments, and at December 31, 2022 and 2021 such collateral amounted to $1,246 each year.

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. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts may not necessarily represent future cash requirements.

The amount of collateral obtained, if deemed necessary by the Bank, is based on management's credit evaluation of the customer.

Litigation

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Bank's financial statements.

17. DEFINED CONTRIBUTION RETIREMENT PLAN

The Bank has a defined contribution retirement plan (the "Plan") (a 401k plan) covering substantially all eligible employees. The Plan includes a provision that the employer may contribute to the accounts of eligible employees for whom a salary deferral is made. For the years ended December 31, 2022 and 2021, the Bank contributed $350 and $345, respectively, into the Plan.

18. FAIR VALUES OF ASSETS AND LIABILITIES

Determination of Fair Value

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Fair value accounting guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

The Bank groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1: Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2: Valuation is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on 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 for substantially the full term of the asset or liability.

Level 3: Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Bank's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There have been no changes in the methodologies used at December 31, 2022 and 2021.

(IN THOUSANDS)

18. FAIR VALUES OF ASSETS AND LIABILITIES (CONTINUED)

Fair Value Hierarchy (continued)

The following methods and assumptions were used by the Bank in estimating fair value of disclosures for financial instruments:

Securities

Where quoted prices are available in an active market, the Bank classifies the securities within level 1 of the valuation hierarchy. Securities are defined as both long and short positions. Level 1 securities included highly liquid government bonds and marketable equity securities.

If quoted market prices are not available, the Bank estimates fair values using pricing models and discounted cash flows that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, and credit spreads. Governments-sponsored enterprise obligations, corporate and municipal bonds, and mortgage-backed securities are included in level 2 since observable inputs are available.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at December 31, 2022			
Securities Available for Sale	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities:				
GSE's	$ 60,510	$ -	$ 60,510	$ -
U.S. Treasury notes	77,758	77,758	-	-
Municipal bonds	142,390	-	142,390	-
GSE residential mortgage-backed	198,443	-	198,443	-
Total securities available for sale	479,101	77,758	401,343	-
Marketable equity securities	881	881	-	-
Total securities	**$ 479,982**	**$ 78,639**	**$ 401,343**	**$ -**

	Fair Value Measurements at December 31, 2021			
Securities Available for Sale	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities:				
GSE's	$ 69,820	$ -	$ 69,820	$ -
Municipal bonds	81,724	-	81,724	-
GSE residential mortgage-backed	104,130	-	104,130	-
Total securities available for sale	255,674	-	255,674	-
Marketable equity securities	996	996	-	-
Total securities	**$ 256,670**	**$ 996**	**$ 255,674**	**$ -**

There were no liabilities measured at fair value at December 31, 2022 and 2021.

(IN THOUSANDS)

18. FAIR VALUES OF ASSETS AND LIABILITIES (CONTINUED)

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Under certain circumstances, the Bank makes adjustments to fair value for its assets and liabilities although they are not measured at fair value on an ongoing basis. The following table presents the financial instruments carried on the balance sheets by caption and by level in the fair value hierarchy at December 31, 2022 and 2021, for which a nonrecurring change in fair value has been recorded:

	Fair Value Measurements at December 31, 2022			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 2,395	$ -	$ -	$ 2,395
Total assets at fair value	**$ 2,395**	**$ -**	**$ -**	**$ 2,395**

	Fair Value Measurements at December 31, 2021			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 3,139	$ -	$ -	$ 3,139
Total assets at fair value	**$ 3,139**	**$ -**	**$ -**	**$ 3,139**

Impaired Loans

In accordance with the provisions of the loan impairment guidance, individual loans with a carrying amount of $2,535 and $3,516 at December 31, 2022 and 2021, respectively, were written down to their fair value of $2,395 and $3,139, respectively, resulting in an impairment charge of $140 and $377, respectively, which was included in the allowance for loan losses for the period. Loans applicable to write downs of impaired loans are estimated using the present value of expected cash flows or the appraised value of the underlying collateral discounted as necessary due to management's estimates of changes in economic conditions. The Bank's impaired loans are classified in Level 3 of the fair value hierarchy since the valuation technique requires inputs that are both significant and unobservable.

There were no liabilities measured at fair value on a nonrecurring basis at December 31, 2022 and 2021.