2022

Financial Summary

Banesco

BANESCO USA AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders
Banesco USA and Subsidiaries
Miami, Florida

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Banesco USA and Subsidiaries ("Banesco USA"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Banesco USA as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with auditing standards generally accepted in the United States of America, Banesco USA's internal control over financial reporting as of December 31, 2022, based on criteria established in the *Internal Control—Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) relevant to reporting objectives for the express purpose of meeting the regulatory requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA) and our report dated March 31, 2023 expressed an unmodified opinion.

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 Banesco USA 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 consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Banesco USA's ability to continue as a going concern for one year from the date the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Banesco USA's ability to continue as a going concern for a reasonable period of time.

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

Crowe LLP

Crowe LLP

Fort Lauderdale, Florida
March 31, 2023

Management’s Report on Internal Control Over Financial Reporting

Banesco USA and subsidiaries internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable consolidated financial statements in accordance with generally accepted accounting principles (GAAP) accepted in the United States of America and financial statements for regulatory purposes and the Consolidated Reports of Condition and Income. Because management's assessment was conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our assessment of internal control over financial reporting included controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory purposes. An entity’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity’s assets that could have a material effect on the financial statements.

Management of Banesco USA and subsidiaries is responsible for designing, implementing, and maintaining effective internal control over financial reporting, including controls over the preparation of regulatory financial statements. Management assessed the effectiveness of Banesco USA and subsidiaries internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Reports of Condition and Income as of December 31, 2022, based on criteria established in the Internal Control—Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) relevant to internal reporting objectives for the express purpose of meeting the regulatory requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA). Based on that assessment, management concluded that, as of December 31, 2022, Banesco USA and subsidiaries internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the Federal Financial Institutions Examination Council instructions for the Consolidated Reports of Condition and Income is effective, based on criteria established in the Internal Control—Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) relevant to internal reporting objectives for the express purpose of meeting the regulatory requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA).

Internal control over financial reporting has inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The effectiveness of internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the Federal Financial Institutions Examination Council instructions for the Consolidated Reports of Condition and Income, as of December 31, 2022, has been audited by Crowe LLP, an independent public accounting firm, as stated in their report dated March 31, 2022.

Banesco USA and Subsidiaries

Miami, Florida
March 31,2022

BANESCO USA AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31,

ASSETS	2022	2021
CASH AND CASH EQUIVALENTS:		
Cash and due from banks	$ 6,054,424	$ 8,098,417
Interest bearing deposits in other financial institutions	83,364,099	73,015,155
TOTAL CASH AND CASH EQUIVALENTS	89,418,523	81,113,572
Investment securities available for sale	219,380,666	361,686,706
Investment securities held to maturity	218,205,340	272,808
Equity securities	1,826,283	998,975
Federal Home Loan Bank stock, at cost	7,059,300	13,717,900
Loans, net	2,312,172,813	1,592,364,995
Property and equipment, net	30,695,822	22,762,992
Accrued interest receivable	10,346,012	8,152,025
Foreclosed assets, net	506,000	-
Deferred tax assets, net	30,343,843	11,796,714
Bank-owned life insurance	61,478,500	35,725,218
Prepaid expenses and other assets	12,920,362	4,595,913
TOTAL ASSETS	**$ 2,994,353,464**	**$ 2,133,187,818**

LIABILITIES AND STOCKHOLDERS' EQUITY	2022	2021
DEPOSITS:		
Noninterest bearing demand deposits	$ 917,081,308	$ 771,169,801
Interest bearing demand deposits	196,838,869	166,332,048
Money market and savings accounts	256,155,940	308,542,321
Time deposits of $250,000 or more	269,481,838	113,181,673
Time deposits of less than $250,000	770,409,107	228,397,721
TOTAL DEPOSITS	2,409,967,062	1,587,623,564
Federal Home Loan Bank advances	141,000,000	340,000,000
Subordinated Debt	14,802,245	14,736,327
Accrued interest payable	3,372,034	723,797
Accrued expenses and other liabilities	21,045,699	9,122,585
TOTAL LIABILITIES	2,590,187,040	1,952,206,273
COMMITMENTS AND CONTINGENCIES (NOTES 2 AND 16)		
STOCKHOLDERS' EQUITY:		
Preferred stock, $1,000 par value; 250,000 shares authorized, issued and outstanding in 2022	250,000,000	-
Common stock, $5 par value; 16,000,000 shares authorized in 2021 and 2020; 7,502,701 shares issued and outstanding in 2022 and 2021	37,513,505	37,513,505
Additional paid-in capital	72,726,786	72,726,786
Retained earnings	101,378,996	78,270,299
Accumulated other comprehensive income (loss), net of taxes	(57,452,863)	(7,529,045)
TOTAL STOCKHOLDERS' EQUITY	404,166,424	180,981,545
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 2,994,353,464**	**$ 2,133,187,818**

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

BANESCO USA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31,

	2022	2021
INTEREST AND DIVIDEND INCOME:		
Loan and fees on loans	$ 89,288,655	$ 68,615,766
Investment securities	10,329,972	2,963,833
Federal funds sold	1,482,750	192,772
Federal Home Loan Bank stock	549,592	403,791
TOTAL INTEREST AND DIVIDEND INCOME	101,650,969	72,176,162
INTEREST EXPENSES:		
Deposits	12,156,528	3,877,975
Federal Home Loan Bank advances	3,941,950	1,808,947
Subordinated Debt	886,398	901,876
Other borrowed funds	-	902
TOTAL INTEREST EXPENSES	16,984,876	6,589,700
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	84,666,093	65,586,462
(REVERSAL OF) PROVISION FOR LOAN LOSSES	3,971,590	(2,461,656)
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	80,694,503	68,048,118
NONINTEREST INCOME:		
Service fees on loans and deposits	6,205,397	5,374,305
Bank-owned life insurance income	1,777,682	1,009,543
Gain on sales of investment securities available for sale, (includes $478,080 accumulated other comprehensive income reclassification for unrealized net gains on available for sale securities in 2021)	-	479,105
Loss on equirty securities	(172,693)	(1,025)
Gain on resolution of acquired assets	396,232	28,436
Reversal of Provision for off-balance sheet	-	3,180
Commissions and other	6,500,911	7,286,095
TOTAL NONINTEREST INCOME	14,707,529	14,179,639
NONINTEREST EXPENSES:		
Salaries and employee benefits	42,668,192	36,320,148
Occupancy	3,253,514	3,378,092
Professional fees	4,157,366	4,185,049
Electronic data processing	4,681,429	4,189,792
Insurance and license fees	1,109,945	1,198,423
Depreciation and amortization	1,639,476	1,581,762
Communication	753,448	674,219
Advertising	1,047,071	350,330
FDIC insurance	768,002	889,760
Travel and entertainment	341,177	102,535
Provision for off-balance sheet	699,855	-
Other	2,531,109	2,045,242
TOTAL NONINTEREST EXPENSES	63,650,584	54,915,352
INCOME BEFORE INCOME TAXES	31,751,448	27,312,405
PROVISION FOR INCOME TAXES, (includes approximately $117,000 of income tax expenses from reclassification items in 2021)	8,642,751	6,821,316
NET INCOME	**$ 23,108,697**	**$ 20,491,089**

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

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

	2022	2021
NET INCOME	23,108,697	20,491,089
OTHER COMPREHENSIVE INCOME(LOSS)		
Available for sale securities:		
Unrealized holding losses on available for sale investments, net of income taxes	(50,186,701)	(7,280,298)
Unrealized holding losses in securities transferred from available for sale to held to maturity, net of income taxes	29,265,546	-
Reclasification adjsutment for gains realized in income, net of income taxes	-	(361,620)
Other comprehensive losses on available for sale investments	(20,921,155)	(7,641,918)
Held to maturity securities:		
Unrealized holding losses on securities transferred to held to maturity, net of income taxes	(29,265,546)	-
Reclasification adjustment for amortization realized in income, net of income taxes	(1,429,502)	-
Other comprehensive losses on held to maturity investments	(30,695,048)	-
Derivaties:		
Change in fair value of derivatives	1,692,385	-
COMPREHENSIVE INCOME(LOSS)	**$ (26,815,121)**	**$ 12,849,171**

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

BANESCO USA AND SUBSIDIARIES

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

	Common Stock		Preferred Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Taxes	Total
	Shares	Par Value	Shares	Par Value				
BALANCES AT JANUARY 1, 2021	7,502,701	$ 37,513,505	-	$ -	$ 72,726,786	$ 57,779,210	$ 112,873	$ 168,132,374
Net income	-	-	-	-	-	20,491,089	-	20,491,089
Other comprehensive loss	-	-	-	-	-	-	(7,641,918)	(7,641,918)
BALANCES AT DECEMBER 31, 2021	7,502,701	37,513,505	-	-	72,726,786	78,270,299	(7,529,045)	180,981,545
Preferred stock issued	-	-	250,000	250,000,000	-			250,000,000
Net income	-	-	-	-	-	23,108,697	-	23,108,697
Other comprehensive loss	-	-	-	-	-	-	(49,923,818)	(49,923,818)
BALANCES AT DECEMBER 31, 2022	**7,502,701**	**$ 37,513,505**	**250,000**	**$ 250,000,000**	**$ 72,726,786**	**$ 101,378,996**	**$ (57,452,863)**	**$ 404,166,424**

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

BANESCO USA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 23,108,697	$ 20,491,089
Adjustments to reconcile net income to net cash provided by operating activities:		
(Reversal of) provision for loan losses	3,971,590	(2,461,656)
Depreciation and amortization	1,639,476	1,581,762
Net amortization of discounts on investment securities available for sale	2,453,468	5,419,706
Net amortization of discounts on investment securities held to maturity	133,187	5,659
Gain on sales of investment securities avaiable for sale	-	(479,105)
Loss on equity securities	172,693	1,025
Change in cash surrender value of bank owned life insurance	(753,283)	(1,009,543)
Amortization of deferred loan fees	(2,432,153)	(3,709,552)
Amortization of intangible assets	19,286	19,286
Deferred income tax provision (benefit)	(1,905,856)	1,234,385
Changes in operating assets and liabilities:		
Accrued interest receivable	(2,193,987)	2,260,790
Prepaid expenses and other assets	(6,087,220)	(245,020)
Accrued interest payable	2,648,237	(1,656,548)
Accrued expenses and other liabilities	11,923,113	(1,359,352)
Due from clearing broker	-	93,301
Debt issuance cost	65,918	58,407
NET CASH PROVIDED BY OPERATING ACTIVITIES	32,763,166	20,244,634
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities available for sale	(174,603,089)	(291,421,276)
Reduction (Purchase) of Federal Home Loan Bank stock	6,658,600	(2,184,000)
Purchase of equity securities	(1,000,000)	(1,000,000)
Maturities and principal repayments on investment securities available for sale	22,968,315	117,730,732
Proceeds from sales of investment securities available for sale	-	131,663,342
Principal repayments on investment securities held to maturity	4,600,021	126,909
Net increase in loans	(721,347,255)	(176,646,871)
Purchase of bank owned life insurance	(25,000,000)	-
Additions to foreclosed assets	(506,000)	-
Net purchase of property and equipment	(9,572,305)	(8,160,340)
NET CASH USED IN INVESTING ACTIVITIES	(897,801,713)	(229,891,504)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	822,343,498	88,962,271
Net (decrease) increase in securities sold under agreements to repurchase	-	(6,423,221)
Decrease in long-term Federal Home Loan Bank advances	(340,000,000)	-
Increase in long-term Federal Home Loan Bank advances	-	105,000,000
Net increase in short-term Federal Home Loan Bank advances	141,000,000	-
Additional capital	250,000,000	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	873,343,498	187,539,050
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,304,951	(22,107,820)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	81,113,572	103,221,392
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 89,418,523**	**$ 81,113,572**

	2022	2021
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid on deposits and borrowed funds	**$ 14,336,639**	**$ 8,246,248**
Cash paid for income taxes	**$ 6,774,000**	**$ 6,423,750**
SUPPLEMENTAL DISCLOSURE OF NON-CASH FLOW INFORMATION:		
Transfer of debt securities from available for sale to held to maturity	**$ 259,022,719**	**$ -**

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

1. GENERAL

Banesco USA and subsidiaries (collectively the “Bank”) is a state-chartered bank, incorporated in the State of Florida. The Bank operates in South Florida and Puerto Rico, having 6 offices in operation at December 31, 2022 and December 31, 2021. The Bank is a member of the Federal Deposit Insurance Corporation (“FDIC”), and is supervised and regulated by the Office of the Financial Regulation of the State of Florida and by the FDIC.

As of December 31, 2022, the Bank owns 100% of Banesco Estate Holdings, LLC, Brickell Global Markets, Inc. (“BGM”), Brickell Global Advisors (“BGA”) and Brickell Global Insurance, Inc. (“BGI”), all Florida corporations.

The Bank offers a variety of banking services to individual and corporate customers through its banking offices located in South Florida and Puerto Rico.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Policies

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The following is a summary of the significant accounting policies followed by the Bank.

The accounting policies and reporting practices of the Bank conform to the predominant practices in the banking industry and are based on U.S. GAAP.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Bank and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

Acquisitions

The Bank accounts for all business combinations under the acquisition method of accounting in accordance with Accounting Standard Codification (“ASC”) Topic 805. Accordingly, the acquiring institution should recognize and measure the identifiable assets acquired, the liabilities assumed, and any non-controlling interests in the acquiree, if any.

Intangible Assets

Intangible assets other than goodwill, which are determined to have finite lives, are amortized over the period benefited, generally five to fifteen years and are periodically reviewed for reasonableness. The recoverability of other intangibles is evaluated if events or circumstances indicate possible impairment. At December 31, 2022 and 2021, intangible assets amounted to $70,714 and to $90,000, respectively and are included in prepaid expenses and other assets on the accompanying consolidated balance sheets.

Cash and Cash Equivalents

The Bank considers cash and cash equivalents with a maturity of three months or less from their original purchase date to be cash equivalents. Cash equivalents include cash and due from banks and interest bearing deposits in other financial institutions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Securities

Investment securities consist of U.S. government agencies issued securities, collateralized mortgage obligations, mortgage-backed securities, corporate bonds, and municipal securities. Certain 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. Trading securities are recorded at fair value with changes in fair value included in earnings. Securities not classified as held-to-maturity or trading, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss). Transfers of debt securities into the held-to-maturity category from the available-for-sale category are made at fair value at the date of transfer. Any unrealized holding gains or losses at the date of transfer are retained in other comprehensive income and in the carrying value of the held-to-maturity securities. Such amounts are amortized over the remaining life of the security.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held-to-maturity and available for sale securities below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses. In determining whether other-than-temporary impairment exists, management considers many factors, including (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investments in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Equity Securities

Equity securities are carried at fair value, with changes in fair value reported in net income. As of December 31, 2022 and 2021, equity securities amounted to $1,826,283 and $998,975, respectively and was comprised of one community development fund.

Federal Home Loan Bank Stock

Federal Home Loan Bank ("FHLB") stock is a restricted asset, carried at cost, and evaluated for impairment. As of December 31, 2022 and 2021, FHLB stock amounted to $7,059,300 and $13,717,900, respectively.

Loans

The Bank's accounting methods for loans differ depending on whether the loans are originated or purchased, and for purchased loans, whether the loans were acquired as a result of a business combination or purchased individually or as a portfolio.

<u>Legacy Loans and Leases</u>:

Loans are reported at their principal outstanding balance net of deferred loan fees or costs, unearned income and the allowance for loan losses. Interest income is generally recognized when income is earned using the simple interest or effective yield method.

In many lending transactions, collateral is obtained to provide an additional measure of security. Generally, the cash flow and earnings power of the borrower represent the primary source of repayment and collateral is considered as an additional safeguard on an acceptable credit risk. The need for collateral is determined on a case by case basis after considering the current and prospective creditworthiness of the borrower, terms of the lending transaction and economic conditions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans (continued)

The Bank classifies all loans and leases past due when the payment of principal and interest, based upon contractual terms, is not made as of its due date. Charge offs on commercial loans are recorded when available information confirms the loan is not fully collectible and the loss is reasonably quantifiable. Consumer loans are subject to mandatory charge off at a specified delinquency date consistent with regulatory guidelines.

Purchased Loans:

Loans acquired in a business combination are recorded at their fair value at the acquisition date. Credit discounts are included in the determination of fair value; therefore, an allowance for loan losses is not recorded at the acquisition date.

The Bank considers substantially all loans acquired via FDIC assisted transactions to meet the criteria of loans acquired with evidence of impairment, unless the loan type is specifically excluded from the scope of Accounting Standard Codification ("ASC") 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, such as loans with active revolver features or because management has minimal doubt of the collection of the loan. Loans acquired with evidence of impairment are classified as Purchased Credit Impaired ("PCI") loans.

The Bank makes an estimate of the loans' contractual principal and contractual interest payments as well as the total cash flows it expects to collect from the pools of loans, which includes undiscounted expected principal and interest. The excess of contractual amounts over the total cash flows expected to be collected from the loans is referred to as non-accretable difference, which is not accreted into income. The excess of the expected undiscounted cash flows over the fair value of the loans is referred to as accretable discount. Accretable discount is recognized as interest income on a level-yield basis over the life of the loans. Management has not included prepayment assumptions in its modeling of contractual or expected cash flows. The Bank continues to estimate cash flows expected to be collected over the life of the loans. Subsequent increases in total cash flows expected to be collected are recognized as an adjustment to the accretable yield with the amount of periodic accretion adjusted over the remaining life of the loans. Subsequent decreases in cash flows expected to be collected over the life of the loans are recognized as impairment in the current period through allowance for loan losses. Gain on resolution of acquired assets represents the net settlement amount between the proceeds received and the carrying amount of the loans.

Non-accrual Loans, Impaired Loans and Restructured Loans:

The Bank generally places loans on nonaccrual status when the full and timely collection of interest or principal becomes uncertain, part of the principal balance has been charged off, the loan has been restructured but is not meeting the terms of the restructure, or the loan reaches 90 days past due. All interest accrued but not collected for loans that are placed on non-accrual status or loans that are charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying to return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans (continued)

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral less selling costs, if the loan is collateral dependent. If management determines that the value of the impaired loan is less than the recorded investment in the loan (outstanding principal balance, net of previous charge-offs, and net of deferred loan fees or cost), impairment is recognized through an allowance estimate or a charge-off to the allowance.

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

In situations where, due to a borrower's financial difficulties, management grants a concession for other than an insignificant period of time to the borrower that would not otherwise be granted, the loan is classified as a troubled debt restructuring ("TDR"). Management attempts to identify borrowers in financial difficulty early and work with them to modify terms before their loan reaches nonaccrual status. However, due to the complexity of modifying terms, many loans are modified after nonaccrual status has been established. The modified terms may include rate reductions, payment forbearance, principal forbearance, principal forgiveness and other actions intended to minimize the economic loss to the Bank and avoid foreclosure of the collateral. In cases where the borrowers are granted new terms that provide for a reduction of either interest or principal, management measures the impairment on the restructuring as detailed above for impaired loans.

In addition to the allowance for the pooled portfolios, management has developed a separate allowance for loans that are identified as impaired through a TDR and is included in the Bank's allowance for loan losses. These loans are excluded from pooled loss forecast and a separate reserve is provided under the accounting guidance for loan impairment. Residential loans whose terms have been modified in a TDR are also individually analyzed for estimated impairment.

Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months.

<u>Loan Modifications</u>:

The Bank has implemented various consumer and commercial loan modification programs to provide its borrowers relief from the economic impacts of COVID-19. Based on guidance of the Coronavirus Aid, Relief and Economic Security ("CARES") Act that the Company adopted, COVID-19 related modifications to consumer and commercial loans that were current as of December 31, 2019 are exempt from TDR classification under U.S. GAAP. In addition, the Bank decided to account for these modifications under Section 4013 of the CARES which states that any modification COVID-19 related modification granted to consumer or commercial loans that were current as of the loan modification program implementation date are not TDRs. The Bank provided borrowers with relief from the economic impacts of COVID-19 through payment deferral and forbearance programs. At December 31, 2022 and 2021 the Bank had 2 loans with an outstanding balance of $17,781,152 and 5 loans with an outstanding balance of $42,515,330 which were modified under section 4013 of the CARES, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans (continued)

Paycheck Protection Program:

The Bank is participating in the Paycheck Protection Program ("PPP"), which is a loan program that originated from the CARES Act and was subsequently expanded by the Paycheck Protection Program and Health Care Enhancement Act. The PPP is designed to provide U.S. small businesses with cash-flow assistance through loans fully guaranteed by the Small Business Administration ("SBA"). If the borrowers meet certain criteria and use the proceeds of the loan towards certain eligible expenses, the borrowers' obligation to repay the loan can be forgiven up to the full principal amount of the loan and any accrued interest. Upon borrower forgiveness, the SBA pays the Bank for the principal amount of the loan and any interest owed on the loan. If the full principal of the loan is not forgiven, the loan will operate according to the original loan terms with SBA guaranty remaining. As of December 31, 2022 and 2021, the outstanding balance of PPP loans was approximately $1.3 million and $20 million, respectively. As compensation for originating the loans, the Bank received lender processing fees from the SBA. Fees and origination costs are capitalized and amortized over the loans' contractual lives and recognized as interest income. Upon forgiveness of a loan and repayment by the SBA, any unrecognized net capitalized fees and costs attributable to the amount of the loan forgiven will be recognized as interest income in that period.

Allowance for Loan Losses ("ALL")

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

In determining the balance of the allowance account, loans are pooled by portfolio segment and management evaluates the allowance for loan losses on each segment and as a whole on a regular basis to maintain the allowance at an adequate level based on factors which, in management's judgment, deserve current recognition in estimating loan losses. Such factors include changes in prevailing economic conditions, historical experience, changes in the character and size of the loan portfolio and the overall credit worthiness of the borrowers.

The following is how management determines the balance of the general component for the allowance for loan losses account for each segment of the loans:

- Land and Land Development
- Real Estate Construction
- Commercial Real Estate Loans which includes Owner and Non-Owner Occupied and Multifamily loans
- Commercial and Industrial Loans which includes Working Capital Credit Lines, Asset Based Lending, Acceptances, Government Guaranteed, Trade Finance loans, Privately Insured Loans, Marketable Securities Secured Loans and Loans to Foreign Banks
- Residential Real Estate
- Consumer Loans

All loans are grouped by collateral type with similar risk characteristics and an average historical charge-off rate for the last twelve quarters is used. A loss factor is calculated and applied to the loan balance for each group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (“ALL”) (continued)

Qualitative factors are applied to historical loss rate based on management’s experience. Due to the static nature of the portfolio, the nine qualitative factors used are:

- Lending Policies and Procedures
- International, National, Regional, and Local Economic Conditions
- Nature or Volume of the Portfolio and Terms of Loans
- Experience, Ability, and Depth of Lending and Credit Management
- Levels and trends in delinquencies, non-accruals, and Risk Rating
- Quality of Loan Review System
- Value of Underlying Collateral
- Existences and Effect of Credit Concentrations
- Other External Consequences

The adjusted loss rates are applied to the outstanding balances of each loan grouping.

Changes in these factors could result in material adjustments to the allowance for loan losses and provision for loan losses. The losses the Bank may ultimately incur could differ materially from the amounts assumed in arriving at the allowance for loan losses.

During 2020, the Bank established an additional COVID-19 reserve to reflect the probable current losses in the portfolio from the effect on borrowers of the COVID-19 pandemic. The COVID-19 reserve amount was informed by (i) provisions in stress test scenarios conducted by the Bank using Trepp’s TCAST stress test model, net of expected loan growth and (ii) IHS Markit macro scenario probability forecasts. During the first and second quarter of 2020, the Bank conducted TCAST stress tests based on the Federal Reserve’s 2020 DFAST severely adverse and baseline scenarios. During the fourth quarter of 2020, the Bank updated the TCAST stress tests based on the Federal Reserve’s revised scenarios published in September 2020. In September 2020, IHS Markit published updated macro scenario probability forecasts which estimated a high probability of occurrence of 70% for 2 benign scenarios (baseline 50% and optimistic 20%) and a 30% probability for the pessimistic scenario. As of December 31, 2020, the COVID-19 reserve is based on a weighted sum of the provisions in the baseline scenarios (70% weight) and the severely adverse scenarios (30% weight) net of provisions in the stress tests due to budgeted loan growth. The Bank determined that by looking backwards and applying the weighted stress test provisions estimated for prior periods of 2020, it provides an accurate representation of the probable current losses in the portfolio from the effect on borrowers of the COVID-19 pandemic based on the events of 2020 and the current conditions as of December 31, 2020, as well as the underlying credit quality of the Bank portfolio (which has elements similar to stressed scenarios such as forbearances and modifications and to benign environments such as low default rates). In short, the Bank determined that these weighted stress test provisions provided the most accurate representation of probable current losses in the portfolio due to COVID-19 which were not reflected in the existing ASC 450-20, contingencies: loss contingencies or ASC 310-10-35, impairment analysis models due to the masking, by temporary relief such as loan forbearance or modifications, of the underlying credit quality deterioration and inability of those models to fully capture the events of 2020 and current conditions as of December 31, 2020.

Based on improving economic and market conditions, the bank determined not to continue adding to the COVID-19 reserve in 2021. In the quarter ended March 21, 2021, $710,754 of the COVID-19 Reserve was used to establish a Specific Reserve for a particular loan which suffered financial difficulties that resulted in the downgrade of this loan to Substandard, and which were directly attributable to various mitigation efforts imposed by the Mexican government to combat the COVID-19 pandemic which resulted in forgone sales of product by this borrower and difficulties in collecting Accounts Receivable from its customers. The general COVID-19 Reserve was therefore reduced to $7,929,522. For the year ended December 31, 2021, the General COVID-19 reserve was further reduced by $2,190,109 (27.6%) from $7,929,522 to $5,739,413 based on the percentage reduction from December 31, 2020 to December 31, 2021 in the outstanding balances of loans which received a payment forbearance due to COVID-19 at any point, excluding loans which were individually analyzed as of December 31, 2021 and received a payment forbearance due to COVID-19. The rationale for maintaining a general COVID-19 reserve is that the Bank’s borrowers continue to be impacted by the pandemic, as the delta and omicron variants continue to impact the economy, but the impact has been masked by governmental programs such as the CARES Act and PPP.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses ("ALL") (continued)

The rationale for reducing the general COVID-19 reserve by 27.6% is that the reduction in the balances of the loans which previously received a forbearance serves as a proxy for the reduction in balances of the loans across the portfolio which were impacted by COVID-19.

During 2022, the Bank continued to monitor the balances of the loans which previously received a forbearance and adjusted the COVID-19 reserve accordingly. For 2022 the general COVID-19 reserve was reduced 24.8% as balances of the loans which previously received a forbearance reduced in the year. The general COVID-19 reserve was $4,209,574 at December 31, 2022.

The Bank considered that a generic reserve for Hurricane Ian's (which made landfall in southwest Florida on September 28, 2022) potential credit losses for loans located in the Charlotte and Lee counties, the most impacted areas, should be established based on the cumulative loss rate of the total loan portfolio under a severely adverse Capital stress Test scenario since it resembles better the potential impact of a stressed environment on the credit quality of the Bank. The Bank conducts annually a Capital Stress Test to determine capital capacity to absorb stressed losses using Trepp's TCAST Stress Test Model. The Bank's hurricane Ian reserve at December 31, 2022 was $1,540,765.

The Bank provides for loan losses through a provision for loan losses charged to operations. When management believes that a loan balance is uncollectible, the loan balance is charged against the allowance for loan losses. Subsequent recoveries, if any, are credited to the allowance for loan losses. In addition to the allowance for loan losses, the Bank also estimates probable losses related to unfunded lending commitments, such as letters of credit, financial guarantees and unfunded loan commitments. Unfunded lending commitments are subject to individual reviews and the Bank applies the same adjusted loss rates as those applied to similar loan pools in calculating the overall allowance for loan losses.

These risk classifications, in conjunction with an analysis of historical loss experience, current economic conditions, performance trends within specific portfolio segments, and any other pertinent information, result in the estimation of the reserve for unfunded lending commitments. Provision for credit losses related to the loan portfolio and unfunded lending commitments are reported in the consolidated statements of operations. At December 31, 2022 and 2021, the allowance for unfunded lending commitments amounts to $2,156,698 and $1,433,509, respectively, and is included in accrued expenses and other liabilities, on the accompanying consolidated balance sheets.

Also, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance for loan losses based on their judgments of information available to them at the time of their examination.

For PCI loans, a valuation allowance is established when it is probable that the Bank will be unable to collect all the cash flows expected at acquisition plus additional cash flows expected to be collected arising from changes in estimates after acquisition. A specific allowance is established when subsequent evaluations of expected cash flows from PCI loans reflect a decrease in those estimates. The Bank reassesses cash flows on its loan portfolio based on current circumstances and events. Occasionally, external factors non-controllable by the Bank could result in cash flows not performing in line with expectations. If a pool of loans has paid in excess of its carrying value and management considers that the information on the pool is such that it can no longer estimate an expectation of cash flows in a manner that is reliable, the Bank discontinues the accrual of income on that portfolio and recognizes income on a cash basis based on the payments of interest for the pool. A gain is recognized for the amount of excess cash collected on the pool when all loans in the pool have been disposed of.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses ("ALL") (continued)

The Bank uses assumptions and methodologies that are relevant to estimating the level of impairment and probable losses in the loan portfolio. To the extent that the data supporting such assumptions has limitations, management's judgment and experience play a key role in recording the allowance estimates. Additions to the allowance for loan losses are made by provisions charged to earnings. Furthermore, an improvement in the expected cash flows related to PCI loans would result in a reduction of the required specific allowance with a corresponding credit to the provision.

Risk grading:

The grading analysis estimates the capability of the borrower to repay the contractual obligation of the loan agreement as scheduled or at all. The Bank's internal credit risk grading system is based on experiences with similarly graded loans. Credit risk grades for classified loans are refreshed each quarter, and pass grades are done annually.

The Bank's internally assigned grades are as follows:

Pass – Loans indicate different levels of satisfactory financial condition and performance.
Special Mention – Loans are exhibiting potential weaknesses deserving management's close attention.
Substandard – Loans are exhibiting well-defined weaknesses that jeopardize repayment of the debt.
Doubtful – Loans where the possibility of loss is extremely high.
Loss – Loans are considered uncollectible.

Derivative Instruments and Hedging Activities

As required by ASC 815, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

In accordance with the FASB's fair value measurement guidance in ASU 2011-04, the Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

Interest Income

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment, Net

Property and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the remaining term of the applicable leases or their useful lives, whichever is shorter. Estimated useful lives of these assets are as follows:

Buildings	39 years
Computer equipment and software	3 to 5 years
Furniture and equipment	3 to 7 years
Leasehold improvements	Shorter of life or term of lease

Maintenance and repairs are charged to expense as incurred; improvements and betterments are capitalized. When items are retired or are otherwise disposed of, the related costs and accumulated depreciation and amortization are removed from the accounts and any resulting gains or losses are credited or charged to income.

Leases

Arrangements are analyzed at inception to determine the existence of a lease. Right-of-use assets (ROUAs) represent the right to use the underlying asset and lease liabilities represent the obligation to make lease payments for the lease term. Operating lease ROUAs and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Bank's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the appropriate term and information available at commencement date in determining the present value of lease payments. ROUAs and operating lease liabilities are reported in Other Assets and Other Liabilities, respectively, in the Consolidated Balance Sheet. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Foreclosed Assets

Assets acquired through or in lieu of loan foreclosure are held for sale and are initially recorded at fair value less estimated costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management, and the assets are carried at the lower of carrying amount or fair value less cost to sell. At December 31, 2022, foreclosed assets amounted to $506,000. The Bank did not hold foreclosed assets in 2021.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are classified as secured borrowings and are reflected at the amount of cash in connection with the transaction. The Bank may be required to provide additional collateral based on the fair value of the underlying securities (NOTE 9).

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Long-Lived Assets

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

Advertising Costs

Advertising Costs are expensed as incurred. At December 31, 2022 and 2021, advertising costs amounted to $1,047,071 and $350,330, respectively.

Interest Rate Risk

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

Concentration of Credit Risk

Credit risk represents the maximum accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value. Concentrations of credit risk (whether on or off-balance sheet) arising from financial instruments exist in relation to certain groups of customers. A group concentration arises when a number of counterparties have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Bank does not have a significant exposure to any individual customer or counterparty. Most of the Bank's business activity is with customers located within its primary market area, which includes Miami-Dade, Broward, Palm Beach and Monroe Counties, Florida and the entire Commonwealth of Puerto Rico. The Bank's loan portfolio is concentrated largely in real estate and commercial loans in South Florida. Circumstances, which negatively impact the South Florida real estate industry or the South Florida economy, in general, could adversely impact the Bank's loan portfolio.

At various times during the year, the Bank has maintained deposits with other financial institutions in excess of amounts received. The exposure to the Bank from these transactions is solely dependent upon daily balances and the financial strength of the respective institution.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. The Bank is also party to various litigation actions. However, such actions are on its early stages and, therefore, it is management's belief that it is too soon to determine the eventual financial impact, if any.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risk and Uncertainties

In the first quarter of 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic. In an attempt to contain the spread and impact of the COVID-19 pandemic, travel bans and restrictions, quarantines, shelter-in-place orders and limitations on business activity were implemented. Additionally, there was a decline in global economic activity, reduced U.S. and global economic output and a deterioration in macroeconomic conditions in the U.S. and globally. This resulted in, among other things, high rates of unemployment and underemployment and caused volatility and disruptions in the global financial markets, including the energy and commodity markets. Although certain restrictive measures have been eased in certain areas, businesses, market participants, our counterparties and clients, and the U.S. and global economies have been negatively impacted and some may continue to be so for an extended period of time, as there remains uncertainty about the timing and strength of an economic recovery.

The Bank regularly researches the latest guidelines from national, regional and local authorities and health experts, including the U.S. Centers for Disease Control and Prevention (CDC) and the World Health Organization.

Market events occurring in recent week, including bank failures, have led to uncertainty and concerns regarding liquidity positions of the banking sector. The 2nd and 3rd biggest bank failure in US history, underscore the importance of maintaining access to diverse sources of funding, minimizing deposit concentrations, and proper risk management. The bank's main source of funds are core deposits of both consumer and commercial customers. Furthermore, the bank has available a wide array of secondary sources of funding which vary from broker deposits, to listing service time deposits, various fed fund lines from correspondent banks, secured lending from its collateralized loans held at the Federal Home Loan Bank, and secured loans from the collateralization of the bank's investment portfolio.

Market conditions and external factors may unpredictably impact the competitive landscape for deposits in the banking industry. Additionally, the rising interest rate environment has increased competition for liquidity and the premium at which liquidity is available to meet funding needs. The bank believes its sources of liquidity are sufficient to meet its needs. An unexpected increase of withdrawals of deposits could adversely impact the bank's ability to rely on organic deposits to primarily fund its operations, potentially requiring greater reliance on secondary sources of liquidity to meet withdrawal demands or to fund continuing operations. Such reliance on secondary funding sources could increase the Company's overall cost of funding and thereby reduce net income.

The bank believes its liquidity management through both on-balance sheet and off-balance sheet sources are adequate to fund operations and meet stress events of liquidity demands by having enough liquidity sources to meet the need for all deposits beyond the FDIC insurance coverage amount.

Comprehensive Income

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

Fair Value Measurement

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in NOTE 17. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

Subsequent Events

The Bank has evaluated subsequent events through March 31, 2022 which is the date the consolidated financial statements were available to be issued.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adopted Accounting Pronouncements

Lease Accounting

In February 2016, the FASB issued an accounting standard update which amends existing lease guidance. The update requires lessees to recognize a right-of-use asset and related lease liability for many operating leases now currently off-balance sheet under current U.S. GAAP. Also, the FASB has issued amendments to the update with practical expedients related to land easements, lessor accounting, and disclosures related to accounting changes and error corrections. The update originally required transition to the new lease guidance using a modified retrospective approach which would reflect the application of the update as of the beginning of the earliest comparative period presented.

A subsequent amendment to the update provides an optional transition method that allows entities to initially apply the new lease guidance with a cumulative-effect adjustment to the opening balance of equity in the period of adoption. If this optional transition method is elected, after the adoption of the new lease guidance, the Company's presentation of comparative periods in the financial statements will continue to be in accordance with current lease accounting.

On January 1, 2021, the Bank adopted ASU No. 2016-02 "Leases (Topic 842)" and subsequent amendments thereto. The update was originally effective for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020, with early adoption permitted. During June 2020, the FASB issued an amendment to the update, ASU 2020-05, which deferred the effective date for one year for non-public companies who had not issued their financial statements or made financial statements available for issuance. Adoption of the leasing standard resulted in the recognition of operating right-of-use assets of $6,274,215 and operating lease liabilities of $6,508,385 as of January 1, 2022. These amounts were determined based on the present value of remaining lease payments, discounted using the Bank's risk-free borrowing rate as of the date of adoption. There was no material impact to the timing of expense or income recognition.

Recent Accounting Pronouncements

Measurement of Credit Losses on Financial Instruments

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

The adoption of this standard is not expected to have a material effect on the Bank's operating results or financial condition with an estimated increase to the allowance for credit losses between 1.00% and 10.00% upon adoption. The disclosed estimates are subject to further refinement upon finalization of the Bank's review of the calculations, assumptions, methodologies, and judgments. Internal controls over financial reporting relating to these new processes have been designed and implemented and are being evaluated. The Bank is in the final stages of completing the formal governance and approval process.

- For debt securities with other-than-temporary (OTTI), the guidance will be applied prospectively.
- Existing purchased credit impaired (PCI) assets will be grandfathered and classified as purchased credit deteriorated (PCD) assets at the date of adoption. The assets will be grossed up for the allowance for expected credit losses for all PCD assets at the date of adoption and will continue to recognize the noncredit discount in interest income based on the yield of such assets as of the adoption date. Subsequent changes in expected credit losses will be recorded through the allowance.
- For all other assets within the scope of CECL, a cumulative-effect adjustment will be recognized in retained earnings as of the beginning of the first reporting period in which the guidance is effective.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (continued)

Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions

The amendments in this Update clarify that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The amendments also clarify that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction. The amendments also require the following disclosures for equity securities subject to contractual sale restrictions:

- The fair value of equity securities subject to contractual sale restrictions reflected in the balance sheet
- The nature and remaining duration of the restriction(s)
- The circumstances that could cause a lapse in the restriction(s)

For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2024, and interim periods within those fiscal years. Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance.

The adoption of this standard is not expected to have a material effect on the Bank's operating results or financial condition.

Trouble Debt Restructurings and Vintage Disclosures

This Update eliminates the recognition and measurement guidance for troubled debt restructurings ("TDRs") by creditors in ASC 310-40. This Update also enhances disclosure requirements for certain loan restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity will apply the loan refinancing and restructuring guidance to determine whether a modification or other form of restructuring results in a new loan or a continuation of an existing loan. Additionally, the amendments in this ASU require a public business entity to disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases in the existing vintage disclosures.

The amendments in this Update are effective for entities that have adopted the amendments in Update 2016-13 for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. For entities that have not yet adopted the amendments in Update 2016-13, the effective date for the amendments in this Update are the same as the effective date in Update 2016-13 and such election may be made individually to adopt the guidance related to TDRs, including related disclosures, and the presentation of gross write-off in the vintage disclosure. This Update requires prospective transition for the disclosures related to loan restructurings for borrowers experiencing financial difficulty and the presentation of gross write-offs in the vintage disclosures. The guidance related to the recognition and measurement of TDRs may be adopted on a prospective or modified retrospective transition method. The adoption of this standard is not expected to have a material effect on the Bank's operating results or financial condition.

Fair Value Hedging – Portfolio Layer Method.

On March 28, 2022, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2022-01, Derivatives and Hedging (Topic 815): Fair Value Hedging – Portfolio Layer Method. The purpose of this updated guidance is to further align risk management objectives with hedge accounting results on the application of the last-of-layer method, which was first introduced in ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. ASU 2022-01 is effective for public business entities for fiscal years beginning after December 15, 2022, with early adoption in the interim period, permitted. For entities who have already adopted ASU 2017-12, immediate adoption is allowed. ASU 2022-01 requires a modified retrospective transition method for basis adjustments in which the entity will recognize the cumulative effect of the change on the opening balance of each affected component of equity in the statement of financial position as of the date of adoption. The Company adopted this ASU on July 1, 2022 on a prospective basis; therefore, there was no impact to the consolidated financial statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (continued)

Simplifying the Accounting for Income Taxes

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

Reference Rate Return

In March 2021, the FASB issued an accounting standards update related to contracts or hedging relationships that reference LIBOR or other reference rates that are expected to be discontinued due to reference rate reform. The new standard provides for optional expedients and other guidance regarding the accounting related to modifications of contracts, hedging relationships and other transactions affected by reference rate reform. The Bank has elected to prospectively adopt the new standard whenever a contract modification arises. The Bank is currently evaluating the effect the update will have on existing contracts and its impact on the consolidated financial statements, if any.

3. INVESTMENT SECURITIES

Available for Sale

The amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value of investment securities available for sale, by major security type, as of December 31, 2022 and 2021 are as follows:

	December 31, 2022			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Securities available for sale:				
U.S. government agencies issued securities	$ 53,910,882	$ -	$ (2,934,644)	$ 50,976,238
Mortgage-backed securities	62,136,855	-	(12,980,434)	49,156,421
Collateralized loan obligations	23,337,500	3,716	(63,208)	23,278,008
Municipals	22,829,729	-	(6,356,349)	16,473,380
Corporate bonds	95,099,300	-	(15,602,681)	79,496,619
	$ 257,314,266	**$ 3,716**	**$ (37,937,316)**	**$ 219,380,666**

	December 31, 2021			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Securities available for sale:				
U.S. government agencies issued securities	$ 42,053,797	$ -	$ (931,113)	$ 41,122,684
Collateralized mortgage obligations	887,651	-	(7,566)	880,085
Mortgage-backed securities	228,744,581	86,095	(4,727,616)	224,103,060
Municipals	18,855,008	4,155	(1,013,983)	17,845,180
Corporate bonds	81,184,395	-	(3,448,698)	77,735,697
	$ 371,725,432	**$ 90,250**	**$ (10,128,976)**	**$ 361,686,706**

Investment securities pledged to secure borrowings from the Federal Home Loan Bank had a fair value of approximately $98,000,000 at December 31, 2021. The Bank did not have securities pledged to secure borrowings from the Federal Home Loan Bank at December 31, 2022.

Proceeds from the sales of investment securities available for sale for the year ended December 31, 2021 amounted to $131,663,342. There were no sales of investment securities available for sale in 2022. For the years ended December 31, 2021 there were net gains of $479,105. No gains from the sale of investment securities available for sale were recorded in 2022.

3. INVESTMENT SECURITIES (CONTINUED)

Available for Sale (continued)

Expected maturities of securities available for sale will differ from contractual maturities because borrowers have the right to call or repay obligations with or without call or repayment penalties. The amortized cost and fair value of securities available for sale by contractual maturity are as follows, as of December 31:

	2022 Securities Available for Sale	
	Amortized Cost	Fair Value
Due after one year through five years	$ 33,828,761	$ 30,420,016
Due after five years through ten years	98,006,480	82,313,951
Due after ten years	40,004,670	34,212,270
Mortgage-backed securities	62,136,855	49,156,421
Collateralized loan obligations	23,337,500	23,278,008
	$ 257,314,266	**$ 219,380,666**

Information pertaining to securities with gross unrealized holding losses, aggregated by investment category and length of time that individual securities have been in a continuous loss position at December 31 are as follows:

	Less than Twelve Months		Twelve Months or More		Total	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
December 31, 2022						
U.S. government agencies issued securities	$ 29,649,394	$ (1,077,223)	$ 21,326,844	$ (1,857,421)	$ 50,976,238	$ (2,934,644)
Mortgage-backed securities	10,523,951	(2,462,115)	38,632,470	(10,518,319)	49,156,421	(12,980,434)
Collateralized loan obligations	5,936,792	(63,208)	-	-	5,936,792	(63,208)
Municipals	3,258,680	(756,082)	13,214,700	(5,600,267)	16,473,380	(6,356,349)
Corporate bonds	13,507,542	(1,546,767)	65,989,077	(14,055,914)	79,496,619	(15,602,681)
	$ 62,876,359	**$ (5,905,395)**	**$ 139,163,091**	**$ (32,031,921)**	**$ 202,039,450**	**$ (37,937,316)**

	Less than Twelve Months		Twelve Months or More		Total	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
December 31, 2021						
U.S. government agencies issued securities	$ 27,699,230	$ (197,000)	$ 13,423,453	$ (734,113)	$ 41,122,683	$ (931,113)
Collateralized mortgage obligations	880,085	(7,566)	-	-	880,085	(7,566)
Mortgage-backed securities	132,077,511	(2,461,713)	69,517,812	(2,265,903)	201,595,323	(4,727,616)
Municipals	7,551,640	(87,977)	9,281,950	(926,006)	16,833,590	(1,013,983)
Corporate bonds	28,425,947	(887,104)	49,309,751	(2,561,594)	77,735,698	(3,448,698)
	$ 196,634,413	**$ (3,641,360)**	**$ 141,532,966**	**$ (6,487,616)**	**$ 338,167,379**	**$ (10,128,976)**

The Bank is proactive in determining what possible negative effects could impact their investment portfolio. The Bank performs assessments to determine whether there have been any events or economic circumstances to indicate that a security on which there is an unrealized loss is impaired on an other-than-temporary basis. Management considers many factors in their analysis including the (1) severity and duration of the impairment, (2) the specific credit rating of the security, (3) the intent and ability to hold these securities for a period of time until the value of the security recovers, (4) whether the current market is considered an inactive market where most sales are considered distressed sales or disorderly transactions, and most importantly (5) management estimates the portion of loss attributable to credit using a discounted cash flow model. The Bank estimates the expected cash flows of the underlying collateral using interest rate and prepayment risk models that incorporate management's best estimate of current key assumptions, such as default rates, loss severity and prepayment rates. Based on the expected cash flows derived from the model, the Bank expects to recover the remaining unrealized losses on the securities.

3. INVESTMENT SECURITIES (CONTINUED)

Available for Sale (continued)

At December 31, 2022, the Bank had $2,934,644 in unrealized losses relating to twelve U.S. government agencies issued securities and collateralized mortgage obligations. The losses relate principally to interest rate changes, credit spread widening and reduced liquidity in applicable markets. However, without recovery in the near term such that liquidity returns to the applicable markets and spreads return to levels that reflect underlying credit characteristics, other-than-temporary impairments may occur in future periods. The contractual cash flows of these securities are guaranteed by an agency of the U.S. government. As of December 31, 2022, the Bank does not consider those investments to be other-than-temporarily impaired because the Bank does not intend to sell the securities before recovery of their amortized cost basis, which may be maturity, and it is more likely than not that the Bank will not be required to sell the securities.

At December 31, 2022, the Bank had $63,208 in unrealized losses relating to two collateralized loan obligations. Recent changes in interest rates and central bank activity in financial markets have caused changes in the value of collateralized mortgage obligations to fluctuate unsteadily. As of December 31, 2022, the Bank does not consider those investments to be other-than-temporarily impaired because the Bank does not intend to sell the securities before recovery of their amortized cost basis, which may be maturity, and it is more likely than not that the Bank will not be required to sell the securities.

At December 31, 2022, the Bank had $12,980,434 in unrealized losses relating to nine mortgage-backed securities. Recent changes in interest rates and central bank activity in financial markets have caused changes in the value of mortgage backed securities to fluctuate unsteadily. The contractual cash flows of these securities are from U.S. government sponsored agencies. As of December 31, 2022, the Bank does not consider those investments to be other-than-temporarily impaired because the Bank does not intend to sell the securities before recovery of their amortized cost basis, which may be maturity, and it is more likely than not that the Bank will not be required to sell the securities.

At December 31, 2022, the Bank had $6,356,349 in unrealized loss relating to seven municipal bonds. As of December 31, 2022, the Bank does not consider the municipal bonds to be other-than-temporarily impaired because the decline in market value is mainly attributable to changes in interest rates and not credit quality, the Bank does not intend to sell the securities before recovery of their amortized cost basis, which may be maturity, and it is more likely than not that the Bank will not be required to sell the securities.

At December 31, 2022, the Bank had $15,602,681 in unrealized loss relating to twenty-one corporate bonds. As of December 31, 2022, the Bank does not consider the corporate bonds to be other-than-temporarily impaired because the decline in market value is mainly attributable to changes in interest rates and not credit quality, the Bank does not intend to sell the securities before recovery of their amortized cost basis, which may be maturity, and it is more likely than not that the Bank will not be required to sell the securities.

3. INVESTMENT SECURITIES (CONTINUED)

Held to Maturity

The amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value of investment securities held to maturity, by major security type, as of December 31, 2022 and 2021 are as follows:

	December 31, 2022			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Securities held to maturity:				
U.S. treasuries	$ 19,264,436	$ -	$ (58,186)	$ 19,206,250
U.S. government agencies issued securities	8,960,910	-	(1,056,611)	7,904,299
Collateralized mortgage obligations	405,725	-	(1,774)	403,951
Mortgage-backed securities	189,574,269	304,556	(2,693,750)	187,185,075
	$ 218,205,340	**$ 304,556**	**$ (3,810,321)**	**$ 214,699,575**

	December 31, 2021			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Securities held to maturity:				
Mortgage-backed securities	$ 272,808	$ 3,795	$ -	$ 276,603
	$ 272,808	**$ 3,795**	**$ -**	**$ 276,603**

During the second and fourth quarters of 2022, the Bank reclassified debt securities with an amortized cost of $259,022,719 from available for sale to held to maturity, as it has the ability and intent to hold these securities to maturity. These securities had net unrealized losses of $42,136,815 at the date of transfer, which will continue to be reported in accumulated other comprehensive loss and will be amortized over the remaining life of the transferred securities as an adjustment of yield.

Expected maturities of securities held to maturity will differ from contractual maturities because borrowers have the right to call or repay obligations with or without call or repayment penalties. The amortized cost and fair value of securities held to maturity by contractual maturity are as follows, as of December 31:

	2022 Securities Held to Maturity	
	Amortized Cost	Fair Value
Due less than one year	$ 9,792,736	$ 9,753,905
Due after one year through five years	9,471,701	9,452,345
Due after five years through ten years	-	-
Due after ten years	8,960,909	7,904,299
Mortgage-backed securities	189,574,269	187,185,075
Collateralized mortgage obligations	405,725	403,951
	$ 218,205,340	**$ 214,699,575**

4. LOANS AND ALLOWANCE FOR LOAN LOSSES

The following is a summary of loans outstanding as of December 31:

(1) Purchase Non-Credit Impaired Loans ("PNCI"), shown at carrying value;
(2) Purchased Credit Impaired Loans ("PCI"), shown at carrying value.

	2022					2021
	Legacy Loans	PNCI (1)	Total Loans	PCI (2)	Grand Total	
Land and land development	$ 4,841,846	$ -	$ 4,841,846	$ -	$ 4,841,846	$ 4,955,796
Real estate construction	152,959,760	-	152,959,760	-	152,959,760	66,685,840
Residential real estate	428,378,355	97,334,027	525,712,382	2,171,716	527,884,098	346,915,756
Commercial real estate	1,330,769,968	11,803,291	1,342,573,259	860,539	1,343,433,798	990,935,275
Commercial and Industrial	308,955,246	1,917,990	310,873,236	-	310,873,236	204,886,342
Consumer	563,139	-	563,139	-	563,139	541,327
	2,226,468,314	111,055,308	2,337,523,622	3,032,255	2,340,555,877	1,614,920,336
Less:						
Allowance for loan and lease losses	(26,207,525)	(200,816)	(26,408,341)	(45,793)	(26,454,134)	(20,950,040)
Deferred loan fees/unamortized discount	(1,928,930)	-	(1,928,930)	-	(1,928,930)	(1,605,301)
Net Loans	**$ 2,198,331,859**	**$ 110,854,492**	**$ 2,309,186,351**	**$ 2,986,462**	**$ 2,312,172,813**	**$ 1,592,364,995**

A reconciliation of the recorded investment in loans, is as follows:

	2022	2021
Gross loans	$ 2,340,555,877	$ 1,614,920,336
Plus: Accured interest receivable	7,976,700	6,822,018
Less: Unearned income	1,928,930	1,605,301
Recorded investments in loans	**$ 2,346,603,647**	**$ 1,620,137,053**

The Bank has pledged $695,979,966 and $386,043,934 of mortgage loans as collateral for advances from the Federal Home Loan Bank of Atlanta as of December 31, 2022 and 2021, respectively.

Management has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for loan losses, the Bank has segmented the loans in the portfolio by product type. Loans are segmented into the following pools: land and land development, real estate construction, residential real estate, commercial real estate, commercial and industrial and consumer.

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the balance sheet date. The Bank considers the allowance for loan losses of $26,454,134 and $20,950,040 adequate to cover the loan losses inherent in the loan portfolio at December 31, 2022 and 2021, respectively.

4. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following tables summarize the Bank's loans acquired during 2012 and 2019, the outstanding balance and related carrying amount as of December 31, 2022 and 2021.

	December 31, 2022					
	PCI		PNCI		Total Portfolio	
	Outstanding Balance	Carrying Amount	Outstanding Balance	Carrying Amount	Outstanding Balance	Carrying Amount
Real Estate						
1-4 single family residential	$ 3,172,218	$ 2,171,716	$ 97,455,237	$ 97,334,027	$ 100,627,455	$ 99,505,743
Commercial real estate	1,178,617	860,539	11,848,736	11,803,291	13,027,353	12,663,830
Total real estate	$ 4,350,835	$ 3,032,255	$ 109,303,973	$ 109,137,318	$ 113,654,808	$ 112,169,573
Other Loans						
Commercial and Industrial	$ -	$ -	$ 1,909,394	$ 1,917,990	$ 1,909,394	$ 1,917,990
Total other loans	-	-	1,909,394	1,917,990	1,909,394	1,917,990
Total loans	$ 4,350,835	$ 3,032,255	$ 111,213,367	$ 111,055,308	$ 115,564,202	$ 114,087,563

	December 31, 2021					
	PCI		PNCI		Total Portfolio	
	Outstanding Balance	Carrying Amount	Outstanding Balance	Carrying Amount	Outstanding Balance	Carrying Amount
Real Estate						
1-4 single family residential	$ 4,897,105	$ 3,715,745	$ 130,596,437	$ 130,183,736	$ 135,493,542	$ 133,899,481
Commercial real estate	2,149,625	1,672,974	12,821,552	12,790,530	14,971,177	14,463,504
Total real estate	$ 7,046,730	$ 5,388,719	$ 143,417,989	$ 142,974,266	$ 150,464,719	$ 148,362,985
Other Loans						
Commercial and Industrial	$ -	$ -	$ 2,876,857	$ 2,892,271	$ 2,876,857	$ 2,892,271
Total other loans	-	-	2,876,857	2,892,271	2,876,857	2,892,271
Total loans	$ 7,046,730	$ 5,388,719	$ 146,294,846	$ 145,866,537	$ 153,341,576	$ 151,255,256

The following table summarizes the Bank's amount of accretable yield discount at the beginning and end of the period, reconciled for additions, accretion, disposals of loans, and reclassifications to or from "non-accretable difference" as of December 31, 2022:

	PCI
Balance at December 31, 2021	$ 4,714,525
Accretable discount arising from acquisition of PCI loans	-
Accretion during the period	(478,518)
Reclassification from non-accretable difference	89,961
Loan resolution	(1,166,454)
Balance as of December 31, 2022	**$ 3,159,514**

	PCI
Balance at December 31, 2020	$ 7,067,391
Accretable discount arising from acquisition of PCI loans	-
Accretion during the period	(1,071,580)
Reclassification from non-accretable difference	159,311
Loan resolution	(1,440,597)
Balance as of December 31, 2021	**$ 4,714,525**

4. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following table summarizes the allowance for loan losses associated with PCI loans:

For the Year Ended December 31, 2022

	Residential Real Estate	Commercial Real Estate	Total
Allowance for Loan Losses:			
Balance at beginning of year	$ 312,659	$ 18,559	$ 331,218
Provision for loan losses	(266,866)	(18,559)	(285,425)
Ending Balance	**$ 45,793**	**$ -**	**$ 45,793**
Ending balance: individually evaluated for impairment	$ 45,793	$ -	$ 45,793
Ending balance: collectively evaluated for impairment	$ -	$ -	$ -
Loans:			
Ending balance	$ 2,171,716	$ 860,539	$ 3,032,255
Ending balance: individually evaluated for impairment	$ -	$ -	$ -
Ending balance: collectively evaluated for impairment	$ 2,171,716	$ 860,539	$ 3,032,255

For the Year Ended December 31, 2021

	Residential Real Estate	Commercial Real Estate	Total
Allowance for Loan Losses:			
Balance at beginning of year	$ 870,255	$ 30,786	$ 901,041
Provision for loan losses	(557,596)	(12,227)	(569,823)
Ending Balance	**$ 312,659**	**$ 18,559**	**$ 331,218**
Ending balance: individually evaluated for impairment	$ 312,659	$ 18,559	$ 331,218
Ending balance: collectively evaluated for impairment	$ -	$ -	$ -
Loans:			
Ending balance	$ 3,715,745	$ 1,672,974	$ 5,388,719
Ending balance: individually evaluated for impairment	$ 1,278,517	$ 417,232	$ 1,695,749
Ending balance: collectively evaluated for impairment	$ 2,437,228	$ 1,255,742	$ 3,692,970

4. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Changes in the allowance for loan losses and the outstanding balances in Legacy and PNCI loans are follows for:

For the Year Ended December 31, 2022

	Land and Land Development	Real Estate Construction	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
Allowance for Loan Losses:								
Balance at beginning of year	$ 42,915	$ 618,467	$ 2,928,511	$ 13,501,292	$ 3,515,851	$ 3,160	$ 8,626	$ 20,618,822
(Reversal of) provision for loan losses	(20,233)	1,338,685	(231,195)	2,942,734	237,006	(1,356)	(8,626)	4,257,015
Recoveries	-	-	-	-	1,600,982	-	-	1,600,982
Chargeoffs	-	-	-	(68,478)	-	-	-	(68,478)
Ending Balance	**$ 22,682**	**$ 1,957,152**	**$ 2,697,316**	**$ 16,375,548**	**$ 5,353,839**	**$ 1,804**	**$ -**	**$ 26,408,341**
Ending balance: individually evaluated for impairment	$ -	$ -	$ 65,724	$ -	$ 564,037	$ -	$ -	$ 629,761
Ending balance: collectively evaluated for impairment	$ 22,682	$ 1,957,152	$ 2,631,592	$ 16,375,547	$ 4,789,803	$ 1,804	$ -	$ 25,778,580
Loans:								
Ending balance	**$ 4,841,846**	**$ 152,959,760**	**$ 525,712,382**	**$ 1,342,573,259**	**$ 310,873,236**	**$ 563,139**	**$ -**	**$ 2,337,523,622**
Ending balance: individually evaluated for impairment	$ -	$ -	$ 1,531,497	$ 26,238,197	$ 7,255,531	$ -	$ -	$ 35,025,225
Ending balance: collectively evaluated for impairment	$ 4,841,846	$ 152,959,760	$ 524,180,885	$ 1,316,335,062	$ 303,617,705	$ 563,139	$ -	$ 2,302,498,397

For the Year Ended December 31, 2021

	Land and Land Development	Real Estate Construction	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
Allowance for Loan Losses:								
Balance at beginning of year	$ 2,789	$ 1,367,388	$ 4,374,708	$ 13,133,413	$ 3,587,140	$ 3,350	$ -	$ 22,468,788
Provision for (reversal of) loan losses	40,126	(748,921)	(1,446,197)	360,505	(105,782)	(190)	8,626	(1,891,833)
Recoveries	-	-	-	7,374	537,711	-	-	545,085
Chargeoffs	-	-	-	-	(503,218)	-	-	(503,218)
Ending Balance	**$ 42,915**	**$ 618,467**	**$ 2,928,511**	**$ 13,501,292**	**$ 3,515,851**	**$ 3,160**	**$ 8,626**	**$ 20,618,822**
Ending balance: individually evaluated for impairment	$ -	$ -	$ 983,781	$ 41,728	$ 539,442	$ -	$ -	$ 1,564,951
Ending balance: collectively evaluated for impairment	$ 42,915	$ 618,467	$ 1,944,730	$ 13,459,564	$ 2,976,409	$ 3,160	$ 8,626	$ 19,053,871
Loans:								
Ending balance	**$ 4,955,796**	**$ 66,685,840**	**$ 343,200,011**	**$ 989,262,301**	**$ 204,886,342**	**$ 541,327**	**$ -**	**$ 1,609,531,617**
Ending balance: individually evaluated for impairment	$ -	$ -	$ 2,846,770	$ 7,074,079	$ 7,105,296	$ -	$ -	$ 17,026,145
Ending balance: collectively evaluated for impairment	$ 4,955,796	$ 66,685,840	$ 340,353,241	$ 982,188,222	$ 197,781,046	$ 541,327	$ -	$ 1,592,505,472

4. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

During the year ended December 31, 2022, the provision for loan losses amounted to $3,971,590 and is comprised of $4,257,015 for legacy and PNCI loans and a reversal of $285,425 for PCI loans. During the year ended December 31, 2021, the provision for loan losses amounted to $2,461,656 and is comprised of $1,891,833 for legacy and PNCI loans and $569,823 for PCI loans.

Legacy and PNCI loan credit exposures by internally assigned grades are as follows:

December 31, 2022		**Special**		
Land and land development and real estate construction	**Pass**	**Mention**	**Substandard**	**Total**
Land and land development	$ 4,841,846	$ -	$ -	$ 4,841,846
Real estate construction	152,959,760	-	-	152,959,760
Residential real estate				
1-4 family first lien	523,366,836	-	1,531,497	524,898,333
1-4 family second lien	814,049	-	-	814,049
Commercial real estate				
Commercial real estate term	1,067,753,593	28,754,702	20,366,830	1,116,875,125
Owner occupied commercial real estate	219,826,768	-	5,871,366	225,698,134
Commercial and industrial	303,617,704	-	7,255,532	310,873,236
Consumer	563,139	-	-	563,139
Total loans	**$ 2,273,743,695**	**$ 28,754,702**	**$ 35,025,225**	**$ 2,337,523,622**

December 31, 2021		**Special**		
Land and land development and real estate construction	**Pass**	**Mention**	**Substandard**	**Total**
Land and land development	$ 4,955,796	$ -	$ -	$ 4,955,796
Real estate construction	66,685,840	-	-	66,685,840
Residential real estate				
1-4 family first lien	338,935,727	591,405	2,846,770	342,373,902
1-4 family second lien	826,109	-	-	826,109
Commercial real estate				
Commercial real estate term	736,286,068	61,728,182	-	798,014,250
Owner occupied commercial real estate	180,966,983	3,206,989	7,074,079	191,248,051
Commercial and industrial	195,876,081	1,904,965	7,105,296	204,886,342
Consumer	541,327	-	-	541,327
Total loans	**$ 1,525,073,931**	**$ 67,431,541**	**$ 17,026,145**	**$ 1,609,531,617**

4. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Performing and nonperforming Legacy and PNCI loans based on payment activity are as follows:

December 31, 2022

Land and land development and real estate construction	Performing	Non Performing	Total
Land and land development	$ 4,841,846	$ -	$ 4,841,846
Real estate construction	152,959,760	-	152,959,760
Residential real estate			
1-4 family first lien	523,366,836	1,531,497	524,898,333
1-4 family second lien	814,049	-	814,049
Commercial real estate			
Commercial real estate term	1,116,875,125	-	1,116,875,125
Owner occupied commercial real estate	225,698,134	-	225,698,134
Commercial and industrial	304,300,784	6,572,452	310,873,236
Other Loans			
Consumer	563,139	-	563,139
Total loans	**$ 2,329,419,673**	**$ 8,103,949**	**$ 2,337,523,622**

December 31, 2021

Land and land development and real estate construction	Performing	Non Performing	Total
Land and land development	$ 4,955,796	$ -	$ 4,955,796
Real estate construction	66,685,840	-	66,685,840
Residential real estate			
1-4 family first lien	340,615,668	1,758,235	342,373,903
1-4 family second lien	826,109	-	826,109
Commercial real estate			
Commercial real estate term	798,014,248	-	798,014,248
Owner occupied commercial real estate	190,286,471	961,579	191,248,050
Commercial and industrial	198,690,029	6,196,313	204,886,342
Other Loans			
Consumer	541,327	-	541,327
Total loans	**$ 1,600,615,488**	**$ 8,916,127**	**$ 1,609,531,615**

Nonperforming loans also include certain loans that have been modified in TDRs where economic concessions have been granted to borrowers who have experienced financial difficulties.

Payment activity is reviewed by management on a monthly basis to determine how loans are performing. Loans are considered to be nonperforming when the loan is greater than 90 days delinquent. Certain TDR's that are greater than 90 days past due are considered performing, based on their adherence with their modified terms.

Nonperforming loans, non-accrual loans and 90 days or more past due loans represent 0.35% and 0.55% of total loans as of December 31, 2022 and 2021, respectively.

4. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following tables include an aging analysis of the outstanding balances of past due Legacy and PNCI loans as of December 31, 2022 and 2021. Certain loans over 90 days or more past due with interest and principal are still accruing.

As of December 31, 2022

Age Analysis of Past Due Loans by Loan Class	30-90 Days Past Due	Over 90 Days	Total Past Due	Current	Total Loans	Loans > 90 days and Accruing
Land and land development and real estate construction						
Land and land development	$ -	$ -	$ -	$ 4,841,846	$ 4,841,846	$ -
Real estate construction	-	-	-	152,959,760	152,959,760	-
Residential real estate						
1-4 family first lien	2,883,847	674,165	3,558,011	521,340,322	524,898,333	-
1-4 family second lien	-	-	-	814,049	814,049	-
Commercial real estate						
Commercial real estate term	-	-	-	1,116,875,125	1,116,875,125	-
Owner occupied commercial real estate	-	-	-	225,698,134	225,698,134	-
Commercial and industrial	75,117	6,572,452	6,647,568	304,225,668	310,873,236	-
Other Loans						
Consumer	-	-	-	563,139	563,139	-
Total loans	**$ 2,958,964**	**$ 7,246,617**	**$ 10,205,579**	**$ 2,327,318,043**	**$ 2,337,523,622**	**$ -**

As of December 31, 2021

Age Analysis of Past Due Loans by Loan Class	30-90 Days Past Due	Over 90 Days	Total Past Due	Current	Total Loans	Loans > 90 days and Accruing
Land and land development and real estate construction						
Land and land development	$ -	$ -	$ -	$ 4,955,796	$ 4,955,796	$ -
Real estate construction	-	-	-	66,685,840	66,685,840	-
Residential real estate						
1-4 family first lien	3,815,791	-	3,815,791	338,558,112	342,373,903	-
1-4 family second lien	-	-	-	826,109	826,109	-
Commercial real estate						
Commercial real estate term	-	-	-	798,014,248	798,014,248	-
Owner occupied commercial real estate	10,155	961,579	971,734	190,276,316	191,248,050	-
Commercial and industrial	2,162,739	6,313,801	8,476,540	196,409,803	204,886,343	117,487
Other Loans						
Consumer	-	-	-	541,327	541,327	-
Total loans	**$ 5,988,685**	**$ 7,275,380**	**$ 13,264,065**	**$ 1,596,267,551**	**$ 1,609,531,616**	**$ 117,487**

4. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following table includes the recorded investment and unpaid principal balances for impaired Legacy and PNCI loans with the associated allowance amount, if applicable. Management determined the specific valuation allowance based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the remaining source of repayment for the loan is the operation or liquidation of the collateral. In those cases, the current fair value of the collateral, less selling costs was used to determine the specific valuation allowance recorded.

Also presented are the average recorded investments in the impaired loans and the related amount of interest recognized during the time within the period that the impaired loans were impaired. The average balances are calculated based on the month-end balances of the financing receivables of the period reported.

December 31, 2022

Impaired Loans by Class	Recorded Investment	Unpaid Principal Balance	Valuation Allowance	Average Recorded Investment	Interest Income Recognized
With No Specific Allowance Recorded:					
1-4 family first lien	$ 1,347,497	$ 1,347,497	$ -	$ 1,306,456	$ 48,439
Commercial real estate term	20,147,347	20,366,830	-	6,728,218	1,018,778
Owner occupied commercial real estate	5,890,993	5,871,366	-	6,011,849	364,727
Commercial and industrial	1,630,269	1,629,014	-	1,094,234	43,533
Total	**$ 29,016,106**	**$ 29,214,707**	**$ -**	**$ 15,140,757**	**$ 1,475,477**
With an allowance recorded:					
1-4 family first lien	$ 305,136	$ 306,237	$ 65,724	$ 597,857	$ 5,137
Commercial real estate term	-	-	-	-	-
Owner occupied commercial real estate	-	-	-	716,064	-
Commercial and industrial	4,460,704	5,620,375	564,037	4,958,325	122,726
Total	**$ 4,765,840**	**$ 5,926,612**	**$ 629,761**	**$ 6,272,246**	**$ 127,863**
Impaired Loans by Class Total					
1-4 family first lien	$ 1,652,633	$ 1,653,734	$ 65,724	$ 1,904,313	$ 53,576
Commercial real estate term	20,147,347	20,366,830	-	6,728,218	1,018,778
Owner occupied commercial real estate	5,890,993	5,871,366	-	6,727,913	364,727
Commercial and industrial	6,090,973	7,249,389	564,037	6,052,559	166,259
Total loans	**$ 33,781,946**	**$ 35,141,319**	**$ 629,761**	**$ 21,413,003**	**$ 1,603,340**

December 31, 2021

Impaired Loans by Class	Recorded Investment	Unpaid Principal Balance	Valuation Allowance	Average Recorded Investment	Interest Income Recognized
With No Specific Allowance Recorded:					
1-4 family first lien	$ 1,921,465	$ 1,916,680	$ -	$ 3,911,854	$ 94,644
Commercial real estate term	-	-	-	954,874	-
Owner occupied commercial real estate	6,128,260	6,112,500	-	7,206,026	379,816
Commercial and industrial	1,830,203	2,161,879	-	859,656	63,187
Total	**$ 9,879,928**	**$ 10,191,059**	**$ -**	**$ 12,932,410**	**$ 537,647**
With an allowance recorded:					
1-4 family first lien	$ 1,058,510	$ 1,055,739	$ 983,781	$ 1,968,005	$ 43,044
Commercial real estate term	-	-	-	-	-
Commercial and industrial	5,272,003	8,965,040	539,442	7,334,877	16,048
Total	**$ 7,290,621**	**$ 10,982,358**	**$ 1,564,951**	**$ 9,703,998**	**$ 59,606**
Impaired Loans by Class Total					
1-4 family first lien	$ 2,979,974	$ 2,972,419	$ 983,781	$ 5,879,859	$ 137,688
Commercial real estate term	-	-	-	954,874	-
Owner occupied commercial real estate	7,088,368	7,074,079	41,728	7,607,142	380,330
Commercial and industrial	7,102,207	11,126,919	539,442	8,194,533	79,235
Total loans	**$ 17,170,549**	**$ 21,173,417**	**$ 1,564,951**	**$ 22,636,408**	**$ 597,253**

4. LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Legacy and PNCI loans on non-accrual status by loan segment are as follows:

	December 31, 2022	December 31, 2021
Residential real estate		
1-4 family first lien	$ 1,531,497	$ 1,758,235
Commercial real estate		
Owner occupied	-	961,579
Commercial and industrial	6,572,452	6,196,313
Total loans	**$ 8,103,949**	**$ 8,916,127**

The following tables present troubled debt restructurings as of December 31, 2022 and 2021:

2022	Accrual Status	Non-Accrual Status	Total Troubled Debt Restructured
Residential real estate			
1-4 family first lien	$ 122,237	$ -	$ 122,237
Commercial real estate			
Commercial real estate term	18,872,342	-	18,872,342
Commercial and industrial	320,375	1,300,000	1,620,375
Total	**$ 19,314,954**	**$ 1,300,000**	**$ 20,614,954**

2021	Accrual Status	Non-Accrual Status	Total Troubled Debt Restructured
Residential real estate			
1-4 family first lien	$ 125,649	$ -	$ 125,649
Commercial real estate			
Owner occupied commercial real estate	346,806	-	346,806
Total	**$ 472,455**	**$ -**	**$ 472,455**

The following table presents newly structured Legacy and PNCI loan that occurred during the year ended December 31, 2022. As of December 31, 2021, there were no newly restructured Legacy and PNCI loans that occurred during the year.

2022	Number of Modifications	Recorded Investment Prior to Modification	Recorded Investment After Modification
Commercial real estate			
Commercial real estate term	1	$ 18,872,342	$ 18,872,342
Commercial and Industrial	1	1,500,000	1,500,000
Total	**2**	**$ 20,372,342**	**$ 20,372,342**

As of December 31, 2022 one troubled debt restructuring loan in which a concession was made defaulted in the same year. As of December 31, 2021, there were no troubled debt restructuring loans in which a concession was made and the loan re-defaulted during the same year.

As of December 31, 2022 and 2021, there were no commitments to lend additional funds to borrowers with an impaired loan.

5. DERIVATIVES AND HEDGING ACTIVITIES

Cash Flow Hedges of Interest Rate Risk

The Bank's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Bank primarily uses interest rate caps as part of its interest rate risk management strategy. Interest rate caps designated as cash flow hedges involve the receipt of variable amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up-front premium. During 2022, such derivatives were used to hedge the variable cash flows associated with existing variable-rate FHLB.

For derivatives designated and that qualify as cash flow hedges of interest rate risk, the gain or loss on the derivative is recorded in Accumulated Other Comprehensive Income and subsequently reclassified into interest expense in the same period(s) during which the hedged transaction affects earnings. Gains and losses on the derivative representing hedge components excluded from the assessment of effectiveness are recognized over the life of the hedge on a systematic and rational basis, as documented at hedge inception in accordance with the Company's accounting policy election. The earnings recognition of excluded components is presented in interest expense. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. During the next 12 months, the Company estimates that an additional $353,276 will be reclassified as a reduction to interest expense.

Fair Value Hedges of Interest Rate Risk

The Bank is exposed to changes in the fair value of certain pools of fixed-rate assets due to changes in benchmark interest rates. The Bank uses interest rate swaps to manage its exposure to changes in fair value on these instruments attributable to changes in the designated benchmark interest rate. Interest rate swaps designated as fair value hedges involve the payment of fixed-rate amounts to a counterparty in exchange for the Company receiving variable-rate payments over the life of the agreements without the exchange of the underlying notional amount.

For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in interest income.

As of December 31, 2022, the following amounts were recorded on the balance sheet related to cumulative basis adjustment for fair value hedges:

	Carrying Amount of the Hedged Assets/(Liabilities)		Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged	
	2022	2021	2022	2021
AFS Securities [1]	$ 24,079,477	$ -	$ (920,523)	$ -
Total	**$ 24,079,477**	**$ -**	**$ (920,523)**	**$ -**

[1] These amounts include the amortized cost basis of closed portfolios used to designated hedging relationships in which the hedged item is the stated amount of assets in the closed portfolios anticipated to be outstanding for the designated hedged period. At December 31, 2022, the amortized cost basis of the closed portfolios used in these hedging relationships was $95,099,300.

5. DERIVATIVES AND HEDGING ACTIVITIES (CONTINUED)

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the Balance Sheet as of December 31, 2022:

	Derivative Assets			
			2022	2021
	Notional Amount	Balance Sheet Location	Fair Value	Fair Value
Derivatives designated as hedging instruments				
Interest Rate Products	66,000,000	Other Assets	$ 2,995,526	$ -
Total derivatives designated as hedging instruments			**$ 2,995,526**	**$ -**
Net Derivatives on the Balance Sheet			$ 2,995,526	$ -
Gross Amounts Not Offset in the Statement of Financial Position				
Financial Instruments				
Cash collateral (1)			2,580,000	-
Net Derivative Amounts			**$ 415,526**	**$ -**

(1) Cash collateral represents the amount that cannot be used to offset our derivative assets and liabilities from a gross basis to a net basis in accordance w ith the applicable accounting guidance. The application of the cash collateral cannot reduce the net derivative position below zero. Therefore, excess cash collateral, if any,

The table below presents the effect of fair value and cash flow hedge accounting on Accumulated Other Comprehensive Income as of December 31, 2022:

	Amount of Gain or (Loss) Recognized in OCI on Derivative	Amount of Gain or (Loss) Recognized in OCI Included Component	Amount of Gain or (Loss) Recognized in OCI Excluded Component
Derivatives in Cash Flow Hedging Relationships			
Interest Rate Products	$ 1,265,877	$ 630,692	$ 635,185
Total	**$ 1,265,877**	**$ 630,692**	**$ 635,185**

	Location of Gain or (Loss) Recognized from Accumulated Other Comprehensive Income into Income	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income Included Component	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income Excluded Component
Derivatives in Cash Flow Hedging Relationships				
Interest Rate Products	Interest Expense	$ (70,113)	$ 22,561	$ (92,674)
Total		**$ (70,113)**	**$ 22,561**	**$ (92,674)**

5. DERIVATIVES AND HEDGING ACTIVITIES (CONTINUED)

The table below presents the effect of the Company's derivative financial instruments on the Income Statement as of December 31, 2022:

	Location and Amount of Gain or (Loss) Recognized in Income on Fair Value and Cash Flow Hedging Relationships	
	Interest Expense	**Interest Income**
Total amounts of income and expense line items presented in the statement of financial performance in which the effects of fair value or cash flow hedges are recorded	$ (70,113)	41,682
The effects of fair value and cash flow hedging:		
Interest contracts		
Hedged items		(920,523)
Derivatives designated as hedging instruments		962,205
Gain or (loss) on cash flow hedging relationships in Subtopic 815-20		
Interest contracts		
Amount of gain or (loss) reclassified from accumulated other comprehensive income into income	(70,113)	
Amount of gain or (loss) reclassified from accumulated other comprehensive income into income as a result that a forecasted transaction is no longer	-	
Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income - Included Component	22,561	
Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income - Excluded Component	(92,674)	

6. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, is summarized as follows at December 31:

	2022	2021
Land	$ 4,638,710	$ 4,638,710
Building	7,663,955	7,663,955
Leasehold improvements	4,070,207	4,288,449
Furniture and equipment	2,086,478	2,539,483
Computer equipment and software	7,655,413	6,059,328
Work in progress	13,858,724	7,143,000
Art work	350,168	351,334
	40,323,655	32,684,259
Less:		
Accumulated depreciation and amortization	9,627,833	9,921,267
Property and equipment, net	**$ 30,695,822**	**$ 22,762,992**

Depreciation and amortization of property and equipment amounted to $1,639,476 and to $1,581,762 for the years ended December 31, 2022 and 2021, respectively.

7. DEPOSITS

At December 31, 2022, the scheduled maturities of time deposits are as follows:

2023	$ 992,851,959
2024	46,185,998
2025	226,824
2026	626,164
Thereafter	-
	$ 1,039,890,945

At December 31, 2022 and 2021, overdrafts amounting to $193,854 and $73,790, respectively, were reclassified from demand deposits to loans on the consolidated balance sheets.

8. FORECLOSED ASSETS, NET

The Bank's inventory of foreclosed assets, net by property type, is listed below at December 31:

	2022	**2021**
Commercial Real Estate	$ 506,000	$ -
	$ 506,000	**$ -**

Foreclosed assets are presented net of allowance for losses. At December 31, 2022 and December 31, 2021 there was no allowance for losses associated to foreclosed assets.

Expenses applicable to foreclosed assets include the following at December 31:

	2022	**2021**
Operating (recoveries) expenses	72,114	-
	$ 72,114	**$ -**

9. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The following sets forth information concerning securities sold under agreements to repurchase as of December 31:

	2022	2021
Securities sold under agreements to repurchase	$ -	$ -
Fair value of securities pledged for repurchase agreements	$ -	$ -
Maximum amount outstanding at any month-end during the year	$ -	$ 7,458,157
Average amount outstanding during the year	$ -	$ 3,307,930
Weighted-average interest rate for the year	0.00%	0.03%

10. FEDERAL HOME LOAN BANK ADVANCES

At December 31, 2022 and 2021, the Bank had Federal Home Loan Bank ("FHLB") advances as follows:

Year of Maturity	Interest Rate	2022	2021
2029	0.85%	$ -	$ 50,000,000
2030	0.48%	-	40,000,000
2030	0.69%	-	70,000,000
2030	0.90%	-	75,000,000
2031	0.01%	-	105,000,000
2023	4.24%	12,000,000	-
2023	4.24%	29,000,000	-
2023	4.56%	100,000,000	-
		$ 141,000,000	**$ 340,000,000**

The FHLB advances agreement requires the Bank to maintain certain loans or securities as collateral for these advances (NOTE 4). At December 31, 2022 and 2021, the Bank was in compliance with this requirement of the FHLB membership agreement. At December 31, 2022 and 2021, FHLB stock held by the Bank amounted to $7,059,300 and $13,717,900, respectively.

The Bank has a line of credit with FHLB of Atlanta that allows drawing up to 25% of total assets. As of December 31, 2022 and 2021, the unused portion of the line amounted to approximately $553,438,500 and $170,089,750, respectively. Additionally, the Bank maintains unused lines of credits with other financial institutions for approximately $60,000,000.

11. INCOME TAXES

The provision for (benefit from) income taxes is as follows as of December 31:

	2022	2021
Current (Benefit) Expense:		
Federal	$ 5,349,066	$ 3,772,176
State	1,770,320	691,115
Foreign	3,429,221	1,123,640
	10,548,607	5,586,931
Deferred Expense (Benefit):		
Federal	$ (1,334,861)	$ 1,050,685
State	(248,293)	200,131
Foreign	(322,702)	(16,431)
	(1,905,856)	1,234,385
Total	**$ 8,642,751**	**$ 6,821,316**

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

	2022	Effective Tax Rate
Federal taxes at statutory rate	$ 6,667,804	21.0%
State income taxes, net of federal tax benefit	1,140,798	3.6%
Foreign taxes	1,195,298	3.8%
Bank-owned life insurance	(373,313)	-1.2%
Other, net	12,164	0.0%
Total	**$ 8,642,751**	**27.2%**

	2021	Effective Tax Rate
Federal taxes at statutory rate	$ 5,735,605	21.0%
State income taxes, net of federal tax benefit	668,814	2.4%
Foreign taxes	704,619	2.6%
Bank-owned life insurance	(212,004)	(0.8%)
Other, net	(75,718)	(0.3%)
Total	**$ 6,821,316**	**24.9%**

11. INCOME TAXES (CONTINUED)

The Bank's deferred tax assets and deferred tax liabilities are as follows as of December 31:

	2022	2021
Deferred tax assets:		
Net unrealized loss on securities available-for-sale	$ 19,150,955	$ 2,509,682
Allowance for loan losses	7,743,360	6,103,240
Net operating losses	2,248,799	2,288,402
Accruals	75,888	85,313
Loan discounts	184,091	211,224
Loan fees	879,840	655,667
Non-accrual interest	199,828	278,293
Provision for off balance sheet risk	649,522	358,377
Deferred tax assets	31,132,283	12,490,198
Deferred tax liabilities:		
Core deposit intangibles	$ 12,815	$ 12,586
Depreciable property	775,625	680,898
Deferred tax liability	788,440	693,484
Net deferred tax asset	**$ 30,343,843**	**$ 11,796,714**

As of December 31, 2022 and December 31 2021, the Bank had federal and state net operating loss carryforwards remaining of approximately $9,000,000 and $9,150,000 respectively, which is available to reduce the taxable income of the consolidated federal and state tax returns. As a result of the Brickell Bank acquisition, the future utilization these carryforwards is limited pursuant to the provisions of Internal Revenue Code section 382. This annual limitation amount is $167,000. For the years ended on December 31, 2017 and prior, the net operating loss carryforwards expire in various years through 2037. For the years ended December 31, 2019 and 2018, the net operating loss carryforwards do not expire.

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

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

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

12. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank grants loans to and accepts deposits from its executive officers, principal shareholders, directors, and its affiliates. At December 31, these amounts are summarized as follows:

	2022	
	Range of Interest Rate	Balance
Loans	4.63%	$ 14,961,954
Deposits	0.00% to 4.40%	$ 45,145,717

	2021	
	Range of Interest Rate	Balance
Loans	3.75% to 13.00%	$ 14,838,511
Deposits	0.00% to 0.80%	71,580,355

Interest income and interest expense for the years ended December 31, 2022 and 2021 amounted to $639,383 and $21,302 and 596,915 and $14,440, respectively. In 2022 and 2021, the Bank participated approximately $52 million and $46 million in loans to related parties.

13. EMPLOYEE BENEFIT PLAN

The Bank has adopted a retirement savings plan (the “Retirement Plan”) (a 401k plan) covering substantially all eligible employees effective January 1, 2005. The Retirement Plan includes a provision that the Bank may contribute to the accounts of eligible employees for whom a salary deferral is made. Employees may contribute up to 90% of their compensation subject to certain limits based on federal tax laws. The Bank contributed $951,252 and $808,777 towards the Retirement Plan in 2022 and 2021, respectively.

14. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

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

The Bank’s exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit, unused lines of credit, standby letters of credit are represented by the contractual amount of those instruments. The Bank uses the same credit policies in making these commitments as it does for on-balance-sheet instruments.

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are usually collateralized and usually do not contain a specified maturity date and ultimately may not be drawn upon to the total extent to which the Bank is committed.

14. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK (CONTINUED)

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed-expiration dates or other termination clauses and may require payment of a fee. 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 Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Bank's standby letters of credit are secured by cash collateral at December 31, 2022 and 2021 in the amount of $5,507,576 and $7,617,431, respectively. A summary of the amounts of the Bank's financial instruments, with off-balance sheet risk, is as follows at December 31:

	2022	2021
	Contract Amount	Contract Amount
Unused lines of credit	$ 269,967,790	$ 192,053,600
Commitment to extend credit	32,170,000	24,865,000
Standby letters of credit	10,274,567	10,633,823

15. REGULATORY MATTERS

The Bank, as a state-chartered bank, is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under 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.

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

The Bank has elected to permanently opt-out of the inclusion of accumulated other comprehensive income in our capital calculations, as permitted by the regulations. This opt-out will reduce the impact of market volatility on our regulatory capital levels.

The Bank is required to maintain a capital conservation buffer consisting of additional common equity tier 1 capital greater than 2.5% to risk-weighted assets above the required minimum levels. This capital conservation buffer requirement began to be phased in in January 2016 at 0.625% of risk-weighted assets and increasing each year until fully implemented in January 2019. The Bank's capital conservation buffer was 4.02% and 5.28% for the years ended December 31, 2022 and 2021.

As of December 31, 2022, the Bank was well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since December 31, 2022 that management believes have changed the Bank's category.

15. REGULATORY MATTERS (CONTINUED)

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

	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2020						
Total risk-based capital (to risk-weighted assets)	$ 502,702,332	20.5%	$ 196,464,711	8.0%	$ 245,580,888	10.0%
Tier 1 capital (to risk-weighted assets)	$ 459,312,588	18.7%	$ 147,348,533	6.0%	$ 196,464,711	8.0%
Common equity tier 1 capital (to risk-weighted assets)	$ 209,312,588	8.5%	$ 110,511,400	4.5%	$ 159,627,577	6.5%
Tier 1 capital (to average total assets)	$ 459,312,588	15.8%	$ 116,437,804	4.0%	$ 145,547,255	5.0%

	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2021						
Total risk-based capital (to risk-weighted assets)	$ 221,540,554	13.4%	$ 132,068,315	8.0%	$ 165,085,394	10.0%
Tier 1 capital (to risk-weighted assets)	$ 186,146,975	11.3%	$ 99,051,236	6.0%	$ 132,068,315	8.0%
Common equity tier 1 capital (to risk-weighted assets)	$ 186,146,975	11.3%	$ 74,288,427	4.5%	$ 107,305,506	6.5%
Tier 1 capital (to average total assets)	$ 186,146,975	8.7%	$ 85,876,482	4.0%	$ 107,345,602	5.0%

On June 22, 2022, the Bank issued 250,000 shares of Senior Non-Cumulative Perpetual Preferred stock, Series (the "Designated Senior preferred Stock"), for the capital investment of $250 million from the U.S. Treasury under the Emergency Capital Investment Program ("ECIP"). ECIP investment is treated as Tier 1 Capital for the regulatory capital treatment.

The Designated Senior preferred Stock may be redeemed at the option of the Bank on or after the fifth anniversary of issuance (or earlier in the event of loss of regulatory capital treatment), subject to the approval of the appropriate federal banking regulator in accordance with the federal banking agencies' regulatory capital regulations.

The initial dividend rate of the Designated Senior preferred Stock is zero percent for the first two years after issuance, and thereafter the floor dividend rate is 0.50% and the ceiling dividend rate is 2.00%.

16. LEASES

Lessee Arrangements

The Bank enters into leases in the normal course of business primarily for financial centers, back-office operations locations, business development offices, information technology data centers, and equipment. The Bank's leases have remaining terms ranging from 1 to 6 years, some of which include renewal options to extend the lease for up to 5 years.

	Balance Sheet Classification	2022	2021
Right-of-use assets:			
Operating leases	Accrued interest receivable and other assets	$ 5,453,272	$ -
Finance leases	Premises and equipment, net	22,581	-
Total right-of-use assets		**$ 5,475,853**	**$ -**
Lease liabilities:			
Operating leases	Accrued interest payable and other liabilities	$ 5,709,296	$ -
Finance leases	Long-term debt	22,581	-
Total lease liabilities		**$ 5,731,877**	**$ -**

Lease Expense

The components of total lease cost were as follows for the period ending:

	2022	2021
Finance lease cost		
Right-of-use asset amortization	$ 10,898	$ -
Interest expense	370	-
Operating lease cost	1,054,481	-
Total lease cost, net	**$ 1,065,749**	**$ -**

16. LEASES (CONTINUED)

Lease Obligations

Future undiscounted lease payments for finance and operating leases with initial terms of one year or more as of December 31:

	Operating Leases	Finance Leases
2023	$ 1,078,284	$ 9,029
2024	1,015,583	7,909
2025	1,042,765	6,073
2026	856,002	455
2027	834,518	-
Thereafter	1,185,576	-
Total undiscounted lease payments	6,012,728	23,466
Less: imputed interest	303,432	885
Net lease liabilities	**$ 5,709,296**	**$ 22,581**

Supplemental Lease Information

	2022	2021
Finance lease weighted average remaining lease term (years)	3.00	-
Finance lease weighted average discount rate	1.33%	-
Operating lease weighted average remaining lease term (years)	6.00	-
Operating lease weighted average discount rate	1.67%	-
Cash paid for amounts included in the measurement of Lease Liabilities:		
Operating cash flows from operating leases	$ 1,021,514	$ -
Operating cash flows from finance leases	10,898	-
Financing cash flows from finance leases	-	-
Right-of-use assets obtained in exchange for new finance lease liabilities	$ 33,479	$ -
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 6,507,753	$ -

17. FAIR VALUE MEASUREMENTS

Determination of Fair Value

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

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

In accordance with this guidance, the Bank groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. There have been no changes in the methodologies used at December 31, 2022 and 2021.

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

Level 2 – Valuation is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following methods and assumptions were used to estimate the fair value of each significant class of financial instruments for which it is practicable to estimate fair value:

<u>Cash and Cash Equivalents</u> - For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

<u>Investment Securities Available for Sale and Held to Maturity</u> - When instruments are traded in secondary markets and quoted market prices do not exist for such securities, management generally relies on prices obtained from independent vendors or third-party broker-dealers. Management reviews pricing methodologies provided by the

17. FAIR VALUE MEASUREMENTS (CONTINUED)

Determination of Fair Value (continued)

vendors and third-party broker-dealers in order to determine if observable market information is being utilized. Securities measured with pricing provided by independent vendors or third-party broker-dealers are classified within Level 2 of the hierarchy and often involve using quoted market prices for similar securities, pricing models or discounted cash flow analyses utilizing inputs observable in the market where available. The specific investment holdings which are included in the Level 2 classification are U.S government issued securities; U.S. government agencies, collateralized mortgage obligations, mortgage-backed securities, corporate bonds and municipal securities.

Equity securities – The fair value of equity securities is based on quoted prices in active markets for identical assets or liabilities that the Bank can access at the measurement date and is considered a Level 1 classification. A quoted market price in an active market provides the most reliable evidence of fair value and is used without adjustment to measure fair value whenever available, with limited exceptions.

Loans - For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. Fair values for certain fixed-rate mortgage (e.g. one-to-four family residential), commercial real estate and commercial loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Accrued Interest Receivable and Payable - Carrying amounts of accrued interest receivable and payable approximates its fair value due to the short-term nature of these financial instruments.

Deposits - Fair value of demand deposits, money market and saving accounts is the amount payable on demand (carrying amount) at December 31, 2022 and 2021. The fair value of fixed-maturity time deposits are estimated using discounted cash flow analysis, using the rates currently offered for deposits of similar remaining maturities.

Borrowed Funds - Borrowings under repurchase agreements and other short-term borrowings maturing within ninety days approximate their fair values. Fair values of other long-term borrowings are estimated using discounted cash flow analysis based on the Bank's current incremental borrowing rates for similar types of borrowing arrangements.

Unused Lines of Credit, Commitments to Extend Credit, and Standby Letters of Credit - The fair value of off-balance-sheet, credit-related financial instruments are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties.

Items Measured at Fair Value on a Recurring Basis

The following table represents the Bank's financial instruments measured at fair value on a recurring basis for each of the fair value hierarchy levels:

	Level 1	Level 2	Level 3	Total
December 31, 2022				
U.S. government agencies issued securities	$ -	$ 50,976,238	$ -	$ 50,976,238
Collateralized mortgage obligations	-	49,156,421	-	49,156,421
Mortgage-backed securities	-	23,278,008	-	23,278,008
Corporate bond	-	16,473,380	-	16,473,380
Municipal securities	-	79,496,619	-	79,496,619
Equity securities	1,826,283	-	-	1,826,283
	$ 1,826,283	**$ 219,380,666**	**$ -**	**$ 221,206,949**

	Level 1	Level 2	Level 3	Total
December 31, 2021				
U.S. government agencies issued securities	$ -	$ 41,122,684	$ -	$ 41,122,684
Collateralized mortgage obligations	-	880,085	-	880,085
Mortgage-backed securities	-	224,103,060	-	224,103,060
Corporate bond	-	17,845,180	-	17,845,180
Municipal securities	-	77,735,697	-	77,735,697
Equity securities	998,975	-	-	998,975
	$ 998,975	**$ 361,686,706**	**$ -**	**$ 362,685,681**

17. FAIR VALUE MEASUREMENTS (CONTINUED)

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

Items Measured at Fair Value on a Nonrecurring Basis

Impaired Loans

Certain assets that are considered impaired are not measured at fair value on an ongoing basis but are subject to fair value measurements. These instruments are measured at fair value on a nonrecurring basis and include certain loans that have been deemed to necessitate an impairment analysis.

When a loan is deemed impaired, the Bank's management measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical method, impairment may be measured based on the fair value of the loan or on the fair value of the underlying collateral if the loan is collateral dependent.

As of December 31, 2022 and 2021, loans deemed to be impaired based on fair value measurement totaled $4,765,840 and $7,290,622, respectively, with the portion deemed to be impaired included in the allowance for loan losses.

Collateral dependent loans and loans based on the present value of expected future cash flows discounted at the loan's effective interest rate are classified in Level 3 of the fair value hierarchy as the valuation technique requires inputs that are both significant and unobservable.

The following table represents the Bank's financial instruments measured at fair value on a nonrecurring basis for each of the fair value hierarchy levels:

	Level 1	Level 2	Level 3	Total
December 31, 2022				
Impaired loans	$ -	$ -	$ 4,136,079	$ 4,136,079
Foreclosed assets	-	-	506,000	506,000
	$ -	**$ -**	**$ 4,642,079**	**$ 4,642,079**

	Level 1	Level 2	Level 3	Total
December 31, 2021				
Impaired loans	**$ -**	**$ -**	**$ 5,725,670**	**$ 5,725,670**

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

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17. FAIR VALUE MEASUREMENTS (CONTINUED)

Fair Value of Financial Instruments

The carrying amounts and estimated fair values of the Bank's financial instruments were as follows at December 31, 2022:

	2022	
	Carrying Amount	Fair Value
Financial assets:		
Cash and cash equivalents	$ 89,418,523	$ 89,418,523
Investment securities available for sale	219,380,666	219,380,666
Investment securities held to maturity	218,205,340	214,699,575
Equity securities	1,826,283	1,826,283
Loans, net	2,312,172,813	2,261,658,334
Accrued interest receivable	10,346,012	10,346,012
Financial liabilities:		
Demand, money market and saving accounts	$ 1,370,076,117	$ 1,370,076,117
Time deposits	1,039,890,945	1,032,081,084
Federal Home Loan Bank advance	141,000,000	141,000,000
Subordinated Debt	14,802,245	14,141,195
Accrued interest payable	3,372,034	3,372,034

The carrying amounts and estimated fair values of the Bank's financial instruments were as follows at December 31, 2021:

	2021	
	Carrying Amount	Fair Value
Financial assets:		
Cash and cash equivalents	$ 81,113,572	$ 81,113,572
Investment securities available for sale	361,686,706	361,686,706
Investment securities held to maturity	272,808	276,603
Equity securities	998,975	998,975
Loans, net	1,592,364,995	1,638,513,834
Accrued interest receivable	8,152,025	8,152,025
Financial liabilities:		
Demand, money market and saving accounts	$ 1,246,044,170	$ 1,246,044,170
Time deposits	341,579,394	341,379,836
Securities sold under agreements to repurchase	-	-
Federal Home Loan Bank advance	340,000,000	337,734,221
Subordinated Debt	14,736,327	15,357,777
Accrued interest payable	723,797	723,797

18. BANK OWNED LIFE INSURANCE

Bank owned life insurance ("BOLI") is carried at the amount that could be realized under the contract at the balance sheet date, which is typically the cash surrender value. Changes in cash surrender value are recorded in non-interest income. The Bank maintains BOLI policies with two insurance carriers with a combined cash surrender value of $61,478,500 and $35,725,218 at December 31, 2022 and December 31, 2021 covering certain present and former executives and officers. The Bank is the beneficiary of these policies.

19. REVENUE RECOGNITION

On January 1, 2019, the Bank adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following 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 entity satisfies a performance obligation.

The Bank has elected to apply the ASU and all related ASUs using the modified retrospective method. The implementation of the guidance had no material impact on the measurement or recognition of revenue of prior periods. The Bank generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgement involved in applying Topic 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers. All of the Bank's revenue from contracts with customers in the scope of topic 606 is recognized within noninterest income on the accompanying consolidated statements of earnings. A description of the Bank's revenue streams accounted for under Topic 606 follows:

Service Charges and Fees on Deposit Accounts – Deposits are included as liabilities in the consolidated balance sheets. Service charges and fees on deposit accounts include: overdraft fees, which are charged when customers overdraw their accounts beyond available funds; automated teller machine (ATM) fees charged for withdrawals by deposit customers from other financial institutions' ATMs; and a variety of other monthly or transactional fees for services provided to retail and business customers, mainly associated with checking accounts.

All deposit liabilities are considered to have one-day terms and therefore related fees are recognized in income at the time when services are provided to the customers. Incremental cost of obtaining deposit contracts are not significant and are recognized within noninterest expense in the accompanying consolidated statements of operations.

20. SUBORDINATED DEBT

On December 29, 2020, the Bank completed an offering of $15,000,000 in Subordinated Debt with various institutions. The issuance is of a 10-year term, which is callable after the first five years, with fixed semiannual payments at 5.50% for the first five years and floating rate quarterly payments thereafter. The issuance cost amounted to $322,080 and is presented as a direct reduction of the debt payable on the accompanying consolidated balance sheets. The debt issuance cost is amortized over five years, which is the initial call date.

December 31, 2022	
Subordinated Debt	$ 15,000,000
Unamortized Debt Issuance Cost	(197,755)
	$ 14,802,245