Primary Bank

Consolidated Financial Statements

Years Ended December 31, 2023 and 2022

Table of Contents

Independent Auditor's Report

To the Audit Committee of Primary Bank:

Opinion

We have audited the consolidated financial statements of Primary Bank and subsidiary (the Bank), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended, 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 Bank as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Bank changed its method of accounting for credit losses in 2023 due to the adoption of Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 326, *Financial Instruments – Credit Losses ("ASC 326")*. The Bank 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.

Basis for Opinion

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

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

Wolf & Company, P.C.

Boston, Massachusetts
April 3, 2024

Primary Bank

Consolidated Balance Sheets

December 31, 2023 and 2022

	2023	2022
	(in thousands except share data)	
Assets		
Cash and due from banks	$ 3,612	$ 3,716
Interest-bearing deposits	87,715	61,365
Total cash and cash equivalents	91,327	65,081
Securities held to maturity (fair value of $7,419 in 2023 and $8,000 in 2022)	9,246	9,810
Federal Home Loan Bank stock, at cost	345	735
Loans, net of allowance for credit losses of $6,036 in 2023 and $7,111 in 2022	584,249	570,168
Premises and equipment, net	953	1,105
Operating lease right-of-use assets	1,977	1,714
Accrued interest receivable	2,057	1,486
Deferred tax asset	1,529	1,508
Other assets	2,313	2,584
	$ 693,996	$ 654,191
Liabilities and Stockholders' Equity		
Deposits	$ 600,781	$ 564,578
Borrowings	-	10,000
Operating lease liabilities	2,021	1,749
Accrued expenses and other liabilities	2,930	1,558
Total liabilities	605,732	577,885
Commitments and contingencies (Notes 6 and 11)		
Stockholders' equity:		
Common stock, $0.01 par value; 10,000,000 shares authorized; 4,658,277 shares issued and outstanding at December 31, 2023; 4,597,447 shares issued and outstanding at December 31, 2022;	47	46
Additional paid-in capital	56,832	55,054
Retained earnings	31,641	21,206
Treasury Stock, at cost, 12,800 shares at December 31, 2023	(256)	-
Total stockholders' equity	88,264	76,306
	$ 693,996	$ 654,191

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

Primary Bank

Consolidated Statements of Operations

Years Ended December 31, 2023 and 2022

	2023	2022
	(in thousands)	
Interest and dividend income:		
Interest and fees on loans	$ 32,364	$ 25,363
Fee income on PPP loans	-	352
Interest on securities	266	224
Interest on short-term investments	3,948	1,896
Total interest income	36,578	27,835
Interest expense:		
Interest on deposits	9,394	2,501
Interest on borrowings	35	3
Total interest expense	9,429	2,504
Net interest income	27,149	25,331
Provision for credit losses	735	1,402
Net interest income, after provision for loan losses	26,414	23,929
Other income	600	618
Operating expenses:		
Salaries and employee benefits	8,886	6,041
Occupancy and equipment	797	801
Data processing	1,014	976
Marketing	270	212
Professional	536	556
FDIC insurance	285	249
Other general and administrative	1,492	1,078
Total operating expenses	13,280	9,913
Income before income taxes	13,734	14,634
Income tax provision	3,733	3,974
Net income	$ 10,001	$ 10,660
Earnings per share		
Basic earnings per share	$2.15	$2.34
Weighted-average shares outstanding	4,642,611	4,546,170
Diluted earnings per share	$2.09	$2.23
Weighted-average diluted shares outstanding	4,775,871	4,789,301

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

Primary Bank

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2023 and 2022

	Shares of Common Stock	Common Stock	Shares of Treasury Stock	Treasury Stock (in thousands)	Additional Paid-In Capital	Retained Earnings	Total
Balance at December 31, 2021	4,495,302	$ 45	-	$ -	$ 53,255	$ 10,546	$ 63,846
Net income	-	-	-	-	-	10,660	10,660
Stock-based compensation - board	-	-	-	-	187	-	187
Stock-based compensation - employees	-	-	-	-	224	-	224
Common stock repurchased	(200,000)	(2)	-	-	(3,428)	-	(3,430)
Issuance of common stock	207,395	2	-	-	3,558	-	3,560
Issuance of common stock upon exercise of options	38,500	-	-	-	696	-	696
Issuance of common stock upon exercise of warrants	56,250	1	-	-	562	-	563
Balance at December 31, 2022	4,597,447	$ 46	-	$ -	$ 55,054	$ 21,206	$ 76,306
Net income	-	-	-	-	-	10,001	10,001
Cumulative change in accounting principle (1)	-	-	-	-	-	434	434
Stock-based compensation - board	-	-	-	-	362	-	362
Stock-based compensation - employees	-	-	-	-	396	-	396
Issuance of common stock	5,005	-	-	-	118	-	118
Issuance of common stock upon exercise of options	31,375	-	-	-	547	-	547
Purchases of common stock	11,000	-	-	-	221	-	221
Issuance of common stock upon exercise of warrants	13,450	1	-	-	134	-	135
Purchase of treasury stock	-	-	(12,800)	(256)	-	-	(256)
Balance at December 31, 2023	4,658,277	$ 47	(12,800)	$ (256)	$ 56,832	$ 31,641	$ 88,264

(1) Represents adjustment needed to reflect the cumulative impact on retained earnings pursuant to the Bank's adoption of Accounting Standards Update ("ASU") 2016-13. The adjustment presented includes an increase in retained earnings of $1,051,000 ($763,000 net of tax) attributable to the change in accounting methodology for estimating the allowance for credit losses related to loans and a decrease of $457,000 ($329,000 net of tax) related to the reserve for off-balance sheet credit exposures resulting the Bank's adoption of the standard. Amount shown in the table above is presented net of tax.

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

Primary Bank

Consolidated Statements of Cash Flows

Years Ended December 31, 2023 and 2022

	2023	2022
	(in thousands)	
Cash flows from operating activities:		
Net income	$ 10,001	$ 10,660
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Provision for credit losses	735	1,402
Accretion of net deferred loan fees/costs	177	(93)
Share-based compensation expense	758	411
Net amortization of premiums on securities	10	16
Depreciation and amortization	229	250
Deferred income tax benefit	(181)	(252)
Net change in:		
Accrued interest receivable	(571)	(363)
Other, net	1,195	256
Net cash provided by operating activities	12,353	12,287
Cash flows from investing activities:		
Paydowns of securities held to maturity	554	911
Purchase (redemption) of Federal Home Loan Bank stock	390	(616)
Loan originations, net of principal repayments	(13,942)	(73,543)
Additions to premises and equipment	(77)	(36)
Net cash used in investing activities	(13,075)	(73,284)
Cash flows from financing activities:		
Net increase (decrease) in deposits	5,471	(39,234)
Net change in brokered deposits	30,732	-
Net change in short-term borrowings	(10,000)	10,000
Proceeds from common stock warrant exercises	135	563
Proceeds from common stock issued	886	4,257
Common stock repurchased	-	(3,430)
Teasury stock repurchased	(256)	-
Net cash provided by (used) financing activities	26,968	(27,844)
Net change in cash and cash equivalents	26,246	(88,841)
Cash and cash equivalents at beginning of period	65,081	164,039
Cash and cash equivalents at end of period	$ 91,327	$ 65,081
Supplementary information:		
Interest paid	$ 8,711	$ 2,384
Income taxes paid	4,620	4,025
Right-of-use assets obtained in exchange for lease liabilities	551	-

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and basis of presentation

Primary Bank (the "Bank") is organized under the laws of the State of New Hampshire and commenced operations on July 28, 2015. Through a subscription offering, the Bank issued 3,046,536 shares of common stock at a price of $10 per share. During 2020, through a subsequent subscription offering, the Bank issued 1,333,334 shares of common stock at a price of $15 per share.

Principles of consolidation

The consolidated financial statements include the accounts of the Bank and its wholly-owned subsidiary, Primary Holdings, LLC. All significant intercompany balances and transactions have been eliminated in consolidation.

Business

The Bank provides a variety of financial services to small and medium-sized businesses, professionals, municipalities and not-for-profit organizations through its offices in Bedford, Manchester, Derry, and Nashua, New Hampshire. The Manchester office opened for business in January 2019. In February 2020, the Bank opened an office in Derry, New Hampshire and in December 2021, the Bank opened the Nashua, New Hampshire office. Its primary deposit products are savings, checking, money market and term certificate accounts, and its primary lending products are commercial business and commercial mortgage loans.

Significant group concentrations of credit risk

Most of the Bank's lending activities are with customers located within New Hampshire. The Bank does not have any significant concentrations to any one industry or customer.

Earnings per share

Basic net income per share is computed by dividing the net income for the period by the weighted-average number of shares outstanding during the period. Basic and diluted net income per share are considered to be the same for periods in which a net loss is reported, as the inclusion of potential common shares such as warrants and options would be antidilutive. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Bank relate to outstanding stock options and common stock warrants.

Use of estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses and the valuation of deferred tax assets.

Reclassification

Certain amounts in the prior year consolidated financial statements have been reclassified to conform to the current year presentation, where necessary.

Fair Value Hierarchy

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

Level 1 – Valuation is based on quoted prices in active markets for identical assets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets.

Level 2 – Valuation is based on observable inputs other than Level 1 prices such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets.

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

Cash and cash equivalents

Cash and cash equivalents include cash, balances due from banks and interest-bearing deposits on an overnight basis. The Bank may from time to time have deposits in financial institutions which exceed the federally insured limits. The Bank has not experienced any losses in said amounts and does not believe it is exposed to any significant credit risk on this cash.

Securities held to maturity

Debt securities that management has the positive intent and ability to hold to maturity are classified as “held to maturity” and recorded at amortized cost.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

The Bank measures expected credit losses on held to maturity securities on a collective basis by major security type in accordance with the Current Expected Credit Losses (“CECL”) methodology using discounted cash flow analysis and credit losses are recognized as part of the allowance for credit losses.

Debt securities are placed on nonaccrual status at the time any principal or interest payments become 90 days delinquent. Interest accrued but not received for a security placed on nonaccrual is reversed against interest income.

Federal Home Loan Bank Stock

The Bank, as a member of the Federal Home Loan Bank (“FHLB”) system, is required to maintain an investment in capital stock of the FHLB. Based on redemption provisions, the stock has no quoted market value and is carried at cost. At its discretion, the FHLB may declare dividends on the stock. The Bank reviews for impairment based on the ultimate recoverability of the cost basis in the stock. As of December 31, 2023 and 2022, no impairment has been recognized.

Accrued Interest Receivable

The Bank 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 Bank believes the collection of interest is doubtful. The Bank has concluded that this policy results in the timely reversal of uncollectible interest.

Loans

The Bank’s loan portfolio includes segments related to 1-4 and multi-family real estate, commercial owner and non-owner occupied real estate, construction, and commercial business loans.

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

The accrual of interest on all loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Credit Losses-Loans

Prior to January 1, 2023, the allowance for loan losses was based on an incurred loss methodology and represented the estimate of the risk of loss inherent in the loan portfolio as of the balance sheet date. Effective January 1, 2023, the allowance for credit losses is based on CECL methodology.

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. Such allowance is based on the credit losses expected to arise over the life of the asset (contractual term). The allowance for credit losses on loans is established through a provision for credit losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for credit losses is evaluated on a regular basis by management. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

Management estimates the allowance for credit losses on loans using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Qualitative and quantitative adjustments related to current conditions and the reasonable and supportable forecast period consider all of the following: comparable peer loan loss experience, the current and forecasted direction of national and local economic conditions, other external factors such as competition, legal and regulatory requirements, changes in lending policies and underwriting practices, changes in loan portfolio volume and nature, change in problem loans, changes in the loan review system, changes in the value of underlying collateral for collateral-dependent loans, existence and effect of any concentration of credit and changes in the level of such concentrations, and other relevant internal factors. Such forecasted information includes GDP growth, Bureau of Labor statistics unemployment rates, interest rates, economic conditions and forecast, internal past due loans and non-confirming asset reports, and comparable peer experience. There were no changes in the Bank's policies or methodology since adoption of CECL in accordance with Accounting Standards Codification ("ASC") on January 1, 2023.

Primary Bank

The loan loss estimation process involves procedures to appropriately consider the unique characteristics of loan portfolio segments, which are disaggregated by call code. For each of these pools the Bank collects historical loss data, dating back to March 2015, from a selection of peer banks and applies the annual historical loss rate over the estimated remaining average life of the loan portfolio segment. The average remaining life of a loan portfolio segment is adjusted for estimated prepayment and curtailment expectations, the modeling for estimated prepayments speeds and curtailment rates is based on a combination historical internal estimates and market estimates. The quantitative component of the allowance for credit losses on loans is model-based and utilizes a forward-looking macroeconomic forecast. The Bank uses a Weighted Average Remaining Maturity (“WARM”) method, incorporating historical loss data based on statistically derived economic variable loss drivers, to estimate expected credit losses. This process includes estimates which involve modeling loss projections attributable to existing loan balances, and considering historical experience, current conditions, and future expectations for segments of loans over a reasonable and supportable forecast period. The historical information is collected from a selection of peer banks and is derived from a combination of recessionary and non-recessionary performance periods for which data is available.

The qualitative factors are determined based on the various risk characteristics of each loan segment. Risk characteristics relevant to each portfolio segment are as follows:

1-4 and multi-family real estate – The Bank generally does not originate loans with a loan-to-value ratio greater than 80 percent and does not generally grant loans that would be classified as subprime upon origination. Loans in this segment are generally collateralized by non-owner occupied real estate. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this segment.

Commercial owner and non-owner occupied real estate – Loans in this segment are primarily income-producing properties. The underlying cash flows generated by the properties can be adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, could have an effect on the credit quality in this segment. Management obtains rent rolls for non-owner occupied properties or financial information for owner-occupied properties annually to monitor the cash flows of these loans.

Construction loans – Loans in this segment primarily relate to speculative real estate development loans for which payment will be derived from sale of the properties. In addition, the Bank also grants construction loans for commercial properties that will be leased to related and/or unrelated commercial tenants. Credit risk is affected by cost overruns, time to sell at an adequate price, and market conditions.

Commercial business loans – Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer spending, could have an effect on the credit quality in this segment.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. For loans that are collateral dependent, that is, when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

Allowance for Credit Losses – Off-Balance Sheet Credit Exposures

The Bank has off-balance sheet financial instruments, which include commitments to extend credit, standby letters of credit and commercial letters of credit. The Bank estimates expected credit losses over the contractual period in which the Bank is exposed to credit risk via a contractual obligation to extend credit unless that obligation is unconditionally cancellable by the Bank. The Bank's allowance for credit losses on off-balance sheet credit exposures is recognized as a liability in accrued expenses and other liabilities on the consolidated balance sheets, with adjustments to the reserve recognized in the provision for credit losses in the consolidated statements of net income. 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. Such forecasted information includes GDP growth, Bureau of Labor statistics unemployment rates, interest rates, economic conditions and forecast, internal past due loans and non-confirming asset reports, and comparable peer experience.

Premises and equipment

Leasehold improvements and equipment are carried at cost, less accumulated depreciation and amortization computed on the straight-line method over the estimated useful lives of the assets, or the original term of the lease, if shorter.

Leases

The Bank determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets and operating lease liabilities in our consolidated balance sheets.

ROU assets represent the Bank's right to use an underlying asset for the lease term and lease liabilities represent the Bank's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the Bank's leases do not provide an implicit rate, the Bank used an incremental borrowing rate, which is generally the FHLB classic advance rate, based on the information available at commencement date in determining the present value of lease payments. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Bank will exercise that option. For operating leases, lease expense is recognized on a straight-line basis over the lease term.

The Bank elected certain practical expedients upon adoption and therefore did not reassess whether any expired or existing contracts contained leases, did not reassess the lease classification for any expired or existing leases and did not reassess initial direct costs for any existing leases. Additionally, the Bank did not elect the practical expedient to account for lease and non-lease components as one lease component option.

Transfers of financial assets

Transfers of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets.

During the normal course of business, the Bank may transfer a portion of a financial asset, for example, a participation loan. In order to be eligible for sales treatment, the transfer of the portion of the loan must meet the criteria of a participating interest. If it does not meet the criteria of a participating interest, the transfer must be accounted for as a secured borrowing. In order to meet the criteria for a participating interest, all cash flows from the loan must be divided proportionately, the rights of each loan holder must have the same priority, the loan holders must have no recourse to the transferor other than standard representations and warranties and no loan holder has the right to pledge or exchange the entire loan.

Revenue Recognition

The Bank recognizes revenues from contracts with customers when it satisfies its performance obligations. The Bank's performance obligations are generally satisfied as services are rendered and can either be satisfied at a point in time or over time. The majority of the Bank's revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as loans, investment securities, and revenue related to mortgage servicing activities, as these activities are subject to other generally accepted accounting principles ("GAAP").

Revenues for the Bank subject to ASC 606 include customer service fees which is recognized in other income in the consolidated statements of operations. These fees are made up of service charges and fees on deposit accounts that is recognized at a point in time, including non-sufficient funds fees, overdraft charge fees and stop-payment fees. Such revenue is derived from transactional information and is recognized as revenue immediately as the transactions occur or upon providing the service to complete the customer's transaction. Payment is generally received at the time the performance obligations are satisfied.

Marketing

Marketing expenses are charged to earnings when incurred.

Stock-based compensation plan

The Bank measures and recognizes compensation cost relating to share-based payment transactions based on the grant-date fair value of the equity instruments issued which is based on the over-the-counter closing price of the Bank's stock on the grant date. Stock-based compensation is recognized over the period the employee is required to provide services for the award. Reductions in compensation expense associated with forfeited options are accounted for by recognizing forfeitures of awards as they occur. The Bank uses the Black-Scholes option-pricing model to determine the fair value of stock options granted.

Income taxes

Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted accordingly through the provision for income taxes. A valuation allowance is established against deferred tax assets when, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. See Note 9.

Recent accounting pronouncements

On January, 1 2023, the Bank adopted ASU 2016-13 *Financial Instrument – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The Bank adopted CECL using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. Accordingly, a cumulative effect transition adjustment amount to $434,000, net of tax, increased opening balance retained earnings, effective January 1, 2023. Prior periods have not been restated and continue to be presented in accordance with previously applicable GAAP. The transition adjustment includes a reduction of the allowance for credit losses on loans of $1,051,000, and an increase in off-balance sheet unfunded commitments of $457,000.

In March of 2022, the Financial Accounting Standards Board ("FASB") issued ASU 2022-02, *Financial Instruments-Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. The amendments in the ASU eliminate the existing accounting guidance for TDRs by creditors in Subtopic 310-40, Receivables - Troubled Debt Restructurings by Creditors and instead requires that an entity evaluate whether a modification represents a new loan or a continuation of an existing loan. The amendments also enhance disclosure requirements for certain loan refinancing and restructuring by creditors when a borrower is experiencing financial difficulty. All amendments in the ASU are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Bank adopted ASU 2022-02 effective January 1, 2023, on a prospective basis. The adoption of ASU 2022-02 did not have a material impact on the Bank's consolidated balance sheet or statement of operations.

2. RESTRICTIONS ON CASH AND DUE FROM BANKS

Under Regulation D, the Bank is required to maintain average balances with the Federal Reserve Bank. At December 31, 2023 and 2022, there were no required reserve balances.

3. SECURITIES HELD TO MATURITY

The amortized cost and fair value of securities held to maturity, with gross unrealized gains and losses, follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Allowance for Credit Losses
			(in thousands)		
December 31, 2023:					
Debt securities:					
Government-sponsored residential mortgage-backed securities	$ 9,246	$ -	$ (1,843)	$ 7,403	$ -
	$ 9,246	$ -	$ (1,843)	$ 7,403	$ -
December 31, 2022:					
Debt securities:					
Government-sponsored residential mortgage-backed securities	$ 9,810	$ -	$ (1,810)	$ 8,000	$ -
	$ 9,810	$ -	$ (1,810)	$ 8,000	$ -

At December 31, 2023, residential mortgage-backed securities with carrying values of $187,000 were pledged as collateral to the FHLB against borrowing capacity. (See Note 8.)

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2023 follows:

Maturity	Carrying Value	Fair Value
	(in thousands)	
After 1 year through 5 years	$ 344	$ 322
Over 10 years	8,902	7,097
	$ 9,246	$ 7,419

Primary Bank

Information pertaining to securities with gross unrealized losses at December 31, 2023 and as of December 2022, for which the Bank did not deem to be impaired under its prior or current methodology, aggregated by investment category and length of time at individual securities have been in a continuous loss position, follows:

	Less Than 12 Months		Over 12 Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
			(In thousands)			
December 31, 2023						
Debt securities:						
Government-sponsored residential mortgage-backed securities	$ -	$ -	$ 1,843	$ 7,403	$ 1,843	$ 7,403
	$ -	$ -	$ 1,843	$ 7,403	$ 1,843	$ 7,403
December 31, 2022						
Debt securities:						
Government-sponsored residential mortgage-backed securities	$ 34	$ 480	$ 1,776	$ 7,520	$ 1,810	$ 8,000
	$ 34	$ 480	$ 1,776	$ 7,520	$ 1,810	$ 8,000

Management evaluates securities for impairment on at least a quarterly basis, and more frequently with economic or market concerns warrant such evaluation.

At December 31, 2023, 6 debt securities have unrealized losses with aggregate depreciation of 19.9% from the Bank's amortized cost basis.

The unrealized losses on the Bank's investment in U.S. Government -sponsored residential mortgage-backed securities were primarily caused by interest rate risk. These investments are guaranteed by the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the par value of the investment. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Bank does not intend to sell the investments and it is more likely than not that the Bank will not be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Bank does not consider these investments to be impaired at December 31, 2023.

Allowance for Credit Losses – Securities Held to Maturity

Held to maturity securities are guaranteed by government agencies and do not currently have an allowance for credit loss as the Bank determined these securities are either backed by the full faith and credit of the U.S. government and/or there is an unconditional commitment to make interest payments and to return the principal investment in full to investors when a debt security reaches maturity. In assessing the Bank's investments in government-sponsored and U.S. government guaranteed mortgage-backed securities and government-sponsored enterprise obligations, the contractual cash flows of these investments are guaranteed by the respective government-sponsored enterprise FHLMC ("Federal Home Loan Mortgage Corp."), FNMA ("Federal National Mortgage Association"), or FHLB. Accordingly, it is expected that the securities would not be settled at a price less than the par value of the Bank's investments. The Bank will evaluate this position no less than annually, however, certain items which may cause the Bank to change this methodology include legislative changes that remove a government-sponsored enterprise's ability to draw funds from the U.S. government, or legislative changes to housing policy that reduce or eliminate the U.S. government's implicit guarantee on such securities. Any expected credit losses on held to maturity securities would be presented as an allowance for credit loss.

There is no allowance for credit losses for debt securities held to maturity for the year ended December 31, 2023.

Credit Quality Indicators

All of the mortgage-backed securities held by the Bank are issued by the U.S. government and its entities and agencies. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies, and have no history of credit losses. The Bank reviewed the financial strength of these investments and has concluded that the amortized cost remains supported by the expected future cash flows of the securities.

As of December 31, 2023, there are no securities held to maturity on nonaccrual status and there are no securities held to maturity past due 90 days or more and still accruing interest. During the year ended December 31, 2023, the Bank did not recognize any interest income on nonaccrual securities held to maturity.

4. LOANS AND ALLOWANCE FOR CREDIT LOSSES

A summary of the balances of loans follows:

	December 31, 2023	December 31, 2022
	(in thousands)	
1-4 & multi-family real estate	$ 108,280	$ 103,970
Commercial non-owner occupied	158,508	140,852
Commercial owner occupied	170,958	160,066
Construction	33,737	47,665
Commercial business	117,445	123,541
Overdrafts	63	4
Total loans	588,991	576,098
Allowance for credit losses	(6,036)	(7,111)
Deferred loan costs, net	1,294	1,181
Loans, net	$ 584,249	$ 570,168

The Bank has transferred portions of originated commercial real estate and construction loans to participating lenders. The amounts transferred have been accounted for as sales and are therefore not included on the Bank's accompanying consolidated balance sheets. The Bank and participating lenders share ratably in cash flows and any gains or losses that may result from a borrower's lack of compliance with contractual terms of the loans. The Bank continues to service the loans on behalf of the participating lenders and, as such, collects cash payments from the borrowers, remits payments (net of servicing fees) to the participating lenders and disburses required escrow funds to relevant parties. At December 31, 2023 and 2022, the Bank was servicing loans for participants aggregating $39,100,000 and $57,800,000, respectively.

During 2023, the Bank purchased a 1-4 family real estate loan totaling $2,000,000 and the Bank sold non-residential real estate and construction loans aggregating $13,750,000.

The following table illustrates the impact of ASC 326:

	Pre-ASC 326 Adoption December 31, 2022	As Reported Under ASC 326 January 1, 2023	Impact of ASC 326 Adoption
		(In thousands)	
Assets			
Allowance for credit losses on loans	$ (7,111)	$ (6,060)	$ (1,051)
Deferred tax asset	(1,508)	(1,348)	160
Liabilities			
Allowance for credit losses on off-balance sheet credit exposures	-	(457)	457
Equity			
Retained earnings, net of tax	21,206	21,640	434

The following represents the composition of the Bank's provision for credit loss expense for the year ended December 31, 2023 (in thousands):

Loans	$ 516
Off-balance sheet credit exposures	219
Total provision for credit losses	$ 735

Activity in the allowance for credit losses allocated by loan segments for the years ended December 31, 2023 and 2022 follows:

	1-4 & Multi Family	Commerical Non-Owner Occupied	Commerical Owner Occupied	Construction	Commercial Business	Overdrafts	Total
				(In thousands)			
Allowance for credit losses - loans							
Balance at December 31, 2021	$ 901	$ 1,437	$ 1,809	$ 423	$ 1,140	$ -	$ 5,710
Provisions for loan losses	141	300	196	288	476	-	1,401
Loans charged-off	-	-	-	-	-	-	-
Recoveries of loans previously charged-off	-	-	-	-	-	-	-
Balance at December 31, 2022	$ 1,042	$ 1,737	$ 2,005	$ 711	$ 1,616	$ -	$ 7,111
Cumulative effect of change in accounting principle	(127)	(98)	(310)	(376)	(140)	-	(1,051)
Provision (credit) for credit losses	-	(43)	(133)	16	676	-	516
Loans charged-off	-	-	-	-	(540)	-	(540)
Recoveries of loans previously charged-off	-	-	-	-	-	-	-
Balance at December 31, 2023	$ 915	$ 1,596	$ 1,562	$ 351	$ 1,612	$ -	$ 6,036
Allowance for off-balance sheet credit exposures							
Balance at December 31, 2022	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cumulative effect of change in accounting principle	-	-	-	170	287	-	457
Provisions for credit losses	-	-	-	101	118	-	219
Balance at December 31, 2023	$ -	$ -	$ -	$ 271	$ 405	$ -	$ 676

Primary Bank

The decrease in the allowance for credit losses in 2023 was primarily a result of the adoption of CECL, partially offset by the provision for credit losses for loan growth.

The following is a summary of past due and nonaccrual loans at December 31, 2023 and 2022:

	December 31, 2023 (in thousands)				
	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	90 Days or More Past Due and Still Accruing	Loans on Nonaccrual
Construction	$ -	$ 1,112,306	$ 1,112,306	$ -	$ -
Commercial Business	-	2,504,602	2,504,602	-	4,175,329
Total	$ -	$ 3,616,908	$ 3,616,908	$ -	$ 4,175,329

	December 31, 2023 (in thousands)				
	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	90 Days or More Past Due and Still Accruing	Nonaccrual
Commercial Business	$ -	$ 341,462	$ 341,462	$ -	$ 341,462
Total	$ -	$ 341,462	$ 341,462	$ -	$ 341,462

The following table presents information regarding nonaccrual loans:

	Nonaccrual loans with Allowance for Credit Loss	Nonaccrual loans without Allowance for Credit Loss (in thousands)	Total loans on Nonaccrual
Commercial Business	$ 622	$ 3,533	$ 4,175
Total	$ 622	$ 3,533	$ 4,175

The Bank recognized no interest income on nonaccrual loans during the year ended December 31, 2023.

Individually Evaluated Loans

In connection with the adoption of ASU 2016-13, the Bank no longer provides information on impaired loans. A loan is considered individually evaluated when, based on current information and events, the borrower is experiencing financial difficulty and repayment, both principal and interest, is expected to be provided substantially through the operation or sale of the collateral. At December 31, 2023, the Bank has $200,000 in individually evaluated commercial loans, collateralized by business assets, and $422,000 individually evaluated construction loans, collateralized by real estate property.

Modified Loans

Occasionally, the Bank will modify the contractual terms of loans to a borrower experiencing financial difficulties as a way to mitigate loss, proactively work with borrowers in financial difficulty, or to comply with regulations regarding the treatment of certain bankruptcy filing and discharge situations. Loans are designated as modified when, as part of an agreement to modify the original contractual terms of the loan as a result of financial difficulties of the borrower, the Bank grants the borrower a concession on the terms that would not otherwise be considered. Typically, such concessions may consist of a reduction in interest rate to a below market rate taking into account the credit quality of the note, extension of additional credit based on the receipt of adequate collateral, or a deferment or reduction of payments (principal or interest) which materially alters the Bank's position or significantly extends the note's maturity date, such that the present value of cash flows to be received is materially less than those contractually established at the loan's origination.

During the year ended December 31, 2023, one commercial loan with an amortizing cost basis of $1,531,000 was modified to a borrower experiencing financial difficulty. The Bank provided an interest rate reduction to 4.25%, which is a below market rate.

There were no loan modifications to borrowers experiencing financial difficulty during the year ended December 31, 2022.

Pre ASC 326 CECL adoption impaired loan information as of December 31, 2022, is as follows:

	December 31, 2022		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis
		(in thousands)	
Commercial Business	$ 341	$ -	$ -
Total	$ 341	$ -	$ -

Credit quality information

The Bank's risk rating system is designed to provide concise and accurate assessments of the quality of the commercial loan portfolio. The risk rating system provides a means of identifying those credits that warrant special handling and/or a greater degree of monitoring for deteriorating situations. The risk rating system is designed in a way that is consistent with the size and complexity of the Bank.

Loans rated 1-5 are considered "pass" rated with low to average risk.

Loans rated 6 are considered "other assets especially mentioned". Borrowers have higher risk profiles but not to the point of justifying a classification of substandard. Although the asset is currently protected, there are potential weaknesses which may, if not checked or corrected, weaken the asset, deteriorate the repayment prospects for the asset, or inadequately protect the Bank's credit position at some future date.

Loans rated 7 are considered "substandard". Although there may be the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected, a substandard rating does not necessarily imply a future loss. The bank need not be in an exit mode with the relationship in order for the substandard rating to apply.

Loans rated 8 are considered "doubtful". Weaknesses are so significant that the possibility of a principal loss is extremely high. The loan must be on nonaccrual.

Loans rated 9 are considered a "loss". Weaknesses are so significant that the asset is considered uncollectible and of such little value that their continuance as bankable assets is not warranted. Its balance should be written off in the period in which they surface as uncollectable.

On an annual basis, or more often if needed, the Bank formally reviews the ratings on all commercial real estate construction and commercial loans. Annually, the Bank engages an independent third-party to review a significant portion of loans within these segments. Management uses the results of these reviews as part of its annual review process. In addition, management utilizes delinquency reports, the watch list and other loan reports to monitor credit quality of other loan segments.

Primary Bank

The following table contains period-end balances of loans receivable disaggregated by credit quality indicator:

Credit Quality Indicator - by Origination Year as of December 31, 2023

	2023	2022	2021	2020	2019	Prior	Total
				(in thousands)			
1-4 & Multi Family Real Estate:							
Credit risk profile by internal assigned grate:							
1-5 (pass)	$ 8,837	$ 38,979	$ 27,482	14,829	$ 7,986	$ 8,955	$ 107,069
6 (Other assets especially mentioned)	-	1,211	-	-	-	-	1,211
7 (Substandard)	-	-	-	-	-	-	-
8 (Doubtful)	-	-	-	-	-	-	-
9 (Loss)	-	-	-	-	-	-	-
Total	$ 8,837	$ 40,190	$ 27,482	$ 14,829	$ 7,986	$ 8,955	$ 108,280
Current-period gross write-offs	$ -	$ -	$ -	-	$ -	$ -	$ -

	2023	2022	2021	2020	2019	Prior	Total
Commercial Mortgage:							
Credit risk profile by internal assigned grate:							
1-5 (pass)	$ 47,336	$ 83,216	$ 91,758	$ 61,188	$ 28,024	$ 43,172	$ 354,693
6 (Other assets especially mentioned)	-	294	7,449	768	-	-	8,510
7 (Substandard)	-	-	-	-	-	-	-
8 (Doubtful)	-	-	-	-	-	-	-
9 (Loss)	-	-	-	-	-	-	-
Total	$ 47,336	$ 83,510	$ 99,207	$ 61,956	$ 28,024	$ 43,172	$ 363,203
Current-period gross write-offs	$ -	$ -	$ -	-	$ -	$ 200	$ 200

	2023	2022	2021	2020	2019	Prior	Total
Commercial Business:							
Credit risk profile by internal assigned grate:							
1-5 (pass)	$ 15,971	$ 18,689	$ 35,963	$ 14,025	$ 8,136	$ 13,788	$ 106,572
6 (Other assets especially mentioned)	103	500	5,973	122	-	-	6,698
7 (Substandard)	-	-	-	-	-	1,531	1,531
8 (Doubtful)	-	1,477	-	922	244	-	2,644
9 (Loss)	-	-	-	-	-	-	-
Total	$ 16,074	$ 20,666	$ 41,936	$ 15,069	$ 8,380	$ 15,319	$ 117,445
Current-period gross write-offs	$ -	$ -	$ -	-	$ 341	$ -	$ 341

The following table presents the Bank's loans by risk rating at December 31, 2022.

	1-4 & Multi-Family Real Estate	Commercial Non-Owner Occupied	Commercial Owner Occupied	Construction	Commercial Business	Total
			(in thousands)			
Loans rated 1-5	$ 102,739	$ 140,852	$ 158,559	$ 47,665	$ 119,204	$ 569,019
Loan rated 6	1,231	-	1,507	-	3,996	6,734
Loan rated 7	-	-	-	-	-	-
Loan rated 8	-	-	-	-	-	-
Loan rated 9	-	-	-	-	341	341
	$ 103,970	$ 140,852	$ 160,066	$ 47,665	$ 123,541	$ 576,094

5. PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation and amortization of premises and equipment follows:

	December 31, 2023	December 31, 2022	Estimated Useful Life
	(in thousands)		
Furniture, fixtures and equipment	$ 1,075	$ 998	3 - 10 years
Leasehold improvements	1,037	1,037	Term of lease
	2,112	2,035	
Less accumulated depreciation and amortization	(1,159)	(930)	
	$ 953	$ 1,105	

Depreciation and amortization expense for the years ended December 31, 2023, and 2022 amounted to $229,000 and $250,000, respectively.

6. LEASES

The Bank has five operating leases for its operations center and branch locations. The leases have remaining lease terms of one year to nine years with renewal options of two-year terms up to twenty years. None of the renewal options to extend have been included in the lease term as it was determined that it was not reasonably certain that the Bank will exercise the option. The Bank does not have any material short-term leases.

Lease expense for the years ended December 31, 2023, and 2022 is as follows:

	December 31, 2023	December 31, 2022
	(in thousands)	
Operating lease cost	$ 410	$ 392
Supplemental cas flow and other information related to leases is as follow		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating lease	$ 312	$ 308
Weighted average remaining lease term (in ye	6.8	7.8
Weighted average discount rate	2.17%	2.04%

Maturities of lease liabilities are as follows (in thousands):

Years Ending December 31,	
2024	$ 323
2025	334
2026	338
2027	320
2028	293
2029-2031	586
	2,194
Less imputed interest	(173)
Total Lease Liability	$ 2,021

7. DEPOSITS

A summary of deposit balances, by type, follows:

	December 31, 2023	December 31, 2022
	(in thousands)	
NOW and demand	$ 213,532	$ 212,479
Money market deposits	161,675	204,757
Regular savings and other	11,426	18,980
Total demand accounts	386,633	436,216
Term certificates less than $250,000	130,417	99,570
Term certificates of $250,000 or more	83,731	28,792
Total certificate accounts	214,148	128,362
Total deposits	$ 600,781	$ 564,578

A summary of certificate accounts by maturity follows:

	December 31,		Weighted Average Rate	
	2023	2022	2023	2022
	(in thousands)			
Within 1 year	$ 202,543	$ 84,899	3.23%	1.88%
Over 1 year to 2 years	9,731	37,453	3.41%	2.60%
Over 2 years to 3 years	1,721	4,239	2.12%	1.79%
Over 3 years to 4 years	103	1,668	0.97%	1.64%
Over 4 years	50	103	2.25%	0.97%
	$ 214,148	$ 128,362	3.23%	2.08%

8. BORROWINGS

Line of Credit

The Bank has a $2,000,000 unsecured available line of credit with a correspondent bank at an interest rate that adjusts daily. At December 31, 2023 and 2022, there were no amounts outstanding.

Short-term Borrowings

Federal Home Loan Bank of Boston advances with an original maturity of less than one year amounted to $10,000,000 at December 31, 2022, at a weighted average rate of 4.37%. No borrowings were outstanding as of December 31, 2023. All borrowings from the FHLB are secured by a blanket security agreement on qualified collateral, principally the Bank’s capital stock in FHLB, mortgages and mortgage notes in an aggregate amount equal to the outstanding advances.

Federal Reserve Bank Term Funding Program

In March 2023, the Federal Reserve began its Bank Term Funding Program. This program provides liquidity to U.S. deposit institutions, through Federal Reserve Bank advances collateralized by certain types of securities. Advances are limited to the value of eligible collateral pledged by the eligible borrower, are for a term of one year with a fixed rate of the one-year overnight index swap rate plus 10 basis points. Borrowers may prepay advances (including for purposes of refinancing) at any time without penalty. The Bank has not utilized this funding source.

9. INCOME TAXES

Allocation of federal and state income taxes between current and deferred portions is as follows:

	2023	2022
	(in thousands)	
Current tax provision:		
Federal	$ 2,877	$ 2,996
State	1,037	1,230
	3,914	4,226
Deferred tax benefit:		
Federal	(181)	(180)
State	-	(72)
	(181)	(252)
	$ 3,733	$ 3,974

The reasons for the difference between the statutory federal income tax provision and the actual tax provision is summarized as follows:

	2023	2022
	(in thousands)	
Statorty federal tax (21%)	$ 2,884	$ 3,073
Increase (decrease) resulting from:		
State taxes, net of federal tax benefit	777	915
Other, net	72	(14)
Total income tax provision	$ 3,733	$ 3,974

The effects of each item that give rise to deferred taxes are as follows:

	2023	2022
	(in thousands)	
Organization and start-up costs	$ 139	$ 161
Allowance for loan losses	1,775	1,879
Deferred rent expense	12	9
Depreciation and amortization	(132)	(192)
Other, net	43	(18)
Deferred loan costs	(462)	(488)
Nonqualified stock options	154	157
Net deferred tax asset	$ 1,529	$ 1,508

At December 31, 2023 and 2022, the Bank had no uncertain tax positions. The Bank accounts for interest and penalties related to uncertain tax positions as part of its provision for federal and state income taxes. The Bank has no interest or penalties recorded for the years ended December 31, 2023 and 2022.

The Bank's income tax returns are subject to review and examination by federal and state taxing authorities. The Bank is currently open to audit under the applicable statutes of limitations by the Internal Revenue Service for the years ended December 31, 2023, 2022, 2021 and 2020. The years open to examination by state taxing authorities vary by jurisdiction; no years prior to 2020 are open.

10. MINIMUM REGULATORY CAPITAL REQUIREMENTS

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

Federal banking regulations for community banking institutions include minimum capital ratios as set forth in the following table. Additionally, community banking institutions must maintain a capital conservation buffer of common equity Tier 1 capital in an amount greater than 2.5% of total risk-weighted assets to avoid being subject to limitations on capital distributions and discretionary bonuses. At December 31, 2023 and 2022, the Bank exceeded the required capital conservation buffer of 2.5% of total risk-based assets.

As of December 31, 2023, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, common equity Tier 1 risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. The Bank's actual capital amounts and ratios as of December 31, 2023 and 2022 are also presented in the table. There are no conditions or events since that notification that management believes have changed the Bank's category. Management believes, as of December 31, 2023, that the Bank meets all capital adequacy requirements to which it is subject.

Primary Bank

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
December 31, 2023:						
Total capital (to risk weighted assets)	$ 95,367	15.3%	$ 49,858	8.0%	$ 62,323	10.0%
Common equity Tier 1 capital (to risk weighted assets)	88,655	14.2	28,045	4.5	40,510	6.5
Tier 1 capital (to risk weighted assets)	88,655	14.2	37,394	6.0	49,858	8.0
Tier 1 leverage ratio (to average assets)	88,655	12.7	27,814	4.0	34,768	5.0
December 31, 2022:						
Total capital (to risk weighted assets)	$ 83,417	13.9%	$ 47,906	8.0%	$ 59,883	10.0%
Common equity Tier 1 capital (to risk weighted assets)	76,306	12.7	26,947	4.5	38,924	6.5
Tier 1 capital (to risk weighted assets)	76,306	12.7	35,930	6.0	47,906	8.0
Tier 1 leverage ratio (to average assets)	76,306	11.4	26,824	4.0	33,530	5.0

11. COMMITMENTS AND CONTINGENCIES

Loan commitments

The Bank is a party to credit related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and advance funds on lines-of-credit and construction loans. Such commitments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the consolidated balance sheets.

The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank uses the same credit policies in making commitments as it does for on-balance sheet instruments. As of December 31, 2023, the Bank has an allowance for credit losses on its off-balance sheet credit exposures of $676,000.

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

	Contract Amount	
	2023	2022
	(in thousands)	
Commitments to grant loans	$ 18,930	$ 54,407
Unadvanced funds on lines-of-credit	51,922	53,569
Unadvanced funds on construction loans	46,002	29,723
Unadvanced funds on real estate loans	15,274	18,628

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for lines-of-credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis and the commitments are collateralized by real estate or other business assets.

Executive employment agreements and change of control

The Bank has entered into employment agreements with certain executives that provide for specified annual compensation and certain other benefits, as defined in the agreements, for original terms of one to two years. Thereafter, the agreements automatically extend for an additional one-year term unless the Board of Directors or the executive has given the other party notice within a specified number of days prior to the anniversary of the agreement.

Such employment may be terminated for cause, as defined, without incurring any continuing obligation. Three agreements also provide for a specified lump sum cash payment to the executives upon a change in control of the Bank (as defined in the agreement). If a change of control occurs after the executive has retired in good standing, the executive will be entitled to a reduced lump sum cash payment.

12. RESTRICTIONS ON DIVIDENDS

Federal and state banking regulations place certain restrictions on dividends paid by the Bank. The Board of Directors of the Bank may declare dividends from the Bank's net earnings remaining after deducting all losses and expenses from the two most recent fiscal years. The Board of Directors may also declare dividends from its cumulative retained earnings from the previous fiscal years, provided that it remains well capitalized after the declaration of the dividend under the regulations of the FDIC. No dividends have been declared as of December 31, 2023 and 2022.

13. RELATED PARTIES

In the ordinary course of business, the Bank has granted loans to directors and their affiliates with outstanding balances of $35,200,000 and $34,900,000 at December 31, 2023 and 2022, respectively. New related party loans amounted to $3,100,000 and $5,100,000 during the years ended December 31, 2023 and 2022, respectively. Repayment of principal amounted to $2,800,000 and $1,300,00 during the years ended December 31, 2023 and 2022, respectively. Unadvanced funds on related party lines of credit amounted to $261,000 and $1,300,000 at December 31, 2023 and 2022, respectively. Additionally, deposits amounting to $79,000,000 and $83,300,000 at December 31, 2023 and 2022, respectively, are held at the Bank by senior management, directors and their affiliates.

All of the Bank's operating leases are on properties that are owned by directors of the Bank and have been independently evaluated to ensure they have been executed at market rate and terms.

14. STOCK PLAN

Stock Options

Stock option activity for the years ended December 31, 2023 and 2022 is as follows:

	2023			2022		
	Shares		Weighted Average Exercise Price	Shares		Weighted Average Exercise Price
Shares under option:						
Outstanding at beginning of year	499,930	$	16.07	373,200	$	13.13
Granted	28,000		21.63	238,000		20.97
Exercised	(31,375)		17.45	(38,500)		18.10
Forfeited	(158,430)		12.59	(72,770)		15.97
Outstanding at end of year	338,125	$	18.04	499,930		16.07
Options exercisable at end of year	244,858	$	17.07	349,440	$	14.41

The weighted average remaining contractual life as of December 31, 2023 and 2022 on options outstanding and options exercisable is 7.5 years and 7.7 years, respectively.

As of December 31, 2023, unrecognized share-based compensation expense related to non-vested options amounted to $646,000. This amount is expected to be recognized over a weighted average period of 1 year. The intrinsic value of stock options exercised during 2023 is $135,000.

The fair value of stock options granted during 2023 and 2022 and the weighted average assumptions used to estimate the fair value are as follows:

	2023	2022
Fair value of stock options granted during 2023 and 2022:		
Weighted average grant date fair value of stock options granted during period	$ 7.94	$ 6.88
Dividend yield	-%	-%
Expected volatility	31.03%	29.28%
Risk-free interest rate	4.01%	2.24%
Expected life	5.54	5.96

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The expected volatility is based on historical volatility of the ABA Community Bank Fund Index. The risk-free interest rate for periods consistent with the expected term (years) of the awards is based on the U.S. Treasury yield curve in effect at the time of the grant. The average expected life was estimated using the simplified method to determine the expected life based on the vesting period and contractual terms, since the Bank does not have the necessary historical exercise data to determine an expected life for stock options. The dividend yield assumption (0%) is based on the expectation of dividend payouts.

Stock Incentive Plan

The Bank has adopted the 2015 Stock Incentive Plan (the "2015 Plan"), whereby 435,157 shares of the Bank's common stock have been reserved for issuance. Under the Stock Plan, the Bank may grant incentive stock options, non-qualified stock options and restricted stock awards to its employees, officers, directors and consultants. The exercise price for each option will be established at the discretion of the Bank's Board of Directors (the "Board") but may not be less than the greater of $10.00 per share, or the fair market value of the stock on the grant date. The term of each option will be fixed by the Board and may not exceed ten years from the date of grant. Options and restricted stock awards will generally vest over four years unless otherwise determined by the Board. Vesting may be accelerated upon a change in control, as defined in the Stock Plan. The following table shows the status of options available under the Stock Plan.

Stock Incetive Plan	Options Reserved	Options Outstanding	Options Exercised	Available Options
December 31, 2020	435,157	222,900	-	212,257
December 31, 2021	435,157	267,200	-	167,957
December 31, 2022	435,157	385,930	4,500	44,727
December 31, 2023	435,157	250,625	25,375	159,157

For the year ended December 31, 2023, and 2022, share-based compensation expense applicable to the 2015 Plan amounted to $396,000 and $225,000, respectively.

Board of Directors Stock Option Plan

The Bank has adopted the 2021 Stock Option Plan (the "2021 Plan"), whereby 200,000 shares of the Bank's common stock have been reserved for issuance. Under the Stock Plan, the Bank may grant non-qualified stock options and restricted stock awards to its employees, officers, directors, and consultants. The exercise price for each option will be established at the discretion of the Bank's Board but may not be less than the greater of $15.00 per share, or the fair market value of the stock on the grant date. The term of each option will be fixed by the Board and may not exceed ten years from the date of grant. Options and restricted stock awards will generally vest immediately unless otherwise determined by the Board. The following table shows the status of options available under the Stock Plan.

Stock Incetive Plan	Options Reserved	Options Outstanding	Options Exercised	Available Options
December 31, 2020	200,000	83,000	-	117,000
October 19, 2021	200,000	158,000	-	42,000
December 31, 2021	200,000	106,000	52,000	42,000
December 31, 2022	200,000	114,000	86,000	-
December 31, 2023	200,000	99,500	100,500	-

For the years ended December 31, 2023, and 2022, share-based compensation expense applicable to the 2021 Plan amounted to $362,000 and $187,000 respectively.

Cash received from stock option exercises related to the 2015 Plan and the 2021 Plan was $547,000 and $696,000, for the years ended December 31, 2023, and 2022, respectively.

The Bank issues new shares to satisfy stock option exercises.

Board of Directors' Stock Compensation

Effective January 1, 2019, under the terms of the 2019 Director Stock Compensation Plan (the "Director Stock Plan"), the Board of Directors approved compensation to each director of the Bank equivalent to $100 per Board or Committee meeting attended, paid in the form of stock grants. The Board of Directors approved compensation to each director of the Bank equivalent to $500 per Board or $200 per Committee meeting attended effective January 1, 2022, paid in the form of stock grants. The Board of Directors approved compensation to each director of the Bank equivalent to $1,000 per Board or $400 per Committee meeting attended effective January 1, 2023, paid in the form of stock grants. These stock grants are accumulated during a calendar year and issued annually in accordance with the Director Stock Plan. For the year ended December 31, 2023, the equivalent of $248,000 was collectively earned by the Bank's Directors and will be issued in the form of common stock in 2024. For the year ended December 31, 2022, the equivalent of $118,000 was collectively earned by the Bank's Directors and was issued in the form of common stock in 2023.

Common Stock Warrant Plan

The Bank adopted the Common Stock Warrant Plan (the "Warrant Plan"), whereby warrants for 280,000 shares were granted to original investors in the Bank's predecessor entity while in the organization phase, and that purchased common stock in the Bank's initial stock offering. The warrants allow holders, for a period of ten years after the effective date (November 12, 2015) of the warrants, to purchase Bank common stock for $10 per share. Warrants do not entitle holders to voting rights or dividends. During the year ended December 31, 2022, 20,000 new warrants were issued and 19,000 were subsequently forfeited in 2023 bringing total warrant issuance to 281,000 shares. During the year ended December 31, 2023, 13,450 warrants were exercised at $10 per share for net proceeds of $154,500. During the year ended December 31, 2022, 56,250 warrants were exercised at $10 per share for net proceeds of $562,500.

At December 31, 2023, there were 153,050 unexercised warrants and the weighted average remaining life of the outstanding warrants is 2.7 years. The intrinsic value of the warrants exercised during 2023 was $803,000.

15. EMPLOYEE BENEFIT PLANS

The Bank has a 401(k) Plan whereby substantially all employees participate in the Plan. Employees may contribute a portion of their compensation subject to certain limits based on federal tax laws. The company makes contributions equal to 3 percent of an employee's gross compensation, excluding any bonus or other compensation. Matching contributions vest to the employee over a four-year period. For the years ended December 31, 2023 and 2022, the expense attributable to the Plan amounted to $136,000 and $124,000, respectively.

16. FAIR VALUE OF ASSETS AND LIABILITIES

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

Methods and assumptions for valuing our financial instruments are set forth below. Estimated fair values are calculated based on the value without regard to any premium or discount that may result from concentrations of ownership of a financial instrument, possible tax ramifications or estimated transaction cost.

Assets Measured at Fair Value on a Nonrecurring Basis

The Bank may also be required, from time to time, to measure certain other financial assets at fair value on a nonrecurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets. The following table summarizes the fair value hierarchy used to determine the carrying values of the related assets as of December 31, 2023 and 2022.

	December 31, 2023			Year Ended December 31, 2023
	Level 1	Level 2	Level 3	Total Losses
		(in thousands)		(in thousands)
Individually evaluated collateral dependent loans	$ -	$ -	$ 622	$ 244

	December 31, 2022			Year Ended December 31, 2022
	Level 1	Level 2	Level 3	Total Losses
		(in thousands)		(in thousands)
Impaired loans	$ -	$ -	$ 341	$ -

The amount of individually evaluated collateral dependent and impaired loans represents the carrying value, net of the related write-down or valuation allowance of individually evaluated collateral dependent and impaired loans for which adjustments are based on the estimated fair value of the underlying collateral. The fair value of individually evaluated collateral dependent and impaired loans with specific allocations of the allowance for credit losses is generally based on real estate appraisals performed by independent licensed or certified appraisers. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Management will discount appraisals as deemed necessary based on the date of the appraisal and new information deemed relevant to the valuation. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value. The resulting losses were recognized in earnings through the provision for credit losses.

17. SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 3, 2024, which is the date the consolidated financial statements were available to be issued. There were no subsequent events that require adjustment to or disclosure in the consolidated financial statements.