

BANCORP 34, INC.

FORM 10-Q (Quarterly Report)

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Address	500 EAST 10TH STREET SUITE 100 ALAMOGORDO, NM, 88310
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2024

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number 001-39068

BANCORP 34, INC.

(Exact name of registrant as specified in its charter)

Maryland

333-273901

74-2819148

(State or other jurisdiction
of incorporation)

(Commission File Number)

(IRS Employer Identification No.)

**8777 E. Hartford Drive, Suite 100
Scottsdale, Arizona 85255**

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (623) 334-6064

Not Applicable

(Former name or former address, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Non-accelerated Filer	<input checked="" type="checkbox"/>
Smaller reporting company	<input checked="" type="checkbox"/>	Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of May 15, 2024, the registrant had 6,609,428 shares of common stock, par value \$0.01 per share, issued and outstanding.

BANCORP 34, INC.
Quarterly Report on Form 10-Q
March 31, 2024

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Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements are not statements of historical or current fact nor are they assurances of future performance and generally can be identified by the use of forward-looking terminology, such as “believe,” “expect,” “anticipate,” “intend,” “target,” “estimate,” “continue,” “positions,” “plan,” “predict,” “project,” “forecast,” “guidance,” “goal,” “objective,” “prospects,” “possible” or “potential,” by future conditional verbs such as “assume,” “will,” “would,” “should,” “could” or “may,” or by variations of such words or by similar expressions. These forward-looking statements include, but are not limited to, statements related to our belief that sources of available liquidity are adequate to meet our current and expected liquidity needs, our plans to meet future cash needs through the generation of deposits, and statements regarding our business plan and strategies. These forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time, are difficult to predict and are generally beyond our control.

There are or will be important factors that could cause our actual results to differ materially from those indicated in these forward-looking statements, including, but not limited to, the following:

- the possibility that the anticipated benefits of our recently completed merger (the “merger”) with CBOA Financial, Inc. (“CBOA”), including anticipated cost savings and strategic gains, are not realized when expected or at all, including as a result of the impact of, or problems arising from, the integration of the two companies or as a result of the strength of the economy, competitive factors in the areas where the Company and CBOA do business or as a result of other unexpected factors or events;
- the impact of purchase accounting with respect to the merger, or any change in the assumptions used regarding the assets purchased and liabilities assumed to determine their fair value;
- diversion of management’s attention from ongoing business operations and opportunities;
- potential adverse reactions or changes to business or employee relationships, including those resulting from the completion of the merger;
- the integration of the business and operations of CBOA, which may take longer than anticipated or be more costly than anticipated or have unanticipated adverse results relating to CBOA’s existing business;
- challenges retaining or hiring key personnel;
- business disruptions resulting from or following the merger;
- the outcome of pending or threatened litigation or of matters before regulatory agencies, whether currently existing or commencing in the future, including litigation related to the merger;
- increased capital requirements, other regulatory requirements or enhanced regulatory supervision;
- the inability to grow revenue and earnings;
- the inability to efficiently manage operating expenses;
- changes in interest rates and capital markets;
- changes in asset quality and credit risk;
- changes in deposit costs and liquidity risk;
- adverse changes in economic conditions;
- customer borrowing, repayment, investment and deposit practices;
- the impact, extent and timing of technological changes;
- changes in legislation, regulation, policies or administrative practices, whether by judicial, governmental or legislative action, including, but not limited to, the Coronavirus Aid, Relief, and Economic Security Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, which we refer to as the Dodd-Frank Act, and other changes pertaining to banking, securities, taxation, rent regulation and housing, financial accounting and reporting, environmental protection and insurance, and the ability to comply with such changes in a timely manner;
- changes in the monetary and fiscal policies of the U.S. Government, including policies of the U.S. Department of the Treasury and the Federal Reserve;
- changes in interest rates, which may affect the Company’s net income and other future cash flows, or the market value of the Company’s assets, including its investment securities;
- changes in accounting principles, policies, practices or guidelines;
- failure to attract new customers and retain existing customers in the manner anticipated;
- any interruption or breach of security resulting in failures or disruptions in customer account management, general ledger, deposit, loan or other systems;
- the adverse effects of events beyond each party’s control that may have a destabilizing effect on financial markets and the economy, such as epidemics and pandemics, war or terrorist activities, essential utility outages, deterioration in the global economy, instability in the credit markets, disruptions in each party’s customers’ supply chains or disruption in transportation; and
- other actions of the Federal Reserve and legislative and regulatory actions and reforms.

We caution readers that the foregoing list of factors is not exclusive, is not necessarily in order of importance and readers should not place undue reliance on any forward-looking statements. You should also consider the risks, assumptions and uncertainties set forth in the “Risk Factors” section of our 2023 Annual Report on Form 10-K. Further, any forward-looking statement speaks only as of the date on which it is made, and we do not intend to and disclaim any obligation to update or revise any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events, unless required to do so under the federal securities laws.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

BANCORP 34, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	(Unaudited) March 31, 2024	December 31, 2023
ASSETS		
Cash and due from banks	\$ 66,234	\$ 27,182
Federal funds sold	6,510	1,715
Total cash and cash equivalents	<u>72,744</u>	<u>28,897</u>
Available-for-sale securities, at fair value	102,226	56,690
Held-to-maturity securities, at amortized cost, net of allowance for credit losses	5,645	5,684
Loans held for investment	750,307	457,027
Allowance for credit losses	<u>(10,675)</u>	<u>(5,860)</u>
Loans held for investment, net	739,632	451,167
Other real estate owned	—	3,000
Premises and equipment, net	8,875	7,350
Operating leases right-of-use assets	4,599	1,819
Other investments	6,097	4,063
Accrued interest receivable	2,961	1,597
Deferred income tax asset, net	9,086	4,884
Bank owned life insurance	11,915	11,847
Core deposit intangible, net	8,868	—
Prepaid and other assets	7,531	4,267
Total assets	<u>\$ 980,179</u>	<u>\$ 581,265</u>

See accompanying notes to unaudited consolidated financial statements.

BANCORP 34, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except par value data)

LIABILITIES AND STOCKHOLDERS' EQUITY

	(Unaudited) March 31, 2024	December 31, 2023
LIABILITIES		
Deposits		
Demand deposits	\$ 220,201	\$ 88,091
Savings and NOW deposits	371,080	243,505
Time deposits	215,125	128,403
Total deposits	<u>806,406</u>	<u>459,999</u>
Federal Reserve Bank BTFP Advances	49,000	29,000
Subordinate debt, net of issuance costs	23,108	24,595
Subordinated debentures, trust preferred securities	4,145	—
Escrows	274	168
Operating lease liabilities	5,202	2,011
Accrued interest and other liabilities	9,845	4,771
Total liabilities	<u>897,980</u>	<u>520,544</u>
STOCKHOLDERS' EQUITY		
Common stock, \$0.01 par value		
Authorized: 100,000,000 shares, including 1,100,000 shares of non-voting common stock		
Voting common stock, \$0.01 par value		
Issued and outstanding: 6,616,152 and 3,873,895 on March 31, 2024, and December 31, 2023, respectively	66	39
Non-voting common stock, \$0.01 par value		
Issued and outstanding: 820,115 and 820,115 on March 31, 2024, and December 31, 2023, respectively	8	8
Additional paid-in capital	66,577	43,279
Retained earnings	22,762	24,301
Accumulated other comprehensive loss	(5,883)	(5,560)
Unearned Employee Stock Ownership Plan (ESOP) shares	(1,331)	(1,346)
Total stockholders' equity	<u>82,199</u>	<u>60,721</u>
Total liabilities and stockholders' equity	<u>\$ 980,179</u>	<u>\$ 581,265</u>

See accompanying notes to unaudited consolidated financial statements.

BANCORP 34, INC.
CONSOLIDATED STATEMENTS OF (LOSS) INCOME (Unaudited)
(Dollars in thousands, except per share data)

	Three Months Ended March 31,	
	2024	2023
Interest and dividend income:		
Interest and fees on loans	\$ 6,890	\$ 6,110
Interest on securities	470	417
Interest on other interest-earning assets	560	138
Total interest income	7,920	6,665
Interest expense:		
Interest on deposits	3,612	2,201
Interest on borrowings	643	395
Total interest expense	4,255	2,596
Net interest income	3,665	4,069
Provision (benefit) for credit losses	3,916	(1)
Net interest (loss) income after provision for credit losses	(251)	4,070
Noninterest income:		
Service charges on deposit accounts	91	96
Bank owned life insurance	68	59
Loss on sale of other real estate owned	(432)	—
Preliminary bargain purchase gain on the merger (Note 2)	5,136	—
Other income	3	3
Total noninterest income	4,866	158
Noninterest expense:		
Salaries and employee benefits	2,525	2,103
Occupancy	421	258
Data processing	742	617
FDIC and other insurance expense	96	64
Professional Fees	542	267
Merger Costs	3,348	—
Advertising	11	20
Other expenses	472	297
Total noninterest expense	8,157	3,626
(Loss) income before provision for income taxes	(3,542)	602
(Benefit from) provision for income taxes	(2,003)	158
Net (loss) income	<u>\$ (1,539)</u>	<u>\$ 444</u>
Earnings per share:		
Basic	\$ (0.31)	\$ 0.11
Diluted	\$ (0.31)	\$ 0.11

See accompanying notes to unaudited consolidated financial statements.

BANCORP 34, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (Unaudited)
(Dollars in thousands)

	Three Months Ended	
	March 31,	
	2024	2023
Net (loss) income	\$ (1,539)	\$ 444
Other comprehensive (loss) gain:		
Unrealized holding (losses) gains on securities available for sale	(427)	1,300
Tax effect	105	(374)
Comprehensive (loss) income	\$ (1,861)	\$ 1,370

See accompanying notes to unaudited consolidated financial statements.

BANCORP 34, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Unaudited)
(Dollars in thousands, except share data)

	Shares			Balances								Total
	Voting Common Shares	Non-voting Common Shares	Series A Preferred Shares	Voting Common Stock	Non-voting Common Stock	Series A Preferred Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net	Unearned ESOP Shares		
BALANCE, JANUARY 1, 2023	3,032,606	—	521,849	\$ 30	\$ —	\$ 5	\$ 28,369	\$ 29,013	\$ (6,773)	\$ (1,406)	\$49,238	
Cumulative adjustment for day one adoption of ASU 2016-13, net of tax	—	—	—	—	—	—	—	(654)	—	—	(654)	
BALANCE, JANUARY 1, 2023 (as adjusted for the adoption of ASU 2016-13)	<u>3,032,606</u>	<u>—</u>	<u>521,849</u>	<u>\$ 30</u>	<u>\$ —</u>	<u>\$ 5</u>	<u>\$ 28,369</u>	<u>\$ 28,358</u>	<u>\$ (6,773)</u>	<u>\$ (1,406)</u>	<u>\$48,583</u>	
Net income	—	—	—	—	—	—	—	444	—	—	444	
Other comprehensive income on AFS securities, net of tax	—	—	—	—	—	—	—	—	926	—	926	
Amortization of equity awards	—	—	—	—	—	—	16	—	—	15	31	
Share repurchase	(15,000)	—	—	—	—	—	(210)	—	—	—	(210)	
Issuance of common stock, net of costs	848,089	—	—	8	—	—	10,858	—	—	—	10,866	
Issuance of Series A preferred stock, net of costs	—	—	298,266	—	—	3	4,173	—	—	—	4,176	
Dividends	—	—	—	—	—	—	—	(328)	—	—	(328)	
BALANCE, MARCH 31, 2023	<u>3,865,695</u>	<u>—</u>	<u>820,115</u>	<u>\$ 39</u>	<u>\$ —</u>	<u>\$ 8</u>	<u>\$ 43,205</u>	<u>\$ 28,474</u>	<u>\$ (5,847)</u>	<u>\$ (1,391)</u>	<u>\$64,488</u>	
BALANCE, JANUARY 1, 2024	3,873,895	820,115	—	\$ 39	\$ 8	\$ —	\$ 43,279	\$ 24,301	\$ (5,560)	\$ (1,346)	\$60,721	
Net loss	—	—	—	—	—	—	—	(1,539)	—	—	(1,539)	
Other comprehensive loss on AFS securities, net of tax	—	—	—	—	—	—	—	—	(323)	—	(323)	
Amortization of equity awards	—	—	—	—	—	—	15	—	—	15	30	
Issuance of common stock for the Merger, (Note 2)	<u>2,742,257</u>	<u>—</u>	<u>—</u>	<u>27</u>	<u>—</u>	<u>—</u>	<u>23,283</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>23,310</u>	
BALANCE, MARCH 31, 2024	<u>6,616,152</u>	<u>820,115</u>	<u>—</u>	<u>\$ 66</u>	<u>\$ 8</u>	<u>\$ —</u>	<u>\$ 66,577</u>	<u>\$ 22,762</u>	<u>\$ (5,883)</u>	<u>\$ (1,331)</u>	<u>\$82,199</u>	

See accompanying notes to unaudited consolidated financial statements.

BANCORP 34, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(Dollars in thousands)

	Three months ended March,	
	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	\$ (1,539)	\$ 444
Adjustments to reconcile net (loss) income to net cash used in operating activities		
Depreciation and amortization	189	133
Stock dividends on other investments	—	(32)
Amortization of premiums and discounts on securities, net	74	65
Amortization of equity awards	30	31
Loss on sale other real estate owned	432	—
Provision for credit losses	3,916	(1)
Net appreciation on bank-owned life insurance	(68)	(59)
Deferred income tax (benefit) expense	(839)	(1)
Preliminary bargain purchase gain from CBOA Financial, Inc. merger	(5,136)	—
Accretion of discount on loans	(309)	—
Core deposit intangible amortization	62	—
Changes in operating assets and liabilities:		
Accrued interest receivable	214	62
Prepaid and other assets	(1,705)	898
Accrued interest and other liabilities	3,435	(781)
Net cash (used in) provided by operating activities	<u>(1,244)</u>	<u>759</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
CBOA Financial, Inc. merger, cash acquired	30,927	—
Proceeds from calls, sales, maturities, or principal payments on available-for-sale securities	8,354	1,971
Purchases of available-for-sale securities	—	—
Purchases of held-to-maturity securities	—	—
Net (purchase) redemptions of other investments	(184)	(956)
Net change in loans held for investment	18,878	(8,650)
Proceeds from sale of other real estate owned	2,568	—
Proceeds from disposals of premises and equipment	—	—
Purchases of premises and equipment	(100)	(38)
Net cash provided by (used in) investing activities	<u>60,443</u>	<u>(7,673)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	(352)	(26,763)
Proceeds from Federal Home Loan Bank advances	—	110,399
Repayments of Federal Home Loan Bank advances	—	(98,399)
Proceeds from Federal Reserve advances	—	—
Repayments of Federal Reserve advances	(15,000)	—
Common stock repurchases	—	(210)
Common stock issuance, net	—	10,866
Preferred stock issuance, net	—	4,176
Payment of dividends	—	(328)
Net cash (used in) financing activities	<u>(15,352)</u>	<u>(259)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	43,847	(7,173)
CASH AND CASH EQUIVALENTS, beginning of period	<u>28,897</u>	<u>16,947</u>
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 72,744</u>	<u>\$ 9,774</u>
SUPPLEMENTAL DISCLOSURES		
Interest on deposits and borrowings paid	\$ 4,270	\$ 2,443

See accompanying notes to unaudited consolidated financial statements.

BANCORP 34, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2024

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Bancorp 34, Inc. (“Bancorp 34” or the “Company”) is a Maryland corporation organized in 2016 and owns 100% of Southwest Heritage Bank (formerly Bank 34) (the “Bank”) and CBOA Financial Statutory Trust #1. On March 19, 2024, Bancorp 34 acquired CBOA Financial, Inc. (“CBOA”). Immediately following the acquisition, CBOA’s wholly-owned subsidiary, Commerce Bank of Arizona, was merged with and into Bancorp 34’s wholly-owned subsidiary, Bank 34, a federally chartered stock covered savings association. Bank 34 was subsequently rebranded as Southwest Heritage Bank. Also, as part of the acquisition of CBOA, the company acquired CBOA Financial Statutory Trust #1, a trust formed by CBOA in November 2005 to close a pooled private offering of 5,000 trust preferred securities with a liquidation amount of \$1,000 per security. Southwest Heritage Bank provides a variety of banking services to individuals and businesses through its eight full-service community bank branches, three in Maricopa County, Arizona, in the cities of Scottsdale and Gilbert; three in Pima County, Arizona, in the cities of Tucson and Green Valley; one branch in Otero County, New Mexico in the city of Alamogordo; and one branch in Dona Ana County New Mexico, in the city of Las Cruces.

Basis of presentation – The unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and may not include all the information required by U.S. generally accepted accounting principles (“GAAP”) for complete financial statements and related footnote disclosures although the Company believes that the disclosures made are adequate to make the information not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s 2023 Annual Report on Form 10-K.

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 the 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 credit losses, the fair value marks used in accounting for the acquisition of CBOA and estimating the effective tax rate for the Company for 2024 in full. The Company holds collateral dependent loans that are categorized as level three investments and are valued on a nonrecurring basis using unobservable inputs further described in Note 14.

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 may be required to maintain reserve funds in cash or on deposit with the Federal Reserve Bank. No reserves were required at March 31, 2024 and December 31, 2023.

Securities – If management has the intent and the Company has the ability at the time of purchase to hold securities until maturity, they are classified as held-to-maturity and carried at amortized historical cost less the allowance for credit losses. Securities to be held for an undeterminable period of time and not intended to be held until maturity are classified as available-for-sale and carried at fair value, with unrealized gains and losses reported in other comprehensive income or loss, net of tax. Securities classified as available-for-sale include securities that management intends to use as part of its asset/liability management strategy and that may be sold in response to changes in interest rates, prepayment risk, and other factors. Management determines the appropriate classification of securities at the time of purchase but may reassess the classification.

Net purchase premiums and discounts on securities are recognized in interest income using the level yield method over the estimated life of the security. Premiums are amortized to the earliest call date. Gains and losses on the sale of securities are determined using the specific identification method.

For available-for-sale (AFS) securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that the Company will be required to sell, the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through net income. For AFS securities that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security is compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income (loss), net of applicable taxes.

Allowance for credit losses - held-to-maturity securities: Held-to maturity securities are carried at amortized cost net of allowance for credit losses ("ACL") when management has the positive intent and ability to hold them to maturity. The Company's held-to maturity portfolio consists solely of bank subordinated debt. Management measures expected credit losses on held-to-maturity debt securities on an individual basis. When accrued interest is reversed or charged-off in a timely manner, the CECL standard provides a practical expedient to exclude accrued interest from ACL measurement. The Company considers its nonaccrual and charge-off policies to be timely for all investments and securities, as such, accrued interest receivable on held-to-maturity debt securities is excluded from the estimate of credit losses. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts.

Loans held for investment, net – Loans the Bank originates and 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 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. Loans are charged-off as uncollectible when, in the opinion of management, collectability of principal is improbable. If payment is received on a nonaccrual loan, generally the payment is first applied to the remaining principal balance. Payments are then applied to recover any charged-off amounts related to the loan. Finally, if both the principal balance and any charge-offs have been recovered, then the payment will be recorded as fee and interest income. Personal loans are typically charged off when no later than 180 days past due.

Loan origination fees on loans the Bank originates, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method. See Note 2 - BUSINESS COMBINATION, for our accounting methodology for the loans acquired in the merger.

Allowance for credit losses - loans: The ACL is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. The ACL excludes loans held-for-sale and loans accounted for under the fair value option. The Company elected to not measure an ACL for accrued interest receivables, as we write off applicable accrued interest receivable balances in a timely manner when a loan is placed on non-accrual status, in which any accrued but uncollected interest is reversed from current income. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Management estimates the allowance balance using relevant available information, from internal and external sources, related to past events, current conditions, and reasonable and supportable forecasts. An industry index is used in the model to provide historical credit loss experience and provides the basis for the estimation of expected credit losses. The Company identified and grouped portfolio segments based on risk characteristics and underlying collateral.

The principal segments of our loan portfolio are discussed below:

Commercial loans. We provide a mix of variable and fixed rate commercial loans. The loans are typically made to small- and medium-sized manufacturing, wholesale, retail and service businesses for working capital needs and business expansion. Commercial loans generally include lines of credit and loans with maturities of five years or less. The loans are generally made with business operations as the primary source of repayment, but may also include collateralization by inventory, accounts receivable, and equipment. Personal guarantees are typically obtained on commercial loans as well.

Commercial real estate loans. Our commercial real estate loans consist of both real estate occupied by the borrower for ongoing operations and non-owner occupied real estate properties. The real estate securing our existing commercial real estate loans includes a wide variety of property types, such as owner and non-owner-occupied offices, warehouses and production facilities, office buildings, hotels, mobile home parks, retail centers, and assisted living facilities.

Multifamily. Our multifamily portfolio includes properties with 5 or more dwellings where the use is primarily residential.

Construction and land development loans. Our construction and land development loans are comprised of residential construction, commercial construction, and land acquisition and development loans.

Residential real estate loans. Our residential real estate loans consist of residential properties that generally do not qualify for secondary market sale.

Consumer loans. Our consumer loans include direct personal loans and automobile loans. Personal loans are generally unsecured or secured by cash held at the bank.

The ACL for pooled loans is estimated using a non-discounted cash flow methodology. The bank then applies probability of default and loss given default to the cash flow methodology to calculate expected losses within the model. This allows the bank to identify the timing of default as compared to when the actual loss event may occur. The results are then aggregated to produce segment level results and reserve requirements for each segment. The Company uses a 12-month forecast that is reasonable and supportable within the ACL calculation and then reverts to historical credit loss experience on a straight-line basis over a one-year timeline. Historical loss experience is then used for the remaining life of the assets. The Company uses several economic variables in the calculation of the ACL, the most significant of which is the economic forecast for the national unemployment rate. Changes in the economic forecast for unemployment rates could significantly affect the estimated credit losses which could potentially lead to materially different allowance levels from one reporting period to the next.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not included in the pooled loan evaluation. When management determines that foreclosure is probable, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

Qualitative adjustments to historical loss data are made based on management's assessment of the risks that may lead to a future loan loss or differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, changes in environmental and economic conditions, or other relevant factors.

The allowance is increased by a provision for credit losses, which is charged to expense and reduced by charge-offs, net of recoveries.

Acquired Loans - At the purchase or acquisition date, loans are evaluated to determine whether there has been more than insignificant credit deterioration since origination. Loans that have experienced more than insignificant credit deterioration since origination are referred to as purchase credit deteriorated (PCD) loans. In its evaluation of whether a loan has experienced more than insignificant deterioration in credit quality since origination, the Company takes into consideration loan grades, payment performance, past due status, and nonaccrual status. The Company also considered the results of an independent external credit review completed during the due diligence phase to identify other loans that have experienced deterioration. At the purchase or acquisition date, the amortized cost basis of PCD loans is equal to the purchase price and an initial estimate of credit losses. The initial recognition of expected credit losses on PCD loans has no impact on net income. When the initial measurement of expected credit losses on PCD loans is calculated on a pooled loan basis, the expected credit losses are allocated to each loan within the pool. Any difference between the initial amortized cost basis and the unpaid principal balance of the loan represents a noncredit discount or premium, which is accreted (or amortized) into interest income over the life of the loan. Subsequent changes to the ACL on PCD loans are recorded through the provision for credit losses. For purchased loans that are not deemed to have experienced more than insignificant credit deterioration since origination and are therefore not deemed PCD, any discounts or premiums included in the purchase price are accreted (or amortized) over the contractual life of the individual loan. See Note 2 - BUSINESS COMBINATIONS for further information related to PCD and Non-PCD loans acquired in connection with the merger.

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 15 to 40 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.

Leases – Leases are classified as operating or finance leases at the lease commencement date. Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term. Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

Other investments – 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 March 31, 2024, and December 31, 2023, was \$4,948,000 and \$3,254,000, respectively. Cash and stock dividends are recorded in Other Income in the Consolidated Statement of Comprehensive Income.

The Company invested in the Castle Creek Launchpad Fund I, LP in April 2022. The Company has committed to funding up to \$2 million over a 4-year funding period. As of March 31, 2024, the investment has a carrying value of \$994,000 compared to \$828,000 as of December 31, 2023. As of both dates, the investment was valued using the net asset value practical expedient. The scope of the NAV practical expedient is limited to investments without readily determinable fair values in entities that calculate NAV per share consistently with the measurement principles of ASC 946, Financial Services — Investment Companies. Both criteria were present at March 31, 2024, and December 31, 2023.

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.

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 owned – Other real estate owned is comprised of properties acquired through a foreclosure proceeding or acceptance of a deed in lieu of foreclosure. Generally, these properties are initially recorded at fair value, less estimated cost to sell at the date of foreclosure, establishing a new cost basis. After foreclosure, valuations are periodically performed by management; other real estate owned is carried at the lower of the carrying amount or fair value, less the estimated cost to sell. Expenses, gains and losses on disposition, and reductions in carrying value are reported as non-interest expenses. There was no other real estate owned as of March 31, 2024, and \$3,000,000 of other real estate owned at December 31, 2023.

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 generally evaluated using the same methodology as for loans held for investment.

Allowance for credit losses - off-balance sheet credit exposures: The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance sheet credit exposures is adjusted through the Provision for credit losses and is recorded in Other liabilities. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The probability of funding is based on historical utilization statistics for unfunded loan commitments that are not unconditionally cancelable by the Company. The loss rates used are calculated using the same assumptions as the associated funded balance.

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 are not material.

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 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.

Employee retention credit - The Company qualified for identified refunds based upon federal laws that allow an eligible employer to obtain a refundable employment tax credit under the Coronavirus Aid, Relief, and Economic Security Act, as amended by Taxpayer Certainty and Disaster Tax Relief Act of 2020, the American Rescue Plan Act of 2021, and the Infrastructure Investment and Jobs Act. A portion of the credits the Company received, \$254,000, met the substantial authority to file a claim with the IRS. However, based on uncertainty associated with the IRS's regulation and notices associated with qualifying under the governmental order eligibility criteria, the Company has concluded the claim meets the probable threshold required to recognize the benefits of the credit. As such, the Company will not recognize the income until the statute of limitations has elapsed.

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 positions.

Comprehensive income (loss) – Comprehensive income (loss) consists solely of unrealized gains and losses on securities available-for-sale (net of taxes) as of March 31, 2024, and December 31, 2023.

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.

Recent Accounting Guidance That Has Not Yet Been Adopted – The following new accounting standard has yet to be adopted by the Company but may have an impact on financial statements and/or related disclosures once implemented.

In December 2023, the Financial Accounting Standards Board issued a final standard on improvements to income tax disclosures. The standard requires, among other things, disaggregated information regarding effective tax rate reconciliation components, as well as information on income taxes paid. This standard, Accounting Standards Update No. 2023-9, “Income Taxes (Topic 740): Improvements to Income Tax Disclosures”, applies to all entities subject to income taxes. For public business entities, the new requirements will be effective for annual periods beginning after December 15, 2024. The guidance will be applied on a prospective basis with the option to apply the standard retrospectively. Early adoption is permitted.

NOTE 2 – BUSINESS COMBINATION

On March 19, 2024, Bancorp 34 completed its previously announced merger with CBOA pursuant to the Agreement and Plan of Merger, dated as of April 27, 2023, as amended (the “Merger Agreement”). Under the Merger Agreement, CBOA was merged with and into Bancorp 34, with Bancorp 34 continuing as the surviving entity (the “Merger”). Immediately following the completion of the Merger, CBOA’s wholly-owned subsidiary, Commerce Bank of Arizona, an Arizona state-chartered bank, was merged with and into the Bank, with the Bank continuing as the surviving bank.

Pursuant to the terms of the Merger Agreement, at the effective time of the Merger, each CBOA shareholder had the right to receive 0.2628 shares of Bancorp 34 common stock, for each share of CBOA common stock owned by the CBOA shareholder, with cash to be paid in lieu of fractional shares. Additionally, each outstanding CBOA restricted stock unit vested and was cancelled and converted automatically into the right to receive 0.2628 shares of Bancorp 34 common stock with respect to each share of CBOA common stock underlying such restricted stock unit. In connection with the Merger, Bancorp 34 issued 2,742,257 shares of Bancorp 34 common stock, which had a fair value of approximately \$23.3 million based on a common shares valuation as of the Merger date. Each outstanding share of Bancorp 34 common stock remained outstanding and was unaffected by the Merger.

Commerce Bank of Arizona operated five full-service offices serving customers in Gilbert, Green Valley, Oro Valley, Scottsdale and Tucson, Arizona. Completing the Merger further enhanced the Bank’s Arizona footprint, allowed for greater efficiencies based on size and scale, and strengthened the depth of the management team. The combined banks operate as Southwest Heritage Bank and serve customers from eight full-service offices in Arizona and southern New Mexico. The core system conversion was executed in March 2024.

We accounted for the Merger using the acquisition method of accounting in accordance the Financial Accounting Standards Board's Accounting Standards Code 805 ("ASC 805"), Business Combinations, and accordingly, the assets and liabilities of CBOA were recorded at their respective Merger date estimated fair values. The estimated fair values of assets and liabilities are preliminary and subject to refinement during the measurement period (which cannot exceed one year from the Merger date), as additional information relative to the Merger date fair values becomes available. Effective in March 2024, we recognized a preliminary bargain purchase gain of \$5.1 million in connection with the Merger (not taxable for income tax purposes), which is recognized in our first quarter 2024 operating results. The core deposit intangible asset of \$8.9 million represents the estimated value of Commerce Bank of Arizona's long-term deposit relationships with its customers and will be amortized over an estimated weighted average life of ten years using an accelerated method, which approximates the estimated run-off of the acquired deposits. During 2023 and through March 31, 2024, Bancorp 34 incurred, on a cumulative basis, approximately \$6.4 million of merger-related expenses.

The primary cause of the \$5.1 million preliminary bargain purchase gain was a decrease in Bancorp 34, Inc.'s common share valuation from April 2023 to March 2024. In April 2023 and upon the announcement of the Merger, the common share exchange ratio was 0.24, and Bancorp 34, Inc's common share valuation was estimated to be \$12.16 per share, based upon a third-party fairness opinion obtained in connection with the Merger. As of the Merger date in March 2024 and before Bancorp 34, Inc. issued its 2.7 million shares for the Merger, the common share exchange ratio was 0.2628 and Bancorp, Inc's common share valuation was estimated to be \$8.50, based on a March 2024 common share valuation completed by an independent third party.

The following table includes the: (i) total consideration paid on March 19, 2024, in connection with the Merger; (ii) fair values of the assets acquired; (iii) fair values of the liabilities assumed; and (iv) resulting preliminary bargain purchase gain (in thousands).

<i>(in thousands)</i>	As Recorded by CBOA	Estimated Fair Value Adjustments	Estimated Fair Values as Recorded by Bancorp 34
Fair Value of the common stock consideration			\$ 23,310
Identifiable assets acquired:			
Cash and cash equivalents	\$ 30,927	\$ —	\$ 30,927
Debt securities available for sale, at fair value	57,844	376	58,220
Loans			
Purchased performing	300,080	(15,357)	284,723
Purchased credit deteriorated	30,425	(4,262)	26,163
Allowance for credit losses on loans	(3,855)	3,855	—
Deferred loan fees	(1,033)	1,033	—
Deferred tax on assets acquired	—	1,233	1,233
Operating right-of-use assets	2,866	—	2,866
Core deposit intangibles	—	8,930	8,930
Other assets	6,284	(20)	6,264
Total identifiable assets acquired	\$ 423,538	\$ (4,212)	\$ 419,326
Identifiable liabilities assumed:			
Deposits	346,995	(252)	346,743
Short-term borrowings	35,000	—	35,000
Long-term borrowings	5,155	(1,012)	4,143
Deferred taxes on liabilities assumed	—	253	253
Other liabilities	4,661	80	4,741
Total identifiable liabilities assumed	\$ 391,811	\$ (931)	\$ 390,880
Net identifiable assets acquired	\$ 31,727	\$ (3,281)	\$ 28,446
Preliminary bargain purchase gain			\$ (5,136)

As permitted by ASC 805, Business Combinations, the above preliminary estimates may be refined during the measurement period (which cannot exceed one year from the Merger date), to reflect any new information obtained about facts and circumstances existing at the Merger date. Any changes in the above preliminary estimates will be recognized in the period identified.

Purchased Performing Loans (Non-Purchased Credit Deteriorated Loans)

Non-purchased credit deteriorated loans (“non-PCD loans”) are loans, of the date of the Merger and based upon management’s assessment, which have not experienced a more-than-insignificant deterioration in credit quality since the date the loans were originated. The loan’s purchase price becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the unpaid principal balance of the loan is a discount, which is comprised of a credit and non-credit component, and is accreted as interest income over the life of the loan.

An allowance for credit losses is determined using the same methodology as other loans held for investment. A \$4.1 million “Day Two” allowance for credit losses for non-PCD loans was recorded through the provision expense for credit losses. This \$4.1 million allowance for credit losses for non-PCD loans represents management’s estimate of lifetime credit losses on these non-PCD loans.

Purchased Credit Deteriorated Loans

Purchased Credit Deteriorated Loans

Purchased credit deteriorated loans (“PCD loans”) represent loans, as of the date of the Merger and based upon management’s assessment, which had experienced a more-than-insignificant deterioration in credit quality since the date the loans were originated. An allowance for credit losses for PCD loans was determined using the same methodology as other loans held for investment. The initial allowance for credit losses for PCD loans was determined on a collective basis and was allocated to individual PCD loans. This allowance for credit losses is reflected as a “Day 2” on-balance sheet gross-up to the allowance for credit losses and as an increase to PCD loans. The PCD loans’ purchase price of \$26.2 million plus the allowance for credit losses of \$1.1 million, becomes the initial amortized cost basis of \$27.3 million for the PCD loans. The difference between the initial amortized cost basis and the unpaid principal balance of the PCD loans of \$30.4 million, results in a non-credit discount for the PCD loans of \$3.1 million, which is accreted as interest income over the life of the PCD loans. Thereafter, the PCD loans are subject to the same interest rate recognition and impairment model as non-PCD loans, with changes to the allowance for credit losses recorded through provision expense.

As of the Merger date and as described above, the PCD Loans included the following components (in thousands):

Unpaid principal balance	\$	30,425
Allowance for credit losses at acquisition		(1,164)
Non-credit discount		(3,098)
Purchase price	\$	<u>26,163</u>

Pro Forma Information

The pro forma revenues and pro forma earnings in the following table combine CBOA’s consolidated operating results and Bancorp 34’s consolidated operating results as if the Merger had occurred at the beginning of each of the periods presented.

The pro forma amounts for the three months ended March 31, 2024, exclude the following pre-tax adjustments, each of which management deemed material, nonrecurring and directly attributable to the Merger: (i) the \$5.1 million preliminary bargain purchase gain (not taxable for income tax purposes); (ii) \$4 million of combined merger-related expenses, a portion of which is not tax deductible; and (iii) the \$4.1 million “Day Two” non-PCD loans’ provision expense for credit losses. These pre-tax adjustments were partially offset by a combined \$2 million tax benefit. The pro forma amounts for the three months ended March 31, 2024, include the following recurring “Day 2” items, which initially occurred in March 2024 in connection with the Merger: (i) \$309,000 for 13 days of income accretion from the loan-related fair value adjustments; and (ii) \$62,000 for 13 days of Core Deposit intangible amortization expense.

Management prepared these pro forma results for comparative purposes only and these pro forma results are not necessarily indicative of the actual results that would have been obtained had the Merger actually occurred at the beginning of each of the periods presented. No assumptions have been applied to the pro forma revenues and pro forma earnings regarding, for example, possible revenue enhancements, expense efficiencies, fixed cost leverage opportunities, or asset dispositions.

Additionally, the pro forma amounts for Bancorp 34’s weighted average basic and diluted common shares outstanding are based upon: (i) Bancorp 34’s actual weighted average basic and diluted common shares outstanding for each of the periods presented; together with (ii) Bancorp’s approximate 2.7 million common shares issued in connection with the Merger, as if the Merger had occurred at the beginning of each of the periods presented.

Business Combination Pro Forma Information

<i>(in thousands, except per share data)</i>	Pro Forma	
	Three months ended March 31,	
	2024	2023
Total revenues (net interest income and non-interest income)	\$ 6,769	\$ 8,464
Net (loss) income	\$ (589)	\$ 1,245
(Loss) earnings per share - basic	\$ (0.09)	\$ 0.20
(Loss) earnings per share - diluted	\$ (0.09)	\$ 0.20

Separately, management has determined that it is impractical to report amounts of revenue and earnings of CBOA after the Merger date of March 19, 2024. Bank core systems and related data conversions occurred after the Merger date, from March 22, 2024, through March 25, 2024. Accordingly, management believes that reliable, accurate, separate, and complete revenue and earnings information for CBOA is no longer available.

NOTE 3 – SECURITIES

Available-for-sale and held-to-maturity securities have been classified in the consolidated balance sheets according to management's intent on March 31, 2024, and December 31, 2023. The amortized cost of such securities and their approximate fair values were as follows (dollars in thousands):

Available-for-sale

<i>(Dollars in thousands)</i>	March 31, 2024			
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	\$ 74,530	\$ 236	\$ (5,003)	\$ 69,763
U.S. Treasuries	3,066	—	(296)	2,770
U.S. government agencies	8,571	28	(14)	8,585
Municipal obligations	22,902	—	(2,650)	20,252
Corporate debt	1,000	—	(144)	856
Total	\$ 110,069	\$ 264	\$ (8,107)	\$ 102,226

Held-to-maturity

<i>(Dollars in thousands)</i>	March 31, 2024			
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate debt	\$ 5,791	\$ —	\$ (556)	\$ 5,235
Total	\$ 5,791	\$ —	\$ (556)	\$ 5,235
Allowance for Credit Losses	\$ (146)			
Net Carrying Value of Held-to-maturity securities	\$ 5,645			

Available-for-sale

	December 31, 2023			
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<i>(Dollars in thousands)</i>				
Mortgage-backed securities	\$ 36,829	\$ —	\$ (4,362)	\$ 32,467
U.S. Treasuries	3,069	—	(277)	2,792
U.S. government agencies	287	—	(17)	270
Municipal obligations	22,921	—	(2,593)	20,328
Corporate debt	1,000	—	(167)	833
Total	\$ 64,106	\$ —	\$ (7,416)	\$ 56,690

Held-to-maturity

	December 31, 2023			
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<i>(Dollars in thousands)</i>				
Corporate debt	\$ 5,799	\$ —	\$ (692)	\$ 5,107
Total	\$ 5,799	\$ —	\$ (692)	\$ 5,107
Allowance for Credit Losses	\$ (115)			
Net Carrying Value of Held-to-maturity securities	\$ 5,684			

There was no allowance for credit losses related to available for sale securities as of March 31, 2024, or December 31, 2023.

Securities with unrealized losses on March 31, 2024, and December 31, 2023, that have not been recognized in income are as follows (dollars in thousands):

Description of securities	Continued Unrealized Loss for Less than 12 Months		Continued Unrealized Loss for 12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	Available-for-sale, March 31, 2024					
Mortgage-backed securities	\$ 11,953	\$ (88)	\$ 29,014	\$ (4,915)	\$ 40,967	\$ (5,003)
U.S. Treasuries	—	—	2,770	(296)	2,770	(296)
U.S. government agencies	454	(1)	246	(13)	700	(14)
Municipal obligations	—	—	20,251	(2,650)	20,251	(2,650)
Corporate debt	—	—	856	(144)	856	(144)
Total temporarily impaired	\$ 12,407	\$ (89)	\$ 53,137	\$ (8,018)	\$ 65,544	\$ (8,107)
Held to Maturity March 31, 2024						
Corporate debt	\$ —	\$ —	\$ 5,235	\$ (556)	\$ 5,235	\$ (556)
Total temporarily impaired	\$ —	\$ —	\$ 5,235	\$ (556)	\$ 5,235	\$ (556)

Description of securities	Continued Unrealized Loss for Less than 12 Months		Continued Unrealized Loss for 12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale, December 31, 2023						
Mortgage-backed securities	\$ —	\$ —	\$ 30,462	\$ (4,362)	\$ 30,462	\$ (4,362)
U.S. Treasuries	—	—	2,792	(277)	2,792	(277)
U.S. government agencies	—	—	270	(17)	270	(17)
Municipal obligations	—	—	20,328	(2,593)	20,328	(2,593)
Corporate debt	—	—	833	(167)	833	(167)
Total temporarily impaired	\$ —	\$ —	\$ 54,685	\$ (7,416)	\$ 54,685	\$ (7,416)
Held to Maturity December 31, 2023						
Corporate debt	\$ 904	\$ (96)	\$ 4,203	\$ (596)	\$ 5,107	\$ (692)
Total temporarily impaired	\$ 904	\$ (96)	\$ 4,203	\$ (596)	\$ 5,107	\$ (692)

Unrealized losses on U.S. Treasury bonds and U.S. Agency bonds have not been recognized through the income statement due to the bonds being backed in full by the United States government. 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.

Unrealized losses on mortgage-backed securities have not been recognized into income. At March 31, 2024, 92% of the mortgage-backed securities portfolio were issued by U.S. government sponsored entities or agencies. Because the decline in fair value is attributable to changes in interest rates, and not credit quality, and because the Company does not intend to sell the mortgage-backed securities, it is likely that management will not be required to sell the securities prior to their anticipated recovery as of March 31, 2024.

The remainder of the mortgage-backed securities portfolio includes non-agency structured commercial mortgage-backed securities (CMBS) with a fair value of \$5,654,000 which had unrealized losses of \$645,000 at March 31, 2024. Each CMBS was rated AAA at March 31, 2024. These bonds have significant credit enhancement and have performed as agreed. Management does not intend to sell the CMBS and it is likely that management will not be required to sell the securities prior to their anticipated recovery.

Unrealized losses on available-for-sale municipal obligation securities have not been recognized through the income statement. As of March 31, 2024, the credit rating for these securities ranges from A+ to AAA. General Obligation bonds represent 30% of the municipal bond portfolio. The remaining 70% of the portfolio consists of revenue bonds, the majority of which are essential purpose or have an insurance wrapper. Management has no intent to sell these securities and can hold the securities to maturity. The decline in fair value is largely due to changes in market interest rates and management expects the fair value to recover as the securities approach their maturity date.

Management evaluated the foregoing available-for-sale securities for potential impairment as of March 31, 2024. Based on this evaluation, including the preceding analysis summary, management has determined that the unrealized losses on available-for-sale securities are primarily attributable to increases in market interest rates and do not reflect credit losses. Accordingly, as of March 31, 2024, management concluded that an allowance for credit losses on available-for-sale securities is not necessary, as the decline in fair value is not indicative of credit losses. Management will continue to monitor the fair value of these available-for-sale securities and reassess the need for an allowance for credit losses if circumstances change.

Certain information concerning the sale of debt securities available-for-sale for the three months ended March 31, 2024, and 2023, was as follows (dollars in thousands):

	3/31/2024	3/31/2023
Proceeds from sale	\$ 7,471	\$ —
Gross realized gains	\$ —	\$ —
Gross realized losses	\$ —	\$ —

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. Securities not due at a single maturity date are shown separately.

As of March 31, 2024, the amortized cost and estimated fair value of the debt securities portfolio are shown by contractual maturity dates (dollars in thousands).

	Amortized Cost	Fair Value	Average Yield
Available-for-sale			
Due in one year or less	\$ 1,380	\$ 1,369	2.68%
Due from one to five years	12,180	11,107	2.11%
Due from five to ten years	21,979	19,987	3.10%
Due after ten years	—	—	—
Mortgage-backed securities	74,530	69,763	3.63%
Total	<u>\$ 110,069</u>	<u>\$ 102,226</u>	<u>3.34%</u>
	Amortized Cost	Fair Value	Average Yield
Held-to-maturity			
Due in one year or less	\$ —	\$ —	—
Due from one to five years	—	—	—
Due from five to ten years	5,791	5,235	4.30%
Due after ten years	—	—	—
Total	<u>\$ 5,791</u>	<u>\$ 5,235</u>	<u>4.30%</u>

Securities pledged at March 31, 2024, and December 31, 2023, had carrying amounts of \$62,016,000 and \$43,070,000, respectively.

The Company had no investment in securities of issuers outside of the United States as of December 31, 2023, or 2022.

Allowance for Credit Losses for HTM Securities

Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type. The held-to-maturity investment portfolio consists solely of bank holding company subordinated debt. Accrued interest receivable on held-to-maturity debt securities totaled \$83,000 at March 31, 2024, and is excluded from the estimate of credit losses. Refer to Note 1 – Nature of Operations and Significant Accounting Policies for additional information on the Company's methodology on estimating credit losses. The following table presents the activity in the allowance for credit losses for debt securities held-to-maturity by major security type (dollars in thousands):

For the three months ended March 31, 2024	Corporate Bonds
Allowance for credit losses:	
Beginning balance	\$ 115
Provision for credit losses	31
Securities charged -off (recoveries)	—
Total ending allowance balance	<u>146</u>

The Company monitors the credit quality of held-to-maturity securities on a quarterly basis. As of March 31, 2024, there were no held-to-maturity securities past due or on non-accrual.

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

On January 1, 2023, the Company adopted the new CECL standard, ASU 2016-13, using the modified retrospective method for all financial assets measured at amortized cost. For comparability, the Company has adjusted certain prior period loan amounts to conform to the current presentation of segmentation under CECL. Refer to Note 1 - Summary of Significant Accounting Policies for additional information related to the Company's methodology for estimating the allowance for credit losses.

The following presents a summary of the Company's loans at amortized cost as of the dates noted (dollars in thousands):

	March 31, 2024	December 31, 2023
1-4 Family residential real estate	\$ 72,355	\$ 61,645
Commercial	127,957	50,169
Consumer and other	872	698
Construction	56,410	34,538
Non-Owner Occupied (NOO) CRE	262,623	167,203
Owner Occupied (OO) CRE	159,376	82,228
Multifamily	70,714	60,546
Loans held for investment	750,307	457,027
Less: allowance for credit losses	(10,675)	(5,860)
Loans, net	<u>\$ 739,632</u>	<u>\$ 451,167</u>

Allowance for Credit Losses on Loans

Beginning January 1, 2023, the allowance for credit losses for loans is measured on the loan's amortized cost basis, excluding interest receivable. Interest receivable excluded at March 31, 2024, and December 31, 2023, was \$2.7 million and \$1.3 million, respectively, presented in accrued interest receivable on the Condensed Consolidated Balance Sheets. Refer to Note 1 - Summary of Significant Accounting Policies for additional information related to the Company's methodology for estimating the allowance for credit losses.

Allocation of a portion of the allowance for credit losses to one category of loans does not preclude its availability to absorb losses in other categories. The following table presents the activity in the allowance for credit losses by portfolio segment for the three months ended March 31, 2024, and March 31, 2023, (dollars in thousands):

	1-4 Family Residential Real Estate	Commercial	Consumer and Other	Construction	NOO Commercial Real Estate	OO Commercial Real Estate	Multifamily	Total
Changes in allowance for credit losses for the three months ended March 31, 2024								
Beginning balance	\$ 736	\$ 924	\$ 8	\$ 512	\$ 1,859	\$ 1,201	\$ 620	\$ 5,860
Acquisition of CBOA Financial PCD Loans	34	777	1	258	83	11	—	1,164
Provision (credit) for loan losses	126	1,409	1	64	1,165	941	146	3,852
Loans charged off	—	(208)	—	—	—	—	—	(208)
Recoveries	2	5	—	—	—	—	—	7
Balance on March 31, 2024	<u>\$ 898</u>	<u>\$ 2,907</u>	<u>\$ 10</u>	<u>\$ 834</u>	<u>\$ 3,107</u>	<u>\$ 2,153</u>	<u>\$ 766</u>	<u>\$ 10,675</u>

	1-4 Family Residential Real Estate	Commercial	Consumer and Other	Construction	NOO Commercial Real Estate	OO Commercial Real Estate	Multifamily	Total
Changes in allowance for loan losses for the three months ended March 31, 2023								
Beginning balance	\$ 454	\$ 1,382	\$ 56	\$ 222	\$ 1,680	\$ 555	\$ 429	\$ 4,778
Impact of adopting of ASU 2016-13	(33)	(307)	(50)	441	271	142	140	604
Provision (credit) for loan losses	—	—	—	—	—	—	—	—
Loans charged off	—	—	—	—	—	—	—	—
Recoveries	1	—	—	—	—	—	—	1
Balance on March 31, 2023	<u>\$ 422</u>	<u>\$ 1,075</u>	<u>\$ 6</u>	<u>\$ 663</u>	<u>\$ 1,951</u>	<u>\$ 697</u>	<u>\$ 569</u>	<u>\$ 5,383</u>

The following table presents the aging of the recorded investment in contractually past due loans, as of March 31, 2024, and December 31, 2023. It is shown by class of loans (dollars in thousands):

March 31, 2024	Loans Contractually Past Due				Loans Not Past Due	Total
	30-59 Days	60-89 Days	Over 90 Days	Total		
1-4 Family residential real estate	\$ 259	\$ —	\$ —	\$ 259	\$ 72,096	\$ 72,355
Commercial	2,813	885	350	4,048	123,909	127,957
Consumer and other	—	—	—	—	872	872
Construction	—	—	—	—	56,410	56,410
NOO CRE	—	—	—	—	262,623	262,623
OO CRE	—	—	—	—	159,376	159,376
Multifamily	337	—	—	337	70,377	70,714
Total	\$ 3,409	\$ 885	\$ 350	\$ 4,644	\$ 745,663	\$ 750,307

December 31, 2023	Loans Contractually Past Due				Loans Not Past Due	Total
	30-59 Days	60-89 Days	Over 90 Days	Total		
1-4 Family residential real estate	\$ 409	\$ —	\$ —	\$ 409	\$ 61,236	\$ 61,645
Commercial	—	—	589	589	49,580	50,169
Consumer and other	—	—	—	—	698	698
Construction	—	—	—	—	34,538	34,538
NOO CRE	—	—	—	—	167,203	167,203
OO CRE	—	—	—	—	82,228	82,228
Multifamily	—	—	—	—	60,546	60,546
Total	\$ 409	\$ —	\$ 589	\$ 998	\$ 456,029	\$ 457,027

Credit quality indicators – The following tables represent the credit exposure by internally assigned grades. 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.

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.

The following tables present the amortized cost basis of loans by credit quality indicator, by class of financing receivable, and year of origination for term loans as of March 31, 2024, and December 31, 2023. For revolving lines of credit that are converted to term loans, if the conversion involved a credit decision, such loans are included in the origination year in which the credit decision was made. If revolving lines of credit converted to term loans without a credit decision, such lines of credit are included in the “Revolving lines of credit converted to term” column in the following tables (dollars in thousands).

March 31, 2024	Term Loans Amortized Cost by Origination						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
	2024	2023	2022	2021	2020	Prior			
I-4 Family									
Pass	\$ 1,517	\$ 5,870	\$ 27,070	\$ 12,402	\$ 7,842	\$ 13,501	\$ 3,738	\$ —	\$ 71,940
Special Mention	—	—	—	—	—	350	—	—	350
Substandard	—	—	—	—	—	65	—	—	65
Doubtful	—	—	—	—	—	—	—	—	—
Total I-4 Family	1,517	5,870	27,070	12,402	7,842	13,916	3,738	—	72,355
Current year-to-date gross write-offs	—	—	—	—	—	—	—	—	—
Commercial									
Pass	708	35,204	31,210	10,140	3,546	4,501	35,597	—	120,907
Special Mention	—	—	147	—	1,944	88	101	—	2,280
Substandard	—	571	2,365	491	653	97	341	—	4,518
Doubtful	—	—	—	—	252	—	—	—	252
Total Commercial	708	35,775	33,722	10,631	6,395	4,686	36,039	—	127,957
Current year-to-date gross write-offs	—	—	—	—	208	—	—	—	208
Consumer and other									
Pass	—	—	129	—	3	40	700	—	872
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total Consumer and Other	—	—	129	—	3	40	700	—	872
Current year-to-date gross write-offs	—	—	—	—	—	—	—	—	—
Construction									
Pass	1,855	15,914	26,371	6,439	723	2,318	18	—	53,639
Special Mention	—	1,681	—	—	—	—	—	—	1,681
Substandard	—	—	—	—	—	1,090	—	—	1,090
Doubtful	—	—	—	—	—	—	—	—	—
Total Construction	1,855	17,595	26,371	6,439	723	3,408	18	—	56,410
Current year-to-date gross write-offs	—	—	—	—	—	—	—	—	—
NOO CRE									
Pass	587	34,328	52,822	72,306	32,988	63,014	6,206	—	262,252
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	371	—	—	371
Doubtful	—	—	—	—	—	—	—	—	—
Total NOO CRE	587	34,328	52,822	72,306	32,988	63,385	6,206	—	262,623
Current year-to-date gross write-offs	—	—	—	—	—	—	—	—	—
OO CRE									
Pass	879	37,994	30,487	38,286	12,414	28,899	199	—	149,158
Special Mention	—	226	—	7,099	—	1,676	—	—	9,001
Substandard	—	—	—	—	37	1,180	—	—	1,217
Doubtful	—	—	—	—	—	—	—	—	—
Total OO CRE	879	38,220	30,487	45,385	12,451	31,755	199	—	159,376
Current year-to-date gross write-offs	—	—	—	—	—	—	—	—	—
Multi Family									
Pass	—	500	19,853	24,811	6,478	16,238	860	—	68,739
Special Mention	—	—	—	—	1,023	—	—	—	1,023
Substandard	—	—	—	952	—	—	—	—	952
Doubtful	—	—	—	—	—	—	—	—	—
Total Multi Family	—	500	19,853	25,763	7,501	16,238	860	—	70,714
Current year-to-date gross write-offs	—	—	—	—	—	—	—	—	—
Total	\$ 5,547	\$ 132,289	\$ 190,455	\$ 172,925	\$ 67,903	\$ 133,428	\$ 47,760	\$ —	\$ 750,307
Total year-to-date gross write-offs	\$ —	\$ —	\$ —	\$ —	\$ 208	\$ —	\$ —	\$ —	\$ 208

December 31, 2023	Term Loans Amortized Cost by Origination						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
	2023	2022	2021	2020	2019	Prior			
I-4 Family									
Pass	\$ 4,244	\$ 24,009	\$ 12,236	\$ 7,928	\$ 1,466	\$ 9,622	\$ 1,717	\$ —	\$ 61,222
Special Mention	—	—	—	—	—	357	—	—	357
Substandard	—	—	—	—	—	67	—	—	67
Doubtful	—	—	—	—	—	—	—	—	—
Total I-4 Family	4,244	24,009	12,236	7,928	1,466	10,045	1,717	—	61,645
Current year-to-date gross write-offs	—	—	—	—	—	—	—	—	—
Commercial									
Pass	13,150	15,405	3,234	3,176	87	1,546	10,139	779	46,737
Special Mention	—	163	—	2,018	—	—	—	—	2,181
Substandard	—	—	—	903	96	—	—	—	999
Doubtful	—	—	—	—	252	—	—	—	252
Total Commercial	13,150	15,568	3,234	6,097	435	1,546	10,139	779	50,169
Current year-to-date gross write-offs	—	—	—	—	321	—	—	—	321
Consumer and other									
Pass	43	138	—	5	10	3	499	—	698
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total Consumer and Other	43	138	—	5	10	3	499	—	698
Current year-to-date gross write-offs	—	—	—	—	—	—	—	—	—
Construction									
Pass	7,788	21,551	3,938	38	310	592	321	—	34,538
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total Construction	7,788	21,551	3,938	38	310	592	321	—	34,538
Current year-to-date gross write-offs	—	—	—	—	—	—	—	—	—
NOO CRE									
Pass	7,187	35,899	52,241	21,091	13,491	30,911	6,140	—	166,960
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	243	—	—	—	—	243
Doubtful	—	—	—	—	—	—	—	—	—
Total NOO CRE	7,187	35,899	52,241	21,334	13,491	30,911	6,140	—	167,203
Current year-to-date gross write-offs	3,382	—	—	—	—	—	—	—	3,382
OO CRE									
Pass	20,726	12,365	20,807	7,966	5,806	4,214	—	—	71,884
Special Mention	228	—	7,196	—	—	1,690	—	—	9,114
Substandard	—	—	—	37	1,193	—	—	—	1,230
Doubtful	—	—	—	—	—	—	—	—	—
Total OO CRE	20,954	12,365	28,003	8,003	6,999	5,904	—	—	82,228
Current year-to-date gross write-offs	—	—	—	—	—	—	—	—	—
Multi Family									
Pass	500	15,652	22,007	7,572	6,369	7,105	371	—	59,575
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	970	—	—	—	—	—	970
Doubtful	—	—	—	—	—	—	—	—	—
Total Multi Family	500	15,652	22,977	7,572	6,369	7,105	371	—	60,546
Current year-to-date gross write-offs	—	—	—	—	—	—	—	—	—
Total	\$ 53,866	\$ 125,182	\$ 122,629	\$ 50,977	\$ 29,080	\$ 56,106	\$ 19,187	\$ 779	\$ 457,027
Current year-to-date gross write-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

Non-accrual loans – The accrual of interest on loans is discontinued at the time the loan becomes 90 or more days delinquent unless the loan is well secured and in the process of collection or renewal due to maturity. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on non-accrual status or charged off if collection of interest or principal is considered doubtful. There was no interest income recognized from non-accrual loans in the income statement for the three months ending March 31, 2024, or March 31, 2023. The following presents the amortized cost basis of loans on non-accrual status and loans past due over 89 days still accruing by class as of the date noted (dollars in thousands).

	As of March 31, 2024		
	Non-accrual loans with no ACL	Total non-accrual loans	Loans past due over 89 days and still accruing
1-4 Family residential real estate	\$ 65	\$ 65	\$ —
Commercial	1,412	2,046	—
Consumer and other	—	—	—
Construction	—	—	—
NOO CRE	371	371	—
OO CRE	—	—	—
Multifamily	953	953	—
Total	\$ 2,801	\$ 3,435	\$ —

	As of December 31, 2023		
	Non-accrual loans with no ACL	Total non-accrual loans	Loans past due over 89 days and still accruing
1-4 Family residential real estate	\$ 66	\$ 66	\$ —
Commercial	847	1,208	—
Consumer and other	—	—	—
Construction	—	—	—
NOO CRE	—	—	—
OO CRE	—	—	—
Multifamily	970	970	—
Total	\$ 1,883	\$ 2,244	\$ —

Non-accrual loan balances guaranteed by the SBA are \$1,145,000, or 33.3%, and \$589,000, or 26.3%, of the nonaccrual loan balances at March 31, 2024, and December 31, 2023, respectively.

Collateral dependent loans – Non-accrual loans, excluding loans held for investment measured at fair value, are classified as collateral dependent loans and are individually evaluated. The following presents the amortized cost basis of collateral-dependent loans, which are individually evaluated to determine expected credit losses by class of loans as of the date noted (dollars in thousands):

	As of March 31, 2024		
	Collateral Dependent Loans		
	Secured by Real Estate	Secured by Other	Total
1-4 Family residential real estate	\$ 65	\$ —	\$ 65
Commercial	—	2,046	2,046
Consumer and other	—	—	—
Construction	—	—	—
NOO CRE	371	—	371
OO CRE	—	—	—
Multifamily	953	—	953
Total	\$ 1,389	\$ 2,046	\$ 3,435

Loan Modifications Made to Borrowers Experiencing Financial Difficulty – The ACL incorporates an estimate of lifetime expected credit losses and is recorded on each asset upon origination. The analysis includes losses from modifications of receivables to borrowers experiencing financial difficulty. Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the ACL allowance for credit losses, a change to the ACL is generally not recorded when a loan is modified. Currently, the bank does not hold any loans having modified terms related to economic distress and none were modified during the three months ended March 31, 2024, and 2023.

NOTE 5 – PREMISES AND EQUIPMENT, NET

Components of premises and equipment, net included in the consolidated balance sheets were as follows (dollars in thousands):

	March 31, 2024	December 31, 2023
Land and improvements	\$ 3,316	\$ 1,806
Buildings and improvements	12,578	12,482
Furniture and equipment	3,622	1,953
Total cost	19,516	16,241
Accumulated depreciation and amortization	(10,641)	(8,891)
Net book value	<u>\$ 8,875</u>	<u>\$ 7,350</u>

Depreciation and amortization expenses were \$189,000 and \$133,000 for the three months ended March 31, 2024, and 2023, respectively.

NOTE 6 – TIME DEPOSITS

Following are maturities of time deposits at March 31, 2024, and December 31, 2023, (dollars in thousands):

Maturity	March 31, 2024	December 31, 2023
One year or less	\$ 178,632	\$ 93,675
Over one through three years	31,817	30,390
Over three through five years	4,676	4,338
Totals	<u>\$ 215,125</u>	<u>\$ 128,403</u>

On March 31, 2024, and December 31, 2023, the Bank had \$76.9 million and \$43.9 million, respectively, in time deposits of \$250,000 or more. On March 31, 2024, and December 31, 2023, \$58.1 million and \$27.5 million, respectively, of such time deposits mature within one year.

As of March 31, 2024, and December 31, 2023, certificate of deposits includes brokered CD balances of \$8,082,000 and \$19,531,000, respectively. The decline in brokered CD deposits is due to maturities.

NOTE 7 – BORROWINGS

On March 12, 2023, the Federal Reserve Board announced it would make additional funding available to eligible depository institutions to help ensure banks could meet the needs of depositors made available through the creation of a new Bank Term Funding Program (“BTFP”). The BTFP is a liquidity resource with capacity based on the pledging of high-quality securities. The intention of the program was to eliminate an institution’s need to quickly sell those securities in times of stress. Effective March 11, 2024, the Federal Reserve ceased lending under the programs terms. Outstanding borrowings were not impacted. As of March 31, 2024, the Bank had security pledges totaling \$52.1 million to secure two outstanding borrowings: (i) a borrowing in the amount of \$29 million at a rate of 4.76% with a January 10, 2025, maturity date; and, (ii) a second BTFP borrowing, originally entered into by Commerce Bank of Arizona prior to the Merger, in the amount of \$20 million, at a rate of 5.4% with a March 4, 2025, maturity date. Additionally, as of March 31, 2024, the Bank had approximately \$16.0 million in availability at the Federal Reserve Bank of San Francisco’s Discount Window.

The Bank has established a borrowing line at the Federal Home Loan Bank of San Francisco. As of March 31, 2024, borrowing capacity totaled \$144.8 million and collateral consists of a blanket lien on the loan portfolio. There were no outstanding borrowings on the borrowing line as of March 31, 2024, or December 31, 2023.

As of March 31, 2024, and December 31, 2023, the Bank had available unsecured Federal Funds lines of credit at correspondent banks totaling \$52.8 million and \$39.8 million, respectively. The terms of the borrowings are overnight at the applicable fed funds borrowing rate.

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 have unamortized origination fees of \$392,000 at March 31, 2024. As part of the Merger with CBOA \$1.5 million of the subordinated debt was acquired in the transaction and subsequently retired.

As part of the Merger with CBOA, the Company acquired CBOA Financial Statutory Trust #1, a trust formed by CBOA in November 2005. The trust closed a pooled private offering of 5,000 trust preferred securities with a liquidation amount of \$1,000 per security. CBOA made a required equity contribution of \$155,000 to form the trust and issued \$5 million of subordinated debentures to the trust in exchange for ownership of all of the common securities of the trust and the proceeds of the preferred securities sold by the trust. The Company is able to redeem the subordinated debentures, in whole or in part, in a principal amount with integral multiples of \$1,000, at 100% of the principal amount, plus accrued and unpaid interest until maturity in 2036. The subordinated debentures are also redeemable in whole or in part from time to time, upon the occurrence of specific events defined within the trust indenture. Bancorp 34 has the option to defer interest payments on the subordinated debentures from time to time, for a period not to exceed five consecutive years. Bancorp 34 has elected not to defer interest payments on the subordinated debentures. The trust preferred securities have a variable rate of interest, reset quarterly on the 23rd of each February, May, August, and November, equal to the sum of 3-month CME term SOFR plus 1.70%. As of March 31, 2024, the rate was 7.28%. Bancorp 34’s investment in the common stock of the trust is \$155,000, which is included in other assets and is accounted for as an unconsolidated cost-method investment. Bancorp 34 is not considered the primary beneficiary of this trust, and therefore the trust is not consolidated in the financial statements. Rather the subordinated debentures are shown as a liability.

The following are maturities of outstanding borrowings as of March 31, 2024, (dollars in thousands):

Maturity	
One year or less	\$ 49,000
Over one through three years	0
Over three through five years	0
Over five through ten years	23,500
Over ten years	5,000
Totals	<u>\$ 77,500</u>

NOTE 8 – FINANCIAL INSTRUMENTS WITH OFF BALANCE SHEET RISK

In the normal course of business, and from time to time, the Bank has had outstanding commitments to extend credit and standby letters of credit which, consistent with U.S. GAAP, are not reflected 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 amounts 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.

Contractual or notional amounts of financial instruments representing off-balance-sheet credit risk are as follows as of the dates indicated (dollars in thousands):

	March 31, 2024		December 31, 2023	
	Fixed	Variable	Fixed	Variable
Commitments to extend credit	\$ 15,981	\$ 17,032	\$ 5,327	\$ 6,966
Unused lines of credit	3,673	49,483	3,962	18,859
Totals	<u>\$ 19,654</u>	<u>\$ 66,515</u>	<u>\$ 9,289</u>	<u>\$ 25,825</u>

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures

	For the three months ended March 31, 2024
Beginning Balance:	\$ 135,000
Impact of merger with CBOA Financial, Inc.	222,000
(Release) provision for credit losses	33,000
Ending Balance	<u>\$ 390,000</u>

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

Since 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. The Bank had one standby letter of credit totaling \$75,000 at March 31, 2024, and no standby letters of credit at December 31, 2023.

NOTE 9 – LEASES

The Bank has noncancelable operating leases for office space that expire over the next seven years that require the payment of base lease amounts and executory costs such as taxes, maintenance, and insurance. At March 31, 2024, the bank has 6 active operating lease. Rental expenses for leases were \$166,000 and \$85,000 for three months ended years ended March 31, 2024, and 2023, respectively.

The following presents the classification of the right-of-use assets and corresponding liabilities as of the dates presented (dollars in thousands):

	March 31, 2024	December 31, 2023
Lease right-of-use assets		
Operating lease right-of-use assets	<u>\$ 4,599</u>	<u>\$ 1,819</u>
Lease Liabilities		
Operating lease liabilities	<u>\$ 5,202</u>	<u>\$ 2,011</u>

Approximate future minimum rental commitments under noncancelable leases as of March 31, 2024, are (dollars in thousands):

2024	\$ 657
2025	902
2026	851
2027	740
2028	621
2029	652
2030	640
2031	119
2032	20
Operating lease liabilities (present value of minimum lease payments)	<u>\$ 5,202</u>
Weighted-average remaining term (in years)	5.9
Weighted-average discount rate	2.83%

NOTE 10 -- INCOME TAXES

For the first quarter of 2024 and 2023, income tax (benefit) expense differs from the amounts computed by applying the federal income tax rate of 21% to (loss) income before federal income tax expense. These differences, historically, 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. Specifically, for the first quarter of 2024, these differences also include a non-taxable preliminary bargain purchase gain in connection with the Merger, and non-deductible merger costs, including success-based fees for completing the Merger.

Income tax (benefit) expense calculated at the statutory federal income tax rate of 21% for the first quarter of 2024 and 2023, differs from actual income tax (benefit) expense as follows:

	Three months ended March 31,	
	2024	2023
(in thousands)		
Income tax at statutory federal tax rate	\$ (744)	\$ 126
State income taxes, net of federal tax benefit	(140)	26
Non-taxable preliminary bargain purchase gain on the Merger	(1,281)	—
Non-deductible merger costs, including success based-fees	174	—
Other income tax items, net	(12)	6
Totals	<u>\$ (2,003)</u>	<u>\$ 158</u>

NOTE 11 – REGULATORY MATTERS

Southwest Heritage Bank 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.

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 March 31, 2024, and December 31, 2023, 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 March 31, 2024, 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 (dollars 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
	March 31, 2024					
Total Capital to risk-weighted assets:	\$ 96,253	11.66%	\$ 66,040	8%	\$ 82,550	10%
Tier 1 (Core) Capital to risk weighted assets:	\$ 85,913	10.40%	\$ 49,565	6%	\$ 66,087	8%
Common Tier 1 Capital to risk weighted assets (CET1):	\$ 85,913	10.40%	\$ 37,174	4.50%	\$ 53,696	6.50%
Tier 1 (Core) Capital to average assets:	\$ 85,913	8.78%	\$ 39,140	4%	\$ 48,295	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
	December 31, 2023					
Total Capital to risk-weighted assets:	\$ 74,142	14.79%	\$ 40,114	8%	\$ 50,143	10%
Tier 1 (Core) Capital to risk weighted assets:	\$ 68,032	13.57%	\$ 30,086	6%	\$ 40,114	8%
Common Tier 1 Capital to risk weighted assets (CET1):	\$ 68,032	13.57%	\$ 22,564	4.50%	\$ 32,593	6.50%
Tier 1 (Core) Capital to average assets:	\$ 68,032	11.66%	\$ 23,347	4%	\$ 29,184	5%

NOTE 12 – 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 (dollars in thousands):

	March 31, 2024	December 31, 2023
Fees and bonuses paid to directors during the period	\$ 69	\$ 65
Deposits from related parties held by the bank at the end of period	2,047	2,607

There was one line of credit with a \$0 balance, \$100,000 limit, to one insider at March 31, 2024. There were no loans to related parties as of December 31, 2023.

NOTE 13 – STOCK BASED COMPENSATION

Stock-based expense for the three months ended March 31, 2024, and March 31, 2023, was \$30,000 and \$31,000, 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 Company's stockholders 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 Company's stockholders 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 directors' 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.

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 were no net settlements for the first three months of 2024 or 2023.

For the three months ended March 31, 2024, and March 31, 2023, no stock compensation was issued under any equity incentive plan.

A summary of stock option activity for the first three months of 2024 is presented below (Aggregate Intrinsic Value in thousands):

	<u>Shares Subject to Options</u>	<u>Weighted- Average Exercise Price</u>	<u>Weighted- Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at beginning of year	137,500	\$ 13.86	2.1 years	—
Granted	—	—	—	—
Exercised	—	—	—	—
Forfeited or expired	(25,000)	14.90	0.7 years	—
Outstanding on March 31, 2024	<u>112,500</u>	<u>\$ 13.63</u>	<u>2.2 years</u>	<u>\$ —</u>
Exercisable on March 31, 2024	<u>86,500</u>	<u>\$ 14.07</u>	<u>1.4 years</u>	<u>\$ —</u>

A summary of restricted stock activity for the three months ended March 31, 2024, is presented below:

	<u>Shares</u>	<u>Weighted-Average Grant Date Fair Value</u>	<u>Average Remaining Contractual Term</u>
Non-vested on January 1, 2024	13,400	\$ 12.97	3.9 years
Granted	—	—	—
Vested	(900)	14.97	2.8 years
Forfeited	—	—	—
Non-vested on March 31, 2024	<u>12,500</u>	\$ 12.82	3.6 years

As of March 31, 2024, there was \$60,000 and \$134,000 of total unrecognized equity-based expense related to unvested stock options and restricted stock awards, respectively, granted under the equity plans that is expected to be recognized over the next five years as follows (dollars in thousands):

Year	
2024	\$ 48
2025	61
2026	49
2027	29
2028	7
Totals	<u>\$ 194</u>

NOTE 14 – 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 (dollars in thousands):

March 31, 2024	<u>Quoted Prices in Active Markets for Identical Assets Level 1</u>	<u>Significant Other Observable Inputs Level 2</u>	<u>Significant Unobservable Inputs Level 3</u>	<u>Fair Value</u>
Recurring:				
Assets:				
Securities available-for-sale:				
Mortgage-backed securities	\$ —	\$ 69,763	\$ —	\$ 69,763
U.S. Treasuries	—	2,770	—	2,770
U.S. Government Agencies	—	8,585	—	8,585
Municipal obligations	—	20,252	—	20,252
Corporate debt	—	856	—	856
Total available-for-sale:	<u>\$ —</u>	<u>\$ 102,226</u>	<u>\$ —</u>	<u>\$ 102,226</u>
Nonrecurring basis:				
Collateral Dependent Loans	\$ —	\$ —	\$ 1,193	\$ 1,193

December 31, 2023	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	\$ —	\$ 32,467	\$ —	\$ 32,467
U.S. Treasuries	—	2,792	—	2,792
U.S. Government Agencies	—	270	—	270
Municipal obligations	—	20,328	—	20,328
Corporate debt	—	833	—	833
Total available-for-sale:	<u>\$ —</u>	<u>\$ 56,690</u>	<u>\$ —</u>	<u>\$ 56,690</u>
Nonrecurring basis:				
Collateral dependent loans	\$ —	\$ —	\$ 1,071	\$ 1,071
Other Real Estate Owned	\$ —	\$ —	\$ 3,000	\$ 3,000

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 three months ended March 31, 2024, or the year ended December 31, 2023.

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 (dollars in thousands):

Collateral Dependent Loans	Fair Value	Valuation Methodologies	Valuation Model	Unobservable Input Valuation
March 31, 2024				
Commercial	1,193	Appraisal	Receivables Discount/Liquidation Discount	0–50%
Total collateral dependent loans	<u>\$ 1,193</u>			
December 31, 2023				
Commercial	1,071	Appraisal	Receivables Discount/Liquidation Discount	0–50%
Total collateral dependent loans	<u>\$ 1,071</u>			
Other Assets				
Other Real Estate Owned	\$ 3,000	Appraisal	Appraisal Discount/Estimated Selling Costs	23%

The estimated fair values of the Company's consolidated financial instruments on the dates noted are as follows (dollars in thousands):

	Fair Value Hierarchy	March 31, 2024		December 31, 2023	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets					
Cash and due from banks	Level 1	\$ 66,234	\$ 66,234	\$ 27,182	\$ 27,182
Federal funds sold	Level 2	6,510	6,510	1,715	1,715
Securities available-for-sale	Level 2	102,226	102,226	56,690	56,690
Securities held-to-maturity	Level 2	5,645	5,235	5,684	5,107
Loans held for investment	Level 3	750,307	730,156	457,027	437,878
Other investments	Level 2	6,097	6,097	4,063	4,063
Accrued interest receivable	Level 1	2,961	2,961	1,597	1,597
Financial liabilities					
Nonmaturity Deposits	Level 1	\$ (591,281)	\$ (591,281)	\$ (331,596)	\$ (331,596)
Time deposits	Level 2	(215,125)	(214,408)	(128,403)	(128,108)
FRB and FHLB advances	Level 2	(49,000)	(49,000)	(29,000)	(29,000)
Subordinated debentures	Level 3	(23,108)	(19,383)	(24,595)	(20,421)
Accrued interest payable	Level 1	(1,337)	(1,337)	(521)	(521)

NOTE 15 – EARNINGS PER SHARE

For the three months ended March 31, 2024, the Company had voting common stock, restricted stock awards, and non-voting common stock that were all eligible to participate in dividends equal to the voting common stock dividends on a per share basis. For the three months ended March 31, 2023, the Company had voting common stock, restricted stock awards, and non-voting preferred stock that were all eligible to participate in dividends. Securities that participate in dividends are considered “participating securities.” The Company calculates net income available to voting common shareholders using the two-class method required for capital structures that include participating securities.

In applying the two-class method, basic net income per share was calculated by dividing net income (less any dividends on participating securities) by the weighted average number of shares of common stock and participating securities outstanding for the period. Diluted earnings per share may include the additional effect of other securities, if dilutive. Potentially dilutive common stock equivalents consist of employee stock options and warrants. Unallocated common shares held by the ESOP are not included in the weighted average number of common shares outstanding for purposes of calculating earnings per common share until they are committed to be released to plan participants. The factors are used in the earnings per share computation follow:

(dollars in thousands, except for earnings per common share amounts)	Three Months Ended March 31,	
	2024	2023
Net (loss) income	\$ (1,539)	\$ 444
Less: convertible preferred stock dividends	—	(57)
Less: earnings allocated to participating securities	4	(1)
Net income allocated to common shareholders	\$ (1,535)	\$ 386
Basic weighted average common shares outstanding - Voting	4,127	3,473
Basic weighted average common shares outstanding - Non-Voting	820	—
Diluted weighted average common shares outstanding - Voting	4,127	3,478
Diluted weighted average common shares outstanding - Non-Voting	820	—
Basic earnings per common share - Voting	\$ (0.31)	\$ 0.11
Basic earnings per common share - Non-Voting	\$ (0.31)	—
Diluted earnings per common share - Voting	\$ (0.31)	\$ 0.11
Diluted earnings per common share - Non-Voting	\$ (0.31)	—

Participating securities are restricted stock awards and preferred stock since they participate in common stock dividends. Stock options for 112,500 and 118,820 shares of common stock and warrants totaling 211,667 and 211,667 were not considered in computing diluted earnings per common share for 2024 and 2023, because they were antidilutive.

NOTE 16 – REAL ESTATE OWNED

Real estate owned activity was as follows (dollars in thousands):

	Three months ended March 31, 2024	Three months ended March 31, 2023
Beginning balance	\$ 3,000	\$ —
Foreclosures and additions	—	—
Loss on sale	(432)	—
Sales	(2,568)	—
Ending balance	<u>\$ —</u>	<u>\$ —</u>

As of September 30, 2023, the Bank experienced a deterioration of one large out of market commercial real estate loan which resulted in this loan becoming nonperforming. As of December 31, 2023, a \$3.3 million loss was reflected in the Bank's operating results, and the remaining \$3 million balance was transferred to other real estate owned. During the three months ended March 31, 2024, the note associated with this loan was sold for \$2.6 million and a \$432,000 pre-tax loss was reflected in the Bank's operating results.

At March 31, 2024, and December 31, 2023, there were no foreclosed residential real estate properties recorded as a result of obtaining physical possession of the properties. In addition, at March 31, 2024, and December 31, 2023, there were no recorded investments of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process.

NOTE 17 – PRIVATE PLACEMENT OF COMMON AND PREFERRED STOCK

In December 2022 and January 2023, the Company completed one private placement of common stock and one private placement of preferred stock, respectively. The Company issued 1,359,497 shares of common stock and 820,115 shares of convertible, non-voting Series A perpetual preferred stock at \$14.00 per share each, generating net cash proceeds of approximately \$28.6 million. The Company used the net proceeds from these private placements to support the acquisition of CBOA Financial, Inc. and to enhance capital ratios.

In conjunction with the private placements, the Company issued warrants to purchase up to 211,667 shares of Common Stock at a price of \$14.00. The approximate fair value of the warrants was deemed immaterial by management. The Warrants are exercisable at any time after their grant date, and from time to time, in whole or in part, for 7 years from their grant dates, on December 30, 2029, and January 27, 2030. The exercise of such Warrants remains subject to certain contractual provisions and a "cashless exercise" may be executed.

Non-voting common stock – In accordance with the capital raise, and in conjunction with shareholder approval at the Annual Meeting that occurred on June 29, 2023, a class of non-voting common stock was created on July 19, 2023. On said date, the State of Maryland approved the Articles Supplementary to the Articles of Incorporation for Bancorp 34, Inc. in which a class of authorized stock containing 1,100,000 shares of non-voting common stock was established. In accordance with the stipulations established during the capital raise, the preferred stock issued during the raise was converted to the newly established class of non-voting common stock as of the date the class was created. Except for voting privileges, the new class of non-voting common stock is treated pari passu with common stock.

NOTE 18 – SUBSEQUENT EVENTS

In early April, the remaining \$50.8 million of the investment portfolio acquired in the acquisition of CBOA Financial, Inc. was liquidated. A portion of the proceeds were used to pay off \$20 million in borrowings from the Federal Reserve's BTFP platform. The remaining \$30.8 million was held in cash to supplement on hand liquidity.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

In this section, unless the context suggests otherwise, references to “we,” “us,” “our,” and “the Company” mean the combined business of Bancorp 34 and its wholly-owned subsidiary, Southwest Heritage Bank.

The purpose of this discussion and analysis is to focus on significant changes in: (i) the financial condition of Bancorp 34, Inc. and our wholly owned subsidiary, Southwest Heritage Bank, from December 31, 2023, through March 31, 2024; and (ii) on our results of operations for the three months ended March 31, 2024, and 2023. This discussion and analysis should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended December 31, 2023, included in our Annual Report on Form 10-K, and information presented elsewhere in this Quarterly Report on Form 10-Q, particularly the unaudited consolidated financial statements and related notes appearing in Item 1.

Overview

Bancorp 34, headquartered in Scottsdale, Arizona, is the holding company for Southwest Heritage Bank (formerly Bank 34). On March 19, 2024, Bancorp 34 acquired CBOA Financial, Inc. (“CBOA”). Immediately following the acquisition, CBOA’s wholly-owned subsidiary, Commerce Bank of Arizona, was merged with and into Bancorp 34’s wholly-owned subsidiary, Bank 34, a federally chartered stock covered savings association. Bank 34 was subsequently rebranded as Southwest Heritage Bank. Southwest Heritage Bank provides a variety of banking services to individuals and businesses through its eight full-service community bank branches, three in Maricopa County, Arizona, in the cities of Scottsdale and Gilbert; three in Pima County, Arizona, in the cities of Tucson and Green Valley; one branch in Otero County, New Mexico in the city of Alamogordo; and one branch in Dona Ana County New Mexico, in the city of Las Cruces.

We offer a full range of relationship-focused services to meet our clients’ business and personal financial objectives, with branches in Arizona and New Mexico. Our product lines include commercial loans, commercial real estate loans, and a variety of commercial and consumer deposit products, including noninterest bearing accounts, interest-bearing demand products, savings accounts, money market accounts and certificates of deposit. We also offer online banking and bill payment services, online cash management, safe deposit box rentals, debit card and ATM card services and the availability of a network of ATMs for our customers.

Bancorp 34 generates most of its income from interest income on loans, investment securities and deposits in other financial institutions, and service charges on customer accounts. Bancorp 34 incurs interest expense on deposits and other borrowed funds and noninterest expenses such as salaries and employee benefits, occupancy expenses, and technology expenses. Net interest income is the largest source of Bancorp 34’s revenue. Net interest spread is the difference between rates earned on interest-earning assets and rates paid on interest-bearing liabilities. Net interest margin is calculated as net interest income divided by average interest-earning assets. Because noninterest-bearing sources of funds, such as noninterest-bearing deposits and shareholders’ equity, also fund interest-earning assets, net interest margin includes the benefit of these noninterest-bearing sources.

Changes in the market interest rates and interest rates Bancorp 34 earns on interest-earning assets or pays on interest-bearing liabilities, as well as the volume and types of interest-earning assets, interest-bearing and noninterest-bearing liabilities, and shareholders’ equity, are usually the largest drivers of periodic changes in net interest spread, net interest margin, and net interest income. Fluctuations in market interest rates are driven by many factors, including governmental monetary policies, inflation, deflation, macroeconomic developments, changes in unemployment, the money supply, political and international conditions, and conditions in domestic and foreign financial markets. Periodic changes in the volume and types of loans in Southwest Heritage Bank’s loan portfolio are affected by, among other factors, economic and competitive conditions in Arizona and New Mexico, as well as developments affecting the real estate, technology, financial services, insurance, transportation, manufacturing and homebuilding sectors within Southwest Heritage Bank’s target market.

Bancorp 34 manages its operations as one unit, and thus does not have separate operating segments.

Critical Accounting Estimates

Our consolidated financial statements are prepared based on the application of accounting policies in accordance with generally accepted accounting principles, or “GAAP,” and follow general practices within the banking industry. These policies require the reliance on estimates, assumptions and judgments, which may prove inaccurate and are subject to variations. Changes in underlying factors, estimates, assumptions or judgements could have a material impact on our future financial condition and results of operations.

Certain policies inherently have a greater reliance on the use of estimates, assumptions and judgments and, as such, have a greater possibility of producing results that could be materially different than originally reported. We have identified the determination of the allowance for credit losses and fair value measurements to be the accounting areas that require the most subjective or complex judgments and, as such, could be most subject to revision as new or additional information becomes available or circumstances change, including overall changes in the economic climate and/or market interest rates. Therefore, we consider these policies, discussed below, to be critical accounting estimates and discuss them directly with the Audit Committee of our board of directors.

Our significant accounting policies are presented in our audited consolidated financial statements, Note 1—Nature of Operations and Significant Accounting Policies, for the year ended December 31, 2023, included in our Annual Report on Form 10-K. These policies, along with the disclosures presented in the other financial statement notes and, in this discussion, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Recent accounting pronouncements and standards that have impacted or could potentially affect us are also discussed in Note 1 of our audited consolidated financial statements, included in our 2023 Annual Report on Form 10-K.

Allowance for credit losses

One significant accounting policy is our accounting policy related to the allowance for credit losses (“ACL”). Effective January 1, 2023, we adopted ASU 2016-13, Financial Instruments – Measurement of Current Expected Credit Losses on Financial Instruments (“CECL”), using the modified retrospective method for our financial assets measured at amortized cost. CECL changed our method of accounting for credit losses from an incurred loss model to an expected credit loss model. Under the prior incurred loss model, credit losses on financial instruments were recognized when a probable loss was incurred, while CECL is an “expected credit loss” model. The expected credit loss model represents management’s estimate of expected credit losses to the full contractual maturity of the financial asset and is based on historical experience, current conditions, and reasonable and supportable forecasts. We believe the determination of the ACL involves a greater amount of judgment and complexity when compared with our other significant accounting policies.

Qualitative factors are used in the CECL model to address various internal and external factors that may not be captured by the quantitative modeling or historical data needed to assess the expected credit losses. Qualitative factors considered include, but may not be limited to, the following: lending policies and procedures; changes in underwriting standards; nature and volume of financial assets; changes in lending staff; volume and severity of past due or adversely classified assets; changes in collateral values; and the internal credit review function.

The Company uses a 12-month forecast that is reasonable and supportable within the ACL calculation and then reverts to historical credit loss experience on a straight-line basis over a one-year timeline. Historical credit loss experience is then used for the remaining life of the assets. The Company uses several economic variables in the calculation of the ACL, the most significant of which is the economic forecast for the national unemployment rate. In the March 31, 2024, estimate, the Company assumed a forecasted unemployment rate of 4.5%, which has improved from the December 31, 2023, forecasted rate of 4.7%. Changes in the economic forecast for unemployment rates could significantly affect the estimated credit losses which could potentially lead to materially different ACL levels from one reporting period to the next.

For our bank, CECL requires a separate ACL for each of: (i) loans held-for-investment; (ii) unfunded commitments; and (iii) held-to-maturity debt securities.

ACL – Loans held-for-investment

The level of the ACL on loans held-for-investment is calculated to maintain a credit loss reserve level that management considers sufficient to absorb estimated credit losses. Management’s determination of the adequacy of the ACL is based on the periodic evaluation of borrowers’ abilities to make loan payments, local and national economic conditions, and other subjective factors. The evaluation has subjective components requiring significant estimates that include default probabilities, expected loss given default, and estimated credit losses based on historical credit loss experience and forecasted economic conditions. All these factors may be susceptible to significant change and when actual results differ from the estimates, additional provisions for credit losses may be required, which would adversely impact profitability.

The ACL for pooled loans is estimated using a non-discounted cash flow methodology. The Bank then applies probability of default and loss given default to the cashflow methodology to calculate expected losses within the model. This allows the Bank to identify the timing of default as compared to when the actual loss event may occur. The results are then aggregated to produce segment level results and reserve requirements for each segment. The quantitative model also incorporates forward-looking macroeconomic information over a reasonable and supportable period of twelve months with a reversion to historical losses occurring on straight line basis over the next 12 months.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not included in the pooled loan evaluation. When management determines that foreclosure is probable, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

Qualitative adjustments to historical loss data are made based on management's assessment of the risks that may lead to a future loan loss or differences in current loan-specific risk characteristics such as differences. A ratings scale is used to tie risk metrics within lending policies and procedures, economic factors not encompassed in the quantitative model, changes in nature of the volumes and terms of loans, changes in the volume and severity of past due assets, concentrations within the loan portfolio. Additional factors such as staffing, loan review, collateral values, regulatory, legal, and technological risks are also reviewed on a more qualitative basis. The ratings scale used in the qualitative modeling is derived from the Bank's historical loss percentages in which the highest risk metrics would align with the highest historical loss percentages adjusted for the expected life of the current portfolio.

Management has determined that calculating an ACL amount for accrued interest receivable on loans held-for-investment would not be significant, and this is excluded from our estimate of credit losses for loans held-for-investment. Additionally, we write off applicable accrued interest receivable balances in a timely manner when a loan is placed on non-accrual status, in which any accrued interest, not received in cash, is reversed from interest income.

The ACL also excludes loans held-for-sale and loans accounted for under the fair value option. Assets purchased with credit deterioration ("PCD") assets represent assets that are acquired with evidence of more than insignificant credit quality deterioration since origination at the acquisition date. At acquisition, the allowance for credit losses on PCD assets is booked directly to the ACL. Any subsequent changes in the ACL on PCD assets is recorded through the provision for credit losses.

The ACL is a contra-asset on our balance sheet that is deducted from the amortized cost of loans held-for-investment to present on our balance sheet the net amount expected to be collected. Loans are charged-off against the ACL when management believes the full or partial collectability is confirmed.

ACL – Unfunded commitments

We estimate expected credit losses on unfunded commitments over the contractual period in which we are exposed to credit risk via our contractual obligations to extend credit unless such obligations are unconditionally cancellable by us. The probability of funding such commitments in the future is based on historical utilization statistics for unfunded commitments. The credit loss rates used are calculated using the same assumptions as the associated funded balance.

The ACL on unfunded commitments is categorized in Other Liabilities on our balance sheet and, from time to time, is adjusted as a provision for credit loss expense.

ACL – Held-to-maturity debt securities

Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type. Our held-to-maturity debt securities is comprised of bank subordinated debt. The ACL on held-to-maturity securities is adjusted through provision for credit losses and is recorded as a contra asset to held-to-maturity securities. Management has determined that calculating an ACL amount for accrued interest receivable on held-to-maturity debt securities would not be significant, and this is excluded from our estimate of credit losses for held-to-maturity debt securities.

Upon our January 1, 2023 CECL adoption, we recorded an increase to the ACL on loans held-for-investment of \$604,000, established an ACL on unfunded commitments of \$165,000, established an ACL on held-to-maturity investments of \$38,000, recorded an increase to deferred tax assets of \$153,000, and a corresponding one-time cumulative reduction to retained earnings, net of tax, of \$654,000 in the consolidated balance sheet as of January 1, 2023.

For further information regarding our Allowance for Credit Losses see Note 1 and Note 4—LOANS AND ALLOWANCE FOR CREDIT LOSSES in our unaudited consolidated financial statements included in Item 1. of this Quarterly Report on Form 10-Q.

Business Combinations

Assets acquired, including identified intangible assets such as core deposit intangibles, and liabilities assumed as a result of a merger or acquisition transaction are recorded at their estimated fair values. The difference between the net fair value of assets acquired and liabilities assumed, and the consideration paid is recorded as a bargain purchase gain. Management engages third-party specialists to assist in the development of fair value estimates. Significant estimates and assumptions used to value acquired assets and liabilities assumed include, but are not limited to, projected cash flows, future growth rates, repayment rates, default rates and losses assuming default, discount rates, and realizable collateral values. The allowance for credit losses for PCD loans is recognized within acquisition accounting. The allowance for credit losses for non-PCD assets is recognized as provision for credit losses in the same reporting period as the merger or acquisition. Fair value adjustments are amortized or accreted into the income statement over the estimated lives of the acquired assets and assumed liabilities. The purchase date valuations and any subsequent adjustments determine the amount of bargain purchase gain recognized in connection with the merger or acquisition.

Preliminary estimates of fair values may be adjusted for a period of time no greater than one year subsequent to the merger or acquisition date if new information is obtained about facts and circumstances that existed as of the merger or acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. Adjustments recorded during this period are recognized in the current reporting period. For further information regarding the Merger, see Note 2 in our unaudited consolidated financial statements included in Item 1. of this Quarterly Report on Form 10-Q.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is based on quoted market prices, or if market prices are not available, is estimated using models employing various techniques.

The significant assumptions used in the models are independently verified against observable market data where possible. When observable market data is not available, the estimate of fair value becomes more subjective and involves a high degree of judgment. In this circumstance, fair value is estimated based on our judgment regarding the value that market participants would assign to the asset or liability. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there are inherent limitations to any valuation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future values.

A portion of our assets and liabilities are carried at fair value on our consolidated balance sheet. The majority of these assets and liabilities are measured at fair value on a recurring basis, however, certain assets are measured at fair value on a nonrecurring basis based on the fair value of the underlying collateral.

For further information regarding the valuation of our financial instruments, see Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES and Note 14 – FAIR VALUE INFORMATION in our unaudited consolidated financial statements included in Item 1. of this Quarterly Report on Form 10-Q.

CBOA Financial, Inc. Merger

On March 19, 2024, Bancorp 34 completed its previously announced merger with CBOA pursuant to the Agreement and Plan of Merger, dated as of April 27, 2023, as amended (the “Merger Agreement”). Under the Merger Agreement, CBOA was merged with and into Bancorp 34, with Bancorp 34 continuing as the surviving entity (the “Merger”). Immediately following the completion of the Merger, CBOA’s wholly-owned subsidiary, Commerce Bank of Arizona, an Arizona state-chartered bank, was merged with and into the Bank, with the Bank continuing as the surviving bank.

Pursuant to the terms of the Merger Agreement, at the effective time of the Merger, each CBOA shareholder had the right to receive 0.2628 shares of Bancorp 34 common stock, for each share of CBOA common stock owned by the CBOA shareholder, with cash to be paid in lieu of fractional shares. Additionally, each outstanding CBOA restricted stock unit vested and was cancelled and converted automatically into the right to receive 0.2628 shares of Bancorp 34 common stock with respect to each share of CBOA common stock underlying such restricted stock unit. In connection with the Merger, Bancorp 34 issued 2,742,257 shares of Bancorp 34 common stock, which had a fair value of approximately \$23.3 million based on a common shares valuation completed by an independent third party as of the Merger date. Each outstanding share of Bancorp 34 common stock remained outstanding and was unaffected by the Merger.

Commerce Bank of Arizona operated five full-service offices serving customers in Gilbert, Green Valley, Oro Valley, Scottsdale and Tucson, Arizona. The combined banks operate as Southwest Heritage Bank and serve customers from eight full-service offices in Arizona and southern New Mexico. The core system conversion was executed in March 2024.

We accounted for the Merger using the acquisition method of accounting in accordance the Financial Accounting Standards Board’s Accounting Standards Code 805 (“ASC 805”), Business Combinations, and accordingly, the assets and liabilities of CBOA were recorded at their respective Merger date fair values. The fair values of assets and liabilities are preliminary and subject to refinement for up to one year after the Merger date as additional information relative to the Merger date fair values becomes available. Effective in March 2024, we recognized a preliminary bargain purchase gain of \$5.1 million in connection with the Merger (not taxable for income tax purposes), which is recognized in our first quarter 2024 operating results. The core deposit intangible asset of \$8.9 million represents the estimated value of Commerce Bank of Arizona’s long-term deposit relationships with its customers and will be amortized over an estimated weighted average life of ten years using an accelerated method, which approximates the estimated run-off of the acquired deposits. Through March 31, 2024, Bancorp 34 incurred approximately \$6.4 million of merger-related expenses, \$3.3 million of which was incurred during the first quarter of 2024.

For further information regarding the Merger, see Note 2 in our unaudited consolidated financial statements included in Item 1. of this Quarterly Report on Form 10-Q.

Results of Operations

General

Our results of operations depend substantially on net interest income, which is the difference between interest income on interest-earning assets, consisting primarily of interest income on loans, investment securities and other short-term investments, and interest expense on interest-bearing liabilities, consisting primarily of deposits and borrowings. Our results of operations are also dependent on our generation of non-interest income, consisting primarily of income from service charges on deposit accounts, interchange and ATM fees, and gains on sales loans. Other factors contributing to our results of operations include our provisions for credit losses, income taxes, and non-interest expenses, such as salaries and employee benefits, occupancy, amortization of intangible assets, and other operating costs.

We had a net loss of \$1.5 million and net income of \$0.4 million for the first quarters ended March 31, 2024, and 2023, respectively. The first quarter 2024 net loss includes: (i) a one-time preliminary bargain purchase gain on the Merger of \$5.1 million (none of which is taxable); (ii) \$3.3 million of Merger expenses (a portion of which is not deductible for income taxes); (iii) a \$4.1 million pre-tax non-PCD loan provision related to the Merger; (iv) a \$0.4 million pre-tax loss on the sale of a note associated with a loan which was classified as other real estate owned; and (v) an income tax benefit of \$2 million. Our net income in the first quarter of 2023 primarily reflects net interest income of \$4 million, operating expenses of \$3.6 million, and an income tax provision of \$0.2 million. There were no Merger expenses incurred during the first quarter of 2023.

Net Interest Income

Three months ended March 31, 2024, and 2023

Our net interest income was \$3.7 million and \$4.1 million for the first quarter of 2024 and 2023, respectively. This decrease of \$0.4 million, or 9.9%, reflects \$1.3 million from higher volumes and rates on our loans and other interest earning assets, all of which were more than offset by higher funding costs of \$1.7 million, which was driven by \$1.3 million due to higher funding rates, and to a lesser extent, higher certificate of deposit average volumes.

Average earning assets were \$585.7 million and \$543.3 million during the first quarter of 2024 and 2023. This increase of \$42.4 million, or 7.8%, partially reflects the post-Merger date (March 19th, 2024) partial month of March 2024 during which the Commerce Bank of Arizona loans were legally owned by Southwest Heritage Bank. Average earning asset yields in the first quarter of 2024 and 2023 were 5.44% and 4.98%, respectively and is reflective of our loan portfolio repricing in the current interest rate environment.

Comparing average interest-bearing liabilities in the first quarter of 2024 and 2023, we experienced an increase of \$35.3 million, or 8.6%. This increase reflects a continued increase in time deposits and the broader market trends in which customers have reduced non-interest- and interest-bearing demand deposits in favor of term CDs given the rising bank deposit rate environment. Additionally, this increase also includes the post-Merger date impact of Commerce Bank of Arizona deposits for the partial month of March 2024. Average brokered deposits, sometimes referred to as “brokered CDs”, are included in average time deposits and were \$27.9 million in the first quarter of 2024.

Average noninterest bearing deposits increased \$8.2 million, or 8.7%, from \$94.3 million in the first quarter of 2024 to \$102.5 million in the first quarter of 2024. This increase includes the impact of the March 19, 2024, Merger with Commerce Bank of Arizona.

The average balance sheet amounts, the related interest income or expense, and average rates earned or paid are presented in the following table. In the following table, subtotals and totals may not add up due to rounding. Rounding differences may occur in the presentation of numbers, and these variances do not impact the accuracy or reliability of the underlying financial data. All figures are presented in thousands unless otherwise stated.

	For the Three Months Ended March 31,					
	2024			2023		
	Average Outstanding Balance	Interest ⁽²⁾	Yield/ Rate	Average Outstanding Balance	Interest	Yield/ Rate
	(Dollars in thousands)					
Interest-earning assets:						
Loans ⁽¹⁾	\$ 481,325	\$ 6,890	5.76%	\$ 465,633	\$ 6,109	5.32%
Securities	66,654	470	2.84%	63,918	418	2.65%
Other interest earning assets	37,766	560	5.96%	13,722	138	4.08%
Total interest-earning assets	585,746	7,920	5.44%	543,273	6,665	4.98%
Noninterest-earning assets	37,277			30,479		
Total assets	\$ 623,023			\$ 573,752		
Interest-bearing liabilities:						
Checking, money market and savings accounts	\$ 254,506	\$ 2,015	3.18%	\$ 279,553	\$ 1,579	2.29%
Time deposits	135,646	1,597	4.74%	93,073	622	2.71%
Total interest-bearing deposits	390,152	3,612	3.72%	372,626	2,201	2.40%
Advances from FRB SF BTFP	31,473	380	4.85%	14,206	131	3.74%
Other Debt	25,041	264	4.23%	24,543	264	4.36%
Total interest-bearing liabilities	446,665	4,255	3.83%	411,375	2,596	2.56%
Non-interest bearing deposits	102,486			94,301		
Non-interest bearing liabilities	7,530			8,835		
Total liabilities	556,681			514,511		
Stockholders' equity	66,342			59,241		
Total liabilities and stockholders' equity	\$ 623,023			\$ 573,752		
Net interest income		\$ 3,665			\$ 4,069	
Net interest rate spread			1.61%			2.42%
Net interest margin			2.52%			3.04%

(1) Includes nonaccrual loans.

(2) Accretion and amortization of the fair value marks from the Merger are included in this column.

Rate-Volume Analysis

The table below presents the effect of volume and rate changes on interest income and expense. Changes in volume are based on the current period's average balance multiplied by the previous period's average rate. Changes in rate are based on the current period's average rate multiplied by the average balance from the previous period. The net changes attributable to the combined impact of both rate and volume have been allocated proportionately to the changes due to volume and the changes due to rate. In the following table, subtotals and totals may not add up due to rounding. Rounding differences may occur in the presentation of numbers, and these variances do not impact the accuracy or reliability of the underlying financial data. All figures are presented in thousands unless otherwise stated.

2024 Compared to 2023 Volume and Rate Analysis

	For the three months ended March 31, 2024 Compared to 2023		
	Increase (Decrease) Due to		Total Increase (Decrease)
	Volume	Rate	
Interest-earning assets:			
Loans	\$ 206	\$ 575	\$ 781
Securities	18	34	52
Other interest earning assets	331	90	422
Total interest-earning assets	555	700	1,255
Interest-bearing liabilities:			
Checking, money-market, and savings accounts	(124)	560	436
Certificates of deposit	364	611	975
Total deposits	241	1,170	1,411
Advances from FRB and FHLB	198	51	249
Subordinated debt, net of issuance costs	(8)	8	(0)
Total interest-bearing liabilities	431	1,229	1,659
Change in net interest income	\$ 125	\$ (529)	\$ (404)

Allowance and Provision for Credit Losses – Loans held-for-investment

At March 31, 2024, and March 31, 2023, our ACL for loans held for investment was \$10.7 million and \$5.9 million, respectively, which represents 1.42% and 1.28% of loans held for investment, respectively. We maintain ACL at a level that management believes is adequate to absorb expected credit losses over the lifetime of our loans held-for-investment. Specifically, identifiable and quantifiable losses are immediately charged off against the allowance; recoveries are generally recorded only when sufficient cash payments are received subsequent to the charge-off. Our ACL at March 31, 2024, and in connection the Merger, included: (i) a \$4.1 million provision expense related to the performing loans, "Non-PCD" loans of \$300 million; and (ii) a \$1.2 million on-balance sheet gross up of loans identified as purchased credit deteriorated loans, "PCD" loans of \$30 million. For more information on the Merger, Non-PCD loans, and PCD loans, please see Note 2 in our unaudited financial statements herein.

The provision for credit losses, from time to time, includes a charge to our operating results in order to maintain the ACL at a level consistent with management's assessment of the collectability of the loans held-for-investment in light of current economic conditions and market trends. Our provision for credit losses was \$3.9 million and \$1,000 in the first quarter of 2024 and 2023, respectively. The first quarter 2024 \$3.9 million provision for credit loss expense primarily reflects the Merger-related \$4.1 million charge for Non-PCD loans described above, partially offset by a \$0.2 benefit caused by the decline in loans amounts at the existing institution. The relatively low provision for credit loss expense in the first quarter of 2023, reflects the impact from our CECL adoption effective January 1, 2023, which resulted in a one-time net of income tax charge to retained earnings of \$654,000.

Allowance for Credit Losses – Off Balance Sheet Credit Exposures and Held-to-Maturity investments

During the first quarter of 2024, we recorded \$64,000 as provision credit loss expense pertaining to our held-for-investments and unfunded commitments, combined. Upon our CECL adoption effective January 1, 2023, we recorded an ACL of \$38,000 and \$165,000, for held-to-maturity investments and unfunded commitments, respectively.

Noninterest Income

<i>(In thousands)</i>	Three months ended March 31,	
	2024	2023
Service charges and other fees	\$ 94	\$ 99
Bank owned life insurance	68	59
Loss on sale of OREO	(432)	—
Preliminary Bargain purchase gain on the Merger	5,136	—
Total noninterest income	<u>\$ 4,866</u>	<u>\$ 158</u>

Our noninterest income for the first quarter of 2024, primarily reflects a \$5.1 million one-time preliminary bargain purchase gain, none of which is taxable for income tax purposes, partially offset by a \$0.4 million pre-tax loss on the sale of a note associated with a loan which was classified as other real estate owned. For further information regarding the Merger and the preliminary bargain purchase gain, see Note 2 in our unaudited consolidated financial statements included in Item 1. of this Quarterly Report on Form 10-Q.

Noninterest Expense

<i>(In thousands)</i>	Three months ended March 31,	
	2024	2023
Salary and employee benefits	\$ 2,525	\$ 2,103
Occupancy	421	258
Data processing	742	617
FDIC insurance premiums and other insurance	96	64
Professional fees	542	267
Merger costs	3,348	—
Advertising	11	20
Other	472	297
Total noninterest expense	<u>\$ 8,157</u>	<u>\$ 3,626</u>

Our noninterest expense increased \$4.5 million from the first quarter of 2023 compared to the first quarter of 2024. This increase primarily reflects \$3.3 million in Merger costs incurred in the first quarter of 2024. Included within the \$3.3 million of Merger costs is \$1.2 million in core processing and online banking contract termination fees. Additionally, salary and benefits, occupancy and data processing also increased across these periods.

Efficiency ratio

The efficiency ratio is one measure of profitability in the banking industry. This ratio measures the cost of generating one dollar of revenue. That is, the ratio is designed to reflect the percentage of one dollar which must be expended to generate that dollar of revenue. We calculate this ratio by dividing non-interest expense by the sum of net interest income, before provision expense for credit losses, and non-interest income.

Our efficiency ratio was 95.60% and 85.71% for the quarters ended March 31, 2024, and 2023.

Return on equity and assets

The following table sets forth our ROAA, ROAE, dividend payout and average stockholders' equity to average assets ratio for the periods ended:

	March 31, 2024	March 31, 2023
Return on average total assets (ROAA)	(0.99)%	0.32%
Return on average stockholders' equity (ROAE)	(9.30)%	3.03%
Dividend payout ratio	(0.00)%	63.64%
Average stockholders' equity to average assets	10.65%	10.67%

Income Taxes

We had a \$2 million income tax benefit for the first quarter of 2024, which represents a 56.6% effective income tax rate. This first quarter 2024 relatively high effective income tax rate reflects two Merger-related items: (i) non-taxable preliminary bargain purchase gain of \$5.1 million; and (ii) partially deductible Merger costs of \$3.3 million. Our effective rate for the first quarter of 2023 was 26.3%. For further information on income taxes, please reference Note 10 in our unaudited consolidated financial statements included in Item 1. of this Quarterly Report on Form 10-Q.

Financial Condition

Balance Sheet

Our total assets were \$980.2 million at March 31, 2024, and \$581.3 million at December 31, 2023. Our total loans held for investment were \$750.3 million at March 31, 2024, and \$457 million at December 31, 2023. The 68.6% and 64.2% increase in our total assets and total loans, respectively, largely reflects total assets, as adjusted for estimated fair values of \$419.3 million, and total loans, as adjusted for estimated fair values, of \$310.9, which were acquired in connection with the Merger. The legacy loan portfolio reduced approximately \$20 million during the first quarter of 2024 as well. For further information regarding the Merger, see Note 2 in our unaudited consolidated financial statements included in Item 1. of this Quarterly Report on Form 10-Q.

Investment Securities

Our securities portfolio is used to make various term investments, maintain a source of liquidity and serve as collateral for certain types of borrowings. We manage our investment portfolio according to written investment policies approved by our board of directors. Investment in our securities portfolio may change over time based on our funding needs and interest rate risk management objectives. Our liquidity levels take into account anticipated future cash flows and available sources of funds and are maintained at levels that we believe are appropriate to provide the necessary flexibility to meet our anticipated funding requirements.

Our investment securities portfolio consists of securities classified as available-for-sale and held-to-maturity. There were no trading securities in our investment portfolio as of March 31, 2024, and December 31, 2023. All available-for-sale securities are carried at fair value and may be used for liquidity purposes should management consider it to be in our best interest.

Our securities available-for-sale were \$102.2 million and \$56.7 million at March 31, 2024, and December 31, 2023, respectively. This 80.3% increase largely reflects the \$58.2 million of securities available for sale, as adjusted for estimated fair values, which were acquired in connection with the Merger. For further information regarding the Merger, see Note 2 in our unaudited consolidated financial statements included in Item 1. of this Quarterly Report on Form 10-Q. After the Merger date, management liquidated the entire \$58.2 million acquired investment portfolio in late March and early April, and management determined that these sales prices were the best indicator of the fair value of the investment portfolio effective as of the Merger date.

Loans

Our loan portfolio represents a broad range of borrowers primarily in our markets in Arizona and New Mexico, comprised of construction, commercial, commercial real estate, residential real estate, and consumer financing loans.

The following tables set forth the composition of our loan portfolio, as of the periods presented:

<i>(In thousands)</i>	March 31, 2024		December 31, 2023	
	Amount	% of total loans	Amount	% of total loans
1-4 Family residential real estate	72,500	9.7%	61,645	13.5%
Commercial	128,051	17.0%	50,169	10.9%
Consumer and other	872	0.1%	698	0.2%
Construction	56,480	7.5%	34,538	7.5%
NOO CRE	263,097	35.0%	168,404	36.8%
OO CRE	159,735	21.3%	82,228	17.9%
Multifamily	70,908	9.4%	60,546	13.2%
Total gross loans	<u>\$ 751,643</u>	<u>100%</u>	<u>\$ 458,228</u>	<u>100%</u>

Family residential real estate loans represent loans to consumers collateralized by a mortgage on a residence and include purchase money, refinancing, secondary mortgages, and home equity loans and lines of credit.

Commercial loans include commercial and industrial loans to commercial customers for use in normal business operations to finance working capital needs, equipment and inventory purchases, and other expansion projects. SBA, USDA and other small business lending products are also included. These loans are made primarily in our market areas are underwritten on the basis of the borrower's ability to service the debt from revenue, and are generally extended under our normal credit standards, controls and monitoring systems.

Consumer and other include direct consumer installment loans, overdrafts and other revolving loans.

Construction loans include both residential and commercial projects. Construction loan terms are dependent upon the project, but in some cases the loan will be longer term and include both the construction phase as well as longer term financing.

Commercial real estate loans include owner occupied and non-owner occupied commercial real estate mortgage loans to operating commercial businesses and include loans for long-term financing of land and buildings. No significant concentrations are present within the CRE portfolio as the bank has made an effort to diversify across various industries and geographic locations. While the majority of these loans are made primarily in our market area, some of the loans have out of market properties. In response to the deterioration of a large out of market commercial real estate loan during 2023, management engaged an external party to complete a loan review that included approximately 90% of the out of market collateral portfolio. Additionally, management reviewed the property appraisals associated with the out of market loans and plans to limit out of market lending moving forward.

Multifamily loans are for those properties that have five or more units with borrowers who are primarily commercial entities. The Bank finances loans in several different multifamily types but does not have a concentration in any one type and does not do any specialty lending in this area. These loans are made primarily in our market area.

Maturities and Sensitivity of Loans to Changes in Interest Rates

The information in the following table is based on the contractual maturities of individual loans, including loans that may be subject to renewal at their contractual maturity. Renewal of these loans is subject to review and credit approval, as well as modification of terms upon maturity. Actual repayments of loans may differ from the maturities reflected below because borrowers have the right to prepay obligations with or without prepayment penalties. The following table summarizes the loan maturity distribution by type and related interest rate characteristics as of the periods presented:

(In thousands)

As of March 31, 2024	One year or less	After one through five years		After five through 15 years		After 15 years		Total
		Fixed	Variable	Fixed	Variable	Fixed	Variable	
1-4 Family residential real estate	\$ 2,914	\$ 38,437	\$ 2,596	\$ 12,248	\$ 4,521	\$ 4,579	\$ 7,060	\$ 72,355
Commercial	30,921	31,335	18,584	24,649	20,055	—	2,413	127,957
Consumer and other	781	91	—	—	—	—	—	872
Construction	20,990	9,216	1,706	6,759	15,835	1,904	—	56,410
NOO CRE	22,892	91,578	18,813	44,146	67,255	1,907	16,032	262,623
OO CRE	7,278	33,394	9,132	47,278	61,475	—	819	159,376
Multifamily	3,994	33,465	7,417	20,668	5,170	—	—	70,714
Total loans	\$ 89,770	\$ 237,516	\$ 58,248	\$ 155,748	\$ 174,311	\$ 8,390	\$ 26,324	\$ 750,307

Allocation of Allowance for Credit Losses

The following tables present the allocation of the ACL on loans held-for-investment and the percentage of the total amount of loans held-for-investment in each category listed and as of the dates indicated:

<i>(Dollars in thousands)</i>	March 31, 2024		December 31, 2023	
	Allowance Amount	% of Portfolio	Allowance Amount	% of Portfolio
1-4 Family residential real estate	\$ 898	1.24%	\$ 736	1.19%
Commercial	2,907	2.27%	924	1.84%
Consumer and other	10	1.15%	8	1.15%
Construction	834	1.48%	512	1.48%
NOO CRE	3,107	1.18%	1,859	1.10%
OO CRE	2,153	1.35%	1,201	1.46%
Multifamily	766	1.08%	620	1.02%
Total	<u>\$ 10,675</u>	<u>1.42%</u>	<u>\$ 5,860</u>	<u>1.28%</u>

The ACL increase during the first quarter of 2024, primarily reflects impacts from the Merger as more fully discussed above. For further information regarding the Merger, see Note 2 in our unaudited consolidated financial statements included in Item 1. of this Quarterly Report on Form 10-Q.

Nonperforming Assets

We have established policies and procedures to guide us in originating, monitoring and maintaining the credit quality of our loan portfolio. These policies and procedures are required to be followed by our bankers and underwriters and exceptions to these policies require elevated levels of approval and are reported to our board of directors.

Nonperforming assets include all loans categorized as nonaccrual, other real estate owned and other repossessed assets. The accrual of interest on loans is discontinued, or the loan is placed on nonaccrual, when the full collection of principal and interest is in doubt. We do not generally accrue interest on loans that are 90 days or more past due. When a loan is placed on nonaccrual, previously accrued but unpaid interest is reversed and charged against interest income and future accruals of interest are discontinued. Payments by borrowers for loans on nonaccrual are applied to loan principal. Loans are returned to accrual status when, in our judgment, the borrower's ability to satisfy principal and interest obligations under the loan agreement has improved sufficiently to reasonably assure recovery of principal and the borrower has demonstrated a sustained period of repayment performance. In general, we require a minimum of six consecutive months of timely payments in accordance with the contractual terms before returning a loan to accrual status.

Historically other real estate owned (OREO) represents assets acquired through, or in lieu of, foreclosure. The amounts reported as OREO generally are supported by recent appraisals, with the appraised values adjusted, where applicable, for expected transaction fees likely to be incurred upon sale of the property. We typically have incurred recurring expenses relating to OREO in the form of maintenance, taxes, insurance, and legal fees, among others, until the OREO parcel is disposed. While disposition efforts with respect to our OREO are generally ongoing, if these properties are appraised at lower-than-expected values or if we are unable to sell the properties at the prices for which we expect to be able to sell them, we may incur additional losses. Southwest Heritage Bank held \$3 million of OREO, represented by one out of market commercial real estate property, at December 31, 2023, and no OREO at March 31, 2024.

The following tables set forth our non-performing assets, non-performing asset ratios, and net losses as a percentage of average loans for each period presented:

Nonperforming assets

<i>(Dollars in thousands)</i>	March 31, 2024	December 31, 2023
Nonaccrual loans:		
1-4 Family residential real estate	\$ 65	\$ 66
Commercial	2,046	1,208
Consumer and other	—	—
Construction	—	—
NOO CRE	371	—
OO CRE	—	—
Multifamily	953	970
Total nonaccrual loans	<u>3,435</u>	<u>2,244</u>
Accrual loans greater than 90 days past due	—	—
Total nonperforming loans (NPLs)	<u>3,435</u>	<u>2,244</u>
Other real estate owned and foreclosed assets, net	—	3,000
Total nonperforming assets (NPAs)	<u>\$ 3,435</u>	<u>\$ 5,244</u>
ACL	10,675	5,860
NPLs	3,435	2,244
ACL to NPLs	<u>310.77%</u>	<u>261.14%</u>
NPA's	3,435	5,244
Total Assets	980,179	581,265
NPAs to total assets	<u>0.35%</u>	<u>0.90%</u>
NPLs	3,435	2,244
Total Loans	750,307	457,027
NPLs to total loans	<u>0.46%</u>	<u>0.49%</u>

Total nonperforming assets were \$3.4 million as of March 31, 2024, compared to \$5.2 million at December 31, 2023. The decrease was due to the sale of the note for the prior OREO balance, being slightly offset by the non-accrual loans acquired through the Merger.

Potential problem loans are loans which management has serious doubts as to the ability of the borrowers to comply with the present loan repayment terms. Management has not identified any potential problem loans not included in the nonperforming assets table above.

Allowance for Credit Losses – Unfunded loan commitments

The following table presents the changes in the ACL on unfunded loan commitments for the three months ended March 31, 2024:

(in 000s)	Unfunded Loan Commitments
Allowance for credit losses:	
Beginning balance	\$ 135
Impact of merger with CBOA Financial, Inc.	222
Provision for credit losses	33
Ending balance	<u>\$ 390</u>

Deposits

Deposits represent our primary source of funds. We are focused on growing our core deposits through relationship-based banking with our business and consumer clients. Total deposits increased \$318.9 million as of March 31, 2024, compared to December 31, 2023. The primary reason for the increase was the Merger with CBOA. Brokered deposits decreased \$11.4 million from \$19.5 million on December 31, 2023, to \$8.1 at March 31, 2024, through maturities that were not renewed. Total time deposits, or CDs, continued to increase and represented 27% of total deposits at March 31, 2024. Customers continued to migrate toward the higher yielding CDs to lock in yields.

The following table sets forth the average balance amounts and the average rates paid on deposits held by us for the periods presented:

	For the three months ended March 31,			
	2024		2023	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
<i>(Dollars in thousands)</i>				
Noninterest-bearing demand deposits	\$ 102,486	—%	\$ 94,301	—%
Interest-bearing demand and NOW deposits	254,506	3.18	279,553	2.29
Certificates of deposit	135,646	4.74	93,073	2.71
Total deposits	<u>\$ 492,638</u>	2.95%	<u>\$ 466,927</u>	1.91%

For the three months ended March 31, 2024, and March 31, 2023, average certificates of deposit included average brokered CD balances of \$12.0 million and \$1.1 million, respectively. This growth in our brokered CD deposits in 2024 was used to supplement deposit growth, to assist in the management of interest rate risk through less volatile funding costs, and to reduce the reliance on short-term FHLB borrowings.

The following table sets forth the portion of the Bank's time deposits, by account, that are in excess of the FDIC insurance limit, by remaining time until maturity, as of March 31, 2024:

(In thousands)

Three months or less	\$ 12,466
Over three months through six months	45,059
Over six months through twelve months	16,634
Over twelve months	2,755
Total	\$ 76,914

As of March 31, 2024, and December 31, 2023, approximately \$352.2 million and \$195.6 million of our total deposit portfolio was uninsured. The estimates are based on the methodologies and assumptions used for the Bank's regulatory reporting requirements.

Federal Reserve Bank and Federal Home Loan Bank Advances

Other than deposits, we also utilize Federal Home Loan Bank (FHLB) advances and Federal Reserve Bank (FRB) advances as supplementary funding sources to finance our operations. At March 31, 2024 we had \$49 million of borrowings through the FRB's Bank Term Funding Program (BTFP) established in March 2023. At December 31, 2023, we had \$29 million borrowings through the BTFP. Our advances from the FRB are collateralized by pledged securities. At March 31, 2024, we had \$16.2 million in availability through the FRB's Discount Window. As of March 31, 2024, we had \$144.8 million in borrowing capacity at the FHLB of San Francisco.

The following table presents certain attributes of debt. The maximum month-end balance represents the high indebtedness at any month end during the first three months of 2024.

	Ending Balance	Period End Rate	Maximum Month End Balance	Period Average	
				Balance	Rate
As of and for the three months ended March 31, 2024					
Federal Home Loan Bank Advances	\$ 0	0.00%	0	\$ 0	0.00%
FRB Advances	49,000	5.06%	49,000	31,473	4.91%
Other Debt, net of issuance costs	27,254	4.58%	29,145	25,041	4.28%
Total	\$ 76,254	4.89%	\$ 78,145	\$ 56,514	4.63%

Other Debt

In addition to our FRB advances, we also have subordinated debt amounting to \$23.1 million at March 31, 2024 and \$4.1 million of trust preferred securities acquired in the CBOA Merger. See Note 7—BORROWINGS in our unaudited consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Capital Raises

During December 2022 and January 2023, Bancorp 34 completed two private placements of common and preferred stock. Bancorp 34 issued a total of 1,359,497 shares of common stock and 820,115 shares of convertible, non-voting Series A perpetual preferred Stock at \$14.00 per share each, generating net cash proceeds of approximately \$28.6 million. The Company used the net proceeds from these private placements to support the acquisition of CBOA and to enhance capital ratios.

In conjunction with the private placements, Bancorp 34 issued warrants to purchase up to 211,667 shares of common stock at a price of \$14.00. The approximate fair value of the warrants at the date of grant was not considered significant. The warrants are exercisable at any time after their grant date, and from time to time, in whole or in part, for seven years from their grant dates, between December 2029 and January 2030. The exercise of such warrants remains subject to certain contractual provisions and a “cashless exercise” may be executed.

For more information about these private placements, see Note 17—Private Placement of Common and Preferred Stock, in our unaudited financial statements included in Item 1. of this Quarterly Report on Form 10-Q.

Bancorp 34 (Parent Company)

Bancorp 34 has routine cash needs consisting primarily of operating expenses and debt service. Bancorp 34 can obtain funding to meet its obligations from dividends collected from its subsidiary, Southwest Heritage Bank, and through the issuance of varying forms of debt and equity. At March 31, 2024, Bancorp 34 had cash and equivalents of \$17 million, a \$1.5 million note receivable from the Southwest Heritage Bank ESOP, and debt outstanding of \$28.7 million, which includes \$5.2 million related to trust preferred debt assumed in connection with the merger with Commerce Bank of Arizona. Management believes Bancorp 34 has the ability to generate and obtain adequate amounts of liquidity to meet its requirements in the short-term and the long-term.

Federal banking laws regulate the dollar amount of dividends that may be paid by banking subsidiaries without prior approval. Southwest Heritage Bank may declare dividends without prior regulatory approval that do not exceed the total of retained net income for the current year combined with its retained net income for the preceding two years, subject to maintenance of minimum capital requirements. Prior regulatory approval to pay dividends was not required in 2022 or 2023. During the first quarter of 2024, Southwest Heritage Bank did not pay a dividend to Bancorp 34.

Southwest Heritage Bank

Southwest Heritage Bank’s liquidity management policy and our asset and liability management policy, or ALM policy, provides the framework that we use to seek to maintain adequate liquidity and sources of available liquidity at levels that will enable us to meet all reasonably foreseeable short-term, long-term, and strategic liquidity demands. Our Asset and Liability Management Committee, or ALCO, is responsible for oversight of our liquidity risk management activities in accordance with the provisions of our ALM Policy and applicable bank regulatory capital and liquidity laws and regulations. Our liquidity risk management process includes (i) ongoing analysis and monitoring of our funding requirements under various economic and interest rate scenarios, (ii) review and monitoring of lenders, depositors, brokers and other liability holders to ensure appropriate diversification of funding sources, and (iii) liquidity contingency planning to address liquidity needs in the event of unforeseen market disruption, including appropriate allocation of funds to a liquid portfolio of marketable securities and investments. We continuously monitor our liquidity position in order for our assets and liabilities to be managed in a manner that we believe will meet our immediate and long-term funding requirements. We seek to manage our liquidity position to meet the daily cash flow needs of customers, while maintaining an appropriate balance between assets and liabilities to meet the return on investment objectives of our stockholders. We also monitor our liquidity requirements in light of interest rate trends, changes in the economy, and the scheduled maturity and interest rate sensitivity of our securities and loan portfolios and deposits. Liquidity management is made more complicated because different balance sheet components are subject to varying degrees of management control. For example, the timing of maturities of our investment portfolio is fairly predictable and subject to a high degree of control when we make investment decisions.

Our liquidity position is supported by management of our liquid assets and liabilities and access to alternative sources of funds. Our short-term and long-term liquidity requirements are primarily to fund on-going operations, including payment of interest on deposits and debt, extensions of credit to borrowers and capital expenditures. These liquidity requirements are met primarily through our deposits, FHLB advances, subordinated debt and the principal and interest payments we receive on loans and investment securities. Cash, interest-bearing deposits in third party banks, securities available for sale and maturing or prepaying balances in our investment and loan portfolios are our most liquid assets. Other sources of liquidity that are available to us include the sale of loans we hold for investment, the ability to acquire additional national market non-core deposits, borrowings through the Federal Reserve's discount window and the issuance of additional debt or equity securities.

At March 31, 2024, Southwest Heritage Bank's cash and amounts due from banks and interest-bearing deposits in other financial institutions, amounted to \$72.7 million, or 7.4% of Southwest Heritage Bank's total assets, compared to \$28.9 million, or 5.0% of total assets, at December 31, 2023. The increase in Southwest Heritage Bank's liquid assets, during the first quarter of 2024, reflects: (i) \$30.9 million of cash acquired in connection with the Merger; (ii) \$8.4 million of proceeds received from the sale of available-for-sale debt securities; and (iii) \$2.6 million of proceeds received in connection with the final sale and settlement of an out-of-market OREO property.

The liability portion of our balance sheet serves as a primary source of liquidity. We plan to meet our future cash needs primarily through the generation of deposits. Customer deposits have historically provided a sizeable source of relatively stable and low-cost funds. At March 31, 2024, net loans as a percentage of deposits were 91.7%, compared to 98.1% at December 31, 2023. For additional information related to our deposits, see the "Deposits" section above.

We also have borrowing capacity at the Federal Reserve Bank ("FRB") of San Francisco and the FHLB of San Francisco, from which we can borrow for leverage or liquidity purposes. Both the FRB and FHLB require that securities and/or qualifying loans be pledged to secure any advances. At March 31, 2024, Southwest Heritage Bank had: (i) \$49 million in advances from the FRB's BTFP; (ii) \$16.2 million in availability through the FRB's Discount Window; (iii) \$145 million in borrowing capacity at the FHLB of San Francisco; and (iv) fully available unsecured Federal funds lines-of-credit with certain other financial institutions totaling \$52.8 million.

Management believes Southwest Heritage Bank has the ability to generate and obtain adequate amounts of liquidity to meet its requirements in the short-term and the long-term.

Capital Resources

Stockholders' equity at March 31, 2024, and December 31, 2023 was \$82.2 million and \$60.7 million, respectively. This increase primarily reflects the \$23.3 million estimated fair value of our 2.7 million common shares issued as consideration in connection with the Merger during the first quarter of 2024.

We are subject to various regulatory capital requirements administered by federal banking regulators. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by federal banking regulators that, if undertaken, could have a direct material effect on our financial statements.

Regulatory capital rules adopted in July 2013 and fully-phased in as of January 1, 2019, which we refer to as the Basel III rules, impose minimum capital requirements for bank holding companies and banks. The Basel III rules apply to all national and state banks and savings associations regardless of size and bank holding companies and savings and loan holding companies with consolidated assets of more than \$3 billion. In order to avoid restrictions on capital distributions or discretionary bonus payments to executives, a covered banking organization must maintain the fully-phased in "capital conservation buffer" of 2.5% on top of its minimum risk-based capital requirements. This buffer must consist solely of common equity Tier 1 risk-based capital, but the buffer applies to all three measurements (common equity Tier 1 risk-based capital, Tier 1 capital and total capital). At March 31, 2024, Bancorp 34 and Southwest Heritage Bank exceeded the regulatory minimums and met the regulatory definition of well-capitalized.

The following table shows the regulatory capital ratios for Bancorp 34 (consolidated) at the dates indicated:

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To be Well- Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	<i>(Dollars in thousands)</i>					
As of March 31, 2024						
Total risk-based capital to risk-weighted assets	\$ 112,239	13.54%	\$ 66,334	8.00%	\$N/A	N/A%
Tier 1 risk-based capital to risk-weighted assets	78,339	9.46	49,750	6.00	N/A	N/A
Common Equity Tier 1 (CET 1) to risk-weighted assets	N/A	N/A	N/A	N/A	N/A	N/A
Tier 1 leverage capital to average assets	78,339	7.98	39,274	4.00	N/A	N/A
As of December 31, 2023						
Total risk-based capital to risk-weighted assets	\$ 96,761	19.20%	\$ 40,311	8.00%	\$N/A	N/A%
Tier 1 risk-based capital to risk-weighted assets	65,651	13.03	30,234	6.00	N/A	N/A
Common Equity Tier 1 (CET 1) to risk-weighted assets	N/A	N/A	N/A	N/A	N/A	N/A
Tier 1 leverage capital to average assets	65,651	11.20	23,446	4.00	N/A	N/A

The following table shows the regulatory capital ratios for Southwest Heritage Bank at the dates indicated:

<i>(Dollars in thousands)</i>	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To be Well- Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	As of March 31, 2024					
Total risk-based capital to risk-weighted assets	\$ 96,253	11.66%	\$ 66,040	8.00%	\$ 82,550	10.00%
Tier 1 risk-based capital to risk-weighted assets	85,913	10.40	49,565	6.00	66,087	8.00
Common Equity Tier 1 (CET 1) to risk-weighted assets	85,913	10.40	37,174	4.50	53,696	6.50
Tier 1 leverage capital to average assets	85,913	8.78	39,140	4.00	48,925	5.00
As of December 31, 2023						
Total risk-based capital to risk-weighted assets	\$ 74,142	14.79%	\$ 40,114	8.00%	\$ 50,143	10.00%
Tier 1 risk-based capital to risk-weighted assets	68,032	13.57	30,086	6.00	40,114	8.00
Common Equity Tier 1 (CET 1) to risk-weighted assets	68,032	13.57	22,564	4.50	32,593	6.50
Tier 1 leverage capital to average assets	68,032	11.66	23,347	4.00	29,184	5.00

Off-Balance Sheet Items

We are a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit and unused lines of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition. The contractual or notional amounts of those instruments reflect the extent of involvement we have in particular classes of financial instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. We evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral is primarily obtained in the form of commercial and residential real estate, including income producing commercial properties.

Commitments to make loans are generally made for periods of 90 days or less.

Our exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. We use the same credit policies in making commitments and conditional obligations as for funded instruments. We do not anticipate any material losses as a result of the commitments and standby letters of credit.

The following table summarizes commitments as of the dates presented (dollars in thousands):

	March 31, 2024		December 31, 2023	
	Fixed	Variable	Fixed	Variable
Commitments to extend credit	\$ 15,981	\$ 17,032	\$ 5,327	\$ 6,966
Unused lines of credit	3,673	49,483	3,962	18,859
Totals	\$ 19,654	\$ 66,515	\$ 9,289	\$ 25,825

Contractual Obligations

We have entered into contractual obligations in the normal course of business that involve elements of credit risk, interest rate risk and liquidity risk.

The following table summarizes our contractual obligations as of March 31, 2024, and December 31, 2023:

(In thousands)

March 31, 2024	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt:					
FRB term advances	\$ 49,000	\$ 49,000	\$ —	\$ —	\$ —
Subordinated debt	23,500	0	0	0	23,500
Trust preferred securities	5,155	—	—	—	5,155
Total long-term debt	77,655	49,000	—	—	28,655
Operating leases	5,202	880	1,716	1,620	986
Certificates of deposit	215,125	178,632	31,817	4,676	0
Total	\$ 297,982	\$ 228,512	\$ 33,533	\$ 6,296	\$ 29,641

(In thousands)

December 31, 2023	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt:					
FRB term advances	\$ 29,000	\$ 29,000	\$ —	\$ —	\$ —
Subordinated debt	25,000	—	—	—	25,000
Total long-term debt	54,000	29,000	—	—	25,000
Operating leases	2,344	325	726	749	544
Certificates of deposit	128,403	93,675	30,390	4,338	0
Total	\$ 184,747	\$ 123,000	\$ 31,116	\$ 5,087	\$ 25,544

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not required of smaller reporting companies.

Item 4. Controls and Procedures

The Company's management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of March 31, 2024. The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of March 31, 2024.

During the quarter ended March 31, 2024, there was no change in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 or 15d-15 of the Exchange Act that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. The Company is continually monitoring and assessing changes in processes and activities to determine any potential impact on the design and operating effectiveness of internal controls over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

The Company and the Bank are defendants, from time-to-time, in legal actions at various points of the legal process arising from transactions conducted in the ordinary course of business. Management believes that, after consultation with legal counsel, it is not probable that the outcome of current legal actions will result in a liability that would have a material adverse effect on the Company's consolidated financial position, results of operations, comprehensive income or cash flows. In the event that such a legal action results in an unfavorable outcome, the resulting liability could have a material adverse effect on the Company's consolidated financial position, results of operations, comprehensive income or cash flows.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed in "Part I – Item 1A – Risk Factors" of the Company's Annual Report on Form 10-K for the year ended December 31, 2023, which could materially affect its business, financial position, results of operations, cash flows, or future results. Please be aware that these risks may change over time and other risks may prove to be important in the future. New risks may emerge at any time, and we cannot predict such risks or estimate the extent to which they may affect our business, financial condition or results of operations, or the trading price of our securities. Subject to the foregoing, there have been no material changes from risk factors as previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2023.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None.

Item 6. Exhibits

See the Exhibit Index following the signature page to this Quarterly Report on Form 10-Q for a list of exhibits filed or furnished with this report, which Exhibit Index is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BANCORP 34, INC.

Date: May 15, 2024

By: /s/ Ciaran McMullan

Name: Ciaran McMullan

Title: Chairman and Chief Executive Officer

Date: May 15, 2024

By: /s/ Kevin Vaughn

Name: Kevin Vaughn

Title: Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Description of Exhibit
10.16*+	Employment Agreement dated as of April 27, 2023, by and between Bank 34 and Chris Webster. +
31.1*	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a).
31.2*	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a).
32.1**	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	Inline XBRL Instance Document.
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Labels Linkbase Document
101.PRE*	line XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)
*	Filed herewith.
**	Furnished herewith.
+	Indicates a management contract or compensatory plan.

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this “Agreement”) dated as of April 27, 2023, is made by and between Bank 34, a federal savings bank (the “Bank” or the “Employer”) and Chris Webster, an individual resident of Arizona (the “Executive”). References herein to the “Company” refer to Bancorp 34, Inc., a Maryland corporation, the parent company of Employer. Certain terms used in this Agreement are defined in Section 20 hereof.

WHEREAS, pursuant to that certain Agreement and Plan of Merger, dated as of April 27, 2023, by and between the Company, and CBOA Financial, Inc., the Executive’s employer as of the date this Agreement (“CBOA”), CBOA will merge with and into Company, with Company being the surviving corporation (the “Merger”).

WHEREAS, contingent on the consummation of the Merger, the Bank wishes to hire the Executive as its President and the Executive wishes to accept employment with the Bank under the terms and provisions set forth below, and this Agreement will only become effective immediately following the consummation of the Merger.

NOW THEREFORE, in consideration of the foregoing, the mutual covenants contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

1. **Employment.** The Employer shall employ the Executive, and the Executive shall serve the Employer, as President of the Bank and of the Company upon the terms and conditions set forth herein. The Executive shall have such authority and responsibilities consistent with his position as are set forth in the Bank’s and Company’s Bylaws as applicable or assigned by the Bank’s or Company’s Board of Directors (as applicable, the “Board”) of each respective entity or the Chief Executive Officer of the Bank (the “CEO”) from time to time. The Executive shall report to the Board and the CEO and shall devote his full working time to the performance of his duties hereunder, except during periods of illness or periods of vacation and leaves of absence consistent with Bank policy. Further, the Executive’s service on the boards of directors (or similar body) of other charitable or for-profit businesses is subject to the prior approval of the Board to the extent that such activity (i) will interfere with the effective discharge of the Executive’s duties and responsibilities to the Employer or that any business related to such service is then in competition with any business of the Employer, its successors or assigns or (ii) would reasonably be expected to adversely affect the reputation of the Employer.

The Company shall nominate the Executive for election as a director at such times as necessary so that the Executive will, if elected by shareholders, remain a director of the Company throughout the Term (as defined below) or any extension of this Agreement. The Executive hereby consents to serving as a director and to being named as a director of the Company in documents filed with the SEC and the Company’s and Bank’s regulators. The Board of the Company shall undertake every lawful effort to ensure that the Executive continues throughout the Term to be nominated, elected and reelected as a director of the Bank.

2. **Term.** Unless earlier terminated as provided herein, the Executive’s employment under this Agreement shall commence effective immediately following the consummation of the Merger and be for a term of ending April 30, 2025 (the “Initial Term”). Commencing on May 1, 2025 and continuing each May 1st thereafter during the Term of this Agreement, the Term hereof shall automatically be extended for an additional one-year period beyond the then-effective expiration date unless a written Notice of Termination from the Employer or the Executive is received 90 days prior to such anniversary advising the other that this Agreement shall not be further extended (each, a “Renewal Term” and, together with the Initial Term, the “Term”). If either party provides timely notice of non-renewal of the Agreement, but the Executive continues to provide services to the Employer as an employee, such post-expiration employment shall be deemed to be performed on an “at-will” basis and either party may thereafter terminate such employment with or without notice and for any or no reason and without any obligations determined by reference to this Agreement.

3. Compensation and Benefits.

(a) As of the date of this Agreement, the Employer shall pay the Executive an annual base salary rate of \$275,000.00. The salary will be paid in accordance with the Bank's standard payroll procedures. The Board shall evaluate the Executive's performance at least annually and may increase the Executive's base salary if it determines in its sole discretion that an increase is appropriate.

(b) The Executive shall be eligible each year to receive a cash bonus equaling up to 40% of his annual base salary if the Employer achieves certain performance levels established from time to time by the Board or its authorized designee. Any bonus payment made pursuant to this Section 3(b) shall be made in accordance with the terms of the plan pursuant to which the bonus is paid, but in any event within 70 days after the previous year end for which the bonus was earned by the Executive and became a payable of the Employer.

(c) In addition to the benefits specifically described in this Agreement, the Executive shall be eligible to participate in all retirement, welfare, health or other benefits plans or programs of the Employer now or hereafter applicable generally to employees of the Employer or to a class of employees that includes senior executives of the Employer. The parties agree that the benefits stated in this Section 3(c) shall be subject to the terms of such plans or programs applicable generally to employees of the Employer or to a class of employees that includes senior executives of the Employer.

(d) The Employer shall reimburse the Executive for reasonable and necessary travel, mobile cellular and data plans, and other business expenses related to the Executive's duties in accordance with the Employer's business expense reimbursement policy; provided however that the Executive shall, as a condition of any such reimbursement, submit verification of the nature and amount of such expenses in accordance with such reimbursement policies and in sufficient detail to comply with rules and regulations promulgated by the United States Treasury Department. In addition, the Employer shall reimburse the Executive for educational expenses related to the Executive's professional development and for membership in professional and civic organizations to the extent such activities are consistent with the Employer's strategic objectives.

All expenses eligible for reimbursements described in this Agreement must be incurred by the Executive during the term of the Executive's employment with Employer to be eligible for reimbursement. The amount of reimbursable expenses incurred, and the amount of in-kind benefits provided, in one taxable year shall not affect the expenses eligible for reimbursement, or in-kind benefits provided, in any other taxable year. Each category of reimbursement shall be paid as soon as administratively practicable and in accordance with the Employer's reimbursement policy in effect, but in no event shall any such reimbursement be paid after the last day of the calendar year following the calendar year in which the expense was incurred. Neither rights to reimbursement nor in-kind benefits are subject to liquidation or exchanges for other benefits.

(e) The Bank and Company shall apportion any payments or benefits paid to the Executive pursuant to this Agreement among themselves as they may agree from time to time; provided, however, that they must satisfy in full all such obligations in a timely manner as set forth in this Agreement regardless of any agreed-upon apportionment. Executive's receipt of satisfaction in full of any such obligation from the Company or the Bank shall extinguish the obligations of the other with respect to such obligation.

(f) The Executive agrees to repay any compensation previously paid to the Executive under this Agreement that is required to be recovered under any applicable law (including any rule of any exchange or service through which the securities of the Bank or the Company are then traded), including, but not limited to, the following circumstances:

(i) where such compensation constitutes "excessive compensation" within the meaning of 12 C.F.R. Part 364, Appendix A;

(ii) where the Executive has committed, is substantially responsible for, or has violated, the respective acts, omissions, conditions, or offenses outlined under 12 C.F.R. Section 359.4(a)(4); and

(iii) if, while the Executive is also a senior executive officer of the Bank, the Bank becomes, and for so long as the Bank remains, subject to the provisions of 12 U.S.C. Section 1831o(f), where such compensation, when paid, exceeds the restrictions imposed on the senior executive officers of such an institution.

The Executive agrees to return within sixty (60) days, or within any earlier timeframe required by applicable law, any such compensation properly identified by the Company or the Bank by written notice. If the Executive fails to return such compensation within the applicable time period, the Executive agrees that the amount of such compensation may be deducted from any and all other compensation owed to the Executive by the Company or the Bank. The provisions of this subsection shall be modified to the extent, and remain in effect for the period, required by applicable law.

4. Termination.

(a) The Executive's employment under this Agreement may be terminated prior to the end of the Term of this Agreement, if applicable, only as follows:

(i) upon the death of the Executive. If the Executive's employment is terminated because of the Executive's death, the Employer shall pay the Executive's estate any sums due him as base salary, reimbursement of expenses, and any accrued and unused vacation time to which the Executive may be entitled under Employer's benefit plans and policies through the end of the month during which death occurred, as well as his base salary for a period of one year following his death, each in accordance with the Employer's standard payroll procedures. The Employer shall also pay the Executive's estate any bonus earned through the date of death. Any bonus for previous years which was not yet paid will be paid pursuant to the terms as set forth in Section 3(b) of this Agreement. Any bonus that is earned in the year of death will be paid in accordance with the terms of the plan pursuant to which the bonus is paid, but in any event within 70 days after the year end in which the Executive died. To the extent that the bonus is performance-based, the amount of the bonus will be calculated by taking into account the performance of the Employer for the entire year and prorated through the date of the Executive's death.

(ii) upon the Disability of the Executive. During the period of any Disability leading up to the termination of the Executive's employment under this provision, the Employer shall continue to pay the Executive his full base salary at the rate then in effect and all perquisites and other benefits (including accrued and unused vacation time, but not including any bonus for the then-current year, which shall be paid as set forth below) in accordance with the Employer's standard payroll procedures until the Executive becomes eligible for benefits under any long-term disability plan or insurance program maintained by the Employer; provided, however that, the amount of any such payments to the Executive shall be reduced by the sum of the amounts, if any, payable to the Executive for the same period under any other disability benefit or pension plan covering the Executive. Furthermore, the Employer shall pay the Executive any bonus earned through the date of onset of the physical or mental impairment that led to the Disability. Any bonus for previous years which was not yet paid will be paid pursuant to the terms as set forth in Section 3(b) of this Agreement. Any bonus that is earned in the year which includes the date of onset of the physical or mental impairment that led to the Disability will be paid in accordance with the terms of the plan pursuant to which the bonus is paid, but in any event within 70 days after the year end in which the Executive became Disabled.

(iii) by the Employer for Cause upon delivery of a Notice of Termination to the Executive, subject to any cure right to which the Executive is entitled pursuant to Section 20(c). If the Executive's employment is terminated for Cause under this provision, the Executive shall receive only any sums due him as base salary and accrued and unused vacation time and reimbursement of expenses through the date of such termination, which shall be paid in accordance with the Employer's standard payroll procedures. Any bonus for previous years which was not yet paid will be paid pursuant to the terms as set forth in Section 3(b) of this Agreement.

(iv) by the Employer without Cause or by the Executive for Good Reason, in either case, prior to a Change in Control or more than 12 months following a Change in Control upon delivery of a Notice of Termination to the Executive. If the Executive desires to terminate this Agreement for Good Reason pursuant to this Section, the Executive must deliver a Notice of Termination within a 90-day period beginning on the Good Reason event and the Employer shall have not less than 30 days to remedy this condition. If the Employer does not remedy this condition, the Executive's employment shall be terminated on the 30th day following the Executive's delivery of a Notice of Termination. If the Executive's employment is terminated under this provision, the Executive shall be entitled to the following: beginning on the first day of the month following the date of the Executive's termination, and continuing on the first day of the month for the next 11 months, the Employer shall pay to the Executive severance compensation in an amount equal to 100% of his then current monthly base salary. Employer shall pay any other benefits through the date of termination, including accrued and unused vacation time, to which the Executive may be entitled under Employer's benefit plans and policies through the end of the month during which termination occurred in accordance with the Employer's standard payroll procedures. In addition, the Employer shall also pay the Executive any bonus earned or accrued through the date of termination (including any amounts awarded for previous years but which were not yet vested). Any bonus for previous years which was not yet paid will be paid pursuant to the terms as set forth in Section 3(b) of this Agreement. Any bonus that is earned in the year of the Executive's termination will be paid in accordance with the terms of the plan pursuant to which the bonus is paid, but in any event within 70 days after the year end in which the Executive's employment was terminated. To the extent that the bonus is performance-based, the amount of the bonus will be calculated by taking into account the performance of the Bank for the entire year and prorated through the date of the Executive's termination of employment.

(v) by the Employer without Cause or by the Executive for Good Reason, in either case, within 12 months following a Change in Control upon delivery of a Notice of Termination to the Executive. If the Executive desires to terminate this Agreement for Good Reason pursuant to this Section, the Executive must deliver a Notice of Termination within a 90-day period beginning on the Good Reason event and the Employer shall have not less than 30 days to remedy this condition. If the Employer does not remedy this condition, the Executive's employment shall be terminated on the 30th day following the Executive's delivery of a Notice of Termination. If the Executive's employment is terminated pursuant to this provision, in addition to the Accrued Obligations, the Executive shall be entitled to the following:

(i) the Employer shall pay the Executive within 60 days following the Executive's last day of employment cash compensation in a single lump sum payment in an amount equal to the sum of Executive's then current annual base salary plus the average of his last two years' bonuses, such amount multiplied by two, plus any bonus awarded for previous years but which were not yet paid;

(ii) the Executive may continue participation, in accordance with the terms of the applicable benefits plans, in the Company's group health plan pursuant to plan continuation rules under the Consolidated Omnibus Budget Reconciliation Act (including regulations related thereto, "COBRA"), subject to any amendments to COBRA after the date of this Agreement. In accordance with COBRA (and subject to any amendments to COBRA after the date of this Agreement), assuming Executive is covered under the Employer's group health plan as of his date of termination, Executive will be entitled to elect COBRA continuation coverage for the legally required COBRA period (the "Continuation Period"). If Executive elects COBRA coverage for group health coverage in connection with a Qualifying Termination, then, he will be obligated to pay only the portion of the full COBRA cost of the coverage equal to an active employee's share of premiums for coverage for the respective plan year and the Company's share of such premiums (the "Employer-Provided COBRA Premium") shall be treated as taxable income to Executive. Notwithstanding the above, the Employer's obligations hereunder with respect to the foregoing benefits provided in this Subsection 4(a)(iv)(B)(ii) shall be eliminated if and when the Executive is offered Affordable Care Act compliant group health coverage from a subsequent employer.

(vi) by the Executive without Good Reason effective upon the 30th day after the Executive's delivery of a Notice of Termination. If the Executive resigns under this provision, the Executive shall receive any sums due him as base salary or reimbursement of expenses through the date of such termination, and any other benefits, including accrued and unused vacation time, to which the Executive may be entitled under Employer's benefit plans and policies, which shall be paid in accordance with the Employer's standard payroll procedures.

(b) With the exceptions of the provisions of this Section 4, and the express terms of any benefit plan under which the Executive is a participant, it is agreed that, upon termination of the Executive's employment, the Employer shall have no obligation to the Executive for, and the Executive waives and relinquishes, any further compensation or benefits (exclusive of COBRA benefits). Unless otherwise stated in this Section 4, the effect of termination on any outstanding incentive awards, stock options, stock appreciation rights, performance units, or other incentives shall be governed by the terms of the applicable benefit or incentive plan and/or the agreements governing such incentives. Within 60 days of termination of the Executive's employment, and as a condition to the Employer's obligation to pay any severance hereunder, the Employer and the Executive shall enter into a release in the form acceptable to the Employer, and the Executive may not revoke such release within the revocation period stated in such release (which period shall be no longer than the period required to comply with applicable law), which shall acknowledge such remaining obligations and discharge the Employer and its officers, directors and employees with respect to their actions for or on behalf of the Employer, from any other claims or obligations arising out of or in connection with the Executive's employment by the Employer, including the circumstances of such termination. In addition, if such severance payment is made by the Employer, and if the 60-day period spans two calendar years, regardless of when such release is executed by the Executive, such severance payment must be made in the subsequent calendar year, regardless of when the release is executed by the Executive.

(c) As a condition to the Employer's obligation to pay any amounts hereunder, regardless of the reason for the termination of the Executive's employment, if requested in writing by the Bank or Company, the Executive shall offer to resign as a director of the Bank and of the Company, if the Executive is then serving in any such position.

(d) The parties intend that the severance payments and other compensation provided for herein are reasonable compensation for Executive's services to the Employer and shall not constitute "excess parachute payments" within the meaning of Section 280G of the Code. If the Employer's independent accounting firm or independent tax counsel appointed by the Employer and reasonably acceptable to the Executive ("Tax Counsel") determines that any or the aggregate value (as determined pursuant to Section 280G of the Code) of all payments, distributions, accelerations of vesting, awards and provisions of benefits by the Employer to or for the benefit of the Executive (whether paid or payable, distributed or distributable, accelerated, awarded or provided pursuant to the terms of this Agreement or otherwise), (a "Payment") would constitute an excess parachute payment and be subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), such Payment shall be reduced to the least extent necessary so that no portion of the Payment shall be subject to the Excise Tax, but only if, by reason of such reduction, the net after-tax benefit received by the Executive as a result of such reduction will exceed the net after-tax benefit that would have been received by the Executive if no such reduction were made. The Payment shall be reduced by the Employer pursuant to the foregoing sentence in a manner that Tax Counsel determines maximizes the Executive's economic position. In applying this principle, the reduction shall be made in a manner consistent with the requirements of Section 409A of the Code, and where Tax Counsel determines that two economically equivalent amounts are subject to reduction but payable at different times, such amounts shall be reduced on a pro rata basis but not below zero. If, however, such Payment is not reduced as described above, then such Payment shall be paid in full to the Executive and the Executive shall be responsible for payment of any Excise Taxes relating to the Payment.

All calculations and determinations under this Section 4 shall be made by Tax Counsel whose determinations shall be conclusive and binding on the Employer and the Executive for all purposes. For purposes of making the calculations and determinations required by this Section 4, Tax Counsel may rely on reasonable, good faith assumptions and approximations concerning the application of Section 280G and Section 4999 of the Code. The Employer and the Executive shall furnish Tax Counsel with such information and documents as Tax Counsel may reasonably request in order to make its determinations under this Section. The Employer shall bear all costs Tax Counsel may incur in connection with its services. In connection with making determinations under this Section, Tax Counsel shall take into account the value of any reasonable compensation for services to be rendered by the Executive before or after the Change in Control, including without limitation, the Executive's agreement to refrain from performing services pursuant to a covenant not to compete or similar covenant, and the Employer shall cooperate in good faith in connection with any such valuations and reasonable compensation positions.

(e) Notwithstanding anything contained in this Agreement to the contrary,

(i) if the Executive is suspended or temporarily prohibited from participating, in any way or to any degree, in the conduct of the Bank's affairs by (1) a notice served under Section 8(e) or (g) of Federal Deposit Insurance Act ("FDIA") (12 U.S.C. Section 1818 (e) or (g)) or (2) as a result of any other regulatory or legal action directed at the Executive by any regulatory or law enforcement agency having jurisdiction over the Executive (each of the foregoing referred to herein as a "Suspension Action"), and if this Agreement is not terminated, the Employer's obligations under this Agreement shall be suspended as of the earlier of the effective date of such Suspension Action or the date on which the Executive was provided notice of the Suspension Action, unless stayed by appropriate proceedings. If the charges underlying the Suspension Action are dismissed, the Employer shall (1) pay on the first day of the first month following such dismissal of charges (or as provided elsewhere in this Agreement) the Executive all of the compensation withheld while the obligations under this Agreement were suspended; and (2) reinstate any such obligations which were suspended.

(ii) if the Executive is removed or permanently prohibited from participating, in any way or to any degree, in the conduct of the Bank's affairs by (1) an order issued under Section 8(e)(4) or (g)(1) of the FDIA (12 U.S.C. Section 1818 (e)(4) or (g)(1)) or (2) any other legal or law enforcement action (each of the foregoing referred to herein as a "Removal Action"), all obligations of the Executive under this Agreement shall terminate as of the effective date of the Removal Action, but any vested rights of the parties hereto shall not be affected.

(iii) if the Bank is in default (as defined in Section 3(x)(1) of the FDIA, 12 U.S.C. Section 1813(x)(1)), all obligations under this Agreement shall terminate as of the date of default, but this Section (4)(e) shall not affect any vested rights of the parties hereto.

(iv) if the FDIC is appointed receiver or conservator of the Bank under Section 11(c) of the FDIA (12 U.S.C. Section 1821(c)), the Employer shall have the right to terminate all obligations of the Employer under this Agreement as of the date of such receivership or conservatorship, other than any rights of the Executive that vested prior to such appointment. Any vested rights of the Executive may be subject to such modifications that are consistent with the authority of the FDIC.

(f) If the FDIC provides open bank assistance under Section 13(c) of the FDIA (12 U.S.C. 1823(c)) to the Bank, but excluding any such assistance provided to the industry generally, the Employer shall have the right to terminate all obligations of the Employer under this Agreement as of the date of such assistance, other than any rights of the Executive that vested prior to the FDIC action. Any vested rights of the Executive may be subject to such modifications that are consistent with the authority of the FDIC.

(g) If the FDIC requires a transaction under Section 13(f) or 13(k) of the FDIA (12 U.S.C. 1823(f) and (k)) by the Bank, the Employer shall have the right to terminate all obligations of the Employer under this Agreement as of the date of such transaction, other than any rights of the Executive that vested prior to the transaction. Any vested rights of the Executive may be subject to such modifications that are consistent with the authority of the FDIC.

(h) Notwithstanding anything contained in this Agreement to the contrary, any payments made to the Executive pursuant to this Agreement, or otherwise, are subject to and conditioned upon their compliance with 12 U.S.C. Section 1828(k) and any regulations promulgated thereunder. In addition, all obligations under this Agreement are further subject to such conditions, restrictions, limitations and forfeiture provisions as may separately apply pursuant to any applicable state banking laws.

(i) In the event that the Bank is subject to Part 359 of the FDIC Rules and Regulations (12 C.F.R. Part 359), then, notwithstanding the timing for the payment of any severance amounts described in this Section 4, no such payments shall be made or commenced, as applicable, that require the concurrence or consent of the appropriate federal banking agency of the Bank pursuant to Part 359 prior to the receipt of such concurrence or consent. Any payments prohibited by operation of this Section 4(i) shall be paid as a lump sum within 30 days following receipt of the concurrence or consent of the appropriate federal banking agency of the Bank or as otherwise directed by such federal banking agency.

(j) Any golden parachute payment obligation may be governed by FDIC regulations at 12 C.F.R. Part 359, if the institution's condition warrants when the payment obligation arises (*e.g.*, the employee is terminated when the institution is in troubled condition). In the latter case, the payment obligation would be wholly conditional upon the parties having obtained the express approval of the institution's appropriate federal banking agency, the FDIC, or the approval of the institution's appropriate federal banking agency and the concurrence of the FDIC. As provided in the FDIC's regulations under 12 C.F.R. § 303.244 and 12 C.F.R. § 359.4, the agencies may, or may not, provide permission to pay some (or none) of these amounts solely within their discretion pursuant to a written application. Moreover, the characterizations of the payments by the parties to this Agreement (*e.g.*, as to what is 'severance' or constitutes a 'change-in-control' payment) are not relevant under Part 359; if Part 359 is deemed applicable it will apply to all sums that constitute 'golden parachute payments' under Part 359 as interpreted by the appropriate agency or agencies, and may include health benefits (or some portion thereof), and incentive payments.

5. Ownership of Work Product. The Employer shall own all Work Product arising during the Term or any extension thereof. For purposes hereof, "Work Product" shall mean all intellectual property rights, including all Trade Secrets, U.S. and international copyrights, patentable inventions, and other intellectual property rights in any programming, documentation, technology or other work product that relates to the Employer or any of its Affiliates that the Executive conceives, develops, or delivers to the Employer in connection with his employment with or duties to the Employer or its Affiliates. The Executive agrees to, at the Employer's sole cost and expense, take such actions and execute such further acknowledgments and assignments as the Employer may reasonably request to give effect to this provision.

6. Protection of Trade Secrets and Confidential Information.

(a) Through exercise of Executive's rights and performance of Executive's obligations under this Agreement, Executive will be exposed to "Trade Secrets" and "Confidential Information" (as those terms are defined below). "Trade Secrets" shall mean information or data of or about Employer or any Affiliates (as defined in subsection 20(a)), including, but not limited to, technical or non-technical data, formulas, patterns, compilations, programs, devices, methods, techniques, drawings, processes, financial data, financial plans, product plans, or lists of actual or potential customers, clients, distributors, or licensees, that: (i) derive economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from their disclosure or use; and (ii) are the subject of efforts that are reasonable under the circumstances to maintain their secrecy. To the extent that the foregoing definition is inconsistent with the definition of "trade secret" mandated under applicable law, the latter definition shall govern for purposes of interpreting Executive's obligations under this Agreement. Except as required to perform Executive's obligations under this Agreement, or except with Employer's prior written permission, Executive shall not use, redistribute, market, publish, disclose or divulge to any other person or entity any Trade Secrets of Employer. Executive's obligations under this provision shall remain in force (during and after the Term) for so long as such information or data shall continue to constitute a Trade Secret under applicable law. Executive agrees to cooperate with any and all confidentiality requirements of Employer, and Executive shall immediately notify Employer of any unauthorized disclosure or use of any Trade Secrets of which Executive becomes aware.

(b) Executive agrees to maintain in strict confidence and, except as necessary to perform Executive's duties for Employer, not to use or disclose any Confidential Information at any time, either during the Term of Executive's employment or for a period of one (1) year after Executive's last date of employment, so long as the pertinent data or information remains Confidential Information. "Confidential Information" shall mean any non-public information of a competitively sensitive or personal nature, other than Trade Secrets, acquired by Executive during Executive's employment, relating to Employer or any Affiliate or Employer's or any Affiliate's business, operations, customers, suppliers, products, employees, financial affairs or industrial practices. Notwithstanding anything herein to the contrary, no obligation or liability shall accrue hereunder with respect to any information that: (i) is or becomes publicly available without the fault of Executive; (ii) was, is or becomes available to Executive without a duty of confidentiality to the Bank or the Company prior to Executive's employment by the Bank or from a person who, to Executive's knowledge, is not otherwise bound, and who Executive has no reasonable basis to believe would be bound, by a confidentiality agreement with the Bank or the Company, or is not otherwise prohibited from providing the information to Executive by a legal or fiduciary obligation to the Bank or the Company in breach of this Agreement; or (iii) was or is independently developed or created by Executive without use of or reference to Confidential Information of the Bank or the Company.

(c) Executive will abide by Employer's and Company's policies and regulations, as established from time to time, for the protection of its Confidential Information. Executive acknowledges that all records, files, data, documents, and the like relating to suppliers, customers, costs, prices, systems, methods, personnel, technology and other materials relating to Employer or its Affiliated entities shall be and remain the sole property of Employer and/or such Affiliated entity. Executive agrees, upon the request of Employer, and in any event upon termination of Executive's employment, to turn over all copies of all media, records, documentation, etc., pertaining to Employer (together with a written statement certifying as to Executive's compliance with the foregoing).

(d) The federal Defend Trade Secrets Act ("DTSA") states:

An individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that— (A) is made—(i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

Accordingly, Executive shall have the right to disclose in confidence trade secrets to federal, state, and local government officials, or to an attorney, for the sole purpose of reporting or investigating a suspected violation of law. Executive shall also have the right to disclose trade secrets in a document filed in a lawsuit or other proceeding, but only if Executive uses good faith efforts to ensure that the filing is made under seal and protected from public disclosure. Nothing in this Agreement is intended to conflict with the DTSA or create liability for disclosures of trade secrets that are expressly allowed by the DTSA.

7. Return of Materials. The Executive shall surrender to the Employer, promptly upon its request and in any event within 30 days following any termination of the Executive's employment, all media, documents, notebooks, computer programs, handbooks, data files, models, samples, price lists, drawings, customer lists, prospect data, or other material of any nature whatsoever (in tangible or electronic form) in the Executive's possession or control, including all copies thereof, relating to the Employer or its Affiliates, their businesses or customers. Upon the request of the Employer, the Executive shall certify in writing compliance with the foregoing requirement.

8. Restrictive Covenants.

(a) No Solicitation of Customers. During the Executive's employment with the Employer and for a period of 12 months thereafter, the Executive shall not (except on behalf of or with the prior written consent of the Employer), either directly or indirectly, on the Executive's own behalf or in the service or on behalf of others, (i) solicit, divert, or appropriate to or for a Competing Business, or (ii) attempt to solicit, divert, or appropriate to or for a Competing Business any person or entity that is or was a customer of the Employer or any of its Affiliates on the date of termination and with whom the Executive has had material contact.

(b) No Recruitment of Personnel. During the Executive's employment with the Employer and for a period of 12 months thereafter, the Executive shall not, either directly or indirectly, on the Executive's own behalf or in the service or on behalf of others, (i) solicit, divert or hire away; or (ii) attempt to solicit, divert, or hire away to any Competing Business, any employee of the Employer or any of its Affiliates engaged in the Business, regardless of whether the employee is full-time or temporary, the employment or engagement is pursuant to written agreement, or the employment is for a determined period or is at will.

(c) Non-Competition Agreement. During the Executive's employment with the Employer and for a period of 12 months thereafter (other than a termination within one year following a Change in Control), the Executive shall not (without the prior written consent of the Employer) compete with the Bank or any of its Affiliates by, directly or indirectly, forming, serving as an organizer, director or officer of, or consultant to, or acquiring or maintaining more than a 2% passive investment in (other than voting the Executive's stock), a depository financial institution or holding company therefor if such depository institution or holding company has one or more offices or branches located in the Territory. Notwithstanding the foregoing, the Executive may serve as an officer of or consultant to a depository institution or holding company therefor even though such institution operates one or more offices or branches in the Territory, if the Executive's employment does not directly involve, in whole or in part, the depository financial institution's or holding company's operations in the Territory.

(d) The restrictive covenants in this Section 8 of this Agreement shall not apply to Executive following any Termination under Section 4(a)(v) of the Agreement.

9. Independent Provisions. The provisions in each of the above Sections 8(a), 8(b), and 8(c) are independent, and the unenforceability of any one provision shall not affect the enforceability of any other provision.

10. Indemnification. The Executive shall be entitled to the indemnification provided to officers pursuant to the Bank's and the Company's Articles of Incorporation and Bylaws and to the fullest extent permitted for officers of an Arizona state bank and Arizona business corporation pursuant to Arizona law and those provisions are incorporated herein by reference.

11. Withholding. The Employer may deduct from each payment of compensation hereunder all amounts required to be deducted and withheld in accordance with applicable federal and state income, FICA and other withholding requirements.

12. Successors; Binding Agreement. The rights and obligations of this Agreement shall bind and inure to the benefit of the surviving entity in any merger or consolidation in which the Employer is a party, or any assignee of all or substantially all of the Employer's business and properties. The Executive's rights and obligations under this Agreement may not be assigned by him, except that his right to receive accrued but unpaid compensation, unreimbursed expenses and other rights, if any, provided under this Agreement, which survive termination of this Agreement shall pass after death to the personal representatives of his estate.

13. Notice. For the purposes of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or sent by certified mail, return receipt requested, postage prepaid, addressed to the respective addresses last given by each party to the other; provided, however, that all notices to the Employer shall be directed to the attention of the Employer with a copy to the Secretary of the Employer. All notices and communications shall be deemed to have been received on the date of delivery thereof.

14. Governing Law. This Agreement and all rights hereunder shall be governed by the laws of the State of Arizona, except to the extent governed by the laws of the United States of America in which case federal laws shall govern.

15. Non-Waiver. Failure of either party to enforce any of the provisions of this Agreement or any rights with respect thereto shall in no way be considered to be a waiver of such provisions or rights, or in any way affect the validity of this Agreement.

16. Saving Clause. The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof. If any provision or clause of this Agreement, or portion thereof, shall be held by any court or other tribunal of competent jurisdiction to be illegal, void, or unenforceable in such jurisdiction, the remainder of such provision shall not be thereby affected and shall be given full effect, without regard to the invalid portion. It is the intention of the parties that, if any court construes any provision or clause of this Agreement, or any portion thereof, to be illegal, void, or unenforceable because of the duration of such provision or the area or matter covered thereby, such court shall reduce the duration, area, or matter of such provision, and, in its reduced form, such provision shall then be enforceable and shall be enforced. The Executive and the Employer hereby agree that they will negotiate in good faith to amend this Agreement from time to time to modify the terms of Sections 8(a), 8(b) or 8(c), the definition of the term "Territory," and the definition of the term "Business," to reflect changes in the Employer's business and affairs so that the scope of the limitations placed on the Executive's activities by Section 8 accomplishes the parties' intent in relation to the then current facts and circumstances; provided that no such amendment shall make such terms more restrictive on the Executive. Any such amendment shall be effective only when completed in writing and signed by the Executive and the Employer.

17. Compliance with Internal Revenue Code Section 409A. All payments that may be made and benefits that may be provided pursuant to this Agreement are intended to qualify for an exclusion from Section 409A of the Code and any related regulations or other pronouncements thereunder and, to the extent not excluded, to meet the requirements of Section 409A of the Code. Any payments made under Sections 3 and 4 of this Agreement which are paid on or before the last day of the applicable period for the short-term deferral exclusion under Treasury Regulation § 1.409A-1(b)(4) are intended to be excluded under such short-term deferral exclusion. Any remaining payments under Sections 3 and 4 are intended to qualify for the exclusion for separation pay plans under Treasury Regulation § 1.409A-1(b)(9). Each payment made under Sections 3 and 4 shall be treated as a "separate payment," as defined in Treasury Regulation § 1.409A-2(b)(2), for purposes of Code Section 409A. Further, notwithstanding anything to the contrary, all severance payments payable under the provisions of Section 4 shall be paid to the Executive no later than the last day of the second calendar year following the calendar year in which occurs the date of the Executive's termination of employment. None of the payments under this Agreement are intended to result in the inclusion in the Executive's federal gross income on account of a failure under Section 409A(a)(1) of the Code. The parties intend to administer and interpret this Agreement to carry out such intentions. However, the Employer does not represent, warrant or guarantee that any payments that may be made pursuant to this Agreement will not result in inclusion in the Executive's gross income, or any penalty, pursuant to Section 409A(a)(1) of the Code or any similar state statute or regulation.

(a) If the Executive is a "Specified Employee" within the meaning of Section 409A(a)(2)(B)(i) of the Code on the date of the Executive's termination (the "Separation Date"), and if an exemption from the six month delay requirement of Code Section 409A(a)(2)(B)(i) is not available, then no such payment shall be made or commence during the period beginning on the Separation Date and ending on the date that is six months following the Separation Date or, if earlier, on the date of the Executive's death. The amount of any payment that would otherwise be paid to the Executive during this period shall instead be paid to the Executive on the first day of the first calendar month following the end of the period.

(b) Notwithstanding any other provision of this Agreement, to the extent that the right to any payment (including the provision of benefits) hereunder provides for the “deferral of compensation” within the meaning of Section 409A(d)(1) of the Code, then payments with respect to reimbursements of expenses or benefits or provision of fringe or other in-kind benefits shall be made on or before the last day of the calendar year following the calendar year in which the relevant expense or benefit is incurred. The amount of expenses or benefits eligible for reimbursement, payment or provision during a calendar year shall not affect the expenses or benefits eligible for reimbursement, payment or provision in any other calendar year.

18. Compliance with the Dodd-Frank Wall Street Reform and Consumer Protection Act. Notwithstanding anything to the contrary herein, any incentive payments to the Executive shall be limited to the extent applicable and required under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), including, but not limited to, clawbacks for such incentive payments as required by the Dodd-Frank Act and Section 10D of the Securities Exchange Act of 1934. The Executive agrees to such amendments, agreements, or waivers that are required by the Dodd-Frank Act or requested by the Employer to comply with the terms of the Dodd-Frank Act.

19. Compliance with Regulatory Restrictions. Notwithstanding anything to the contrary herein, and in addition to any restrictions stated above, any compensation or other benefits paid to the Executive shall be limited to the extent required by any federal or state regulatory agency having authority over the Employer. The Executive agrees that compliance by the Employer with such regulatory restrictions, even to the extent that compensation or other benefits paid to the Executive are limited, shall not be a breach of this Agreement by the Employer.

20. Certain Definitions.

(a) “Affiliate” shall mean any business entity controlled by, controlling or under common control with the Employer.

(b) “Business” shall mean the operation of an FDIC-insured depository financial institution, including, without limitation, the solicitation and acceptance of deposits of money and commercial paper, the solicitation and funding of loans and the provision of other banking services, and any other related business engaged in by the Bank or any of its Affiliates as of the date of termination.

(c) “Cause” shall consist of any of Executive’s (i) material and adverse breach of any provision of this Agreement or any other written agreement between the Executive and the Bank, or failure to adhere to any material policy applicable generally to executive employees of the Bank; (ii) refusal or willful failure to perform his duties or to follow or implement a clear and lawful directive of the Board; (iii) conviction of, or the pleading of nolo contendere to, a crime involving moral turpitude (including, without limitation, forgery, money laundering, theft, embezzlement or fraud) or any felony under the laws of the United States or any state thereof; (iv) engagement in any willful misconduct, malfeasance or gross negligence in the performance of his duties, or a material violation of any provision of any state, local or federal laws, regulations, ordinances, ethics requirements or codes that are applicable to the performance of his duties; (v) breach of fiduciary responsibility; or (vi) commission of an act of dishonesty which is materially injurious to the Bank; provided, however, that any such termination shall not constitute termination for Cause unless, with respect to the circumstances set forth in clauses (i) and (ii) above only, and to the extent such circumstances are susceptible to cure: (A) the Bank provides written notice to the Executive of the conditions or circumstances, as applicable, claimed to constitute grounds for termination for Cause within 60 days of the Board first learning of the existence of such condition or circumstance (such notice to be delivered in accordance with Section 19); (B) the Executive shall have 30 days following receipt of such notice to cure such condition or circumstance; and (C) the Executive fails to remedy such condition or circumstance within 30 days of receiving such written notice thereof. Any determination leading to a termination for Cause under this Agreement shall be made by resolution adopted by vote of the Board at a meeting called and held for that purpose.

(d) “Change in Control” shall be deemed to occur upon any of the following transactions:

(i) Any sale, lease, exchange or other transfer (in one or a series of related transactions) of all or substantially all of the assets of the Company or the Bank;

(ii) Any “Person” as such term is used in Section 13(d) and Section 14(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) becomes, directly or indirectly, the “beneficial owner” as defined in Rule 13d-3 under the Exchange Act of securities of the Company or the Bank that represent more than 50% of the combined voting power of the Company’s or Bank’s then outstanding voting securities (the “Outstanding Voting Securities”); provided, however, that for purposes of this Section 20(d)(ii), the following acquisitions shall not constitute a Change in Control: (I) any acquisition directly from the Company or Bank principally for bona fide equity financing purposes, (II) any acquisition by the Company or Bank, (III) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Affiliate, (IV) any acquisition by any corporation pursuant to a transaction that complies with Sections 20(d)(iv)(A) and 20(d)(iv)(B), or (V) any acquisition involving beneficial ownership of less than 50% of the then-outstanding Common Shares of the Company or the Bank (the “Outstanding Common Shares”) or the Outstanding Voting Securities that is determined by the Board, based on review of public disclosure by the acquiring Person with respect to its passive investment intent, not to have a purpose or effect of changing or influencing the control of the Bank or the Company; provided, however, that for purposes of this clause (V), any such acquisition in connection with (x) an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents or (y) any “Business Combination” (as defined below) shall be presumed to be for the purpose or with the effect of changing or influencing the control of the Bank or the Company;

(iii) During any period of not more than two (2) consecutive years, individuals who constitute the Board of the Bank or the Company as of the beginning of the period (the “Incumbent Directors”) cease for any reason to constitute at least a majority of such Board, provided that any person becoming a director subsequent to the beginning of such period, whose election or nomination for election was approved by a vote of at least two-thirds of the Incumbent Directors then on such Board (either by a specific vote or by approval of the proxy statement of the Bank or the Company in which such person is named as a nominee for director, without written objection to such nomination) will be an Incumbent Director; provided, however, that no individual initially elected or nominated as a director of the Bank or the Company as a result of an actual or threatened election contest with respect to directors or as a result of any other actual or threatened solicitation of proxies by or on behalf of any person other than the Board will be deemed to be an Incumbent Director;

(iv) Consummation of a merger, amalgamation or consolidation (a “Business Combination”) of the Bank or the Company with any other corporation, unless, following such Business Combination, (A) all or substantially all of the individuals and entities that were the beneficial owners of the Outstanding Common Shares and the Outstanding Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of the then-outstanding shares of common stock (or, for a non-corporate entity, equivalent securities) and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors (or, for a non-corporate entity, equivalent governing body), as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity that, as a result of such transaction, owns the Company or all or substantially all of the Bank’s or the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Common Shares and the Outstanding Voting Securities, as the case may be, and (B) at least a majority of the members of the board of directors (or, for a non-corporate entity, equivalent governing body) of the entity resulting from such Business Combination were Incumbent Directors at the time of the execution of the initial agreement or of the action of the Board providing for such Business Combination;

(v) Consummation of a stockholder-approved plan of complete liquidation of the Bank or the Company.

(e) “Code” shall mean the Internal Revenue Code of 1986.

(f) “Competing Business” shall mean any business that, in whole or in part, is the same or substantially the same as the Business.

(g) “Disability” or “Disabled” shall mean (i) the inability of the Executive to perform the essential functions of his job, and for which reasonable accommodation is unavailable, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of more than 12 months, as determined by a physician mutually agreed upon by the Executive and the Bank; or (ii) the receipt of income replacement benefits for a period of more than three months under a separate long-term disability plan covering the Executive due to medically determinable physical or mental impairment which is expected to result in death or is expected to last for a continuous period of more than 12 months.

(h) “Good Reason” shall mean shall mean the occurrence of any of the following events, without the express written consent of the Executive: (i) the Employer’s material breach of any of its obligations under this Agreement; (ii) any material adverse change in Executive’s duties or authority or responsibilities (including reporting responsibilities), or the assignment of duties or responsibilities to Executive materially inconsistent with his position, (iii) Executive is no longer serving as the President of the Bank and of the Company, (iv) reduction in Executive’s total annual cash compensation opportunity (i.e., Base Salary and target annual bonus), (v) a relocation of Executive’s principal place of employment to a location more than fifty (50) miles from the Employer location from which the Executive was providing services immediately prior to the relocation of the Executive’s place of employment, or (vi) the failure of a successor to the Employer to assume the Employer’s obligations under this Agreement, provided, that, for (i) – (vi) above, Executive has given written notice to the Employer of the condition giving rise to Good Reason within ninety (90) days after its initial occurrence and the Employer fails to cure such condition within thirty (30) days following the receipt of such written notification by the Executive to the Employer.

(i) “Notice of Termination” shall mean a written notice of termination from the Employer or the Executive which specifies an effective date of termination (not less than 30 days from the date of the notice), indicates the specific termination provision in this Agreement relied upon and sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive’s employment under the provision so indicated.

(j) “Standard payroll procedures” shall mean payment no less frequently than monthly.

(k) “Terminate,” “terminated,” “termination,” or “termination of the Executive’s employment” shall mean separation from service as defined by Treasury Regulation § 1.409A-1(h).

(l) “Territory” shall mean a radius of 50 miles from (i) the main office of the Bank or (ii) any branch or loan production office of the Bank existing as of the date of termination of the Executive’s employment with the Employer.

21. Payment of Attorneys’ Fees. It is the intent of the parties that the Executive not be required to incur the legal fees and expenses associated with the protection or enforcement of the Executive’s rights under this Agreement by litigation or other legal action because such costs would substantially detract from the benefits intended to be extended to the Executive hereunder, nor be bound to negotiate any settlement of the Executive’s rights hereunder under threat of incurring such costs. Accordingly, if it should appear to the Executive that the Employer is acting or has acted contrary to or is failing or has failed to comply with any of its obligations under this Agreement for the reason that it regards this Agreement to be void or unenforceable or for any other reason, or that the Employer has purported to terminate the Executive’s employment for Cause or is in the course of doing so in either case contrary to this Agreement, or in the event that the Employer or any other person takes any action to declare this Agreement void or unenforceable, or institutes any litigation or other legal action designed to deny, diminish or recover (other than as required by law) from the Executive the benefits provided or intended to be provided to the Executive hereunder, and the Executive has acted in good faith to perform the Executive’s obligations under this Agreement, the Employer irrevocably authorizes the Executive from time to time to retain counsel of the Executive’s choice at the expense of the Bank to represent the Executive in connection with the protection and enforcement of the Executive’s rights hereunder, including without limitation representation in connection with termination of the Executive’s employment contrary to this Agreement or with the initiation or defense of any litigation or other legal action, whether by or against the Executive or the Bank or any director, officer, shareholder or other person affiliated with the Employer, in any jurisdiction. The reasonable fees and expenses of counsel selected from time to time by the Executive as hereinabove provided shall be paid or reimbursed to the Executive by the Bank on a regular, periodic basis upon presentation by the Executive of a statement or statements prepared by such counsel.

22. Entire Agreement; Waiver and Release. This Agreement supersedes and replaces in their entirety any and all previous agreements between the Executive and the Employer regarding compensation or terms of employment of the Executive.

23. Survival. The obligations of the parties pursuant to Sections 3(g), 4(a), 4(b), 5 through 9, 10 and 12, as applicable, shall survive the Executive’s termination of employment hereunder including, if applicable, for the period designated under each of those respective sections.

24. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument. Transmission by facsimile, email, or other form of electronic transmission of an executed counterpart of this Agreement shall be deemed to constitute due and sufficient delivery of such counterpart.

[signatures appear on following page]

IN WITNESS WHEREOF, the Employer has caused this Agreement to be executed and its seal to be affixed hereunto by its officer thereunto duly authorized and the Executive has signed and sealed this Agreement, effective as of the date described above.

BANK 34

ATTEST:

By: /s/ Kevin Vaughn
Name: Kevin Vaughn

By: /s/ James Crotty
Name: James Crotty
Title: President & CEO

EXECUTIVE

/s/ Chris Webster
Chris Webster

Rule 13a-14(a)/15d-14(a) Certification of the Principal Executive Officer

I, Ciaran McMullan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bancorp 34, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2024

/s/ Ciaran McMullan

Ciaran McMullan, Chairman and Chief Executive Officer
Principal Executive Officer

Rule 13a-14(a)/15d-14(a) Certification of the Principal Financial Officer

I, Kevin Vaughn, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bancorp 34, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2024

/s/ Kevin Vaughn

Kevin Vaughn, Senior Vice President and Chief Financial Officer
Principal Financial Officer and Principal Accounting Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT
TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Ciaran McMullan, the Chairman and Chief Executive Officer of Bancorp 34, Inc. (the "Company"), hereby certify in my capacity as an executive officer of the Company that, to my knowledge:

1. The quarterly report of the Company on Form 10-Q for the quarter ended March 31, 2024, as filed with the Securities and Exchange Commission on this date (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 15, 2024

/s/ Ciaran McMullan
Ciaran McMullan
Chairman and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT
TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Kevin Vaughn, the Senior Vice President and Chief Financial Officer of Bancorp 34, Inc. (the "Company"), hereby certify in my capacity as an executive officer of the Company that, to my knowledge:

1. The quarterly report of the Company on Form 10-Q for the quarter ended March 31, 2024, as filed with the Securities and Exchange Commission on this date (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 15, 2024

/s/ Kevin Vaughn
Kevin Vaughn
Senior Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)