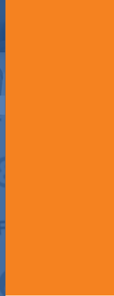

M&F Bancorp, Inc.

Annual Report | 2023

Empowering Growth

2023 Annual Report

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This annual report contains certain forward-looking statements with respect to the financial condition, results of operations and business of the Company and the Bank. These forward-looking statements involve risks and uncertainties and are based on the beliefs and assumptions of management of the Company and the Bank and on the information available to management at the time that these disclosures were prepared. These statements can be identified by the use of words like "expect," "anticipate," "estimate" and "believe," variations of these words and other similar expressions. Readers should not place undue reliance on forward-looking statements as a number of important factors could cause actual results to differ materially from those in the forward-looking statements. Neither the Company nor the Bank undertakes an obligation to update any forward-looking statements.

M&F Bancorp, Inc.

Chairman and President's Letter

To Our Valued Shareholders:

We are delighted to share with you the outstanding accomplishments of M&F Bancorp, Inc. in 2023, building upon the remarkable performance of the preceding year. Our dedication has resulted in record-breaking earnings with a significant leap to $5.5 million in earnings available to common shareholders, surpassing the $4.3 million achieved in 2022 and marking the highest in the Company's history.

The earnings per diluted share also experienced a noteworthy increase to $2.72 compared to $2.18 in 2022, representing an increase of 24.77%. Despite the challenges posed by heightened deposit costs and inflation industry-wide, our Company excelled with a commendable 1.24% return on assets, consistently exceeding the benchmark of 1.0%. Notably, our leverage ratio stands strong at 29.61%, solidifying our position as one of the leading bank holding companies in North Carolina.

Our robust performance enabled strategic investments in our business, communities and associates. The year concluded with a historic high of $269.1 million in outstanding loans, reflecting an impressive 8.98% growth over 2022 and positioning us favorably against our peers. Furthermore, our commitment to community development was evident as we exceeded the annual Emergency Capital Investment Program lending requirement of $31.0 million by originating $49.9 million, a substantial 161% of goal.

The Company's continuous evolution and growth are exemplified by our recognition as the "Best Bank in Durham and Raleigh" in 2023, underscoring the demand for our community banking brand. Our associates, dedicated to operational excellence, have successfully navigated change through investments in technology, products and capabilities to meet the evolving needs of our customers.

Executing our strategic plan, we facilitated access to capital for small- and medium-sized businesses in all our markets, generating over $79.0 million in loans. Our credit quality remains strong, and we prudently built our reserve levels driven by organic loan growth and higher interest rates in an uncertain economic environment. The Bank's delinquency rate was 0.80 % in 2023, although it has ticked up, we have remained under 1.00% for the past six years.

Key Highlights from 2023:

- Distributed four dividends to shareholders with a planned one-cent-per-share per quarter increase in 2024.
- Secured an Equitable Recovery Program grant of $2.4 million and our 10th BEA award totaling $423 thousand.
- Surpassed the required CDFI lending percentage of 60% to minority firms, reaching over 70%.
- Implemented a new cloud-based loan origination system to enhance customer service.
- Transitioned away from the Money Service Business due to high compliance costs.
- Launched a new SBA 7A line of business to generate additional interest and fee income.

As noted above, we had several major highlights in 2023. Total loans were $269.1 million as of December 31, 2023, versus $246.9 million in 2022. Total deposits were $320.9 million as of December 31, 2023 versus $327.4 million as of December 31, 2022. Total assets as of December 31, 2023, were $453.3 million versus $451.0 million as of December 31, 2022. We finished the year with $125.2 million in capital.

In closing, we express our gratitude to our management team, associates, and directors for their unwavering dedication. The year 2023 was marked by exceptional earnings, increased capital, substantial loan growth, and consistent dividend performance. Your continued support is instrumental to our success, and we look forward to another prosperous year ahead.

Thank you for your continued support.

Sincerely,

James A. Stewart
Chairman of the Board

James H. Sills, III
President and Chief Executive Officer

M&F BANCORP, INC. AND M&F BANK BOARD OF DIRECTORS

Left to right: Willie T. Closs, Jr. (M&F Bancorp, Inc. and M&F Bank); Emma S. Allen (M&F Bank); Allen M. Chan (M&F Bancorp, Inc. and M&F Bank); James H. Sills, III (President and CEO/M&F Bancorp, Inc. and M&F Bank); James A. Stewart (Chair, M&F Bancorp, Inc. and M&F Bank); Michael L. Lawrence (M&F Bancorp, Inc. and M&F Bank); Connie J. White (M&F Bancorp, Inc. and M&F Bank); Cedric L. Russell (M&F Bank) (Not shown)

M&F BANK MANAGEMENT TEAM

Left to right: John T. Saunders (Senior Vice President/Chief Operating Officer); Pete W. Williams (Chief Credit Officer); James H. Sills, III (President and Chief Executive Officer); Randall C. Hall (Executive Vice President/Chief Financial Officer); Travis C. Rouse (Senior Vice President/Chief Sales & Lending Officer); Patty S. Quattromini (Senior Vice President Retail Operations); Valerie M. Quiett (Senior Vice President/General Counsel/Chief Compliance Officer (Not shown)

elliott davis

Independent Auditor's Report

To the Board of Directors and Shareholders
M&F Bancorp, Inc. and Subsidiary

Opinion

We have audited the consolidated financial statements of M&F Bancorp, Inc. and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity and cash flows for the year 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, 2023 and 2022, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

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

Responsibilities of Management for the Financial Statements

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

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

Elliott Davis, PLLC

Raleigh, North Carolina
March 1, 2024

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands except for share and per share data)	December 31, 2023	December 31, 2022
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 4,444	$ 12,667
Interest-bearing cash	41,243	76,800
Total cash and cash equivalents	45,687	89,467
Interest-bearing time deposits	3,455	3,701
Investment securities available-for-sale, at fair value	89,774	67,092
Investment securities held-to-maturity (fair value of $26,749 in 2023 and $24,740 in 2022)	26,960	25,141
Other invested assets	324	205
Loans, net of unearned income and deferred fees	269,082	246,909
Allowance for credit losses ("ACL")	(3,987)	(2,863)
Loans, net	265,095	244,046
Interest receivable	1,538	1,324
Bank premises and equipment, net	2,964	2,612
Cash surrender value of bank-owned life insurance	10,370	10,066
Deferred tax assets and taxes receivable, net	3,248	3,608
Operating lease right-of-use ("ROU") asset	1,243	1,444
Other assets	2,600	2,291
TOTAL ASSETS	$ 453,258	$ 450,997
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Interest-bearing deposits	$ 220,221	$ 222,175
Noninterest-bearing deposits	100,723	105,220
Total deposits	320,944	327,395
Other borrowings	30	76
Operating lease liabilities	1,293	1,479
Other liabilities	5,789	3,989
Total liabilities	328,056	332,939
COMMITMENTS AND CONTINGENCIES (Note 17)		
Stockholders' equity:		
Series C Junior Participating Preferred Stock- $0.01 par value, 21,000 shares authorized, no shares issued or outstanding	-	-
Series D Noncumulative Perpetual Preferred Stock- $0.01 par value, 20,000 authorized at December 31, 2023 and 2022, respectively; 17,302 shares issued and outstanding at December 31, 2023 and 2022, respectively	17,302	17,302
Series E Noncumulative Perpetual Preferred Stock- $0.01 par value, 80,000 authorized at December 31, 2023 and 2022, respectively; 80,000 shares issued and outstanding at December 31, 2023 and 2022, respectively	80,000	80,000
Common stock, no par value, 10,000,000 shares authorized at December 31, 2023 and 2022, respectively; issued and outstanding: 1,981,996 and 1,979,975 at December 31, 2023 and 2022, respectively	9,000	8,866
Retained earnings	27,907	23,005
Accumulated other comprehensive loss	(9,007)	(11,115)
Total stockholders' equity	125,202	118,058
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 453,258	$ 450,997

See notes to consolidated financial statements.

M&F BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands except for share and per share data)	For the Years Ended December 31, 2023	2022
Interest income:		
Loans, including fees	$ 15,080	$ 11,959
Investment securities, including dividends		
Taxable	2,585	1,555
Tax-exempt	153	91
Interest-bearing time deposits	71	57
Other	2,907	1,604
Total interest income	20,796	15,266
Interest expense:		
Deposits	1,656	358
Borrowings	-	1
Total interest expense	1,656	359
Net interest income	19,140	14,907
Provision for credit losses:		
Provision for credit losses on loans	1,171	699
Provision for credit losses on unfunded commitments	98	-
Total provision for credit losses	1,269	699
Net interest income after reversal of credit losses	17,871	14,208
Noninterest income:		
Service charges on deposit accounts	820	842
Other service charges, commissions and fees	575	637
Money service business income	1,375	2,189
Commissions from sales of financial products	1,006	848
Cash surrender value of life insurance	304	284
Net realized gain (loss) on disposal of Bank premises and equipment	(26)	31
Grant revenue	1,265	171
Other income	536	216
Total noninterest income	5,855	5,218
Noninterest expense:		
Salaries and employee benefits	8,665	7,098
Occupancy and equipment	1,474	1,360
Directors compensation	283	228
Money service business expenses	753	680
Marketing	337	331
Professional fees	918	967
Information technology	1,993	1,475
FDIC deposit insurance	179	107
Other real estate owned ("OREO") expenses, net	1	1
Delivery expenses	171	146
Interchange expenses	338	324
Other	1,322	975
Total noninterest expense	16,434	13,692
Income before income tax expense	7,292	5,734
Income tax expense	1,597	1,222
Net income	5,695	4,512
Preferred stock dividends	(240)	(180)
Net income available to common stockholders	$ 5,455	$ 4,332
Basic and diluted income per share of common stock:		
Basic	$ 2.75	$ 2.19
Diluted	2.72	2.18
Weighted average shares of common stock outstanding:		
Basic	1,981,392	1,979,975
Diluted	2,003,591	1,984,640

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Dollars in thousands)	For the Years Ended December 31, 2023	For the Years Ended December 31, 2022
Net income	$ 5,695	$ 4,512
Other comprehensive income (loss):		
Investment securities:		
Unrealized holding gains (losses) on investment securities available-for-sale	2,369	(11,609)
Tax effect	(544)	2,668
Net of tax amount	1,825	(8,941)
Defined benefit pension plans:		
Net actuarial gains (losses)	368	(53)
Tax effect	(85)	12
Net of tax amount	283	(41)
Other comprehensive income (loss), net of tax	2,108	(8,982)
Comprehensive income (loss)	$ 7,803	$ (4,470)

See notes to consolidated financial statements.

M&F BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2023 and 2022

(Dollars in thousands except for share data)	Number of Shares	Common Stock	Preferred Stock-Series D	Preferred Stock-Series E	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balances as of December 31, 2021	1,979,975	$ 8,823	$ 17,302	$ -	$ 18,910	$ (2,133)	42,902
Net income	-	-	-	-	4,512	-	4,512
Issuance of preferred stock-Series E	-	-	-	80,000	-	-	80,000
Stock-based compensation	-	43	-	-	-	-	43
Other comprehensive loss, net of tax	-	-	-	-	-	(8,982)	(8,982)
Dividends declared on Series D Noncumulative Perpetual Preferred Stock	-	-	-	-	(180)	-	(180)
Dividends declared on common stock ($.12 per share)	-	-	-	-	(237)	-	(237)
Balances as of December 31, 2022	1,979,975	$ 8,866	$ 17,302	$ 80,000	$ 23,005	$ (11,115)	$ 118,058
Effect of adoption of ASU 2016-13 Financial Instruments-Credit Losses	-	-	-	-	(236)	-	(236)
Net income	-	-	-	-	5,695	-	5,695
Stock-based compensation	-	122	-	-	-	-	122
Stock options	2,021	12	-	-	-	-	12
Other comprehensive gain, net of tax	-	-	-	-	-	2,108	2,108
Dividends declared on Series D Noncumulative Perpetual Preferred Stock	-	-	-	-	(240)	-	(240)
Dividends declared on common stock ($0.16 per share)	-	-	-	-	(317)	-	(317)
Balances as of December 31, 2023	1,981,996	$ 9,000	$ 17,302	$ 80,000	$ 27,907	$ (9,007)	$ 125,202

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	For the Years Ended December 31, 2023	2022
Cash flows from operating activities:		
Net income	$ 5,695	$ 4,512
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	1,171	699
Provision for credit losses on unfunded commitments	98	-
Depreciation and amortization	338	401
Amortization of discounts/premiums on investment securities available-for-sale, net	42	268
Amortization of discounts/premiums on investment securities held-to-maturity, net	(257)	(67)
Increase in cash surrender value of bank-owned life insurance	(304)	(284)
Net gains (losses) on disposal of Bank premises and equipment	26	(31)
Stock-based compensation	122	43
Net changes in:		
Accrued interest receivable and other assets	(340)	479
Other liabilities	1,391	280
Net cash provided by operating activities	7,982	6,300
Cash flows from investing activities:		
Activity in available-for-sale securities:		
Maturities and calls	500	-
Principal collections	5,327	7,832
Purchases	(26,182)	(14,475)
Activity in held-to-maturity securities:		
Maturities and calls	2,000	-
Principal collections	438	187
Purchases	(4,000)	(25,261)
Proceeds from maturities of interest-bearing time deposits	1,481	1,229
Purchases of interest-bearing time deposits	(1,235)	(1,729)
Federal Home Loan Bank ("FHLB") stock purchases	(119)	(28)
Net increase in loans	(22,214)	(15,109)
Purchases of Bank premises and equipment	(761)	(711)
Proceeds from insurance for equipment	45	31
Net cash used in investing activities	(44,720)	(48,034)
Cash flows from financing activities:		
Net (decrease) increase in deposits	(6,451)	10,374
Proceeds from other borrowings	369	5,390
Repayments of other borrowings	(415)	(5,444)
Issuance of Series E preferred stock, net of issuance costs	-	80,000
Issuance of common stock	9	-
Excess tax benefits from stock-based compensation	3	-
Cash dividends	(557)	(417)
Net cash (used in) provided by financing activities	(7,042)	89,903
Net (decrease) increase in cash and cash equivalents	(43,780)	48,169
Cash and cash equivalents as of the beginning of the period	89,467	41,298
Cash and cash equivalents as of the end of the period	$ 45,687	$ 89,467

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during period for:		
Interest	$ 1,503	$ 311
Income taxes	1,720	10
Noncash Transactions:		
Net unrealized grains (losses) on investment securities available-for-sale, net of deferred income tax	1,825	(8,941)
Adjustments related to defined benefit plans, net of deferred income tax	283	(41)
Allowance for credit losses - loans recorded upon adoption of ASU 326, net of tax	6	-
Allowance for credit losses - unfunded commitments recorded upon adoption of ASU 326, net of tax	230	-

See notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - M&F Bancorp, Inc. (the "Company") is a bank holding company, and the parent company of Mechanics and Farmers Bank (the "Bank"), a state chartered commercial bank incorporated in North Carolina ("NC") in 1907, which began operations in 1908. The Bank has seven branches in NC: two in Durham, two in Raleigh, and one each in Charlotte, Greensboro and Winston-Salem. The Company, headquartered in Durham, operates as a single business segment and offers a wide variety of consumer and commercial banking services and products almost exclusively in NC.

Basis of Presentation - The Consolidated Financial Statements include the accounts and transactions of the Company and the Bank, the wholly owned subsidiary. All significant inter-company accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents - The Company considers all highly liquid assets with original maturities of 90 days or less, such as cash on hand, noninterest-bearing and interest-bearing amounts due from banks and federal funds sold, to be "cash equivalents."

Interest-bearing Time Deposits in Banks - Interest-bearing time deposits in banks mature within five years and are carried at cost.

Investment Securities - Debt securities that the Company has the positive intent and ability to hold to maturity are classified as "held-to-maturity securities" and reported at amortized cost. Debt securities that are bought and held principally for the purpose of selling in the near term are classified as "trading securities" and reported at fair value with unrealized gains and losses included in consolidated earnings. Debt securities not classified as either held-to-maturity securities or trading securities are classified as "available-for-sale securities" and reported at fair value with unrealized gains and losses excluded from consolidated earnings and reported as a separate component of consolidated stockholders' equity and as an item of other comprehensive income (loss). The unrealized gain or loss of a security is identified and removed from other comprehensive income (loss) when a security is sold, matured, or called. Equity securities are reported at fair value and changes in fair value are included in consolidated earnings. The initial classification of securities is determined at the date of purchase. Gains and losses on investment securities, computed based on specific identification of the adjusted cost of each security, are included in noninterest income. Premiums and discounts on debt securities are recognized in interest income using the interest method over the period to maturity, or when the debt securities are called.

Transfers of securities between classifications, of which there were none in 2023 or 2022, are accounted for at fair value. No securities were classified as trading as of December 31, 2023 and 2022.

***ACL* – Securities Held-to-Maturity** – Since its adoption of Accounting Standards Codification 326 ("CECL"), the Company measures expected credit losses on held-to-maturity ("HTM") debt securities on an individual security basis. At January 1, 2023, and December 31, 2023, the Company determined that the expected credit losses associated with HTM debt securities were insignificant. Accrued interest receivable on held-to-maturity debt securities totaled $258 thousand at December 31, 2023, and was excluded from the estimate of credit losses.

The estimate of credit losses is primarily based on the ratings assigned to the securities by debt rating agencies and the average for the annual historical loss rates associated with those ratings. The company then multiplies those loss rates, as adjusted for any modifications to reflect current conditions and reasonable and supportable forecasts as considered necessary by the remaining lives of each individual security to arrive at a lifetime expected loss amount.

***ACL* – Securities Available-for-Sale –** For available-for-sale ("AFS") securities in an unrealized loss position, the Company first assesses whether it intends to sell, or if it is more likely than not that it will be required to sell security before recovery of the amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to the fair value through income with the establishment of an allowance under CECL compared to a direct write down of the security under previously applicable accounting standard ASC 310-30 ("Incurred Loss"). For debt securities available-for-sale that do not meet the aforementioned criteria, the Company evaluates whether any decline in fair value is due to credit loss factors. In making this assessment, management considers any changes to the rating of the security by a rating agency and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security is compared to the amortized cost basis of the security. If the present value of the cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

Changes in the ACL under CECL are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance when management believes the uncollectability of an AFS security is confirmed or when either of the criteria regarding intent or requirement to sell is met. At December 31, 2023, there was no ACL related to the AFS portfolio. Accrued interest receivable on available for sale debt securities totaled $240 thousand at December 31, 2023 and was excluded from the estimate of credit losses.

Other Invested Assets – Other invested assets are investments in FHLB stock carried at historical cost, as adjusted for any impairment loss. As of December 31, 2023 and 2022, the Company's investments in FHLB stock were $324 thousand and $205 thousand, respectively.

Loans – Loans are stated at the amount of unpaid principal, net of deferred loan origination fees and costs. Loans (net) are reduced by the ACL. Nonrefundable loan fees associated with the origination or acquisition of loans are deferred and recognized as an adjustment of the loan yield over the life of the loan using the effective interest method. Interest on loans is accrued on the daily balances of unpaid principal outstanding. Interest income is accrued and credited to income only if deemed collectable. Other loan fees and charges, representing service costs for the prepayment of loans, for delinquent payments, or for miscellaneous loan services, are recorded in income when collected.

Non-Performing Loans and Leases – Generally, all classes of loans and leases are placed on non-accrual status upon becoming contractually past due 90 days or more as to principal or interest (unless loans are adequately secured by collateral, are in the process of collection, and are reasonably expected to result in repayment), or where substantial doubt about full repayment of principal or interest is evident.

When a loan or lease is placed on non-accrual status, regardless of class, the accrued and unpaid interest receivable is reversed, and the loan or lease is accounted for on the cash or cost recovery method until qualifying for return to accrual status. All payments received on non-accrual loans and leases are applied against the principal balance of the loan or lease. Loans may be returned to accrual status when all principal and interest amounts contractually due (including any arrearages) are reasonably assured of repayment within a reasonable period, the borrower has demonstrated payment performance for a minimum of six months in accordance with the original or revised contractual terms of the loan, and when doubt about repayment is resolved.

Generally, for all classes of loans and leases, a charge-off is recorded when it is probable that a loss has been incurred and when it is possible to determine a reasonable estimate of the loss. For all classes of commercial loans and leases, a charge-off is determined on a judgmental basis after due consideration of the debtor's prospects for repayment and the fair value of collateral. For closed-end consumer loans, the entire outstanding balance of the loan is charged-off during the month that the loan becomes 120 days past due as to principal or interest. Consumer loans with non- real estate collateral are written down to the value of the collateral, less estimated costs to sell, if repossession of collateral is assured and in process. For residential mortgage and home equity loan classes, a partial charge-off is recorded at 120 days past due as to principal or interest for the amount that the loan balance exceeds the fair value of the collateral less estimated costs to sell.

Loan Modifications – Under certain circumstances, the Company may agree to modify the terms of an existing loan with a borrower for various reasons, including financial difficulties. For those borrowers experiencing financial difficulties, the Company may provide interest rate reductions, principal forgiveness, payment deferments, term extensions or a combination thereof. A loan that is deferred greater than six months in the preceding twelve months would be considered to be other-than-insignificantly delayed. In such circumstances, the Company must determine whether the modification should be accounted for as an extinguishment of the original loan and a creation of a new loan, or the continuation of the original loan with modifications.

The effect of these modifications is already included in the allowance for credit losses because our estimated allowance represents currently expected credit losses. A change to the allowance for credit losses is generally not recorded upon modification.

Income Recognition on Individually Analyzed Loans and Non-accrual Loans – Loans, including individually analyzed loans, are generally classified as non-accrual if they are past due as to maturity, or payment of principal or interest for a period of more than 90 days, unless such loans are well secured and in the process of collection. If a loan or a portion of a loan is classified as doubtful or is partially charged off, the loan is generally classified as non-accrual. Loans that are on a current payment status or past due less than 90 days may also be classified as non-accrual if full repayment of principal and/or interest is in doubt.

Loans may be returned to accrual status when all principal and interest amounts contractually due (including arrearages) are reasonably assured of repayment within a reasonable period of time, and the borrower has demonstrated payment performance for a minimum of six months in accordance with the contractual terms involving payments of cash or cash equivalents.

In the case where a non-accrual loan had been partially charged-off, recognition of interest on a cash basis is limited to that which would have been recognized on the remaining loan balance at the contractual interest rate. Receipts in excess of that amount are recorded as recoveries to the allowance for credit losses until prior charged off balances have been fully recovered.

ACL - Loans - The ACL on loans is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectability of a loan balance is confirmed. Estimated recoveries are considered for post-CECL adoption date charge-offs to the extent that they do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Accrued interest receivable totaling $997 thousand at December 31, 2023 was excluded from the estimate of credit losses.

The ACL is measured on a collective pool basis when similar risk characteristics exist. Loans with similar risk characteristics are grouped into homogenous segments, or pools, for analysis. The Discounted Cash Flow ("DCF") method is utilized for substantially all pools, with discounted cash flows computed for each loan in a pool based on its individual characteristics (e.g. maturity date, payment amount, interest rate, etc.), and the results are aggregated at the pool level. A probability of default and loss given default, as adjusted for recoveries (as noted above), are applied to the discounted cash flows for each pool, while considering prepayment and principal curtailment effects. The analysis produces a discounted expected cash flow total for each pool, which is then compared to the amortized cost of the pool to arrive at the expected credit loss.

In determining the proper level of default rates and loss given default, management has determined that the loss experience of selected peers provides the best basis for its assessment of expected credit losses. It therefore utilizes peer historical credit loss experience by each loan segment over an economic cycle.

Management considers forward-looking information in estimating expected credit losses. For substantially all segments of collectively evaluated loans, the Company incorporates one or more macroeconomic drivers using a statistical regression modeling methodology. The Company utilizes third-party projections for a quarterly macroeconomic forecast for the United States.

Management has also evaluated the appropriateness of the reasonable and supportable forecast scenarios utilized for each period and has made adjustments as needed. For the contractual term that extends beyond the reasonable and supportable forecast period, the Company reverts to the long-term mean of historical factors over 12 quarters using a straight-line approach. The Company generally utilizes a four-quarter forecast and a 12-quarter reversion period to the long-term average, which is then held static for the remainder of the forecast period.

Included in its systematic methodology to determine its ACL on loans, management considers the need to qualitatively adjust expected credit losses for information not already captured in the loss estimation process. These qualitative adjustments either increase or decrease the quantitative model

estimation (i.e., formulaic model results). Each period the Company considers qualitative factors that are relevant within the qualitative framework that includes the following: 1) changes in lending policies, procedures, and strategies, 2) changes in the nature and volume of the portfolio, 3) staff experience, 4) changes in volume and trends in classified loans, delinquencies, and nonaccrual loans, 5) concentration risk, 6) trends in underlying collateral value, 7) external factors, including competition and legal and regulatory factors, 8) changes in the quality of the Company's loan review system, and 9) economic conditions not already captured.

The Company has identified the following portfolio segments and calculates the ACL for each using a DCF methodology at the loan level, with loss rates, prepayment assumptions, and curtailment assumptions driven by each loan's collateral type:

Commercial - Risks to this loan category include industry concentration and the inability to monitor the condition of the collateral which often consists of inventory, accounts receivable, and other non-real estate assets. Equipment and inventory obsolescence can also pose a risk. Declines in general economic conditions and other events can cause cash flows to fall to levels insufficient to service debt.

Real estate - construction (including Faith-based non-profit and residential) - Risks common to commercial construction loans are cost overruns, changes in market demand for property, inadequate long-term financing arrangements, and declines in real estate values. Residential construction loans are susceptible to those same risks as well as those associated with residential mortgage loans (see below). Changes in market demand for property could lead to longer marketing times resulting in higher carrying costs, declining values, and higher interest rates.

Commercial real estate (including Faith-based non-profit) – owner occupied and other - Loans in this category are susceptible to declines in occupancy rates, business failure, and general economic conditions. Also, declines in real estate values and lack of suitable alternative use for the properties are risks for loans in this category.

Residential real estate – first mortgagee - Residential mortgage loans are susceptible to weakening general economic conditions and increases in unemployment rates and declining real estate values.

Residential real estate - home equity - Risks common to home equity loans and lines of credit are general economic conditions, including an increase in unemployment rates and declining real estate values, which reduce or eliminate the borrower's home equity.

Consumer - Risks common to these loans include regulatory risks, unemployment, and changes in local economic conditions as well as the inability to monitor collateral consisting of personal property.

Other loans – Loans in this category include risks associated with unemployment, and changes in local economic conditions.

Loans that do not share risk characteristics are evaluated on an individual basis.

When management determines foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

When the present value of cash flow method is used to determine the ACL, management discounts future cash flows including estimated prepayments at the loans effective interest rate.

The Company and the Bank are subject to periodic examination by their federal and state regulators and may be required by such regulators to recognize additions to the allowance for credit losses based on their assessment of credit information available to them at the time of their examinations.

Provision for Credit Losses (Loans and Unfunded Commitments) - Prior to our implementation of CECL, the provision for credit losses was based on the then-applicable Incurred Loss model and represented an estimate of probable incurred losses in the loan portfolio at the end of each reporting period. Under CECL, the provision for credit losses represents our current estimate of life of loan credit losses in the loan portfolio and unfunded loan commitments. Our estimate of credit losses under CECL is determined using a complex model that relies on reasonable and supportable forecasts and historical loss information to determine the balance of the ACL and resulting provision for credit losses and provision for unfunded commitments, which represents expected losses on unfunded loan commitments that are expected to result in outstanding loan balances. The allowance for unfunded commitments is included in other liabilities in the consolidated balance sheets.

The provision for credit losses was $1.3 million in 2023 under the CECL method, compared to $699 thousand in 2022 under the Incurred Loss method. The amount of provision recorded in each period was the amount required such that the total ACL reflected the appropriate balance as determined under the applicable accounting standards in effect at each balance sheet date.

Bank Premises and Equipment, Net – Premises and equipment are stated at cost less accumulated depreciation and amortization. For financial reporting purposes, depreciation and amortization are computed by the straight-line method and are charged to operations over the estimated useful lives of the assets, which range from 30-50 years for premises; generally 6-10 years for furniture and equipment, and 3-5 years for information technology equipment and software. Leasehold improvements are amortized over the terms of the respective leases or the useful lives of the improvements, whichever is shorter. Maintenance and repairs are charged to operations as incurred. The Bank reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. If the sum of the expected cash flows attributable to an asset is less than the stated amount of the asset, an impairment loss is recognized in the current period and charged to operations. Upon disposition, the asset and related accumulated depreciation and/or amortization are relieved, and any gains or losses are reflected in operations.

Cash Surrender Value of Life Insurance – The Bank maintains life insurance on certain current and former officers and directors, of which the Bank is owner and beneficiary. The cash surrender value of the policies at December 31, 2023 and 2022 was $10.4 and 10.1 million, respectively. Income from the policies and changes in the net cash surrender value, excluding additional purchases or withdrawals, are recorded in noninterest income.

OREO **–** OREO, which represents real estate acquired through foreclosure, or the transfer of the deed in lieu of foreclosure in satisfaction of commercial and consumer real estate collateralized loans, is initially recorded at fair value less estimated holding and selling costs of the real estate. Loan balances in excess of the fair value of the real estate acquired at the date of the foreclosure are charged to the ACL. Any subsequent operating expenses or income, reduction in estimated fair values, and gains or losses on disposition of such properties are charged or credited to non-interest income or non-interest expense. Valuations are periodically performed by management, and any subsequent write-downs due to the carrying value of a property exceeding its estimated fair value less estimated costs to sell are charged against other non-interest expense. As of December 31, 2023 and 2022, there were no foreclosed properties included in OREO on the Consolidated Balance Sheets. OREO excludes bank-owned property held for Company use. At December 31, 2023, there were no loans collateralized by residential real estate in the process of foreclosure.

Leases – The Company determines if an arrangement is a lease at inception. Operating leases are included in ROU assets and lease liabilities on our Consolidated Balance Sheets. Finance leases are included in bank premises and equipment and other borrowings on our consolidated balance sheets.

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

The Company has lease agreements with lease and non-lease components, which are generally accounted for separately. For certain leases, the Company may account for the lease and non-lease components as a single lease component.

Revenue from Contracts with Customers **–** All of the Company's revenues that are within the scope of ASC 606 are recognized within noninterest income. The following table presents the Company's sources of noninterest income for the years ended December 31, 2023 and 2022. Items outside the scope of ASC 606 are noted as such.

	For the Years Ended December 31, 2023	2022
Noninterest income:		
Service charges on deposit accounts	$ 820	$ 842
Other service charges, commission and fees	575	637
Money service business income	1,375	2,189
Commissions from sales of financial products	1,006	848
Cash surrender value of life insurance (1)	304	284
Realized net gain (loss) on disposal of Bank premises and equipment	(26)	31
Grant revenue (1)	1,265	171
Other income (2)	536	216
Total noninterest income	$ 5,855	$ 5,218

(1) Not within the scope of ASC 606
(2) Portions within the scope of ASC 606, but not material

There were no impairment losses recognized on any receivables or contract assets arising from the Company's contracts with customers during the years ended December 31, 2023 and 2022. While the Company has noninterest income related to rental income, changes in cash surrender value of life insurance and sales of investments, these are not within the scope of ASC 606.

The service charge revenue generated from contracts with customers is noninterest income and relates to fees charged on deposit accounts and certain loan fees. The revenues generated from each of these contracts are recognized when a performance obligation is met, and each obligation is associated with a transaction tied to the account or the opening of the account. Given each of these accounts are transactional and the contract is a day-to-day contract, the performance obligations on these accounts occurs when the contract provision is triggered on the account, which results in the related service charge. Based on the Company's analysis, there are no fees generated for opening account or for a service on the account where the good or service has not been transferred or prior to the performance obligation being met.

The Company earns referral commissions for financial products such as annuities and equity investments. Commissions are earned upon the issuance

of the financial product. The Company's performance obligation does not extend beyond the referral.

As of December 31, 2023 and 2022, the Company did not have amounts of material receivables, contract assets or contract liabilities tied to these contracts with customers. The Company believes that while loan and deposit accounts generate service charge income, these contracts do not create receivables, assets or liabilities given the fees associated with these service charges are typically charged and collected once the performance obligation is triggered. In addition, during the years ended December 31, 2023 and 2022, the Company did not recognize revenue that was included in any contract liabilities, and no revenues were recognized related to performance obligations satisfied in prior reporting periods.

The Company analyzes its payment streams associated with contracts with customers on a quarterly basis. As of December 31, 2023 and 2022, the nature of the performance obligations within the contracts generating service charges on deposit, including money service business, and loan accounts have a duration of one year or less. Also, based on the Company's analysis and the nature of the contracts discussed within this note, it was determined that there are no significant judgements associated with the recognition of revenue associated with these contracts.

Based on the Company's analysis, each of the service charge revenues discussed above are associated with the transfer of services through administration of customer's deposit account or through an agreed-upon, fixed amount that is disclosed in the customer's contract and are charged to the customer when the related service is performed on the customer's account. In addition, based on the Company's analysis, none of the contracts discussed above required a material cost to obtain or fulfill the contract, which resulted in no capitalized asset associated with these contracts as of December 31, 2023 and 2022.

Advertising Costs – Advertising is expensed as incurred. Advertising costs totaled $248 thousand and $256 thousand as of December 31, 2023 and 2022, respectively.

Income Taxes – Provisions for income taxes are based on amounts reported in the Consolidated Statements of Operations (after exclusion of non- taxable income such as interest on state and municipal securities) and include changes in deferred income taxes. Deferred tax asset and liability balances reflect temporary differences at the tax rate expected to be in effect when taxes will become payable or receivable. Temporary differences are differences between the tax basis of assets and liabilities and their reported amounts in the Consolidated Financial Statements that will result in taxable or deductible amounts in future years. The effect of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded for deferred tax assets if the Company determines that it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company regularly reviews its deferred tax assets for recoverability considering historical profitability, projected future taxable income, and the expected timing of the reversals of existing temporary differences and tax planning strategies.

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 ultimately would be 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 process, if any. The evaluation of a tax position taken is considered by itself and 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 benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying Consolidated Balance Sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits are recognized in income tax expense on the income statement. It is the Company's policy to recognize interest and penalties related to unrecognized tax liabilities within income tax expense in the statements of income. The Company does not have an accrual for uncertain tax positions as of December 31, 2023 and 2022, as deductions taken and benefits accrued are based on widely understood administrative practices and procedures and are based on tax law. The Company's federal and state income tax returns are subject to review and examination by government authorities.

Earnings Per Share Amounts – Basic earnings per common share is calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period, excluding unvested shares of stock options. Diluted earnings per common share is computed by assuming the issuance of common shares for all potentially dilutive common shares outstanding during the reporting period. For the periods presented, the Company's potentially dilutive common stock issuances related to unvested shares of stock options under the Company's equity-based plans.

In computing diluted earnings per common share, adjustments are made to the computation of basic earnings per common shares, as follows. As it relates to stock options, it is assumed that all dilutive stock options are exercised during the reporting period at their respective exercise prices, with the proceeds from the exercises used by the Company to buy back stock in the open market at the average market price in effect during the reporting period. The difference between the number of shares assumed to be exercised and the number of shares bought back is included in the calculation of dilutive securities. If any of the potentially dilutive common stock issuances have an anti-dilutive effect, the potentially dilutive common stock issuance is disregarded.

Comprehensive Income (Loss) - Comprehensive income (loss) is the change in the Company's equity during the period from transactions and other events and circumstances from non-owner sources. Total comprehensive income (loss) consists of net income and other comprehensive income (loss). The Company's other comprehensive income (loss) and accumulated other comprehensive loss are comprised of net unrealized gains and losses on certain investments in debt securities and post-retirement plans. Information concerning the Company's other comprehensive income and accumulated comprehensive loss as of and for the years ended December 31, 2023 and 2022 are presented in the Consolidated Statements of Comprehensive Income (Loss).

Fair Values of Financial Instruments - Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 18. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates. Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to the Company's assumptions (unobservable inputs). GAAP requires fair value measurements to be separately disclosed by level within the fair value hierarchy. For assets and liabilities recorded at fair value, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when developing fair value measurements.

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Available-for-sale investment securities are recorded at fair value on a recurring basis. Additionally, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, loans held for investment and certain other assets.

Under GAAP, the Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded, and the reliability of the assumptions used to determine fair value. The Company did not have any changes in leveling inputs in 2023.

These levels are:

Level 1 — Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.

Level 2 — Valuations are obtained from readily available pricing sources via independent providers for market transactions involving similar assets or liabilities. The Company's principal market for these securities is the secondary institutional markets and valuations are based on observable market data in those markets. Level 2 securities include U.S. Treasury ("U.S. Treasuries") U.S. Government agency securities ("U.S. Agencies"), U.S. Government sponsored residential mortgage backed securities ("MBS") and State and Municipal Bonds ("Municipals").

Level 3 — Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets.

Use of Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Material estimates that are susceptible to change in the near term relate to the determination of the ACL and the provision for loan losses, the evaluation of impairment of investment securities, accounting for deferred tax assets and related valuation allowances, the determination of the fair values of investment securities and other accounting for incentive compensation, and post-retirement benefits. Actual results could differ from those estimates.

Reclassification of Prior Year Presentation – Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on net income.

Significant Group Concentrations - Most of the Bank's activities are with customers located within the state of NC. The Bank does have concentrations with respect to loans to and to deposits from faith-based non-profit organizations as outlined in Note 6 and in Note 8 to the Consolidated Financial Statements.

Emergency Capital Investment Program ("ECIP") – On June 27, 2022, the U.S. Department of the Treasury ("Treasury") awarded the Company a capital investment from the Treasury under ECIP in the amount of $80 million in the form of non-dilutive Tier 1 senior perpetual preferred stock. By accepting the investment from the Treasury, the Company is required to fulfill certain conditions established by the Treasury and is subject to certain restrictions, the terms of which are set forth in a series of legal agreements provided by the Treasury. Established by the Consolidated Appropriations Act, 2021, the ECIP was created to encourage low-and moderate-income community financial institutions and minority depository institutions such as the Bank to augment their efforts to support small businesses and consumers in their communities.

New Accounting Pronouncements –

On January 1, 2023, the Company adopted *ASU 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASC 326). This standard replaced the incurred loss methodology Allowance for Loan Losses ("ALLL") with an expected loss methodology that is referred to as CECL. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held to maturity debt securities. It also applies to off-balance sheet credit exposures, such as unfunded commitments to extend credit. In addition, CECL made changes to the accounting for AFS debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available for sale debt securities if management does not intend to sell and does not believe that it is more likely than not they will be required to sell.

In adopting CECL, the Company utilized the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under CECL, while prior period amounts continue to be reported under the Incurred Loss methodology. The transition adjustment of the adoption of CECL included an increase in the ACL on loans of $6 thousand, and an increase in the allowance on unfunded loan commitments of $313 thousand, which is recorded within "Other liabilities". The adoption

of CECL had an insignificant impact on the Company's AFS securities portfolios. The Company recorded a net decrease to retained earnings of $236 thousand as of January 1, 2023 for the cumulative effect of adopting CECL, which reflects the transition adjustments noted above, net of the applicable deferred tax assets recorded.

Accrued interest for all financial instruments is included in a separate line on the face of the Consolidated Balance Sheets. The Company elected not to measure an ACL for accrued interest receivable and instead elected to reverse interest income on loans or securities that are placed on nonaccrual status, which is generally when the instrument is 90 days past due, or earlier if the Company believes the collection of interest is doubtful. The Company has concluded that this policy results in the timely reversal of uncollectible interest.

The amendments contained in Accounting Standards Update ("ASU") 2022-02, "*Financial Instruments-Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*" eliminate the accounting guidance for troubled debt restructurings ("TDR") by creditors, while enhancing disclosure requirements for certain loan refinancing and restructurings by creditors when a borrower is experiencing financial difficulty. This ASU also requires entities to disclose current period gross write-offs by year of origination for financing receivables. The Company adopted ASU 2022-02 effective January 1, 2023 using a modified retrospective transition approach for the amendments related to the recognition and measurement of TDRs. The impact of the adoption resulted in an immaterial change to the allowance for credit losses ("ACL"), thus no adjustment to retained earnings was recorded. Disclosures have been updated to reflect information on loan modifications given to borrowers experiencing financial difficulty as presented in Note 6. TDR disclosures are presented for comparative periods only and are not required to be updated in current periods. Additionally, the current year vintage disclosure included in Note 6 has been updated to reflect gross charge-offs by year of origination for the year ended December 31, 2023

In May 2019, the FASB issued guidance to provide entities with an option to irrevocably elect the fair value option, applied on an instrument-by-instrument basis for eligible instruments, upon adoption of ASU 2016-13, Measurement of Credit Losses on Financial Instruments. The amendments are effective for the Company for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. These amendments did not have a material effect on the Company’s consolidated financial statements.

In November 2019, the FASB issued guidance that addresses issues raised by stakeholders during the implementation of ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments affect a variety of Topics in the Accounting Standards Codification. The amendments in ASU 2016-13 are effective for fiscal years beginning after December 15, 2022 including interim periods within those years. These amendments did not have a material effect on the Company’s consolidated financial statements.

In March 2020, the FASB issued guidance to provide temporary optional guidance to ease the potential burden in accounting for reference rate reform. The amendments are effective as of March 12, 2020 through December 31, 2022. In December 2022, FASB issued ASU 2022-06 to defer the sunset date of ASC 848, Reference Rate Reform from December 31, 2022 to December 31, 2024. The Company does not expect these amendments to have a material effect on its financial statements.

In August 2020, the FASB issued guidance to improve financial reporting associated with accounting for convertible instruments and contracts in an entity’s own equity. The amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. The Company does not expect these amendments to have a material effect on its financial statements.

In March 2022, the FASB issued amendments which are intended to improve the decision usefulness of information provided to investors about certain loan re-financings, restructurings and write-offs. The amendments are effective for fiscal years beginning after December 15, 2022 including interim periods withing those fiscal years. The amendments did not have a material effect on the Company’s consolidated financial statements.

In June 2022, the FASB issued amendments to clarify the guidance on the fair value measurement of an equity security that is subject to a contractual sale restriction and require specific disclosures related to such an equity security. The amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. The Company does not expect these amendments to have a material effect on its financial statements.

In December 2022, the FASB issued amendments to extend the period of time preparers can use for the reference rate reform relief guidance under ASC Topic 848 from December 31, 2022 to December 31, 2024, to address the fact that all London Interbank Offered Rate, commonly called LIBOR, tenors were not discontinued as of December 31, 2021, and some tenors were published until June 2023.

In March 2023, the FASB amended the Leases topic in the Accounting Standards Codification to change the guidance for public and private companies to require that leasehold improvements be amortized over the useful life of those improvements to the common control group regardless of the lease term. The amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In December 2023, the FASB amended the Income Taxes topic in the Accounting Standards Codification to improve the transparency of income tax disclosures. The amendments are effective for annual periods beginning after December 15, 2025. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance. The Company does not expect these amendments to have a material effect on its financial statements.

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

2. INVESTMENT SECURITIES

The main objectives of the Company's investment strategy are to provide a source of liquidity while managing our interest rate risk, and to generate an adequate level of interest income without taking undue risks. The Company's investment policy permits investments in various types of securities, certificates of deposit and federal funds sold in compliance with various restrictions in the policy. As of December 31, 2023 and 2022, investments were classified as either available-for-sale or held-to-maturity.

Available-for-sale securities totaled $89.8 million and $67.1 million as of December 31, 2023 and 2022, respectively. Held-to-maturity securities totaled $27.0 and $25.1 million as of December 31, 2023 and December 31, 2022, respectively. In the normal course of business, the Company pledges securities to the Federal Reserve Bank of Richmond ("FRB") and to public housing authorities in NC and the NC Department of State Treasurer ("State Treasurer") as collateral for public deposits. The following table shows the amounts pledged:

(Dollars in thousands)	December 31, 2023	December 31, 2022
Pledged to FRB	$ 7,070	$ 898
Pledged to public housing authorities	974	1,065
Pledged to the State Treasurer	29,098	27,065

The Company's investment portfolio consists of the following securities:

- U.S. Treasury securities ("U.S. Treasuries")
- U.S. Government agency securities ("U.S. Agencies")
- U.S. Government sponsored residential mortgage backed securities ("MBS"), and
- Municipal securities ("Municipals")

The amortized cost, gross unrealized gains and losses and fair values of investment securities at December 31, 2023 and 2022 were:

	Available-for-Sale				Held-to-Maturity			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2023								
U.S. Treasuries	$ 16,467	$ 43	$ (187)	$ 16,323	$ 16,437	$ -	$ (96)	$ 16,341
U.S. Agencies	7,500	-	(1,058)	6,442	6,000	2	(3)	5,999
MBS	62,992	175	(7,230)	55,937	3,204	-	(145)	3,059
Municipals	12,898	44	(1,870)	11,072	1,319	31	-	1,350
Total	$ 99,857	$ 262	$ (10,345)	$ 89,774	$ 26,960	$ 33	$ (244)	$ 26,749
December 31, 2022								
U.S. Treasuries	$ 1,935	$ -	$ (237)	$ 1,698	$ 18,181	$ -	$ (199)	$ 17,982
U.S. Agencies	6,500	-	(1,242)	5,258	2,000	-	(1)	1,999
MBS	58,424	-	(8,489)	49,935	3,639	-	(159)	3,480
Municipals	12,685	-	(2,484)	10,201	1,321	-	(42)	1,279
Total	$ 79,544	$ -	$ (12,452)	$ 67,092	$ 25,141	$ -	$ (401)	$ 24,740

There were no sales of available-for-sale or held-to-maturity securities during the years ended December 31, 2023 or 2022. There was no allowance for credit losses on available-for-sale or held-to-maturity during the year ended December 31, 2023.

The amortized cost and estimated market values of securities as of December 31, 2023 and 2022 by contractual maturities with the exception of MBS, which reflects projected cash flow streams, are shown below. Actual maturities may differ, because borrowers may have the right to call or prepay MBS, collateralized mortgage obligations, agency securities, and municipal bonds with or without call or prepayment penalties. Certain mortgage-backed securities have adjustable interest rates and will reprice within the various maturity ranges. These repricing schedules are not reflected in the following table.

(Dollars in thousands)	December 31, 2023			
	Available-for-Sale		Held-to-Maturity	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
U.S. Treasuries				
Due within one year	$ 14,563	$ 14,520	$ 16,341	$ 16,437
Due after one year through five years	1,760	1,947	-	-
Total U.S. Treasuries	$ 16,323	$ 16,467	$ 16,341	$ 16,437
U.S. Agencies				
Due within one year	$ -	$ -	$ 2,002	$ 2,000
Due after one year through five years	3,176	3,500	3,997	4,000
Due after five years through ten years	3,266	4,000	-	-
Total U.S. Agencies	$ 6,442	$ 7,500	$ 5,999	$ 6,000
MBS				
Due after one year through five years	21,481	22,280	3,059	3,204
Due after five years through ten years	34,456	40,712	-	-
Total MBS	$ 55,937	$ 62,992	$ 3,059	$ 3,204
Municipals				
Due after one year through five years	1,815	2,018	-	-
Due after five years through ten years	5,222	6,158	-	-
Due after ten years	4,035	4,722	1,350	1,319
Total Municipals	$ 11,072	$ 12,898	$ 1,350	$ 1,319

(Dollars in thousands)	As of December 31, 2022			
	Available-for-Sale		Held-to-Maturity	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
U.S. Treasuries				
Due within one year	$ -	$ -	$ 1,951	$ 1,961
Due after one year through five years	-	-	16,031	16,220
Due after five years through ten years	1,698	1,935	-	-
Total U.S. Treasuries	$ 1,698	$ 1,935	$ 17,982	$ 18,181
U.S. Agencies				
Due after one year through five years	$ -	$ -	$ 1,999	$ 2,000
Due after five years through ten years	5,258	6,500	-	-
Total U.S. Agencies	$ 5,258	$ 6,500	$ 1,999	$ 2,000
MBS				
Due after one year through five years	$ 12,258	$ 13,456	$ 1,695	$ 1,793
Due after five years through ten years	37,677	44,968	1,785	1,846
Total MBS	$ 49,935	$ 58,424	$ 3,480	$ 3,639
Municipals				
Due within one year	$ 501	$ 507	$ -	$ -
Due after five years through ten years	6,141	7,695	-	-
Due after ten years	3,559	4,483	1,279	1,321
Total Municipals	$ 10,201	$ 12,685	$ 1,279	$ 1,321

As of December 31, 2023 and 2022, the fair value of securities with gross unrealized losses by length of time that the individual securities have been in an unrealized loss position is as follows:

(Dollars in thousands)	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2023						
U.S. Treasuries	$ -	$ -	$ 18,101	$ (283)	$ 18,101	$ (283)
U.S. Agencies	4,997	(3)	5,443	(1,058)	10,440	(1,061)
MBS	-	-	48,893	(7,375)	48,893	(7,375)
Municipals	-	-	9,759	(1,870)	9,759	(1,870)
Total	$ 4,997	$ (3)	$ 82,196	$ (10,586)	$ 87,193	$ (10,589)

(Dollars in thousands)	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2022						
U.S. Treasuries	$ 17,982	$ (199)	$ 1,698	$ (237)	$ 19,680	$ (436)
U.S. Agencies	1,999	(1)	5,258	(1,242)	7,257	(1,243)
MBS	28,705	(3,442)	24,710	(5,206)	53,415	(8,648)
Municipals	5,653	(817)	5,827	(1,709)	11,480	(2,526)
Total	$ 54,339	$ (4,459)	$ 37,493	$ (8,394)	$ 91,832	$ (12,853)

All securities owned as of December 31, 2023 and 2022 were investment grade. The Company evaluates securities for impairment, at least on a quarterly basis. Consideration is given to the financial condition and near-term prospects of the issuer, the extent to which the fair value has been less than cost, and our intent and ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. As of December 31, 2023 and 2022, the Company held 102 and 106 investment positions, respectively, with unrealized losses of $10.6 million and $12.9 million, respectively. These investments were in U.S. Treasuries, U.S. Agencies, MBS and municipals. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. Management has determined that all declines in the market value of are not indications of impairment and will not be likely required to sell.

3. FHLB STOCK

To be a member of the FHLB System, the Bank is required to maintain an investment in capital stock of the FHLB. Periodically, the FHLB recalculates the Bank's required level of holdings, and the Bank either buys more stock or redeems a portion of the stock at cost. The carrying value of FHLB stock, which is included in other invested assets, as of December 31, 2023 and 2022 was $324 thousand and $205 thousand, respectively. No ready market exists for the FHLB stock, and it has no quoted market value; however, management believes that the cost approximates the market value as of December 31, 2023 and 2022. Management has reviewed its investment in FHLB stock for impairment and does not believe it is impaired as of December 31, 2023 or 2022. The FHLB of Atlanta in which the Company owns stock has been profitable in each of the years ended December 31, 2023 and 2022.

4. RECONCILIATIONS OF BASIC AND DILUTED EARNINGS PER SHARE ("EPS")

Earnings Per Share - Earnings per share are calculated on the basis of the weighted average number of shares of common stock outstanding for the purpose of computing the basic earnings per share and the weighted average number of shares of common stock outstanding plus dilutive common stock equivalents, such as stock options, for the purpose of computing diluted earnings per share.

	For the Years Ended December 31,					
	2023			2022		
(Dollars in thousands except share and per share amounts)	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS:						
Net income available to common shareholders	$ 5,455	1,981,392	$ 2.75	$ 4,332	1,979,975	$ 2.19
Effect of dilutive securities	-	22,199		-	4,665	
Diluted EPS per common share	$ 5,455	2,003,591	$ 2.72	$ 4,332	1,984,640	$ 2.18

5. ACCUMULATED OTHER COMPREHENSIVE LOSS

Comprehensive loss includes net income and all other changes to the Company's equity, with the exception of transactions with stockholders. The Company's other comprehensive loss and accumulated other comprehensive loss are comprised of unrealized gains and losses on certain investments in debt securities and defined benefit plan adjustments.

CHANGES IN ACCUMULATED OTHER COMPREHENSIVE LOSS BY COMPONENT
For the Years Ended December 31, 2023 and 2022

(Dollars in thousands)

	Unrealized Losses on Available-for-Sale Securities	Defined Benefit Pension Plans	Total
Balance as of December 31, 2021	$ (650)	$ (1,483)	$ (2,133)
Other comprehensive loss before reclassifications	(8,941)	(41)	(8,982)
Amounts reclassified from accumulated other comprehensive loss	-	-	-
Net current-period other comprehensive loss	(8,941)	(41)	(8,982)
Balance as of Decmeber 31, 2022	$ (9,591)	$ (1,524)	$ (11,115)
Balance as of December 31, 2022	$ (9,591)	$ (1,524)	$ (11,115)
Other comprehensive gains before reclassifications	1,825	283	2,108
Amounts reclassified from accumulated other comprehensive income	-	-	-
Net current-period other comprehensive income	1,825	283	2,108
Balance as of December 31, 2023	$ (7,766)	$ (1,241)	$ (9,007)

All amounts are net of tax.

There were no reclassification adjustments from accumulated other comprehensive loss during the years ended December 31, 2023 and 2022.

6. LOANS AND ACL

The total allowance for credit losses amounted to $4.0 million at December 31, 2023 compared to the allowance for loan loss of $2.9 million at December 31, 2022. The increase was driven by a provision of $1.2 million during 2023 for credit loss.

As previously discussed, we adopted CECL effective January 1, 2023. The ACL reflects our estimate of life of loan expected credit losses that will result from the inability of our borrowers to make required loan payments. We established the incremental increase in the ACL at adoption date through equity and subsequently record amounts needed to adjust the ACL for our current estimate of expected credit losses through a provision for credit losses charged to earnings. We record loans charged off against the ACL in the period in which such loans, in management's opinion, become uncollectible. Subsequent recoveries, if any, increase the ACL when they are recognized.

We use systematic methodologies to determine the ACL for loans and the allowance for certain off-balance-sheet credit exposures. The ACL is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loan portfolio. The allowance for unfunded commitments represents expected losses on unfunded loan commitments that are expected to result in outstanding loan balances and is included in other liabilities in the consolidated balance sheets.

We consider the effects of past events, current conditions, and reasonable and supportable forecasts on the collectability of the loan portfolio. Our estimate of the ACL involves a high degree of judgment. Therefore, the process for determining expected credit losses may result in a range of expected credit losses. The ACL is calculated using collectively evaluated pools for loans with similar risk characteristics applying the DCF method. When a loan no longer shares similar risk characteristics with its segment, the loan is evaluated on an individual basis applying a cash flow or asset approach for collateral-dependent loans. Refer to Note 1 of the consolidated financial statements for a discussion of our CECL methodology used to determine the ACL and allowance for unfunded commitments.

Our assessment of the ACL involves uncertainty and judgment and is subject to change in future periods. The amount of any changes could be significant if the assessment of loan quality or collateral values changes substantially with respect to one or more loan relationships or portfolios or if there is a significant change in the reasonable and supportable forecast used to model our expected credit losses. The allocation of the ACL is based on reasonable and supportable forecasts, historical data, subjective judgment, and estimates and therefore, may not be predictive of the specific amounts or loan categories in which charge-offs may ultimately occur. In addition, bank regulatory authorities, as part of their periodic examination of the Bank,

may require adjustments to the provision for loan losses in future periods if, in their opinion, the results of their review warrant such additions.

We strive to maintain our loan portfolio in accordance with what management believes are conservative loan underwriting policies that result in loans specifically tailored to the needs of our market areas. Every effort is made to identify and minimize the credit risks associated with such lending strategies. We have no foreign loans, few agricultural loans, and we do not engage in significant lease financing or highly leveraged transactions. Commercial loans are diversified among a variety of industries. The majority of loans captioned in the Loan Portfolio Composition table in the below "Loans" section as “real estate” loans are personal and commercial loans where cash flow from the borrower’s occupation or business is the primary repayment source, with the real estate pledged providing a secondary repayment source. Collateral for the majority of these loans is located within our principal market area.

Loans are generally placed on non-accrual status when the scheduled payments reach 90 days past due. Loans are charged-off, with Board of Directors’ approval, when the Chief Credit Officer and his staff determine that all reasonable means of collection of the outstanding balances, except foreclosure, have been exhausted. The Company continues its collection efforts subsequent to charge-off, which historically has resulted in some recoveries each year.

The composition of the loan portfolio, net of deferred fees and costs, by loan classification as of December 31, 2023 and 2022:

(Dollars in thousands)	**December 31, 2023**	**December 31, 2022**
Commercial	$ 55,813	$ 57,724
Commercial real estate:		
Construction	4,223	7,148
Owner occupied	49,886	35,527
Other	29,132	29,988
Faith-based non-profit:		
Construction	(3) *	-
Owner occupied	55,482	52,071
Other	234	308
Residential real estate:		
First mortgage	31,233	25,368
Multifamily	31,521	30,837
Home equity	9,337	6,329
Construction	643	-
Consumer	1,500	1,576
Other loans	81	33
Loans, net of deferred fees	269,082	246,909
ACL	(3,987)	(2,863)
Loans, net of ACL	$ 265,095	$ 244,046

*Denotes net deferred fees/costs

The Bank has a concentration of loans to faith-based non-profit organizations, in which the Bank has specialized lending experience. At December 31, 2023, the percentage of loans in this segment, which included construction, owner occupied real estate secured and other loans, comprised 20.70% of the total loan portfolio. The reserve allocated for these loans at December 31, 2023 was 10.84% of the total ACL. Historically the Bank has experienced low levels of loan losses in this segment; however, repayment of these loans is generally dependent on voluntary contributions, some of which had been adversely affected during the economic downturn.

Management has identified its loan-related disclosure classifications in its financial reports to present portfolio segments. A portfolio segment is defined as the level at which an entity develops and documents a systematic methodology to determine its ACL under the CECL methodology. The following table presents the reported ACL as of December 31, 2023:

	For the Year Ended December 31, 2023						
(Dollars in thousands)	Commercial	Commercial Real Estate	Faith-Based Non-Profit	Residential Real Estate	Consumer	Other Loans	Total
ACL:							
Total ending ALLL balances as of December 31, 2022	$ 453	$ 813	$ 827	$ 729	$ 30	$ 11	$ 2,863
Adjustment for implementation of CECL	338	(87)	(472)	177	41	(3)	(6)
For the year ended December 31, 2023							
Charge-offs	-	-	-	-	(11)	(38)	(49)
Recoveries	1	-	-	-	2	5	8
Provision for credit losses	782	55	77	199	9	49	1,171
Total ending ACL balances as of December 31, 2023	$ 1,574	$ 781	$ 432	$ 1,105	$ 71	$ 24	$ 3,987

Management has identified its loan-related disclosure classifications in its financial reports to present portfolio segments. A portfolio segment is defined as the level at which an entity develops and documents a systematic methodology to determine its ALLL under the incurred loss methodology. The following tables present the reported investment in loans, net of deferred fees and costs, by portfolio segment and based on impairment method and related ALLL as of December 31, 2022:

	December 31, 2022						
(Dollars in thousands)	Commercial	Commercial Real Estate	Faith Based Non-Profit	Residential Real Estate	Consumer	Other Loans	Total
ALLL:							
Ending ALLL balance attributable to loans:							
Individually evaluated for impairment	$ -	$ -	$ 305	$ -	$ -	$ -	$ 305
Collectively evaluated for impairment	453	813	522	729	30	11	2,558
Total ending ALLL balance	$ 453	$ 813	$ 827	$ 729	$ 30	$ 11	$ 2,863
Loans:							
Loans individually evaluated for impairment	$ -	$ -	$ 7,365	$ -	$ -	$ -	$ 7,365
Loans collectively evaluated for impairment	57,724	72,663	45,014	62,534	1,576	33	239,544
Total ending loans balance	$ 57,724	$ 72,663	$ 52,379	$ 62,534	$ 1,576	$ 33	$ 246,909

	For the Year Ended December 31, 2022						
(Dollars in thousands)	Commercial	Commercial Real Estate	Faith-Based Non-Profit	Residential Real Estate	Consumer	Other Loans	Total
ALLL:							
Total ending ALLL balances as of December 31, 2021	$ 220	$ 675	$ 863	$ 433	$ 66	$ 15	$ 2,272
For the year ended December 31, 2022							
Charge-offs	(3)	-	-	(27)	(67)	(28)	(125)
Recoveries	1	-	-	9	3	4	17
Provision for (reversal of) loan losses	235	138	(36)	314	28	20	699
Total ending ALLL balances as of December 31, 2022	$ 453	$ 813	$ 827	$ 729	$ 30	$ 11	$ 2,863

The following tables show impaired loans with and without valuation allowances as of December 31, 2022, under the incurred loss methodology:

	December 31, 2022				
(Dollars in thousands)	Unpaid Principal Balance	Recorded Investment	ALLL Allocated	Interest Earned For the Year	Average Recorded Investment
With no related allowance recorded:					
Faith based non-profit:					
Owner occupied	$ 197	$ 197	$ -	$ 2	$ 172
Impaired loans with no allowance recorded	$ 197	$ 197	$ -	$ 2	$ 172
With an allowance recorded:					
Faith based non-profit:					
Owner occupied	$ 7,169	$ 7,185	$ 305	$ 372	$ 7,368
Consumer	-	-	-	-	6
Impaired loans with allowance recorded	$ 7,169	$ 7,185	$ 305	$ 372	$ 7,374
Total impaired loans	$ 7,366	$ 7,382	$ 305	$ 374	$ 7,546

The recorded investment in loan balance includes the outstanding loan balance (net of any charge-offs), accrued interest, deferred fees and costs, and unamortized premium or discount, where applicable.

In addition to the ACL on loans, the Company maintains an allowance for lending-related commitments such as unfunded loan commitments and letters of credit. Under CECL, the Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The allowance for lending-related commitments on off-balance sheet credit exposures is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur, which is based on a historical funding study derived from internal information, and an estimate of expected credit losses on commitments expected to be funded over its estimated life, which are the same loss rates that are used in computing the ACL on loans, and are discussed in Note 1. The ACL for unfunded loan commitments of $454 thousand and $43 thousand at December 31, 2023 and 2022, respectively, is separately classified on the consolidated balance sheets within the line items "Other Liabilities."

The following table presents the balance and activity in the ACL for unfunded loan commitments for December 31, 2023.

(Dollars in thousands)	December 31, 2023
Beginning balance	$ 43
Adjustment for implementation of CECL	313
Provision for credit losses on changes in unfunded commitments	98
Total ending ACL balances as of December 31, 2023	$ 454

For the year ended December 31, 2023 the allowance for credit losses incorporates an estimate of lifetime expected credit losses and is recorded on each asset upon asset origination or acquisition. The starting point for the estimate of the allowance for credit losses is historical loss information, which includes losses from modifications of receivables to borrowers experiencing financial difficulty. The Company uses a probability of default/loss given default model to determine the allowance for credit losses. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification.

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

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

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

The Company closely monitors the performance of the loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts.

There were no loans modified to borrowers experiencing financial difficulty during the year ended December 31, 2023.

There were no loans modified in the 12 months before default to borrowers experiencing financial difficulty during the year ended December 31, 2023.

Prior to CECL, the Bank modified certain loans and provided concessions such as a reduced rate, extended terms, or reduction of principal and/or interest, in a TDR where the borrowers are experiencing financial difficulties. These concessions typically result from loss mitigation recommendations developed by the Bank's problem loan team. Concessions could include reductions in below market interest rates, payment extensions, forbearance or other actions. TDRs are generally classified as nonperforming at the time of restructuring and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months.

When loans were modified as TDRs, the Bank evaluated each loan for any possible impairment based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, except when the repayment source is expected to be the liquidation of underlying collateral, in which cases the Bank used the fair value of the collateral less selling costs, instead of discounted cash flows. If the Bank determined that the value of the modified loan were less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment was recognized through an allowance allocation or a charge-off to the allowance.

The Bank completed no new TDRs during the years ended December 31, 2022. Based upon financial analysis and the fair value of collateral, the Bank allocated $305 thousand specific reserves for TDRs at December 31, 2022.

The were no loans modified as a TDR with a payment default occurring within 12 months of the restructure date, during the years ended December 31, 2022.

The following table presents the recorded investment in non-accrual and loans past due over 90 days still on accrual by class of loans as of December 31, 2023 and 2022:

	CECL			**Incurred Loss**
	December 31, 2023			**December 31, 2022**
(Dollars in thousands)	**Nonaccrual Loans with No Allowance**	**Nonaccrual Loans with an Allowance**	**Total Nonaccrual Loans**	**Nonaccrual Loans**
Commercial	$ -	$ 159	$ 159	$ -
Commercial real estate:				
Owner occupied	49	-	49	-
Faith-based non-profit:				
Owner occupied	-	597	597	885
Total	$ 49	$ 756	$ 805	$ 885

Non-accrual loans and loans past due over 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. Loans from which principal or interest is in default for 90 days or more are classified as a non-accrual unless they are well secured and in process of collection. Loans past due over 90 days still accruing were matured loans that were well secured and in process of collection. Borrowers have continued to make payments on these loans while administrative and legal due processes are proceeding which will enable the Bank to extend or modify maturity dates.

Unrecognized income on non-accrual loans for the years ended December 31, 2023 and 2022 was $16 thousand and $10 thousand, respectively.

The following tables present loans not past due, and the aging of past due loans as of December 31, 2023 and 2022 by class of loans:

December 31, 2023 *(Dollars in thousands)*	**30-59 Days Past Due**	**60-89 Days Past Due**	**90 Days Or More Past Due**	**Total Past Due**	**Current**	**Total**
Commercial	$ 679	$ 33	$ 186	$ 898	$ 54,915	$ 55,813
Commercial real estate:						
Construction	-	-	-	-	4,223	4,223
Owner occupied	-	-	115	115	49,771	49,886
Other	-	-	-	-	29,132	29,132
Faith-based non-profit:						
Construction	-	-	-	-	(3)	(3)
Owner occupied	-	-	-	-	55,482	55,482
Other	-	-	-	-	234	234
Residential real estate:						
First mortgage	306	-	-	306	30,927	31,233
Multifamily	-	-	-	-	31,521	31,521
Home equity	146	85	-	231	9,106	9,337
Construction	-	-	-	-	643	643
Consumer	-	-	-	-	1,500	1,500
Other loans	-	-	-	-	81	81
Total	$ 1,131	$ 118	$ 301	$ 1,550	$ 267,532	$ 269,082

December 31, 2022 *(Dollars in thousands)*	**30-59 Days Past Due**	**60-89 Days Past Due**	**90 Days Or More Past Due**	**Total Past Due**	**Current**	**Total**
Commercial	$ 202	$ 15	$ -	$ 217	$ 57,507	$ 57,724
Commercial real estate:						
Construction	-	-	-	-	7,148	7,148
Owner occupied	-	-	-	-	35,527	35,527
Other	-	-	-	-	29,988	29,988
Faith-based non-profit:						
Owner occupied	-	-	197	197	51,874	52,071
Other	-	-	-	-	308	308
Residential real estate:						
First mortgage	-	-	-	-	25,368	25,368
Multifamily	-	-	-	-	30,837	30,837
Home equity	-	-	-	-	6,329	6,329
Consumer	-	3	-	3	1,573	1,576
Other loans	-	-	-	-	33	33
Total	$ 202	$ 18	$ 197	$ 417	$ 246,492	$ 246,909

The Company designates individually evaluated loans on nonaccrual status as collateral dependent loans, as well as other loans that management of the Company designates as having higher risk. Collateral dependent loans are loans for which the repayment is expected to be provided substantially through the operation or sale of the collateral and the borrower is experiencing financial difficulty. These loans do not share common risk characteristics and are not included within the collectively evaluated loans for determining the ACL. Under CECL, for collateral dependent loans, the Company has adopted the practical expedient to measure the ACL on the fair value of collateral. The ACL is calculated on an individual loan basis based on the shortfall between the fair value of the loan's collateral, which is adjusted for liquidation costs/discounts, and amortized cost. If the fair value of the collateral exceeds the amortized cost, no allowance is required.

The following table presents an analysis of collateral-dependent loans of the Company as of December 31, 2023:

(Dollars in thousands)	Business Assets	Commercial Property	Total Collateral-Dependent Loans
Commercial	$ 26	$ -	$ 26
Commercial real estate:			
Owner occupied	-	49	49
Total	$ 26	$ 49	$ 75

Under CECL, for collateral dependent loans, the Company has adopted the practical expedient to measure the ACL losses based on the fair value of collateral. The allowance for credit losses is calculated on an individual loan basis based on the shortfall between the fair value of the loan's collateral, which is adjusted for liquidation costs/discounts, and amortized cost. If the fair value of the collateral exceeds the amortized cost, no allowance is required.

The Company does not believe that there is significant over-coverage of collateral for any of the loan types noted above.

The following tables display all non-accrual loans and loans 90 or more days past due and still on accrual for the periods ended December 31, 2023 and 2022.

December 31, 2023

(Dollars in thousands)	Amount	Number
Loans past due over 90 days still on accrual	$ 93	2
Non-accrual loans past due		
Less than 30 days	$ 597	1
30-59 days	-	-
60-89 days	-	-
90+ days	208	3
Non-accrual loans	$ 805	4

December 31, 2022

(Dollars in thousands)	Amount	Number
Loans past due over 90 days still on accrual	$ -	-
Non-accrual loans past due		
Less than 30 days	$ 688	1
30-59 days	-	-
60-89 days	-	-
90+ days	197	1
Non-accrual loans	$ 885	2

The Company tracks credit quality based on its internal risk ratings. Upon origination, a loan is assigned an initial risk grade, which is generally based on several factors such as the borrower's credit score, the loan-to-value ratio, the debt-to-income ratio, etc. Loans that are risk-graded as substandard during the origination process are declined. After loans are initially graded, they are monitored regularly for credit quality based on many factors, such as payment history, the borrower's financial status, and changes in collateral value. Loans can be downgraded or upgraded depending on management's evaluation of these factors. Internal risk-grading policies are consistent throughout each loan type.

The following describes the Company's internal risk grades in ascending order of likelihood of loss:

Risk	Grade	Description
Pass:	1	Loans with virtually no risk, including cash secured loans.
	2	Loans with documented significant overall financial strength. These loans have minimum chance of loss due to the presence of multiple sources of repayment – each clearly sufficient to satisfy the obligation.
	3	Loans with documented satisfactory overall financial strength. These loans have a low loss potential due to presence of at least two clearly identified sources of repayment – each of which is sufficient to satisfy the obligation under the present circumstances.
	4	Loans to borrowers with acceptable financial condition. These loans could have signs of minor operational weaknesses, lack of adequate financial information, or loans supported by collateral with questionable value or marketability.
	5	Loans that represent above average risk due to minor weaknesses and warrant closer scrutiny by management. Collateral is generally required and felt to provide reasonable coverage with realizable liquidation values in normal circumstances. Repayment performance is satisfactory.
Special Mention:	6	Existing loans with defined weaknesses in primary source of repayment that, if not corrected, could cause a loss to the Company.
Substandard:	7	An existing loan inadequately protected by the current sound net worth and paying capacity of the obligor or the collateral pledged, if any. These loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt.
	8	Loans that have a well-defined weakness that make the collection or liquidation in full highly questionable and improbable. Loss appears imminent, but the exact amount and timing is uncertain.
	9	Loans that are considered uncollectible and are in the process of being charged-off. This grade is a temporary grade assigned for administrative purposes until the charge-off is completed.

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

(Dollars in thousands)	Term Loans by Year of Origination								
	2023	2022	2021	2020	2019	Prior	Revolving	Revolving Loans Converted to Term	Total
Commercial									
Pass	$ 17,849	$ 15,333	$ 9,993	$ 4,145	$ 4,173	$ 3,079	$ 1	$ 6	$ 54,579
Special Mention	588	-	-	469	-	-	-	-	1,057
Substandard	18	-	-	-	58	101	-	-	177
Total commercial	18,455	15,333	9,993	4,614	4,231	3,180	1	6	55,813
Commercial real estate:									
Construction									
Pass	3,305	918	-	-	-	-	-	-	4,223
Total construction	3,305	918	-	-	-	-	-	-	4,223
Owner-occupied									
Pass	19,790	6,485	15,271	2,246	3,592	1,758	695	-	49,837
Substandard	-	49	-	-	-	-	-	-	49
Total owner-occupied	19,790	6,534	15,271	2,246	3,592	1,758	695	-	49,886
Other:									
Pass	1,360	11,221	10,167	4,638	447	800	77	-	28,710
Substandard	422	-	-	-	-	-	-	-	422
Total other	1,782	11,221	10,167	4,638	447	800	77	-	29,132
Faith-based non-profit:									
Construction									
Pass	(3)	-	-	-	-	-	-	-	(3)
Total construction	(3)	-	-	-	-	-	-	-	(3)
Owner-occupied									
Pass	15,254	13,833	9,495	7,293	2,723	1,762	-	-	50,360
Special Mention	1,516	1,667	-	-	-	-	-	-	3,183
Substandard	205	597	1,137	-	-	-	-	-	1,939
Total owner-occupied	16,975	16,097	10,632	7,293	2,723	1,762	-	-	55,482
Other:									
Pass	207	-	23	-	-	-	4	-	234
Total other	207	-	23	-	-	-	4	-	234
Residential real estate:									
Construction:									
Pass	369	208	66	-	-	-	-	-	643
Total construction	369	208	66	-	-	-	-	-	643
First Mortgage									
Pass	11,613	10,178	5,284	2,656	1,147	54	-	-	30,932
Special Mention	-	301	-	-	-	-	-	-	301
Total first mortgage	11,613	10,479	5,284	2,656	1,147	54	-	-	31,233
Multifamily:									
Pass	1,726	16,745	11,469	356	855	360	-	-	31,511
Special Mention	-	-	-	-	-	10	-	-	10
Total multifamily	1,726	16,745	11,469	356	855	370	-	-	31,521
Home equity									
Pass	181	471	-	-	-	-	8,318	127	9,097
Special Mention	-	146	-	-	-	-	9	85	240
Total home equity	181	617	-	-	-	-	8,327	212	9,337
Consumer:									
Pass	363	445	57	4	2	3	620	6	1,500
Total home equity	363	445	57	4	2	3	620	6	1,500
Other loans									
Pass	-	-	-	-	-	81	-	-	81
Total other loans	-	-	-	-	-	81	-	-	81
Total	$ 74,763	$ 78,597	$ 62,962	$ 21,807	$ 12,997	$ 8,008	$ 9,724	$ 224	$ 269,082
Current Period Gross Charge-offs	$ (3)	$ -	$ -	$ -	$ (3)	$ (38)	$ (2)	$ (3)	$ (49)
Current Period Recoveries	-	-	-	-	1	6	-	1	$ 8
Current Period Net Charge-offs	$ (3)	$ -	$ -	$ -	$ (4)	$ (32)	$ (2)	$ (2)	$ (41)

At December 31, 2023, as derived from the table above, the Company had $4.8 million in loans graded as Special Mention, $2.6 million in loans graded as Substandard, which includes non-accrual loans. In the table above, substantially all of the "Substandard Loans" have grades of 7 or Doubtful, with those categories having similar levels of risk. The amount of revolving lines of credit that converted to term loans was $224 thousand.

As of December 31, 2022, the risk category of loans by class of loans was as follows:

December 31, 2022 *(Dollars in thousands)*	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Total**
Commercial	$ 57,724	$ -	$ -	$ -	$ 57,724
Commercial real estate:					
Construction	7,148	-	-	-	7,148
Owner occupied	35,527	-	-	-	35,527
Other	29,521	-	467	-	29,988
Faith-based non-profit:					
Owner occupied	46,728	3,263	2,080	-	52,071
Other	308	-	-	-	308
Residential real estate:					
First mortgage	25,368	-	-	-	25,368
Multifamily	30,824	13	-	-	30,837
Home equity	6,329	-	-	-	6,329
Consumer	1,568	-	8	-	1,576
Other loans	33	-	-	-	33
Total	$ 241,078	$ 3,276	$ 2,555	$ -	$ 246,909

7. BANK PREMISES AND EQUIPMENT

The following is a summary of bank premises and equipment, net as of December 31, 2023 and 2022:

(Dollars in thousands)	**December 31, 2023**	**December 31, 2022**
Land	$ 312	$ 312
Buildings and leasehold improvements	5,953	5,135
Furniture and equipment	3,180	2,882
Finance leases	215	215
Construction in progress	60	578
Bank premises and equipment	9,720	9,122
Less: accumulated depreciation and amortization	(6,756)	(6,510)
Bank premises and equipment, net	$ 2,964	$ 2,612

Total depreciation expense was $338 thousand and $401 thousand for the years ended December 31, 2023 and 2022, respectively.

8. DEPOSITS

Deposits are the Bank's primary source of funds for making loans and purchasing investments. The Bank offers a variety of deposit account products to commercial and consumer customers. The total deposits that were re-classified to loans due to overdrafts were $69 thousand and $18 thousand at December 31, 2023 and 2022, respectively. The Bank has a concentration of deposits related to the faith-based industry. At December 31, 2023 and 2022, faith-based deposits totaled $30.6 million and $30.4 million, respectively.

The following shows the maturity schedule of all time deposits:

(Dollars in thousands)	**Amount**
2024	$ 78,828
2025	3,489
2026	1,172
2027	109
2028	564
Thereafter	-
Total	$ 84,162

Principal maturities of time deposits of $250,000 or more as of December 31, 2023 and 2022 were as follows:

	December 31, 2023		**December 31, 2022**	
(Dollars in thousands)	**Amount**	**Average Rate**	**Amount**	**Average Rate**
Three months or less	$ 3,949	0.97 %	$ 2,945	0.23 %
Over three months to six months	4,389	1.72	4,017	0.21
Over six months to twelve months	12,977	3.12	8,521	0.28
Over one year to five years	2,073	0.34	3,044	0.34
Total	$ 23,388	2.25 %	$ 18,527	0.21 %

For the years ended December 31, 2023 and 2022, the Bank had $190 thousand and $45 thousand, respectively, in interest expense for time deposits greater than $250,000.

In the normal course of business, certain directors and executives of the Company and the Bank, including their immediate families and companies in which they have an interest, are deposit customers. These relationships had aggregate deposits of $2.1 million and $2.0 million as of December 31, 2023 and 2022, respectively.

As of December 31, 2023, the Bank had no deposit relationships with balances in excess of five percent of total deposits compared to two deposit relationships at December 31, 2022 totaling $71.6 million.

9. LEASES

As of December 31, 2023, the Company had operating and finance leases for facilities, land and equipment. Leases have remaining lease terms of 1.0 year to 17.8 years, some of which include options to extend the leases for up to an additional 5 years.

The components of lease expense are as follows:

	For the Years Ended December 31,	
(Dollars in thousands)	**2023**	**2022**
Lease Cost:		
Finance lease cost:		
Amortization of ROU asset	$ 46	$ 64
Interest on lease liabilities	1	1
Operating lease cost	260	222
Short-term lease cost	19	-
Variable lease cost	1	1
Total lease cost	$ 327	$ 288

ROU asset totaled $1.2 million and $1.4 million at December 31, 2023 and 2022, respectively.

Supplemental balance sheet information related to leases are as follows:

(Dollars in thousands)	For the Years Ended December 31, 2023	2022
Finance Leases:		
Finance leases	$ 215	$ 215
Accumulated depreciation	(192)	(145)
Finance leases, net	$ 23	$ 70
Other Borrowings:		
Total finance lease liabilities	$ 30	$ 76
Weighted Average Remaining Lease Term:		
Finance leases	2.3 years	2.1 years
Operating leases	8.9 years	9.3 years
Weighted Average Discount Rate:		
Finance leases	1.41%	0.92%
Operating leases	3.86%	3.85%

Estimated lease payments for the Company's operating leases with the initial term of one year or more as of December 31, 2023 were as follows:

(Dollars in thousands)	Estimated Amortization Expense
2024	$ 228
2025	226
2026	233
2027	240
2028	76
Thereafter	559
Total estimated lease payments	1,562
Less effect of discounting	(269)
Present value of estimated lease payments (lease liability)	$ 1,293

Estimated lease payments for the Company's finance leases with the initial term of one year or more as of December 31, 2023 were as follows:

(Dollars in thousands)	Estimated Depreciation Expense
2024	$ 15
2025	12
2026	3
2027	1
2028	-
Thereafter	-
Total estimated lease payments	31
Less effect of discounting	(1)
Present value of estimated lease payments (lease liability)	$ 30

The minimum lease payments do not include common area maintenance ("CAM") charges or real estate taxes, which are also required contractual obligations under our operating leases. CAM charges and real estate taxes are not fixed and are subject to fluctuation. Total CAM charges for the years ended December 31, 2023 and 2022 were $70 thousand and $76 thousand, respectively.

10. BORROWINGS

Borrowings as of December 31, 2023 and 2022 consisted of finance leases of $30 thousand and $76 thousand, respectively, with weighted average interest rates of 1.41% and 0.92%, respectively. See Note 9 for details on leases. Interest expense on advances from FHLB for the years ended December 31, 2023 and 2022 was none. The maximum FHLB advances outstanding at any month end during the year ended December 31, 2022 and 2021 was none. As of December 31, 2023 and 2022, the Bank had the borrowing availability of an additional $28.8 million and $16.8 million, respectively, from the FHLB. Pursuant to collateral agreements with the FHLB, advances are secured by FHLB stock, and qualifying

loans totaling $28.8 million and $16.8 million as of December 31, 2023 and 2022, respectively.

The Company has federal funds lines of credit with correspondent banks totaling $26.0 million at December 31, 2023 and 2022. No borrowings were outstanding on these lines of credit at December 31, 2023 or 2022. The Company periodically tests its federal funds lines of credit with its correspondent banks. These lines were tested quarterly during the year ended December 31, 2023.

11. INCOME TAXES

The components of the income tax expense for the years ended December 31, 2023 and 2022 were as follows:

(Dollars in thousands)	2023	2022
Income tax expense		
Current	$ 1,867	$ 19
Deferred	(270)	1,203
Total	$ 1,597	$ 1,222

A reconciliation of reported income tax expense for the years ended December 31, 2023 and 2022 to the amount of tax expense computed by multiplying income before income taxes by the statutory federal income tax rate follows:

(Dollars in thousands)	2023	2022
Statutory federal income tax rate	21%	21%
Tax provision at statutory rate	$ 1,531	$ 1,204
Increase in income taxes resulting from:		
State income taxes net of federal benefit	98	89
Tax exempt interest income	(32)	(19)
Disallowed interest expense	1	-
Change in deferred tax valuation allowance	1	(1)
Cash surrender value of life insurance	(64)	(60)
Other	62	9
Total	$ 1,597	$ 1,222

The tax effect of the cumulative temporary differences and carry forwards that gave rise to the deferred tax assets and liabilities as of December 31, 2023 and 2022 within the Consolidated Balance Sheets were as follows:

(Dollars in thousands)	December 31,	
	2023	**2022**
Deferred tax assets:		
Adjustments, defined benefit plans	$ 369	$ 454
Excess book over tax provision for loan loss expense	1,020	668
Federal net operating loss carryforward	-	52
State net economic loss carryforward	73	157
Premises and equipment	181	222
Unrealized losses on securities available for sale, net	2,317	2,861
Other, net	72	68
Total deferred tax assets	4,032	4,482
Valuation allowance for deferred tax assets	(73)	(123)
Net of valuation allowance deferred tax asset	3,959	4,359
Deferred tax liabilities:		
Accrued pension	(313)	(309)
Deferred loan fees	(384)	(437)
Other	(14)	(6)
Total deferred tax liabilities	(711)	(752)
Net deferred tax assets	3,248	3,607
Tax receivable, net	-	1
Deferred tax assets and taxes receivable, net	$ 3,248	$ 3,608

The Company measures deferred income tax assets and liabilities using enacted tax rates that will apply in the years in which the temporary differences are expected to be recovered or paid.

The last tax year audited by the Internal Revenue Service was 2006; tax years 2020 – present are open for audit under the statute of limitations. The Company has analyzed the tax position taken or expected to be taken in its tax returns and has concluded it has no uncertain tax positions.

12. EMPLOYEE BENEFIT PLANS

The Bank sponsors a noncontributory defined benefit cash balance pension plan (the “Cash Balance Plan”), covering all employees who qualify under length of service and other requirements. Under the Cash Balance Plan, retirement benefits are based on years of service and average earnings. The Bank’s funding policy is to contribute amounts to the Cash Balance Plan sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), plus such additional amounts as the Bank may determine to be appropriate. No contributions were made to the Cash Balance Plan during the years ended December 31, 2023 and 2022. The Cash Balance Plan was fully funded as of December 31, 2023. The measurement date for the Cash Balance Plan is December 31 and prior service costs and benefits are amortized on a straight-line basis over the average remaining service period of active participants.

It is expected that the Bank will not contribute to the Cash Balance Plan during 2024.

The following table shows the type of assets held in the Cash Balance Plan:

Asset Category	**Cash Balance Plan As of December 31, 2023**	**2022**
Equity securities	55.6%	55.6%
Debt securities	40.6%	42.1%
All other assets	3.8%	2.3%
Total	100.0%	100.0%

The Bank sponsors a nonqualified Supplemental Executive Retirement Plan ("SERP"). The SERP, which is unfunded, provides certain individuals with pension benefits, outside the Bank's noncontributory defined-benefit Cash Balance Plan, based on average earnings, years of service and age at retirement. Participation in the SERP is at the discretion of the Bank's Board of Directors. The Company and Bank purchased bank owned life insurance ("BOLI") in 2002 in the aggregate amount of approximately $12.9 million face value covering all the participants in the SERP. Increases in the cash surrender value of BOLI policies totaled $304 thousand and $284 thousand for the years ended December 31, 2023 and 2022, respectively. The cash surrender value of the BOLI owned by the Bank was $10.4 million and $10.1 million as of December 31, 2023 and 2022, respectively. The Bank has the ability and the intent to keep this life insurance in force indefinitely. The insurance proceeds may be used, at the sole discretion of the Bank, to fund the benefits payable under the SERP.

Since there are no assets in the SERP, contributions are equal to the benefits paid. It is expected that $154 thousand will be paid in benefits during 2024.

The SERP and the Cash Balance Plan service cost components of the net periodic benefit cost reflected in salaries and employee benefits expense and the remaining net periodic benefit cost components reflected in other expenses for the years ended December 31, 2023 and December 31, 2022 were:

	Cash Balance Plan		**SERP**		**Total**	
(Dollars in thousands)	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Components of Net Periodic Pension Cost:						
Service cost	$ 80	$ 97	$ -	$ -	$ 80	$ 97
Interest cost	207	132	67	41	274	173
Expected return on plan assets	(372)	(506)	-	-	(372)	(506)
Amortization of prior service cost and recognized net actuarial gain	141	304	24	49	165	353
Net periodic pension cost	$ 56	$ 27	$ 91	$ 90	$ 147	$ 117

The following table shows the change in the projected benefit obligations and plan assets for the years ended December 31, 2023 and 2022:

(Dollars in thousands)	Cash Balance Plan 2023	Cash Balance Plan 2022	SERP 2023	SERP 2022	Total 2023	Total 2022
Change in Projected Benefit Obligations:						
Benefit obligation at beginning of year	$ 4,742	$ 6,323	$ 1,495	$ 1,876	$ 6,237	$ 8,199
Service cost	80	97	-	-	80	97
Interest cost	207	132	67	41	274	173
Actuarial (gain) loss	113	(831)	22	(268)	135	(1,099)
Settlements	(58)	(711)	-	-	(58)	(711)
Benefits and expenses paid	(267)	(268)	(154)	(154)	(421)	(422)
Benefit obligation at end of year	4,817	4,742	1,430	1,495	6,247	6,237
Change in Plan Assets:						
Fair value of plan assets at beginning of year	5,713	7,691	-	-	5,713	7,691
Actual return on plan assets	712	(999)	-	-	712	(999)
Employer contributions	-	-	154	154	154	154
Settlements	(58)	(711)	-	-	(58)	-
Benefits and expenses paid	(267)	(268)	(154)	(154)	(421)	(422)
Fair value of plan assets at year end	6,100	5,713	-	-	6,100	6,424
Funded status	$ 1,283	$ 971	$ (1,430)	$ (1,495)	$ (147)	$ (524)

The Bank had a prepaid asset for the Cash Balance Plan of $1.3 million and $971 thousand at December 31, 2023 and 2022, respectively. The prepaid asset is carried in Other Assets within the Consolidated Balance Sheets. The accrued liability and accumulated benefits obligations for the SERP was $1.4 million and $1.5 million at December 31, 2023 and 2022, respectively. The balance is included in Other Liabilities within the Consolidated Balance Sheets.

The amounts in accumulated other comprehensive loss that have not been recognized as components of net periodic pension cost were:

(Dollars in thousands)	Cash Balance Plan 2023	Cash Balance Plan 2022	SERP 2023	SERP 2022	Total 2023	Total 2022
Unrecognized net actuarial loss	$ 1,230	$ 1,597	$ 380	$ 381	$ 1,610	$ 1,978
Unrecognized prior service cost	-	-	-	-	-	-
Total amount included in accumulated other comprehensive loss	$ 1,230	$ 1,597	$ 380	$ 381	$ 1,610	$ 1,978
Weighted average assumptions as of December 31:						
Discount rate	4.75%	4.75%	4.50%	4.75%		
Expected return on plan assets	7.00%	7.00%	n/a	n/a		
Rate of compensation increase	3.00%	3.00%	n/a	n/a		

Amounts in accumulated other comprehensive loss expected to be recognized in net periodic costs in 2024:

(Dollars in thousands)	Cash Balance Plan	SERP	Total
Net actuarial loss	$ 93	$ 26	$ 119
Prior service cost	-	-	-
Total expected to be recognized	$ 93	$ 26	$ 119
Assets expected to be returned to the Company in 2024	$ -	$ -	$ -

The estimated expected benefits payments for the Cash Balance Plan and SERP are:

(Dollars in thousands) For the Years Ending December 31:	Cash Balance Plan	SERP	Total
2024	$ 779	$ 154	$ 933
2025	492	149	641
2026	324	144	468
2027	380	139	519
2028	375	134	509
2029-2033	1,907	580	2,487
Total	$ 4,257	$ 1,300	$ 5,557

Retirement Plan Assets— In general, the Cash Balance Plan's investment management organizations make reasonable efforts to control market fluctuations through appropriate techniques including, but not limited to, adequate diversification. The specific investment strategy adopted by the plan referred to as the Long-Term Growth of Capital Strategy, attempts to achieve long-term growth of capital with little concern for current income. Typical investors in this portfolio have a relatively aggressive investment philosophy, seeking long-term growth, and are not looking for current dividend income.

Prohibited investments include commodities and futures contracts, private placements, options, transactions which would result in unrelated business taxable income, and other investments prohibited by ERISA.

The target range of allocation percentages for each major category of plan assets was:

Asset Category	Target Weight	Minimum Weight	Maximum Weight
Cash	2%	0%	15%
Equities:			
US	49%	35%	63%
Non-US	6%	0%	12%
Fixed Income	43%	31%	59%

Equity investments must be listed on the New York, American, NASDAQ, or other similar stock exchanges traded in the over-the-counter market with the requirement that such stocks have adequate liquidity relative to the size of the investment.

Fixed income investments must have a credit rating of B or better from Standard and Poor's or Moody's. The fixed income portfolio should be constructed so as to have an average maturity not exceeding 10 years. No more than 5% of the fixed income portfolio should be invested in any one issuer. U.S. Treasury and Agency securities are exempt from this restriction.

Cash and equivalent instruments that are acceptable are repurchase agreements, bankers' acceptances, U.S. treasury bills, money market funds, and certificates of deposit.

The portfolio shall be structured to meet financial objectives over a period of 11 or more years. Over that time horizon, the total rate of return should equal at least 103% of the applicable blended benchmark returns and place in the top half of group performance. Benchmarks which may be used for portfolio performance comparison are as follows:

- U.S. Large Cap Equities: S&P 500, Russell 1000, Russell 1000 Value, Russell 1000 Growth, S&P 500/Citi Value, and S&P 500/Citi Growth
- U.S. Mid Cap Equities: S&P 400 Mid Cap, Russell Mid Cap Value, Russell Mid Cap Growth, S&P MidCap 400 Value, and S&P MidCap 400 Growth
- U.S. Small Cap Equities: Russell 2000, Russell 2000 Value, Russell 2000 Growth, S&P SmallCap 600, S&P SmallCap 600 Value, and S&P SmallCap 600 Growth
- Non-U.S. Equities: MSCI EAFE, and MSCI EM
- Fixed Income: Barclays Capital Intermediate Govt/Corp, Barclays Capital U.S. Aggregate Bond, Barclays Capital U.S. Govt. Intermediate, BarCap U.S. Corporate High Yield and ML Global Govt.
- Real Estate: FTSE NAREIT AII REITs
- Cash: U.S. 3-Month Treasury Bill

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded, and the reliability of the assumptions used to determine fair value. These levels were:

December 31, 2023 *(Dollars in thousands)* **Asset Category**	**Level 1 Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Level 2 Significant Other Observable Inputs (Level 2)**	**Level 3 Significant Unobservable Inputs (Level 3)**
Cash	$ 15	$ -	$ -
Money market fund	-	217	-
Equity Security:			
Large-Cap	1,613	-	-
Mid-Cap	854	-	-
Small-Cap	540	-	-
Global and International	386	-	-
Fixed Income – Bonds	-	1,420	-
Other	1,055	-	-
Total	$ 4,463	$ 1,637	$ -

December 31, 2022 *(Dollars in thousands)* **Asset Category**	**Level 1 Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Level 2 Significant other Observable Inputs (Level 2)**	**Level 3 Significant Unobservable Inputs (Level 3)**
Cash	$ 100	$ -	$ -
Money market fund	-	32	-
Equity Securities:			
Large-Cap	1,565	-	-
Mid-Cap	770	-	-
Small-Cap	464	-	-
Global and International	372	-	-
Fixed Income-Bonds	-	1,377	-
Other	1,033	-	-
Total	$ 4,304	$ 1,409	$ -

401(k) Plan —The Bank sponsors a 401(k) plan. Participation in the 401(k) plan is voluntary. Employees become eligible after completing 90 days service and attaining age 21. Employees may elect to contribute up to 80% of their compensation to the 401(k) plan. The Bank matches 100% of each employee's contribution, up to a maximum of 6% of compensation. The Bank's contribution to the 401(k) plan was $227 thousand and $218 thousand in each of the years ended December 31, 2023 and 2022, respectively.

Post-retirement Benefits —The Bank provides certain post-retirement benefits to select former executive officers. As of December 31, 2023 and 2022, the amount of the liability for these benefits was approximately $100 thousand and $108 thousand, respectively.

Split Dollar Benefits —In 2002, upon investing in BOLI policies, the Company granted certain executives a split dollar life benefit by which the beneficiaries of the executive would receive a portion of the non-cash surrender value death benefit of the BOLI upon the executive's demise. Thereafter, amounts are accrued by a charge to employee benefits. As of December 31, 2023 and 2022, $161 thousand and $172 thousand, respectively, was recorded in Other Liabilities for the split dollar benefit.

13. STOCK-BASED COMPENSATION

On October 8, 2021, the Company granted 33,500 stock options to certain Bank officers at a fair market value of $7.45 per share, which was the closing price of the Company's common stock on that date. On July 25, 2023, the Company granted an additional 41,500 stock options to certain Bank officers at a fair market value of $20.49 per share, which was the closing price of the Company's common stock on that date. The Company recorded total stock-based compensation expense of $85 thousand and $31 thousand for the years ended December 31, 2023 and 2022, respectively. The Company recognized $20 thousand and $7 thousand of income tax benefits related to stock-based compensation expense in the income statement for the years ended December 31,2023 and 2022, respectively.

At December 31, 2023, the sole equity-based compensation plan for the Company was M&F Bancorp, Inc. Long-Term Stock Incentive Plan ("Incentive Plan"), which was approved by shareholders on June 1, 2021. As of December 31, 2023, the Incentive Plan had 61,625 shares remaining available for grants.

The Incentive Plan is intended to serve as a means to attract, retain and motivate key employees and directors and to associate the interests of the plans' participants with those of the Company and its shareholders. The Incentive Plan allows for grants of stock options and other types of equity-based compensation, including stock appreciation rights, restricted stock, restricted performance stock, unrestricted stock, and performance units.

Recent equity awards to employees have been in the form of stock options, which vest 25% per year beginning one year from date of grant. No vested options may be exercised more than 10 years after date of grant. Upon forfeiture, any previously recognized compensation cost is reversed. Upon a change in control (as defined in the Incentive Plan), unless the awards remain outstanding or substitute equivalent awards are provided, the awards become immediately vested.

In addition to employee equity awards, the Company's practice is to grant non-qualified options to non-employee directors. On October 8, 2021, the Company granted 13,000 non-qualified options to the Board of Directors at fair market value of $7.45 per share, which was the closing price of the Company common stock on that date. On July 25, 2023, the Company granted an additional 18,000 non-qualified options to the Board of Directors at fair market value of $20.49 per share, which was the closing price of the Company common stock on that date. The Company recorded total stock-based compensation expense of $37 thousand and $12 thousand for the years ended December 31, 2023 and 2022, respectively. There was no realized tax benefit related to the non-qualified options expense in the income statement for the years ended December 31, 2023 and 2022. The expense associated with the director grants is grouped with "Directors Compensation" on the Consolidated Statements of Operations.

The Company recognizes compensation expense for stock option and non-qualified options on a straight-line basis over the vesting service period for each incremental award. Compensation expense is based on the estimated number of stock awards that will ultimately vest.

The Company measures the fair value of each option award on the date of grant using the Black-Scholes option-pricing model. The Company determines the assumptions used in the Black-Scholes option pricing model as follows: the risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant; the dividend yield is based on the Company's dividend yield at the time of the grant (subject to adjustment if the dividend yield on the grant date is not expected to approximate the dividend yield over the expected life of the option); the volatility factor is based on the historical volatility of the Company's stock (subject to adjustment if future volatility is reasonably expected to differ from the past); and the weighted-average expected life is based on the historical behavior of employees related to exercises, forfeitures and cancellations. The following table reflects input into the Black-Scholes options valuations:

	2023	2021
Expected dividend yield	0.78%	1.07%
Risk-free interest rate	4.09%	1.20%
Expected life (in years)	6.3	6.2 - 6.3
Expected volatility	57.58%	57.53%

The following table presents information regarding the activity during the years ended December 31, 2023 and 2022 related to the Company's outstanding stock options.

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Contractual Term (years)	Average Intrinsic Value
Outstanding at December 31, 2021	46,500	$ 7.45		
Granted	-	-		
Exercised	-	-		
Forfeited	-	-		
Expired	-	-		
Outstanding at December 31, 2022	46,500	$ 7.45		
Granted	59,500	20.49		
Exercised	(2,500) *	7.45		
Forfeited	(2,625)	7.45		
Expired	-	-		
Outstanding at December 31, 2023	100,875	$ 15.14	8.84	$ 333,069
Exercisable at December 31, 2023	19,625	$ 7.45	7.78	$ 157,981

* 2,021 shares issued; 479 shares forfeited in lieu of exercise price

Total unrecognized compensation expense and unrecognized options expense recorded under director fees as of December 31, 2023 and 2022 amounted to $459 thousand and $198 thousand, and $85 thousand and $33 thousand, respectively. The Company expects to record $146 thousand and $63 thousand of compensation expense and options expenses recorded under director compensation, respectively, during the next 12 months related to these nonvested awards that are outstanding at December 31, 2023.

14. RELATED PARTY TRANSACTIONS

In the ordinary course of business, certain of the Company's and Bank's directors and executive officers, including immediate family members and companies in which they have an interest, are loan customers. Those transactions do not involve more than the normal risk of collection, nor do they present any unfavorable features. Total loans to such groups totaled $2.7 million and $3.0 million as of December 31, 2023 and 2022, respectively. Unused lines available to be drawn were $144 thousand and $147 thousand as of December 31, 2023 and 2022, respectively.

(Dollars in thousands)	December 31, 2023	December 31, 2022
Beginning Balance	$ 2,966	$ 3,073
Draws/Advances	88	175
Repayments	(381)	(282)
Ending Balance	$ 2,673	$ 2,966

The Bank leases land for one of its branch locations from a family of shareholders. Terms and conditions of the lease were based on market conditions. Lease payments totaled $34 thousand and $33 thousand during the years ended December 31, 2023 and 2022, respectively.

15. REGULATORY MATTERS AND RESTRICTIONS

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements may initiate certain mandatory and the possibility of additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are subject to qualitative judgments by the regulators about components, risk weightings and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total, Tier 1 and common equity Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2023 and 2022, that the Company and the Bank met all capital adequacy requirements to which they are subject. To be categorized as well capitalized, the Bank must maintain minimum common equity Tier 1, total risk-based, Tier 1 risk-based and Tier 1 leveraged ratios as set forth in the table below.

	December 31, 2023					
(Dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk weighted assets)						
Company	$ 137,726	49.09 %	$ 22,442	8.00 %	n/a	n/a
Bank	72,052	25.78	22,361	8.00	$ 27,951	10.00 %
Tier 1 (to risk weighted assets)						
Company	$ 134,208	47.84 %	$ 16,832	6.00 %	n/a	n/a
Bank	68,546	24.52	16,771	6.00	$ 22,361	8.00 %
Common Equity Tier 1						
Company	$ 36,906	13.16 %	$ 12,624	4.50 %	n/a	n/a
Bank	68,546	24.52	12,578	4.50	$ 18,168	6.50 %
Tier 1 (to average total assets)						
Company	$ 134,208	29.61 %	$ 18,131	4.00 %	n/a	n/a
Bank	68,546	16.44	16,681	4.00	$ 20,851	5.00 %

	December 31, 2022					
(Dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk weighted assets)						
Company	$ 132,042	50.08 %	$ 21,091	8.00 %	n/a	n/a
Bank	66,646	25.31	21,064	8.00	$ 26,330	10.00 %
Tier 1 (to risk weighted assets)						
Company	$ 129,136	48.98 %	$ 15,818	6.00 %	n/a	n/a
Bank	63,740	24.21	15,798	6.00	$ 21,064	8.00 %
Common Equity Tier 1						
Company	$ 31,834	12.07 %	$ 11,864	4.50 %	n/a	n/a
Bank	63,740	24.21	11,849	4.50	$ 17,115	6.50 %
Tier 1 (to average total assets)						
Company	$ 129,136	27.60 %	$ 18,714	4.00 %	n/a	n/a
Bank	63,740	14.20	17,950	4.00	$ 22,437	5.00 %

Under Basel III standards and capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Our capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The capital standards require minimum ratios of “Common Equity Tier 1” capital to total risk-weighted assets, “Tier 1” capital to total risk-weighted assets, and total capital to risk-weighted assets of 4.50%, 6.00% and 8.00%, respectively. Common Equity Tier 1 capital is comprised of common stock and related surplus, plus retained earnings, and is reduced by goodwill and other intangible assets, net of associated deferred tax liabilities. Tier 1 capital is comprised of Common Equity Tier 1 capital plus Additional Tier 1 Capital, which for the Company includes non-cumulative perpetual preferred stock and trust preferred securities. Total capital is comprised of Tier 1 capital plus certain adjustments, the largest of which is the ACL. Risk-weighted assets refer to on- and off-balance sheet exposures, adjusted for their related risk levels using formulas set forth in FRB and FDIC regulations.

In addition to the risk-based capital requirements described above, the Company and Bank are subject to a leverage capital requirement, which calls for a minimum ratio of Tier 1 capital (as defined above) to quarterly average total assets of 3.00% to 5.00%, depending upon the institution’s composite ratings as determined by its regulators. Neither the Company nor the Bank has been advised of any requirement specifically applicable to it.

16. HOLDING COMPANY CONDENSED FINANCIAL INFORMATION

The condensed financial data for the Company (holding company only) was:

Condensed Balance Sheets:	**December 31,**	
(Dollars in thousands)	**2023**	**2022**
Assets:		
Cash and cash equivalents	$ 42,239	$ 44,155
Interest-bearing time deposits	988	988
Investment securities held-to-maturity (fair value of $22,341 in 2023 and $19,981 in 2022)	22,437	20,181
Investment in subsidiary bank	59,540	52,662
Other assets	308	199
Total Assets	$ 125,512	$ 118,185
Liabilities and Stockholders' Equity:		
Total liabilities	$ 310	$ 127
Stockholders' equity	125,202	118,058
Total Liabilities and Stockholders' Equity	$ 125,512	$ 118,185

	For the Years Ended December 31,	
Condensed Statements of Operations:	**2023**	**2022**
(Dollars in thousands)		
Undistributed net income of subsidiary bank	$ 5,006	$ 4,435
Income	1,353	371
Expenses, net	(664)	(294)
Net income	$ 5,695	$ 4,512

Condensed Cash Flows:

(Dollars in thousands)	For the Years Ended December 31, 2023	2022
Cash Flows from operating activities:		
Net income	$ 5,695	$ 4,512
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of discounts/premiums on investment securities held to maturity, net	(256)	(67)
Undistributed net income of subsidiary	(5,006)	(4,435)
Stock-based compensation expense	122	43
Net changes in:		
Increase in other assets	(109)	(130)
Decrease in other liabilities	183	-
Net cash provided by (used in) operating activities	629	(77)
Cash flows from investing activities:		
Activity in held to maturity securities:		
Maturities and calls	2,000	
Purchases	(4,000)	(20,114)
Purchases of interest-bearing time deposits	494	
Proceeds from interest-bearing time deposits	(494)	(988)
Dividends from subsidiary		210
Capital contribution to subsidiary	-	(15,000)
Net cash used in investing activities	(2,000)	(35,892)
Cash flows from financing activities:		
Dividends paid	(557)	(417)
Issuance of common stock	9	-
Issuance of preferred stock	-	80,000
Excess tax benefits from stock-based compensation	3	-
Net cash (used in) provided by financing activities	(545)	79,583
Net (decrease) increase in cash and cash equivalents	(1,916)	43,614
Cash and cash equivalents at beginning of year	44,155	541
Cash and cash equivalents at end of year	$ 42,239	$ 44,155

17. COMMITMENTS AND CONTINGENCIES

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

The Bank's exposure to credit losses in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank utilizes the same credit policies in making commitments and conditional obligations as it does for balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is not a 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 many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank, upon extension of credit is based on management's credit evaluation of the counter parties. Collateral varies and may include real estate, accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. To the extent deemed necessary, collateral of varying types and amounts is held to secure customer performance under certain of those letters of credit outstanding.

Financial instruments whose contract amounts represent credit risk as of December 31, 2023 and 2022, respectively, are commitments to extend credit (including availability of lines of credit), and standby letters of credit. Loan commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral deemed necessary by the Bank is based on management's credit evaluation and underwriting guidelines for the particular loan.

The Bank records a reserve for credit commitments that is adjusted through Other liabilities and Other expense in the Consolidated Balance Sheets and Consolidated Statements of Operations, respectively based on (i) the expected probability of funding and (ii) the loss history by loan type as determined in calculating the ACL. The reserves included in Other liabilities as of December 31, 2023 and 2022 were $454 thousand and $43 thousand, respectively.

Commitments outstanding at December 31, 2023 are summarized in the following table:

(Dollars in thousands)	Commercial letters of credit	Other loan commitments	Total commitments
Less than one year	$ -	$ 5,007	$ 5,007
One to three years	57	3,474	3,531
Three to five years	-	7,079	7,079
More than five years	-	14,089	14,089
Total	$ 57	$ 29,649	$ 29,706

18. FAIR VALUE MEASUREMENT

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. Fair value measurements are required to be separately disclosed by level within the fair value hierarchy. The Company bases fair values on 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.

For assets and liabilities recorded at fair value, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy.

Fair value measurements for assets and liabilities where there exists limited or no observable market data and, therefore, are based primarily upon estimates, are often calculated based on the economic and competitive environment, the characteristics of the asset or liability and other factors.

Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future values.

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

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded, and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 — Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.

Level 2 — Valuations are obtained from readily available pricing sources via independent providers for market transactions involving similar assets or liabilities. The Company's principal market for these securities is the secondary institutional markets and valuations are based on observable market data in those markets. Level 2 securities include U. S. Agencies, state and municipal bonds and MBS.

Level 3 — Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets.

Assets and Liabilities Measured on a Recurring Basis:

Available-for-sale ("AFS") Investment Securities: Investment securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities. Level 1 securities include those traded on nationally recognized securities exchanges, U.S. Treasury securities, and money market funds. Level 2 securities include U.S. Agencies, MBS issued by government sponsored entities, state and municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets. The Company did not hold any Level 1 or Level 3 AFS Investment Securities as of December 31, 2023 and 2022.

Assets measured at fair value on a recurring basis as of December 31, 2023 were as follows:

(Dollars in thousands) **Description**	**December 31, 2023**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Recurring:				
U.S. Treasuries	$ 16,323	$ -	$ 16,323	$ -
U.S. Agencies	6,442	-	6,442	-
MBS	55,937	-	55,937	-
Municipals	11,072	-	11,072	-
Total	$ 89,774	$ -	$ 89,774	$ -

Assets measured at fair value on a recurring basis as of December 31, 2022 were as follows:

(Dollars in thousands) **Description**	**December 31, 2022**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Recurring:				
U.S. Treasuries	$ 1,698	$ -	$ 1,698	$ -
U.S. Agencies	5,258	-	5,258	-
MBS	49,935	-	49,935	-
Municipals	10,201	-	10,201	-
Total	$ 67,092	$ -	$ 67,092	$ -

Assets and Liabilities Measured on a Nonrecurring Basis:

Individually analyzed loans: Fair values for individually analyzed loans are measured on a non-recurring basis and are based on (1) the underlying collateral values securing the loans, adjusted for estimated selling costs, or (2) the net present value ("PV") of the cash flows expected to be received for such loans. Collateral may be in the form of real estate or business assets including equipment, inventory and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is generally determined by third-party appraisers using an income or market valuation approach based on an appraisal conducted by an independent, licensed third party appraiser (Level 3). The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable borrower's financial statements if not considered significant. Likewise, values for inventory and accounts receivable collateral are based on borrower financial statement balances or aging reports on a discounted basis as appropriate (Level 3). Appraisals used in this analysis are generally obtained at least annually based on when the loans first became impaired, and thus the appraisals are not necessarily as of the period ends presented. Any fair value adjustments are recorded in the period incurred as provision for credit losses on the Consolidated Statements of Income.

OREO: Foreclosed assets are adjusted to fair value, less estimated carrying costs and costs to sell, upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of the carrying value or the fair value, less estimated carry costs and costs to sell. Fair value is based upon independent market prices, appraised values of the collateral, or management's estimation of the value of the collateral. The Company records foreclosed assets as nonrecurring Level 3.

Assets measured at fair value on a nonrecurring basis as of December 31, 2023 and 2022 were:

Description	December 31, 2023	Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Nonrecurring:				
Individually evaluated loans:				
Commercial	$ 630	$ -	$ -	$ 630
Commercial real estate	49	-	-	49
Faith-based non-profit	596	-	-	596
Total	$ 1,275	$ -	$ -	$ 1,275

(Dollars in thousands) Description	December 31, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Nonrecurring:				
Impaired loans:				
Faith-based non-profit	$ 7,077	$ -	$ -	$ 7,077
Total	$ 7,077	$ -	$ -	$ 7,077

Quantitative Information about Level 3 Fair Value Measurements

(Dollars in thousands) Description	December 31, 2023	Valuation Technique	Significant Unobservable Inputs	Significant Unobservable Input Value
Nonrecurring:				
Individually analyzed loans	$ 1,275	discounted appraisals; PV of expected cash flows	discounts to reflect current market conditions, ultimate collectability, and estimated costs to sell	6-20%
Total	$ 1,275			

(Dollars in thousands) Description	December 31, 2022	Valuation Technique	Significant Unobservable Inputs	Significant Unobservable Input Value
Nonrecurring:				
Impaired loans	$ 7,077	discounted appraisals; PV of expected cash flows	discounts to reflect current market conditions, ultimate collectability, and estimated costs to sell	6-20%
Total	$ 7,077			

The Company discloses estimated fair values for its significant financial instruments. The methodologies for estimating the fair value of financial assets and liabilities that are measured at fair value on a recurring or non-recurring basis are discussed above. The methodologies for other financial assets and liabilities are discussed below.

The Company had no transfers between any of the three levels in 2023 or 2022.

Cash and Cash Equivalents: The carrying amount of cash, due from bank, and federal funds sold approximates fair value, and is therefore considered Level 1 input.

Loans (other than individually analyzed), net of allowances for credit losses: Fair values are estimated for portfolios of loans with similar

financial characteristics. The majority of the Company's loans and lending-related commitments are not carried at fair value on a recurring basis on the Consolidated Balance Sheets, nor are they actively traded.

The fair value of performing loans is calculated by discounting scheduled cash flows through their individual contractual maturity, using discount rates that reflect the credit risk, overhead expenses, interest rate earned and again, contractual maturity of each loan less credit component. The maturity is based on contractual maturities for each loan, modified as required by an estimate of the effect of historical prepayments and current economic conditions.

For all loans, assumptions regarding the characteristics and segregation of loans, maturities, credit risk, cash flows, and discount rates are judgmentally determined using specific borrower and other available information, and are therefore considered a Level 3 input.

Accrued Interest Receivable and Payable: The fair value of interest receivable and payable is estimated to approximate the carrying amounts and are therefore considered Level 1 input.

Deposits: The fair value of deposits with no stated maturity, such as demand deposits, checking accounts, savings and money market accounts, is equal to the carrying amount. The fair value of certificates of deposit is based on the discounted value of contractual cash flows, where the discount rate is estimated using the market rates currently offered for deposits of similar remaining maturities and are therefore considered Level 2 input.

Borrowings: The fair value of borrowings is based on the discounted value of estimated cash flows. The discounted rate is estimated using market rates currently offered for similar advances or borrowings and are therefore considered Level 3 input.

Off-Balance Sheet Instruments: Since the majority of the Company's off-balance sheet instruments consist of non- fee producing variable rate commitments, the Company has determined they do not have a distinguishable fair value.

As of December 31, 2023 and December 31, 2022, the carrying amounts and associated estimated fair value of financial assets and liabilities of the company are as follows:

(Dollars in thousands)	December 31, 2023				
	Carrying Amount	**Estimated Fair Value**	**Level 1**	**Level 2**	**Level 3**
Assets:					
Cash, cash equivalents and interest-bearing time deposits	$ 49,142	$ 49,142	$ 49,142	$ -	$ -
Investment securities available-for-sale	89,774	89,774	-	89,774	-
Investments held-to-maturity	26,960	26,749	-	26,749	
Loans, net of allowances for credit losses	265,095	263,173	-	-	263,173
Accrued interest receivable	1,538	1,538	1,538	-	-
Liabilities:					
Non-maturity deposits	$ 236,782	$ 236,782	$ 236,782	$ -	$ -
Maturity deposits	84,162	83,215	-	83,215	-
Other borrowings	30	28	-	-	28
Accrued interest payable	219	219	219	-	-

(Dollars in thousands)	December 31, 2022				
	Carrying Amount	**Estimated Fair Value**	**Level 1**	**Level 2**	**Level 3**
Assets:					
Cash, cash equivalents and interest-bearing time deposits	$ 93,168	$ 93,168	$ 93,168	$ -	$ -
Investment securities available-for-sale	67,092	67,092	-	67,092	-
Investments held-to-maturity	25,141	24,740	-	24,740	
Loans, net of allowances for loan losses	244,046	242,565	-	-	242,565
Accrued interest receivable	1,324	1,324	1,324	-	-
Liabilities:					
Non-maturity deposits	$ 262,077	$ 262,077	$ 262,077	$ -	$ -
Maturity deposits	65,318	63,701	-	63,701	-
Other borrowings	76	71	-	-	71
Accrued interest payable	66	66	66	-	-

19. PREFERRED STOCK

SERIES C JUNIOR PARTICIPATING PREFERRED STOCK

On September 23, 2014, the Board of Directors declared a dividend of one preferred share purchase right for each outstanding share of the Company's common stock, to purchase from the Company one one-hundredth of a share of Series C Junior Participating Preferred Stock, par value $0.01 per share, of the Company at a price of $10.00 per one one-hundredth of a share of preferred stock, subject to adjustment as provided in the associated rights agreement. There were no shares issued or outstanding at December 31, 2023 or 2022.

SERIES D NON-CUMULATIVE PERPETUAL PREFERRED STOCK

Series D Preferred Stock has a stated value of $1,000.00 and is redeemable after five years at the sole option of the Company, carries no voting rights other than those limited voting rights mandated by North Carolina law and has non-cumulative dividend rights that entitle the holder to share in any dividends declared and paid to common shareholders calculated based on a reference price of $11.538 per share of Common Stock. These passive investments represent a commitment to support economic growth in African American communities by investing in Black-owned banks, which provide consumer and commercial credit along with other banking services to historically underserved communities

SERIES E NON-CUMULATIVE PERPETUAL PREFERRED STOCK

On June 22, 2022, the Company issued 80,000 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series E, having a liquidation preference of $1,000 per share (the "Series E Preferred Stock"), to the U.S. Department of the Treasury under the Treasury's ECIP for an aggregate purchase price of $80.0 million. The Series E Preferred Stock, which qualifies as Tier 1 capital for regulatory purposes, has limited voting rights, no maturity date and ranks senior to the Company's common stock with respect to the payment of dividends and distributions and amounts payable upon liquidation, dissolution and winding-up of the Company. The Series E Preferred Stock does not have any mandatory redemption and/or conversion features, and is redeemable after five years at the sole option of the Company. No dividends are payable on the Series E Preferred Stock during years 1 and 2. Thereafter, noncumulative dividends are payable at a rate 0.50% to 2.00%, with the actual rate determined during years 3-10 based on the Bank's annual qualified lending amount and thereafter fixed at a rate based on the Bank's average qualified lending amount. Established by the Consolidated Appropriations Act of 2021, the ECIP was created to encourage low- and moderate-income community financial institutions to enhance their support of small businesses and consumers in their communities.

20. SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date, but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet, but arose after that date. Management has reviewed events occurring through March 1, 2024, the date the financial statements were available to be issued, and noted no additional subsequent events requiring accrual or disclosure.

BOARDS OF DIRECTORS & OFFICERS

M&F Bancorp, Inc.
Board of Directors

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Chair
Broker/Consultant
Stewart Investment
Properties Inc.
Durham, NC

Willie T. Closs Jr., CPA
Vice Chair
Financial Consultant
Durham, NC

Allen M. Chan
Managing Director
Diversified Search Group
Chapel Hill, NC

Michael L. Lawrence, CPA
Chief Financial Officer/Treasurer
Alamance Farmers' Mutual
Insurance Company
Graham, NC

James H. Sills, III
President/CEO
M&F Bancorp, Inc. and
Mechanics and Farmers Bank
Durham, NC

Connie J. White
Retired Management Consultant
Durham, NC

M&F Bank
Board of Directors

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Stewart Investment
Properties Inc.
Durham, NC

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Durham, NC

Emma S. Allen
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Allen M. Chan
Managing Director
Diversified Search Group
Chapel Hill, NC

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Financial Consultant
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Chief Financial Officer/Treasurer
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Insurance Company
Graham, NC

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Funeral Director and General
Manager
Russell Funeral Home
Winston-Salem, NC

James H. Sills, III*
President/CEO
M&F Bancorp, Inc. and
Mechanics and Farmers Bank
Durham, NC

*Executive Committee Member

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President and CEO
Durham, NC

Randall C. Hall, CPA, CGMA
Executive Vice President/Chief Financial Officer
Durham, NC

Valerie M. Quiett, Esq.
Senior Vice President/Chief Legal Officer/Corporate Secretary
Durham, NC

Bank Officers

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President and CEO
Durham, NC

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Executive Vice President/Chief Financial Officer
Durham, NC

John T. Saunders
Senior Vice President/Chief Operating Officer
Durham, NC

Percy W. "Pete" Williams
Senior Vice President/Chief Credit Officer
Durham, NC

Travis C. Rouse
Senior Vice President/Chief Sales and Lending Officer
Durham, NC

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Senior Vice President/Chief Legal Officer/Corporate Secretary
Durham, NC

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Senior Vice President/Business Development Officer
Winston-Salem, NC

Christopher Dickens
Senior Vice President/SBA Manager
Durham, NC

Kathy E. Fox, CPA, CGMA
Senior Vice President/Controller
Durham, NC

Lorenzo K. Hardy
Senior Vice President/Senior Commercial Lender
Charlotte, NC

Soberina F. Traywick
Senior Vice President/Commercial Banking Team Lead
Raleigh, NC

Patricia S. "Patty" Quattromini
Senior Vice President/Retail Banking Operations
Durham, NC

Brett J. Ayers
Vice President/Credit Underwriting Manager
Durham, NC

Daniel L. Bellamy
Vice President/Senior Commercial Banker
Durham, NC

David C. Ekstrom
Vice President/ IT Director
Durham, NC

Damien L. Gorham
Vice President/Senior Commercial Lender
Greensboro, NC

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Vice President/Credit Underwriter Manager
Durham, NC

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Vice President/Training Coordinator
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Durham, NC

Keira A. Silver
Vice President/Data Analytics and Insights
Durham, NC

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Vice President/Loan Operations Manager
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Assistant Vice President/Assistant Controller
Durham, NC

Justin R. Sattelberg, CPA
Assistant Vice President/Assistant Controller
Charlotte, NC

Ryan R. Witte, SPHR, SHRM-SCP
Assistant Vice President/Human Resources Director
Durham, NC

Internal Audit & Risk Management

Shelia B. Winston-Graves
Assistant Vice President/Compliance Manager
Raleigh, NC

SHAREHOLDERS' INFORMATION

Annual Meeting

M&F Bancorp, Inc., a North Carolina Corporation, will convene its Annual Meeting of Shareholders on Tuesday, June 4, 2024, at 10:00 a.m. in the ballroom of the DoubleTree Hotel by Hilton at Research Triangle Park, 4810 Page Creek Lane, Durham NC. All shareholders are cordially invited.

Requests for Information

Requests for information should be directed to Ms. Valerie M. Quiett, Senior Vice President/Chief Legal Officer at M&F Bancorp, Inc., 2634 Durham Chapel Hill Blvd., Suite 101, Durham, NC 27707.

Independent Auditors

Elliott Davis, PLLC
5410 Trinity Road, Suite 320
Raleigh, North Carolina 27607

General Counsel

Brooks, Pierce, McLendon,
Humphrey & Leonard, LLP

Stock Transfer Agent

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