PB FINANCIAL CORPORATION

Consolidated Financial Statements

Years Ended December 31, 2023 and 2022

To Our Shareholders

One of the primary focuses of PB Financial Corporation (OTCQX:PBNC), the holding company (the "Company") for Providence Bank (the "Bank"), is to increase your shareholder value. We strive to provide a strong return to our shareholders through increased share price and cash dividend payments. We accomplish this by putting our customers first and investing in the communities we serve. We are continuously improving our products and services, listening to our customers, and working with them to provide exceptional service. We invest in our communities by lending to local businesses and individuals and providing numerous monetary contributions to local charitable organizations. Our employees are personally involved in over 33 community/civic organizations and either serve on the Board or hold officer level positions in at least 18 of them. The Bank also provides an enriching work environment for our employees.

The Company had good earnings in 2023, as detailed in our audited financial statements, despite the difficult environment that most banks faced last year. The Bank has continued to experience strong organic growth throughout the organization with double digit growth in loans, deposits and total assets. These are the direct results of the hard work and dedication of our employees. We were able to have tremendous growth in our Company without significant staffing additions.

We entered into a definitive agreement in August, 2023, to merge with Coastal Bank & Trust headquartered in Jacksonville NC. They have branch locations in Holly Ridge, Jacksonville, Morehead City and Richlands, as well as a loan production office in New Bern. Once the merger is completed, this will expand PB Financial Corporation to approximately $1.2 billion in assets.

We also relocated our Raleigh branch from 100 E. Six Forks Road, Suite 304, Raleigh, NC, to a more accessible and prominent Raleigh located at 3701 Barrett Drive. This new location will provide our customers a better experience by offering a drive-thru window, ATM, safe deposit boxes and many other banking amenities.

Over the past fifteen years, the Bank has been the only North Carolina chartered bank consistently ranked in the top ten in overall performance, including being ranked in the top four for the past ten consecutive years (rankings provided by Bank Performance Report).

The Board of Directors and management are very pleased with the overall results of the Company's operations for 2023 as detailed in the following table:

($ in Millions)	Loans		Total Assets		Net Income	
2019	$387.2	9.01%	$478.3	5.94%	$7.124	25.14%
2020	$464.2	19.88%	$586.6	22.62%	$6.808	-4.43%
2021	$550.7	18.62%	$701.4	19.58%	$9.819	44.22%
2022	$687.7	24.89%	$849.2	21.06%	$14.254	45.16%
2023	$827.8	20.37%	$982.4	15.69%	$13.916	-2.37%

Paying cash dividends on our stock is another way of enhancing shareholder value. The most recent cash dividend of $0.52 per share was paid on February 22, 2024, and represents an increase of 30.00% from the $0.40 per share that was paid in the 1st Quarter of 2023. This dividend is the 49th consecutive quarterly cash dividend paid. We have increased our cash dividend each quarter since we began paying dividends in the 1st Quarter of 2012. The annual cash dividend paid in 2023 of $1.86 per share represents an increase of 51.22% from the $1.23 per share that was paid in 2022.

The Company's Board of Directors and management are extremely proud of our success in 2023. This success comes from a combination of our outstanding staff, superior customer service and being more efficient than most of our competitors. We believe the Bank continues to be well-situated to grow and provide attractive and tangible returns to our shareholders. We are very excited about the pending merger with Coastal Bank & Trust, which we expect to complete in the 2nd quarter of 2024. We feel this combination will allow us to continue to expand and help more customers.

We appreciate your investment in our Company and encourage you to allow us to provide your banking needs. We offer a full line of products and services and deliver them with exceptional high-touch customer service. We stand proud as an Independent Community Bank in our area. As a shareholder, you can be confident in the results of your Company. Please contact me with any comments or suggestions you may have. Thank you for your continued support.

Sincerely,

Ted E. Whitehurst

Ted E. Whitehurst
President & Chief Executive Officer

Table of Contents

FORV/S

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Independent Auditor's Report

Stockholders and the Board of Directors
PB Financial Corporation
Rocky Mount, North Carolina

Opinion

We have audited the consolidated financial statements of PB Financial Corporation (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of PB Financial Corporation as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for its allowance for credit losses effective January 1, 2023 due to the adoption of Accounting Standards Update No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13")*.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

FORVIS, LLP

Greenville, North Carolina
February 22, 2024

PB Financial Corporation
Consolidated Balance Sheets
December 31, 2023 and 2022

	2023	2022
ASSETS		
Cash and due from banks	**$ 9,393,454**	$ 9,478,312
Interest-earning deposits with banks	**4,245,077**	3,419,459
Federal funds sold	**949,031**	7,751,314
Certificates of deposit with banks	**10,390,837**	9,900,837
Investment securities available for sale, at fair value	**98,045,231**	100,337,965
Loans	**827,803,480**	687,706,532
Allowance for credit losses	**(6,743,000)**	(6,142,000)
Net loans	**821,060,480**	681,564,532
Accrued interest receivable	**4,060,692**	3,137,068
Premises and equipment, net	**2,406,698**	2,258,176
Stock in Federal Home Loan Bank of Atlanta, at cost	**3,207,400**	3,326,100
Bank-owned life insurance	**16,731,879**	16,364,916
Goodwill	**4,063,881**	4,063,881
Other assets	**7,832,358**	7,566,748
Total assets	**$ 982,387,018**	$ 849,169,308
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	**$ 803,535,550**	$ 674,022,750
Accrued interest payable	**1,944,334**	959,710
Accrued expenses and other liabilities	**5,685,242**	5,034,193
Short-term borrowings	**10,462,174**	68,647,651
Long-term borrowings	**73,234,459**	33,095,622
Total liabilities	**894,861,759**	781,759,926
Commitments (Note 11)		
Stockholders' equity:		
Preferred stock, no par value, 2,000,000 shares authorized; none issued and outstanding	**-**	-
Common stock, $1.00 par value, 10,000,000 shares authorized; 2,495,106 and 2,252,056 shares issued and outstanding at December 31, 2023 and 2022, respectively	**2,495,106**	2,252,056
Additional paid-in capital	**38,012,362**	29,083,423
Retained earnings	**56,226,949**	46,762,136
Accumulated other comprehensive loss	**(9,209,158)**	(10,688,233)
Total stockholders' equity	**87,525,259**	67,409,382
Total liabilities and stockholders' equity	**$ 982,387,018**	$ 849,169,308

PB Financial Corporation
Consolidated Statements of Operations
Years Ended December 31, 2023 and 2022

	2023	2022
Interest income:		
Loans	$ 49,181,913	$ 32,448,682
Interest-earning deposits in other banks	579,092	254,705
Federal funds sold	101,625	93,372
Investment securities	2,942,161	2,488,734
Federal Home Loan Bank dividends	262,153	93,390
Total interest income	53,066,944	35,378,883
Interest expense:		
Money market, NOW and savings deposits	6,099,651	2,574,967
Time deposits	11,866,125	2,487,975
Borrowings	4,710,238	2,517,095
Total interest expense	22,676,014	7,580,037
Net interest income	30,390,930	27,798,846
Provision for credit losses	954,740	529,720
Net interest income after provision for credit losses	29,436,190	27,269,126
Non-interest income:		
Deposit and other service charges income	193,923	123,156
Income from bank owned life insurance	366,963	350,182
Gain on sale of investment securities available for sale	8,996	5,412
Other	603,146	883,999
Total non-interest income	1,173,028	1,362,749
Non-interest expense:		
Salaries and employee benefits	7,354,784	6,141,059
Occupancy and equipment	469,358	592,343
Advertising and promotion	97,105	80,673
Data processing and outside service fees	1,688,728	1,498,691
Office supplies, printing, and postage	132,188	149,044
Professional services	359,114	386,742
FDIC insurance	552,740	271,056
Director fees	315,725	262,141
Core deposit intangible amortization	128,885	131,393
Other	1,058,728	821,391
Merger related expenses	564,870	-
Total non-interest expense	12,722,225	10,334,533
Income before income taxes	17,886,993	18,297,342
Income taxes	3,970,497	4,043,241
Net income	$ 13,916,496	$ 14,254,101
Net income per share-basic	$ 5.98	$ 6.42
Net income per share-diluted	$ 5.77	$ 6.23
Weighted average common shares outstanding		
Basic	2,325,816	2,220,665
Diluted	2,411,438	2,289,356

PB Financial Corporation
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2023 and 2022

	2023	2022
Net income	**$ 13,916,496**	$ 14,254,101
Other comprehensive income (loss):		
Unrealized income (loss) on investment securities arising during the period	**1,920,254**	(13,341,362)
Tax effect	**(434,249)**	3,065,179
	1,486,005	(10,276,183)
Reclassification to realized gains	**(8,996)**	(5,412)
Tax effect	**2,066**	1,244
	(6,930)	(4,168)
Total	**1,479,075**	(10,280,351)
Total comprehensive income	**$ 15,395,571**	$ 3,973,750

PB Financial Corporation
Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2023 and 2022

	Common stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders' equity
	Shares	Amount				
Balance at December 31, 2021	2,207,576	$ 2,207,576	$ 28,220,039	$ 35,254,816	$ (407,882)	$ 65,274,549
Net income	-	-	-	14,254,101	-	14,254,101
Other comprehensive loss	-	-	-	-	(10,280,351)	(10,280,351)
Non-statutory stock options exercised	20,990	20,990	387,580	-	-	408,570
Incentive stock options exercised	18,250	18,250	361,528	-	-	379,778
Issuance of Restricted Stock	9,000	9,000	(9,000)	-	-	-
Forfeited restricted stock	(250)	(250)	250	-	-	-
Issuance of stock for Director fees	2,690	2,690	104,902	-	-	107,592
Stock based compensation	-	-	252,494	-	-	252,494
Common stock repurchased	(6,200)	(6,200)	(234,370)	-	-	(240,570)
Cash dividends paid on common stock	-	-	-	(2,746,781)	-	(2,746,781)
Balance at December 31, 2022	2,252,056	2,252,056	29,083,423	46,762,136	(10,688,233)	67,409,382
Net income	**-**	**-**	**-**	**13,916,496**	**-**	**13,916,496**
Other comprehensive income	-	-	-	-	**1,479,075**	**1,479,075**
Cumulative-effect adjustment due to the adoption of ASU 2016-13	**-**	**-**	**-**	**(28,480)**	**-**	**(28,480)**
Non-statutory stock options exercised	**7,480**	**7,480**	**142,730**	**-**	**-**	**150,210**
Incentive stock options exercised	**9,275**	**9,275**	**194,872**	**-**	**-**	**204,147**
Issuance of restricted stock	**43,200**	**43,200**	**(43,200)**	**-**	**-**	**-**
Common stock sold	**183,726**	**183,726**	**8,030,885**	**-**	**-**	**8,214,611**
Issuance of stock for Director fees	**2,369**	**2,369**	**96,200**	**-**	**-**	**98,569**
Stock based compensation	**-**	**-**	**636,152**	**-**	**-**	**636,152**
Common stock repurchased	**(3,000)**	**(3,000)**	**(128,700)**	**-**	**-**	**(131,700)**
Cash dividends paid on common stock	**-**	**-**	**-**	**(4,423,203)**	**-**	**(4,423,203)**
Balance at December 31, 2023	**2,495,106**	**$ 2,495,106**	**$ 38,012,362**	**$ 56,226,949**	**$ (9,209,158)**	**$ 87,525,259**

See accompanying notes.

PB Financial Corporation
Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Net income	$ 13,916,496	$ 14,254,101
Adjustments to reconcile net income to net		
Cash provided by operating activities:		
Depreciation and amortization	269,191	485,265
Accretion of acquired loan fair value marks	(5,000)	(148,411)
Deferred income taxes	(657,085)	142,766
Provision for credit losses	954,740	529,720
Stock based compensation	734,721	360,086
Income from bank owned life insurance	(366,963)	(350,182)
Net gain on sale of investment securities	(8,996)	(5,412)
(Gain) loss on disposal of fixed assets	(42,650)	2,265
Change in assets and liabilities:		
Increase in accrued interest receivable	(923,624)	(1,254,217)
Decrease in other assets	201,739	142,650
Increase in accrued interest payable	984,624	469,096
(Decrease) increase in accrued expenses and other liabilities	(38,895)	420,182
Net cash provided by operating activities	15,018,298	15,047,909
Cash flows from investing activities:		
Net increase in loans	(140,084,224)	(136,826,936)
Purchase of available for sale securities	(7,126,067)	(37,387,959)
Proceeds from maturities, prepayments, and calls of available for sale securities	8,807,662	4,447,604
Proceeds from sale of investment securities available for sale	2,477,042	3,041,643
Purchases of bank premises and equipment	(246,764)	(46,548)
Proceeds from sale of bank premises and equipment	42,650	-
Net purchases of certificate of deposits with banks	(490,000)	(5,635,000)
Net purchases (redemptions) of Federal Home Loan Bank stock	118,700	(1,532,400)
Net cash used by investing activities	(136,501,001)	(173,939,596)
Cash flows from financing activities:		
Net increase in deposits	129,512,800	100,916,392
Advances from borrowings	356,709,316	226,549,041
Repayments of borrowings	(374,815,000)	(184,000,000)
Common stock sold	8,214,610	-
Stock options exercised	354,357	788,348
Repurchase and retirement of common stock	(131,700)	(240,570)
Cash dividends paid on common stock	(4,423,203)	(2,746,781)
Net cash provided by financing activities	115,421,180	141,266,430
Net decrease in cash and cash equivalents	(6,061,523)	(17,625,257)
Cash and cash equivalents, beginning	20,649,085	38,274,342
Cash and cash equivalents, ending	$ 14,587,562	$ 20,649,085

	2023	2022
Supplemental disclosures of cash flow information:		
Interest paid	**$ 21,691,390**	$ 7,110,941
Taxes paid	**$ 4,717,290**	$ 4,114,000
Non-Cash Items:		
Unrealized loss on investment securities available for sale, net of tax	**$ 1,479,075**	$ (10,280,351)
Commitment in equity securities	**$ -**	$ 1,200,000
Adoption of ASU 2016-13	**$ (28,480)**	$ -

Notes to Consolidated Financial Statements

1. Organization and Operations

Providence Bank (the "Bank") was incorporated and began banking operations on March 14, 2006. Effective March 12, 2018, the Bank became a wholly owned subsidiary of PB Financial Corporation (the "Company"), a financial holding company whose principal business activity consists of the ownership of the Bank. The Bank is engaged in general commercial and retail banking principally in Nash, Edgecombe, Wake and Wilson Counties of North Carolina. On December 16, 2019 the Company's stock began trading on OTCQX, thus triggering their designation as a public business entity.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts and transactions of the Company and its wholly owned subsidiary, the Bank. All significant intercompany balances and transactions have been eliminated in consolidation. In 2018, the Company assumed, through business combination, junior subordinated notes issued by CB Financial Capital Trust I, a Connecticut statutory trust (the "Trust"). The Company has not included the Trust in the consolidated entity. However, the notes issued by the Company and purchased by the Trust are included on the consolidated balance sheets. In addition, the related interest expense is included on the consolidated statements of operations.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for credit losses on loans.

Business Combinations

Business combinations are accounted for under the acquisition method of accounting in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 805, "Business Combinations." Under the acquisition method, the acquiring entity in a business combination recognizes all of the acquired assets and assumed liabilities at their estimated fair values as of the date of acquisition. Any excess of the purchase price over the fair value of net assets and other identifiable intangible assets acquired is recorded as goodwill. To the extent the fair value of net assets acquired, including identified intangible assets, exceeds the purchase price, a bargain purchase gain is recognized.

Assets acquired and liabilities assumed from contingencies must also be recognized at fair value if the fair value can be determined during the measurement period. Results of operations of an acquired business are included in the statement of operations from the date of acquisition. Acquisition-related costs, including conversion and restructuring charges, are expensed as incurred.

The acquired assets and assumed liabilities are recorded at estimated fair values. Management makes significant estimates and exercises significant judgment in accounting for business combinations. Management judgmentally assigns risk ratings to loans based on credit quality, appraisals and estimated collateral values, and estimated expected cash flows to measure fair values for loans. Real estate acquired in settlement of loans is valued based upon pending sales contracts and appraised values, adjusted for current market conditions. Core deposit intangibles are valued based on a weighted combination of the income and market approach where the income approach converts anticipated economic benefits to a present value and the market approach evaluates the market in which the asset is traded to find an indication of prices from actual transactions. Management uses quoted or current market prices to determine the fair value of investment securities. Fair values of deposits and borrowings are based on current market interest rates and are inclusive of any applicable prepayment penalties. Trust preferred securities are valued based on forecasted cash flows at the stated coupon rate and discount at a prevailing market rate.

Cash and Cash Equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include cash and due from banks, interest-earning deposits with banks, and federal funds sold.

Certificates of Deposit with Banks

Certificates of deposits with banks currently have original maturities ranging from April 2024 through June 2026 and bear interest at rates ranging from 0.65% to 5.65%. None of the certificates of deposit have maturities of three months or less at the time of origination.

Investment Securities Available for Sale

Investment securities available for sale are reported at fair value and consist of debt instruments that are not classified as either trading securities or as held to maturity securities. Unrealized holding gains and losses on available for sale securities are reported as a net amount in other comprehensive income, net of tax. Gains and losses on the sale of investment securities available for sale are determined using the specific-identification method

For those available for sale securities that are in an unrealized loss position, the Company evaluates the securities to determine whether the decline in the fair value below the amortized cost basis (impairment) is due to credit-related factors or noncredit-related factors. Any impairment that is not credit related is recognized in other comprehensive income, net of applicable taxes. Credit-related impairment is recognized in the allowance for credit losses (“ACL”) on the balance sheet, limited to the amount by which the amortized cost basis exceeds the fair value, with a corresponding adjustment to earnings. Both the ACL and the adjustment to net income may be reversed if conditions change. However, if the Company intends to sell an impaired available for sale security, or more likely than not will be required to sell such a security before recovering its amortized cost basis, the entire impairment amount will be recognized in earnings with a corresponding adjustment to the security’s amortized cost basis. Because the security’s amortized cost basis is adjusted to fair value, there is no ACL in such a situation.

In evaluating available for sale securities in unrealized loss positions for impairment and the criteria regarding its intent or requirement to sell such securities, the Company considers the extent to which fair value is less than amortized cost, whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuers’ financial condition, among other factors.

Changes in the ACL are recorded as a provision for (or reversal of) credit loss expense. Losses are charged against the ACL when management believes the uncollectability of an available for sale debt security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable is excluded from the estimate of credit losses.

Loans - Originated

Loans that management has the intent and ability to hold for the foreseeable future or until maturity are reported at their outstanding principal adjusted for any charge-offs, the allowance for credit losses, and any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan. The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received.

Loans are deemed uncollectible at the discretion of the Chief Lending Officer, based on a variety of credit, collateral, documentation, and other issues. In the case where a loan is unsecured and in default it is fully charged off.

Allowance for Credit Losses on Loans

On January 1, 2023 the Company adopted Company ASU No. 2016-13, "Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). This new guidance replaces the incurred loss impairment methodology in current standards with the Current Expected Credit Loss ("CECL") methodology and requires consideration of a broader range of information to determine credit loss estimates. ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available for sale debt securities and purchased financial assets with credit deterioration. The ACL reflects management's estimate of losses that will result from the inability of its borrowers to make required loan payments. The Company established the incremental increase in the ACL at adoption of the CECL standard through the cumulative effect adjustment to equity and subsequent adjustments will be made through a provision for credit losses charged against earnings. Management records loans charged off against the ACL and subsequent recoveries, if any, increase the ACL when they are recognized.

Management uses a systematic methodology to determine its ACL for loans. The ACL is a valuation account that is deducted from the amortized cost basis to present the net amount expected to be collected on the loan portfolio. Management considers the effects of past events, current conditions, and reasonable and supportable forecasts on the collectability of the loan portfolio. The Company's estimate of its ACL involves a reasonable degree of judgment; therefore, management's process for determining expected credit losses may result in a range of expected credit losses. The Company's ACL recorded in the balance sheet reflects management's best estimate within the range of expected credit losses. The Company recognizes in net income the amount needed to adjust the ACL for management's current estimate of expected credit losses.

The Company defines impaired loans as loans that have a nonaccrual status or a past due greater than or equal to 90 days. These loans maybe individually assessed and evaluated using Fair Value of Collateral or Discounted Cash Flow to determine their value.

To estimate our ACL, we assess loans on a collective basis unless impaired. Any loans that are potentially impaired are pulled out for individual review and assessment. The Company uses a Probability of Default / Loss Given Default ("PD/LGD") methodology. This method assesses losses on loans in a class based on the forecasted lifetime PD and LGD loss rates for the class.

The primary calculation is the Lifetime PD/LGD analysis using our internal loan data from July 31, 2017 through the most recent year end. This provides a forecast of expected losses for the portfolio which is added to the qualitative reserve to form our base ACL calculation. Furthermore, we process an additional allowance calculation to determine any expected losses based on our balance of purchase discounts/premiums, deferred cost and fees, non-posted and items in-process.

The Company collectively evaluates loans that share similar risk characteristics. In general, management has segmented loans by regulatory call code category. The Company has identified the following portfolio segments: Commercial and Industrial, Agricultural, Real Estate Residential, Personal, Real Estate Multifamily, Municipals, Real Estate Commercial (Construction), Owner Occupied Real Estate and Non-Owner-Occupied Real Estate.

The qualitative factor analysis is based on the interagency policy statement concerning qualitative factors for ACL's with additional factors added for documentation and risk grading. Management considers forward-looking information in estimating expected credit losses. Management has evaluated the appropriateness of the reasonable and supportable forecast for the current period along with the inputs used in the estimation of expected credit losses.

The Company uses a combination of internal and external sources of data for forecasting purposes. External data sources include unemployment data from the US Bureau of Labor Statistics (local and State) as well as the Federal Reserve Unemployment Forecast (National). Federal Reserve information is used to support unemployment forecasts for up to 3 years depending on that date of publication. Management believes unemployment trends are most closely correlated with losses based on prior periods of elevated unemployment. Internal data sources include loan past due history, risk grades, loan to value, loan policy and technical exception reports and loan concentration reports.

Qualitative factors pertaining to our credit review and administration are largely based on our internal credit philosophy scorecard which is updated periodically. Economic trend adjustments are based on an external analysis that accesses risk based on the forecasted changes in local, state, and national unemployment, as well as the projected rate environment. Other factors are directly based on the composition, risk grade, and balance of our loan portfolio.

Under the Lifetime PD/LGD method, any incremental ACL estimated under the qualitative framework is added to the historical lifetime loss rate (i.e. expected loss) calculated by the model. No further reversion adjustments are necessary under this method because the overall loss rate is immediately reverted into historical losses that reflect the contractual term in accordance with ASC 326-20-30-9.

The Company is also required to measure expected credit losses on all financial instruments measured at amortized cost. This would include unfunded commitments, held-to-maturity debt securities, available-for-sale debt securities and any other qualifying assets.

The unfunded commitment liability is estimated from the Company's historical loan-level loss rates and utilization rates in comparison to its balance of unfunded commitments. The expected losses associated with these exposures within the unfunded portion of the expected credit loss will be recorded as a liability on the balance sheet with an offset to other non-interest expense.

The Company is only required to recognize an additional allowance under CECL if the decline in fair value for Available for Sale Securities ("AFS") is driven by a credit loss. The Company makes a quarterly determination regarding credit quality of the municipal bond portfolio and also performs a quarterly analysis of the credit quality of each subordinated debt issuance to make sure that key ratios are within the Company's investment policy. There are no AFS securities as of December 31, 2023.

Prior to January 1, 2023, the allowance for loan losses was established as losses were estimated to have occurred through a provision for loan losses charged to earnings. Loan losses were charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, were credited to the allowance.

The provision for loan losses was based upon management's estimate of the amount needed to maintain the allowance for loan losses at an adequate level. In making the evaluation of the adequacy of the allowance for loan losses, management gave consideration to current economic conditions, statutory examinations of the loan portfolio by regulatory agencies, delinquency information and management's internal review of the loan portfolio.

A loan was considered impaired when, based on current information and events, it was probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. The measurement of impaired loans was generally based on the present value of expected future cash flows discounted at the historical effective interest rate, or upon the fair value of the collateral if the loan is collateral dependent. If the recorded investment in the loan exceeds the measure of fair value, a valuation allowance was established as a component of the allowance for loan losses. While management used the best information available to make evaluations, future adjustments to the allowance may have been necessary if conditions differ substantially from the assumptions used in making the evaluations. In addition, regulatory examiners may have required the Company to recognize changes to the allowance for loan losses based on their judgments about information available to them at the time of their examination.

Decreases in expected cash flows of purchased credit-impaired ("PCI") loans with an accompanying decrease in the present value of the expected cash flows after the acquisition date were recognized by recording an allowance for credit loss. In pools where impairment has already been recognized, an increase in present values would result in a reversal of prior impairment. Management analyzed these acquired loan pools using various assessments of risk to determine and calculated an expected loss. The expected loss was derived using an estimate of a loss given default based upon the collateral type and/or specific review by loan officers. Trends were reviewed in terms of traditional credit metrics such as accrual status, past due status, and weighted average risk grade of the loans within each of the accounting pools. In addition, the relationship between the change in the unpaid principal balance and change in the fair value mark was assessed to correlate the directional consistency of the expected loss for each pool.

Foreclosed real estate

Real estate acquired through, or in lieu of, loan foreclosure is initially recorded at fair value at the date of foreclosure establishing a new cost basis. After foreclosure, valuations of the property are periodically performed by management, or by a third party at the request of management and the real estate is carried at the lower of cost or fair value minus estimated cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in foreclosed real estate expense.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets, which is 40 years for buildings, 3 to 20 years for furniture and equipment, and 5 years for vehicles. Leasehold improvements are amortized over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Repairs and maintenance costs are charged to operations as incurred and additions and improvements to premises and equipment are capitalized. Upon sale or retirement, the cost and related accumulated depreciation are removed from the accounts and any gains or losses are reflected in current operations.

Stock in Federal Home Loan Bank of Atlanta

As a requirement for membership, the Company invests in stock of the Federal Home Loan Bank of Atlanta ("FHLB"). This investment is carried at cost. Due to the redemption provisions of the FHLB, the Company estimated that fair value equals cost and that this investment was not impaired at December 31, 2023 and 2022.

Bank Owned Life Insurance

The Company has purchased, and acquired through acquisitions, life insurance policies on certain key executives. Bank owned life insurance is recorded at its cash surrender value or the amount that can be realized.

Goodwill

In accordance with Generally Accepted Accounting Principles (“GAAP”), we record assets acquired and liabilities assumed at their fair value, and, as such, acquisitions typically result in recording goodwill. The Company performs a goodwill evaluation at least annually to test for goodwill impairment. Management has determined that the test for Goodwill Impairment will be effective on the last day of October of each year unless economic conditions warrant an earlier analysis. As part of its testing, the Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than the carrying amount. If the Company determines the fair value of a reporting unit is less than the carrying amount using these qualitative factors, the Company then compares the fair value of goodwill with its carrying amount, and then measures impairment loss by comparing the implied fair value of goodwill with the carrying amount of that goodwill. Adverse conditions in our business climate, including a significant decline in future operating cash flows, a significant change in our stock price or market capitalization, or a deviation from our expected growth rate and performance may significantly affect the fair value of our goodwill and may trigger additional impairment losses, which could be materially adverse to our operating results and financial position. Goodwill has been evaluated as of our annual evaluation dates as well as for triggering events at December 31, 2023, and it was determined that no impairment was required.

Core Deposit Intangible

The Company considers its core deposits to be an intangible asset with finite lives. Core deposit intangibles are amortized using the effective interest method over their expected life which is seven years. The amortization expense of core deposit intangibles totaled $129 thousand and $131 thousand for the years ended December 31, 2023 and 2022, respectively. The accumulated amortization of core deposit intangibles totaled $1.17 million and $1.03 million as of December 31, 2023 and 2022, respectively. At December 31, 2023, the core deposit intangible was fully amortized.

Variable Interest Entity

The Bank holds a financial interest in a company that is considered to be a variable interest entity (“VIE”) for accounting purposes. Due to the nature and amount of the Bank’s financial obligations with respect to this company, the Bank is not considered to financially control it or the primary beneficiary and, thus, is not required to consolidate it in these consolidated financial statements. At December 31, 2023, the total commitment of $1.5 million is classified on the consolidated balance sheet in other assets of which $600 thousand has been funded. The remaining unfunded commitment of $900 thousand is classified on the consolidated balance sheet in other liabilities. The exposure to loss in the VIE is limited to the funded amount of $600 thousand and $300 thousand at December 31, 2023 and December 31, 2022, respectively.

Income Taxes

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are also recognized for operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which the temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Uncertainty in income taxes is accounted for in accordance with the Income Taxes topic of the FASB Accounting Standards Codification, which clarifies the accounting for the recognition and measurement of the benefits of individual tax positions in the financial statements. Tax positions must meet a recognition threshold of more-likely-than-not in order for the benefit of those tax positions to be recognized in the Company’s consolidated financial statements. The Company has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2023 and 2022. Interest and penalties related to income tax assessments, if any, are reflected in income taxes in the accompanying consolidated statements of operations.

Comprehensive Income

The Company reports as comprehensive income all changes in stockholders' equity during the year from sources other than stockholders. Other comprehensive income refers to all components (revenues, expenses, gains, and losses) of comprehensive income that are excluded from net income. The Company's only component of other comprehensive income is unrealized losses on investment securities available for sale, net of applicable income taxes. There were realized net gains of $9 thousand and $5 thousand for the years ended December 31, 2023 and December 31, 2022 respectively.

Stock Repurchase Plan

During 2023, the Board of Directors approved a modification to the existing Stock Repurchase Plan. This allows the Company to repurchase and retire issued and outstanding shares of common stock in an aggregate amount not to exceed 139,469 shares. In 2023, the Company repurchased 3,000 shares of common stock at a cost of approximately $132 thousand. At December 31, 2023 there are 136,469 shares available to be repurchased. In 2022, the Company repurchased 6,200 shares of its common stock at a cost of approximately $241 thousand. The repurchased shares must be in accordance with the terms of the plan and repurchases cannot be executed that would result in the Bank having less than well-capitalized status with regulatory capital ratios.

Stock Based Compensation

The Company recognizes the cost of employee services received in exchange for an award of equity instruments in the consolidated financial statements over the period the employee is required to perform the services in exchange for the award (presumptively the vesting period). The cost of employee services received in exchange for an award is measured based on the grant-date fair value of the award. Excess tax benefits are reported as financing cash inflows, rather than as a reduction of taxes paid, which is included within operating cash flows.

In 2022, the Company adopted a Directors' Stock Option Purchase Plan. Pursuant to this Plan, the Company shall make quarterly offerings of Company's shares of Common Stock to Participating Directors. A Participating Director shall be entitled to purchase shares up to the amount of the quarterly fees.

Per Share Results

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate to outstanding stock options, and unvested restricted stock and are determined using the treasury stock method. There were 59,560 and 37,000 stock options that were anti-dilutive for the years ended December 31, 2023 and December 31, 2022, respectively.

Revenue Recognition

The Company generally acts in a principal capacity, on its own behalf, in its contracts with customers. In these transactions, revenues are recognized with related costs to generate those revenues on a gross basis. Descriptions of noninterest revenue-generating activities are as follows.

Bank Owned Life Insurance ("BOLI") - The Company has purchased life insurance policies on certain key employees. BOLI is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Service Charges on Deposit Accounts - Service charges on personal and business demand deposit accounts consist of insufficient funds fees, monthly service fees, check orders, and other deposit account related fees. The Company's performance obligations include maintaining customer's deposit account(s), executing transactions, providing interest per the terms of the various account agreements, and making funds available upon maturity or at customer demand. For all revenue streams, transaction prices are disclosed with a single performance obligation applicable to each transaction. The Company has determined the service fees are recognized at a point in time and monthly service fees are earned over the statement period.

Other Fees and Income - Other fees and income primarily consist of debit and credit card income, automated teller machines ("ATM") fees, merchant services income, and other service charges. Debit and credit card income primarily consists of interchange fees earned whenever the Company's debit and credit cards are processed through card payment networks such as Visa. ATM fees are primarily generated when a Company cardholder uses a non-Company ATM or a non-Company cardholder uses a Company ATM. Merchant service income mainly represents fees charged to merchants to process their debit and credit card transactions, in addition to account management fees. Other service charges include revenue from processing wire transfers, bill pay service, cashier's checks, and other services. The Company's performance obligation for fees, exchange, and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month. Other fees and income also include other recurring revenue streams such as safety deposit rental fees and other miscellaneous revenue streams. Safe deposit boxes rental fees are charged to the customer on an annual basis and recognized upon receipt of payment. The Company determined that since rentals and renewals occur consistent over time, revenue is recognized on a basis consistent with the duration of the performance obligation.

Sale of Foreclosed Real Estate - Income derived from contractual sales of Foreclosed Real Estate primarily consist of revenues derived from the exchange of the foreclosed asset for consideration. The Company's performance obligation is to provide access and transfer control of the specified properties to the buyer. Transaction prices are agreed upon purchase prices as stated within contracts. The transaction price is allocated entirely to the performance obligation, which is satisfied at a point in time upon the date of sale.

New Accounting Standards

The following is a summary of recent authoritative pronouncements that could impact the accounting, reporting, and/or disclosure of financial information by the Company.

On January 1, 2023 the Company adopted Company ASU No. 2016-13, "Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). This new guidance replaces the incurred loss impairment methodology in current standards with an expected credit loss methodology and requires consideration of a broader range of information to determine credit loss estimates. ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available for sale debt securities and purchased financial assets with credit deterioration.

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 and cash flows.

Subsequent Events

In preparing these consolidated financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through February 22, 2024, the date the consolidated financial statements were available to be issued.

Pending Business Combination - On August 30, 2023, the Company and Coastal Bank & Trust ("Coastal") jointly announced the signing of a definitive strategic merger agreement. In the 75% stock and 25% cash transaction, Coastal will merge into the Bank.

Coastal shareholders may elect to receive either $10.00 in cash or 0.2222 shares of the Company's common stock for each share of Coastal common stock that is exchanged in the merger, subject to a proration if either election is oversubscribed. The merger agreement was unanimously approved by the Boards of Directors for both companies, and the merger is expected to be completed in the second quarter of 2024, subject to required shareholder and regulatory approvals, and other customary closing conditions. The financial impact will be determined at upon completion of the merger.

The combined bank will operate under the Providence name, be headquartered in Rocky Mount, North Carolina, and include ten full-service offices serving North Carolina communities from the capital to the coast: Holly Ridge, Jacksonville, Morehead City, Nashville, Raleigh, Richlands, Rocky Mount (2 locations), Tarboro and Wilson, with a loan production office in New Bern.

Sale of Preferred Stock - The Board of Directors of the Company has approved the issuance of Cumulative Perpetual Preferred Stock, Series A, (the "Series A Preferred Stock") to be offered to select accredited investors. The Series A Preferred Stock will have a stated liquidation value of $1,000 per share and will rank senior to the Issuer's common stock with respect to dividends and liquidation rights. The dividend rate is $70 per share, per annum, payable quarterly on the last business day of each calendar quarter. The subscription price in this offering is $1,000 per share. The minimum subscription in this offering is $100,000, or 100 shares. Subscribers will be entitled to subscribe for shares of Series A Preferred Stock until February 29, 2024, unless further extended in the Issuer's discretion. The Series A Preferred Stock is not convertible into any other securities of the Issuer.

3. Investment Securities

The amortized cost and fair value of securities available for sale, with gross unrealized gains and losses, are as follows:

	December 31, 2023			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(in thousands)			
Securities available for sale:				
U. S. Treasury Securities	$ 10,928	$ -	$ (197)	$ 10,731
Mortgage-backed Securities	34,872	41	(4,388)	30,525
Corporate securities	23,539	3	(2,887)	20,655
U.S. agency securities	14,959	-	(640)	14,319
Municipal securities	25,706	77	(3,968)	21,815
	$ 110,004	$ 121	$ (12,080)	$ 98,045

	December 31, 2022			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(in thousands)			
Securities available for sale:				
U. S. Treasury Securities	$ 13,390	$ -	$ (553)	$ 12,837
Mortgage-backed securities	31,666	-	(4,952)	26,714
Corporate securities	22,981	1	(2,022)	20,960
U. S. agency securities	16,913	-	(1,057)	15,856
Municipal securities	29,267	-	(5,296)	23,971
	$ 114,217	$ 1	$ (13,880)	$ 100,338

The Company realized $22 thousand of gross gains and $13 thousand of gross losses in its earnings from the sale of available for sales securities in 2023. The Company realized $9 thousand of gross gains and $3 thousand of gross losses in its earnings from the sale of available for sale securities in 2022.

The amortized cost and fair value of investment securities at December 31, 2023, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(in thousands)	
Available for sale:		
Due in one year or less	$ 9,990	$ 9,827
Due after one but within five years	16,647	15,898
Due after five but within ten years	36,745	31,880
After ten years	46,622	40,440
	$ 110,004	$ 98,045

For the purposes of the maturity table, mortgage-backed securities, which are not due at a single maturity date, have been allocated over maturity groupings based on the weighted-average contractual maturities of underlying collateral. The mortgage-backed securities may mature earlier than their weighted-average contractual maturities because of principal payments.

Securities with an amortized cost of $1.4 million and a fair value of $1.1 million were pledged to secure customer repurchase agreements at December 31, 2023. Securities with an amortized cost of $5.5 million and a fair value of $4.6 million were pledged to secure customer repurchase agreements at December 31, 2022.

The following tables show gross unrealized losses and fair values of investment securities, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2023 and 2022. At December 31, 2023, the unrealized losses relate to one hundred three securities. At December 31, 2022, the unrealized losses relate to one hundred sixteen securities. The unrealized losses relate to debt securities that have incurred fair value reductions due to higher market interest rates since the securities were purchased. The unrealized losses are not likely to reverse unless and until market interest rates decline to the levels that existed when the securities were purchased.

Management evaluates securities for impairment where there has been a decline in fair value below the amortized cost basis of a security to determine whether there is a credit loss associated with the decline in fair value on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. All debt securities available for sale in an unrealized loss position as of December 31, 2023 continue to perform as scheduled and management does not believe that there is a credit loss or that a provision for credit losses is necessary. Also, as part of management's evaluation of its intent and ability to hold investments for a period of time sufficient to allow for any anticipated recovery in the market, management considers its investment strategy, cash flow needs, liquidity position, capital adequacy and interest rate risk position. Management does not currently intend to sell the securities within the portfolio and it is not more-likely-than-not that securities will be required to be sold. See "Note 1 – Summary of Significant Account Policies" for further discussion.

	December 31, 2023					
	Less Than 12 Months		12 Months or More		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
	(in thousands)					
Securities available for sale:						
U.S Treasury securities	**$ -**	**$ -**	**$ 10,731**	**$ (197)**	**$ 10,731**	**$ (197)**
Mortgage-backed securities	**1,178**	**(21)**	**24,448**	**(4,367)**	**25,626**	**(4,388)**
Corporate securities	**855**	**(145)**	**19,242**	**(2,742)**	**20,097**	**(2,887)**
U.S. agency securities	**-**	**-**	**14,320**	**(646)**	**14,320**	**(640)**
Municipal securities	**-**	**-**	**15,793**	**(3,968)**	**15,793**	**(3,968)**
	$ 2,033	**$ (166)**	**$ 84,534**	**$ (11,920)**	**$ 86,567**	**$ (12,080)**

	December 31, 2022					
	Less Than 12 Months		12 Months or More		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
	(in thousands)					
Securities available for sale:						
U. S. Treasury securities	$ 8,028	$ (287)	$ 4,809	$ (266)	$ 12,837	$ (553)
Mortgage-backed securities	4,749	(368)	21,965	(4,584)	26,714	(4,952)
Corporate Securities	12,839	(1,042)	7,620	(980)	20,459	(2,022)
U. S. agency securities	9,976	(453)	5,880	(604)	15,856	(1,057)
Municipal securities	9,665	(280)	14,306	(5,016)	23,971	(5,296)
	$ 45,257	$ (2,430)	$ 54,580	$ (11,450)	$ 99,837	$ (13,880)

4. Loans and Allowance for Credit Losses

Following is a summary of loans at December 31, 2023 and 2022 (in thousands):

	2023	2022
Real estate loans:		
1-4 family residential	**$ 59,336**	$ 50,542
Multi-family residential and commercial	**491,800**	399,360
Construction	**170,323**	146,173
Home equity lines of credit	**18,342**	15,769
Total real estate loans	**739,801**	611,844
Other loans:		
Commercial and industrial	**66,470**	64,058
Consumer	**21,532**	11,805
Total other loans	**88,002**	75,863
Total loans	**827,803**	687,707
Less:		
Allowance for credit losses	**6,743**	6,142
Total loans, net	**$ 821,060**	$ 681,565

Loans presented above are net of unamortized loan fees of $1.16 million and $1.04 million at December 31, 2023 and 2022, respectively.

Loans are primarily made in Nash, Edgecombe, Wilson, Wake, and surrounding counties, North Carolina. Real estate loans can be affected by the condition of the local real estate market. Commercial and industrial loans can be affected by the local economic conditions.

Outstanding loans for hotels are approximately 15% of the total loan portfolio at December 31, 2023 and December 31, 2022, included within multi-family residential and commercial real estate loans. Outstanding loans for residential rental properties are approximately 7% of the total loan portfolio at December 31, 2023 and December 31, 2022.

The Company has had loan transactions with its directors and executive officers. Such loans were made in the ordinary course of business and on substantially the same terms and collateral as those for comparable transactions prevailing at the time and did not involve more than the normal risk of collectability or present other unfavorable features. A summary of related party loan transactions is as follows (in thousands):

	2023	2022
Balance at beginning of year	**$ 1,833**	$ 1,667
Loan disbursements	**663**	815
Loan repayments	**(1,163)**	(649)
Balance at end of year	**$ 1,333**	$ 1,833

At December 31, 2023 and 2022, the Company had pre-approved but unused lines of credit totaling approximately $1.25 million and $900 thousand, respectively, to executive officers, directors and their related interests.

The following describes the risk characteristics relevant to each of the portfolio segments.

Real estate

Commercial and residential real estate secured loans are underwritten utilizing independent appraisal or evaluations and financial analysis of the borrowers. These loans are either cash flow loans or development loans paid from the real estate sale and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher risk and higher loan principal amounts and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in real estate markets or the general economy. The properties securing the Company's commercial real estate portfolio are principally secured by non-owner occupied and owner-occupied buildings including professional practices, office and industrial properties, hotels and multi-family properties. Management monitors and evaluates commercial real estate loans based on collateral, market area and risk grade criteria. Residential real estate loans are secured by non-owner occupied and owner-occupied one 1-4 family properties with the combined loan-to-value ratio which is usually 90% or less. Construction loans are generally based upon estimates of costs and value associated with the project as completed. Construction loans often involve the disbursement of funds with the repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans or sales of developed property. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions, availability of long-term financing and government regulation of real property.

Commercial and industrial

Non-real estate secured commercial and industrial loans are underwritten after analyzing the borrowers' financial condition and ability to generate profits sufficient to support the loans. Commercial and industrial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower and the guarantors, as applicable. The cash flows of borrowers, however, may not materialize as expected and the collateral securing these loans may fluctuate in value. Most commercial and industrial loans are secured by the assets being financed or other business assets such as accounts receivable, inventory or equipment and usually incorporate a personal guaranty. In the case of loans secured by accounts receivable, the availability of the funds for repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Consumer

Consumer loans consist of home equity lines of credit, unsecured consumer, and secured consumer loans. Consumer loans are typically underwritten after analyzing the borrowers' personal financial condition and ability to generate income sufficient to support the loans and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not materialize as expected and the collateral securing these loans may fluctuate in value. The combined loan value on these loans generally does not exceed 90%. In connection with consumer lending in general, the success of our loan collection efforts is highly dependent on the continuing financial stability of our borrowers, and our collection of consumer installment loans may be more likely to be adversely affected by a borrower's job loss, illness, personal bankruptcy or other change in personal circumstances than is the case with other types of loans.

Determining the fair value of PCI loans at acquisition required the Bank to estimate cash flows expected to result from those loans and to discount those cash flows at appropriate rates of interest. For such loans, the excess of cash flows expected to be collected at acquisition over the estimated fair value is recognized as interest income over the remaining lives of the loans is called the accretable yield. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition reflects the impact of estimated credit losses and is called the nonaccretable difference. In accordance with GAAP, there was no carry-over of previously established allowance for credit losses from the acquired company.

Prior to ASU 2016-13 adoption, the changes to the accretable yield for PCI loans acquired from Cornerstone Bank were as follows for the year ended December 31, 2022 (in thousands):

	2022
Accretable yield, beginning of period	$ 171
Reclassification from (to) nonaccretable yield	12
Accretion	(226)
Other changes, net	48
Total	$ 5

The following table illustrates the impact on the allowance for credit losses from the adoption of ASC 326 (in thousands):

	January 1, 2023		
	January 1, 2023 as Reported Under ASC 326	Pre-ASC 326 Adoption December	Impact of ASC 326 Adoption
Allowance for credit losses on loans:			
1-4 Family Residential Real Estate	**$ 442**	**$ 460**	**$ (18)**
Multi-Family Residential and Commercial Real Estate	**3,510**	**3,593**	**(83)**
Construction Real Estate	**1,096**	**1,244**	**(148)**
Home Equity Lines of Credit	**131**	**144**	**(13)**
Commercial & Industrial	**481**	**593**	**(112)**
Consumer	**121**	**108**	**13**
Allowance for credit losses on loans	**$ 5,781**	**$ 6,142**	**$ (361)**
Liabilities:			
Allowance for credit losses for unfunded commitments	**$ 389**	**$ -**	**$ 389**

The following tables present analyses of the ACL on loans by segment for December 31, 2023 (in thousands).

	Expected Losses	Individually Assessed	Qualitative Adjustments	Additional Allowance	Total Allowance for Credit Losses
1 - 4 family Residential	$ 82	$ -	$ 434	$ 1	$ 517
Multi-Family Residential and Commercial	638	-	3,693	(4)	4,327
Construction	-	-	1,273	(6)	1,267
Home Equity Lines of Credit	-	-	147	-	147
Commercial and Industrial	2	35	423	-	460
Consumer	11	-	14	-	25
Total	$ 733	$ 35	$ 5,984	$ (9)	$ 6,743

The ending balances of loans and the related allowance presented by portfolio class and allowance methodology as of December 31, 2023 and 2022 are as follows (in thousands):

	December 31, 2023						
	1 – 4 Family Residential Real Estate	Multi Family Residential and Commercial - Real Estate	Construction Real Estate	Home Equity Lines of Credit	Commercial & Industrial	Consumer	Total
Allowance for credit losses							
Beginning balance	$ 460	$ 3,593	$ 1,244	$ 144	$ 593	$ 108	$ 6,142
Impact of ASC 326 Adoption	(18)	(83)	(148)	(13)	(112)	13	(361)
Charge-offs	(5)	-	-	-	-	-	(5)
Recoveries	4	-	8	-	-	-	12
Provision	76	817	163	16	(21)	(96)	955
Ending balance	$ 517	$ 4,327	$ 1,267	$ 147	$ 460	$ 25	$ 6,743
Ending balance: individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 35	$ -	$ 35
Ending balance: collectively evaluated for impairment	517	4,327	1,267	147	425	25	6,708
Financing receivables:							
Ending balance	$ 59,336	$ 491,800	$ 170,323	$ 18,342	$ 66,470	$ 21,532	$ 827,803
Ending balance: individually evaluated for impairment	63	620	-	18	54	-	755
Ending balance: collectively evaluated for impairment	59,273	491,180	170,323	18,324	66,416	21,532	827,048

	December 31, 2022						
	1 – 4 Family Residential Real Estate	Multi Family Residential and Commercial - Real Estate	Construction Real Estate	Home Equity Lines of Credit	Commercial & Industrial	Consumer	Total
Allowance for loan losses							
Beginning balance	$ 487	$ 3,019	$ 1,189	$ 146	$ 639	$ 61	$ 5,541
Charge-offs	-	-	(9)	-	-	(1)	(10)
Recoveries	6	75	-	-	-	-	81
Provision	(33)	499	64	(2)	(46)	48	530
Ending balance	$ 460	$ 3,593	$ 1,244	$ 144	$ 593	$ 108	$ 6,142
Ending balance: individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance: collectively evaluated for impairment	460	3,593	1,244	144	593	108	6,142
Financing receivables:							
Ending balance	$ 50,542	$ 399,360	$ 146,173	$ 15,769	$ 64,058	$ 11,805	$ 687,707
Ending balance: individually evaluated for impairment	68	-	-	20	-	-	88
Ending balance: purchase credit impaired	305	-	52	49	-	-	406
Ending balance: collectively evaluated for impairment	50,169	399,360	146,121	15,700	64,058	11,805	687,213

Risk Grade Definitions

Superior
Credits in this category are fully secured by cash equivalents or high grade, readily marketable securities.

Minimal
Credits in this category are to a borrower of unquestionable financial strength. Financial information exhibits superior earnings, leverage and liquidity positions, which firmly establish a repayment source, that is substantial in relation to debt. These borrowers would generally have access to national credit and equity markets.

Average
Credits in this category are to borrowers of satisfactory financial strength. Earnings performance is consistent with primary and secondary sources of repayment well defined and adequate to retire the debt in a timely and orderly fashion. These businesses would generally exhibit satisfactory asset quality and liquidity with moderate leverage, average performance to their peer group and experienced management in key positions. This risk grade classification may also include a loan in which strong reliance for a secondary repayment source is placed on a guarantor who exhibits the ability and willingness to repay.

Acceptable
Credits in this category are sound and collectible but contain risk. Although asset quality remains acceptable, the borrower could have a smaller and/or less diverse asset base, lower liquidity and limited debt capacity. The borrower may also have the following characteristics:

- Earnings performance is satisfactory but the borrower might not be strong enough to sustain major setbacks.

- Limited management experience and depth.

These credits may have a reliance for a secondary repayment source placed on a guarantor who exhibits the ability and willingness to repay. These credits may need supervision by the lender and covenants structured to ensure adequate protection. These credits may also include satisfactory borrowers/guarantors in industries with a higher than normal credit risk.

Special Mention
Credits in this category are potentially weak credits. Assets rated Special Mention are currently protected but potentially weak. These assets constitute an undue and unwarranted credit risk, but not to the point of justifying a classification of Substandard. Loans in this category have potential weaknesses, which may, if not corrected, weaken the asset, or inadequately protect the Company's credit position at some future date.

Substandard
Assets classified Substandard have a well-defined weakness(es) in the credit that jeopardize the repayment of all principal and interest in accordance with the contractual terms of the credit. Substandard assets are inadequately protected by the current net worth and paying capacity of the obligor or the collateral that is pledged.

Doubtful
An asset classified doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain factors that may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until its more exact status may be determined.

<u>Loss</u>
Assets classified loss are considered uncollectible and of such little value that their continuance as bankable assets are not warranted.

Credit Risk Profile by Internally Assigned Grade

The loan portfolio is reviewed, both internally and through the use of independent external sources, to validate the credit risk on a periodic basis. Also, loans are monitored for credit quality on a monthly basis through evaluation of past due status. The composition of the loans outstanding at December 31, 2023 and 2022 by credit quality indicator is provided below. The credit quality indicators used are dependent on the portfolio segment to which the loan relates.

Loan credit quality indicators for all loans within the portfolio are developed through review of individual borrowers on an ongoing basis. The indicators represent the rating for loans as of the date presented based on the most recent assessment performed. These credit quality indicators are defined below (in thousands).

	December 31, 2023						
	1 – 4 Family Residential Real Estate	Multi Family Residential and Commercial - Real Estate	Construction Real Estate	Home Equity Lines of Credit	Commercial & Industrial	Consumer	Total
Grade:							
Superior	$ -	$ -	$ -	$ 26	$ 1,723	$ 407	$ 2,156
Minimal	1,233	5,879	-	2,319	1,271	9	10,711
Average	26,252	197,450	54,865	5,759	22,105	137	306,568
Acceptable	31,824	287,905	116,430	10,021	41,310	20,885	508,375
Special Mention	-	380	-	-	-	-	380
Substandard	63	620	-	18	54	-	755
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total	$ 59,372	$ 492,234	$ 171,295	$ 18,143	$ 66,463	$ 21,438	828,945
Overdrafts							21
Net deferred fees							(1,163)
Total							$ 827,803

	December 31, 2022						
	1 – 4 Family Residential Real Estate	Multi Family Residential and Commercial - Real Estate	Construction Real Estate	Home Equity Lines of Credit	Commercial & Industrial	Consumer	Total
Grade:							
Superior	$ -	$ -	$ -	$ 30	$ 2,192	$ 373	$ 2,595
Minimal	1,453	6,247	1,717	1,570	2,432	13	13,432
Average	19,026	168,463	46,456	5,549	37,135	212	276,841
Acceptable	29,771	224,849	99,027	8,401	22,208	11,123	395,379
Special Mention	-	-	56	33	-	-	89
Substandard	306	-	-	20	68	-	394
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total	$ 50,556	$ 399,559	$ 147,256	$ 15,603	$ 64,035	$ 11,721	688,730
Overdrafts							20
Net deferred fees							(1,043)
Total							$ 687,707

The following table presents year-to-date gross charge-offs by year of origination as of December 31, 2023 (in thousands):

	2023	2022	2021	2020	2019	2018 & Prior	Total
1-4 Family Residential Real Estate	$ -	$ -	$ -	$ -	$ -	$ 5	$ 5
Multi-Family Residential and Commercial Real Estate	-	-	-	-	-	-	-
Construction Real Estate	-	-	-	-	-	-	-
Home equity lines of credit	-	-	-	-	-	-	-
Commercial & Industrial	-	-	-	-	-	-	-
Consumer	-	-	-	-	-	-	-
Total	$ -	$ -	$ -	$ -	$ -	$ 5	$ 5

The following table presents the credit risk profile by risk grade for commercial real estate, commercial, residential real estate, and consumer loans by renewal/origination year as of December 31, 2023 (in thousands):

	2023	2022	2021	2020	2019	2018 & Prior	Grand Total
1-4 Family Residential							
1 - Superior	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -
2 - Minimal	**-**	-	-	-	17	1,216	1,233
3 - Average	**6,676**	6,132	6,291	3,161	438	3,554	26,252
4 - Acceptable	**4,389**	8,448	3,363	1,933	1,524	12,167	31,824
5 - Special	**-**	-	-	-	-	-	-
6 - Substandard	**-**	-	-	-	-	63	63
7 - Doubtful	**-**	-	-	-	-	-	-
8 - Loss	**-**	-	-	-	-	-	-
Total	**11,065**	14,580	9,654	5,094	1,979	17,000	59,372
Multi-Family Residential & Commercial							
1 - Superior	**-**	-	-	-	-	-	-
2 - Minimal	**-**	1,526	-	1,068	-	3,285	5,879
3 - Average	**42,623**	62,431	37,975	14,522	18,840	21,059	197,450
4 - Acceptable	**53,280**	65,759	58,104	36,844	5,304	68,614	287,905
5 - Special	**-**	-	380	-	-	-	380
6 - Substandard	**-**	-	-	-	-	620	620
7 - Doubtful	**-**	-	-	-	-	-	-
8 - Loss	**-**	-	-	-	-	-	-
Total	**95,903**	129,716	96,459	52,434	24,144	93,578	492,234
Construction Real Estate							
1 - Superior	**-**	-	-	-	-	-	-
2 - Minimal	**-**	-	-	-	-	-	-
3 - Average	**24,204**	19,456	10,361	299	177	368	54,865
4 - Acceptable	**24,519**	56,528	31,204	2,249	1,860	70	116,430
5 - Special	**-**	-	-	-	-	-	-
6 - Substandard	**-**	-	-	-	-	-	-
7 - Doubtful	**-**	-	-	-	-	-	-
8 - Loss	**-**	-	-	-	-	-	-
Total	**48,723**	75,984	41,565	2,548	2,037	438	171,295

Home Equity Line of Credit							
1 - Superior	**-**	-	-	-	-	26	26
2 - Minimal	**437**	678	181	-	100	923	2,319
3 - Average	**922**	2,454	540	152	174	1,517	5,759
4 - Acceptable	**2,192**	2,736	1,300	776	460	2,557	10,021
5 - Special	**-**	-	-	-	-	-	-
6 - Substandard	**-**	-	-	-	-	18	18
7 - Doubtful	**-**	-	-	-	-	-	-
8 - Loss	**-**	-	-	-	-	-	-
Total	**3,551**	5,868	2,021	928	734	5,041	18,143
Commercial & Industrial							
1 - Superior	**126**	135	268	43	700	451	1,723
2 - Minimal	**49**	1,073	90	31	-	28	1,271
3 - Average	**2,414**	1,780	8,561	6,917	1,948	485	22,105
4 - Acceptable	**5,581**	10,426	1,600	18,410	855	4,438	41,310
5 - Special	**-**	-	-	-	-	-	-
6 - Substandard	**-**	-	-	-	-	54	54
7 - Doubtful	**-**	-	-	-	-	-	-
8 - Loss	**-**	-	-	-	-	-	-
Total	**8,170**	13,414	10,519	25,401	3,503	5,456	66,463
Loans to Individuals							
1 - Superior	**207**	134	8	14	6	38	407
2 - Minimal	**-**	-	-	-	-	9	9
3 - Average	**65**	8	0	12	6	46	137
4 - Acceptable	**3,368**	6,199	124	1,619	78	9,497	20,885
5 - Special	**-**	-	-	-	-	-	-
6 - Substandard	**-**	-	-	-	-	-	-
7 - Doubtful	**-**	-	-	-	-	-	-
8 - Loss	**-**	-	-	-	-	-	-
Total	**3,640**	6,341	132	1,645	90	9,590	21,438
Total	**$ 171,052**	$ 245,903	$ 160,350	$ 88,050	$ 32,487	$ 131,103	$ 828,945
Overdrafts							21
Net deferred fees							(1,163)
Total							**$ 827,803**

Age Analysis of Past Due Financing Receivables

The aging of the outstanding loans by class at December 31, 2023 and 2022 is provided in the table below (in thousands). The calculation of days past due begins on the day after payment is due and includes all days through which all required interest or principal have not been paid. Loans less than 30 days past due are considered current due to certain grace periods that allow borrowers to make payments within a stated period after the due date and still remain in compliance with the loan agreement.

December 31, 2023	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loans
1 – 4 Family Residential Real Estate	$ -	$ -	$ -	$ -	$ 59,336	$ 59,336
Multi-Family Residential & Commercial - Real Estate	-	620	-	620	491,180	491,800
Construction Real Estate	-	-	-	-	170,323	170,323
Home Equity Lines of Credit	18	-	-	18	18,324	18,342
Commercial and industrial	-	-	-	-	66,470	66,470
Consumer loans	19	-	-	19	21,513	21,532
Total	$ 37	$ 620	$ -	$ 657	$ 827,146	$ 827,803

December 31, 2022	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loans
1 – 4 Family Residential Real Estate	$ -	$ -	$ -	$ -	$ 50,542	$ 50,542
Multi-Family Residential & Commercial - Real Estate	251	-	-	251	399,109	399,360
Construction Real Estate	-	-	-	-	146,173	146,173
Home Equity Lines of Credit	-	-	-	-	15,769	15,769
Commercial and industrial	-	-	-	-	64,058	64,058
Consumer loans	1	-	-	1	11,804	11,805
Total	$ 252	$ -	$ -	$ 252	$ 687,455	$ 687,707

There were no loans greater than 90 days past due and accruing interest as of December 31, 2023 and 2022.

Impaired Loans

There were impaired loans with recorded investments of $755 thousand and $88 thousand for December 31, 2023 and December 31, 2022 respectively. There was $35 thousand related allowance recorded and no related allowance recorded as of December 31, 2023 or 2022, respectively. The average balance of the loans was $720 thousand and $92 thousand and the interest income recognized while impaired was $46 thousand and $10 thousand for the years ended December 31, 2023 and 2022 respectively.

Financing Receivables on Nonaccrual Status

The recorded investment, by class, in loans on nonaccrual status at December 31, 2023 and 2022 is as follows (in thousands):

	2023	**2022**
1 – 4 Family Residential Real Estate	**$ 63**	$ 131
Multi-Family Residential & Commercial – Real Estate	**620**	-
Home Equity Lines of Credit	**18**	20
	$ 701	$ 151

At December 31, 2023, nonaccrual loans consisted of acquired loans totaling $81 thousand. At December 31, 2022, nonaccrual loans consisted of acquired loans totaling $63 thousand. There were no loan modifications to borrowers experiencing financial difficulties in 2023. There were no loans modified as troubled debt restructurings for 2022.

5. Premises and Equipment

Following is a summary of premises and equipment at December 31, 2023 and 2022 (in thousands):

	2023	**2022**
Land	**$ 726**	$ 726
Buildings	**1,652**	1,642
Furniture and equipment	**889**	868
Vehicles	**68**	68
Leasehold improvements	**356**	356
Construction in progress	**182**	-
	3,873	3,660
Accumulated depreciation and amortization	**(1,466)**	(1,402)
Total	**$ 2,407**	$ 2,258

Depreciation and amortization amounting to $98 thousand and $154 thousand for the years ended December 31, 2023 and 2022, respectively is included in occupancy and equipment expense, data processing and outside service fees, and other expenses.

In 2023, the Company entered into a non-cancellable operating lease for a Raleigh branch location commencing on January 1, 2024. This lease has an expiration date through the end of 2033 with two five-year renewal options. No lease expense was incurred in 2023. In 2023, the Company incurred $165 thousand of construction in progress related to this lease and is committed to pay an additional $338 thousand to complete the branch renovations.

In 2022, the Company renewed a non-cancellable operating lease for one branch location. The lease has an expiration date through the end of 2024. Lease expense for operating leases during 2023 and 2022 was $160 thousand and $137 thousand, respectively.

Amounts recognized as right-of-use assets related to the operating leases are included in other assets while lease liabilities are included in accrued expenses and other liabilities. As of December 31, 2023, the right-of-use assets and lease liabilities related to operating lease totaled $99 thousand, respectively. As of December 31, 2022, the right-of-use assets and lease liabilities related to operating leases totaled $202 thousand, respectively.

A summary of the minimum future rental payments under the leases described above, including the new lease commencing on January 1, 2024 is as follows at December 21, 2023 (in thousands):

2024	$	308
2025		207
2026		213
2027		220
2028		226
	$	1,174

6. Deposits

Deposits consist of the following (in thousands):

		2023		2022
Non-interest bearing demand	**$**	**106,775**	$	107,830
Savings		**10,024**		12,346
Money market and NOW		**295,558**		324,279
Time		**391,179**		229,568
Total	**$**	**803,536**	$	674,023

The aggregate amount of time deposits in denominations that may exceed FDIC insurance limits of $250 thousand or more at December 31, 2023 and 2022 was $61.9 million and $50.9 million, respectively. Interest expense on such deposits aggregated approximately $1.9 million and $433 thousand, respectively, in 2023 and 2022.

At December 31, 2023, the scheduled maturities of time deposits are as follows (in thousands):

		Less than $250,000		$250,000 or more		Total
2024	$	221,393	$	47,119	$	268,512
2025		65,275		14,815		80,090
2026		16,351		-		16,351
2027		13,249		-		13,249
2028		12,977		-		12,977
Thereafter		-		-		-
Total	$	329,245	$	61,934	$	391,179

7. Borrowings

Borrowings consist of the following (in thousands):

Type	Maturing in Year Ending	Interest Rate	December 31, 2023	December 31, 2022
Short term borrowings:				
FHLB advances:				
Fixed rate hybrid	2024	2.690%	$ **5,000**	$ -
Fixed rate hybrid	2024	5.470%	**5,000**	-
Fixed rate hybrid	2023	3.267%	-	2,000
Fixed rate hybrid	2023	1.630%	-	5,000
Fixed rate hybrid	2023	1.742%	-	2,000
Daily rate credit	2023	4.570%	-	36,000
Fixed rate credit	2023	4.230%	-	20,000
Total FHLB advances			**10,000**	65,000
Repurchase agreements			**462**	3,648
Total short-term borrowings			**$ 10,462**	$ 68,648
Long term borrowings:				
FHLB advances:				
Fixed rate hybrid	2024	2.690%	$ -	$ 5,000
Fixed rate hybrid	2025	4.350%	**5,000**	-
Fixed rate hybrid	2026	4.230%	**5,000**	-
Fixed rate hybrid	2027	4.070%	**5,000**	-
Fixed rate hybrid	2028	3.990%	**5,000**	-
Fixed rate hybrid	2028	4.290%	**10,000**	-
Convertible	2033	3.150%	**15,000**	-
Total FHLB advances			**45,000**	5,000
Subordinate debt			**23,798**	23,705
Junior subordinate debt			**4,407**	4,348
Term loan			**29**	43
Total long-term borrowings			**$ 73,234**	$ 33,096

Pursuant to collateral agreements with the Federal Home Loan Bank ("FHLB") at December 31, 2023 and 2022, advances are secured by pledged loans with a carrying amount of $107.4 million and $86.6 million, respectively. At December 31, 2023 and 2022, the Company's maximum borrowing availability was equal to 30% of total assets.

The Company enters into agreements with customers to transfer excess funds in demand deposit accounts into a repurchase agreement. Under the repurchase agreement, the Company sells the customer an interest in securities that are United States government agencies. The customer's interest in the underlying security shall be repurchased by the Company at the opening of the next banking day. The rate fluctuates monthly and is based on current deposit rates of the Company. As of December 31, 2023, and 2022, the Company had a balance outstanding of $0.5 million and $3.6 million, respectively, under these repurchase agreements.

Through the business combination of CB Financial Corporation, the Company assumed $5.0 million of the Trust's floating rate preferred securities (the "trust preferred securities") and $155,000 in common securities (the "Common Securities"), adjusted for fair value. Prior to the merger, CB Financial Capital Trust I, (the "Trust") was formed for the sole purpose of issuing trust preferred securities and investing the proceeds from the sale of such trust preferred securities in junior subordinated debentures (the “debentures”). The debentures held by the Trust are its sole assets. The Company owns 100% of the Trust’s outstanding common securities and unconditionally guarantees the Trust financial obligations. The debentures and the trust preferred securities of the Trust bear an interest rate of LIBOR (London Inter-Bank Offered Rate) plus 1.85%. The trust preferred securities generally rank equal to the trust common securities in priority of payment, but will rank prior to trust common securities if, and so long as, the Company fails to make principal or interest payment on the debentures. The dividends paid to holders of the trust preferred securities, which are recorded as interest expense, are deductible for income tax purposes. Beginning in 2023, the debentures and the trust preferred securities of the trust bear an interest rate of the 3-month CME (Chicago Mercantile Exchange) term SOFR (Secure Overnight Financing Rate) plus applicable tenor spread adjustment plus 1.858. Prior to 2023, the debentures and trust preferred securities each have 30-year lives and are callable by the Trust without penalty after July 31, 2010. The trust preferred securities issued the Trust presently qualify as Tier 1 regulatory capital.

The Company has available lines of credit with various credit facilities to provide additional liquidity if and as needed. These include available lines of credit with correspondent banks totaling $72.5 million and $53.0 million at December 31, 2023 and 2022, respectively. There were no federal funds purchased outstanding under these lines of credit at December 31, 2023 and 2022.

Subordinated debt in the amount of $12.0 million was issued on January 27, 2022. The subordinated debt requires payments of interest semi-annually on February 1st and August 1st, at the annual fixed rate of 3.50% through February 1, 2027, at which point the applicable interest rate becomes floating, subject to being reset on a quarterly basis, and scheduled interest payments are to occur on February 1, May 1, August 1, and November 1 of each year until the principal is repaid. The subordinated debt matures on February 1, 2032 and can be prepaid any time after January 27, 2027. Of the Company’s outstanding balance of this subordinated debt, $50 thousand is held by executive officers, directors and other related interests at December 31, 2023 and 2022.

Subordinated debt in the amount of $12.0 million was issued on December 18, 2019. The subordinated debt requires payments of interest semi-annually on January 15th and July 15th, at the annual fixed rate of 5.375% through January 15, 2025, at which point the applicable interest rate becomes floating, subject to being reset on a quarterly basis, and scheduled interest payments are to occur on January 15, April 15, July 15, and October 15 of each year until the principal is repaid. The subordinated debt matures on January 15, 2030 and can be prepaid any time after December 18, 2024. Of the Company’s outstanding balance of subordinated debt, $1 million is held by executive officers, directors and other related interests at December 31, 2023 and 2022.

The Company entered into a zero percent, $84,000 term loan with an individual on February 5, 2020. The scheduled maturity date of the loan is January 5, 2025, with monthly principal-only payments of $1,167 starting March 5, 2020 and a final payment of $1,143 due at maturity. The agreement is unsecured. As of December 31, 2022, the outstanding principal balance of the loan is approximately $29 thousand.

8. Capital Raise

In August 2023, the Company issued 183,726 common shares, $1 par value per share, for net proceeds after all expenses of $8,214,611.

9. Income Taxes

The significant components of the provision for income taxes for the years ended December 31, 2023 and 2022 are as follows (in thousands):

	2023	2022
Current tax provision		
Federal	$ 4,081	$ 3,403
State	546	497
Total current tax provision	4,627	3,900
Deferred tax (benefit) expense		
Federal	(581)	136
State	(76)	7
Total deferred tax (benefit) expense	(657)	143
Provision for income tax expense	$ 3,970	$ 4,043

The difference between the provision for income taxes and the amounts computed by applying the statutory federal income tax rate of 21% to income before income taxes for the years ended December 31, 2023 and 2022, respectively, is summarized below (in thousands):

	2023	2022
Tax expense computed at the statutory federal rate	$ 3,756	$ 3,842
Increase (decrease) resulting from:		
State income taxes, net of federal tax effect	378	365
Incentive stock options	(12)	(58)
Tax exempt interest	(36)	(42)
Cash surrender value of life insurance	(77)	(74)
Other	(39)	10
Provision for income taxes	$ 3,970	$ 4,043

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of deferred tax positions at December 31, 2023 and 2022 are as follows (in thousands):

	2023	2022
Deferred tax assets relating to:		
Allowance for credit losses	$ 1,531	$ 1,384
Stock based compensation	162	79
Pre-opening costs and expenses	4	5
Deferred compensation	511	477
Federal NOL carryforward	780	834
Capital loss carryforward	84	84
Lease liability	23	46
Property and equipment	28	26
Unrealized loss on available for sale securities	2,747	3,189
Other	254	216
Total deferred tax assets	6,124	6,340

Deferred tax liabilities relating to:		
Deferred loan fees	**(309)**	(300)
Prepaid expenses	**(27)**	(6)
Fair value mark, net	**(172)**	(214)
Right-of-use lease asset	**(23)**	(46)
Other	**-**	(397)
Total deferred tax liabilities	**(531)**	(963)
Net recorded deferred tax asset	**$ 5,593**	$ 5,377

The Company has approximately $3.8 million of federal net operating losses. Approximately $2.6 million will begin to expire in 2029 and $1.2 million have indefinite lives.

FASB ASC 740, Accounting for Uncertainty in Income Taxes clarifies the account for uncertain tax positions. Based on an evaluation of uncertain tax positions, management is required to measure potential liabilities that could have a risk of greater than 50% likely of being realized upon settlement. As of December 31, 2023, and 2022, management has determined that the Company does not have any material uncertain tax positions.

The Company's has federal and North Carolina net operating losses from prior tax years. Income tax jurisdictions have the ability to examine tax years in which net operating losses were created when those tax losses are actually utilized.

The Company's federal and state tax returns for the years ended December 31, 2022, 2021, and 2020 are open and subject to examination by taxing authorities.

10. Regulatory Matters

The Bank, as a North Carolina banking corporation, may pay cash dividends only out of undivided profits as determined pursuant to the North Carolina General Statutes. However, regulatory authorities may limit payment of dividends by any bank when it is determined that such limitation is in the public interest and is necessary to ensure financial soundness of a bank.

The Bank is subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also 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, as prescribed by regulations, of total and Tier I capital to risk-weighted assets and of Tier I capital to average assets. Management believes, as of December 31, 2023 and 2022 that the Bank meets all capital adequacy requirements to which it is subject, as set forth below:

	Actual		Minimum for capital adequacy purposes		Minimum to be well capitalized under prompt corrective action provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
December 31, 2023						
Total Capital (to Risk-Weighted Assets)	**$ 121,304**	**13.17%**	**$ 96,712**	**10.50%**	**$ 92,107**	**10.00%**
Tier I Capital (to Risk-Weighted Assets)	**114,561**	**12.44%**	**78,291**	**8.50%**	**73,686**	**8.00%**
Common Equity (to Risk-Weighted Assets)	**114,561**	**12.44%**	**64,475**	**7.00%**	**59,869**	**6.50%**
Tier I Capital (to Average Assets)	**114,561**	**11.88%**	**38,582**	**4.00%**	**48,227**	**5.00%**
December 31, 2022						
Total Capital (to Risk-Weighted Assets)	$ 106,577	13.58%	$ 82,400	10.50%	$ 78,476	10.00%
Tier I Capital (to Risk-Weighted Assets)	100,435	12.80%	66,705	8.50%	62,781	8.00%
Common Equity (to Risk-Weighted Assets)	100,435	12.80%	54,923	7.00%	51,010	6.50%
Tier I Capital (to Average Assets)	100,435	12.18%	32,989	4.00%	41,236	5.00%

11. Off-Balance Sheet Risk

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. In management’s opinion, these commitments represent no more than normal lending risk to the Company and will be funded from normal sources of liquidity.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer’s creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company, upon extension of credit is based on management’s credit evaluation of the borrower. Collateral obtained varies but may include real estate, stocks, bonds, and certificates of deposit.

An unfunded commitment liability is estimated from the Company’s historical loan-level loss rates and utilization rates in comparison to its balance of unfunded commitments. The expected losses associated with these exposures within the unfunded portion of the expected credit loss will be recorded as a liability on the balance sheet with an offset to other non-interest expense. As of December 31, 2023, the unfunded commitment liability was $511 thousand.

A summary of the contract amount of the Company's exposure to off-balance sheet risk as of December 31, 2023 is as follows (in thousands):

Financial instruments whose contract amounts represent credit risk:		
Undisbursed lines of credit	$	51,440
Commitments to extend credit		166,570
Letters of credit		423

12. Disclosures About Fair Values of Financial Instruments

Fair value estimates are made at a specific moment in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no active market readily exists for a portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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

Cash and Due from Banks, Interest-Earning Deposits with Banks, and Federal Funds Sold

The carrying amounts reported in the balance sheet for these instruments approximate their fair values due to the short-term nature of these instruments.

Certificates of Deposit with Banks

The fair value of certificates of deposit with other banks is estimated based on discounting cash flows using the rates currently offered for instruments of similar remaining maturities.

Investment Securities

Fair value for investment securities equals quoted market price if such information is available. If a quoted market price is not available, level 2 fair value is estimated using quoted market prices for similar securities, or other inputs that are observable or can be corroborated by observable market data. Level 3 securities are valued utilizing various assumptions such as valuation multiples, discounts for lack of marketability or illiquidity, and default rates.

Accrued Interest

The carrying amount of accrued interest approximates fair value.

Loans

The valuation of loans was impacted by the adoption of ASU 2016-01, "Recognition and Measurement of Financial Assets and Liabilities". Prior to adopting the amendments included in the standard, the Company was allowed to measure fair value under an entry price notion. The entry price notion previously applied by the Company used a discounted cash flows technique to calculate the present value of expected future cash flows for a financial instrument. The exit price notion uses the same approach, but also incorporates other factors, such as enhanced credit risk, illiquidity risk and other market factors.

Federal Home Loan Bank Stock

The carrying amount is a reasonable estimate of fair value.

Deposits and Borrowings

The fair value of demand deposits and savings, money market and NOW accounts are the amount payable on demand at the reporting date. The fair value of time deposits and borrowings are estimated based on discounting cash flows using the rates currently offered for instruments of similar remaining maturities.

Financial Instruments with Off-Balance Sheet Risk

With regard to financial instruments with off-balance sheet risk it is not practicable to estimate the fair value of future financing commitments.

The carrying amounts and estimated fair values of financial instruments, none of which are held for trading purposes, are as follows at December 31, 2023 and 2022:

	2023		**2022**	
	Carrying amount	**Estimated fair value**	**Carrying amount**	**Estimated fair value**
	(Dollars in thousands)			
Financial assets:				
Cash and due from banks	**$ 9,393**	**$ 9,393**	$ 9,478	$ 9,478
Interest-earning deposits with banks	**4,245**	**4,245**	3,419	3,419
Federal funds sold	**949**	**949**	7,751	7,751
Certificates of deposit with banks	**10,391**	**10,213**	9,901	9,633
Investment securities available for sale	**98,045**	**98,045**	100,338	100,338
Loans, net	**821,060**	**811,345**	681,565	680,089
Federal Home Loan Bank Stock	**3,207**	**3,207**	3,326	3,326
Accrued interest receivable	**4,061**	**4,061**	3,137	3,137
Financial liabilities:				
Deposits	**803,536**	**804,881**	674,023	673,407
Accrued interest payable	**1,944**	**1,944**	960	960
Short term borrowings	**10,462**	**10,461**	68,648	68,727
Long term borrowings	**73,234**	**69,441**	33,096	30,830

13. Fair Value Measurement

The FASB has issued authoritative guidance regarding fair value measurements, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. Fair value as defined under generally accepted accounting principles is an exit price, representing 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. The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability. Generally accepted accounting principles establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and

Level 3, defined as unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Recurring Basis Measurements

The following tables set forth by level within the fair value hierarchy the Company's assets and liabilities accounted for at fair value on a recurring basis as of December 31, 2023 and 2022. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. Fair values of assets and liabilities measured on a recurring basis are as follows (in thousands):

Description	Fair Value	Fair Value Measurements at December 31, 2023 (Level 1)	(Level 2)	(Level 3)
Assets:				
Investment securities available for sale:				
U.S. Treasury Securities	**$ 10,731**	**$ -**	$ **10,731**	**$ -**
Mortgage-backed securities	**30,525**	**-**	**30,525**	**-**
Corporate Securities	**20,655**	-	**17,537**	**3,118**
U.S. agency securities	**14,319**	**-**	**14,319**	**-**
Municipal securities	**21,815**	-	**21,815**	-
Total securities available for sale	**$ 98,045**	**$ -**	**$ 94,927**	**$ 3,118**

Description	Fair Value	Fair Value Measurements at December 31, 2022 (Level 1)	(Level 2)	(Level 3)
Assets:				
Investment securities available for sale:				
U.S. Treasury Securities	$ 12,837	$ -	$ 12,837	$ -
Mortgage-backed securities	26,714	-	26,714	-
Corporate Securities	20,960	-	16,675	4,285
U.S. agency securities	15,856	-	15,856	-
Municipal securities	23,971	-	23,971	-
Total securities available for sale	$ 100,338	$ -	$ 96,053	$ 4,285

The valuation methodologies used for assets and liabilities recorded at fair value on a recurring basis are as follows.

Investment Securities Available for Sale

Investment securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted and money prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions.

There were $3.1 million in assets that were measured at fair value on a recurring basis and $54 thousand on a nonrecurring basis recorded as Level 3 assets and no liabilities measured at fair value on a recurring or non-recurring basis as of December 31, 2023. There were $4.3 million in assets that were measured at fair value on a recurring basis and no assets measured at fair value on a nonrecurring basis recorded as Level 3 assets and no liabilities measured at fair value on a recurring or non-recurring basis as of December 31, 2022.

Nonrecurring Basis Measurements

Certain other financial assets are measured at fair value on a nonrecurring basis, that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

There were $54 thousand of assets measured on a nonrecurring basis at December 31, 2023 and no assets measured on a nonrecurring basis at December 31, 2022.

There are no liabilities measured at fair value on a nonrecurring basis.

The valuation methodologies used for assets recorded at fair value on a nonrecurring basis are as follows.

Impaired Loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for credit losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment. The fair value of impaired loans is estimated using one of several methods, including collateral value, market price and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3.

At December 31, 2023 there was $19 thousand of impaired loans, net of reserves, which were subjected to fair value adjustments and December 31, 2022, there were no loans identified as impaired which have been subjected to fair value adjustments.

14. Employee and Director Benefit Plans

Employment Contracts

The Company has entered into employment agreements with three executive officers to ensure a stable and competent management base. The agreements provide for a term ranging from two to three years, which extends automatically for an additional year unless terminated by the Company or the executive. The agreements provide for benefits as spelled out in the contracts and cannot be terminated by the Board of Directors, except for cause, without prejudicing the officers' right to receive certain vested rights, including compensation. In the event of a change in control of the Company and in certain other events, as defined in the agreements, the Bank or any successor to the Company will be bound to the terms of the contracts.

401(k) Retirement Plan

The Company has a 401(k) retirement plan that covers all eligible employees. The Company makes discretionary contributions, determined on an annual basis, to the retirement plan. During 2023 and 2022, the Company matched 100% of employee contributions on the first 6% of each employee's covered compensation. A participant vests in the Company's matching contributions 20% annually over five years of service. Matching expenses and discretionary contributions totaled approximately $258 thousand for the year ended December 31, 2023 and matching expenses totaled approximately $292 thousand for the year ended December 31, 2022.

Incentive Bonus Plan

In 2017, the Company adopted an employee incentive bonus plan that covers all eligible employees. The bonus is calculated based on percentages of salary designations, which are defined within the plan. The bonus is accrued for monthly and paid out subsequent to year end. Bonus expenses totaled approximately $1.10 million and $1.01 million for the years ended December 31, 2023 and 2022, respectively.

Salary Continuation Agreement

In 2012, the Company adopted a salary continuation agreement to provide benefits for members of management. The associated liability was calculated by discounting the anticipated future cash flows at 4.5%, resulting in an accrued liability for this obligation totaling $2.2 million and $2.1 million, respectively, at December 31, 2023 and 2022.

Stock Based Compensation

During 2017, the Company adopted, with shareholder approval, the 2017 Omnibus Stock Incentive Plan (the "Plan"). In 2021, the Plan was amended to increase by 150,000 shares the size of the pool of authorized but unissued shares of the Company's common stock available for issuance under the Plan. The Plan allows for grants in the form of incentive stock options, non-statutory stock options, restricted stock, stock bonuses, and purchase rights. Employees and Directors are both eligible to receive grants under the Plan. As of December 31, 2023, there are 22,850 shares reserved and available for future grants.

Stock Options

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. The risk-free interest rate is based on the U.S. Treasury rate for the expected life at the time of grant.

Volatility has been determined based upon the Company's trading history. The expected life and forfeiture assumptions are based on historical data. Dividend yield is based on the yield at the time of the option grant.

Assumptions used for grants during 2023 were as follows:

	2023
Assumptions in Estimating Option Values	
Weighted-average volatility	15.47%
Expected dividend yield	4.00%
Risk-free interest rate	4.04%
Expected life (years)	9.0

A summary of option activity under the stock option plans during the years ended December 31, 2023 and 2022 is presented below.

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding December 31, 2021	173,570	$ 23.81	6.64 years
Granted	37,250	38.64	
Exercised	(39,240)	20.09	
Forfeited	(2,950)	27.08	
Expired	-	-	
Outstanding December 31, 2022	168,630	27.89	6.73 years
Granted	**24,800**	**43.56**	
Exercised	**(16,755)**	**21.15**	
Forfeited	**(2,400)**	**37.95**	
Expired	**-**	**-**	
Outstanding December 31, 2023	**174,275**	**$ 30.63**	**6.40 years**
Exercisable December 31, 2023	**97,975**	**$ 24.58**	**4.86 years**

For the years ended December 31, 2023 and 2022, the fair value of options that contractually vested amounted to $159 thousand and $128 thousand, respectively. Stock based compensation has been presented in the consolidated statements of cash flows as an adjustment to reconcile net income to net cash provided by operating activities.

A summary of the status of the Company’s non-vested stock options as of December 31, 2023 and 2022, and changes during the years then ended is presented below:

	Shares	Weighted average grant date fair value
Non-vested – December 31, 2021	90,600	$ 3.64
Granted	37,250	4.39
Vested	(32,200)	3.69
Forfeited	(2,700)	3.48
Non-vested – December 31, 2022	92,950	$ 3.84
Granted	**24,800**	**4.86**
Vested	**(39,250)**	**4.05**
Forfeited	**(2,200)**	**4.86**
Non-vested – December 31, 2023	**76,300**	**$ 4.06**

As of December 31, 2023, and 2022, unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the stock option plan was $201 thousand and $252 thousand, respectively.

Restricted Stock

A summary of the status of the Company's non-vested restricted stock as of December 31, 2023 and 2022, and changes during the years then ended in presented below:

	Shares	Weighted average grant date fair value
Non-vested – December 31, 2021	4,250	$ 35.00
Granted	9,000	38.35
Vested	-	-
Forfeited	(250)	35.00
Non-vested – December 31, 2022	13,000	$ 37.32
Granted	**43,200**	**41.11**
Vested	**(3,900)**	**40.70**
Forfeited	**-**	**-**
Non-vested – December 31, 2023	**52,300**	**$ 40.20**

Restricted stock is vested and issued at the vesting date, as long as, the employee is employed at vesting date. As of December 31, 2023, and 2022, unrecognized compensation cost related to non-vested restricted stock compensation arrangements granted under the plans was $1.67 million and $351 thousand, respectively. At December 31, 2023, the weighted-average period over which non-vested restricted stock are expected to be recognized is 4.77 years.

15. Parent Company Financial Data

The following is a summary of the condensed parent-only financial statements of the Company as of and for the year ended December 31, 2023 and 2022:

Condensed Balance Sheets
December 31, 2023 and 2022

	2023	2022
	(Dollars in thousands)	
Assets		
Cash and due from banks	$ 7,399	$ 2,662
Other assets	155	155
Investment in subsidiary	109,416	93,939
	$ 116,970	$ 96,756
Liabilities and Stockholders' Equity		
Borrowings	$ 28,953	$ 28,860
Other liabilities	492	487
	29,445	29,347
Stockholders' Equity:		
Common stock	$ 2,495	2,252
Additional paid-in-capital	38,012	29,083
Retained earnings	56,227	46,762
Accumulated other comprehensive loss	(9,209)	(10,688)
	87,525	67,409
	$ 116,970	$ 96,756

Condensed Statements of Operations
Years Ended December 31, 2023 and 2022

	2023	2022
	(Dollars in thousands)	
Equity in undistributed earnings of subsidiary	$ 12,390	$ 15,558
Dividend from Bank	3,050	-
Interest expense	(1,533)	(1,309)
Miscellaneous income	9	5
	$ 13,916	$ 14,254

PB Financial Corporation
Board of Directors

Richard C. Anderson
Chairman of the Board of PB Financial Corporation / Providence Bank, Senior Managing Partner of Anderson Farms of Edgecombe County, Tarboro, North Carolina and Chairman of the Board of Glenco Industrial Properties, LLC, Tarboro, North Carolina

Ted E. Whitehurst
President & Chief Executive Officer, PB Financial Corporation / Providence Bank
Rocky Mount, North Carolina

Michael W. Boddie
President of Boddie Noell Enterprises
Rocky Mount, North Carolina

Joseph B. Brewer III
Secretary of PB Financial Corporation / Providence Bank
President of Brewer Foods, Inc.
Rocky Mount, North Carolina

William F. Davis
Retired Vice President/CFO of Barnhill Contracting Company
Rocky Mount, North Carolina

Wiley B. Gillam III
A Farmer and Owner of Gillam & Mason, Inc.,
Harrellsville, North Carolina

Douglas K. Martin
Family Office Manager, Brigade Properties, LLC
Henrico, North Carolina

Bryan T. Mayo
Vice President Sales and Production of Mayo Knitting Mills
Tarboro, North Carolina

Melvin M. Mitchell
President of Melvin M. Mitchell Agency, Inc., Exclusive Agency Allstate Insurance Company
Rocky Mount, North Carolina

PB Financial Corporation
Management and Personnel

<u>Executive Officers</u>

Ted E. Whitehurst
President & Chief Executive Officer
PB Financial Corporation / Providence Bank

Robert H. Ladd III
Executive Vice President & Chief Lending Officer
Providence Bank

David E. Keul
Executive Vice President, Chief Financial Officer & Treasurer
PB Financial Corporation / Providence Bank

<u>Bank Personnel</u>

Commercial <u>Lending</u>
Jeff Tobias
Denese Davis
Tom Felton
Will Noble
Denise Winstead

Sunset Avenue <u>Branch</u>
Eddie Coats
Stephanie Batten
Jenna Kelly

<u>Tarboro Branch</u>
Steven Cobb
Marlou Coker
Rhonda Etheridge
Fran Peele
Nancy Webb

Wilson <u>Branch</u>
Jeff Hamilton
Justin Alford
Delinah Alston
Taylor Barker
Denise Davis
Tonia Handy
Carla Harvey
Vicki Joyner
Buzz Wilkinson

Raleigh <u>Branch</u>
Jeff Tobias
Dana Coste
Callie Dunn
Aaron Gurganus
Will Newton

Winstead Avenue <u>Branch</u>
Justin Aycock
Joy Barrett
Desiree Blackley
Victoria Davis

Nashville <u>Branch</u>
Dylan Bunch
Megan Simmons
Tabitha Williams

<u>Corporate</u>
Trudy Brinson
Jennifer Ambrose
Tyler Amerson
Angela Bennett-Holland
Naomi Burgess
Robin Connie
Kim Gemberling
Joel Gilmore
Linda Hendricks
Teresa Holtzmann
Michelle Joyner
Valerie Moore
Lisa Stimson
Mari Whitehurst

PB Financial Corporation
General Corporate Information

Office Locations

Corporate & Commercial Loans
450 North Winstead Avenue
Rocky Mount, NC 27804

Sunset Avenue Branch
2401 Sunset Avenue
Rocky Mount, NC 27804

Wilson Branch
3710 Nash Street North
Wilson, NC 27896

Winstead Avenue Branch
450 North Winstead Avenue
Rocky Mount, NC 27804

Nashville Branch
241 West Washington Street
Nashville, NC 27856

Tarboro Branch
325 Main Street
Tarboro, NC 27886

Raleigh Branch
3701 Barrett Drive
Raleigh, NC 27609

Regulatory and Securities Counsel
Wyrick Robbins Yates & Ponton LLP
4101 Lake Boone Trail
Suite 300
Raleigh, NC 27607

Stock Transfer Agent
Broadridge Financial Solutions, Inc.
51 Mercedes Way
Edgewood, NY 11717

Independent Auditors
FORVIS LLP
1003 Red Banks Road
Greenville, NC 27858

Annual Stockholders Meeting

The Annual Meeting of the stockholders of PB Financial Corporation will be held at 4:00 p.m. on April 25, 2024 at 100 Southern Boulevard, Rocky Mount, North Carolina.

Common Stock

The Company's outstanding shares of common stock were held by approximately 381 holders of record (excluding shares held in street name) as of January 31, 2024.

Market for the Common Stock

The Company's common stock is traded on the OTCQX under the symbol "PBNC". The closing price on December 31, 2023 was $39.26 per share.

This Annual Report serves as the annual financial disclosure statement furnished pursuant to the Federal Deposit Insurance Corporation's rules and regulations. This statement has not been reviewed or confirmed for accuracy or relevance by the Federal Deposit Insurance Corporation.