OAK VIEW
BANKSHARES, INC.

2022

OAK VIEW BANKSHARES, INC.

Warrenton, Virginia

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2022

C O N T E N T S

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders
Oak View Bankshares, Inc.
Warrenton, Virginia

Opinion

We have audited the consolidated financial statements of Oak View Bankshares, Inc. and Subsidiary (the Company), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, the related consolidated statements of income, comprehensive income (loss), changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Yount, Hyde & Barbour, P.C.

Roanoke, Virginia
April 20, 2023

OAK VIEW BANKSHARES, INC.
Consolidated Balance Sheets
December 31, 2022 and 2021

	2022	2021
Assets		
Cash and due from banks	$ 8,738,913	$ 13,183,341
Federal funds sold	-	36,781,000
Interest-bearing deposits in other banks	1,921,528	6,412,288
Securities held to maturity, at cost (fair value of $9,504,288 and $5,252,525, respectively)	10,526,520	5,283,291
Securities available for sale, at fair value	182,787,050	19,657,380
Restricted stock, at cost	2,090,617	1,483,955
Loans, net of allowance for loan losses of $2,307,592 and $2,125,650, respectively	271,558,400	249,070,663
Premises and equipment, net	6,424,142	6,224,005
Bank-owned life insurance	9,798,074	5,309,354
Accrued interest receivable	1,657,754	722,402
Deferred tax asset	1,744,715	602,097
Other assets	739,968	369,775
Total assets	$ 497,987,681	$ 345,099,551
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Noninterest bearing	$ 101,410,604	$ 91,240,381
Savings, interest-bearing checking and money market accounts	190,795,644	138,351,659
Time deposits	130,690,781	70,719,527
Total deposits	$ 422,897,029	$ 300,311,567
Federal Home Loan Bank advances and other borrowings	25,506,000	14,900,000
Subordinated debt, net of unamortized issuance costs	13,701,544	-
Accrued expenses and other liabilities	8,865,857	1,256,198
Total liabilities	$ 470,970,430	$ 316,467,765
Shareholders' Equity		
Preferred stock, $ 5.00 par value, 2,000,000 shares authorized; none issued and outstanding	$ -	$ -
Common stock, $ 1.00 par value, 10,000,000 shares authorized; issued and outstanding: 2,956,157 shares	2,956,157	2,956,157
Additional paid-in capital	17,776,623	17,776,623
Retained earnings	11,140,852	8,233,200
Accumulated other comprehensive loss, net	(4,856,381)	(334,194)
Total shareholders' equity	$ 27,017,251	$ 28,631,786
Total liabilities and shareholders' equity	$ 497,987,681	$ 345,099,551

See Notes to Consolidated Financial Statements.

OAK VIEW BANKSHARES, INC.
Consolidated Statements of Income
For the Years Ended December 31, 2022 and 2021

	2022	2021
Interest and Dividend Income		
Interest and fees on loans	$ 11,319,209	$ 10,891,346
Interest on securities	3,242,227	102,128
Dividends on restricted stock	82,864	76,662
Interest on deposits in other banks	104,163	271,484
Interest on federal funds sold	128,458	30,000
Total interest and dividend income	14,876,921	11,371,620
Interest Expense		
Interest on deposits	1,923,432	900,991
Interest on Federal Home Loan Bank advances and other borrowings	404,620	206,471
Interest on subordinated debt	472,889	-
Total interest expense	2,800,941	1,107,462
Net Interest Income	12,075,980	10,264,158
Provision for (recovery of) loan losses	188,629	(59,644)
Net interest income after provision for (recovery of) loan losses	11,887,351	10,323,802
Noninterest Income		
Service charges on deposit accounts	137,283	117,230
Interchange fee income	662,654	527,451
Mortgage loan fee income	295,120	563,727
Bank-owned life insurance	188,720	104,504
Loss on sales of securities, net	(273,624)	-
Other income	177,835	166,145
Total noninterest income	1,187,988	1,479,057
Noninterest Expenses		
Salaries and employee benefits	5,578,882	4,767,303
Occupancy and equipment expense	627,756	567,600
Professional services	275,401	313,677
Data processing	1,290,711	1,723,772
Advertising and marketing	344,089	299,201
Regulatory assessments	247,961	228,799
Franchise tax	228,196	245,280
Other operating expenses	687,428	561,517
Total noninterest expenses	9,280,424	8,707,149
Net income before income tax expense	3,794,915	3,095,710
Income tax expense	739,455	625,793
Net income	$ 3,055,460	$ 2,469,917
Earnings per common share, basic	$ 1.03	$ 0.84
Earnings per common share, diluted	$ 1.03	$ 0.84
Weighted Average Common Shares Outstanding, basic	2,956,157	2,934,583
Weighted Average Common Shares Outstanding, assuming dilution	2,956,157	2,940,815

See Notes to Consolidated Financial Statements.

OAK VIEW BANKSHARES, INC.
Consolidated Statements of Comprehensive Income (Loss)
For the Years Ended December 31, 2022 and 2021

	2022	2021
Net Income	$ 3,055,460	$ 2,469,917
Other comprehensive loss, net of tax:		
Change in fair value of securities available for sale, net of tax $1,262,451 and $88,836, respectively	(4,749,220)	(334,194)
Reclassification adjustment for loss on securities available for sale, net of tax ($60,350) and $0, respectively	227,033	-
Total other comprehensive loss, net of tax, $1,202,101 and $88,836, respectively	(4,522,187)	(334,194)
Total comprehensive income (loss)	$ (1,466,727)	$ 2,135,723

See Notes to Consolidated Financial Statements.

OAK VIEW BANKSHARES, INC.
Consolidated Statements of Changes in Shareholders' Equity
For the Years Ended December 31, 2022 and 2021

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2020	$ 2,896,502	$ 17,538,003	$ 5,879,143	$ -	$ 26,313,648
Net income	-	-	2,469,917	-	2,469,917
Other comprehensive loss, net of tax of $88,836	-	-	-	(334,194)	(334,194)
Cash dividends ($0.04 per share)	-	-	(115,860)	-	(115,860)
Stock options exercised	59,655	238,620	-	-	298,275
Balance at December 31, 2021	$ 2,956,157	$ 17,776,623	$ 8,233,200	$ (334,194)	$ 28,631,786
Balance at December 31, 2021	$ 2,956,157	$ 17,776,623	$ 8,233,200	$ (334,194)	$ 28,631,786
Net income	-	-	3,055,460	-	3,055,460
Other comprehensive loss, net of tax of $1,202,101	-	-	-	(4,522,187)	(4,522,187)
Cash dividends ($0.05 per share)	-	-	(147,808)	-	(147,808)
Balance at December 31, 2022	$ 2,956,157	$ 17,776,623	$ 11,140,852	$ (4,856,381)	$ 27,017,251

See Notes to Consolidated Financial Statements.

OAK VIEW BANKSHARES, INC.
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Net income	$ 3,055,460	$ 2,469,917
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and accretion of securities, net	(330,018)	10,848
Depreciation and amortization	223,157	179,602
Amortization of debt issuance costs	27,132	-
Provision for (recovery of) loan losses	188,629	(59,644)
Loss on sale of securities, net	273,624	-
Gain on disposition of restricted stock	(24,127)	-
Deferred tax expense	59,483	147,038
Income on bank-owned life insurance	(188,720)	(104,504)
Changes in assets and liabilities:		
(Increase) decrease in accrued interest and other assets	(1,305,545)	292,391
Increase (decrease) in accrued expenses and other liabilities	7,609,659	(316,666)
Net cash provided by operating activities	$ 9,588,734	$ 2,618,982
Cash Flows from Investing Activities		
Decrease in interest-bearing deposits in other banks	$ 4,490,760	$ 6,166,886
(Increase) decrease in federal funds sold	36,781,000	(29,520,000)
Purchases of held to maturity securities	(5,250,000)	(4,789,423)
Proceeds from maturities of held to maturity securities	-	2,650,000
Purchases of available for sale securities	(190,919,618)	(20,085,734)
Proceeds from sales of available for sale securities	20,089,975	-
Proceeds from principal payments of available for sale securities	2,038,850	-
(Purchases) redemptions of restricted stock, net	(582,535)	241,650
Loan originations, net	(22,676,366)	(5,416,432)
Purchases of bank-owned life insurance	(4,300,000)	-
Purchases of premises and equipment	(423,294)	(933,199)
Net cash (used in) investing activities	$ (160,751,228)	$ (51,686,252)
Cash Flows from Financing Activities		
Increase in noninterest bearing, savings, interest-bearing checking and money market accounts	$ 62,614,208	$ 65,565,557
Increase (decrease) in time deposits	59,971,254	(5,137,426)
Increase (decrease) in FHLB advances	7,000,000	(2,000,000)
Increase in other borrowings	3,606,000	-
Issuance of subordinated debt, net of issuance costs	13,674,412	-
Cash dividends paid on common stock	(147,808)	(115,860)
Proceeds from exercise of stock options	-	298,275
Net cash provided by financing activities	$ 146,718,066	$ 58,610,546
Net (decrease) increase in cash and cash equivalents	$ (4,444,428)	$ 9,543,276
Cash and cash equivalents, beginning	13,183,341	3,640,065
Cash and cash equivalents, ending	$ 8,738,913	$ 13,183,341
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	$ 2,378,220	$ 1,176,272
Cash payments for taxes	$ 481,932	$ 511,250
Supplemental Disclosures of Noncash Investing Activities		
Unrealized loss on securities available for sale, net of tax	$ (5,724,288)	$ (334,194)

See Notes to Consolidated Financial Statements.

Note 1. Summary of Significant Accounting Policies

Nature of Operations

Oak View Bankshares, Inc. (the “Company”) is a holding company headquartered in Warrenton, Virginia. The Company is the parent company of its wholly owned subsidiary, Oak View National Bank (the “Bank”). The Company provides banking services in the communities in and around Marshall, Warrenton, Culpeper, and Rappahannock, Virginia.

The Company was incorporated on May 27, 2021, by and at the direction of the board of directors of the Bank, for the sole purpose of acquiring the Bank and serving as the Bank’s parent bank holding company pursuant to a corporate reorganization transaction (the “Reorganization”). On May 27, 2021, the Bank and the Company entered into a Reorganization Agreement and Plan of Share Exchange pursuant to which each outstanding share of common stock of the Bank was automatically exchanged for one share of common stock of the Company. The Reorganization was approved by the Bank’s shareholders on August 17, 2021, and was completed on December 15, 2021. The Company’s stock is traded on the OTC Markets Group’s OTC Pink Market under the ticker symbol “OAKV”.

Principles of Consolidation

The consolidated financial statements include the accounts of Oak View Bankshares, Inc. and its wholly owned subsidiary, Oak View National Bank. All significant intercompany transactions have been eliminated in consolidation.

Basis of Presentation

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The material estimate that is particularly susceptible to significant changes in the near term relates to the determination of the allowance for loan losses. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair presentation of the results of operations in these financial statements, have been made.

Subsequent Events

Subsequent events have been considered through April 20, 2023, the same date on which these consolidated financial statements were issued.

Reclassifications

Certain items for prior years have been reclassified to conform to the current year presentation. Such reclassifications had no effect on net income, total assets or shareholders’ equity as previously reported.

Significant Accounting Policies

The following is a description of the significant accounting policies and practices followed by the Company, which conform to accounting principles generally accepted in the United States of America and prevailing practices within the banking industry.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash on hand and amounts due from banks.

Interest-Bearing Deposits in Banks

Interest-bearing deposits in banks have various maturities of less than 12 months and are carried at cost.

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. Securities not classified as held to maturity or trading 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). Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Impairment of securities occurs when the fair value of a security is less than its amortized cost. For debt securities, impairment is considered other-than-temporary and recognized in its entirety in net income if either (i) the Company intends to sell the security or (ii) it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. If, however, the Company does not intend to sell the security and it is not more-than-likely that the Company will be required to sell the security before recovery, management must determine what portion of the impairment is attributable to a credit loss, which occurs when the amortized cost of the security exceeds the present value of the cash flows expected to be collected from the security. If there is no credit loss, there is no other-than-temporary impairment. If there is a credit loss, other-than-temporary impairment exists, and the credit loss must be recognized in net income and the remaining portion of impairment must be recognized in other comprehensive income (loss).

For equity securities carried at cost as restricted securities, impairment is considered to be other-than-temporary based on our ability and intent to hold the investment until a recovery of fair value. Other-than-temporary impairment of an equity security results in a write-down that must be included in income.

Restricted Stock

As a requirement for membership, the Company invests in the stock of the Federal Home Loan Bank of Atlanta ("FHLB"), the Federal Reserve Bank, Community Bankers Bank and Banker's Title. These investments are carried at cost.

Loans

The Company grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by residential and commercial loans throughout Fauquier, Culpeper, and Rappahannock counties of Virginia. The ability of the Company's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

The Company segments its loan portfolio into real estate mortgage loans, commercial loans, and consumer loans. Real estate mortgage loans are further divided into the following classes: construction and land development, residential real estate, commercial real estate and home equity loans. Risk factors evaluated include the economic environment's impact on each portfolio segment and the following specific risk factors:

- Construction and land development real estate loans carry risk associated with the completion of the project, the value of the collateral, and the continued creditworthiness of the borrower.

- Residential real estate mortgage loans include loans for consumer purposes and loans for investment purposes. Single family residential (1-4 units) loans for consumer purposes carry risks associated with the continued creditworthiness of the borrower and the value of the collateral. Single family residential (1-4 units) loans for investment purposes carry risks associated with the continued creditworthiness of the borrower, the value of the collateral, and either the net operating income generated from the lease of the real estate collateral or income generated from the sale of the collateral.

- Commercial real estate loans include owner-occupied commercial real estate loans and non-owner-occupied commercial real estate loans. Owner-occupied commercial real estate loans carry risk associated with the operations of the business that occupies the property and the value of the collateral. Non-owner-occupied commercial real estate loans carry risk associated with either the net operating income generated from the lease of the real estate collateral or income generated from the sale of the collateral. Other risk factors include the creditworthiness of the sponsor and the value of the collateral.

- Home equity lines of credit carry risks associated with the continued creditworthiness of the borrower and changes in the value of the collateral.

- Commercial non-real estate loans carry risk associated with the operations of the business and the value of the collateral, if any.

- Consumer loans represent a small portion of the portfolio and carry risk associated with the creditworthiness of the borrower and the value of the collateral, if any.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for the allowance for loan losses and any unamortized deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and amortized as a level yield adjustment over the respective term of the loan.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan becomes 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are either classified as nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected on nonaccrual loans or charged-off loans is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Beginning in April 2020, the Company originated loans under the Paycheck Protection Program (PPP) of the Small Business Administration (SBA). PPP loans are fully guaranteed by the SBA, and in some cases, borrowers may be eligible to obtain forgiveness of the loans, in which case loans would be repaid by the SBA. As repayment of the PPP loans is guaranteed by the SBA, the Company does not recognize a reserve for PPP loans in its allowance for loan losses. The Company received fees from the SBA of 1.0% to 5.0% of the principal amount of each loan originated under the PPP. Fees received from the SBA are recognized net of direct origination costs in interest income over the life of the related loans. Recognition of fees related to PPP loans is dependent upon the timing of ultimate repayment or forgiveness. All net PPP origination fees had been recognized in income as of December 31, 2022, totaling $1,647,157 since the inception of the PPP. In 2022 and 2021, the Company recognized $118,169 and $1,110,596 in net loan fees related to PPP loans in interest income on loans in the Consolidated Statements of Income, respectively.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience of peer banks, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the collateral value, less costs to sell, or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Company's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

Characteristics of the Company's risk classification grades are as follows:

- Pass rated loans include all loans which are considered to be either high quality, good quality or acceptable quality. Borrowers in this category have acceptable financial condition with demonstrated repayment ability.

- Special mention loans have potential developing weaknesses that deserve extra attention. If the developing weakness is not corrected or mitigated, there may be deterioration in the ability of the borrower to repay.

- Substandard loans are considered to have a well-defined weakness and a possibility that some future loss will be sustained if such weakness is not corrected.

- Doubtful loans have all the weaknesses inherent in loans classified Substandard, plus the added characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values highly questionable and improbable.

- Loss represents a classification for loans which are considered uncollectable and are in the process of being charged-off.

A loan is considered impaired when, based on current information and events, it is probable that the Company 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 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 for commercial and construction loans 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 costs to sell, if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Troubled Debt Restructurings

Troubled debt restructurings (TDRs) occur when the Company agrees to significantly modify the original terms of a loan due to the deterioration in the financial condition of the borrower. TDRs are considered impaired loans and are evaluated individually. Upon designation as a TDR, the Company evaluates the borrower's payment history, past due status and ability to make payments based on the revised terms of the loan. If a loan was accruing prior to being modified as a TDR and if the Company concludes that the borrower is able to make such payments, and there are no other factors or circumstances that would cause it to conclude otherwise, the loan will remain on an accruing status. If a loan was on nonaccrual status at the time of the TDR, the loan will remain on nonaccrual status following the modification and may be returned to accrual status based on the policy for returning loans to accrual status as noted above.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company – put presumptively beyond reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Premises and Equipment

Land is carried at cost. Furniture, equipment, and software are carried at cost less accumulated depreciation and amortization computed on the straight-line method over the estimated useful lives of the assets, which range from 3 to 39 years, or the expected terms of the leases, if shorter.

Income Taxes

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences, operating loss carryforwards, and tax credit carryforwards. Deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for uncertain tax positions in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The Company did not recognize any uncertain tax positions at December 31, 2022 and 2021.

Bank Owned Life Insurance

The Bank purchased life insurance policies on certain key executives. These policies are recorded at their cash surrender values. Increases in the cash surrender value of the life insurance contracts are included in noninterest income.

Other Real Estate Owned

Real estate properties acquired through, or in lieu of, foreclosure are recorded at the time of foreclosure at their fair value, net of estimated costs to sell. At foreclosure, any excess of the loan balance over the fair value of the property, less costs to sell, is charged to the allowance for loan losses. After foreclosure, carrying values are periodically reevaluated and written down as a direct expense if there is an indicated decline in the net realizable value. As of December 31, 2022, and 2021 the Company had no properties classified as other real estate. There were no consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process as of December 31, 2022, and 2021.

Advertising Costs

The Company follows the policy of charging the costs of advertising to expense as incurred. Advertising expenses were $344,089 and $299,201 in 2022 and 2021, respectively.

Comprehensive Income (Loss)

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income (loss). These components are presented in the consolidated statements of comprehensive income (loss).

Earnings Per Common Share

Basic earnings per common share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. At December 31, 2022 and 2021 there were no dilutive potential common shares outstanding or remaining for exercise.

Revenue Recognition

Most of the Company's revenues are associated with financial instruments, including interest income from loans and securities. The Company's noninterest income includes services charges on deposit accounts, interchange fee income and mortgage loan fee income. Substantially all the Company's revenue is generated from contracts with customers. Noninterest income streams are discussed below.

Service Charges on Deposit Accounts: The Company earns fees from its deposit customers for overdraft and account maintenance services. Overdraft fees are recognized when the overdraft occurs. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the company satisfies the performance obligation. The Company also earns fees from its customers from transaction-based services. Such services include safe deposit box, ATM, stop payment and wire transfer fees. In each case, these service charges and fees are recognized in income at the time or within the same period that the Company's performance obligation is satisfied.

Interchange Fee Income: The Company earns interchange fees from debit and credit cardholder transactions conducted through various payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services.

Recent Accounting Pronouncements

During June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The ASU, as amended, requires an entity to measure expected credit losses for financial assets carried at amortized cost based on historical experience, current conditions, and reasonable and supportable forecasts. Among other things, the ASU also amended the impairment model for available for sale securities and addressed purchased financial assets with deterioration. The Company adopted ASU 2016-13 as of January 1, 2023, in accordance with the required implementation date and recorded the impact of adoption to retained earnings, net of deferred income taxes, as required by the standard. The adjustment was not significant to the overall allowance for credit losses or shareholders' equity as compared to December 31, 2022 and consisted of adjustments to the allowance for credit losses to loans, as well as an adjustment to the Company's reserve for unfunded commitments. After adoption, the Company will record adjustments to its allowances for credit losses through the provision for credit losses in the consolidated statements of income.

The Company is utilizing a third-party model to determine its estimate of current expected credit losses, using a weighted average remaining maturity ("WARM") methodology. In accordance with ASC 326, the Company has segmented its loan portfolio based on similar risk characteristics which included call report coding. The Company primarily utilizes changes in leading economic indicators, and changes in real estate collateral values, and may also consider other factors to support its reasonable and supportable forecasting of current expected credit losses. To further adjust the allowance for credit losses for expected losses not already included within the quantitative component of the calculation, the Company may consider the following qualitative adjustment factors: economic conditions, problem loan trends, legal/regulatory environment, lending policy and procedures, credit administration and lending staff, loan review, nature, term and volume of the portfolio, collateral values, and concentrations of credit. The Company's CECL implementation process was overseen by the Chief Financial Officer and included consideration and analysis of multiple loss estimation methodologies, an assessment of relevant qualitative factors and correlation analysis of multiple potential loss drivers and their impact on the Company's historical loss experience. During 2022, the Company calculated its current expected credit losses model in parallel to its incurred loss model to further refine the methodology and model. In addition, the Company engaged a third-party to perform a comprehensive model validation.

In March 2020, FASB issued ASU No. 2020-04 "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." These amendments provide temporary optional guidance to ease the potential burden in accounting for reference rate reform. The ASU provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. It is intended to help stakeholders during the global market-wide reference rate transition period. The guidance is effective for all entities as of March 12, 2020, through December 31, 2022. Subsequently, in January 2021, FASB issued ASU No. 2021-01 "Reference Rate Reform (Topic 848): Scope." This ASU clarifies that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. The ASU also amends the expedients and exceptions in Topic 848 to capture the incremental consequences of the scope clarification and to tailor the existing guidance to derivative instruments affected by the discounting transition. An entity may elect to apply ASU No. 2021-01 on contract modifications that change the interest rate used for margining, discounting, or contract price alignment retrospectively as of any date from the beginning of the interim period that includes March 12, 2020, or prospectively to new modifications from any date within the interim period that includes or is subsequent to January 7, 2021, up to the date that financial statements are available to be issued. An entity may elect to apply ASU No. 2021-01 to eligible hedging relationships existing as of the beginning of the interim period that includes March 12, 2020, and to new eligible hedging relationships entered after the beginning of the interim period that includes March 12, 2020. The Company has no loans or other financial instruments that are directly or indirectly influenced by LIBOR.

Note 2. Securities

Amortized cost and fair values of securities held to maturity as of December 31, 2022, and 2021, are as follows:

	2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
U.S. Treasury securities	$ 1,026,520	$ -	$ (110,387)	$ 916,133
Corporate debt securities	9,500,000	-	(911,845)	8,588,155
Total	$ 10,526,520	$ -	$ (1,022,232)	$ 9,504,288

	2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
U.S. Treasury securities	$ 1,033,291	$ -	$ (16,416)	$ 1,016,875
Corporate debt securities	4,250,000	5,505	(19,855)	4,235,650
Total	$ 5,283,291	$ 5,505	$ (36,271)	$ 5,252,525

The amortized cost and fair value of securities held to maturity as of December 31, 2022, and 2021, by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without penalties.

	2022		**2021**	
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
One to five years	$ 1,026,520	$ 916,133	$ 1,283,291	$ 1,269,870
Five to ten years	9,500,000	8,588,155	4,000,000	3,982,655
	$ 10,526,520	$ 9,504,288	$ 5,283,291	$ 5,252,525

Amortized cost and fair values of securities available for sale as of December 31, 2022, and 2021, are as follows.

	2022			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized (Losses)**	**Fair Value**
U.S. Treasury securities	$ 50,018,546	$ -	$ (3,931,437)	$ 46,087,109
Asset-backed securities	49,764,605	8,431	(250,760)	49,522,276
Mortgage-backed securities:				
Agency	32,047,413	-	(1,003,909)	31,043,504
Nonagency	57,103,805	513,019	(1,482,663)	56,134,161
Total	$ 188,934,369	$ 521,450	$ (6,668,769)	$ 182,787,050

	2021			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized (Losses)**	**Fair Value**
U.S. Treasury securities	$ 20,080,411	$ -	$ (423,031)	$ 19,657,380
Total	$ 20,080,411	$ -	$ (423,031)	$ 19,657,380

The amortized cost and fair value of securities available for sale as of December 31, 2022, by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without penalties.

	2022		**2021**	
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
Less than one year	$ 8,403,605	$ 8,242,169	$ -	$ -
One to five years	98,532,157	96,298,037	-	-
Five to ten years	81,998,607	78,246,844	20,080,411	19,657,380
	$ 188,934,369	$ 182,787,050	$ 20,080,411	$ 19,657,380

Proceeds from sales of securities available for sale during 2022 were $20,089,975, resulting in gross realized gains of $25,846 and gross realized losses of $299,470. There were no sales of securities during 2021.

The carrying value of securities pledged to secure public deposits were $5,271,368 and $1,033,291 at December 31, 2022 and 2021, respectively.

Temporarily Impaired Securities

The following table presents securities with gross unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2022, and 2021, respectively:

2022	Less than 12 months		12 Months of More		Total	
	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)
Held to Maturity						
U.S. Treasury securities	$ 916,133	$ (110,387)	$ -	$ -	$ 916,133	$ (110,387)
Corporate debt securities	6,338,155	(911,845)	-	-	6,338,155	(911,845)
Total	$ 7,254,288	$ (1,022,232)	$ -	$ -	$ 7,254,288	$ (1,022,232)
Available for Sale						
U.S. Treasury securities	$ 46,087,109	$ (3,931,437)	$ -	$ -	$ 46,087,109	$ (3,931,437)
Asset-backed securities	28,189,552	(250,760)	-	-	28,189,552	(250,760)
Mortgage-backed securities:						
Agency	31,042,977	(1,003,909)	-	-	31,042,977	(1,003,909)
Nonagency	47,140,925	(1,482,663)	-	-	47,140,925	(1,482,663)
Total	$ 152,460,563	$ (6,668,769)	$ -	$ -	$ 152,460,563	$ (6,668,769)

2021	Less than 12 months		12 Months of More		Total	
	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)
Held to Maturity						
U.S. Treasury securities	$ 1,016,875	$ (16,416)	$ -	$ -	$ 1,016,875	$ (16,416)
Corporate debt securities	2,730,146	(19,855)	-	-	2,730,146	(19,855)
Total	$ 3,747,021	$ (36,271)	$ -	$ -	$ 3,747,021	$ (36,271)
Available for Sale						
U.S. Treasury securities	$ 19,657,380	$ (423,031)	$ -	$ -	$ 19,657,380	$ (423,031)
Total	$ 19,657,380	$ (423,031)	$ -	$ -	$ 19,657,380	$ (423,031)

U.S. Treasury Securities

The unrealized losses on U.S. Treasury securities are due to changes in interest rates. These securities are backed by the full faith and credit of the U.S. government and therefore not considered to be other-than-temporarily impaired (OTTI) at December 31, 2022.

Asset-Backed Securities

The unrealized losses on 10 asset-backed securities in this category are primarily made up of student loan backed investments under the Federal Family Education Loan Program (FFELP). These loans are generally 97% insured by the Federal Government. The investments have investment grade ratings by credible rating agencies. Management determined that unrealized losses in these securities are a result of movements in interest rates and market conditions. There was no OTTI impairment recognized as of December 31, 2022.

Mortgage-Backed Securities

The unrealized losses on 14 government-sponsored mortgage-backed securities were caused by interest rate movements. The contractual cash flows of those investments are guaranteed by an agency of the U.S. government and therefore not considered to be OTTI at December 31, 2022 due to the decline in the market value being attributable to changes in interest rates and not credit quality, the Company does not intend to sell the investments, and it is not more-likely-than-not that the Company will be required to sell the investments before maturity.

The unrealized losses associated with 14 private-label mortgage-backed securities are primarily driven by higher projected collateral losses, wider credit spreads and changes in interest rates. The Company evaluated credit impairment using an economic cash flow model. There was no OTTI impairment recognized as of December 31, 2022. Management continuously monitors the mortgage-backed securities portfolio for potential permanent impairment. Analytical tools used include robust credit risk analysis. Generally, it is the Company's intent to hold the securities to maturity unless prudent business decisions warrant otherwise.

Corporate Debt Securities

The unrealized losses on 23 corporate debt securities in this category are made up of subordinated debt issuances of other U.S. financial institutions. Management monitors these investments on a quarterly basis for potential permanent impairment. Management determined that unrealized losses in these securities are a result of movements in interest rates and market conditions. There was no OTTI impairment recognized as of December 31, 2022.

Note 3. Loans and Allowance for Loan Losses

A summary of the balances of loans follows:

	2022	2021
Real Estate Mortgage:		
Construction and land development	$ 5,310,396	$ 4,243,671
Residential real estate	120,581,700	102,448,685
Commercial real estate	91,244,595	88,843,283
Home equity loans	15,397,683	15,723,928
Consumer	3,442,122	2,687,385
Commercial	37,604,008	37,134,887
Loans, gross	273,580,504	251,081,839
Less:		
Allowance for loan losses	2,307,592	2,125,650
Unearned income (deferred costs), net	(285,488)	(114,474)
Loans, net	$ 271,558,400	$ 249,070,663

Overdrafts totaling $15,731 and $7,622 at December 31, 2022 and 2021 were reclassified from deposits to loans.

A summary of transactions in the allowance for loan losses is as follows for the years ended December 31, 2022, and 2021:

	December 31, 2022			
	Real Estate Mortgage	Consumer	Commercial	Total
Allowance for Loan Losses:				
Balance, December 31, 2021	$ 1,896,931	$ 18,344	$ 210,375	$ 2,125,650
Loans charged off	-	(6,991)	-	(6,991)
Recoveries	-	304	-	304
Provision for (recovery of) loan losses	247,260	3,818	(62,449)	188,629
Balance, December 31, 2022	$ 2,144,191	$ 15,475	$ 147,926	$ 2,307,592
Ending balances: individually evaluated for impairment	$ -	$ -	$ -	$ -
Ending balances: collectively evaluated for impairment	$ 2,144,191	$ 15,475	$ 147,926	$ 2,307,592
Loans				
Individually evaluated for impairment	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	232,534,374	3,442,122	37,604,008	273,580,504
Balance, December 31, 2022	$ 232,534,374	$ 3,442,122	$ 37,604,008	$ 273,580,504

	December 31, 2021			
	Real Estate Mortgage	Consumer	Commercial	Total
Allowance for Loan Losses:				
Balance, December 31, 2020	$ 1,981,952	$ 26,001	$ 165,957	$ 2,173,910
Loans charged off	-	(2,637)	-	(2,637)
Recoveries	-	733	13,288	14,021
Provision for (recovery of) loan losses	(85,021)	(5,753)	31,130	(59,644)
Balance, December 31, 2021	$ 1,896,931	$ 18,344	$ 210,375	$ 2,125,650
Ending balances: individually evaluated for impairment	$ -	$ -	$ 358	$ 358
Ending balances: collectively evaluated for impairment	$ 1,896,931	$ 18,344	$ 210,017	$ 2,125,292
Loans				
Individually evaluated for impairment	$ -	$ -	$ 2,385	$ 2,385
Collectively evaluated for impairment	211,259,567	2,687,385	37,132,502	251,079,454
Balance, December 31, 2021	$ 211,259,567	$ 2,687,385	$ 37,134,887	$ 251,081,839

The following table represents the credit quality of loan by class as December 31, 2022, and 2021:

	December 31, 2022					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Real estate mortgage	$ 227,765,800	$ 1,819,997	$ 2,948,577	$ -	$ -	$ 232,534,374
Consumer	3,442,122	-	-	-	-	3,442,122
Commercial	37,604,008	-	-	-	-	37,604,008
Total	$ 268,811,930	$ 1,819,997	$ 2,948,577	$ -	$ -	$ 273,580,504

	December 31, 2021					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Real estate mortgage	$ 206,229,131	$ 1,964,462	$ 3,065,974	$ -	$ -	$ 211,259,567
Consumer	2,687,385	-	-	-	-	2,687,385
Commercial	37,134,887	-	-	-	-	37,134,887
Total	$ 246,051,403	$ 1,964,462	$ 3,065,974	$ -	$ -	$ 251,081,839

There were no impaired or nonaccrual loans as of December 31, 2022. There was one impaired loan, which was classified as nonaccrual, as of December 31, 2021, totaling $2,385. Specific reserves related to this impaired loan were $358 as of December 31, 2021. The recorded investment approximated the unpaid principal balance on this loan as of December 31, 2021.

As of December 31, 2022, there was one loan 90 or more days past due and still accruing interest, totaling $18,345. This loan originated under the Small Business Administration (SBA) Paycheck Protection Program and at December 31, 2022, the Company is awaiting payment of the 100% guarantee from the SBA. There were no other loans past due as of December 31, 2022.

As of December 31, 2021, excluding nonaccrual loans, there was one loan 30 - 59 days past due, totaling $9,148. There were no other loans past due as of December 31, 2021.

There were no loans considered to be troubled debt restructurings at December 31, 2022, and 2021.

Note 4. Premises and Equipment

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

	2022	2021
Land	$ 3,725,970	$ 3,725,970
Building and improvements	3,138,403	2,981,110
Furniture, fixtures and equipment	2,049,147	1,783,574
Software	88,625	88,625
	$ 9,002,145	$ 8,579,279
Less accumulated depreciation	2,578,003	2,355,274
	$ 6,424,142	$ 6,224,005

For the years ended December 31, 2022, and 2021, depreciation expense was $223,157 and $179,602, respectively.

Total rent expense on property and equipment for the year ended December 31, 2022, and 2021 totaled $39,093 and $35,388, respectively.

Note 5. Related Party Transactions

Executive officers, directors and their affiliates had loans outstanding of $3,165,322 and $2,960,686 at December 31, 2022, and 2021, respectively. Unfunded commitments were $464,935 at December 31, 2022. During the year ended December 31, 2022, total principal additions and repayments were $608,376 and $403,739, respectively. Related party deposits were $1,714,052 and $2,995,211 at December 31, 2022, and 2021, respectively.

These transactions occurred in the ordinary course of business on substantially the same terms as those prevailing at the time for comparable transactions with unrelated persons.

Note 6. Time Deposits

The following table presents scheduled maturities of time deposits at December 31, 2022:

2023	$ 81,689,683
2024	22,266,827
2025	4,159,047
2026	1,762,914
2027	12,850,310
Thereafter	7,962,000
	$ 130,690,781

Brokered time deposits totaled $20,962,000 as of December 31, 2022. There were no brokered time deposits as of December 31, 2021.

Note 7. Borrowings

The Company has a credit line available with the Federal Home Loan Bank totaling $134,284,200 at December 31, 2022. As of December 31, 2022, and 2021 the Company had advances outstanding of $21,900,000 and $14,900,000, respectively. These advances are secured by a blanket floating lien on real estate mortgage loans secured by 1-to-4 family residential properties. Total lendable collateral value under the blanket lien was $69,421,248 and $70,526,056 as of December 31, 2022, and 2021, respectively. The contractual maturities of Federal Home Loan Bank advances are as follows:

	Balance	Rate
2023	$ 17,000,000	4.57%
2026	4,900,000	1.85%
Total	$ 21,900,000	3.96%

The Company has a credit facility with the Federal Reserve Bank secured by a blanket floating lien on commercial real estate mortgage loans and commercial loans. No amounts were outstanding at December 31, 2022, and 2021. The lendable collateral value under the blanket lien amounted to approximately $104,971,572 and $88,641,478 as of December 31, 2022, and 2021, respectively. Availability on the facility was $78,026,416 and $56,420,906 at December 31, 2022, and 2021, respectively.

The Company has unsecured federal fund lines available with correspondent banks totaling $15.5 million available for overnight borrowing. Amounts outstanding under these lines were $3,606,000 at December 31, 2022. There were no amounts outstanding under these lines at December 31, 2021.

Note 8. Subordinated Debt

On February 25, 2022, the Company issued $14,000,000 in aggregate principal amount of fixed-to-floating rate subordinated notes, net of issuance costs of $325,588, in a private placement transaction to various accredited investors. The notes have a maturity date of March 1, 2032, and have an annual fixed interest rate of 4.00% until March 1, 2027. Thereafter, the notes will have a floating interest rate based on three-month SOFR rate plus 227 basis points from and including March 1, 2027, to the maturity date or any early redemption date. Interest will be paid semi-annually, in arrears, on March 1 and September 1 of each year during the time that the notes remain outstanding through the fixed interest rate period or earlier redemption date. Interest will be paid quarterly, in arrears, on March 1, June 1, September 1 and December 1 throughout the floating interest rate period or earlier redemption date.

Note 9. Income Taxes

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2022, and 2021 are presented below:

	2022	2021
Deferred Tax Assets:		
Allowance for loan losses	$ 473,650	$ 434,037
Unrealized losses on securities available for sale	1,290,937	88,836
Organizational and start-up expenses	31,520	53,771
Accrued vacation	63,804	59,504
Nonaccrual interest	-	3,082
	1,859,911	639,230
Deferred Tax Liabilities:		
Depreciation	55,243	14,943
Deferred loan costs, net	59,953	22,190
	115,196	37,133
Net deferred tax assets	$ 1,744,715	$ 602,097

The provision for income taxes charged to operations for the years ended December 31, 2022, and 2021, consists of the following:

	2022	2021
Current tax expense	$ 679,972	$ 478,755
Deferred tax expense	59,483	147,038
	$ 739,455	$ 625,793

	2022	2021
Tax at statutory federal rate	$ 796,932	$ 650,099
Tax exempt interest income	(24,600)	(7,843)
Cash surrender value of life insurance	(39,631)	(21,946)
Other	6,754	5,483
Income tax expense	$ 739,455	$ 625,793

The Company is no longer subject to examination for federal purposes for the tax years prior to 2019.

Note 10. Financial Instruments with Off-Balance Sheet Risk

The Company is party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, 2022, and 2021, the following financial instruments were outstanding whose contract amounts represent credit risk:

	December 31,	
	2022	2021
Commitments to extend credit	$ 11,274,710	$ 8,253,434
Unfunded commitments under lines of credit	46,056,681	44,089,649
Commercial and standby letters of credit	2,028,285	1,121,613
	$ 59,359,676	$ 53,464,696

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

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 usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

Commercial and standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments, if deemed necessary.

The Company maintains cash accounts in other commercial banks. The amount on deposit with correspondent institutions at December 31, 2022 exceeded the insurance limits of the Federal Deposit Insurance Corporation by $2,548,602.

Note 11. Capital Requirements

The Company and the Bank are 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 Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, financial institutions 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. A financial institution's capital amounts and classification are subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Federal banking regulations also impose regulatory capital requirements on bank holding companies. Prompt corrective action provisions are not applicable to bank holding companies.

The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became fully phased-in on January 1, 2019. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2022, the Bank met all capital adequacy requirements to which it was subject.

Federal and state banking regulations place certain restrictions on dividends paid and loans or advances made by the Bank to the Company. The total amount of dividends that may be paid at any date by the Bank is generally limited to the retained earnings of the Bank, while other measures of capital adequacy may also restrict the Bank's ability to declare dividends.

	Actual		Minimum Capital Requirement		Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
As of December 31, 2022:						
Total Capital (to Risk Weighted Assets)	$ 42,690	15.16%	$ 22,533	8.00%	$ 28,166	10.00%
Tier 1 Capital (to Risk Weighted Assets)	$ 40,382	14.34%	$ 16,900	6.00%	$ 22,533	8.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	$ 40,382	14.34%	$ 12,675	4.50%	$ 18,308	6.50%
Tier 1 Capital (to Average Assets)	$ 40,382	8.65%	$ 10,684	4.00%	$ 13,355	5.00%

	Actual		Minimum Capital Requirement		Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
As of December 31, 2021:						
Total Capital (to Risk Weighted Assets)	$ 31,092	13.80%	$ 18,027	8.00%	$ 22,533	10.00%
Tier 1 Capital (to Risk Weighted Assets)	$ 28,966	12.85%	$ 13,520	6.00%	$ 18,027	8.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	$ 28,966	12.85%	$ 10,140	4.50%	$ 14,647	6.50%
Tier 1 Capital (to Average Assets)	$ 28,966	8.52%	$ 13,597	4.00%	$ 16,996	5.00%

Note 12. Fair Value Measurements

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

Fair value 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, financial assets and financial liabilities are 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. 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.

- Level 1 -Valuations based on quoted prices in active markets for identical assets and liabilities.
- Level 2 -Valuations based on quoted prices for identical assets or liabilities in markets that are not active, or quoted prices for similar assets or liabilities or for which all significant inputs are observable, either directly or indirectly.
- Level 3 -Valuations based on inputs that are unobservable and deemed significant to the overall fair value measurement, including situations where there is little, if any, market activity for the asset or liability.

The following table presents the balances of financial assets and liabilities measured at fair value on a recurring basis.

Securities available for sale

The Company primarily values its investment portfolio using Level 2 fair value measurements but may also use Level 1 or Level 3 measurements based on the composition of the portfolio. The Company has contracted with a third-party portfolio accounting service for the valuation of its securities portfolio. The vendors' primary source for security valuation is the Intercontinental Exchange (ICE). ICE provides opinions using model-based pricing techniques that are partially based on available market data, including prices for similar instruments in active markets and prices for identical assets in markets that are not active. ICE uses proprietary pricing models and pricing systems, mathematical tools and judgment to determine an evaluated price for a security based upon market information regarding that security or securities with similar characteristics.

	Balance	Level 1	Level 2	Level 3
		Fair Value Measurements		
		(In thousands)		
Assets at December 31, 2022				
Available for sale securities:				
U.S. Treasury securities	$ 46,087	$ -	$ 46,087	$ -
Asset-backed securities	49,522	-	49,522	-
Mortgage-backed securities:				
Agency	31,044	-	31,044	-
Nonagency	56,134	-	56,134	-
Total assets at fair value	$ 182,787	$ -	$ 182,787	$ -

	Balance	Level 1	Level 2	Level 3
		Fair Value Measurements		
		(In thousands)		
Assets at December 31, 2021				
Available for sale securities:				
U.S. Treasury securities	$ 19,657	$ -	$ 19,657	$ -
Total assets at fair value	$ 19,657	$ -	$ 19,657	$ -

Under certain circumstances, the Company may be required, from time to time, to measure and recognize certain assets at fair value on a nonrecurring basis. The following describes the valuation techniques and inputs used in determining the fair value of certain assets recorded at fair value on a nonrecurring basis in the financial statements.

Impaired loans

Loans are designated as impaired when, in the judgement of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreements will not be collected. Impairment is measured based on either the fair value of the loan using the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent or using the present value of expected future cash flows discounted at the loan's effective interest rate, which is not a fair value measurement. When an impaired loan is measured at fair value based solely on observable market prices or a current appraisal without further adjustment for unobservable inputs, the Company records the impaired loan as a nonrecurring fair value measurement classified as Level 2. However, if based on management's review, additional discounts to observed market prices or appraisals are required or if observable inputs are not available, the Company records the impaired loan as a nonrecurring fair value measurement classified as Level 3. Impaired loans that are measured based on expected future cash flows discounted at the loan's effective interest rate rather than the market rate of interest, are not recorded at fair value and are therefore excluded from fair value disclosure requirements.

Other Real Estate Owned (OREO)

The carrying amount of real estate owned by the Bank resulting from foreclosures is estimated at the lesser of cost or fair value of the real estate based on an observable market price or a current appraised value net of selling costs. If carried at market price based on appraised value using observable market data, it is recorded as nonrecurring Level 2. When an appraised value is not available or is not current, or management determines the fair value of the real estate is further impaired below the appraised value or there is no observable market price, the Bank records the real estate as nonrecurring Level 3. At December 31, 2022 and 2021 there were no impaired loans and no OREO that were measured at fair value.

The carrying amount and fair value of the Company's financial instruments as of December 31, 2022, and 2021 are as follows:

	Fair Value Measurements at December 31, 2022				
	Carrying Amount	Level 1	Level 2	Level 3	Fair Value
			(In thousands)		
Financial assets:					
Cash and cash equivalents	$ 8,739	$ 8,739	$ -	$ -	$ 8,739
Interest-bearing deposits in banks	1,922	-	1,922	-	1,922
Securities held to maturity	10,527	-	9,504	-	9,504
Securities available for sale	182,787	-	182,787	-	182,787
Restricted stock	2,091	-	2,091	-	2,091
Loans, net	271,558	-	-	264,054	264,054
Bank owned life insurance	9,798	-	9,798	-	9,798
Accrued interest receivable	1,658	-	1,658	-	1,658
Total financial assets	$ 489,079	$ 8,739	$ 207,760	$ 264,054	$ 480,553
Financial liabilities:					
Deposits	$ 422,897	$ -	$ 399,955	$ -	$ 399,955
Federal Home Loan Bank advances and other borrowings	25,506	-	25,047	-	25,047
Subordinated debt	13,702	-	-	12,831	12,831
Accrued interest payable	326	-	326	-	326
Total financial liabilities	$ 462,431	$ -	$ 425,328	$ 12,831	$ 438,159

	Fair Value Measurements at December 31, 2021				
	Carrying Amount	Level 1	Level 2	Level 3	Fair Value
			(In thousands)		
Financial assets:					
Cash and cash equivalents	$ 13,183	$ 13,183	$ -	$ -	$ 13,183
Interest-bearing deposits in banks	6,412	-	6,412	-	6,412
Federal funds sold	36,781	36,781	-	-	-
Securities held to maturity	5,283	-	5,253	-	5,253
Securities available for sale	19,657	-	19,657	-	19,657
Restricted stock	1,484	-	1,484	-	1,484
Loans, net	249,071	-	-	253,176	253,176
Bank owned life insurance	5,309	-	5,309	-	5,309
Accrued interest receivable	722	-	722	-	722
Total financial assets	$ 337,902	$ 49,964	$ 38,837	$ 253,176	$ 305,196
Financial liabilities:					
Deposits	$ 300,312	$ -	$ 301,753	$ -	$ 301,753
Federal Home Loan Bank advances	14,900	-	14,973	-	14,973
Accrued interest payable	86	-	86	-	86
Total financial liabilities	$ 315,298	$ -	$ 316,812	$ -	$ 316,812

The Company assumes interest rate risk (the risk that general interest rate levels will change) in the normal course of operations. As a result, the fair values of the Company's financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to the Company. Management attempts to match maturities of assets and liabilities to the extent believed necessary to balance minimizing interest rate risk and increasing net interest income in current market conditions. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors interest rates, maturities and repricing dates of assets and liabilities and attempts to manage interest rate risk by adjusting terms of new loans, deposits and borrowings and by investing in securities with terms that mitigate the Company's overall interest rate risk.

Note 13. 401(K) Plan

The Bank has adopted a contributory 401(k) profit sharing plan which covers substantially all employees. Participating employees may elect to contribute up to the maximum percentage allowed by the Internal Revenue Service, as defined in the plan. The Bank contributes 3% of the employees' pay regardless of whether the employees contribute. The Bank also matches 100% of the employees' contribution, up to 4%. Therefore, in combination, the maximum that the Bank contributes is 7%. The amount charged to expense for this plan for the years ended December 31, 2022, and 2021 was $315,630 and $286,393, respectively and is included in salaries and employee benefits in the consolidated statements of income.

Note 14. Other Noninterest Income

Other income in the statements of income include the following components:

	Years Ended December 31,	
	2022	2021
Wire fees	$ 33,047	$ 37,426
Credit card fee income	37,533	31,564
Safe deposit box rental	18,299	16,845
Rental income	44,721	58,800
Other noninterest income	44,235	21,510
Total other noninterest income	$ 177,835	$ 166,145

Note 15. Other Operating Expenses

Other operating expenses in the statements of income include the following components:

	Years Ended December 31,	
	2022	2021
Printing and office supplies	$ 79,108	$ 91,956
Telephone expense	92,139	86,208
Employee training expense	33,964	18,166
Other loan expense	18,996	35,191
Postage	14,790	21,926
Insurance expense	58,153	58,561
Dues and memberships	55,647	45,847
Publications and subscriptions	21,271	4,553
Directors fees	124,523	86,972
Shareholder expense	28,078	54,937
Subordinated debt issuance costs	27,132	-
Other operating expense	133,627	57,200
Total other operating expenses	$ 687,428	$ 561,517

Note 16. Accumulated Other Comprehensive Loss

The following table presents information on changes in accumulated other comprehensive loss, net of tax.

	Unrealized Losses on Available for Sale Securities	Total
Balance, December 31, 2021	$ (334,194)	$ (334,194)
Unrealized losses on securities arising during the period, net of tax of $1,262,451	(4,749,220)	(4,749,220)
Reclassification of losses recognized in net income, net of tax of ($60,350)	227,033	227,033
Balance, December 31, 2022	$ (4,856,381)	$ (4,856,381)

	Unrealized Losses on Available for Sale Securities	Total
Balance, December 31, 2020	$ -	$ -
Unrealized losses on securities arising during the period, net of tax of $88,836	(334,194)	(334,194)
Balance, December 31, 2021	$ (334,194)	$ (334,194)

Note 17. Parent Company Only Financial Statements

Balance Sheet
December 31, 2022

	2022
Assets	
Cash	$ 4,788,653
Investment in subsidiary	35,525,697
Other assets	588,001
Total assets	$ 40,902,351
Liabilities and Shareholders' Equity	
Liabilities	
Subordinated debt, net of unamortized issuance costs	$ 13,701,544
Other liabilities	183,556
Total liabilities	$ 13,885,100
Shareholders' Equity	
Preferred stock, $ 5.00 par value, 2,000,000 shares authorized, none issued and outstanding	$ -
Common stock, $ 1.00 par value, 10,000,000 shares authorized; issued and outstanding: 2,956,157	2,956,157
Additional paid-in capital	17,776,623
Retained earnings	11,140,852
Accumulated other comprehensive loss, net	(4,856,381)
Total shareholders' equity	$ 27,017,251
Total liabilities and shareholders' equity	$ 40,902,351

Notes to Consolidated Financial Statements

Statement of Income

For the Year Ended December 31, 2022

	2022
Income	
Dividends from subsidiary	$ 147,808
Expense	
Interest on subordinated debt	$ 472,889
Salaries and employee benefits	50,000
Professional services	63,906
Subordinated debt issuance costs	27,132
Other operating expenses	29,676
Total expenses	643,603
Loss before income taxes and equity in undistributed earnings of subsidiary	(495,795)
Income tax benefit	(135,157)
Loss before equity in undistributed earnings of subsidiary	$ (360,638)
Equity in undistributed earnings of subsidiary	3,416,098
Net Income	$ 3,055,460

Statement of Cash Flows

For the Year Ended December 31, 2022

	2022
Cash Flows from Operating Activities	
Net income	$ 3,055,460
Adjustments to reconcile net income to net cash provided by operating activities:	
Equity in distributed earnings of subsidiary	(3,416,098)
Amortization of subordinated debt issuance costs	27,132
Increase in other assets	(588,001)
Increase in other liabilities	183,556
Net cash provided by operating activities	$ (737,951)
Cash Flows from Investing Activities	
Capital contribution to the Bank	$ (8,000,000)
Net cash (used in) investing activities	$ (8,000,000)
Cash Flows from Financing Activities	
Issuance of subordinated debt, net of issuance costs	$ 13,674,412
Cash dividends paid on common stock	(147,808)
Net cash provided by financing activities	$ 13,526,604
Net increase in cash and cash equivalents	$ 4,788,653
Cash and cash equivalents, beginning	-
Cash and cash equivalents, ending	$ 4,788,653