Bancorp 34, Inc.

Consolidated Financial Statements

For the Fiscal Years Ended December 31, 2022, and 2021

CONTENTS

Report of Independent Auditors

The Stockholders and the Board of Directors
Bancorp 34, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Bancorp 34, Inc., which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of 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 Bancorp 34, Inc. as of December 31, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Bancorp 34, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 Bancorp 34, Inc.'s ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Bancorp 34, Inc.'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 Bancorp 34, Inc.'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.

Moss Adams LLP

Phoenix, Arizona
April 7, 2023

BANCORP 34, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	December 31, 2022	December 31, 2021
ASSETS		
Cash and due from banks	$ 16,112	$ 7,231
Fed funds sold	835	8,270
Total cash and cash equivalents	16,947	15,501
Available for sale securities, at fair value	58,582	67,916
Held to maturity securities, at amortized cost	5,832	5,365
Loans held for investments	466,265	415,624
Allowance for loan losses	(6,043)	(5,328)
Loans held for investment, net	460,222	410,296
Premises and equipment, net	8,077	7,966
Operating lease right-of-use assets	2,067	426
Stock in financial institutions, restricted, at cost	1,277	1,786
Accrued interest receivable	1,505	1,353
Deferred income tax asset, net	5,211	2,743
Bank owned life insurance	11,598	11,360
Prepaid and other assets	4,238	2,940
Total Assets	$ 575,556	$ 527,652
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits		
Demand deposits	$ 102,699	$ 100,118
Savings and NOW deposits	311,395	283,115
Time deposits	73,493	54,549
Total deposits	487,587	437,782
Federal Home Loan Bank advances	5,000	19,000
Subordinate debt, net of issuance costs	24,531	24,447
Escrows	179	201
Operating lease liabilities	2,153	468
Accrued interest and other liabilities	5,419	5,012
Total Liabilities	524,869	486,910
Shareholders' Equity:		
Preferred stock, $0.01 par value:		
Authorized – 50,000,000 shares		
Issued and outstanding – 521,849 and 0		
On December 31, 2022, and 2021, respectively	5	-
Common stock, $0.01 par value:		
Authorized – 100,000,000 shares		
Issued and outstanding – 3,032,606 and 2,523,398		
On December 31, 2022, and 2021, respectively	30	25
Additional paid-in capital	28,369	14,647
Retained earnings	30,462	27,147
Accumulated other comprehensive (loss) income, net	(6,773)	388
Unearned Employee Stock Ownership Plan (ESOP) shares	(1,406)	(1,465)
Total Shareholders' Equity	50,687	40,742
Total Liabilities and Shareholders' Equity	$ 575,556	$ 527,652

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

BANCORP 34, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands, except per share data)

	Year Ended December 31, 2022	2021
Interest income:		
Interest and fees on loans	$ 21,865	$ 19,472
Interest on securities	1,650	1,355
Interest on other interest-earning assets	293	53
Total interest income	23,808	20,880
Interest expense:		
Interest on deposits	3,684	1,485
Interest on borrowings	1,630	677
Total interest expense	5,314	2,162
Net Interest Income	18,494	18,718
Provision for loan losses	780	500
Net Interest Income After Provision for Loan Losses	17,714	18,218
Non-interest income:		
Gain on sale of loans	-	240
Gain on sale of securities	-	202
Service charges and fees	391	324
Bank owned life insurance	357	359
Loss on disposal and impairment of fixed assets	(25)	(15)
Other	(59)	185
Total non-interest income	664	1,295
Non-interest expense:		
Salaries and employee benefits	7,274	9,545
Occupancy	1,292	1,325
Data processing fees	2,107	1,967
FDIC and other insurance expense	427	231
Professional fees	525	499
Advertising	89	112
Other	1,653	1,566
Total non-interest expense	13,367	15,245
Income before provision for income taxes	5,011	4,268
Provision for Income tax	996	868
Net Income	$ 4,015	$ 3,400
Other Comprehensive Income		
Other comprehensive (loss)	$ (9,603)	$ (8)
Tax effect of other comprehensive (loss)	2,442	7
Other comprehensive income (loss), net of tax	$ (7,161)	$ (1)
Comprehensive Income	$ (3,146)	$ 3,399
Earnings per common share – Basic	$ 1.69	$ 1.24
Earnings per common share – Diluted	$ 1.68	$ 1.24

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

BANCORP 34, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands, except number of shares and per share data)

	Common Shares	Series A Preferred Shares	Common Stock	Series A Preferred Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net	Unearned ESOP Shares	Total
Balance on December 31, 2020	**3,137,573**	**-**	**$ 31**	**$ -**	**$ 22,811**	**$ 24,325**	**$ 388**	**$ (1,522)**	**$ 46,033**
Net income for 2021	-	-	-	-	-	3,400	-	-	3,400
Other comprehensive loss	-	-	-	-	-	-	(1,347)	-	(1,347)
Defined benefit plan	-	-	-	-	-	-	1,347	-	1,347
Restricted stock awards	2,500	-	-	-	-	-	-	-	-
Restricted stock forfeiture	(6,800)	-	-	-	-	-	-	-	-
Amortization of equity awards	-	-	-	-	329	-	-	57	386
Repurchase of common stock	(609,875)	-	(6)	-	(8,493)	-	-	-	(8,499)
Dividends paid – $0.20 per share	-	-	-	-	-	(578)	-	-	(578)
Balance on December 31, 2021	**2,523,398**	**-**	**$ 25**	**$ -**	**$ 14,647**	**$ 27,147**	**$ 388**	**$ (1,465)**	**$ 40,742**
Net income for 2022	-	-	-	-	-	4,015	-	-	4,015
Other comprehensive loss	-	-	-	-	-	-	(7,161)	-	(7,161)
Restricted stock awards	9,500	-	-	-	-	-	-	-	-
Restricted stock forfeiture	(7,439)	-	-	-	-	-	-	-	-
Amortization of equity awards	-	-	-	-	292	-	-	59	351
Repurchase of common stock	(5,297)	-	-	-	(78)	-	-	-	(78)
Stock option exercise	1,036	-	-	-	-	-	-	-	-
Issuance of common stock, net of issuance costs	511,408	-	5	-	6,207	-	-	-	6,212
Issuance of Series A preferred stock	-	521,849	-	5	7,301	-	-	-	7,306
Dividends paid – $0.28 per share	-	-	-	-	-	(700)	-	-	(700)
Balance on December 31, 2022	**3,032,606**	**521,849**	**$ 30**	**$ 5**	**$ 28,369**	**$ 30,462**	**$ (6,773)**	**$ (1,406)**	**$ 50,687**

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

BANCORP 34, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year ended December 31, 2022	2021
Cash Flows from Operating Activities		
Net income	$ 4,015	$ 3,400
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	489	472
Stock dividends on financial institution stock	(47)	(7)
Amortization of premiums and discounts on securities, net	349	377
Amortization of equity awards	351	386
Amortization of core deposit intangible	-	98
Gain on sale of loans	-	(240)
Proceeds from sale of loans	5,002	2,639
Gain on sale of securities	-	(202)
Provisions for loan losses	780	500
Fixed asset impairments	-	40
Net appreciation on bank-owned life insurance	(238)	(249)
Deferred income tax expense	(24)	(625)
Changes in operating assets and liabilities		
Accrued interest receivable	(152)	304
Prepaid and other assets	(1,172)	160
Accrued interest and other liability	407	133
Net cash from operating activities	9,760	7,186
Cash Flows from Investing Activities		
Proceeds from calls, sales, or principal payments on available-for-sale securities	7,475	17,236
Purchases of available-for-sale securities	(8,060)	(38,165)
Proceeds from calls, sales, or principal payments on held-to-maturity securities	-	-
Purchases of held-to-maturity securities	(500)	-
(Purchase) redemptions of stock in financial institutions	555	(454)
Net change in loans held for investment	(55,708)	(64,450)
Proceeds from disposals of premises and equipment	84	33
Purchases of premises and equipment	(684)	(207)
Net cash from investing activities	(56,838)	(86,007)
Cash Flows from Financing Activities		
Net change in deposits	49,806	67,032
Net change in escrows	(22)	(67)
Proceeds from Federal Home Loan Bank advances	712,500	76,001
Repayments of Federal Home Loan Bank advances	(726,500)	(76,001)
Proceeds from subordinated debt issuance, net of costs	-	24,447
Common stock repurchases	(78)	(8,499)
Common stock issuance, net	6,212	-
Preferred stock issuance, net	7,306	-
Payment of dividends	(700)	(577)
Net cash from financing activities	48,524	82,336
Net Change in Cash and Cash Equivalents	1,446	3,515
Cash and cash equivalents, beginning of period	15,501	11,986
Cash and Cash Equivalents, end of period	$ 16,947	$ 15,501
Supplemental Disclosures		
Interest on deposits and borrowings paid	$ 3,600	$ 2,229
Income taxes paid	$ 998	$ 1,986
Loans transferred to loans held for sale	$ -	$ 2,399
Operating lease assets recorded	$ 2,128	$ -
Operating lease liabilities recorded	$ 2,128	$ -

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

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Bancorp 34, Inc. ("Bancorp 34" or the "Company") is a Maryland corporation organized in 2016 to be the successor to Alamogordo Financial Corp ("AFC"), a savings and loan holding company, upon completion of the October 2016 second-step conversion of Bank 34 (the "Bank") from the two-tier mutual holding company structure to the stock holding company structure. Bancorp 34 owns 100% of the Bank.

The Bank provides a variety of banking services to individuals and businesses through its full-service branches in Scottsdale, Arizona as well as Alamogordo and Las Cruces, New Mexico.

Basis of Presentation – The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis of Consolidation – The Consolidated Financial Statements include the accounts of Bancorp 34 and the Bank. All significant intercompany accounts and transactions have been eliminated.

Reclassifications – Certain reclassifications have been made to prior period's financial information to conform to the current period presentation. Reclassifications had no effect on Equity or Net Income.

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

Significant estimates include, but are not limited to, allowance for loan losses, useful lives used in depreciation and amortization, deferred income taxes.

Subsequent Events - Subsequent events have been evaluated through the date The Consolidated Financial Statements were issued.

Cash and Cash Equivalents – Cash and cash equivalents include cash, due from banks, and federal funds sold. Generally, the Company considers all highly-liquid instruments with original maturities of three months or less to be cash equivalents. In monitoring credit risk associated with deposits in other banks, the Bank periodically evaluates the stability of the correspondent financial institutions. Banks are required to maintain reserve funds in cash or on deposit with the Federal Reserve Bank. No reserves were required at December 31, 2022, or December 31, 2021.

Available for Sale Securities – The Company reviews its financial position, liquidity, and future plans in evaluating the criteria for classifying securities. Available-for-sale securities consist of bonds, notes, debentures, mortgage-backed securities, collateralized mortgage obligations, municipal obligations and certain equity securities not classified as trading securities or as held-to-maturity securities. Unrealized holding gains and losses, net of tax, on available-for-sale securities are reported as a net amount in a separate component of stockholders' equity. Gains and losses on the sale of available-for-sale securities are determined using the specific-identification method. Declines in the fair value of individual available-for-sale securities below their cost that are other-than-temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. Premiums and discounts are recognized in interest income using the interest method over the expected life of the security.

Loans Held for Sale – Loans held for sale includes one- to four-family residential real estate loans, and periodically, a portion of Small Business Administration ("SBA") or United States Department of Agriculture (USDA) loans the Bank intends to sell. They are carried at fair value. Gains and losses on the sale of mortgage loans are recognized upon sale and are determined by the difference between the sales proceeds and carrying value of the loans. Net unrealized losses, if any, are recorded as a valuation allowance and charged to operations. There were no loans held for sale at December 31, 2022, or 2021.

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans Held for Investment, Net – Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any charge-offs or specific allowances and net of any deferred fees or costs. Loans are considered past due or delinquent based on the contractual terms in the loan agreement and how recently repayments have been received. Interest income is recognized based upon principal amounts outstanding. The accrual of interest is discontinued at the time the loan is 90 days past due or when, in the opinion of management, there is doubt about the ability of the borrower to pay interest or principal, unless the credit is well secured and in process of collection. Interest previously accrued but uncollected on such loans is reversed and charged against current income. Subsequent interest collected on such loans is credited to loan principal if, in the opinion of management, collectability of principal is doubtful; otherwise, the interest collected is recognized as income and resumption of interest accruals may occur. Loans are charged-off as uncollectible when, in the opinion of management, collectability of principal is improbable. Personal loans are typically charged off when no later than 180 days past due.

The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb probable credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio; credit concentrations; trends in historical loss experience; and specific impaired loans and economic conditions. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. Because of uncertainties associated with regional economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that management's estimate of probable credit losses inherent in the loan portfolio and the related allowance may change materially in the near-term. The allowance is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries. Changes in the allowance relating to impaired loans are charged or credited to the provision for loan losses. Management's periodic evaluation of the adequacy of the allowance is based on the current level of net loan losses, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and current economic conditions.

Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

Premises and Equipment – Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method in amounts sufficient to relate the cost of depreciable assets to operations over the estimated useful lives of the assets which range from three to seven years for equipment and fifteen to forty years for leasehold improvements and buildings. Maintenance and repairs that do not extend the useful lives of premises and equipment are charged to expense as incurred.

Stock in Financial Institutions - The Bank has investments in The Independent Bankers Bank (TIB), Pacific Coast Bankers' Bancshares (PCBB) and the Federal Home Loan Bank (FHLB) of Dallas. The Bank is a member of FHLB system. The Bank is required to maintain minimum levels of FHLB stock-based on various factors, including the amount of borrowings outstanding, mortgage assets, and the Bank's total assets. Financial institution stock is carried at cost, is classified as a restricted security and is periodically evaluated for impairment based on ultimate recovery. The carrying value of financial institution stocks at December 31, 2022, and 2021, was $1.8 million and $1.3 million, respectively. Cash and stock dividends are recorded in Other Income in the Consolidated Statement of Comprehensive Income.

Transfers of Financial Assets – Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right, free of conditions that constrain it from taking advantage of that right, to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Bank Owned Life Insurance (BOLI) – The Bank holds BOLI representing life insurance on the lives of certain executives of the Bank purchased in order to help offset the costs of the Bank's benefit expenses. BOLI is carried on our consolidated balance sheets at the net cash surrender value of the policies and increases in the net cash surrender value are recorded in noninterest income in the consolidated statements of comprehensive income (loss) as bank owned life insurance income.

Other Real Estate (ORE) – ORE consists of properties acquired through a foreclosure proceeding or acceptance of a deed in lieu of foreclosure. These properties are carried at fair value based on appraisal value less estimated sales costs. Loan losses arising from the acquisition of such properties are charged against the allowance for loan losses; any subsequent valuation adjustments are charged to expense, and the basis of the properties is reduced accordingly. These properties are not held for the production of income and, therefore, are not depreciated. Significant improvements expected to increase the resale value are capitalized and added to the value of the property.

Fair Value Measurements – Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. A three-level fair value hierarchy prioritizes the inputs used to measure fair value:

> **Level 1 –** Quoted prices in active markets for identical assets or liabilities; includes certain U.S. Treasury and other U.S. Government agency debt that is highly-liquid and is actively traded in over-the-counter markets.
>
> **Level 2 –** Inputs that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
>
> **Level 3 –** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Escrow Accounts – Funds collected from loan customers for insurance, real estate taxes and other purposes are maintained in escrow accounts and carried as a liability in the Consolidated Balance Sheets. These funds are periodically remitted to the appropriate entities to satisfy those claims.

Financial Instruments with Off-Balance-Sheet Risk – In the ordinary course of business, the Bank enters into off-balance-sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded in The Consolidated Financial Statements when they are funded or related fees are incurred or received. The credit risk associated with these instruments is evaluated using the same methodology as for loans held for investment.

Advertising Cost – The Bank conducts direct and non-direct response advertising and purchases prospective customer lists from various sources. These costs are expensed as incurred. Advertising costs from continuing operations for the years ended December 31, 2022, and 2021 were $89,000 and $112,000, respectively.

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee Stock Ownership Plan (ESOP) – The Bank sponsors an internally leveraged ESOP. The cost of shares issued to the ESOP but not yet released is shown as unearned employee stock ownership plan (ESOP) shares, an element of stockholders' equity in our consolidated balance sheets. As shares are committed to be released, compensation expense is recorded equal to the market price of the shares, and the shares become outstanding for purposes of earnings per share calculations. To the extent that the fair value of ESOP shares committed differs from the cost of such shares, the difference is charged or credited to additional paid-in capital in stockholders' equity.

Cash dividends on unallocated ESOP shares may be used to make payments on the ESOP loan and may be allocated to participant accounts in proportion to their account balances. Cash dividends paid on allocated shares are recorded as a reduction of retained earnings and, at the direction of the employer may be: a) credited directly to participant accounts in proportion to their account balances, or b) distributed directly to participants (outside the plan) in proportion to their account balances, or c) used to make payments on the ESOP loan requiring the release of shares with at least a similar fair market value be allocated to participant accounts. In addition, participants have the right to receive an immediate distribution of their vested cash dividends paid on shares of common stock credited to their accounts.

Other Stock-Based Compensation – The Company has stock-based compensation plans which provide for the award of various benefits to Directors and employees, including restricted stock and options to purchase stock. Each restricted stock award is separated into vesting tranches and compensation expense is recognized based on the fair value at the date of grant for each tranche on a straight-line basis over the vesting period reduced for estimated forfeitures. Cash dividends on unvested restricted shares are charged to compensation expense. The fair value of stock option awards granted is estimated using the Black-Scholes-Merton option pricing model using inputs including the option exercise price and risk free rate of return, and assumptions for expected dividend yield, expected stock price volatility and the expected life of the awards. The closing market price of the Company's stock on the date of grant is the exercise price for the stock options and the estimated fair value of the restricted stock awards. Expense is recognized over the required service period, defined as the vesting period. For awards with graded vesting, expense is recognized on a straight-line basis over the requisite service period for the entire award. The Company's accounting policy is to recognize expense net of actual forfeitures.

Income Taxes – Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax basis of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. Accrued interest and penalties associated with uncertain tax positions are recognized as part of the income tax provision. The Company has no uncertain tax provisions.

Comprehensive Income (Loss) – Comprehensive income (loss) consists of net income (loss), net unrealized gains and losses on securities available-for-sale, net of taxes.

Earnings per Common Share - Basic earnings per common share is net income divided by the weighted-average number of common shares outstanding during the period. ESOP shares are considered outstanding for this calculation unless unearned. Maryland corporate law does not provide for treasury shares; therefore, shares repurchased are removed from issued and outstanding immediately and would not be considered outstanding. All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under stock options. Earnings per share are restated for all stock splits and stock dividends through the date of issuance of the consolidated financial statements. The two-class method is an earnings allocation method under which earnings per share is calculated for each class of common stock and participating security considering both dividends declared (or accumulated) and participation rights in undistributed earnings as if all such earnings had been distributed during the period.

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 – SECURITIES

Available-for-sale and held-to-maturity securities have been classified in the consolidated balance sheets according to management's intent on December 31, 2022, and 2021. The amortized cost of such securities and their approximate fair values were as follows:

Available-for-sale, December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities	$ 39,709	$ -	$ (5,177)	$ 34,532
U.S. Treasuries	3,083	-	(366)	2,717
U.S. Government Agencies	396	-	(26)	370
Municipal Obligations	23,500	-	(3,349)	20,151
Corporate debt	1,000	-	(188)	812
Total	$ 67,688	$ -	$ (9,106)	$ 58,582

Held-to-maturity, December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate debt	$ 5,832	$ 9	$ (409)	$ 5,432
Total	$ 5,832	$ 9	$ (409)	$ 5,432

Available-for-sale, December 31, 2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities	$ 39,165	$ 469	$ (380)	$ 39,254
U.S. Treasuries	3,097	0	(46)	3,051
U.S. Government Agencies	590	4	(2)	592
Municipal Obligations	23,575	593	(133)	24,035
Corporate debt	1,000	0	(16)	984
Total	$ 67,427	$ 1,066	$ (577)	$ 67,916

In August 2021, corporate debt with a fair market value of $6.2 million was transferred from available-for-sale to held-to-maturity. The difference between amortized cost and fair market value of those securities at transfer date will be amortized out of accumulated other comprehensive income over the 5-year period to first call date of those securities.

Held-to-maturity, December 31, 2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate debt	5,365	8	0	5,373
Total	$ 5,365	$ 8	$ 0	$ 5,373

Securities with unrealized losses on December 31, 2022, and 2021, that have not been recognized in income are as follows (in thousands):

Available-for-sale, December 31, 2022	Continued Unrealized Loss for Less than 12 Months		Continued Unrealized Loss for 12 Months or More		Total	
Description of Securities	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
Mortgage-backed securities	$ 21,377	$ (2,080)	$ 13,155	$ (3,097)	$ 34,532	$ (5,177)
U.S. Treasuries	-	-	2,717	(366)	2,717	(366)
U.S. Government Agencies	171	(10)	199	(16)	370	(26)
Municipal Obligations	12,547	(1,698)	7,104	(1,651)	19,651	(3,349)
Corporate debt	-	-	812	(188)	812	(188)
Total temporarily impaired	$ 34,095	$ (3,788)	$ 23,987	$ (5,318)	$ 58,082	$ (9,106)

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 – SECURITIES (CONTINUED)

Available-for-sale, December 31, 2021	Continued Unrealized Loss for Less than 12 Months		Continued Unrealized Loss for 12 Months or More		Total	
Description of Securities	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
Mortgage-backed securities	$ 18,410	$ (380)	$ -	$ -	$ 18,410	$ (380)
U.S. Treasuries	3,051	(46)	-	-	3,051	(46)
U.S. Government Agencies	315	(2)	-	-	315	(2)
Municipal Obligations	8,653	(133)	-	-	8,653	(133)
Corporate debt	983	(16)	-	-	983	(16)
Total temporarily impaired	$ 31,412	$ (577)	$ -	$ -	$ 31,412	$ (577)

Unrealized losses have not been recognized through the income statement, as management believes the issuers are of sound credit quality, management has no intent to sell the securities, the Company can hold the securities to maturity, and the decline in fair value is largely due to changes in market interest rates. The fair value is expected to recover as the securities approach their maturity date.

The proceeds from the sale of securities and the associated gains and losses are listed below (in thousands):

	2022	2021
Proceeds	$ -	$ 4,626
Net gains	-	202
Net losses	-	-

The amortized cost and fair value of the investment securities portfolio are shown by contractual maturity. Contractual maturities of debt securities at year-end 2022 were as follows (in thousands):

Available-for-sale	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 500	$ 500
Due from one to five years	4,959	4,597
Due from five to ten years	28,321	24,398
Due after ten years	33,908	29,087
Total	$ 67,688	$ 58,582

Held-to-maturity	**Amortized Cost**	**Fair Value**
Due in one year or less	$ -	$ -
Due from one to five years	-	-
Due from five to ten years	5,832	5,432
Due after ten years	-	-
Total	$ 5,832	$ 5,432

Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Securities pledged at December 31, 2022, and December 31, 2021, had a carrying amount of $8,193,000 and $16,418,000, respectively.

Investments in correspondent bank stock totaled $1,277,000 and $1,786,000 at December 31, 2022, and 2021, and are included in other assets because such investments are considered restricted. The investments are recorded at cost and evaluated for impairment. Cash dividends received are recorded in taxable securities interest income.

The Company had no investment in securities of issuers outside of the United States as of December 31, 2022, or 2021.

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans at year-end were as follows (in thousands):

	2022
Commercial real estate	$ 400,136
1-4 Family residential real estate	14,195
Commercial	52,153
Consumer and other	1,151
Gross Loans	467,635
Unamortized loan fees	(1,370)
Loans held for investment	466,265
Less allowance for loan losses	(6,043)
Loans, net	$ 460,222

	2021
Commercial real estate	$ 351,337
1-4 Family residential real estate	16,746
Commercial	47,490
Consumer and other	1,454
Gross Loans	417,027
Unamortized loan fees	(1,403)
Loans held for investment	415,624
Less allowance for loan losses	(5,328)
Loans, net	$ 410,296

At December 31, 2022, and 2021, commercial real estate loans include construction loans of $31.1 million and $31.4 million, respectively.

At December 31, 2022, and 2021, the commercial loan balances above included $47,000 and $1,606,000 in Paycheck Protection Program loans, all of which were guaranteed by the Small Business Administration. No other material financial statement impacts from the Covid-19 pandemic remained at the end of 2022.

The following is an analysis of the allowance for loan loss activity, listed by portfolio segment. Information is based on impairment method as of, and for the years ended, December 31, 2022, and 2021, (in thousands):

	Commercial Real Estate	1-4 Family Residential Real Estate	Commercial and Industrial	Consumer and other	Total
Balance on December 31, 2021	$ 4,466	$ 190	$ 647	$ 25	$ 5,328
Provision (credit) for loan losses	124	26	634	(4)	780
Loans charged off	-	(72)	-	-	(72)
Recoveries	-	7	-	-	7
Balance on December 31, 2022	$ 4,590	$ 151	$ 1,281	$ 21	$ 6,043

	Commercial Real Estate	1-4 Family Residential Real Estate	Commercial and Industrial	Consumer and other	Total
Balance on December 31, 2020	$ 4,051	$ 299	$ 426	$ 44	$ 4,820
Provision (credit) for loan losses	415	(117)	221	(19)	500
Loans charged off	-	-	-	-	-
Recoveries	-	8	-	-	8
Balance on December 31, 2021	$ 4,466	$ 190	$ 647	$ 25	$ 5,328

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

December 31, 2022	Commercial Real Estate	1-4 Family Residential Real Estate	Commercial	Consumer	Total
Allowance for Loan Losses					
Ending balance individually evaluated for impairment	$ -	$ -	$ 728	$ -	$ 728
Ending balance collectively evaluated for impairment	4,590	151	553	21	5,315
Total	$ 4,590	$ 151	$ 1,281	$ 21	$ 6,043
Gross Loans					
Ending balance individually evaluated for impairment	$ 1,591	$ 719	$ 4,546	$ -	$ 6,856
Ending balance collectively evaluated for impairment	398,545	13,476	47,607	1,151	460,779
Total	$ 400,136	$ 14,195	$ 52,153	$ 1,151	$ 467,635

December 31, 2021	Commercial Real Estate	1-4 Family Residential Real Estate	Commercial	Consumer	Total
Allowance for Loan Losses					
Ending balance individually evaluated for impairment	$ -	$ -	$ 210	$ -	$ 210
Ending balance collectively evaluated for impairment	4,466	190	437	25	5,118
Total	$ 4,466	$ 190	$ 647	$ 25	$ 5,328
Gross Loans					
Ending balance individually evaluated for impairment	$ -	$ 162	$ 4,240	$ -	$ 4,402
Ending balance collectively evaluated for impairment	351,337	16,584	43,250	1,454	412,625
Total	$ 351,337	$ 16,746	$ 47,490	$ 1,454	$ 417,027

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following table presents the aging of the recorded investment in past due and nonaccrual loans, as of December 31, 2022, and 2021. It is shown by class of loans (in thousands):

December 31, 2022	**Loans Past Due Accruing Interest**						
	30-59 Days	**60-89 Days**	**Over 90 Days**	**Total**	**Loans on Non-Accrual**	**Loans Not Past Due or Non-Accrual**	**Total**
Commercial Real Estate	$ 512	$ 960	$ -	$ 1,472	$ 1,591	$ 397,073	$ 400,136
1-4 Family Residential RE	536	-	-	536	659	13,000	14,195
Commercial and Industrial	313	427	292	1,032	4,546	46,575	52,153
Consumer	-	-	-	-	-	1,151	1,151
Total	$ 1,361	$ 1,387	$ 292	$ 3,040	$ 6,796	$ 457,799	$ 467,635

December 31, 2021	**Loans Past Due Accruing Interest**						
	30-59 Days	**60-89 Days**	**Over 90 Days**	**Total**	**Loans on Non-Accrual**	**Loans Not Past Due or Non-Accrual**	**Total**
Commercial Real Estate	$ 2,192	$ -	$ -	$ 2,192	$ -	$ 349,145	$ 351,337
1-4 Family Residential RE	95	653	143	891	98	15,757	16,746
Commercial and Industrial	-	-	-	-	4,240	43,250	47,490
Consumer	12	-	-	12	-	1,442	1,454
Total	$ 2,299	$ 653	$ 143	$ 3,095	$ 4,338	$ 409,594	$ 417,027

Non-accrual loan balances guaranteed by the SBA are $99,000, or 1.5%, and $110,000, or 2.5%, of the nonaccrual loan balances at December 31, 2022, and December 31, 2021, respectively.

Credit Quality Indicators:
The following table represents the credit exposure by internally assigned grades at December 31, 2022, and 2021. This grading analysis estimates the capability of the borrower to repay the contractual obligations of the loan agreements in accordance with the loan terms. The Bank's internal credit risk grading system is based on management's experiences with similarly graded loans. Credit risk grades are reassessed each quarter based on any recent developments potentially impacting the creditworthiness of the borrower, as well as other external statistics and factors, which may affect the risk characteristics of the respective loan. The Company uses the following definitions for risk ratings:

Pass: Strong credit with no existing or known potential weaknesses deserving of management's close attention.

Special Mention: Potential weaknesses that deserve management's close attention. Borrower and guarantor's capacity to meet all financial obligations is marginally adequate or deteriorating.

Substandard: Inadequately protected by the paying capacity of the Borrower and/or collateral pledged. The borrower or guarantor is unwilling or unable to meet loan terms or loan covenants for the foreseeable future.

Doubtful: All the weakness inherent in one classified as substandard with the added characteristic that those weaknesses in place make the collection or liquidation in full, on the basis of current conditions, highly questionable and improbable.

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Loss – Considered uncollectible or no longer a bankable asset. This classification does not mean that the asset has no recoverable value. In fact, a certain salvage value is inherent in these loans. Nevertheless, it is not practical or desirable to defer writing off a portion or whole of a perceived asset even though partial recovery may be collected in the future.

As of December 31, 2022, and 2021, based on the most recent analysis performed, the risk category of loans by class of loans was as follows (in thousands):

December 31, 2022	Pass	Special Mention	Substandard	Doubtful	Not Risk Rated	Total
Commercial Real Estate	$ 394,577	$ 3,685	$ 1,874	$ -	$ -	$ 400,136
1-4 Family Residential RE	13,536	-	659	-	-	14,195
Commercial and Industrial	47,154	378	4,621	-	-	52,153
Consumer	1,151	-	-	-	-	1,151
Total	$ 456,418	$ 4,063	$ 7,154	$ -	$ -	$ 467,635

December 31, 2021	Pass	Special Mention	Substandard	Doubtful	Not Risk Rated	Total
Commercial Real Estate	$ 349,137	$ 1,866	$ 334	$ -	$ -	$ 351,337
1-4 Family Residential RE	16,322	326	98	-	-	16,746
Commercial and Industrial	43,146	-	4,344	-	-	47,490
Consumer	1,454	-	-	-	-	1,454
Total	$ 410,059	$ 2,192	$ 4,776	$ -	$ -	$ 417,027

Impaired Loans: The following tables include the recorded investment and unpaid principal balances, net of charge-offs for impaired loans with the associated allowance amount, if applicable. Management determined the allocated allowance based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the remaining source of repayment for the loan is the operation or liquidation of the collateral. In those cases, the current fair value of the collateral, less selling costs was used to determine the allocated allowance recorded.

December 31, 2022	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment
With no related allowance recorded:				
Commercial Real Estate	$ 1,591	$ 1,591	$ -	$ 1,464
1-4 Family Residential RE	719	719	-	739
Commercial and Industrial	-	-	-	-
Consumer	-	-	-	-
With an allowance recorded:				
Commercial Real Estate	-	-	-	-
1-4 Family Residential RE	-	-	-	-
Commercial and Industrial	4,546	4,546	728	4,341
Consumer	-	-	-	-
Total	$ 6,856	$ 6,856	$ 728	$ 6,544

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES (CONTINUED)

December 31, 2021	**Unpaid Principal Balance**	**Recorded Investment**	**Allowance for Loan Losses Allocated**	**Average Recorded Investment**
With no related allowance recorded:				
Commercial Real Estate	$ -	$ -	$ -	$ -
1-4 Family Residential RE	162	162	-	162
Commercial and Industrial	-	-	-	-
Consumer	-	-	-	-
With an allowance recorded:				
Commercial Real Estate	-	-	-	-
1-4 Family Residential RE	-	-	-	-
Commercial and Industrial	4,240	4,240	210	4,319
Consumer	-	-	-	-
Total	$ 4,402	$ 4,402	$ 210	$ 4,481

Troubled Debt Restructurings: Restructured loans are considered "troubled debt restructurings" if due to the borrower's financial difficulties, the Bank has granted a concession that they would not otherwise consider. This may include a transfer of real estate or other assets from the borrower, a modification of loan terms, rates, or a combination of the two. All troubled debt restructurings placed on nonaccrual status must show no less than six months of repayment performance by the borrower in accordance with contractual terms to return to accrual status. Once a loan has been identified as a troubled debt restructuring, it will continue to be reported as such until the loan is paid in full.

In the normal course of business, the Company may modify a loan for a credit worthy borrower where the modified loan is not considered a troubled debt restructuring. In these cases, the modified terms are consistent with loan terms available to credit worthy borrowers and within normal loan pricing. The modifications to such loans are done according to existing underwriting standards which include review of historical financial statements, including current interim information if available, an analysis of the causes of the borrower's decline in performance, and projections intended to assess repayment ability going forward.

There was one troubled debt restructuring with a principal balance of $60,000 and $65,000 at December 31, 2022, and December 31, 2021, respectively.

NOTE 4 – PREMISES AND EQUIPMENT, NET

Components of premises and equipment, net included in the consolidated balance sheets at December 31, were as follows:

	2022	**2021**
Land and improvements	$ 2,170	$ 2,241
Buildings and improvements	12,439	12,146
Furniture and equipment	1,776	1,994
Total cost	16,385	16,381
Accumulated depreciation and amortization	(8,308)	(8,415)
Net book value	$ 8,077	$ 7,966

Depreciation and amortization expense was $489,000 and $472,000 for the years ended December 31, 2022, and 2021, respectively. Two Alamogordo ATM properties were sold for $50,000 in 2022. The Peoria branch was closed December 31, 2022, which resulted in the acceleration of rent expense totaling $43,000 and a loss on the disposal of fixed assets of $3,000.

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 – TIME DEPOSITS

Following are maturities of time deposits at December 31, 2022, and 2021:

Maturity	2022	2021
One year or less	$ 50,025	$ 40,180
Over one through three years	21,627	12,892
Over three through five years	1,841	1,477
Totals	$ 73,493	$ 54,549

On December 31, 2022, and 2021, the Bank had $28.9 million and $13.0 million, respectively, in time deposits of $250,000 or more. On December 31, 2022, and 2021, $22.8 million and $10.9 million, respectively, of such time deposits mature within one year.

Interest expense on time deposits in denominations of $250,000 or more amounted to $254,000 and $83,000 for the years ended December 31, 2022, and 2021, respectively.

NOTE 6 – BORROWINGS

The Bank has established a borrowing line with the FHLB of Dallas. As of December 31, 2022, the Bank had one outstanding advance totaling $5.0 million carrying and interest rate of 1.40% with a maturity date in 2023. As of December 31, 2022, loans and securities with a carrying value of $203.8 million were pledged to secure FHLB advances, with remaining availability of $198.1 million at year end.

On June 29, 2021, the Company completed a private placement of $25.0 million of 10 year, fixed-to-floating rate subordinated notes. The subordinated notes will initially bear interest at 4.00% per annum for five years, floating at Three-Month SOFR plus 328 basis points quarterly thereafter. The ten-year notes mature on July 15, 2031, and are callable at the Company's option after five years. The subordinated notes are presented net of remaining origination fees of $469,000 on December 31, 2022.

The following are maturities of outstanding borrowings as of December 31, 2022:

Maturity	
One year or less	$ 5,000
Over one through three years	0
Over three through five years	0
Over five through ten years	24,531
Totals	$ 29,531

NOTE 7 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

In the normal course of business, the Bank has outstanding commitments to extend credit and standby letters of credit which are not included in the accompanying consolidated financial statements. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Bank uses the same credit policies in making commitments as it does for instruments that are included in the consolidated balance sheets.

Financial instruments whose contract amounts represent off-balance-sheet credit risk are as follows as of December 31:

	2022	2021
Commitments to extend credit	$ 23,202	$ 39,807
Unused lines of credit	18,706	18,672
Totals	$ 41,908	$ 58,479

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee.

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK (CONTINUED)

Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation Collateral held varies by and may include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third-party. Standby letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit.

NOTE 8 – LEASES

The Bank has noncancelable operating leases that expire over the next seven years that require the payment of base lease amounts and executory costs such as taxes, maintenance, and insurance. Rental expenses for leases was \$516,000 and \$578,000 for the years ended December 31, 2022, and 2021 respectively.

Approximate future minimum rental commitments under noncancelable leases are:

2023	$ 205
2024	354
2025	360
2026	366
2027	372
2028	377
2029	383
2030	161
Total minimum lease payments	2,578
Amounts representing interest (present value discount)	(425)
Operating lease liabilities (present value of minimum lease payments)	$ 2,153
Weighted-average remaining term (in years)	7.3
Weighted-average discount rate	4.70%

NOTE 9 – EMPLOYEE RETIREMENT BENEFIT PLANS

Profit Sharing Plan: The Company has established a profit-sharing 401(k) type salary reduction plan (Plan) for all employees that meet the necessary eligibility requirements and participants are fully vested after six years of service. For Company matching contributions made for plan years prior to 2014, annual Company contributions were at the discretion of the Board of Directors. From 2014 through 2019, the Company adopted a Safe Harbor matching contribution provision, whereby it agreed to match 100% of participant's contributions up to the first 3% of salary and 50% of the next 2%, for a total maximum Company matching contribution of 4% of participant salary, as defined by the Plan. The Safe Harbor matching contribution was guaranteed. The Company elected not to adopt a safe harbor matching contribution for 2021 or 2022.

Employee Stock Ownership Plan: The ESOP covers substantially all employees that meet certain age and service requirements. Under the plan, annual retirement expense is generally defined as a percentage of employee compensation, net of forfeitures from employees who have terminated employment.

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 – EMPLOYEE RETIREMENT BENEFIT PLANS (CONTINUED)

In October 2016, the ESOP borrowed $1.5 million from the Company to purchase 150,358 shares of common stock from the Company at $10 per share. Bancorp 34 accepted a $1.8 million note from the ESOP secured by all unallocated shares in the plan with a 30-year repayment term. The principal balance includes $1.5 million used to purchase stock in 2016 and $266,000 used to pay off already outstanding ESOP loans used to purchase shares in 2012 and 2014. Principal and interest payments on the note are made every December 31 and the interest rate on the loan adjusts annually on January 1st to the prime rate of interest as published in the Wall Street Journal. The Bank makes at least annual discretionary contributions to the ESOP and the ESOP uses all funds it receives to repay the loan. When loan payments are made, ESOP shares are allocated to participants based on relative compensation for that plan year. At the discretion of the employer, participants may receive the shares, cash, or a combination of stock and cash at the end of employment.

Since the Bank is the primary source of repayment on ESOP loans, the Bank records the note payable and an equal contra-equity account on its balance sheet and interest expense and ESOP benefit plan expense on its statement of comprehensive income equal to the annual loan payments. As inter-company borrowings, all bank-recorded balance sheet items, Bancorp 34 interest income and Bank 34 interest expense on the ESOP loan are eliminated in consolidation. Bancorp 34 consolidated financial statements include a contra-equity account with a balance equal to the purchase price of all unallocated shares in the ESOP.

Shares held by the ESOP on December 31, 2022, and 2021, were as follows:

	2022	2021
Allocated shares	44,476	40,764
Unallocated shares	145,597	151,666
Total ESOP shares	190,073	192,430

The fair value of unallocated shares held by the ESOP is $1,966,000 and $2,090,000 at December 31, 2022, and 2021, respectively. ESOP expense was $338,000 and $74,000 for the years ended December 31, 2022, and 2021, respectively.

Bank 34 Employees DB Retirement Plan: Effective April 1, 2020, the Company withdrew from the Pentegra DB Plan and established the Bank 34 Employee Defined Benefit Retirement Plan (“Bank DB Plan”). On June 2, 2020, all assets and liabilities were transferred from the Pentegra DB Plan to the newly established Bank DB Plan. The Bank DB Plan is a funded noncontributory defined benefit pension plan covering 49 current and former employees. Similar to its predecessor plan, benefits available under the Bank DB Plan are frozen. The plan provides defined benefits based on years of service and final average salary. The Company uses December 31 as the measurement date for this plan. The initial plan year was April 1, 2020, through December 31, 2020. The fair value of plan assets and accumulated benefit obligation on the April 1, 2020, Bank DB Plan adoption date were $2,392,111 and $3,951,473, respectively. Accumulated other comprehensive income at December 31, 2020, included $1,346,355 which represented $1,807,189 prior service cost related to this plan net of $460,834 estimated tax benefits.

During the year ended December 31, 2022, the Company extinguished the Bank DB Plan. At December 31, 2021, the fair value of Bank DB Plan assets was $893,662, determined by significant observable inputs (Level 2), representing 84% of the $1,062,505 accumulated benefit obligation. The defined obligation at December 31, 2021, of $163,000 is included in Accrued Interest and Other Liabilities on the Consolidated Balance Sheet.

Deferred Compensation and Director’s Fee Plans: A deferred compensation plan covers all senior officers and a deferred director’s fee plan covers all directors. Under these plans, the company pays each participant that elects to defer, or their beneficiary, the amount deferred plus interest over a pre-selected period up to 10 years, beginning with the participant’s termination of service. A liability is accrued monthly for the deferred amount plus interest earned. The interest rate on deferred balances is determined annually on January 1st at the greater of Wall Street Journal Prime or 5%, and was 5% for the years ended December 31, 2022, and 2021. Interest expense for the deferred plans was $97,000 and $95,000, for the years ended December 31, 2022, and 2021, respectively. Deferred plan liabilities, included in accrued interest and other liabilities on the consolidated balance sheet, were $1,949,000 and $1,946,000, as of December 31, 2022, and 2021, respectively.

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 – BOARD OF DIRECTORS' RETIREMENT POLICY

The Board previously had a deferred compensation policy (Policy) to compensate Board members for their service to the Company. The retirement date for directors was the later of the last month in which they reached age 70 or completion of their term if they were elected to the Board during the annual meeting resulting in service beyond age 70. Upon retirement, Board members receive deferred compensation for the remainder of their life up to a maximum of $2,000 per month. Board members vested in the Policy based on service as follows: zero to four years of service (20%), five years of service (40%), six years of service (60%), seven years of service (80%) and eight years of service (100%). On September 21, 2011, the Board rescinded this retirement policy for current directors.

The total liability for the combined policies and agreements was $256,000 and $245,000 at December 31, 2022, and 2021, respectively.

NOTE 11 – INCOME TAXES

Income tax provision consists of the following (in thousands):

	2022	2021
Current		
Federal	$ 948	$ 1,184
State	72	314
Deferred benefit	(24)	(630)
Total income tax provision	$ 996	$ 868

Income tax expense from continuing operations differs from the amounts computed by applying the federal income tax rate of 21% in 2022 and 2021, to earnings before federal income tax expense. These differences are primarily caused by state income taxes, net of federal tax benefit, income that is not taxable for federal and state income tax purposes, expenses that are not deductible for tax purposes and tax adjustments related to prior federal income tax returns.

Income tax provision calculated at the statutory federal income tax rate of 21% for 2022 and 2021, differs from actual income tax provision as follows (in thousands):

	2022	2021
Income tax at statutory rate	$ 1,052	$ 896
Benefit from permanent differences:		
Earnings on life insurance assets	(50)	(65)
State income taxes, net of Federal tax benefit	27	46
Other items, net	(33)	(9)
Totals	$ 996	$ 868

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 – INCOME TAXES (CONTINUED)

Deferred tax assets and liabilities consist of the following at December 31 (in thousands):

	2022	2021
Deferred tax assets:		
Allowance for loan losses	$ 1,506	$ 1,314
Net operating loss carryforwards	630	683
Deferred compensation	549	654
Accrued bonus	335	333
Lease liability	536	115
Unrealized losses on AFS securities	2,317	-
Other, net	199	242
Total deferred tax assets	6,072	3,341
Deferred tax liabilities:		
Unrealized gains on AFS securities	-	(127)
Loan origination costs	(196)	(240)
Depreciation	(515)	(100)
Right-of-use asset	(139)	(105)
FHLB stock dividends	(11)	(26)
Total deferred tax liabilities	(861)	(598)
Net deferred tax assets included in other assets	$ 5,211	$ 2,743

A valuation allowance for deferred tax assets is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and tax planning strategies which will create taxable income during the periods in which those temporary differences become deductible. Management considered the scheduled reversal of deferred tax liabilities, projected future taxable income, net operating loss carry-back potential, and tax planning strategies in making this assessment. Based upon the Company's assessment of all available evidence, management determined it was more likely than not that the net deferred tax asset would be realized at December 31, 2022.

At December 31, 2022, the Company had federal operating loss carry-forwards of approximately $3.0 million, all of which are subject to Internal Revenue Code ("IRC") Section 382 limitations, which limit the annual use of acquired losses to $250,000 per year, and begin to expire in 2028. At December 31, 2022, the Company has recorded deferred tax assets of $630,000 related to the Federal net operating loss carry-forwards.

It is the Company's policy to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. As of December 31, 2022, and 2021, there were no material uncertain tax positions related to federal and state income tax matters. The Company does not expect the amounts of unrecognized tax benefits to significantly increase or decrease within the next 12 months.

The Company files consolidated U.S. federal and various state income/franchise tax returns. The Company is no longer subject to examination by U.S. federal taxing authorities for years before 2019 and is no longer subject to examination by state taxing authorities for years before 2016. Our federal and state tax returns have not been audited for the past seven years.

NOTE 12 – REGULATORY MATTERS

Bank 34 is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and 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 involving quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts, and classification are also subject to qualitative judgments by the regulators about components, risk-weightings, and other factors.

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 – REGULATORY MATTERS (CONTINUED)

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total risk-based capital and Tier 1 capital to risk-weighted assets, and Tier 1 capital to adjusted total assets. Management believes, as of December 31, 2022, and 2021, the Bank meets all capital adequacy requirements to which it is subject.

Banks are also subject to certain restrictions on the dollar amount of dividends that they may declare without prior regulatory approval.

As of December 31, 2022, the Bank was categorized as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank has to maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as disclosed in the table below. There are no conditions or events that management believes have changed the Bank's prompt corrective action category. The Bank has not opted into the Community Bank Leverage Ratio ("CBLR") and therefore is required to continue calculating and reporting risk-based capital ratios.

The Bank's actual and required capital amounts and ratios are as follows (in thousands):

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
2022						
Total Capital to risk-weighted assets:	$ 67,625	14.06%	$ 38,481	8%	$ 48,102	10%
Tier 1 (Core) Capital to risk weighted assets:	$ 61,612	12.81%	$ 28,861	6%	$ 38,481	8%
Common Tier 1 Capital to risk weighted assets (CET1):	$ 61,612	12.81%	$ 21,646	4.50%	$ 31,266	6.50%
Tier 1 (Core) Capital to average assets:	$ 61,612	10.59%	$ 23,268	4%	$ 29,085	5%

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
2021						
Total Capital to risk-weighted assets:	$ 61,742	14.08%	$ 35,081	8%	$ 43,851	10%
Tier 1 (Core) Capital to risk weighted assets:	$ 56,414	12.86%	$ 26,321	6%	$ 35,094	8%
Common Tier 1 Capital to risk weighted assets (CET1):	$ 56,414	12.86%	$ 19,741	4.50%	$ 28,514	6.50%
Tier 1 (Core) Capital to average assets:	$ 56,414	10.90%	$ 23,978	4%	$ 29,973	5%

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 – RELATED-PARTY TRANSACTIONS

The Bank periodically enters into transactions with its executive officers, directors, significant stockholders, and their affiliates (related parties). Transactions with such related parties included:

	2022	2021
Fees and bonuses paid to directors during the period	$ 231	$ 255
Deposits from related parties held by the bank at the end of period	4,568	4,284

There were no loans to related parties in 2022 or 2021.

NOTE 14 – STOCK-BASED COMPENSATION

Stock-based expense for the years ended December 31, 2022, and 2021, was $213,000 and $278,000, respectively.

The Company accounts for forfeitures when they occur by reversing any previously accrued compensation expense on forfeited options in accordance with ASC 718, *Compensation – Stock Compensation.*

On November 17, 2017, the shareholders approved the adoption of the 2017 Equity Incentive Plan ("2017 Plan"). The 2017 Plan provides for the grant of a maximum of 263,127 shares of the Company's common stock of which up to 187,948 shares of common stock may be granted for stock options and 75,179 shares of common stock may be issued as restricted stock to Directors and employees of the Company. Stock options and restricted stock awards currently issued under the 2017 Plan vest at 20% per year beginning on the first anniversary of date of grant and the options expire seven years after the grant date.

On May 25, 2022, the shareholders approved the adoption of the 2022 Equity Incentive Plan ("2022 Plan"). The 2022 Plan provides for the grant of a maximum of 252,340 shares of the Company's common stock of which up to 168,227 shares of common stock may be issued as restricted stock and 84,113 shares of common stock may be granted for stock options to Directors and employees of the Company. The Board of Director's compensation committee specifies the vesting schedules for the restricted stock and options. Option expiration dates are flexible as well but cannot exceed ten years from the grant date. No restricted stock or stock options have been granted under the 2022 plan.

The stock option plans allow for net settlement of vested options. In a net settlement, the Company, at the direction of the optionee, net settles the options by issuing new shares to the optionee with a value, at the current per share trading price, equal to the total in-the-money or intrinsic value of the options less any necessary tax withholdings on the disqualifying disposition of Incentive Stock Options. The optionee is granted newly issued shares and a small amount of cash in lieu of partial shares. There was one net settlement in 2022 and none in 2021.

In 2022, 15,000 stock options were granted and 9,500 shares of restricted stock were issued under the 2017 plan. In 2021, 6,500 stock options and 2,500 shares of restricted stock were issued. Stock option grant-date fair values for 2022 and 2021 were computed using the Black Scholes Merton options pricing model with the following weighted-average inputs and assumptions:

	2022	2021
Grant date stock price and exercise price	$ 15.80	$ 12.19
Dividend yield	2.48%	1.64%
Expected stock price volatility	23.59%	33.89%
Risk-free interest rate	2.17%	0.96%
Expected option life in years	6	6
Total weighted-average fair value of options granted	$ 3.00	$ 3.40

Historical data is used to estimate expected volatility and the term of options expected to be outstanding and takes into account that options are not transferable. The risk-free interest rate is based on the U.S. Treasury yield curve for the expected term in effect at the date of grant.

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 14 – STOCK-BASED COMPENSATION (CONTINUED)

A summary of stock option activity in 2022 is presented below (Intrinsic Value in 000s):

	Shares Subject to Options		Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term		Aggregate Intrinsic Value
Outstanding at beginning of year	163,600	$	13.94	3.6 years		118
Granted	15,000		15.80			
Exercised	(13,200)		14.90			
Forfeited or expired	(21,380)		13.81			
Outstanding at end of year	144,020	$	14.07	2.8 years	$	95
Exercisable at year-end	118,020	$	14.45	2.2 years	$	39

Information related to stock option exercises during each year is as follows (in 000s):

		2022		2021
Intrinsic value of options exercised	$	17	$	-
Cash received from options exercised	$	-	$	-
Tax benefit realized from options exercised	$	15	$	-

A summary of restricted stock activity for the year ended December 31, 2022, is presented below:

	Shares		Weighted-Average Grant Date Fair Value	Average Remaining Contractual Term
Non-vested on January 1, 2022	12,774	$	14.02	2.0 years
Granted	9,500		14.92	
Vested	(8,335)		14.75	
Forfeited	(7,439)		13.13	
Non-vested on December 31, 2022	6,500	$	14.89	4.1 years

As of December 31, 2022, there was $70,000 and $80,000 of total unrecognized equity-based expense related to unvested stock options and restricted stock awards, respectively, granted under the 2017 Equity Incentive Plan that is expected to be recognized over the next 5 years as follows (in 000s):

Year		
2023	$	41
2024		41
2025		38
2026		26
2027		4
Totals	$	150

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 15 – FAIR VALUE INFORMATION

The following table presents information about assets and liabilities measured at fair value on a recurring and non-recurring basis and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair values as of December 31.

December 31, 2022	**Quoted Prices in Active Markets for Identical Assets Level 1**	**Significant Other Observable Inputs Level 2**	**Significant Unobservable Inputs Level 3**	**Fair Value**
Recurring:				
Assets:				
Securities available-for-sale:				
Mortgage-backed securities	$ -	$ 34,532	$ -	$ 34,532
U.S. Treasuries	-	2,717	-	2,717
U.S. Government Agencies	-	370	-	370
Municipal obligations	-	20,151	-	20,151
Corporate debt	-	812	-	812
Total available-for-sale:	$ -	$ 58,582	$ -	$ 58,582
Nonrecurring basis:				
Impaired loans	$ -	$ -	$ 6,856	$ 6,856

December 31, 2021	**Quoted Prices in Active Markets for Identical Assets Level 1**	**Significant Other Observable Inputs Level 2**	**Significant Unobservable Inputs Level 3**	**Fair Value**
Recurring:				
Assets:				
Securities available-for-sale:				
Mortgage-backed securities	$ -	$ 39,254	$ -	$ 39,254
U.S. Treasuries	-	3,051	-	3,051
U.S. Government Agencies	-	592	-	592
Municipal obligations	-	24,035	-	24,035
Corporate debt	-	984	-	984
Total available-for-sale:	$ -	$ 67,916	$ -	$ 67,916
Nonrecurring basis:				
Impaired loans	$ -	$ -	$ 4,402	$ 4,402

The fair values of certain of these instruments were calculated by discounting expected cash flows, which involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Bank does not know whether the fair values shown represent values at which the respective financial instruments could be sold individually or in the aggregate.

There were no transfers between levels of the fair value hierarchy during the years ended December 31, 2022, or 2021.

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 15 – FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table presents the significant unobservable inputs used in the fair value measurements for Level 3 financial assets measured on a non-recurring basis:

December 31, 2022	Fair Value	Valuation Methodologies	Valuation Model	Unobservable Input Valuation
Impaired loans				
Commercial and Industrial	$ 4,546	Appraisal	Appraisal Discount/Estimated Selling Costs	18-50%
Commercial Real Estate	1,591	Appraisal	Appraisal Discount/Estimated Selling Costs	18%
1-4 Family residential RE	719	Appraisal	Appraisal Discount/Estimated Selling Costs	0-18%
Total Impaired loans	$ 6,856			

December 31, 2021	Fair Value	Valuation Methodologies	Valuation Model	Unobservable Input Valuation
Impaired loans				
Commercial and Industrial	$ 4,240	Appraisal	Appraisal Discount/Estimated Selling Costs	17-18%
1-4 Family residential RE	162	Appraisal	Appraisal Discount/Estimated Selling Costs	17-18%
Total Impaired loans	$ 4,402			

The estimated fair values of the Company's consolidated financial instruments at year-end are as follows (in thousands):

	Fair Value Hierarchy	2022 Carrying Amount	2022 Fair Value	2021 Carrying Amount	2021 Fair Value
Financial assets:					
Cash and due from banks	Level 1	$ 16,410	$ 16,410	$ 7,231	$ 7,231
Federal funds sold	Level 2	835	835	8,270	8,270
Securities available-for-sale	Level 2	58,582	58,582	67,916	67,916
Securities held-to-maturity	Level 2	5,832	5,432	5,365	5,365
Loans, net of allowance for loan losses	Level 3	460,222	424,842	410,296	413,964
Stock in financial institution	Level 2	1,277	1,277	1,786	1,786
Financial liabilities :					
Deposits	Level 1	$ (414,274)	$ (364,810)	$ (383,233)	$ (377,284)
Time Deposits	Level 2	(73,493)	(73,493)	(54,549)	(54,769)
FHLB Advances	Level 2	(5,000)	(5,292)	(19,000)	(19,073)
Subordinated debentures	Level 3	(24,531)	(21,728)	(24,447)	(24,884)

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 16 – EARNINGS PER SHARE

The two-class method is used in the calculation of basic and diluted earnings per share. Under the two-class method, earnings available to common shareholders for the period are allocated between common shareholders and participating securities according to dividends declared (or accumulated) and participation rights in undistributed earnings. The factors used in the earnings per share computation follow:

	Years ended December 31, 2022	2021
Basic:		
Net income (in 000s)	$ 4,015	$ 3,400
Less: Earnings allocated to participating securities (in 000s)	(34)	(27)
Net income allocated to common shareholders (in 000s)	3,981	3,373
Weighted-average common shares outstanding including participating securities	2,529,436	2,889,138
Less: Average participating securities	(19,579)	(21,676)
Less: Average unallocated ESOP shares	(151,187)	(151,929)
Average Shares	2,358,670	2,715,533
Basic Earnings Per Common Share	$ 1.69	$ 1.24
Diluted:		
Net income allocated to common shareholders (in 000s)	$ 3,981	$ 3,373
Weighted-average common shares outstanding for basic earnings per common share	2,358,670	2,715,533
Add: Dilutive effects of assumed exercises of stock options	8,356	5,589
Add: Dilutive effects of assumed exercises of warrants	4,451	-
Weighted-average shares and dilutive potential common shares	2,371,477	2,721,123
Diluted Earnings Per Common Share	$ 1.68	$ 1.24

Participating securities are restricted stock awards and preferred stock since they participate in common stock dividends. Stock options for 118,000 and 127,000 shares of common stock were not considered in computing diluted earnings per common share for 2022 and 2021, because they were antidilutive.

NOTE 17 – PRIVATE PLACEMENT OF COMMON AND PREFERRED STOCK

On December 30, 2022, the Company entered into Securities Purchase Agreements (“Agreement”) with both Castle Creek Capital Fund VIII, L.P. (“Castle Creek”) and Alliance Bernstein L.P. (“Alliance Bernstein”), pursuant to which the Company sold Castle Creek: (i) 299,580 shares of the Company’s common stock, par value $0.01 per share, at a purchase price of $14.00 per share (the “Common Stock”); (ii) 521,849 shares of Series A convertible perpetual preferred stock, par value $0.01 per share, at a purchase price of $14.00 per share (“Series A Preferred Stock”); and sold Alliance Bernstein 181,734 shares of Common Stock, at a purchase price of $14.00 per share. The private placement transaction (the “Private Placement”) resulted in gross proceeds of approximately $14 million. The Agreement contains significant representations, warranties, and covenants between the Company and each purchaser. In addition, 30,094 shares of Common Stock were issued as payment for a portion of the placement fees.

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 17 – PRIVATE PLACEMENT OF COMMON AND PREFERRED STOCK (CONTINUED)

In conjunction with the Agreement, the Company issued warrants to Castle Creek to purchase up to 82,142 shares of Common Stock and Alliance Bernstein to purchase up to 18,173 shares of Common Stock at a price of $14.00. The warrants have an approximate fair value of $245,000 at the date of grant. The Warrants are exercisable at any time after December 30, 2022, and from time to time, in whole or in part, until December 30, 2029. However, the exercise of such Warrants remains subject to certain contractual provisions and a "cashless exercise" may be executed.

In total, the Company issued 511,408 shares of Common Stock, 521,849 shares of Series A Preferred Stock and 100,315 Warrants related to the Agreement. Cash received, net of issuance expenses, was $13.6 million. Issuance expenses include placement fees and due diligence costs of $447,000 and $79,000, respectively The Company will use the net proceeds to fund organic growth, transact on potential acquisition opportunities, enter complementary new business lines, and to enhance capital ratios.

On December 30, 2022, the Company filed Articles Supplementary with the Maryland Department of Assessments and Taxation to issue 1,100,000 shares of Series A Preferred Stock. Each share of the Series A Preferred Stock will be convertible on a one-for-one basis into either (i) Common Stock under certain circumstances, or (ii) non-voting common stock, par value $0.01 per share, subject to approval of the creation of such class of non-voting common stock by the Company's stockholders. Holders of the Series A Preferred Stock will be entitled to receive dividends if declared by the Company's Board of Directors, in the same per share amount as paid on the Common Stock. The Series A Preferred Stock will rank, as to payments of dividends and distribution of assets upon dissolution, liquidation or winding up of the Company, pari passu with the Common Stock pro rata. Holders of Series A Preferred Stock will have no voting rights except as may be required by law.

Pursuant to the terms of the Agreement, Castle Creek is entitled to have one representative appointed to the Company's Board of Directors for so long as Castle Creek, together with its respective affiliates, owns, in the aggregate, 4.9% or more of Common Stock outstanding.

NOTE 18 – SUBSEQUENT EVENTS

Loan Charge Off: Subsequent to year end, the Company incurred a $2.9 million loss on a $4.3 million commercial loan. At December 31, 2022, the loan was classified impaired with a specific reserve of $629,000. The loan's underlying collateral was impacted by first quarter events requiring further impairment from the amounts recorded at December 31, 2022.

Capital Raise: On January 28, 2023, the Company completed the second round of the capital raise through private placement. The terms of the raise were similar to the first round of the raise described in Note 17. Common shares issued totaled 848,089 (32,806 of which was issued as a portion of the payment for placement fees), non-voting preferred shares issued totaled 298,266, and warrants issued to purchase additional shares at $14.00 per share totaled 111,352. The warrants are exercisable in whole, or in part, anytime in the future until January 28, 2030. Cash received, net of issuance expense, totaled $15.0 million.