Citizens Bancshares Corporation

Report on Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

elliott davis

Independent Auditor's Report

The Board of Directors
Citizens Bancshares Corporation
Olanta, South Carolina

Opinion

We have audited the consolidated financial statements of Citizens Bancshares Corporation and its subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, the related consolidated statements of income, comprehensive income (loss), changes in shareholders' equity, and cash flows for the years ended December 31, 2023 and 2022, and the related notes to the consolidated financial statements (collectively, the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company has elected to change its method of accounting for credit losses effective January 1, 2023 due to the adoption of Financial Accounting Standards Board Accounting Standards Codification No. 326, *Financial Instruments – Credit Losses (ASC 326*). The Company adopted the new credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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 the Company's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable).

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Elliott Davis, LLC

Greenville, South Carolina
April 3, 2024

Citizens Bancshares Corporation

Consolidated Balance Sheets

As of December 31, 2023 and 2022

(Dollars in thousands)

	2023	2022
Assets:		
Cash and cash equivalents:		
Cash and due from banks	$ 59,722	$ 67,794
Interest-bearing deposits	79,819	136,773
Federal funds sold	-	1,251
Total cash and cash equivalents	139,541	205,818
Certificates of deposit with other financial institutions	9,250	6,750
Investment securities:		
Securities available-for-sale	203,723	200,942
Nonmarketable equity securities	1,347	1,138
Total investment securities	205,070	202,080
Loans receivable	544,063	516,675
Less allowance for credit losses	(5,899)	(4,898)
Loans, net	538,164	511,777
Premises, furniture and equipment, net	28,118	30,588
Bank owned life insurance	8,294	8,499
Cash surrender value of life insurance	2,023	2,010
Goodwill	18,483	18,483
Core deposit intangible	5,300	6,008
Accrued interest receivable	3,281	2,755
Other real estate owned	1,090	609
Deferred tax asset	3,155	3,381
Lease right of use asset	318	395
Other assets	1,435	1,017
Total assets	$ 963,522	$ 1,000,170
Liabilities:		
Deposits:		
Noninterest-bearing transaction accounts	$ 231,634	$ 272,078
Interest-bearing transaction accounts	183,325	208,988
Savings	340,227	312,884
Certificates of deposit $250,000 and over	16,420	19,090
Other time deposits	81,525	83,923
Total deposits	853,131	896,963
Subordinated debenture	24,513	24,453
Junior subordinated debenture	-	3,093
Securities sold under agreement to repurchase	3,343	5,838
Allowance for unfunded commitments	1,199	-
Accrued interest payable	676	372
Lease liability	318	396
Other liabilities	3,116	2,530
Total liabilities	886,296	933,645
Commitments and contingencies (Notes 5, 12, 20, and 22)		
Shareholders' equity:		
Common stock, $1.00 par value; 2,500,000 shares authorized; 2,392,021 and 2,387,821 shares issued, and 1,972,955 and 1,968,755 outstanding at December 31, 2023 and 2022, respectively	2,392	2,388
Capital surplus	7,999	7,993
Retained earnings	86,103	77,211
Treasury stock, at cost (419,066 shares at December 31, 2023 and 2022, respectively)	(8,100)	(8,100)
Accumulated other comprehensive loss	(11,168)	(12,967)
Total shareholders' equity	77,226	66,525
Total liabilities and shareholders' equity	$ 963,522	$ 1,000,170

See Notes to Consolidated Financial Statements

Citizens Bancshares Corporation

Consolidated Statements of Income

For the years ended December 31, 2023 and 2022

(Dollars in thousands, except per share amounts)

	2023	2022
Interest income		
Loans, including fees	$ 30,624	$ 22,743
Investment securities:		
Taxable	5,730	2,807
Tax-exempt	851	667
Nonmarketable equity securities	42	48
Federal funds sold	1,487	556
Deposits with other banks	6,972	4,056
Total interest income	45,706	30,877
Interest expense		
Deposits	8,111	927
Advances from the Federal Home Loan Bank	-	142
Other borrowings	1,284	1,161
Other interest expense	85	35
Total interest expense	9,480	2,265
Net interest income	36,226	28,612
Provision for credit losses – loans	7	240
Provision for credit losses – unfunded commitments	347	-
Net interest income after provision for credit losses	35,872	28,372
Noninterest income		
Service charges on deposit accounts	2,873	2,573
Gain on sale of loans held for sale	107	403
Income from cash surrender value of life insurance	222	192
Gain on sale of other real estate owned	-	83
Loss on sale of securities available-for-sale	(22)	-
Brokerage fees	467	544
Credit card and interchange fees	2,758	2,476
Other operating income	878	730
Total noninterest income	7,305	7,001
Noninterest expense		
Salaries and employee benefits	14,839	12,676
Net occupancy	2,664	2,035
Furniture and equipment	1,306	1,220
FDIC assessments	530	315
Communications	201	199
Net cost of other real estate owned	102	11
Merger related expenses	46	2,587
Other operating expense	9,395	7,069
Total noninterest expense	29,105	26,112
Income before income taxes	14,072	9,261
Income tax expense	2,906	1,905
Net income	$ 11,166	$ 7,356
Earnings per share		
Basic	$ 5.67	$ 3.74
Diluted	$ 5.47	$ 3.60

See Notes to Consolidated Financial Statements

Citizens Bancshares Corporation

Consolidated Statements of Comprehensive Income (Loss)

For the years ended December 31, 2023 and 2022

(Dollars in thousands)

	2023	2022
Net income	$ 11,166	$ 7,356
Other comprehensive income (loss)		
Unrealized holding gains (losses) arising during the period	2,254	(15,888)
Tax effect	(472)	3,336
Realized losses on securities available-for-sale	22	-
Tax effect	(5)	-
Other comprehensive income (loss), net of tax	1,799	(12,552)
Comprehensive income (loss)	$ 12,965	$ (5,196)

See Notes to Consolidated Financial Statements

Citizens Bancshares Corporation

Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2023 and 2022

(Dollars in thousands, except shares)

	Common Stock		Capital	Retained	Treasury	Accumulated Other Comprehensive	
	Shares	Amount	Surplus	Earnings	Stock	(Loss)	Total
Balance, December 31, 2021	2,387,821	$ 2,388	$ 7,993	$ 70,603	$ (8,100)	$ (415)	$ 72,469
Net income	-	-	-	7,356	-	-	7,356
Other comprehensive loss, net of taxes	-	-	-	-	-	(12,552)	(12,552)
Cash dividends paid ($0.38 per share)	-	-	-	(748)	-	-	(748)
Balance, December 31, 2022	2,387,821	$ 2,388	$ 7,993	$ 77,211	$ (8,100)	$ (12,967)	$ 66,525
Adoption of ASU 2016-13	-	-	-	(1,485)	-	-	(1,485)
Proceeds from exercise of stock options	4,200	4	6	-	-	-	10
Net income	-	-	-	11,166	-	-	11,166
Other comprehensive income, net of taxes	-	-	-	-	-	1,799	1,799
Cash dividends paid ($0.40 per share)	-	-	-	(789)	-	-	(789)
Balance, December 31, 2023	2,392,021	$ 2,392	$ 7,999	$ 86,103	$ (8,100)	$ (11,168)	$ 77,226

See Notes to Consolidated Financial Statements

Citizens Bancshares Corporation

Consolidated Statements of Cash Flows

For the years ended December 31, 2023 and 2022

(Dollars in thousands)

	2023	2022
Operating activities		
Net income	$ 11,166	$ 7,356
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses - loans	7	240
Provision for credit losses – unfunded commitments	347	-
Depreciation	1,246	1,150
Amortization of intangible assets	708	457
Write-down of other real estate owned	100	-
Origination of loans held for sale	(2,203)	(12,293)
Proceeds of loans held for sale	2,310	12,696
Gain on sale of loans held for sale	(107)	(403)
Loss on sale of securities available-for-sale	22	-
Discount accretion on purchased loans	1,074	1,057
Gain on sales and disposals of other real estate owned, net	-	(83)
Discount accretion and premium amortization, net	(144)	300
Amortization of subordinated debentures	60	30
Increase in accrued interest receivable	(526)	(708)
Increase in accrued interest payable	304	284
Increase in BOLI and cash surrender value of life insurance	(252)	(784)
Decrease in deferred tax asset	142	145
Increase (decrease) in other assets	(418)	1,298
Increase (decrease) in other liabilities	584	(517)
Net cash provided by operating activities	14,420	10,225
Investing activities		
Purchases of securities available-for-sale	(75,063)	(133,298)
Proceeds from sale of securities available-for-sale	6,925	-
Net change in nonmarketable equity securities	(209)	900
Net change in loans made to customers	(29,293)	(387)
Net change in certificates of deposit with other financial institutions	(2,500)	(3,250)
Purchases of premises and equipment, net	(341)	(670)
Proceeds from disposal of premises and equipment	1,565	77
Proceeds from sales of other real estate owned	219	350
Proceeds from payout and surrender of life insurance policies	444	-
Proceeds from calls, maturities and paydowns of securities available-for-sale	67,755	11,895
Cash received from acquisitions	-	72,103
Cash paid for acquisition	-	(19,999)
Net cash used in investing activities	(30,498)	(72,279)
Financing activities		
Net change in demand deposits, interest-bearing transactions accounts and savings accounts	(38,764)	9,398
Net decrease in certificates of deposit and other time deposits	(5,068)	(12,678)
Net change in securities sold under agreement to repurchase	(2,495)	271
Issuance of common stock upon options exercise	10	-
Cash dividends paid	(789)	(747)
Proceeds from issuance of subordinated debt, net of issuance costs	-	24,453
Repayment of subordinated debt	-	(4,250)
Repayment of junior subordinated debt	(3,093)	-
Repayment of note payable	-	(4,250)
Repayment of Federal Home Loan Bank advances	-	(24,000)
Net cash used in financing activities	(50,199)	(11,803)
Net decrease in cash and cash equivalents	(66,277)	(73,857)
Cash and cash equivalents, beginning of year	205,818	279,675
Cash and cash equivalents, end of year	$ 139,541	$ 205,818

See Notes to Consolidated Financial Statements

Citizens Bancshares Corporation

Consolidated Statements of Cash Flows

For the years ended December 31, 2023 and 2022

(Dollars in thousands)

	2023	2022
Non-cash investing and financing activities		
Unrealized gain (loss) on securities available-for-sale, net of tax	$ 1,799	$ (12,552)
Transfer of loans to other real estate owned	$ 800	$ 609
Asset acquired, net of cash	$ -	$ 162,176
Liabilities assumed	$ -	$ 222,446
Goodwill	$ -	$ 11,945
Cash paid during the year for:		
Interest	$ 9,176	$ 1,406
Income taxes	$ 3,229	$ 1,940

See Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Basis of presentation and consolidation:

The accompanying consolidated financial statements include the accounts of Citizens Bancshares Corporation, a bank holding company (the "Company") and its wholly owned subsidiary, The Citizens Bank (the "Bank"). The principal business activity of the Bank is to provide banking services to domestic markets in the Midlands, Pee Dee, and Coastal areas of South Carolina. The consolidated financial statements include the accounts of the parent and its wholly owned subsidiary after elimination of all significant intercompany balances and transactions.

Management's estimates:

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the balance sheet date and income and expenses for the period. Actual results could differ significantly from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for credit losses, including valuation allowances for individually evaluated loans, determination of impairment of intangible assets, including goodwill, fair value of investments and the carrying amount of real estate acquired in connection with foreclosures or in satisfaction of loans. Management must also make estimates in determining the estimated useful lives and methods for depreciating premises and equipment.

While management uses available information to recognize credit losses on loans and foreclosed real estate, future additions to the allowance may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowances based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the allowances for credit losses on loans and foreclosed real estate may change materially in the near term.

Concentrations of credit risk:

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of loans receivable, investment securities, federal funds sold and amounts due from banks.

The Company makes loans to individuals and small businesses for various personal and commercial purposes primarily in the Midlands, Pee Dee, and Coastal regions of South Carolina. The Company's loan portfolio is not concentrated in loans to any single borrower or a relatively small number of borrowers. Additionally, management is not aware of any concentrations of loans to classes of borrowers or industries that would be similarly affected by economic conditions except for loans secured by commercial and residential real estate and commercial and industrial non-real estate loans.

Note 1. Summary of Significant Accounting Policies, Continued

Concentrations of credit risk, continued:

In addition to monitoring potential concentrations of loans to particular borrowers or groups of borrowers, industries and geographic regions, management monitors exposure to credit risk from concentrations of lending products and practices such as loans that subject borrowers to substantial payment increases (e.g., principal deferral periods, loans with initial interest-only periods, etc.) and loans with high loan-to-value ratios. Management has determined that there is no concentration of credit risk associated with its lending policies or practices. Additionally, there are industry practices that could subject the Company to increased credit risk should economic conditions change over the course of a loan's life. For example, the Company makes variable rate loans and fixed rate principal-amortizing loans with maturities prior to the loan being fully paid (i.e., balloon payment loans). These loans are underwritten and monitored to manage the associated risks. Therefore, management believes that these particular practices do not subject the Company to unusual credit risk.

The Company's investment portfolio consists primarily of obligations of the United States, its agencies or its corporations, mortgage backed securities issued by government-sponsored enterprises (GSEs), and general obligation municipal securities. In the opinion of management, there is no concentration of credit risk in its investment portfolio. The Company places its deposits and correspondent accounts with and sells its federal funds to high quality institutions. Management believes credit risk associated with correspondent accounts is not significant.

Cash and cash equivalents:

For purposes of the statement of cash flows, cash and cash equivalents are defined as those amounts included in the balance sheet caption "Cash and due from banks" and "Interest bearing balances." Cash and cash equivalents have an original maturity of three months or less.

Investment securities:

All debt securities have been designated as available-for-sale by the Company and are carried at amortized cost and adjusted to their estimated fair value. The unrealized gain or loss is recorded in shareholders' equity net of the deferred tax effects. Management does not actively trade securities classified as available-for-sale but intends to hold these securities for an indefinite period of time and may sell them prior to maturity to achieve certain objectives. Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Gains and losses on sale are recorded on the trade date and determined using the specific identification method.

Note 1. Summary of Significant Accounting Policies, Continued

Nonmarketable equity securities:

Nonmarketable equity securities include the Company’s investment in the stock of the Federal Home Loan Bank, an investment in the stock of Community Bankers Bank Financial Corporation, and investment in the stock of Pacific Coast Bankers’ Bancshares, and investments in two other entities. These securities are carried at cost because they have no quoted market value and no ready market exists. Investment in Federal Home Loan Bank stock is a condition of borrowing from the Federal Home Loan Bank, and the stock is pledged to collateralize any borrowings. Dividends received on nonmarketable equity securities are included as a separate component in interest income.

Loans held for sale:

Loans held for sale consist of residential mortgage loans the Company originates for sale to secondary market investors. They are carried at the lower of aggregate cost or market value. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Fees collected in conjunction with origination activities are deferred as part of the cost basis of the loan and recognized when the loan is sold. Gains or losses on sales are recognized when the loans are sold and are determined as the difference between the sales price and the carrying value of the loans. The Company had no loans held for sale as of December 31, 2023 and 2022, respectively. The Company recognized gains on loans sold during 2023 and 2022 totaling $107 thousand and $403 thousand, respectively.

The Company issues rate lock commitments to borrowers based on prices quoted by secondary market investors. When rates are locked with borrowers, a sales commitment is immediately entered (on a best-efforts basis or mandatory delivery basis) at a specified price with a secondary market investor. Accordingly, any potential liabilities associated with rate lock commitments are offset by sales commitments to investors.

The Company's residential mortgage lending activities for sale in the secondary market are comprised of accepting residential mortgage loan applications, qualifying borrowers to standards established by investors, funding residential mortgage loans and selling mortgage loans to investors under pre-existing commitments. Funded residential mortgages held temporarily for sale to investors are recorded at the lower of cost or market value. Application and origination fees collected by the Company are recognized as income upon sale to the investor.

Accounting standards adopted in 2023:

On January 1, 2023, the Company adopted ASU 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASC 326). This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (“CECL”) methodology. CECL requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities, and some off-balance sheet credit exposures such as unfunded commitments to extend credit. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses. Purchased credit deteriorated (“PCD”) loans will receive an initial allowance at the acquisition date that represents an adjustment to the amortized cost basis of the loan, with no impact to earnings.

Note 1. Summary of Significant Accounting Policies, Continued

Accounting standards adopted in 2023, continued:

In addition, CECL made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities if management does not intend to sell and does not believe that it is more likely than not they will be required to sell.

The Company adopted ASC 326 and all related subsequent amendments thereto effective January 1, 2023, using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. The transition adjustment of the adoption of CECL included an increase in the allowance for credit losses on loans of $1.03 million, which is presented as a reduction to net loans outstanding, and an increase in the allowance for credit losses on unfunded loan commitments of $852 thousand. The Company recorded a net decrease to retained earnings of $1.49 million as of January 1, 2023, for the cumulative effect of adopting CECL, which reflects the transition adjustments noted above, net of the applicable deferred tax assets recorded. Results for reporting periods beginning after January 1, 2023, are presented under CECL while prior period amounts continue to be reported in accordance with previously applicable accounting standards (“Incurred Loss”).

The Company adopted ASC 326 using the prospective transition approach for PCD assets that were previously classified as purchased credit impaired (“PCI”) under ASC 310-30. In accordance with the standard, management did not reassess whether PCI assets met the criteria of PCD assets as of the date of adoption. On January 1, 2023, the amortized cost basis of PCD assets were adjusted to reflect the addition of $86 thousand to establish the allowance for credit losses. The remaining interest-related discount of approximately $517 thousand was accredited into interest income at the effective interest rate as of January 1, 2023.

Regarding PCD assets, the Company elected to disaggregate the former PCI pools and no longer considers these pools to be the unit of account; contractually delinquent PCD loans will be reported as nonaccrual loans using the same criteria as other loans.

The Company adopted ASC 326 using the prospective transition approach for debt securities for which other-than-temporary impairment had been recognized prior to January 1, 2023. As of December 31, 2022, the Company did not have any other-than-temporarily impaired investment securities. Therefore, upon adoption of ASC 326, the Company determined that an allowance for credit losses on available-for-sale securities was not deemed material.

The Company elected not to measure an allowance for credit losses for accrued interest receivable and instead elected to reverse interest income on loans or securities that are placed on nonaccrual status, which is generally when the instrument is 90 days past due, or earlier if the Company believes the collection of interest is doubtful. The Company has concluded that this policy results in the timely reversal of uncollectible interest.

Note 1. Summary of Significant Accounting Policies, Continued

Accounting standards adopted in 2023, continued:

In January 2023, the Company adopted ASU 2022-02, "Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures" ("ASU 2022-02"), which eliminated the accounting guidance for troubled debt restructurings ("TDRs") while enhancing disclosure requirements for certain loan refinancing and restructurings by creditors when a borrower is experiencing financial difficulty. In addition, for public business entities, the guidance requires disclosure of current-period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20. The Company adopted the guidance using the modified retrospective method. Upon adoption of this guidance, the Company is no longer required to establish a specific reserve for modifications to borrowers experiencing financial difficulty. Instead, these modifications are included in their respective cohort and a historical loss rate is applied to the current loan balance to arrive at the quantitative baseline portion of the allowance. The difference between the allowance previously determined and the current allowance was not material to the Company's financial statements.

Purchased credit deteriorated loans:

Upon adoption of ASC 326, loans that were designated as PCI loans under the previous accounting guidance were classified as PCD loans without reassessment.

In future acquisitions, the Company may purchase loans, some of which have experienced more than insignificant credit deterioration since origination. In those cases, the Company will consider internal loan grades, delinquency status and other relevant factors in assessing whether purchased loans are PCD. PCD loans are recorded at the amount paid. An initial allowance for credit loss is determined using the same methodology as other loans held for investment, but with no impact to earnings. The initial allowance for credit loss determined on a collective basis is allocated to individual loans. The sum of the loan's purchase price and allowance for credit loss becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan.

Subsequent to initial recognition, PCD loans are subject to the same interest income recognition and impairment model as non-PCD loans, with changes to the allowance for credit loss recorded through provision expense.

Allowance for credit losses – available-for-sale securities:

For available-for-sale securities, management evaluates all investments in an unrealized loss position on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. If the Company has the intent to sell the security, or it is more likely than not that the Company will be required to sell the security, the security is written down to fair value, and the entire loss is recorded in earnings.

Note 1. Summary of Significant Accounting Policies, Continued

Allowance for credit losses – available-for-sale securities, continued:

If either of the above criteria is not met, the Company evaluates whether the decline in fair value is the result of credit losses or other factors. In making the assessment, the Company may consider various factors including the extent to which fair value is less than amortized cost, performance on any underlying collateral, downgrades in the ratings of the security by a rating agency, the failure of the issuer to make scheduled interest or principal payments and adverse conditions specifically related to the security. If the assessment indicates that a credit loss exists, the present value of cash flows expected to be collected is compared to the amortized cost basis of the security and any excess is recorded as an allowance for credit loss, limited to the amount that the fair value is less than the amortized cost basis. Any amount of unrealized loss that has not been recorded through an allowance for credit loss is recognized in other comprehensive income.

Changes in the allowance for credit loss are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance for credit loss when management believes an available-for-sale security is confirmed to be uncollectible or when either of the criteria regarding intent or requirement to sell is met. At December 31, 2023, there was no allowance for credit loss related to the available-for-sale portfolio.

Accrued interest receivable on available-for-sale debt securities totaled $1.2 million at December 31, 2023 and was excluded from the estimate of credit losses.

Loans receivable:

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts and deferred fees and costs. Accrued interest receivable related to loans totaled $2.0 million at December 31, 2023 and was reported in accrued interest receivable on the consolidated balance sheets. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using methods that approximate a level yield without anticipating prepayments.

The accrual of interest is generally discontinued when a loan becomes 90 days past due and is not well collateralized and in the process of collection, or when management believes, after considering economic and business conditions and collection efforts, that the principal or interest will not be collectible in the normal course of business. Past due status is based on contractual terms of the loan. A loan is considered to be past due when a scheduled payment has not been received 30 days after the contractual due date.

All accrued interest is reversed against interest income when a loan is placed on nonaccrual status. Interest received on such loans is accounted for using the cost-recovery method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current, there is a sustained period of repayment performance, and future payments are reasonably assured.

Note 1. Summary of Significant Accounting Policies, Continued

Allowance for credit losses – loans:

The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Accrued interest receivable is excluded from the estimate of credit losses.

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

The Company measures expected credit losses for loans on a pooled basis when similar risk characteristics exist. The Company calculates the allowance for credit losses on loans for each pool of loans using a remaining life loss methodology with a four quarter reasonable and supportable forecast period and an immediate reversion period. The Company has applied the loss history from a designated peer group of ten institutions of similar size and geography. Management believes that the peer group's historical loss experience provides the best basis for its assessment of expected credit losses on loans to determine the allowance for credit losses on loans. The Company then forecasts the calculated historical loss rates over the calculated remaining life of loans by pool. The Company has identified the following portfolio segments and calculates the allowance for credit losses for each using a weighted-average remaining maturity methodology:

- Real estate construction – Construction, land development, and other land loans. Short term financing is associated with this class of loans and may or may not be converted to permanent financing. Construction loans are secured by dwellings or commercial buildings while land serves as collateral for land development and other land loans. The primary risks are associated with non-completion of a project within the term of the construction period and inadequate funds to complete the improvement. Significant changes in the cost to build (such as change orders and cost-overruns) can have a material effect on the borrower's ability to repay.

- Real estate commercial – Owner occupied nonresidential properties. This includes office buildings, other commercial facilities, and farmland. Commercial mortgages secured by owner occupied properties are primarily dependent on the ability of borrowers to achieve business results consistent with those projected at loan origination. While these loans and leases are collateralized by real property in an effort to mitigate risk, it is possible the liquidation of collateral will not fully satisfy the obligation. Non-owner occupied commercial mortgages consist of loans to purchase or refinance investment nonresidential properties. This includes office, retail, and industrial buildings along with hotels and other facilities rented or leased to unrelated parties, as well as farmland and multifamily properties. The primary risk associated with income producing commercial mortgage loans is the ability of the income-producing property that collateralizes the loan to produce adequate cash flow to service the debt. While these loans are collateralized by real property in an effort to mitigate risk, it is possible the liquidation of collateral will not fully satisfy the obligation.

Note 1. Summary of Significant Accounting Policies, Continued

Allowance for credit losses – loans, continued:

- Real estate residential - Residential mortgages consist of loans to purchase or refinance the borrower's primary dwelling, second residence or vacation home and are secured by 1-4 family residential property. Significant and rapid declines in real estate values can result in borrowers having debt levels in excess of the current market value of the collateral.

- Commercial and industrial - Commercial and industrial business loans consist of loans or lines of credit to finance accounts receivable, inventory or other general business needs, business credit cards, and lease financing agreements for equipment, vehicles, or other assets. The primary risk associated with commercial and industrial and lease financing loans is the ability of borrowers to achieve business results consistent with those projected at origination. Failure to achieve these projections presents risk the borrower will be unable to service the debt consistent with the contractual terms of the loan.

- Consumer and other - Consumer loans consist of loans to finance unsecured home improvements, student loans, automobiles and revolving lines of credit that can be secured or unsecured. The value of the underlying collateral within this class is at risk of potential rapid depreciation which could result in unpaid balances in excess of the collateral.

Additionally, the allowance for credit losses calculation includes subjective adjustments for qualitative risk factors that are likely to cause estimated credit losses to differ from historical experience. These qualitative adjustments may increase or reduce reserve levels and include adjustments for management lending experience and risk tolerance, loan review and audit results, asset quality and portfolio trends, loan portfolio growth, industry concentrations, trends in underlying collateral, external factors and local economic conditions not already captured. Loans that do not share risk characteristics are evaluated on an individual basis. When the borrower is experiencing financial difficulty and repayment is expected to be provided through operation or sale of the collateral, the expected credit losses are based on the fair value of collateral at the reporting date, adjusted for selling costs as appropriate.

Allowance for credit losses – unfunded commitments:

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit issued to meet customer financing needs. The Company’s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for off-balance sheet loan commitments is represented by the contractual amount of those instruments. Such financial instruments are recorded when they are funded.

The Company records an allowance for credit losses on off-balance sheet credit exposures, unless the commitments to extend credit are unconditionally cancelable, through a charge to provision for unfunded commitments in the Company’s income statements. The allowance for credit losses on off-balance sheet credit exposures is estimated by loan segment at each balance sheet date under the current expected credit loss model using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur as well as any third-party guarantees.

Note 1. Summary of Significant Accounting Policies, Continued

Premises, furniture and equipment:

Premises, furniture and equipment are stated at cost less accumulated depreciation. The provision for depreciation is computed principally by accelerated cost recovery methods allowed for income tax reporting purposes if there are no material differences from generally accepted accounting principles. Rates of depreciation are generally based on the following estimated useful lives: buildings and land improvements - 10 to 40 years and furniture and equipment - 5 to 10 years. The cost of assets sold or otherwise disposed of and the related accumulated depreciation is eliminated from the accounts, and the resulting gains or losses are reflected in the income statement. Maintenance and repairs are charged to current expense as incurred, and the costs of major renewals and improvements are capitalized.

Leases:

The Company determines if an arrangement is a lease at inception. Operating leases are included in right of use (ROU) assets on operating leases and operating lease liabilities on the consolidated balance sheets. ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, an incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments is used. The implicit rate is used when readily determinable. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Other real estate owned:

Other real estate owned includes real estate acquired through foreclosure. Other real estate owned is initially recorded at the lower of the loan amount or fair value less estimated costs to sell. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of cost or fair value less costs to sell. Costs to maintain such assets, subsequent write-downs, and gains and losses on disposal are charged to expense and are included in net cost of other real estate owned.

Note 1. Summary of Significant Accounting Policies, Continued

Goodwill and other intangible assets:

Goodwill represents the cost in excess of fair value of net assets acquired (including identifiable intangibles) in purchase transactions. Fair values are subject to refinement for up to one year after the closing date of the acquisition as information relative to closing date fair values becomes available. Other intangible assets represent premiums paid for acquisitions of core deposits (core deposit intangibles). Core deposit intangibles are being amortized over a 10-year period based on amortization schedules prepared by an outside consultant. Goodwill and identifiable intangible assets are reviewed for impairment annually or whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of identifiable intangible assets is measured by a comparison of the carrying amount of the asset to future undiscounted cash flows expected to be generated by the asset. The Company's evaluation considers various components, to include economic conditions, industry considerations, financial performance as well as other information. No impairment losses have been recorded as a result of the Company's analysis during the years ended December 31, 2023 and 2022.

Retirement and deferred compensation plans:

The Bank has a profit sharing plan covering all full-time employees with at least twelve months of service and who have obtained the age of eighteen. Normal retirement age is the first of the month following attainment of age sixty-five or ten years of participation if later. Early retirement can be obtained at age fifty-five upon ten years of participation. Expenses charged to earnings for each of the years ended December 31, 2023 and 2022 totaled $500 thousand and are included within salaries and employee benefits.

Income and expense recognition and revenue from contracts with customers:

The accrual method of accounting is used for all significant categories of income and expense. Immaterial amounts of insurance commissions and other miscellaneous fees are reported when received.

In accordance with Topic 606, revenues are recognized when control of promised goods or services is transferred to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation.

The Company only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract Is determined to be within the scope of Topic 606, the Company assesses the goods or services that are promised within each contract and identifies those that contain performance obligations, and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount or the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

Note 1. Summary of Significant Accounting Policies, Continued

Income and expense recognition and revenue from contracts with customers, continued:

Service charges on deposit accounts: Service charges on deposit accounts are included in noninterest income and include fees from the Company’s deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. 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.

Credit card and interchange fees: Credit card and interchange fees are included in noninterest income and includes interchange fees the Company earns from debit cardholder transactions conducted through payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, with the transaction processing services provided to the cardholder. Fees are recognized on a daily basis.

Gains/Losses on OREO Sales: Gains/losses on the sale of OREO are included in non-interest income and are generally recognized when the performance obligation is complete. This is typically at delivery of control over the property to the buyer at the time of each real estate closing.

Income taxes:

Amounts provided for income taxes are based on income reported for financial statement purposes. Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company’s assets and liabilities. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company believes that its income tax filing positions taken or expected to be taken in its tax returns will more likely than not be sustained upon audit by the taxing authorities and does not anticipate any adjustments that will result in a material adverse impact on the Company's financial condition, results of operations, or cash flow. Therefore, no reserves for uncertain income tax positions have been recorded.

Business combinations:

The Company accounts for business combinations using the acquisition method of accounting. The accounts of an acquired entity are included as of the date of acquisition, and any excess of purchase price over the fair value of the net assets acquired is capitalized as goodwill. Under this method, all identifiable assets acquired, including purchased loans, and liabilities assumed are recorded at fair value. The Company typically issues common stock and/or pays cash for an acquisition, depending on the terms of the acquisition agreement. The value of shares of common stock issued is determined based on the market price of the stock as of the closing of the acquisition.

Note 1. Summary of Significant Accounting Policies, Continued

Advertising expense:

Advertising and public relations costs are generally expensed as incurred. External costs incurred in producing media advertising are expensed the first time the advertising takes place. External costs relating to direct mailing costs are expensed in the period in which the direct mailings are sent. Advertising and public relations costs of $766 thousand and $580 thousand were included in other operating expenses for 2023 and 2022, respectively.

Comprehensive income (loss):

The Company reports comprehensive income in accordance with Accounting Standards Codification (ASC) 220, "Comprehensive Income." ASC 220 requires that all items that are required to be reported under accounting standards as comprehensive income (loss) be reported in a financial statement that is displayed with the same prominence as other financial statements. The disclosure requirements have been included in the Company's consolidated statements of comprehensive income (loss). The only item included in accumulated other comprehensive income (loss) on the balance sheets is unrealized holding gains and losses on available-for-sale investment securities.

Per-share amounts:

Basic earnings per-share is computed by dividing net income by the weighted-average number of shares outstanding for the period. Diluted earnings per-share is similar to the computation of basic earnings per-share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. The dilutive effect of options outstanding under the Company's stock option plan are reflected in diluted earnings per-share by the application of the treasury stock method. See Note 14.

For purposes of computing earnings per-share, allocated shares and shares released for allocation by the employee retirement and stock ownership plan, The Citizens Bank KSOP Plan (the "KSOP"), a component of which includes Company stock, are considered outstanding.

Statement of cash flows:

For purposes of reporting cash flows in the financial statements, the Company considers certain highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents include amounts due from banks, interest-bearing deposits, and federal funds sold. Generally, federal funds are sold for one day periods.

Off-balance-sheet financial instruments:

In the ordinary course of business, the Company enters into off-balance-sheet financial instruments consisting of commitments to extend credit and letters of credit. These financial instruments are recorded in the financial statements when they become payable by the customer.

Note 1. Summary of Significant Accounting Policies, Continued

Recently issued accounting pronouncements:

The following is a summary of recent authoritative pronouncements that could impact the accounting, reporting, and/or disclosure of financial information by the Company.

In December 2022, the FASB issued amendments to extend the period of time preparers can use the reference rate reform relief guidance under *Accounting Standards Codification* (ASC) *Topic* 848 from December 31, 2022, to December 31, 2024, to address the fact that all London Interbank Offered Rate (LIBOR) tenors were not discontinued as of December 31, 2021, and some tenors will be published until June 2023. To ensure the relief in Topic 848 covers the period of time during which a significant number of modifications may take place, the ASU defers the sunset date from December 31, 2022, to December 31, 2024, after which entities will no longer be permitted to apply the relief in Topic 848. The amendments are effective immediately for all entities and applied prospectively. The Company does not expect these amendments to have a material effect on its financial statements.

In December 2023, the FASB amended the Income Taxes topic in the ASC to improve income tax disclosures from investors, lenders, creditors, and other allocators of capital (collectively, "investors") that use the financial statements to make capital allocation decisions. The ASU improves the transparency of the income tax disclosures by requiring (1) consistent categories and greater disaggregation of information in the rate reconciliation and (2) income taxes paid disaggregated by jurisdiction. It also includes certain other amendments to improve the effectiveness of income tax disclosures. The amendments are effective December 15, 2025. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Risks and uncertainties:

In the normal course of its business, the Company encounters two significant types of risks: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Company is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or on different basis, than its interest-earning assets. Credit risk is the risk of default on the Company's loan portfolio that results from a borrower's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of collateral underlying loans receivable and the valuation of real estate held by the Company.

The Company is subject to the regulations of various governmental agencies. These regulations can and do change significantly from period to period. The Company also undergoes periodic examinations by the regulatory agencies, which may subject it to further changes with respect to asset valuations, amounts of required loss allowances and operating restrictions from the regulators' judgments based on information available to them at the time of their examination.

Note 1. Summary of Significant Accounting Policies, Continued

Reclassifications:

Certain captions and amounts in the 2022 consolidated financial statements were reclassified to conform with the 2023 presentation. These reclassifications had no effect on the results of operations or shareholders' equity.

Note 2. Mergers and Acquisitions

On July 1, 2022, the Company acquired 100% of the outstanding shares of Sandhills Holding Company ("Sandhills"), the bank holding company for South Carolina state-chartered Sandhills Bank ("SHB"), headquartered in North Myrtle Beach, South Carolina. Upon consummation of the acquisition, Sandhills was merged with and into the Company, with the Company as the surviving entity in the merger; concurrently SHB was merged with and into The Citizens Bank ("TCB"). In connection with the acquisition, the Company acquired $234.3 million of assets and assumed $222.4 million of liabilities.

The total purchase price was $20 million based on 1,248,382 shares of Sandhills common stock, agreed to be purchased at $16.02 per share. Acquisition-related costs of $2,587,212 were recorded for the year ended December 31, 2022.

The Sandhills transaction was accounted for using the acquisition method of accounting, and accordingly, assets acquired, liabilities assumed, and consideration exchanged were recorded at estimated fair value on the acquisition date based on a third-party valuation of significant accounts. Fair values are subject to refinement for up to a year.

Note 2. Mergers and Acquisitions, Continued

The following table presents the assets acquired and liabilities assumed as of July 1, 2022, as recorded by the Company on the acquisition date and initial fair value adjustments:

	Carrying Value Acquired	Purchase Adjustments	As Recorded by Sandhills
Assets			
Cash and cash equivalents	$ 39,127	$ -	$ 39,127
Investment securities	33,675	-	33,675
Loans receivable	142,423	(5,803)	136,620
Allowance for loan losses	(1,432)	1,432	-
Premises, furniture and equipment, net	12,912	1,024	13,936
Core deposit intangible	6	5,024	5,030
Goodwill	682	(682)	-
Other real estate owned	452	(62)	390
Deferred tax assets	3,955	(3,955)	-
Other assets	1,761	(39)	1,722
Total assets	$ 233,561	$ (3,061)	$ 230,500
Liabilities			
Deposits	$ 212,555	$ 127	$ 212,682
Subordinated debt	4,250	18	4,268
Subordinated debt – issuance cost	(83)	83	-
Note payable	4,250	-	4,250
Other liabilities	1,246	-	1,246
Total liabilities	$ 222,218	$ 228	$ 222,446
Net assets acquired over liabilities assumed			8,054
Consideration			
Cash exchanged for stock			$ 19,999
Total fair value of consideration transferred			19,999
Goodwill			$ 11,945

Acquired loans held for investment had gross contractual amounts receivable of $191 thousand. At the acquisition date, the Company's current estimate of expected cash flows to be collected was $163 thousand. Acquired loans were evaluated to determine if they were purchased credit-impaired. PCI loans are loans with evidence of deterioration of credit quality since origination for which it is probable, at acquisition, that the Company will be unable to collect all contractually required payments receivable. PCI loans that were identified as part of this business combination amounted to $9.5 million and was comprised of 24 loans.

Note 2. Mergers and Acquisitions, Continued

The determination of the basis of PCI loans is presented in the table below:

(Dollars in thousands)	**July 1, 2022**
Contractual principal and interest at acquisition	$ 13,505
Non-accretable difference	2,364
Expected cash flows at acquisition	11,141
Accretable yield	1,624
Basis in PCI loans at acquisition – estimated fair value	$ 9,517

The following table relates to acquired Sandhills purchased non-impaired loans and provides the contractually required payments, fair value, and estimate of contractual cash flows not expected to be collected at the acquisition date:

(Dollars in thousands)	**July 1, 2022**
Contractual required payments	$ 177,192
Fair value of acquired loans at acquisition date	127,076
Contractual cash flows not expected to be collected	24,700

Note 3. Restrictions on Cash and Due From Banks

The Company has been required by regulation to maintain an average cash reserve balance based on a percentage of deposits. There were no such requirements as of December 31, 2023 and 2022.

Note 4. Investment Securities

The amortized cost and estimated fair value of securities available-for-sale along with gross unrealized gains and losses, for which an allowance for credit loss has not been recorded, are summarized as follows:

	December 31, 2023			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government-sponsored enterprises	$ 58,995	$ 23	$ (4,723)	$ 54,295
Mortgage backed securities	86,866	240	(6,283)	80,823
Obligations of state and local governments	38,697	181	(2,863)	36,015
U.S. Treasuries	33,302	160	(872)	32,590
	$ 217,860	$ 604	$ (14,741)	$ 203,723

	December 31, 2022			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government-sponsored enterprises	$ 50,498	$ 2	$ (5,295)	$ 45,205
Mortgage backed securities	90,576	175	(6,660)	84,091
Obligations of state and local governments	43,111	69	(3,683)	39,497
U.S. Treasuries	33,170	99	(1,120)	32,149
	$ 217,355	$ 345	$ (16,758)	$ 200,942

The following is a summary of maturities of securities available-for-sale as of December 31, 2023. The amortized cost and estimated fair values are based on the contractual maturity dates. Actual maturities may differ from the contractual maturities because borrowers may have the right to call or prepay obligations with or without penalty.

	Securities Available-for-Sale	
(Dollars in thousands)	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 3,236	$ 3,196
Due after one year but within five years	49,803	48,293
Due after five years but within ten years	62,589	57,275
Due after ten years	102,232	94,959
Total	$ 217,860	$ 203,723

Note 4. Investment Securities, Continued

At December 31, 2023 and 2022, investment securities with a book value of $52.3 million and $59.4 million and a market value of $47.7 million and $53.7 million, respectively, were pledged as collateral to secure public deposits and for other purposes as required or permitted by law.

During 2023, investment securities classified as available-for-sale, with a book value of $8.8 million, were sold for a loss of approximately $58 thousand. Investment securities classified as available-for-sale, with a book value of $1.9 million, were sold for a gain of approximately $36 thousand. During 2022, no investment securities classified as available-for-sale were sold.

The following table shows the gross unrealized losses and estimated fair value of available sale securities for which an allowance for credit losses has not been recorded aggregated by category and length of time that securities have been in a continuous unrealized loss position, at December 31, 2023 and 2022.

	December 31, 2023					
	Less Than Twelve Months		Twelve Months or More		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government-sponsored enterprises	$ 7,466	$ (31)	$ 41,807	$ (4,692)	$ 49,273	$ (4,723)
Mortgage backed securities	3,586	(27)	64,545	(6,256)	68,131	(6,283)
Obligations of state and local governments	2,644	(29)	25,547	(2,834)	28,191	(2,863)
U.S. Treasuries	-	-	24,702	(872)	24,702	(872)
	$ 13,696	$ (87)	$ 156,600	$ (14,654)	$ 170,297	$ (14,741)

	December 31, 2022					
	Less Than Twelve Months		Twelve Months or More		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government-sponsored enterprises	$ 20,012	$ (986)	$ 19,191	$ (4,309)	$ 39,203	$ (5,295)
Mortgage backed securities	54,001	(2,556)	20,612	(4,104)	74,613	(6,660)
Obligations of state and local governments	22,591	(963)	11,822	(2,720)	34,413	(3,683)
U.S. Treasuries	24,809	(741)	2,564	(379)	27,373	(1,120)
	$ 121,413	$ (5,246)	$ 54,189	$ (11,512)	$ 175,602	$ (16,758)

Note 4. Investment Securities, Continued

At December 31, 2023, the Company had 213 individual investments that were in an unrealized loss position. The unrealized losses were primarily attributable to changes in interest rates, rather than deterioration in credit quality. The individual securities are each investment grade securities. The Company considers factors such as the financial condition of the issuer including credit ratings and specific events affecting the operations of the issuer, volatility of the security, underlying assets that collateralize the debt security, and other industry and macroeconomic conditions. The Company does not intend to sell these securities, and it is more likely than not that the Company will not be required to sell these securities before recovery of the amortized cost. Accordingly, the Company has not recognized an allowance for credit losses on available-for-sale securities.

Note 5. Loans Receivable

The following is a summary of the major categories of loans receivable at December 31, 2023 and 2022:

(Dollars in thousands)	2023	2022
Real estate - construction	$ 64,241	$ 48,424
Real estate - commercial	153,099	165,665
Real estate - residential	235,673	218,514
Commercial and industrial	49,436	47,502
Consumer and other	41,614	36,570
Total gross loans	544,063	516,675
Less allowance for credit losses	(5,899)	(4,898)
Loans, net	$ 538,164	$ 511,777

The above balances are inclusive of deferred fees and costs of $83 thousand and $23 thousand as of December 31, 2023 and 2022, respectively. Additionally, pooled balances as of December 31, 2022 include $7.4 million of PCI loans that have been allocated amongst their respective loan pools.

Delinquency disclosures:

The following table presents an analysis of past-due loans as of December 31, 2023:

(Dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Loans 90 Days or More Past Due and Still Accruing	Nonaccrual Loans	Current Loans	Total Loans
Real estate - construction	$ 236	$ 53	$ -	$ -	$ 63,952	$ 64,241
Real estate - commercial	404	-	-	4	152,691	153,099
Real estate - residential	1,132	281	73	276	233,911	235,673
Commercial and industrial	236	37	-	4	49,159	49,436
Consumer and other	192	66	-	119	41,237	41,614
	$ 2,200	$ 437	$ 73	$ 403	$ 540,950	$ 544,063

Note 5. Loans Receivable, Continued

The following is an aging analysis of our loan portfolio at December 31, 2022:

(Dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Loans 90 Days or More Past Due and Still Accruing	Nonaccrual Loans	Current Loans	Total Loans
Real estate - construction	$ 104	$ 56	$ -	$ -	$ 48,264	$ 48,424
Real estate - commercial	26	-	-	-	165,639	165,665
Real estate - residential	248	176	-	956	217,134	218,514
Commercial and industrial	36	-	-	77	47,389	47,502
Consumer and other	54	26	-	-	36,490	36,570
	$ 468	$ 258	$ -	$ 1,033	$ 514,916	$ 516,675

Credit quality indicators:

The Company uses a risk based approach based on the following credit quality measures when analyzing the loan portfolio: pass, watch, special mention, and substandard. These indicators are used to rate the credit quality of loans for the purposes of determining the Company's allowance for credit losses.

Grades 1, 2, and 3 are considered "Acceptable/Pass", and are deemed to be loans that are performing and are deemed adequately protected by the net worth of the borrower or the underlying collateral value. These loans are considered the least risky in terms of determining the allowance for credit losses.

Grades 4 is considered "Watch - Special Mention", respectively, and are deemed to be loans that have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's position at some future date.

Grade 5 is considered "Substandard" and is deemed to be loans that are considered the most risky. These loans typically have an identified weakness or weaknesses and are inadequately protected by the net worth of the borrower or collateral value.

Note 5. Loans Receivable, Continued

Vintage disclosures:

The following table presents the Company's recorded investment in loans by credit quality indicators by year of origination as of December 31, 2023:

	Term Loans by Year of Origination							
	2023	2022	2021	2020	2019	Prior	Revolving	Total
Real estate - construction								
Acceptable/Pass	$ 30,372	$ 13,296	$ 4,673	$ 4,711	$ 1,331	$ 2,677	$ 7,029	$ 64,089
Watch - Special Mention	-	-	-	-	24	128	-	152
Substandard	-	-	-	-	-	-	-	-
Total real estate - construction loans	$ 30,372	$ 13,296	$ 4,673	$ 4,711	$ 1,355	$ 2,805	$ 7,029	$ 64,241
Current period gross write-offs	-	-	-	-	-	-	-	-
Real estate - commercial								
Acceptable/Pass	$ 17,785	$ 21,938	$ 30,694	$ 13,077	$ 21,026	$ 30,985	$ 12,335	$ 147,840
Watch - Special Mention	-	-	3,891	13	-	1,093	125	5,122
Substandard	-	-	-	-	-	137	-	137
Total real estate - commerical loans	$ 17,785	$ 21,938	$ 34,585	$ 13,090	$ 21,026	$ 32,215	$ 12,460	$ 153,099
Current period gross write-offs	-	-	-	-	-	(3)	-	(3)
Real estate - residential								
Acceptable/Pass	$ 37,578	$ 42,222	$ 37,095	$ 28,989	$ 14,967	$ 41,087	$ 30,459	$ 232,397
Watch - Special Mention	416	-	-	-	65	814	159	1,454
Substandard	-	-	54	-	451	1,168	149	1,822
Total real estate - residential loans	$ 37,994	$ 42,222	$ 37,149	$ 28,989	$ 15,483	$ 43,069	$ 30,767	$ 235,673
Current period gross write-offs	-	-	-	-	-	-	-	-
Commercial and industrial								
Acceptable/Pass	$ 23,855	$ 9,992	$ 4,572	$ 2,735	$ 1,658	$ 2,433	$ 3,879	$ 49,124
Watch - Special Mention	79	-	27	-	-	57	9	172
Substandard	-	-	4	2	66	68	-	140
Total commercial and industrial loans	$ 23,934	$ 9,992	$ 4,603	$ 2,737	$ 1,724	$ 2,558	$ 3,888	$ 49,436
Current period gross write-offs	-	(75)	-	-	-	-	-	(75)
Consumer and other								
Acceptable/Pass	$ 22,312	$ 10,658	$ 5,495	$ 2,102	$ 512	$ 169	$ 148	$ 41,396
Watch - Special Mention	34	-	20	-	20	-	-	74
Substandard	41	90	10	-	-	3	-	144
Total consumer and other loans	$ 22,387	$ 10,748	$ 5,525	$ 2,102	$ 532	$ 172	$ 148	$ 41,614
Current period gross write-offs	(602)	(40)	(4)	(2)	-	-	(8)	(656)

Note 5. Loans Receivable, Continued

The following is an analysis of our loan portfolio by credit quality indicators at December 31, 2022:

(Dollars in thousands)	Real Estate Construction	Real Estate Commercial	Real Estate Residential	Commercial and Industrial	Consumer and Other	Total Loans Receivable
Grade 1	$ -	$ -	$ 203	$ 4,985	$ 1,578	$ 6,766
Grade 2	25	5,030	931	-	12	5,998
Grade 3	48,358	159,310	213,953	42,283	33,719	497,623
Grade 4	146	1,794	1,041	100	109	3,190
Grade 5	93	862	1,924	192	27	3,098
	$ 48,622	$ 166,996	$ 218,052	$ 47,560	$ 35,445	$ 516,675

Nonaccrual disclosures:

The following table is a summary of the Company's nonaccrual loans by major categories for the periods indicated:

	CECL			Incurred Loss
	December 31, 2023			December 31 2022
(Dollars in thousands)	Nonaccrual Loans with No Allowance	Nonaccrual Loans with An allowance	Total Nonaccrual Loans	Nonaccrual Loans
Real estate - construction	$ -	$ -	$ -	$ -
Real estate - commercial	4	-	4	-
Real estate - residential	276	-	276	956
Commercial and industrial	-	4	4	77
Consumer and other	71	48	119	-
Total loans	$ 351	$ 52	$ 403	$ 1,033

The Company recognized $13 thousand of interest income on nonaccrual loans during the year ended December 31, 2023. The Company has determined that nonaccrual loans that are exhibiting the ability for repayment and are not delinquent as of the balance sheet date are excluded from individual evaluation unless it is determined that these loans exhibit different risk characteristics than the collective loan pool.

Note 5. Loans Receivable, Continued

Nonaccrual disclosures, continued:

The following table represents the accrued interest receivables written off by reversing interest income during the year ended December 31, 2023:

(Dollars in thousands)	For the Period Ended December 31, 2023
Real estate - construction	$ -
Real estate - commercial	-
Real estate - residential	2
Commercial and industrial	-
Consumer and other	3
Total loans	$ 5

Collateral dependent disclosures:

The Company has certain loans for which repayment is dependent upon the operation or sale of collateral, as the borrower is experiencing financial difficulty. The underlying collateral can vary based upon the type of loan. The following provides more detail about the types of collateral that secure collateral-dependent loans:

- Commercial real estate loans can be secured by either owner-occupied commercial real estate or non-owner-occupied investment commercial real estate. Typically, owner-occupied commercial real estate loans are secured by office buildings, warehouses, manufacturing facilities and other commercial and industrial properties occupied by operating companies. Non-owner-occupied commercial real estate loans are generally secured by office buildings and complexes, retail facilities, multifamily complexes, land under development, industrial properties, as well as other commercial or industrial real estate.

- Residential real estate loans are typically secured by first mortgages, and in some cases could be secured by a second mortgage.

- Home equity lines of credit are generally secured by second mortgages on residential real estate property.

- Consumer loans are generally secured by automobiles, motorcycles, recreational vehicles and other personal property. Some consumer loans are unsecured and have no underlying collateral.

Note 5. Loans Receivable, Continued

Collateral dependent disclosures, continued:

The following table details the amortized cost of collateral dependent loans:

(Dollars in thousands)	For the Period Ended December 31, 2023
Real estate - construction	$ -
Real estate - commercial	4
Real estate - residential	117
Commercial and industrial	4
Consumer and other	119
Total loans	$ 244

Allowance for credit losses disclosures:

The following table summarizes the activity related to the allowance for credit losses for the year ended December 31, 2023 under the CECL methodology.

(Dollars in thousands)	Real Estate Construction	Real Estate Commercial	Real Estate Residential	Commercial and Industrial	Consumer and Other	Total
Allowance for credit losses:						
Balance, December 31, 2022	$ 451	$ 1,335	$ 2,244	$ 708	$ 160	$ 4,898
Adjustment to allowance for adoption of ASU 2016-13	132	314	483	101	86	1,116
Charge-offs	-	(3)	-	(75)	(656)	(734)
Recoveries	-	1	18	155	438	612
Provision for credit losses	(21)	(49)	(76)	(16)	169	7
Balance, December 31, 2023	$ 562	$ 1,598	$ 2,669	$ 873	$ 197	$ 5,899

Note 5. Loans Receivable, Continued

Allowance for credit losses disclosures, continued:

The following is a summary of information pertaining to our allowance for loan losses at December 31, 2022:

(Dollars in thousands)	Real Estate Construction	Real Estate Commercial	Real Estate Residential	Commercial and Industrial	Consumer and Other	Total
Allowance for loan losses:						
Beginning balance	$ 443	$ 1,318	$ 2,232	$ 697	$ 179	$ 4,869
Charge-offs	-	-	(9)	(10)	(839)	(858)
Recoveries	3	1	-	17	626	647
Provisions	5	16	21	4	194	240
Ending balance	$ 451	$ 1,335	$ 2,244	$ 708	$ 160	$ 4,898
Ending balances:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	$ 451	$ 1,335	$ 2,244	$ 708	$ 160	$ 4,898
Loans receivable:						
Loans receivable	$ 48,424	$ 165,665	$ 218,514	$ 47,502	$ 36,570	$ 516,675
Ending balances:						
Individually evaluated for impairment	$ -	$ -	$ 663	$ 77	$ 4	$ 745
Collectively evaluated for impairment	$ 47,555	$ 161,734	$ 215,602	$ 47,123	$ 36,589	$ 508,602

Impaired loan disclosures (prior periods):

Prior to the adoption of ASU 2016-13, loans were considered impaired when, based on current information and events, it was probable the Company would be unable to collect all amounts due in accordance with the original contractual terms of the loan agreements. Impaired loans include loans on nonaccrual status and accruing troubled debt restructurings. When determining if the Company would be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement, the Company considered the borrower's capacity to pay, which included such factors as the borrower's current financial statements, an analysis of global cash flow sufficient to pay all debt obligations and an evaluation of secondary sources of repayment, such as guarantor support and collateral value. The Company individually assessed for impairment all nonaccrual loans and all troubled debt restructurings (including all troubled debt restructurings, whether or not currently classified as such). The tables below include all loans deemed impaired, whether or not individually assessed for impairment. If a loan was deemed impaired, a specific valuation allowance was allocated, if necessary, so that the loan was reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment was expected solely from the collateral. Interest payments on impaired loans were typically applied to principal unless collectability of the principal amount was reasonably assured, in which case interest was recognized on a cash basis.

Note 5. Loans Receivable, Continued

Impaired loan disclosures (prior periods), continued:

The following is an analysis of our impaired loan portfolio detailing the related allowance recorded at December 31, 2022:

(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance needed:					
Real estate - construction	$ -	$ -	$ -	$ -	$ -
Real estate - commercial	-	-	-	-	-
Real estate - residential	663	663	-	697	24
Commercial and industrial	77	77	-	50	2
Consumer and other	5	5	-	6	1
	745	745	-	753	27
With an allowance recorded:					
Real estate - residential	-	-	-	-	-
	-	-	-	-	-
Total:					
Real estate - construction	$ -	$ -	$ -	$ -	$ -
Real estate - commercial	-	-	-	-	-
Real estate - residential	663	663	-	697	24
Commercial and industrial	77	77	-	50	2
Consumer and other	5	5	-	6	1
	$ 745	$ 745	$ -	$ 753	$ 27

At December 31, 2022, the unpaid principal balance of PCI loans was $8.0 million. Changes in the amount of accretable yield on PCI loans for the year ended December 31, 2022 were as follows:

	2022
Accretable yield, beginning of period:	-
Additions	622
Accretion	(19)
Reclassification from (to) non-accretable difference	-
Other changes, net	-
Accretable yield, end of period	603

Note 5. Loans Receivable, Continued

Modifications made to borrowers experiencing financial difficulty:

The allowance for credit losses incorporates an estimate of lifetime expected credit losses and is recorded on each asset upon asset origination or acquisition. The starting point for the estimate of the allowance for credit losses is historical loss information, which includes losses from modifications of receivables to borrowers experiencing financial difficulty. The Company uses a weighted average remaining maturity model to determine the allowance for credit losses. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification.

Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses because of the measurement methodologies used to estimate the allowance, a change to the allowance for credit losses is generally not recorded upon modification. Occasionally, the Company modifies loans by providing principal forgiveness on certain of its real estate loans. When principal forgiveness is provided, the amortized cost basis of the asset is written off against the allowance for credit losses. The amount of the principal forgiveness is deemed to be uncollectible; therefore, that portion of the loan is written off, resulting in a reduction of the amortized cost basis and a corresponding adjustment to the allowance for credit losses.

In some cases, the Company will modify a certain loan by providing multiple types of concessions. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted. For the real estate loans included in the “combination” columns below, multiple types of modifications have been made on the same loan within the current reporting period. The combination is at least two of the following: a term extension, principal forgiveness, and interest rate reduction.

Note 5. Loans Receivable, Continued

Modifications made to borrowers experiencing financial difficulty, continued:

The following table shows the amortized cost basis as of December 31, 2023 of the loans modified to borrowers experiencing financial difficulty, disaggregated by class of loans and type of concession granted and describes the financial effect of the modifications made to borrowers experiencing financial difficulty:

	Term Extension		
	Amortized Cost Basis	% of Total Loan Type	Financial Effect
	($ in thousands)		
Real Estate - residential	$ 33	0.01%	Extension of terms greater than 3 months, which reduced payment amounts for the borrowers.
Total loans	$ 33		

	Combination – Term Extension and Interest Rate Reduction		
	Amortized Cost Basis	% of Total Loan Type	Financial Effect
	($ in thousands)		
Real Estate - residential	$ 21	0.01%	Provided payment deferrals to borrowers and reduced contractual interest rates for borrowers, which reduced payment amounts for the borrowers.
Consumer and other	9	0.02%	Provided payment deferrals to borrowers and reduced contractual interest rates for borrowers, which reduced payment amounts for the borrowers.
Total loans	$ 30		

The Company did not commit to lend additional amounts to the borrowers included in the previous table.

Note 5. Loans Receivable, Continued

Modifications made to borrowers experiencing financial difficulty, continued:

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

There were no modified loans made to borrowers experiencing financial difficulty that defaulted during the year ended December 31, 2023. All modified loans made to borrowers experiencing financial difficulty were current as of December 31, 2023.

Troubled debt restructurings:

The following table summarizes the carrying balance of troubled debt restructurings (TDRs) as of December 31, 2022 under the Incurred Loss methodology:

(Dollars in thousands)	**2022**
Performing TDRs	$ 253
Nonperforming TDRs	32
Total TDRs	$ 285

Loans classified as TDRs may be removed from this status for disclosure purposes after a specified period of time if the subsequent restructured agreement specifies an interest rate equal to or greater than the rate that the lender was willing to accept at the time of the restructuring for a new loan with comparable risk, the loan is performing in accordance with the terms specified by the restructured agreement, and certain other criteria are met.

	For the year ended December 31, 2022		
	Number of Contracts	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
Real Estate – residential	1	$ 3	$ 3
Total	1	$ 3	$ 3

During the year ended December 31, 2022, we modified one loan that was considered a troubled debt restructuring. During the year ended December 31, 2022, no loans that had been restructured during previous years subsequently defaulted (as defined by non-accrual classification) during the year.

Note 5. Loans Receivable, Continued

Unfunded commitments

The Company maintains a separate reserve for credit losses on off-balance-sheet credit exposures. The reserve for credit losses on off-balance-sheet credit exposures is adjusted as a provision for credit losses in the income statement. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life, utilizing the same models and approaches for the Company's other loan portfolio segments described above, as these unfunded commitments share similar risk characteristics as its loan portfolio segments. The Company has identified the unfunded portion of certain lines of credit as unconditionally cancellable credit exposures, meaning the Company can cancel the unfunded commitment at any time. No credit loss estimate is reported for off-balance-sheet credit exposures that are unconditionally cancellable by the Company or for undrawn amounts under such arrangements that may be drawn prior to the cancellation of the arrangement.

On January 1, 2023, the Company recorded an adjustment for unfunded commitments of $853 thousand for the adoption of ASC Topic 326. For the year ended December 31, 2023, the Company recorded a provision for credit losses for unfunded commitments of $347 thousand. At December 31, 2023, the allowance for unfunded commitments was $1.2 million.

Note 6. Other Real Estate Owned

The following summarizes the activity in the other real estate owned for the years ended December 31:

(Dollars in thousands)	2023	2022
Balance, beginning of year	$ 609	$ 320
Additions	800	609
Sales	(219)	(320)
Write-downs	(100)	-
Balance, end of year	$ 1,090	$ 609

Note 7. Premises and Equipment

Premises and equipment is summarized as follows as of December 31:

(Dollars in thousands)	2023	2022
Land	$ 11,589	$ 13,020
Building and improvements	23,187	23,217
Furniture and equipment	5,316	5,550
Total	40,092	41,787
Less accumulated depreciation	(11,974)	(11,199)
Premises and equipment, net	$ 28,118	$ 30,588

Note 7. Premises and Equipment, Continued

Depreciation expense for the years ended December 31, 2023 and 2022 was $1.2 million and $1.2 million, respectively. During 2023 and 2022, the Company recorded fixed asset impairment adjustments of $284 thousand and $100,000 thousand. These impairment adjustments are recorded within other operating expense on the consolidated statements of income.

Note 8. Goodwill and Core Deposit Intangible

The following table presents information about our core deposit intangible asset at December 31:

	2023		2022	
(Dollars in thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
Finite lived intangible asset:				
Core deposit intangible	$ 7,079	$ 1,779	$ 7,079	$ 1,071

Based on the core deposit intangibles as of December 31, 2023, the following table presents the aggregate amortization expense for each of the succeeding years ending December 31:

(Dollars in thousands)	**Amount**
2024	$ 708
2025	708
2026	708
2027	708
2028 and thereafter	2,468
Total	$ 5,300

Amortization expense of $708 thousand and $456 thousand related to the core deposit intangibles was recognized in 2023 and 2022, respectively, and is included in other operating expense on the consolidated statements of income.

As of December 31, 2023 and 2022, goodwill totaled $18.5 million. Goodwill is reviewed for impairment annually in accordance with generally accepted accounting principles. The Company's evaluation considers various components, to include economic conditions, industry considerations, financial performance as well as other information. As of December 31, 2023 and 2022, management determined that no goodwill impairment existed.

Note 9. Deposits

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

(Dollars in thousands)	Amount
2024	$ 85,426
2025	7,839
2026	2,625
2027	1,600
2028 and thereafter	455
Total	$ 97,945

Time deposits that meet or exceed the FDIC Insurance limit of $250 thousand at year-end 2023 and 2022 were $16.4 million and $19.1 million, respectively. The Company did not carry brokered deposits as of December 31, 2023 and 2022.

The Company did not carry any deposits with a combined balance in excess of 5% of total deposits as of December 31, 2023 and 2022. The Company has identified a concentration of 2.93% of municipal deposits present as of December 31, 2023.

Overdrawn transaction accounts in the amount of $289 thousand and $250 thousand were classified as loans as of December 31, 2023 and 2022, respectively.

Note 10. Advances from Federal Home Loan Bank

As of December 31, 2023 and 2022, the Company did not have any outstanding advances from the Federal Home Loan Bank (FHLB). As collateral, the Bank has pledged first mortgage loans on one to four family residential loans aggregating $179.5 million at December 31, 2023. In addition, the Company's Federal Home Loan Bank stock is pledged to secure borrowings.

Note 11. Subordinated Debt

On March 11, 2022, the Company issued subordinated notes with several purchasers in the amount of $25 million. The subordinated notes are 10-year fixed-to-floating rate instruments with principal payable at maturity on March 15, 2032. The subordinated notes bear a fixed rate of 4.25 percent with semi-annual interest payments for the first five years. For the remaining term, the rate is a floating rate plus 290 basis points with quarterly interest payments. As of December 31, 2023, the balance outstanding on the subordinated notes was $25 million, net of debt issuance costs.

Note 12. Lease Commitments

Rental expense recorded under leases for the years ended December 31, 2023 and 2022 was $144 thousand and $143 thousand, respectively, and is recorded in other operating expenses within the consolidated statements of income.

The weighted average remaining lease term for the years ending December 31, 2023 and 2022 was 4.08 years and 5.08 years, respectively, and the weighted average discount rate used was 3.35%. The following table shows future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2023 are as follow:

(Dollars in thousands)	Amount
2024	$ 90
2025	90
2026	90
2027	90
2028 and thereafter	8
Total undiscounted lease payments	368
Less effect of discounting	(50)
Present value of estimated lease payments (lease liability)	$ 318

Note 13. Stock Options

The Company entered into a stock option agreement with two entities that are controlled by several major shareholders of the Company that provides for the purchase of shares of common stock at a price of $2.64 per share.

As of December 31, 2023 and 2022, there were 75,402 and 79,602 options outstanding, respectively. As of December 31, 2023, all of the outstanding options were exercisable. None of the options outstanding at December 31, 2023 have an expiration date. The aggregate intrinsic value of these options was $2.6 million and $2.7 million at December 31, 2023 and 2022, respectively. During 2023, 4,200 options were exercised, and during 2022, no options were exercised.

Note 13. Stock Options, Continued

A summary of the status of the Stock Option Plan as of December 31, 2023 and changes during the period is presented below:

	2023	
	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	79,602	$ 2.64
Granted	-	$ -
Exercised	4,200	$ 2.64
Forfeited	-	$ -
Outstanding at end of year	75,402	$ 2.64
Options exercisable at year-end	75,402	$ 2.64

As of December 31, 2023, there were no shares available to grant based on the original plan agreement.

A summary of the status of the Stock Option Plan as of December 31, 2022 and changes during the period is presented below:

	2022	
	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	79,602	$ 2.64
Granted	-	$ -
Exercised	-	$ -
Forfeited	-	$ -
Outstanding at end of year	79,602	$ 2.64
Options exercisable at year-end	79,602	$ 2.64

As of December 31, 2022, there were no shares available to grant based on the original plan agreement.

Note 14. Earnings Per Share

Earnings per share - basic is computed by dividing net income by the weighted average number of common shares outstanding. Earnings per share - diluted is computed by dividing net income by the weighted average number of common shares outstanding and dilutive common share equivalents using the treasury stock method. Dilutive common share equivalents include common shares issuable upon exercise of outstanding stock options. Unallocated common shares held by the employee retirement and stock ownership plan are excluded from the weighted average number of common shares outstanding.

(Dollars in thousands, except share and per share amounts)	2023	2022
Basic earnings per common share:		
Net income available to common shareholders	$ 11,166	$ 7,356
Basic average common shares outstanding	1,970,400	1,968,755
Basic earnings per common share	$ 5.67	$ 3.74
Diluted earnings per common share:		
Net income available to common shareholders	$ 11,166	$ 7,356
Basic average common shares outstanding	1,970,400	1,968,755
Incremental shares from assumed conversions:		
Stock options	70,094	73,765
Diluted average common shares outstanding	$ 2,040,494	$ 2,042,520
Diluted earnings per common share	$ 5.47	$ 3.60

Note 15. Capital Requirements and 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 material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk-weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum ratios (set forth in the table below) of Tier 1, Common Equity Tier 1 (CET1), and total capital as a percentage of assets and off-balance-sheet exposures, adjusted for risk-weights ranging from 0% to 150%. Tier 1 capital of the Bank consists of common stockholders' equity, excluding the unrealized gain or loss on securities available-for-sale, minus certain intangible assets, while CET1 is comprised of Tier 1 capital, adjusted for certain regulatory deductions and limitations. Tier 2 capital consists of the allowance for credit losses subject to certain limitations. Total capital for purposes of computing the capital ratios consists of the sum of Tier 1 and Tier 2 capital.

Note 15. Capital Requirements and Regulatory Matters, Continued

The Bank is also required to maintain capital at a minimum level based on average assets (as defined), which is known as the leverage ratio. Only the strongest institutions are allowed to maintain capital at the minimum requirement. All others are subject to maintaining ratios 1% to 2% above the minimum.

Effective March 31, 2015, quantitative measures established by applicable regulatory standards, including the newly implemented Basel III revised capital adequacy standards and relevant provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd Frank Act”), require the Bank to maintain (i) a minimum ratio of Tier 1 capital to average total assets, after certain adjustments, of 4.00%, (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of 6.00%, (iii) a minimum ratio of total-capital to risk-weighted assets of 8.00% and (iv) a minimum ratio of CET1 to risk-weighted assets of 4.50%. A “well-capitalized” institution must generally maintain capital ratios 2% higher than the minimum guidelines.

In order to avoid restrictions on capital distributions or discretionary bonus payments to executives, the Bank is also required to maintain a “capital conservation buffer” in addition to its minimum risk-based capital requirements. This buffer is required to consist solely of CET1, but the buffer applies to all three risk-based measurements (CET1, Tier 1 and total capital). The capital conservation buffer was phased in incrementally over time, beginning January 1, 2016 at 0.625% and becoming fully effective on January 1, 2019, and ultimately consisting of an additional amount of Tier 1 capital equal to 2.5% of risk-weighted assets.

As of December 31, 2023, the most recent notifications from the Bank’s primary regulator categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events that management believes have changed the Bank’s categories.

Note 15. Capital Requirements and Regulatory Matters, Continued

The following table summarizes the capital amounts and ratios of the Bank and the regulatory minimum requirements at December 31, 2023 and 2022:

(Dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
December 31, 2023						
The Bank						
Total capital (to risk weighted assets)	$ 93,528	16.11%	$ 46,435	8.00%	$ 58,044	10.00%
Tier 1 capital (to risk weighted assets)	86,430	14.89%	34,826	6.00%	46,435	8.00%
Tier 1 capital (to average assets)	86,430	9.37%	36,886	4.00%	46,107	5.00%
Common Equity Tier 1 Capital (to risk-weighted assets)	86,430	14.89%	26,120	4.50%	37,728	6.50%

(Dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
December 31, 2022						
The Bank						
Total capital (to risk weighted assets)	$ 80,880	14.20%	$ 45,572	8.00%	$ 56,965	10.00%
Tier 1 capital (to risk weighted assets)	75,982	13.34%	34,179	6.00%	45,572	8.00%
Tier 1 capital (to average assets)	75,982	7.78%	39,078	4.00%	48,847	5.00%
Common Equity Tier 1 Capital (to risk-weighted assets)	75,982	13.34%	25,634	4.50%	37,028	6.50%

Note 16. Restrictions on Dividends, Loans, and Advances

The ability of the Company to pay cash dividends to shareholders is dependent on its ability to receive cash, in the form of dividends from the Bank. South Carolina banking regulations restrict the amount of dividends that can be paid to shareholders. All of the Bank's dividends to the parent company are payable only from the retained earnings of the Bank. At December 31, 2023, the Bank's retained earnings were $64.6 million. The Bank is authorized to pay cash dividends up to 100% of net income in any calendar year without obtaining the prior approval of the Commissioner of Banking provided that the Bank received a composite rating of one or two at the last Federal or State regulatory examination. Under Federal Reserve Board regulations, the amounts of loans or advances from the Bank to the parent company are also restricted.

Note 17. Employee Retirement and Stock Ownership Plan

The Company sponsors an employee retirement and stock ownership plan. Employees eligible for the Company stock component of the KSOP plan include all employees who work at least 1,000 hours during the initial twelve consecutive months of employment, or any plan year beginning after the date of employment. The Company periodically makes discretionary contributions to the KSOP. For the years ended December 31, 2023 and 2022, the Company contributed $99 thousand and $148 thousand to the KSOP, respectively.

Note 17. Employee Retirement and Stock Ownership Plan, Continued

Shares of the Company held by the KSOP are as follows at December 31:

	2023	2022
Allocated shares	85,531	85,691
Shares released for allocation	-	3
Unreleased shares	-	(163)
	85,531	85,531

Note 18. Income Taxes

Income tax expense is summarized as follows for the years ended December 31:

(Dollars in thousands)	2023	2022
Current income tax expense:		
Federal	$ 2,795	$ 1,586
State	(31)	174
Total current	2,764	1,760
Deferred income tax expense	142	145
Income tax expense	$ 2,906	$ 1,905

Note 18. Income Taxes, Continued

The components of the net deferred tax asset were as follows as of December 31:

(Dollars in thousands)	2023	2022
Deferred tax assets:		
Other real estate owned	$ 69	$ 48
Allowance for credit losses	1,239	1,029
Allowance for unfunded commitments	252	-
Interest on nonaccrual loans	14	18
Reserve for contingencies	28	21
Unrealized loss on securities available-for-sale	2,968	3,446
Impairment of fixed assets	124	124
Unearned income	10	21
Net operating losses	198	148
Other	209	-
Gross deferred tax assets	5,111	4,855
Valuation allowance	196	144
Net deferred tax assets	4,915	4,711
Deferred tax liabilities:		
Accumulated depreciation	599	438
Goodwill	515	240
Mark-to-market purchase accounting	182	211
Deferred loan costs	198	185
Deferred gain on like kind exchange	244	244
Other	22	12
Total deferred tax liabilities	1,760	1,330
Net deferred tax asset	$ 3,155	$ 3,381

Tax returns for 2020 and subsequent years are subject to examination by taxing authorities.

Deferred tax assets represent the future tax benefit of deductible differences and, if it is more likely than not that a tax asset will not be realized, a valuation allowance is required to reduce the recorded deferred tax assets to net realizable value. As of December 31, 2023 and 2022, management has recorded a valuation allowance of approximately $196 and $144 thousand, respectively. The valuation allowance is associated with South Carolina net operating losses at the Holding Company. Management determined that it is more likely than not that the remaining deferred tax asset at December 31, 2023 and 2022 will be realized and, accordingly, did not establish a valuation allowance on those assets.

The Company has state net operating losses of $5.0 million for the year ended December 31, 2023. These state losses begin to expire in the year 2024.

Note 18. Income Taxes, Continued

A reconciliation between the income tax expense and the amount computed by applying the Federal statutory rate of 21% to income before income taxes follows for the years ended December 31:

(Dollars in thousands)	2023	2022
Tax expense at statutory rate	$ 2,955	$ 1,945
State income tax, net of federal income tax benefit	(24)	137
Tax-exempt interest income	(180)	(141)
Nondeductible interest expense to carry tax-exempt instruments	13	1
Change in valuation allowance	52	48
Meals and entertainment	56	-
Other, net	34	(85)
Total	$ 2,906	$ 1,905

The Company has analyzed the tax positions taken or expected to be taken in its tax returns and concluded it has no liability related to uncertain tax positions in accordance with ASC Topic 740.

Note 19. Fair Value of Financial Instruments

Generally accepted accounting principles (GAAP) provide a framework for measuring and disclosing fair value that requires disclosures about the fair value of assets and liabilities recognized in the balance sheet, whether the measurements are made on a recurring basis (for example, available-for-sale investment securities) or on a nonrecurring basis (for example, individually evaluated loans).

Fair value is defined as the exchange in price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Company utilizes fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of the lower of cost or market accounting or the writing down of individual assets.

The following methods and assumptions were used to estimate the fair value of significant financial instruments:

Note 19. Fair Value of Financial Instruments, Continued

Fair value hierarchy:

The Company groups assets and liabilities 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 the fair value. These levels are:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models and similar techniques.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

Investment Securities Available-for-Sale - Investment securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange such as the New York Stock Exchange, Treasury securities that are traded by dealers or brokers in active over-the counter markets and money market funds. Level 2 securities include mortgage backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Individually Evaluated Loans - The Bank has identified individually evaluated loans as those that are collateral dependent with fair value considerations carrying a recorded investment less the applicable reserve allocation. The estimated fair value of collateral dependent loans is based on the appraised fair value of the collateral, less estimated cost to sell. Individually evaluated loans are classified within level 3 of the fair value hierarchy. The Bank considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral securing individually evaluated loans are obtained when the loan is determined to be collateral dependent and subsequently, as deemed necessary, according to Bank policy. Appraisers are selected from the list of approved appraisers maintained by Management. Appraisals are only obtained from independent licensed appraisers following Uniform Standards of Professional Appraisal Practice.

Note 19. Fair Value of Financial Instruments, Continued

Fair value hierarchy, continued:

Other Real Estate Owned - Foreclosed assets are adjusted to fair value upon transfer of the loans to other real estate owned. Real estate acquired in settlement of loans is recorded initially at estimated fair value of the property less estimated selling costs at the date of foreclosure. The initial recorded value may be subsequently reduced by additional allowances, which are charges to earnings if the estimated fair value of the property less estimated selling costs declines below the initial recorded value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company recorded the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as nonrecurring Level 3.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy.

	December 31, 2023			
(Dollars in thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**
Government-sponsored enterprises	$ 54,295	$ -	$ 54,295	$ -
Mortgage backed securities	80,823	-	80,823	-
Obligations of state and local governments	36,015	-	36,015	-
U.S. Treasuries	32,590	-	32,590	-
Total	$ 203,723	$ -	$ 203,723	$ -

	December 31, 2022			
(Dollars in thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**
Government-sponsored enterprises	$ 45,205	$ -	$ 45,205	$ -
Mortgage backed securities	84,091	-	84,091	-
Obligations of state and local governments	39,497	-	39,497	-
U.S. Treasuries	32,149	-	32,149	-
Total	$ 200,942	$ -	$ 200,942	$ -

Note 19. Fair Value of Financial Instruments, Continued

Fair value hierarchy, continued:

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents the assets and liabilities carried on the balance sheet by caption and by level within the valuation hierarchy described above for which a nonrecurring change in fair value has been recorded as of December 31, 2023 and 2022.

	December 31, 2023			
(Dollars in thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**
Other real estate owned	$ 1,090	$ -	$ -	$ 1,090
Individually evaluated loans, net specific reserve:				
Real estate - commercial	4	-	-	4
Real estate - residential	117	-	-	117
Commercial and industrial	4	-	-	4
Consumer and other	119	-	-	119
Total individually evaluated loans, net specific reserve	244	-	-	244
Total	$ 1,334	$ -	$ -	$ 1,334

	December 31, 2022			
(Dollars in thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**
Other real estate owned	$ 609	$ -	$ -	$ 609
Impaired loans, net specific reserve:				
Real estate - residential	663	-	-	663
Commercial and industrial	77	-	-	77
Consumer and other	5	-	-	5
Total impaired loans, net specific reserve	745	-	-	745
Total	$ 1,354	$ -	$ -	$ 1,354

Note 19. Fair Value of Financial Instruments, Continued

Fair value hierarchy, continued:

For Level 3 assets and liabilities measured at fair value on a recurring or non-recurring basis as of December 31, 2023 and December 31, 2022, the significant unobservable inputs used in the fair value measurements were as follows:

	Fair Value as of December 31, 2023	Valuation Technique	Significant Observable Inputs	Significant Unobservable Inputs
Individually evaluated loans, net of specific reserve	$ 244	Appraised Value	Appraisals and/or sales of comparable properties	Appraisals discounted 15% for sales commissions and other holding cost
Other real estate owned	$ 1,090	Appraised Value/Comparison Sales/Other estimates	Appraisals and/or sales of comparable properties	Appraisals discounted 15% for sales commissions and other holding cost

	Fair Value as of December 31, 2022	Valuation Technique	Significant Observable Inputs	Significant Unobservable Inputs
Impaired loans, net of specific reserve	$ 745	Appraised Value	Appraisals and/or sales of comparable properties	Appraisals discounted 15% for sales commissions and other holding cost
Other real estate owned	$ 609	Appraised Value/Comparison Sales/Other estimates	Appraisals and/or sales of comparable properties	Appraisals discounted 15% for sales commissions and other holding cost

The Company has no liabilities measured at fair value on a non-recurring basis.

Note 19. Fair Value of Financial Instruments, Continued

Fair value hierarchy, continued:

The following table includes the estimated fair value of the Company's financial assets and financial liabilities. The methodologies for estimating the fair value of financial assets and financial liabilities measured on a recurring and non-recurring basis are discussed above. The methodologies for estimating the fair value for other financial assets and financial liabilities are discussed below. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgement is required to interpret market data in order to develop the estimates of fair value. Accordingly, the estimates presented below are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation techniques may have a material effect on the estimated fair value amounts at December 31, 2023 and 2022.

	December 31, 2023				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial Assets:					
Cash and cash equivalents	$ 139,541	$ 139,541	$ 139,541	$ -	$ -
Securities available-for-sale	203,723	203,723	-	203,723	-
Nonmarketable equity securities	1,347	1,347	-	-	1,347
Loans held for investment, net	538,164	531,022	-	-	531,022
Financial Liabilities:					
Deposits	853,131	751,673	-	751,673	-
Securities sold under agreement to repurchase	3,343	3,343	-	3,343	-
Subordinated debentures	24,513	24,207	-	24,207	-

	December 31, 2022				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial Assets:					
Cash and cash equivalents	$ 205,818	$ 205,818	$ 205,818	$ -	$ -
Securities available-for-sale	200,942	200,942	-	200,942	-
Nonmarketable equity securities	1,138	1,138	-	-	1,138
Loans held for investment, net	511,777	497,348	-	-	497,348
Financial Liabilities:					
Deposits	896,963	766,601	-	766,601	-
Securities sold under agreement to repurchase	5,838	5,838	-	5,838	-
Subordinated debentures	24,453	24,147	-	24,147	-
Junior Subordinated debentures	3,093	3,093	-	3,093	-

Note 19. Fair Value of Financial Instruments, Continued

Cash and cash equivalents:

The carrying amount approximates fair value for these instruments.

Securities available-for-sale:

The fair value of investment securities are generally determined using widely accepted valuation techniques including market prices, matrix pricing, and broker-quote-based applications.

Loans held for investment:

Fair values are estimated for portfolios of loans with similar financial characteristics if collateral-dependent. Loans are segregated by type. The fair value of performing loans is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect observable market information incorporating the credit, liquidity, yield and other risks inherent in the loan. The estimate of maturity is based upon the Company's historical experience with repayments for each loan classification, modified, as required, by an estimate of the effect of the current economic and lending conditions.

Fair value for significant non-performing loans is generally based upon recent external appraisals. If appraisals are not available, estimated cash flows are discounted using a rate commensurate with the risk associated with the estimated cash flows. Assumptions regarding credit risk, cash flows and discounted rates are judgmentally determined using available market information and specific borrower information.

Nonmarketable equity securities:

Nonmarketable equity securities are carried at original cost basis, as cost approximates fair value and there is no ready market for such investments.

Deposits:

The fair value of deposits with no stated maturity date, such as noninterest-bearing demand deposits, savings and money market and checking accounts, is based on the discounted value of estimated cash flows. The fair value of time deposits is based upon the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

Securities sold under agreement to repurchase:

The fair value of securities sold under agreements to repurchase generally mature within 31 days and the stated balance approximates their fair value.

Note 19. Fair Value of Financial Instruments, Continued

Subordinated debentures:

The fair value of subordinated debentures is estimated by using discounted cash flow analyses based on incremental borrowing rates for similar types of instruments these are classified as Level 2.

Note 20. Commitments and Contingencies

The Company is subject to claims and lawsuits which arise primarily in the ordinary course of business. Management is not aware of any legal proceedings, which would have a material adverse effect on the financial position or operating results of the Company.

Note 21. Unused Lines of Credit

At December 31, 2023, the Company had unused lines of credit to purchase federal funds from other financial institutions totaling $47.5 million. Under the terms of the agreements, the Company may borrow at mutually agreed- upon rates for one to fifteen day periods. The Company also has a line of credit to borrow funds from the Federal Home Loan Bank which totaled $120.1 million as of December 31, 2023. As of December 31, 2023, the Bank had not borrowed on this line.

Note 22. Financial Instruments With Off-Balance Sheet Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

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

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

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

Note 22. Financial Instruments With Off-Balance Sheet Risk, Continued

Collateral held for commitments to extend credit and standby letters of credit varies but may include accounts receivable, inventory, property, plant, equipment, and income-producing commercial properties. The following table summarizes the Company's off-balance-sheet financial instruments whose contract amounts represent credit risk as of December 31:

(Dollars in thousands)	**2023**	**2022**
Commitments to extend credit	$ 57,906	$ 51,612
Standby letters of credit	1,236	1,619

Note 23. Related Party Transactions

Certain parties (principally certain directors and shareholders of the Company, their immediate families and business interests) were loan customers of and had other transactions in the normal course of business with the Bank. Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than normal risk of collectability.

The following table summarizes related party loans:

(Dollars in thousands)	**2023**	**2022**
Balance at the beginning of the year	$ 4,138	$ 2,974
New loans or advances	775	3,085
Repayments	(770)	(1,921)
Balance at the end of the year	$ 4,143	$ 4,138

Deposits by directors including their affiliates and executive officers totaled approximately $9.1 million and $10.1 million at December 31, 2023 and 2022, respectively.

Note 24. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date.

The Company has disclosed deposit concentrations in Note 9. In relation to current economic conditions, management has monitored deposit concentrations through the date the financial statements were issued noting no significant changes to concentrations. In addition, there has been no significant deposit deterioration through the date the financial statements were issued.

The Company has disclosed its investment portfolio position in Note 4. There has been no significant deterioration in the investment portfolio through the date the consolidated financial statements were issued.