CENTRAL FINANCIAL HOLDINGS, INC.

Holding Company for

Central Bank

Audited Consolidated Financial Statements

At December 31, 2022 and 2021 and the Years then Ended

(Together with Independent Auditor's Report)

HACKER, JOHNSON & SMITH PA

Fort Lauderdale
Orlando
Tampa

Certified Public Accountants

Independent Auditor's Report

The Board of Directors and Stockholders
Central Financial Holdings, Inc.
Tampa, Florida:

Opinion

We have audited the accompanying consolidated financial statements of Central Financial Holdings, Inc. and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of earnings, comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company 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 ("GAAP").

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 Consolidated 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with GAAP, 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 the Company's ability to continue as a going concern for a period of one year subsequent to the date of this report.

Auditor's Responsibilities for the Audit of the Consolidated 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, 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 consolidated 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.

Hacker, Johnson & Smith PA

HACKER, JOHNSON & SMITH PA
Tampa, Florida
March 10, 2023

CENTRAL FINANCIAL HOLDINGS, INC. AND SUBSIDIARY

Consolidated Balance Sheets
($ in thousands, except per share amounts)

	At December 31, 2022	2021
Assets		
Cash and due from banks	$ 4,428	11,988
Interest-bearing deposits	11,132	24,358
Federal funds sold	1,149	2,666
Total cash and cash equivalents	16,709	39,012
Certificates of deposit	1,996	2,736
Debt securities available for sale	1,986	4,082
Debt securities held to maturity	8,870	-
Loans held for sale	-	354
Loans, net of allowance for loan losses of $2,965 and $3,962	213,041	208,479
Federal Home Loan Bank stock	860	659
Premises and equipment, net	9,156	6,878
Accrued interest receivable	1,112	1,084
Loan servicing rights, net	319	542
Deferred tax asset	379	677
Other assets	1,281	794
Total assets	$ 255,709	265,297
Liabilities and Stockholders' Equity		
Liabilities:		
Noninterest-bearing demand deposits	27,012	33,167
Savings, NOW and money-market deposits	105,545	105,406
Time deposits	70,078	82,437
Total deposits	202,635	221,010
Federal Home Loan Bank advances	17,000	14,000
Senior notes payable, net	7,287	7,233
Official checks	4,059	858
Other liabilities	1,892	1,381
Total liabilities	232,873	244,482
Commitments (Note 11)		
Stockholders' equity:		
Common stock, $.01 par value; 10,000,000 shares authorized, 1,941,377 shares issued and outstanding	19	19
Additional paid-in capital	16,082	16,082
Retained earnings	6,824	4,577
Accumulated other comprehensive (loss) income	(89)	137
Total stockholders' equity	22,836	20,815
Total liabilities and stockholders' equity	$ 255,709	265,297

See Accompanying Notes to Consolidated Financial Statements.

CENTRAL FINANCIAL HOLDINGS, INC. AND SUBSIDIARY

Consolidated Statements of Earnings
(In thousands)

	Year Ended December 31, 2022	2021
Interest income:		
Loans	$ 11,061	11,671
Debt securities	288	163
Other	407	82
Total interest income	11,756	11,916
Interest expense:		
Deposits	1,502	1,373
Borrowings	506	840
Total interest expense	2,008	2,213
Net interest income	9,748	9,703
(Credit) provision for loan losses	(947)	1,757
Net interest income after (credit) provision for loan losses	10,695	7,946
Noninterest income:		
Fees and service charges on deposit accounts	73	64
Gain on sale of loans held for sale	477	1,516
Gain on sale of debt securities	-	141
Other	475	361
Total noninterest income	1,025	2,082
Noninterest expenses:		
Salaries and employee benefits	5,372	4,260
Occupancy and equipment	844	786
Data processing	367	352
Professional fees	301	413
Advertising	153	60
Other	1,257	889
Total noninterest expenses	8,294	6,760
Earnings before income taxes	3,426	3,268
Income taxes	751	786
Net earnings	$ 2,675	2,482

See Accompanying Notes to Consolidated Financial Statements.

CENTRAL FINANCIAL HOLDINGS, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income
(In thousands)

	Year Ended December 31,	
	2022	**2021**
Net earnings	$ 2,675	2,482
Other comprehensive loss:		
Change in unrealized loss on debt securities available for sale:		
Unrealized loss arising during year	(198)	(41)
Reclassification adjustment for realized gains	-	(141)
Net change in unrealized loss	(198)	(182)
Reclassification adjustment for unrealized loss on debt securities available for sale transferred to debt securities held to maturity	(123)	-
Amortization of transferred unrealized loss on debt securities held to maturity	18	-
Other comprehensive loss before income tax benefit	(303)	(182)
Deferred income tax benefit on above changes	77	46
Total other comprehensive loss	(226)	(136)
Comprehensive income	$ 2,449	2,346

See Accompanying Notes to Consolidated Financial Statements.

CENTRAL FINANCIAL HOLDINGS, INC. AND SUBSIDIARY

Consolidated Statements of Stockholders' Equity

Years Ended December 31, 2022 and 2021

($ in thousands, except per share amounts)

	Common Stock		Additional Paid-In	Retained	Accumulated Other Compre-hensive (Loss)	Total Stockholders'
	Shares	Amount	Capital	Earnings	Income	Equity
Balance at December 31, 2020	1,846,250	$ 18	14,521	2,658	273	17,470
Net earnings	-	-	-	2,482	-	2,482
Dividends paid ($.29 per share)	-	-	-	(563)	-	(563)
Net change in unrealized loss on debt securities available for sale, net of tax benefit	-	-	-	-	(136)	(136)
Issuance of common stock	95,127	1	1,561	-	-	1,562
Balance at December 31, 2021	1,941,377	19	16,082	4,577	137	20,815
Net earnings	-	-	-	2,675	-	2,675
Dividends paid ($.22 per share)	-	-	-	(428)	-	(428)
Unrealized loss on debt securities available for sale transferred to debt securities held to maturity, net of tax benefit	-	-	-	-	(92)	(92)
Amortization of transferred unrealized loss on debt securities held to maturity, net of tax benefit	-	-	-	-	14	14
Net change in unrealized loss on debt securities available for sale, net of tax benefit	-	-	-	-	(148)	(148)
Balance at December 31, 2022	1,941,377	$ 19	16,082	6,824	(89)	22,836

See Accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

(In thousands)

	Year Ended December 31, 2022	2021
Cash flows from operating activities:		
Net earnings	$ 2,675	2,482
Adjustments to reconcile net earnings to net cash provided by operating activities:		
(Credit) provision for loan losses	(947)	1,757
Depreciation	228	218
Net accretion of loan fees	(381)	(1,351)
Amortization of premiums and discounts on debt securities	5	19
Gain on sale of debt securities available for sale	-	(141)
(Increase) decrease in accrued interest receivable	(28)	65
(Increase) decrease in other assets	(487)	172
Increase in other liabilities	511	915
Increase in official checks	3,201	471
Originations of loans held for sale	(12,335)	(32,542)
Proceeds from sale of loans held for sale	13,087	35,554
Gain on sale of loans held for sale	(477)	(1,516)
Amortization of debt issuance costs	54	39
Amortization of loan servicing rights	302	213
Deferred income tax provision (benefit)	375	(225)
Net cash provided by operating activities	5,783	6,130
Cash flows from investing activities:		
Redemption (purchase) of certificates of deposits	740	(746)
Purchase of debt securities available for sale	(3,500)	(500)
Purchase of debt securities held to maturity	(3,724)	-
Proceeds from calls and repayments of debt securities available for sale	37	547
Proceeds from repayments of debt securities held to maturity	105	-
Net proceeds from sale of debt securities available for sale	-	2,716
Loan (originations) repayments, net	(3,234)	19,239
Purchase of premises and equipment	(2,506)	(148)
Purchase of Federal Home Loan Bank stock	(201)	(47)
Net cash (used in) provided by investing activities	(12,283)	21,061
Cash flows from financing activities:		
Net (decrease) increase in deposits	(18,375)	39,070
Net decrease in Paycheck Protection Program Liquidity Facility	-	(48,945)
Increase of Federal Home Loan Bank advances	3,000	1,000
Issuance of senior notes payable, net	-	2,332
Dividends paid	(428)	(563)
Proceeds from issuance of common stock	-	1,562
Net cash used in financing activities	(15,803)	(5,544)
Net (decrease) increase in cash and cash equivalents	(22,303)	21,647
Cash and cash equivalents at beginning of year	39,012	17,365
Cash and cash equivalents at end of year	$ 16,709	39,012

(continued)

CENTRAL FINANCIAL HOLDINGS, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows, Continued
(In thousands)

	Year Ended December 31, 2022	2021
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 2,205	2,316
Cash paid during the year for income taxes	$ 785	747
Noncash transactions:		
Transfer of debt securities available for sale to debt securities held to maturity	$ 5,238	-
Amortization of transferred unrealized loss on debt securities held to maturity, net of tax benefit	$ 14	-
Unrealized loss on debt securities available for sale transferred to debt securities held to maturity, net of tax benefit	$ (92)	-
Accumulated other comprehensive (loss) income, net change in unrealized loss on debt securities available for sale, net of tax benefit	$ (148)	(136)
Loan servicing rights capitalized	$ 79	121
Senior notes payable issuance cost capitalized	$ -	168

See Accompanying Notes to Consolidated Financial Statements.

(1) Summary of Significant Accounting Policies

Organization. Central Financial Holdings, Inc. (the "Holding Company") owns 100% of the outstanding common stock of Central Bank (the "Bank"). The Holding Company's primary activity is the operation of the Bank. The Bank is a state (Florida)-chartered commercial bank. The Bank offers a variety of banking and financial services to individual and corporate customers through its three banking offices located in Tampa, St. Augustine and Winter Park, Florida. The Bank has two loan production offices located in Dade City, Florida and Atlanta, Georgia. The deposit accounts of the Bank are insured up to the applicable limits by the Federal Deposit Insurance Corporation ("FDIC").

Subsequent Events. Management has evaluated all significant events occurring subsequent to the consolidated balance sheet date through March 10, 2023, which is the date the consolidated financial statements were available to be issued, determining no events require additional disclosure in the consolidated financial statements.

Basis of Presentation. The accompanying consolidated financial statements include the accounts of the Holding Company and the Bank (collectively, the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation. The accounting and reporting practices of the Company conform to accounting principles generally accepted in the United States of America ("GAAP") and to general practices within the banking industry. The following summarizes the more significant of these polices and practices.

Use of Estimates. In preparing consolidated financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheets and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses.

Revenue from Contracts with Customers. The majority of the Company's revenues come from interest income and financial assets, including loans and debt securities, which are outside the scope of the accounting guidance with respect to revenue from contracts with customers. The Company's revenues within the scope of this guidance are limited to fees and service charges on deposit accounts. The following summarizes the Company's revenue recognition accounting policies for certain noninterest income activities-

(continued)

(1) Summary of Significant Accounting Policies, Continued

Revenue from Contracts with Customers, Continued.

Fees and Service Charges on Deposit Accounts. Deposit related fees consist of fees earned on transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as wire fees, ATM use fees, debit card interchange fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. 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. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Cash and Cash Equivalents. For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash, balances due from banks, interest-bearing deposits with banks and federal funds sold, all of which have an original maturity of less than ninety days.

At December 31, 2022 and 2021, the Company did not have a reserve requirement as the Federal Reserve Board lowered the requirements to zero for all depository institutions.

Debt Securities. Debt securities may be classified as either trading, held-to-maturity or available-for-sale. Trading debt securities are held principally for resale and recorded at their fair values. Unrealized gains and losses on trading debt securities are included immediately in earnings. Debt securities held to maturity are those which the Company has the positive intent and ability to hold to maturity and are reported at amortized cost. Debt securities available for sale consist of debt securities not classified as trading debt securities nor as held-to-maturity debt securities. Unrealized holding gains and losses, net of tax, on debt securities available for sale are excluded from earnings and reported in accumulated other comprehensive (loss) income. Gains and losses on the sale of debt securities available for sale are recorded on the trade date and are determined using the specific-identification method. Premiums and discounts on debt securities available for sale are recognized in interest income using the interest method over the period to maturity or the next call date.

Management evaluates debt securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (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 Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans Held for Sale. Loans originated and intended for sale in the secondary market, which includes Small Business Administration ("SBA") loans and United States Department of Agriculture ("USDA") loans are carried at the lower of cost or estimated fair value in the aggregate. At December 31, 2021, the fair value of loans held for sale exceeded book value.

(continued)

(1) Summary of Significant Accounting Policies, Continued

Loans. Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal adjusted for any charge-offs, the allowance for loan losses, and any deferred fees or costs.

Loan origination fees are deferred, and certain direct origination costs are capitalized. Both are recognized as an adjustment of the yield of the related loan.

The accrual of interest on loans is discontinued at the time the loan is ninety days delinquent unless the loan is well collateralized and in process of collection. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual or 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 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.

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. There were no changes in the Company's accounting policies or methodology during the years ended December 31, 2022 or 2021.

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, 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 specific and general components. The specific component relates to loans that are considered impaired. For such loans, an allowance is established when the discounted cash flows or collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers all other loans and is based on historical loss experience adjusted for qualitative factors.

(continued)

(1) Summary of Significant Accounting Policies, Continued

Allowance for Loan Losses, Continued. The historical loss component of the allowance is determined by losses recognized by portfolio segment over the preceding eighteen months. This is supplemented by the risks for each portfolio segment. Risk factors impacting loans in each of the portfolio segments include any deterioration of property values, reduced consumer and business spending as a result of unemployment and reduced credit availability and lack of confidence in a sustainable economy. The historical experience is adjusted for the following qualitative factors: (a) the existence and effect of any concentrations of credit and changes in the level of such concentrations; (b) changes in national, regional and local economic conditions that affect the collectability of the loan portfolio; (c) changes in levels or trends in charge-offs and recoveries; (d) changes in the volume and severity of past due loans, nonaccrual loans or loans classified special mention, substandard, doubtful or loss; (e) changes in the nature and volume of the loan portfolio and terms of loans; (f) changes in lending policies and procedures, risk selection and underwriting standards; (g) changes in the experience, ability and depth of lending management and other relevant staff; (h) quality of loan review; and (i) the effect of other external factors, trends or uncertainties that could affect management's estimate of probable losses, such as competition and industry conditions.

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 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 if the loan is collateral-dependent.

Loan Servicing Rights. Servicing assets are recognized as separate assets when rights are acquired through sale of financial assets. Capitalized servicing rights are amortized into service fee income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights by predominant characteristics, such as interest rates and terms. The fair value of loan servicing rights is based on a valuation model that calculates the present value of estimated net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income. The Company is able to compare the valuation model inputs and results to widely available published industry data for reasonableness.

(continued)

(1) Summary of Significant Accounting Policies, Continued

Transfer of Financial Assets. Transfers of financial assets or a participating interest in an entire financial asset are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (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. A participating interest is a portion of an entire financial asset that (1) conveys proportionate ownership rights with equal priority to each participating interest holder (2) involves no recourse (other than standard representations and warranties) to, or subordination by, any participating interest holder, and (3) does not entitle any participating interest holder to receive cash before any other participating interest holder. Recourse in the form of an independent third-party guarantee shall be excluded from the evaluation of whether the participating interest definition is met.

Premises and Equipment. Land is stated at cost. Building and improvements, furniture and fixtures, and data processing equipment and software are stated at cost less accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated useful life of each type of asset.

Income Taxes. There are two components of income taxes: current and deferred. Current income taxes reflect taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income taxes result from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Uncertain tax positions are recognized if it is more likely than not that the tax position will be realized or sustained upon examination including resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. As of December 31, 2022, management is not aware of any uncertain tax positions that would have a material effect on the Company's consolidated financial statements.

The Company files consolidated income tax returns. Income taxes are allocated to the Holding Company and the Bank as if separate income tax returns were filed. Interest and penalties on income taxes, if any, are recognized as a component of income taxes.

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(1) Summary of Significant Accounting Policies, Continued

Advertising. The Company expenses all media advertising as incurred.

Off-Balance Sheet Instruments. In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit and unused lines of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded.

Comprehensive Income. GAAP requires that recognized revenue, expenses, gains and losses be included in net earnings. Although certain changes in assets and liabilities, such as unrealized gains and losses on debt securities available for sale, are reported as a separate component of the equity section of the consolidated balance sheets, such items, along with net earnings, are components of comprehensive income.

Accumulated other comprehensive (loss) income consists of the following (in thousands):

	At December 31,	
	2022	2021
Unrealized (loss) gain on debt securities available for sale	$ (14)	184
Unamortized portion of unrealized loss related to debt securities available for sale transferred to debt securities held to maturity	(105)	-
Income tax benefit (expense)	30	(47)
	$ (89)	137

Fair Value Measurements. GAAP defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements.

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

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities that are not active; and model-driven valuations whose inputs are observable or whose significant value drivers are observable. Valuations may be obtained from, or corroborated by, third-party pricing services.

(continued)

(1) Summary of Significant Accounting Policies, Continued

Fair Value Measurements, Continued.

Level 3: Unobservable inputs to measure fair value of assets and liabilities for which there is little, if any market activity at the measurement date, using reasonable inputs and assumptions based upon the best information at the time, to the extent that inputs are available without undue cost and effort.

The following describes valuation methodologies used for assets measured at fair value:

Debt Securities Available for Sale. Where quoted prices are available in an active market, debt securities are classified within Level 1 of the valuation hierarchy. Level 1 debt securities include highly liquid government bonds and certain mortgage products. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of debt securities with similar characteristics, or discounted cash flows. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include certain agency securities, mortgage-backed securities, corporate securities and municipal securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, debt securities are classified within Level 3 of the valuation hierarchy. Debt securities classified within Level 3 include certain residual interests in securitizations and other less liquid securities.

Impaired Loans. Estimates of fair value are determined based on a variety of information, including the use of available appraisals, estimates of market value by licensed appraisers or local real estate brokers and the knowledge and experience of the Company's management related to values of properties in the Company's market areas. Management takes into consideration the type, location and occupancy of the property as well as current economic conditions in the area the property is located in assessing estimates of fair value. Accordingly, fair value estimates for impaired loans are classified as Level 3.

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(1) Summary of Significant Accounting Policies, Continued

Recent Pronouncements. In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326)*. The ASU requires the Company to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. The Company will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. The ASU requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The ASU was effective on January 1, 2023. The Company currently estimates the impact on the allowance for loan losses will not be significant. In addition, the Company expects to recognize a liability for unfunded commitments of approximately $81,000 upon adoption. The impact of adoption will not be significant to the Company's regulatory capital. The Company will not elect to phase-in, over a three-year period, the standard's initial impact on regulatory capital as permitted by the regulatory transition rules. The Company will finalize the adoption during the first quarter of 2023. The Company plans to adopt the guidance prospectively with a cumulative adjustment to retained earnings.

(2) Debt Securities

Debt securities have been classified according to management's intent. The carrying amount of debt securities and their fair values are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
At December 31, 2022:				
Available for Sale-				
Agency securities	$ 2,000	-	(14)	1,986
Held to Maturity:				
Mortgage-backed securities	1,687	-	(66)	1,621
Municipal securities	4,757	-	(155)	4,602
Corporate securities	2,426	-	(230)	2,196
Total	$ 8,870	-	(451)	8,419
At December 31, 2021:				
Available for Sale:				
Mortgage-backed securities	346	13	-	359
Corporate securities	500	-	-	500
Municipal securities	3,052	171	-	3,223
Total	$ 3,898	184	-	4,082

(continued)

(2) Debt Securities, Continued

In May 2022, the Company transferred debt securities of $5,238,000 from the available-for-sale category to the held-to-maturity category at their then fair values resulting in unrealized losses of $123,000. The unrealized loss which is recorded in the stockholders' equity net of amortization and net of tax is being amortized over the remaining term of the securities. At December 31, 2022, $18,000 has been amortized.

The scheduled maturities of debt securities at December 31, 2022 are summarized as follows (in thousands):

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due one to five years	$ 2,000	1,986	496	441
Due from five to ten years	-	-	4,060	3,843
Due after ten years	-	-	2,627	2,514
Mortgage-backed securities	-	-	1,687	1,621
	$ 2,000	1,986	8,870	8,419

The following summarizes sales of debt securities available for sale (in thousands):

	Year Ended December 31, 2022	2021
Proceeds from sale of debt securities	$ -	2,716
Gross gains	-	141
Net gain on sale of debt securities	$ -	141

Debt securities with gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position are as follows (in thousands):

	Less Than Twelve Months		Over Twelve Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
At December 31, 2022:				
Securities Available for Sale-				
Agency securities	$ 1,986	(14)	-	-
Securities Held to Maturity:				
Mortgage-backed securities	1,621	(66)	-	-
Municipal securities	4,602	(155)	-	-
Corporate securities	2,196	(230)	-	-
	$ 8,419	(451)	-	-

(continued)

(2) Debt Securities, Continued

The unrealized losses at December 31, 2022 on twenty investment in debt securities were caused by market conditions. At December 31, 2021, there were no unrealized losses. It is expected that the debt securities would not be settled at a price less than the par value of the investments. Because the decline in fair value is attributable to changes in market conditions and not credit quality, and because the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

Debt securities available for sale measured at fair value on a recurring basis are summarized below (in thousands):

		Fair Value Measurements Using		
	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2022-				
Agency securities	$ 1,986	-	1,986	-
December 31, 2021:				
Mortgage-backed securities	359	-	359	-
Corporate securities	500	-	500	-
Municipal securities	3,223	-	3,223	-
Total	$ 4,082	-	4,082	-

At December 31, 2022, debt securities held to maturity and at December 31, 2021 debt securities available for sale with a carrying value of approximately $236,000 and $359,000, respectively, were pledged to the State of Florida for public deposits and to the Federal Reserve Bank for the loan and discount window.

(continued)

(3) Loans

The segments and classes of loans are as follows (in thousands):

	At December 31,	
	2022	2021
Commercial real estate	$ 97,427	86,041
Residential real estate and home equity	72,063	56,948
Construction and development	22,231	22,254
Commercial	18,081	47,417
Consumer	6,766	1,050
Total loans	216,568	213,710
Less:		
Loan discounts	(317)	(688)
Deferred loan fees, net	(245)	(581)
Allowance for loan losses	(2,965)	(3,962)
Loans, net	$ 213,041	208,479

The Company has divided the loan portfolio into five portfolio segments and classes, each with different risk characteristics and methodologies for assessing risk. All loans are underwritten based upon standards set forth in the policies approved by the Company's board of directors. The portfolio segments which are also the classes are as follows:

Commercial Real Estate. Loans of this type are typically our more complex loans. This category of real estate loans is comprised of loans secured by mortgages on commercial property that are typically owner-occupied, but also includes nonowner-occupied investment properties. Commercial loans that are secured by owner-occupied commercial real estate are repaid through operating cash flow of the borrower. As part of our credit underwriting standards, the Company typically requires personal guarantees from the principal owners of the business supported by a review of the principal owners' personal financial statements and tax returns. As part of the enterprise risk management process, it is understood that risks associated with commercial real estate loans include fluctuations in real estate values, the overall strength of the borrower, the overall strength of the economy, new job creation trends, tenant vacancy rates, environmental contamination, and the quality of the borrowers' management. In order to mitigate and limit these risks, we analyze the borrowers' cash flow and evaluate collateral value. Currently, the collateral securing our commercial real estate loans includes a variety of property types, such as office, warehouse, and retail facilities. Other types include multifamily properties, hotels, mixed-use residential, and commercial properties. Generally, commercial real estate loans present a higher risk profile than our residential real estate loan portfolio.

(continued)

(3) Loans, Continued

Residential Real Estate and Home Equity . The Company offers first and second one-to-four family mortgage loans, multifamily residential loans, and home equity lines of credit. The collateral for these loans is generally on the clients' owner-occupied residences. Although these types of loans present lower levels of risk than commercial real estate loans, risks do still exist because of possible fluctuations in the value of the real estate collateral securing the loan, as well as changes in the borrowers' financial condition. The nonowner-occupied investment properties are more similar in risk to commercial real estate loans, and therefore, are underwritten by assessing the property's income potential and appraised value. In both cases, we underwrite the borrower's financial condition and evaluate his or her global cash flow position. Borrowers may be affected by numerous factors, including job loss, illness, or other personal hardship.

Construction and Development. Construction and development loans to borrowers are to finance the construction of owner occupied and lease properties. These loans are categorized as construction loans during the construction period and may convert to amortizing commercial or residential real estate loans after the construction is complete. Construction and development loans are approved based on an analysis of the borrower and guarantor, the viability of the project and on an acceptable percentage of the appraised value of the property securing the loan. Construction and development loan funds are disbursed periodically based on the percentage of construction completed. The Company carefully monitors these loans with on-site inspections and requires the receipt of lien waivers on funds advanced. Construction and development loans are typically secured by the properties under development or construction, and personal guarantees are typically obtained. Further, to assure that reliance is not placed solely on the value of the underlying property, the Company considers the market conditions and feasibility of proposed projects, the financial condition and reputation of the borrower and guarantors, the amount of the borrower's equity in the project, independent appraisals, cost estimates and pre-construction sale information. The Company also makes loans on occasion for the purchase of land for future development by the borrower. Land loans are extended for the future development for either commercial or residential use by the borrower. The Company carefully analyzes the intended use of the property and the viability thereof.

Commercial. Commercial loans are approved on the basis of the borrowers' ability to service such debt from income. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. As a general practice, the Company takes as collateral a security interest in any available real estate, equipment, or other chattel, although loans may also be made on an unsecured basis. Collateralized working capital loans typically are secured by short-term assets whereas long-term loans are primarily secured by long-term assets.

Consumer. Consumer loans are extended for various purposes, including purchases of automobiles, recreational vehicles, and boats. The Company also offers home improvement loans, lines of credit, personal loans, and deposit account collateralized loans. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. Loans to consumers are approved after a credit evaluation, including the creditworthiness of the borrower(s), the purpose of the credit, and the secondary source of repayment. Consumer loans are made at fixed and variable interest rates and may be made on terms of up to ten years. Risk is mitigated by the fact that the loans are of smaller individual amounts.

(continued)

(3) Loans, Continued

An analysis of the change in allowance for loan losses follow (in thousands):

	Commercial Real Estate	Residential Real Estate and Home Equity	Construction and Development	Commercial	Consumer	Unallocated	Total
Year Ended December 31, 2022:							
Beginning balance	$ 1,063	510	124	468	40	1,757	3,962
Provision (credit) for loan losses	5	125	110	401	169	(1,757)	(947)
Charge-offs	-	-	-	(76)	-	-	(76)
Recoveries	-	-	-	26	-	-	26
Ending balance	$ 1,068	635	234	819	209	-	2,965
Individually evaluated for impairment:							
Recorded investment	$ -	-	-	1,229	-	-	1,229
Balance in allowance for loan losses	$ -	-	-	630	-	-	630
Collectively evaluated for impairment:							
Recorded investment	$ 97,427	72,063	22,231	16,852	6,766	-	215,339
Balance in allowance for loan losses	$ 1,068	635	234	189	209	-	2,335
Year Ended December 31, 2021:							
Beginning balance	914	496	198	410	2	1,000	3,020
Provision (credit) for loan losses	149	14	(74)	873	38	757	1,757
Charge-offs	-	-	-	(839)	-	-	(839)
Recoveries	-	-	-	24	-	-	24
Ending balance	$ 1,063	510	124	468	40	1,757	3,962
Individually evaluated for impairment:							
Recorded investment	$ -	-	-	306	-	-	306
Balance in allowance for loan losses	$ -	-	-	210	-	-	210
Collectively evaluated for impairment:							
Recorded investment	$ 86,041	56,948	22,254	47,111	1,050	-	213,404
Balance in allowance for loan losses	$ 1,063	510	124	258	40	1,757	3,752

The Company grants the majority of its loans to borrowers throughout Hillsborough, Orange, St. Johns and Pasco County, Florida and Fulton County, Georgia. Although the Company has a diversified loan portfolio, a significant portion of its borrowers' ability to honor their contracts is dependent upon the economy of these areas.

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors.

(continued)

(3) Loans, Continued

The Company analyzes loans individually by classifying the loans as to credit risk. Loans classified as substandard or special mention are reviewed quarterly by the Company for further deterioration or improvement to determine if they are appropriately classified and whether there is any impairment. All loans are graded upon initial issuance. Further, loan relationships in excess of $500,000 are reviewed at least annually to determine the appropriate loan grading. In addition, during the renewal process of any loan, as well as if a loan becomes past due, the Company will determine the appropriate loan grade.

Loans excluded from the review process above are generally classified as pass credits until: (a) they become past due; (b) management becomes aware of a deterioration in the credit worthiness of the borrower; or (c) the customer contacts the Company for a modification. In these circumstances, the loan is specifically evaluated for potential classification as to special mention, substandard or even charged-off. The Company uses the following definitions for risk ratings:

Pass – A Pass loan's primary source of loan repayment is satisfactory, with secondary sources very likely to be realized if necessary.

Special Mention – A Special Mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the asset or the Company's credit position at some future date. Special Mention loans are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

Substandard – A Substandard loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful – A loan classified Doubtful has all the weaknesses inherent in one classified Substandard with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss – A loan classified Loss is considered uncollectible and of such little value that continuance as a bankable asset is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future.

(continued)

(3) Loans, Continued

The following summarizes the loan credit quality by internally assigned grade (in thousands):

	Commercial Real Estate	Residential Real Estate and Home Equity	Construction and Development	Commercial	Consumer	Total
December 31, 2022:						
Grade:						
Pass	$ 97,427	72,063	22,231	16,852	6,766	215,339
Substandard	-	-	-	1,229	-	1,229
Total	$ 97,427	72,063	22,231	18,081	6,766	216,568
December 31, 2021:						
Grade:						
Pass	85,693	56,948	22,254	46,847	1,050	212,792
Special mention	348	-	-	264	-	612
Substandard	-	-	-	306	-	306
Total	$ 86,041	56,948	22,254	47,417	1,050	213,710

Age analysis of past-due loans is as follows (in thousands):

	Accruing Loans						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Nonaccrual Loans	Total Loans
At December 31, 2022:							
Commercial real estate	$ -	-	-	-	97,427	-	97,427
Residential real estate and home equity	1,269	-	-	1,269	70,794	-	72,063
Construction and development	-	-	-	-	22,231	-	22,231
Commercial	657	714	-	1,371	16,195	515	18,081
Consumer	-	-	-	-	6,766	-	6,766
Total	$ 1,926	714	-	2,640	213,413	515	216,568
At December 31, 2021:							
Commercial real estate	-	-	-	-	86,041	-	86,041
Residential real estate and home equity	7	-	-	7	56,941	-	56,948
Construction and development	-	-	-	-	22,254	-	22,254
Commercial	-	-	-	-	47,111	306	47,417
Consumer	-	-	-	-	1,050	-	1,050
Total	$ 7	-	-	7	213,397	306	213,710

(continued)

(3) Loans, Continued

The following summarizes the amount of impaired loans (in thousands):

	With No Related Allowance Recorded		With an Allowance Recorded			Total		
	Recorded Investment	Unpaid Contractual Principal Balance	Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance	Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance
At December 31, 2022-								
Commercial	$ 101	101	1,128	1,128	630	1,229	1,229	630
At December 31, 2021-								
Commercial	$ -	-	306	674	210	306	674	210

The average net investment in impaired loans and interest income recognized and received on impaired loans are as follows (in thousands):

	Average Recorded Investment	Interest Income Recognized	Interest Income Received
Year Ended December 31, 2022-			
Commercial	$ 429	-	-
Year Ended December 31, 2021:			
Commercial real estate	131	21	21
Commercial	1,110	122	122
	$ 1,241	143	143

Impaired collateral-dependent loans are carried at the lower of cost or fair value less estimated selling costs. Those impaired collateral-dependent loans which are measured at fair value on a nonrecurring basis are as follows (in thousands):

	Fair Value	Level 1	Level 2	Level 3	Total Losses	Losses Recorded During the Year
December 31, 2022-						
Commercial	$ 498	-	-	498	630	437
December 31, 2021-						
Commercial	$ 96	-	-	96	578	151

Troubled debt restructuring ("TDR") that have subsequently defaulted are considered collateral-dependent. There were no TDRs entered into during the years ended December 31, 2022 or 2021.

(continued)

(4) Loan Servicing Rights

SBA and USDA loans serviced for other entities are not included in the accompanying consolidated balance sheets. The unpaid principal balance of these loans were approximately $41.6 million and $59.9 million at December 31, 2022 and 2021, respectively.

The fair value of servicing rights was determined by management using a discount rate of 13.5% and 10% and a weighted-average constant prepayment rate of 15.4% and 17.1% for December 31, 2022 and 2021, respectively, depending upon the stratification of the specific right.

The following summarizes loan servicing rights capitalized and amortized (in thousands):

	Year Ended December 31, 2022	2021
Loan servicing rights capitalized	$ 79	121
Loan servicing rights amortized	$ 302	213

(5) Premises and Equipment

A summary of premises and equipment follows (in thousands):

	At December 31, 2022	2021
Land	$ 4,836	3,610
Building and improvements	4,967	3,917
Furniture and fixtures	1,099	883
Data processing equipment and software	338	324
Total, at cost	11,240	8,734
Less accumulated depreciation	(2,084)	(1,856)
Premises and equipment, net	$ 9,156	6,878

The Company has operating leases with third parties to lease a portion of its main office. Total rental income in 2022 and 2021 was approximately $70,000 and $56,000, respectively. The lease terms are through 2023 and have future lease commitments of approximately $74,000 at December 31, 2022.

(continued)

(6) Deposits

The aggregate amount of time deposits with a minimum denomination of $250,000, was approximately $30.3 million and $27.8 million at December 31, 2022 and 2021, respectively.

A schedule of maturities of time deposits at December 31, 2022 follows (in thousands):

Year Ending December 31,	Amount
2023	$ 45,246
2024	22,843
2025	1,617
2026	372
	$ 70,078

(7) Other Borrowings

At December 31, 2022 and 2021, the Company had unsecured lines of credit amounting to $24.4 million and $14.4 million, respectively, with correspondent banks to purchase federal funds. Disbursements on the lines of credit are subject to the approval of the correspondent banks. At December 31, 2022 and 2021, the Company had no outstanding borrowings on these lines.

(8) Federal Home Loan Bank ("FHLB") Advances and Letters of Credit

A summary of FHLB advances are as follows ($ in thousands):

Maturity Year Ending December 31,	Fixed or Variable Interest Rate	Interest Rate	Balance at December 31, 2022	2021
2023	Fixed	4.23%	$ 3,000	-
2025	Fixed	0.70-0.72%	8,000	8,000
2026	Fixed	0.78%	6,000	6,000
			$ 17,000	14,000

In addition to FHLB advances, the Company had a $5 million standby letter of credit with the FHLB at December 31, 2022 and 2021 which is pledged to the State of Florida for public funds. Pursuant to the collateral agreement with the FHLB, any FHLB advance or standby letter of credit is collateralized by commercial and residential real estate loans. The Company had remaining credit availability of $40.5 million and $48.8 million at December 31, 2022 and 2021, respectively, which could be used if additional collateral was pledged. At December 31, 2022 and 2021, the Company had qualifying loans with carrying values of $25.9 million and $33.9 million, respectively, pledged for FHLB advances and standby letters of credit.

(continued)

(9) Senior Notes Payable

The Company has issued $7,500,000 face value of Senior Unsecured Notes Payable (the "Senior Notes Payable") due October 26, 2026. The note bears a fixed interest rate at 5%. Interest is payable in arrears on January 15 and July 15 of each year, beginning on January 15, 2022, through October 20, 2026, unless redeemed. The Company is entitled at its option to redeem all or a portion of the Senior Notes Payable upon not less than 30 nor more than 60 days' notice at redemption prices that are a premium to par at 102.5% starting on September 15, 2023, and subsequently declining to 100% on September 15, 2024 and thereafter. The Senior Notes Payable are not secured by any assets of the Company. The Senior Notes Payable are subject to certain affirmative and negative covenants and at December 31, 2022, the Company was in compliance with these covenants.

The Senior Notes Payable are recorded net of debt issuance costs. Debt issuance costs are amortized over the term of the Senior Notes Payable as an adjustment of the effective interest rate. Amortization of debt issuance costs associated with the Senior Notes Payable is included in interest expense in the consolidated statements of earnings.

The following summarizes the Senior Notes Payable during the years ended December 31, 2022 and 2021 (in thousands):

Senior notes payable at December 31, 2020	$ 4,862
Refinance of senior notes payable, net original issuance	2,500
Capitalization of issuance costs related to refinance	(168)
Amortization of issuance costs	39
Senior notes payable at December 31, 2021	7,233
Amortization of issuance costs	54
Senior notes payable at December 31, 2022	$ 7,287

(continued)

(10) Income Taxes

Allocation of Federal and state income taxes between current and deferred portions is as follows (in thousands):

	Year Ended December 31, 2022	2021
Current:		
Federal	$ 343	861
State	33	150
Total current	376	1,011
Deferred:		
Federal	294	(159)
State	81	(66)
Total deferred	375	(225)
	$ 751	786

The difference between the statutory Federal income tax rate and the effective tax rate are summarized as follows (dollars in thousands):

	Year Ended December 31, 2022 Amount	2022 % of Pretax Earnings	2021 Amount	2021 % of Pretax Earnings
Income taxes at statutory rate	$ 720	21.0%	$ 686	21.0%
Increase (decrease) resulting from:				
State taxes, net of Federal tax benefit	90	2.6	66	2.0
Tax exempt interest	(26)	(0.8)	(20)	(0.6)
Other	(33)	(0.9)	54	1.6
Income taxes	$ 751	21.9%	$ 786	24.0%

(continued)

(10) Income Taxes, Continued

Tax effects of temporary differences that give rise to the deferred tax assets and liabilities are as follows (in thousands):

	At December 31,	
	2022	2021
Deferred tax assets:		
Allowance for loan losses	$ 752	1,004
Organizational and start-up costs	-	1
Unrealized loss on securities available for sale	30	-
Other	-	4
Deferred tax assets	782	1,009
Deferred tax liabilities:		
Prepaid expense	(76)	(46)
Premises and equipment	(269)	(44)
Deferred loan costs	(58)	(195)
Unrealized gain on debt securities available for sale	-	(47)
Deferred tax liabilities	(403)	(332)
Net deferred tax asset	$ 379	677

The Company files consolidated income tax returns in the U.S. federal jurisdiction and the State of Florida. The Company is no longer subject to U.S. federal, state or local income tax examinations by taxing authorities for years before 2019.

(11) Off-Balance Sheet Financial Instruments

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments are commitments to extend credit and unused lines of credit and may involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheet. The contract amounts of these instruments reflect the extent of involvement the Company has in these financial instruments.

The Company'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 and commercial letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments.

(continued)

(11) Off-Balance Sheet Financial Instruments, 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 Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management's credit evaluation of the counterparty.

Commitments to extend credit typically result in loans with a market interest rate when funded. A summary of the amounts of the Company's financial instruments with off-balance sheet risk at December 31, 2022 follows (in thousands):

Commitments to extend credit	$ 10,667
Unused lines of credit	$ 45,883

(12) Employee Benefit Plan

The Company has a 401(k) profit sharing plan (the "Plan") which is available to all employees electing to participate after meeting certain length-of-service requirements. The Company's contributions to the Plan are discretionary and are determined annually. The Company's expense related to the Plan was approximately $127,000 for the years ended December 31, 2022 and 2021, respectively.

(13) Related Party Transactions

The Company enters into loans during the ordinary course of business with officers and directors of the Company and entities in which they hold a significant financial interest. These officers and directors also have deposits with the Company. The following summarizes these transactions (in thousands):

	2022	**2021**
Loans:		
Beginning balance	$ 2,730	2,750
Additions	143	148
Principal repayments	-	(168)
Ending balance	$ 2,873	2,730
Deposits at year end	$ 2,186	2,380

(continued)

(14) Dividend Restrictions

The Holding Company is limited in the amount of cash dividends it may declare and pay by the amount of cash on hand and the amounts of dividends it can receive from the Bank. The Bank is limited in the amount of cash dividends that may be paid. The amount of cash dividends that may be paid is based on the Bank's net earnings of the current year combined with the Bank's retained earnings of the preceding two years, as defined by state banking regulations. However, for any dividend declaration, the Company must consider additional factors such as the amount of current period net earnings, liquidity, asset quality, capital adequacy and economic conditions. It is likely that these factors would further limit the amount of dividends which the Company could declare. In addition, bank regulators have the authority to prohibit banks from paying dividends if they deem such payment to be an unsafe or unsound practice.

(15) Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the 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.

The Bank is subject to various regulatory capital requirements administered by the 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, 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.

The Bank has elected to follow the community bank leverage ratio framework (CBLR framework). The community bank leverage ratio removes the requirement for qualifying banking organizations to calculate and report risk-based capital but rather only requires a Tier 1 capital to average assets (leverage) ratio. Qualifying community banking organizations that elect to use the community bank leverage ratio framework and that maintain a leverage ratio of greater than required minimums will be considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies' capital rules (generally applicable rule) and, if applicable, will be considered to have met the well capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. The community bank leverage ratio minimum requirement is 9% for calendar year 2022 and beyond. Under CBLR framework, an eligible community banking organization can opt out of the CBLR framework and revert back to the risk-weighting framework without restriction.

(continued)

(15) Regulatory Matters, Continued

Management believes, as of December 31, 2022, that the Bank meets all capital adequacy requirements to which it is subject. The Bank's actual capital amounts and percentages are presented in the table ($ in thousands):

	Amount		To Be Well Capitalized Under Prompt Corrective Action Regulations (CBLR Framework)	
	Amount	**Ratio**	**Amount**	**Ratio**
As of December 31, 2022-				
Tier 1 (core) capital to average assets	$ 26,394	10.50%	$ 22,621	9.00%
As of December 31, 2021-				
Tier 1 (core) capital to average assets	$ 23,257	8.81%	$ 22,426	8.50%